

INTESTATE HEIRS OF THE LATE INDALICIO MONERA, PETITIONERS, VS. MANILA BANKERS LIFE INSURANCE CORP. AND MEYCAUAYAN RURAL BANK, INC., RESPONDENTS.

G.R. No. 246446, January 28, 2026

Ponente: DIMAAMPAO, J.

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DIMAAMPAO, J.:

This Petition for Review on Certiorari[1] impugns the Decision[2] and the Resolution[3] of the Court of Appeals (CA), which affirmed the Resolution[4] of the Regional Trial Court (RTC) and denied the motion for reconsideration, respectively, in CA-G.R. CV No. 104490.

Sometime in 1984, Indalicio Monera (Monera) obtained a loan from Meycauayan Rural Bank, Incorporated (Meycauayan Bank) in the amount of PHP 78,000.00. The loan was partially secured by a mortgage on a parcel of land covered by Transfer Certificate of Title (TCT) No. (T-223330) 1088 and a life insurance policy from Manila Bankers Life Insurance Corporation (MB Life). Thus, Group Creditors Life Insurance Certificate No. 521573 (First Policy),[5] valid from February 16, 1984 until April 16, 1984, was issued for this purpose. The proceeds of the policy were payable to the bank upon Monera's death.[6]

On April 17, 1984, Monera obtained another loan from Meycauayan Bank in the amount of PHP 85,000.00. Once more, he applied for a life insurance policy with MB Life under its Group Creditors Life Insurance Plan, as evidenced by Insurance Certificate No. 537912 (Second Policy). The application included a health declaration, which he signed[7]—

PART II – HEALTH DECLARATION

The following declarations are true and correct:

(a)

I have not reached 65 ½ years of age

(b)

I possess sound health and am able to perform the normal activities in the pursuit of my livelihood.

(c)

I have not been ill for a period of seven (7) or more consecutive days in the last five (5) years

(d)

I have not consulted a physician for any illness or disease in the last five (5) years.[8]

The application also contained the following terms and conditions:

I understand and agree that the insurance issued on this Application is based on the truth of the foregoing representation[,] and is subject to the provisions of the GROUP CREDITORS LIFE INSURANCE MASTER POLICY issued by MANILA BANKERS LIFE INSURANCE CORPORATION to the above-named CREDITOR.

I further understand and agree that MANILA BANKERS LIFE INSURANCE CORPORATION reserves the right to reject and/or rescind the Application/Certificate if found there was a failure on my part whether intentional or unintentional to disclose material facts pertinent to the risk.[9]

On the other hand, the Group Creditors Life insurance certificate issued by MB Life stipulated:

MANILA BANKERS LIFE INSURANCE CORPORATION
(Hereinafter called the Company)

WILL PAY Meycauayan Rural Bank, Inc.
(Hereinafter called the CREDITOR)

Upon the death of Indalicio Monera
(Hereinafter called the DEBTOR)

the outstanding balance of indebtedness of the DEBTOR owing to the CREDITOR should death befall the DEBTOR during the term of his insurance; PROVIDED THAT, death by suicide, while sane or insane, shall in all cases be an included risk and PROVIDED FURTHER that the liability of the COMPANY in respect to any single life shall not exceed the amount as stated in the Master Policy.

The insurance of the DEBTOR is the amount and for the term stated in the Application signed by him which is an integral part of this certificate.

The certificate is issued under and subject to the provisions of the GROUP CREDITORS LIFE INSURANCE MASTER POLICY.

Sgd. VICENTE G. PUYAT
President

Sgd. DR. VICENTE LLAMAS ONG
Vice President

Sgd. Creditor's Authorized Officer.[10] (Underscoring in the original)

Subsequently, Monera procured another loan from Meycauayan Bank in the amount of PHP 45,000.00, which was likewise secured by a mortgage over the same parcel of land that he owned.[11]

As it happened, Monera died on May 14, 1984. Upon the maturity of his loans, Meycauayan Bank filed its claims with MB Life. However, the claims were disapproved based on MB Life's finding that Monera violated the terms of the Second Policy when he did not disclose that he previously "underwent excision of mass at the right supra-clavicular with drainages and was diagnosed with metastatic cancer near his right collar bone" at the time of the loan application.[12]

Consequently, Meycauayan Bank proceeded with the extrajudicial foreclosure of the mortgaged property. During the public auction, Meycauayan Bank emerged as the highest bidder. Thereupon, the corresponding certificate of sale was issued.[13]

MB Life's disapproval of their claims prompted Monera's heirs to lodge a complaint for specific performance and/or damages for breach of contract before the RTC against MB Life (docketed as Civil Case No. 2397-V-86).

Later, they amended their complaint to implead Meycauayan Bank.[14]

In due course, Assisting. Presiding Judge Gamor B. Disalo (Judge Disalo) of Branch 75 of the RTC of Valenzuela City rendered a Decision[15] granting the complaint of Monera's heirs. Judge Disalo disposed of the case in this wise:

WHEREFORE, PREMISES CONSIDERED, decision is rendered in favor of the plaintiff and against the defendants ordering the following:

- Defendant-Insurance Company to comply with its obligation under GROUP CREDITON [sic] LIFE CERTIFICATE OF INSURANCE C. No. 521573 in the sum of SEVENTY-EIGHT THOUSAND ([PHP] 78,000.00) Pesos, to pay said amount to the defendant-bank, to be applied in extinguishment of the loan of [PHP] 45,000.00, plus all its increments;
- Defendant-Insurance Company to pay moral damages in the amount of [PHP] 50,000.00; Exemplary damages of [PHP] 30,000.00 and attorney's fees and litigation expenses of [PHP] 25,000.00;
- Defendant-bank to pay the plaintiffs the face value of GROUP CREDITORS LIFE CERTIFICATE OF INSURANCE C NO. 537912, dated April 17, 1984, in the sum of EIGHTY-FIVE THOUSAND PESOS ([PHP] 85,000.00);
- DECLARING the extra-judicial foreclosure sale of the property covered by TCT No. (T-223330) 1088 null and void ad initio [sic] – which sale was conducted on November 26, 1986;
- [T]he REGISTER OF DEEDS OF BULACAN is DIRECTED to cancel the registration of the CERTIFICATE OF SALE, dated November 26, 1986;
- The REGISTER OF DEEDS OF BULACAN IS ENJOINED from giving due course to any attempt to consolidate title on the part of Meycauayan Rural Bank, until after this case is decided with finality, at the RTC level, or at the appellate level, if appealed;

SO ORDERED.[16] (Emphasis in the original)

Both MB Life and Meycauayan Bank moved for reconsideration of the foregoing judgment. This was granted by Presiding Judge Lilia Mercedes Encarnacion A. Gepty (Judge Gepty) in the Resolution dated June 25, 2014, thereby dismissing the complaint filed by Monera's heirs for lack of merit.[17]

Undeterred, Monera's heirs sought recourse before the CA, which denied their appeal via the repugned Decision. The CA sustained Judge Gepty's dismissal of their complaint, ruling that Monera's concealment of his true state of health, i.e., he previously underwent excision of a mass and was diagnosed with metastatic cancer at the time of the loan application, entitled MB Life to rescind the contract of insurance, especially because the concealed information was material and relevant to the approval and issuance of the Second Policy. The CA also took into consideration the documentary evidence showing that Monera endured at least six medical procedures, matters which he did not disclose in his application.[18]

By the same token, the CA held that Judge Disalo erroneously declared the extrajudicial foreclosure sale of the mortgaged property null and void "despite the absolute lack of evidence showing that the same was attended by fraud or any irregularity." [19] Moreover, Judge Disalo erred in ordering the cancellation of the registration of the certificate of sale in favor of Meycauayan Bank.[20]

The challenged Resolution denied the motion for reconsideration filed by Monera's heirs, Through the present Petition before this Court, they ascribe the following errors on the CA in: one, finding that MB Life was entitled to rescind the insurance contract, given that it failed to establish fraudulent intent on the part of Monera when he

supposedly concealed information; two, failing to apply the incontestability clause under the Insurance Code;^[21] and three, in sustaining Judge Gepty's reversal of Judge Disalo's order which declared the extrajudicial foreclosure sale of the mortgaged property null and void and cancelled the registration of the certificate of sale.^[22]

Issues

A percipient analysis of the Petition raises issues for resolution by this Court.

First, did the CA err in finding that MB Life was entitled to rescind the insurance contract?

Second, did the CA fail to apply the incontestability clause under the Insurance Code?

Third, did the CA commit grave error in sustaining Judge Gepty's reversal of Judge Disalo's order declaring the extrajudicial foreclosure sale of the mortgaged property null and void and cancelling the registration of the certificate of sale?

Ruling of the Court

Before resolving the substantive issues raised by Monera's heirs, the Court notes that the instant Petition suffers from several procedural infirmities—

- It was filed before this Court, but was erroneously captioned for the CA.^[23] Likewise, its prayer mistakenly addresses the "Honorable Justices of the Court of Appeals"^[24] and refers to the Resolution dated June 25, 2014 issued by Judge Gepty of the RTC,^[25] rather than the Decision dated September 11, 2018 rendered by the CA.
- It lacks proper verification contrary to the requirement of Rule 45, Section 1 of the Rules of Court, which ordains that "a party desiring to appeal by certiorari from a judgment or final order or resolution of the Court of Appeals, the Sandiganbayan, the Regional Trial Court or other courts whenever authorized by law, may file with the Supreme Court a verified petition for review on certiorari." Parenthetically, under Rule 7, Section 4 of the Rules, a pleading that "lacks a proper verification shall be treated as an unsigned pleading."
- It was filed beyond the 15-day reglementary period provided for in Rule 45, Section 2 of the Rules.^[26] Notably, Monera's heirs admitted having received the challenged Resolution on March 23, 2019.^[27] Following Section 2, the last day to file the Petition should have been on April 7, 2019. Since April 7, 2019 fell on a Sunday, they had until April 8, 2019 or the next business day to file or to request for an extension to file the same. Nevertheless, they filed their Motion for Extension only on April 10, 2019^[28] or two days after the lapse of the 15-day reglementary period.
- It raises questions of facts, which are generally outside the province of a Rule 45 petition. The Court has consistently underscored that a petition for review on certiorari under Rule 45 of the Rules of Court is limited to questions of law, as factual questions are not the proper subject of an appeal by certiorari. "This Court will not review facts, as it is not our function to analyze or weigh all over again evidence already considered in the proceedings below."^[29] While the rule is subject to exceptions, none of them obtain in this case.

At any rate, even if the Court were to disregard the procedural infirmities, the Petition has no leg to stand on.

Section 27 of the Insurance Code provides that "[a] concealment, whether intentional or unintentional, entitles the injured party to rescind a contract of insurance." Section 26 also defines concealment as "[a] neglect to communicate that which a party knows and ought to communicate."

It is undisputed that prior to the approval of Monera's Second Policy and during his application, he did not disclose that he underwent an excision of a mass and that he consulted with physicians at the Manila Doctors Hospital. The doctors diagnosed that he was suffering from metastatic cancer near his right collar bone. His concealment undoubtedly contradicts items (c) and (d) of the Health Declaration which he executed and signed—

(c)

I have not been ill for a period of seven (7) or more consecutive days in the last five (5) years[.]

(d)

I have not consulted a physician for any illness or disease in the last five (5) years.[30]

The following documents demonstrate Monera's consultations with physicians, as well as the six medical procedures he underwent at Manila Doctors Hospital: (1) verification report of MB Life's investigator; (2) history of patient; (3) patient clinic record; (4) x-ray report; (5) record of operation proving that he had an undisclosed excision of a mass; (6) hispathological report; and (7) prescriptions issued by Dr. Florentino Cruz Abad.[31]

Withal, concealment is governed by the test of materiality under Section 31 of the Insurance Code as amended, which states:

SEC. 31. Materiality is to be determined not by the event, but solely by the probable and reasonable influence of the facts upon the party to whom the communication is due, in forming his estimate of the disadvantages of the proposed contract, or in making his inquiries.

As unequivocally ruled by the CA, Monera's concealment is material considering the effect on MB Life in forming its estimate of whether to deny or approve his applications and in prescribing the amounts of the premiums thereon.

Monera's heirs further contend that MB Life failed to establish fraudulent intent on the part of Monera when he supposedly concealed information.

The Court took time to rule in *The Insular Life Assurance Co., Ltd. v. The Heirs of Alvarez*,[32] viz.:

Section 27 reads:

Section 27. A concealment whether intentional or unintentional entitles the injured party to rescind a contract of insurance.

The statutory text is unequivocal. *Insular Life* correctly notes that proof of fraudulent intent is unnecessary for the rescission of an insurance contract on account of concealment.

This is neither because intent to defraud is intrinsically irrelevant in concealment, nor because concealment has nothing to do with fraud. To the contrary, it is because in insurance contracts, concealing material facts is inherently fraudulent: "if a material fact is actually known to the [insured], its concealment must of itself necessarily be a fraud." When one knows a material fact and conceals it, "it is difficult to see how the inference of a fraudulent intent or intentional concealment can be avoided." Thus, a concealment, regardless of actual intent to defraud, "is equivalent to a false representation." [33] (Emphasis in the original, citations omitted)

Ineluctably, Section 27 negates any distinction between intentional and unintentional concealments. Thus, no proof of fraudulent intent is necessary in cases of rescission due to concealment.

All the same, the health declaration which Monera voluntarily executed and signed expressly states that "...MANILA BANKERS LIFE INSURANCE CORPORATION reserves the right to reject and/or rescind the Application/Certificate if found [that] there was a failure on my part whether intentional or unintentional to disclose material facts pertinent to the risk." [34] There is no gain saying that Monera's concealment of material information effectively entitled MB Life to rescind the contract of insurance.

Moreover, the Court finds that the two-year incontestability requirement does not apply to Monera's contract with

MB Life.

Section 234(b) of the Insurance Code, which imposes a two-year incontestability requirement for group life policies, states:

SEC. 234. No policy of group life insurance shall be issued and delivered in the Philippines unless it contains in substance the following provisions, or provisions which in the opinion of the Commissioner are more favorable to the persons insured, or at least as favorable to the persons insured and more favorable to the policyholders:

....

(b) A provision that the validity of the policy shall not be contested, except for nonpayment of premiums after it has been in force for two (2) years from its date of issue; and that no statement made by any insured under the policy relating to his insurability shall be used in contesting the validity of the insurance with respect to which such statement was made after such insurance has been in force prior to the contest for a period of two (2) years during such person's lifetime nor unless contained in written instrument signed by him[.]

The threshold requirement under Section 234(b) is that the policy must have been in force for two years from its date of issue. Notably, the First Policy had a two-month term. The Second Policy, issued on the day after the First Policy lapsed, must be deemed to have a three-month term, as the Meycauayan Bank collected from Monera a premium of PHP 340.00 to cover that period.

A review of prevailing jurisprudence reveals a gap in the law concerning short-term policies, particularly on the limited timeframe during which insurers may rescind. The Insurance Code only prescribes a default two-year contestability period, even for group life policies. Quite palpably, it is for the legislature, rather than this Court, to determine the contestability requirements for short-term policies in force for less than two years.

At the same time, insurers need protection against fraud that may surface only after a claim is filed. This concern is especially significant for short-term policies, where claims may arise before medical records or pre-existing illnesses can be thoroughly verified. However, addressing this issue likewise falls within the purview of legislative power.

In any event, MB Life is not barred from rescinding the contract and establishing that the policy is void ab initio due to Monera's concealment of material facts. It is undisputed that he failed to disclose, both in his application and prior to the approval of his Second Policy, that he had undergone an excision of a mass and consulted physicians at Manila Doctors Hospital. What is material is Monera's concealment, which affected MB Life's evaluation of his application and the premiums to be charged.

Finally, Monera's heirs intransigently asseverate that the CA erred in sustaining. Judge Gepty's reversal of Judge Disalo's order declaring the extrajudicial foreclosure sale of the mortgaged property null and void and cancelling the registration of the certificate of sale.[35]

The asseveration holds no water. An assiduous review of the records reveals that Monera's heirs failed to adduce evidence that suggests fraud or irregularity in the conduct of the extrajudicial foreclosure sale. Strikingly, in the October 25, 2013 Decision, Judge Disalo pronounced that "[i]t is to the predilection of this court that though it is not totally irregular, the same is tainted with dubious character and for that matter and in consonance with the foregoing deliberation the foreclosure sale shall accordingly be nullified." [36]

Time and again, the Court has stressed that in civil cases, he who alleges fraud or mistake affecting a transaction must substantiate his allegation. Thus, allegations must be proven by sufficient evidence because mere allegation is definitely not evidence. Moreover, fraud is not presumed—it must be proved by clear and convincing

evidence.[37]

With the dearth of evidence to prove fraud or irregularity in the conduct of the extrajudicial foreclosure sale, Judge Disalo's conclusion that it is "tainted with dubious character" remains speculative.

In relation to the foregoing disquisition, it is settled that the extrajudicial foreclosure sale conducted on November 26, 1986 was valid, thus, the Court rules and so holds that the issuance of the certificate of sale and the corresponding registration with the Office of the Register of Deeds of Bulacan were in order.

Thence, there is no judicial necessity to overturn the conclusion of the CA.

ACCORDINGLY, the Petition for Review on Certiorari is DENIED. The September 11, 2018 Decision and the March 18, 2019 Resolution of the Court of Appeals in CA-G.R. CV No. 104490 are AFFIRMED.

SO ORDERED.

Gesmundo, C.J., Caguioa, Lazaro-Javier, Inting, Zalameda, Gaerlan, Rosario, Marquez, Kho, Jr., and Villanueva, JJ., concur.

Leonen, SAJ., see separate dissent.

Hernando and Lopez, JJ., see separate concurring opinion.

Singh,[*] J., on leave.

[*] On leave.

[1] Rollo, pp. 10-46.

[2] Id. at 48-61. The September 11, 2018 Decision was penned by Associate Justice Zenaida T. Galapate-Laguilles, with the concurrence of Associate Justices Stephen C. Cruz and Geraldine C. Fiel-Macaraig of the Special Sixteenth Division, Court of Appeals, Manila.

[3] Id. at 63-65. The March 18, 2019 Resolution was penned by Associate Justice Zenaida T. Galapate-Laguilles, with the concurrence of Associate Justices Stephen C. Cruz and Geraldine C. Fiel-Macaraig of the Former Special Sixteenth Division, Court of Appeals, Manila.

[4] Id. at 77-84. The June 25, 2014 Resolution in Civil Case No. 2397-V-86 was penned by Presiding Judge Lilia Mercedes Encarnacion A. Gepty of Branch 75, Regional Trial Court, Valenzuela City.

[5] Id. at 49, see CA Decision.

[6] Id. at 48-49.

[7] Id. at 49.

[8] Id.

[9] Id.

[10] Id. at 50.

[11] Id.

[12] Id. at 50-51.

[13] Id. at 52.

[14] Id. at 101-105-A, Amended Complaint.

[15] Id. at 85-94. The October 25, 2013 Decision in Civil Case No. 2397-V-86 was penned by Assisting Presiding Judge Gamor B. Disalo of Branch 75, Regional Trial Court, Valenzuela City.

[16] Id. at 93-94.

[17] Id. at 83.

[18] Id. at 57-59.

[19] Id. at 59.

[20] Id.

[21] Presidential Decree No. 612 (1974).

[22] Id. at 35-36, 40.

[23] Id. at 10.

[24] Id. at 43.

[25] Id.

[26] SEC. 2. Time for filing; extension. – The petition shall be filed within fifteen (15) days from notice of the judgment or final order, or resolution appealed from or of the denial of the petitioner's motion for new trial or reconsideration filed in due time after notice of the judgment. On motion duly filed and served, with full payment of the docket and other lawful fees and the deposit for costs before the expiration of the reglementary period, the Supreme Court may for justifiable reasons grant an extension of thirty (30) days only within the which to file the petition.

[27] Rollo, p. 11.

[28] Id. at 3.

[29] See *Vidal-Plucena v. Balgos, Jr.*, 943 Phil. 700, 703 (2023) [Per J. Singh, Third Division].

[30] Rollo, p. 49.

[31] Id. at 51-52.

[32] 841 Phil. 175 (2018) [Per J. Leonen, Third Division].

[33] Id. at 187-188.

[34] Rollo, p. 49.

[35] Id. at 40.

[36] Id. at 93. (Emphasis supplied)

[37] *Spouses Ramos v. Obispo*, 705 Phil. 221, 230 (2013) [Per J. Villarama, Jr., First Division].

DISSENTING OPINION

LEONEN, SAJ.:

I dissent.

The ponencia affirmed the Court of Appeals' denial of petitioner Intestate Heirs of the late Indalicio Monera's (Heirs of Monera) appeal and the dismissal of their complaint against respondents Manila Bankers Life Insurance Corp. (MB Life) and Meycauayan Rural Bank, Inc. (Meycauayan Bank). In denying the petition, the ponencia also upheld MB Life's rescission of Indalicio Monera's (Monera) insurance contract on the ground of concealment.[1]

I submit, however, that Heirs of Monera's appeal should be granted. MB Life failed to exercise due diligence in evaluating and approving Monera's application for insurance coverage. It also failed to prove that Monera concealed material facts in his application. Hence, MB Life erroneously rescinded Monera's insurance contract.

To recall, Monera obtained the following loans from Meycauayan Bank, some of which were secured by a real estate mortgage and life insurance policies:

Loan Amount

Security

Life Insurance from Manila Bankers Life Insurance Corporation (MB Life)

(Group Creditors Life Insurance Certificate)

When Obtained

Validity

1

PHP 78,000

Real estate mortgage and life insurance

sometime in 1984

February 16, 1984 to April 16, 1984

2

PHP 85,000

Life insurance

April 17, 1984

No information indicated

3

PHP 45,000

Real estate mortgage

No information indicated

No information indicated[2]

Monera died on May 14, 1984, after the second life insurance was issued by MB Life.

When Monera's loans matured, Meycauayan Bank claimed the proceeds from his life insurance. However, MB Life disapproved Meycauayan Bank's claims, alleging that Monera violated the terms of his second life insurance when he did not disclose the excision of a mass at his right supra-clavicular with drainages and the diagnosis of metastatic cancer near his right collar bone.[3]

With its insurance claims denied, Meycauayan Bank extrajudicially foreclosed Monera's mortgaged property and a certificate of sale was issued after it emerged as the highest bidder of the public auction.[4]

The Heirs of Monera then filed a complaint for specific performance and/or damages for breach of contract against MB Life, and later on impleaded Meycauayan Bank.[5]

The regional trial court granted Heirs of Monera's complaint. However, upon MB Life's and Meycauayan Bank's motions for reconsideration, the trial court reversed its initial ruling and dismissed the complaint.[6]

The Court of Appeals also affirmed the trial court's Decision dismissing Heirs of Monera's complaint. It found, among others, that Monera's concealment of his health condition entitled MB Life to rescind his second insurance contract.[7]

The ponencia affirmed the Court of Appeals' Decision. It ruled that no fraudulent intent is necessary to rescind an insurance contract on the ground of concealment. The ponencia also held that Monera's concealment contradicted the health declaration in the insurance application he voluntarily signed.[8]

The ponencia also found that the two-year incontestability clause is inapplicable because Monera's insurance policy only covered a shorter term. It deferred to the legislature in addressing the gap in the law on the incontestability guidelines for short-term insurance policies.[9] Lastly, the ponencia also affirmed the validity of Meycauayan Bank's extrajudicial foreclosure because Heirs of Monera failed to prove that it was attended by fraud and irregularity.[10]

I appreciate the ponencia's clear narration of the facts and concise discussion of its ruling.

However, I note factual gaps and inconsistencies that warrant the strict interpretation of insurance contracts, as contracts of adhesion, against the insurer—MB Life.

Between the insurer and a small debtor of a bank that requires life insurance, the interpretation should be more liberal for the debtor as the bank and the insurer have more resources to validate the debtor's submissions. The debtor, on the other hand, almost has no option except to sign a standard contract. Further, the incontestability of the second insurance coverage happened because of the lapse of the first insurance.

I

MB Life's insurance contract is a contract of adhesion and should be construed strictly against it.

MB Life largely relied on two documents: (1) the application for insurance coverage that Monera signed (Application);[11] and (2) the life insurance certificate issued to him (Life Insurance Certificate).[12]

The Application contained the following:

1. Health Declaration

Part II – HEALTH DECLARATION

The following declarations are true and correct:

(a)

I have not reached 65 ½ years of age

(b)

I possess sound health and am able to perform the normal activities in the pursuit of my livelihood.

(c)

I have not been ill for a period of seven (7) or more consecutive days in the last five (5) years

(d)

I have not consulted a physician for any illness or disease in the last five (5) years.

2. Terms and Conditions

I understand and agree that the insurance issued on this Application is based on the truth of the foregoing representation[,] and is subject to the provisions of the GROUP CREDITORS LIFE INSURANCE MASTER POLICY issued by MANILA BANKERS LIFE INSURANCE CORPORATION to the above-named CREDITOR.

I further understand and agree that MANILA BANKERS LIFE INSURANCE CORPORATION reserves the right to reject and/or rescind the Application/Certificate if found there was a failure on my part whether intentional or unintentional to disclose material facts pertinent to the risk.[13] (Emphasis supplied)

Meanwhile, the Life Insurance Certificate stated:

MANILA BANKERS LIFE INSURANCE CORPORATION
(Hereinafter called the Company)

WILL PAY Meycauayan Rural Bank, Inc.
(Hereinafter called the CREDITOR)

Upon the death of Indalicio Monera
(Hereinafter called the DEBTOR)

the outstanding balance of indebtedness of the DEBTOR owing to the CREDITOR should death befall the DEBTOR during the term of his insurance; PROVIDED THAT, death by suicide, while sane or insane, shall in all cases be an included risk and PROVIDED FURTHER that the liability of the COMPANY in respect to any single life shall not exceed the amount as stated in the Master Policy.

The insurance of the DEBTOR is the amount and for the term stated in the Application signed by him which is an integral part of this certificate.

The certificate is issued under and subject to the provisions of the GROUP CREDITORS LIFE INSURANCE MASTER POLICY.

Sgd. VICENTE G. PUYAT

President

Sgd. DR. VICENTE LLAMAS ONG
Vice President

Sgd. Creditor's Authorized Officer.[14] (Emphasis supplied)

The Health Declaration and the Terms and Conditions in the Application mainly rely on Monera's personal knowledge and the truth of his representations, respectively. Meanwhile, the Life Insurance Certificate was issued after the Application's approval, presumably after MB Life conducted prior verification.

At first glance, Monera's signature on the Application indicate assent to the Health Declaration and Terms and Conditions. It reflected his awareness and disclosure of his state of mind and health, and his agreement to MB Life's right to rescind the application or certificate if he failed to disclose material facts.

However, the Terms and Conditions neither identified who determines the truth of the representations nor explained how concealment is determined.

Additionally, while the Life Insurance Certificate integrated Monera's Application and specified death by suicide as an included risk, it neither defined "included risk" nor explained its implications.

The ponencia also failed to discuss Monera's profile—his educational attainment, financial status, handicaps, and other traits that might affect his understanding of his Application and Life Insurance Certificate. Further, the facts did not reveal if he fully understood the contents and consequences of these documents or if he was well versed on insurance contracts and related laws.

The ponencia also did not narrate how MB Life processed Monera's Application and whether it indeed verified his declarations prior to issuing his Life Insurance Certificate.

Given the several loans Monera applied for, one can only surmise his vulnerable position, he was at the mercy of both Meycauayan Bank and MB Life and compliant with their requirements.

Without any hint of negotiation between Monera and MB Life, the Application and Life Insurance Certificate can reasonably be considered as standard forms prepared by MB Life. Put differently, the Life Insurance Certificate takes on the form of a contract of adhesion, which Monera can only accept wholesale or reject entirely.

Since insurance contracts are contracts of adhesion, they must be "construed liberally in favor of the insured and strictly against the insurer." [15]

In one case, contracts of adhesion were considered as "a veritable trap for the weaker party whom the courts are bound to protect from abuse and imposition," [16] This impression is attributed to the unequal footing between the parties and the non-negotiable nature of the contract, as depicted below:

In a contract of adhesion, one imposes a ready-made contract to the other whose sole participation is either to accept or reject the agreement. The parties do not bargain on equal footing in the execution of this kind of contract given that the debtor is limited "to take it or leave it" option and there is no room for negotiation. However, such contract is not entirely prohibited. The one adhering is free to give his consent inasmuch as he is also free to reject it completely. [17] (Emphasis in the original, citations omitted)

The insurer's exclusive control over the terms and phraseology of the insurance contract [18] manifests the imbalance of power between its parties. To level the playing field, limitations of liability are construed in such a way as to prevent an insurer's noncompliance with its obligations. [19] This imbalance is further described below:

As a final note, to characterize the insurer as contracting parties on equal footing is inaccurate at best Insurance contracts are wholly prepared by the insurer with vast amounts of experience in the industry purposefully used to its advantage. More often than not, insurance contracts are contracts of adhesion containing technical terms and conditions of the industry, confusing if at all understandable to laypersons, that are imposed on those who wish to avail of insurance.[20] (Emphasis supplied, citations omitted)

Thus, having established Monera's insurance contract as a contract of adhesion, a stringent approach against MB Life should be employed in this case.

II

Monera's insurance contract covered by "Group Creditors Life Insurance Certificate" is a mortgage redemption insurance. It is intended to secure his loans with Meycauayan Bank and relieve his heirs from the corresponding financial obligation in case of his untimely death.

A group insurance policy of mortgagors is also known as "mortgage redemption insurance,"[21] which is defined and described as:

[A] type of group insurance policy of mortgagors intended to protect both the mortgagee and mortgagor. On the part of the mortgagee, it has to enter into such form of contract so that in the event of the unexpected demise of the mortgagor during the subsistence of the mortgage contract, the proceeds from such insurance would be applied to the payment of the mortgage debt, thereby relieving the heirs of the mortgagor from paying the obligation. In a similar vein, ample protection is given to the mortgagor under such a concept so that in the event of death; the mortgage obligation will be extinguished by the application of the insurance proceeds to the mortgage indebtedness.[22] (Emphasis supplied, citations omitted)

In the analogous case of *The Insular Life Assurance Co., Ltd. v. Heirs of Alvarez*,[23] this Court upheld the mortgage redemption insurance in favor of the insured's heirs; it did not give credence to the insurer's defense of concealment.[24]

Under Section 26 of the Insurance Code, concealment is a "neglect to communicate that which a party knows and ought to communicate." On the other hand, representation under Section 44 of the same Code is deemed false when the facts "fail to correspond with its assertions or stipulations." [25]

In *Insular Life*, the insurer's defense of concealment was unsuccessful because the insured made an actual declaration about his age, and did not withhold or neglect to state such information. Applying the definitions above, the insured committed false representation, not concealment, because his misdeclared age was not consistent with his factual age.[26]

Further, the insurer not only failed to inventory the accessible documents on the insured's age, but also unable to demonstrate the insured's consistent pattern of indicating erroneous entries for his age. Thus, the insurer's plea for relief was denied.[27]

This Court further clarified that the insurer ultimately has the burden to validate an insured's representations, not only because it has more resources but also because it is imbued with public trust:

Concealment applies only with respect to material facts. That is, those facts which by their nature would clearly, unequivocally, and logically be known by the insured as necessary for the insurer to calculate the proper risks.

The absence of the requirement of intention definitely increases the onus on the insured. Between the insured and the insurer, it is true that the latter may have more resources to evaluate risks. Insurance companies are imbued with public trust in the sense that they have the obligation to ensure that they will be able to provide

succor to those that enter into contracts with them by being both frugal and, at the same time, diligent in their assessment of the risk which they take with every insurance contract. However, even with their tremendous resources, a material fact concealed by the insured cannot simply be considered by the insurance company. The insurance company may have huge resources, but the law does not require it to be omniscient.

On the other hand, when the insured makes a representation, it is incumbent on them to assure themselves that a representation on a material fact is not false; and if it is false, that it is not a fraudulent misrepresentation of a material fact. This returns the burden to insurance companies, which, in general, have more resources than the insured to check the veracity of the insured's beliefs as to a statement of fact. Consciousness in defraudation is imperative and it is for the insurer to show this.

There may be a mistaken impression, on the part of the insured, on the extent to which precision on one's age may alter the calculation of risks with definitiveness. Deliberation attendant to an apparently inaccurate declaration is vital to ascertaining fraud.[28] (Emphasis supplied)

Contrary to the ponencia's discussion, Insular Life does not simply instruct that concealment can be intentional and unintentional, and that fraudulent intent need not be proved to rescind insurance contracts due to concealment.[29] It also distinguished concealment from false representation and clarified the insurer's responsibility to validate an insured's statements and declarations. Insular Life further placed on the insurer the burden to prove allegations of the insured's fraudulent design with clear and convincing evidence.[30]

Applying Insular Life in this case, MB Life erroneously invoked concealment as defense as it should be false representation.

To illustrate, Monera signed the Health Declaration, asserting that he "not been ill for a period of seven (7) or more consecutive days in the last five (5) years" and has "not consulted a physician for any illness or disease in the last five (5) years." [31] These assertions are affirmative statements that Monera concurred in.

Thus, Monera's assertions cannot be considered as concealment because he did not withhold or neglect to disclose material information. He simply responded to the information required in the Health Declaration and affirmed the statements there based on his personal knowledge and understanding.

The facts did not state whether MB Life posed probing questions to Monera, reviewed the pertinent documents at its disposal, or investigated his medical condition and history to verify the assertions in his Health Declaration. The Health Declaration also did not appear to have fields for Monera to clarify, qualify, or add information. True to its nature as a standard form, the Health Declaration simply outlined the declarations that would qualify Monera for a life insurance, and prompted a black-and-white all-or-nothing response.

As it turns out, Monera's assertions in the Health Declaration were inconsistent with MB Life's findings of an excision and diagnosis of metastatic cancer. Such inconsistency places Monera's within the definition a false representation, which MB Life must prove with clear and convincing evidence.

Clear and convincing evidence is "the quantum of proof that requires more than preponderance of evidence but less than proof beyond reasonable doubt... it produces in the mind of the trier of fact a firm belief or conviction as to the allegation sought to be established." [32]

Here, MB Life failed to prove with clear and convincing evidence Monera's false representation, even its defense of concealment. *Sun Life of Canada (Philippines), Inc. v. Sibya* [33] outlines the burden of proof on the insurer to warrant the rescission of an insurance contract:

Indeed, the intent to defraud on the part of the insured must be ascertained to merit rescission of the insurance contract. Concealment as a defense for the insurer to avoid liability is an affirmative defense and the duty to

establish such defense by satisfactory and convincing evidence rests upon the provider or insurer. In the present case, Sun Life failed to clearly and satisfactorily establish its allegations, and is therefore liable to pay the proceeds of the insurance.[34] (Emphasis supplied)

MB Life did not cite any overt act by Monera demonstrating intentional or unintentional withholding of information or deliberate misrepresentation. It largely relied on his Application and Life Insurance Certificate, which by themselves are insufficient to prove either concealment or false representation.

In affirming the finding of concealment, the ponencia considered Monera's consultations with physicians, his six medical procedures at the Manila Doctors Hospital, and the following documents: (1) verification report of MB Life's investigator; (2) history of patient; (3) patient clinic record; (4) x-ray report; (5) record of operation proving that he had an undisclosed excision of a mass; (6) histopathological report; and (7) prescriptions issued by Dr. Florentino Cruz Abad.[35]

These pieces of documentary evidence corroborate the inconsistency between Monera's assertions and his supposed actual medical condition. However, the ponencia missed to state when these documents and findings of inconsistency were utilized by MB Life to prove Monera's alleged concealment.

Notably, MB Life assailed Monera's Application and rescinded his insurance contract after his death and the maturity of his loans, which was also when Meycauayan Bank filed its claims on his insurance. Nowhere in the facts did MB Life deny Monera's Application or rescinded his Life Insurance Certificate during his lifetime on the ground of concealment. The timing of MB Life's defense of concealment to disapprove Meycauayan Bank's claims is, therefore, as suspicious as it is surreptitious.

The approval of Monera's Application and issuance of his Life Insurance Contract only proved that MB Life found no issue in his Application, assuming MB Life did proper evaluation. Thus, it was unreasonable and preposterous for MB Life to assail Monera's insurance coverage after approving his Application. Worse, it belatedly accused him of concealment after his death, when he could no longer clarify or explain his side.

The Philippine American Life and General Insurance Company v. Spouses Soriano[36] depicts the unfairness of this situation:

Certainly, insurers must not be allowed to delay the payment of claims by filing frivolous cases in court, hoping that the inevitable may be put off for years—or even decades—by the pendency of these unnecessary court cases. They employ this period to benefit from collecting the interest and returns on both the premiums previously paid by the insured clients and the insurance proceeds which should otherwise go to their beneficiaries.[37] (Emphasis supplied, citations omitted)

Notably, Monera's first two insurance contracts were issued on February 16, 1984 and April 17, 1984, respectively. With his death on May 14, 1984, his entire insurance coverage only covered barely four months.

Contrasting Monera's short insurance coverage with the advanced stage of his cancer, it is fair to expect that MB Life could have timely detected his medical issues and false declarations in his Health Declaration. In effect, it could also have promptly denied his Application, at least for the second insurance.

MB Life could have invoked concealment during its evaluation of Monera's application. It should have conducted due diligence to verify his statements in the Health Declaration, such as interviewing him, requiring a medical assessment, and reviewing his loan application, medical records, and other pertinent documents.

On the contrary, MB Life heavily relied on Monera's Health Declaration, without exhaustively explaining why it failed to spot his alleged concealment or false representation. This only highlights the irregularity in the evaluation of his Application and issuance of his Life Insurance Certificate.

MB Life's belated contention of Monera's Application and rescission of his insurance contract are simply a convenient excuse to extricate itself from paying Meycauayan's claims. This unscrupulous manner of processing insurance applications and unjust denial of insurance claims is not only irresponsible but should also be severely dealt with. Thus, MB Life's argument of concealment, or even false representation for this matter, must fail.

III

Monera's insurance contracts are already incontestable. The incontestability of the second insurance happened because of the lapse of the first insurance.

Monera's first and second insurance policies were both obtained from MB Life, covered by its Group Creditors Life Insurance Certificate, and lacked any gap in their periods of coverage. Thus, they are reasonably presumed to be the same standard Applications (including Health Declaration and Terms and Conditions) and Life Insurance Certificates. Consequently, the second insurance is deemed an extension of the first insurance.

I agree with the ponencia that the two-year incontestability requirement under Section 234(b) of the Insurance Code is inapplicable to short-term life insurance contracts such as in this case.[38] However, this interpretation should not discount the importance of incontestability clauses, which is to "regulate the actions of both the insurer and the insured." [39] Otherwise, simply framing short-term policy contracts as beyond the operation of incontestability clauses would unduly expose the insured to unreasonable rescission of insurance contracts or denial of claims.

Manila Bankers Life Insurance Corp. v. Aban[40] thoroughly discussed the rationale for the incontestability clause under Section 48[41] of the Insurance Code, which is analogous to Section 243(6) of Republic Act No. 10607 cited in the ponencia.[42] However, considering that Monera's insurance contracts were obtained in 1984, the controlling law or Insurance Code is Presidential Decree No. 612, as amended, which took effect in 1974, not Republic Act No. 10607, which took effect in 2013.

To be incontestable, both Section 48 of Presidential Decree No. 612, as amended, and Section 234(b) of Republic Act No. 10607 require an insurance policy to be in force for two years from the date of issue and during the insured's lifetime. If insurers failed to thoroughly investigate those they insure within two years from effectivity of the policy and while the insured is still alive, "they will be obligated to honor claims on the policies they issue, regardless of fraud, concealment or misrepresentation." [43] Also in Manila Bankers Life Insurance Corp., this Court exhaustively explained the rationale for incontestability clauses, particularly Section 48 of Presidential Decree No. 612:

Section 48 serves a noble purpose, as it regulates the actions of both the insurer and the insured. Under the provision, an insurer is given two years – from the effectivity of a life insurance contract and while the insured is alive – to discover or prove that the policy is void ab initio or is rescindible by reason of the fraudulent concealment or misrepresentation of the insured or his agent. After the two-year period lapses, or when the insured dies within the period, the insurer must make good on the policy, even though the policy was obtained by fraud, concealment, or misrepresentation. This is not to say that insurance fraud must be rewarded, but that insurers who recklessly and indiscriminately solicit and obtain business must be penalized, for such recklessness and lack of discrimination ultimately work to the detriment of bona fide takers of insurance and the public in general.

Section 48 regulates both the actions of the insurers and prospective takers of life insurance. It gives insurers enough time to inquire whether the policy was obtained by fraud, concealment, or misrepresentation; on the other hand, it forewarns scheming individuals that their attempts at insurance fraud would be timely uncovered – thus deterring them from venturing into such nefarious enterprise. At the same time, legitimate policy holders

are absolutely protected from unwarranted denial of their claims or delay in the collection of insurance proceeds occasioned by allegations of fraud, concealment, or misrepresentation by insurers, claims which may no longer be set up after the two-year period expires as ordained under the law.

Thus, the self-regulating feature of Section 48 lies in the fact that both the insurer and the insured are given the assurance that any dishonest scheme to obtain life insurance 'would be exposed, and attempts at unduly denying a claim would be struck down. Life insurance policies that pass the statutory two-year period are essentially treated as legitimate and beyond question, and the individuals who wield them are made secure by the thought that they will be paid promptly upon claim. In this manner, Section 48 contributes to the stability of the insurance industry.

Section 48 prevents a situation where the insurer knowingly continues to accept annual premium payments on life insurance, only to later on deny a claim on the policy on specious claims of fraudulent concealment and misrepresentation, such as what obtains in the instant case. Thus, instead of conducting at the first instance an investigation into the circumstances surrounding the issuance of Insurance Policy No. 747411 which would have timely exposed the supposed flaws and irregularities attending it as it now professes, petitioner appears to have turned a blind eye and opted instead to continue collecting the premiums on the policy. For nearly three years, petitioner collected the premiums and devoted the same to its own profit. It cannot now deny the claim when it is called to account. Section 48 must be applied to it with full force and effect.[44] (Emphasis supplied)

In *The Insular Life Assurance Company, Ltd. v. Khu*,[45] this Court pointed out that the insurer is deemed to have the necessary facilities to discover concealment within the contestability period:

The insurer is deemed to have the necessary facilities to discover such fraudulent concealment or misrepresentation within a period of two (2) years. It is not fair for the insurer to collect the premiums as long as the insured is still alive, only to raise the issue of fraudulent concealment or misrepresentation when the insured dies in order to defeat the right of the beneficiary to recover under the policy.

At least two (2) years from the issuance of the policy or its last reinstatement, the beneficiary is given the stability to recover under the policy when the insured dies[.].[46]

Eternal Gardens Memorial Park Corp. v. The Philippine American Life Insurance Co.[47] also established the responsibility of insurers to promptly process insurance applications:

As such, insurance contracts are imbued with public interest that must be considered whenever the rights and obligations of the insurer and the insured are to be delineated. Hence, in order to protect the interest of insurance applicants, insurance companies must be obligated to act with haste upon insurance applications, to either deny or approve the same, or otherwise be bound to honor the application as a valid, binding, and effective insurance contract.[48] (Emphasis supplied, citation omitted)

Also in this case, MB Life is an established insurance company that has been in the industry for a significant time already.[49] Clearly, it has or should have the resources to not only conduct due diligence in approving insurance applications but also in paying insurance claims.

While this may be so, one must still be conscious of the context that affects the validity and enforceability of insurance contracts. *Quiambao v. China Banking Corporation*[50] instructed the courts to protect the disadvantaged party in insurance contracts when circumstances call for it:

We reiterate that the validity or enforceability of the impugned contracts will have to be determined by the peculiar circumstances obtaining in each case and the situation of the parties concerned. The stringent treatment towards a contract of adhesion is pursuant to the mandate that in all contractual, property, or other relations, when one of the parties is at a disadvantage on account of his moral dependence, ignorance,

indigence, mental weakness, tender age or other handicap, the courts must be vigilant for his protection.[51]
(Emphasis supplied, citations omitted)

Thus, applying the rationale for incontestability clauses and the capability and responsibility of insurers to conduct due diligence in this case, MB Life should no longer be able to contest Monera's insurance policies. Not only did it fail to thoroughly evaluate his Application when his Life Insurance Certificate was issued, it also conveniently and erroneously denied Meycauayan Bank's rightful claims under the insurance contract.

Such denial not only prejudiced Meycauayan Bank but also Monera's heirs, who lost the mortgaged property. On a larger scale, it also perpetuates the inequality and injustice caused by contracts of adhesion on parties having limited resources to negotiate or reject their unfair provisions.

One academic literature captures how the law perpetuates the iniquity of enforcing contracts of adhesion:

The law that mechanically enforces contracts according to their terms automatically reinforces the advantages of those who have the power to draft such terms and impose them on the other party. Theoretically, the Have-Littles can enforce their formally equal juridical rights in courts as equals, but their livelihoods and status in civil society may depend on their not giving offense to the rich and powerful; and in any case their access to rights is effectively conditioned on access to lawyers, an expensive private resource. The great benefit for the properties of the Rule of Law is that they need not recruit private militias (or, as in contemporary Russia, Mafiosi and ex-KGB thugs) to defend their holdings against redistribution by trespass and theft and to enforce their one-sided contracts but can count on the legal system to do it for them.[52] (Emphasis supplied)

In this context, MB Life's standard application and life insurance certificates are already embedded with non-negotiable terms and conditions that are advantageous to it.

Allowing MB Life to deny Meycauayan Bank's claims on Monera's insurance policy constitutes impunity on the part of MB Life—not only of its irregular practices but also of the erosion of faith and confidence in the insurance industry.

While contracts of adhesion may still be given effect if not shown to be ambiguous, this Court must continue to be vigilant and protective of the insured, who are usually the disadvantaged parties and whose rights are not always reflected in these standard documents.

Needless to say, both insurer and insured must be protected to ensure the effective and equitable commercial activities in the insurance industry, which is imbued with public trust. Anything contrary to this balance should not be allowed to continue.

ACCORDINGLY, I vote to GRANT the Petition for Review on Certiorari. I also vote to release with dispatch the insurance proceeds owing to respondent Meycauayan Bank, and to nullify the extrajudicial foreclosure proceedings and the resulting certificate of sale issued to respondent Meycauayan Bank on the property mortgaged by the late Indalicio Monera.

[1] Ponencia, pp. 5, 10.

[2] Id. at 2-4.

[3] Id. at 4.

[4] Id.

[5] Id.

[6] Id. at 4-6.

[7] Id.

[8] Id. at 7-9.

[9] Id. at 9-10.

[10] Id. at 10-11.

[11] Id. at 2-3.

[12] Id.

[13] Id.

[14] Id. at 3.

[15] *The Insular Life Assurance Co., Ltd. v. Khu*, 784 Phil. 703, 714-715 (2016) [Per J. Del Castillo, Second Division], citing *Eternal Gardens Memorial Park Corporation v. The Philippine American Life Insurance Company*, 574 Phil. 161, 172-174 (2008) [Per J. Velasco, Jr., Second Division].

[16] *Quiambao v. China Banking Corporation*, 903 Phil. 235 (2021) [Per J. Lopez, M., Second Division].

[17] Id. at 240.

[18] *Philamcare Health Systems, Inc. v. CA*, 429 Phil. 82, 93 (2002) [Per J. Ynares-Santiago, First Division].

[19] *Malayan Insurance Corp. v. Hon. CA*, 336 Phil. 977, 989 (1997) [Per J. Romero, Second Division].

[20] *Eternal Gardens Memorial Park Corp. v. The Philippine American Life Insurance Co.*, 574 Phil. 161, 173-174 (2008) [Per J. Velasco, Jr., Second Division].

[21] *Great Pacific Life Assurance Corp. v. CA*, 375 Phil. 142, 148 (1999) [Per J. Quisumbing, Second Division].

[22] *Land Bank of the Philippines v. Miranda*, 936 Phil. 868, 876 (2023) [Per J. Gaerlan, Third Division].

[23] 841 Phil. 175 (2018) [Per J. Leonen, Third Division].

[24] Id. at 199-200.

[25] *The Insular Life Assurance Co., Ltd. v. Heirs of Alvarez*, 841 Phil. 175, 199-200 (2018) [Per J. Leonen, Third Division]. (Emphasis supplied)

[26] Id. (Emphasis supplied)

[27] Id. at 205.

[28] Id. at 201-202.

[29] Ponencia, p. 10.

[30] *The Insular Life Assurance Co., Ltd. v. Heirs of Alvarez*, 841 Phil. 175, 205 (2018) [Per J. Leonen, Third Division].

[31] Ponencia, p. 2.

[32] *Estella v. Perez*, 911 Phil. 570, 581 (2021) [Per J. Lazaro-Javier, First Division] (Citation omitted); *Republic v. Manansala*, 901 Phil. 794, 799 (2021) [Per J. Caguioa, First Division], citing *Dela Paz v. Republic*, 820 Phil.

907, 919-920 (2017) [Per J. Martires, Third Division].

[33] 786 Phil. 817 (2016) [Per J. Reyes, Third Division].

[34] *Id.* at 824.

[35] Ponencia, p. 8.

[36] 954 Phil. 688 (2024) [Per J. Dimaampao, Third Division].

[37] *Id.* at 695.

[38] Ponencia, pp. 9-10.

[39] *Manila Bankers Life Insurance Corp. v. Aban*, 715 Phil. 404, 415 (2013) [Per J. Del Castillo, Second Division].

[40] *Id.* at 404.

[41] Presidential Decree No. 612 (1974), The Insurance Code, sec. 48 states:

Whenever a right to rescind a contract of insurance is given to the insurer by any provision of this chapter, such right must be exercised previous to the commencement of an action on the contract.

After a policy of life insurance made payable on the death of the insured shall have been in force during the lifetime of the insured for a period of two years from the date of its issue or of its last reinstatement, the insurer cannot prove that the policy is void ab initio or is rescindible by reason of the fraudulent concealment or misrepresentation of the insured or his agent.

[42] Republic Act No. 10607 (2013), sec. 234(b) states:

No policy of group life insurance shall be issued and delivered in the Philippines unless it contains in substance the following provisions, or provisions which in the opinion of the Commissioner are more favorable to the persons insured, or at least as favorable to the persons insured and more favorable to the policyholders:

. . . .

(b) A provision that the validity of the policy shall not be contested, except for nonpayment of premiums after it has been in force for two (2) years from its date of issue; and that no statement made by any insured under the policy relating to his insurability shall be used in contesting the validity of the insurance with respect to which such statement was made after such insurance has been in force prior to the contest for a period of two (2) years during such person's lifetime nor unless contained in a written instrument signed by him[.]

[43] *Manila Bankers Life Insurance Corporation v. Aban*, 715 Phil. 404, 408 (2013) [Per J. Del Castillo, Second Division].

[44] *Id.* at 415-416.

[45] 784 Phil. 703 (2016) [Per J. Del Castillo, Second Division].

[46] *Id.* at 711, citing *Manila Bankers Life Insurance Corporation v. Aban*, 715 Phil. 404 (2013) [Per J. Del Castillo, Second Division].

[47] 574 Phil. 161 (2008) [Per J. Velasco, Jr., Second Division].

[48] *Id.* at 174.

[49] *Manila Bankers Life Insurance Corp.* already figured in the 1982 case of *Edillon v. Manila Bankers Life*

Insurance Corp., 202 Phil. 508 (1982) [Per J. Vasquez, First Division].

[50] Quiambao v. China Banking Corporation, 903 Phil. 235 (2021) [Per J. Lopez, M., Second Division].

[51] Id. at 243.

[52] MARC GALANTER, WHY THE HAVES COME OUT AHEAD: THE CLASSIC ESSAY AND NEW OBSERVATIONS [Afterword: How the Haves Stay Ahead by Robert W. Gordon] 114 (2014).

SEPARATE CONCURRING OPINION

HERNANDO, J.:

On three separate occasions in 1984, Indalicio Monera (Monera) obtained loans from Meycauayan Rural Bank Incorporated (Meycauayan Bank) in the amounts of PHP 78,000.00, PHP 85,000.00 and PHP 45,000.00. The first loan was secured by a mortgage on a parcel of land covered by Transfer Certificate of Title (TCT) No. (T-223330) 1088 and a life insurance policy (Group Creditors Life Insurance Certificate No. 521573, which was valid from February 16, 1984 until April 16, 1984)[1] issued by Manila Bankers Life Insurance Corporation (MB Life), the proceeds of which were payable to the bank upon Monera's death.[2] After paying the first loan on April 17, 1984,[3] Monera obtained on even date a second loan in the amount of PHP 85,000.00, which was secured by another life insurance policy from MB Life under Insurance Certificate No. 537912.[4] In his application form, Monera declared that he is of sound health, had not been ill for a period of seven or more consecutive days in the last five years, and that he had not consulted a physician for any illness or disease in the last five years.[5]

The third loan was likewise secured by a mortgage over the same parcel of land owned by Monera.[6]

Within two years from obtaining the two loans, or on May 14, 1984, Monera died leaving an outstanding loan of PHP 130,000.00 with Meycauayan Bank. Upon maturity of the loans, Meycauayan Bank filed a claim with MB Life under Insurance Certificate No. 537912, but the claim was disapproved on the ground of concealment on the part of Monera. It appears that Monera did not disclose that he previously underwent excision of mass and was diagnosed with metastatic cancer above his right collar bone at the time of the loan applications.[7]

Consequently, Meycauayan Bank proceeded with the extrajudicial foreclosure of the mortgaged property where it emerged as the highest bidder. The sale was eventually registered with the Office of the Register of Deeds of Bulacan.[8]

MB Life's denial of the insurance claim prompted the heirs of Monera to lodge a complaint for Specific Performance and/or Damages for Breach of Insurance Contract before the Regional Trial Court (RTC) against MB Life (docketed as Civil Case No. 2397-V-86).[9] Later, they amended the complaint to implead Meycauayan Bank, alleging that it prematurely foreclosed the mortgaged property despite the pendency of the civil case they filed against MB Life.

The RTC dismissed Monera's heirs' complaint for lack of merit prompting them to seek recourse before the Court of Appeals (CA). However, the appellate court sustained the trial court and held that Monera's concealment of his true state of health at the time of the loan application entitled MB Life to rescind the contracts of insurance, especially since the concealed information was material and relevant to the approval and issuance of the policies.

The CA likewise upheld the extrajudicial foreclosure sale of the mortgaged property considering the absence of evidence showing that the same was attended by fraud or any irregularity. Monera's heirs' motion for reconsideration was denied in the challenged resolution.

In the present petition, the heirs of Monera argue that the questioned insurance policy has become incontestable under Section 48 of the Insurance Code which reads:

Section 48. Whenever a right to rescind a contract of insurance is given to the insurer by any provision this chapter, such right must be exercised previous to the commencement of an action on the contract.

After a policy of life insurance made payable on the death of the insured shall have been in force during the lifetime of the insured for a period of two (2) years from the date of its issue or of its last reinstatement, the insurer cannot prove that the policy is void ab initio or is rescindable by reason of the fraudulent concealment or misrepresentation of the insured or his agent.

I concur with the ponencia that the two-year incontestability clause under Section 48 of the Insurance Code does not apply to Monera's insurance contract with MB Life.

Monera obtained the questioned insurance policy on April 17, 1984. However, barely a month after the issuance of the said insurance policy or on May 14, 1984, Monera died. Evidently, the two-year incontestability period has not yet set in. Consequently, MB Life was not barred from questioning Monera's heirs' entitlement to the benefits of Monera's insurance coverage by reason of his concealment of material facts.

The rationale for Section 48 was discussed by the Court in *Manila Bankers Life Insurance Corporation v. Aban*:^[10]

Section 48 regulates both the actions of the insurers and prospective takers of life insurance. It gives insurers enough time to inquire whether the policy was obtained by fraud, concealment, or misrepresentation; on the other hand, it forewarns scheming individuals that their attempts at insurance fraud would be timely uncovered – thus deterring them from venturing into such nefarious enterprise. At the same time, legitimate policy holders are absolutely protected from unwarranted denial of their claims or delay in the collection of insurance proceeds occasioned by allegations of fraud, concealment, or misrepresentation by insurers, claims which may no longer be set up after the two-year period expires as ordained under the law.

Thus, the self-regulating feature of Section 48 lies in the fact that both the insurer and the insured are given the assurance that any dishonest scheme to obtain life insurance would be exposed, and attempts at unduly denying a claim would be struck down. Life insurance policies that pass the statutory two-year period are essentially treated as legitimate and beyond question, and the individuals who wield them are made secure by the thought that they will be paid promptly upon claim. In this manner, Section 48 contributes to the stability of the insurance industry.^[11] (Emphasis supplied)

Clearly, the above provision serves to protect not only the insured but also the insurers by giving them ample time to investigate whether the insurance policy was acquired through fraud, concealment, or misrepresentation. The framers of the law considered a period of two years as sufficient time for the insurers to determine the legitimacy of the insured's acquisition of life insurance. Thus, it would be unfair to cut short this period only because the insured died within the contestability period, without the insurer uncovering the insured's fraudulent concealment or misrepresentation. This is particularly true in this case where Monera passed away just a month after the challenged policy was issued, giving MB Life little to no time to discover or prove that the policy is void ab initio or is rescindable by reason of Monera's concealment of the true state of his health at the time the subject insurance policy was applied for and issued.

To reiterate, Section 48 of the Insurance Code is in place to regulate the actions of both the insurer and the insured. Certainly, it is not the intention of the lawmakers to allow the beneficiaries of an insured to collect on the policy despite the insured having concealed a material fact just because the insured died within the contestability period.

As discussed in the ponencia, Monera did not disclose that prior to the approval of his policies and during his applications thereon, he underwent an excision of mass and consulted with physicians at the Manila Doctors Hospital, who diagnosed him to be suffering from metastatic cancer near his right collarbone. This is contrary to his declarations that he has not been ill for a period of seven or more consecutive days in the last five years, and that he has not consulted a physician for any illness or disease in the last five years.

It is worth mentioning that Monera's consultations with physicians as well as the six medical procedures he underwent were sufficiently established by documentary evidence on record.[12]

As unequivocally ruled by the CA, Monera's concealment is material considering that MB Life was not aware of all the relevant and material facts in arriving at its decision whether to deny or approve the applications, and in computing the amounts of the premiums thereon. MB Life was misled into accepting the risk and in computing the rate of premium as it was without full knowledge of the relevant and true state of health of Monera, in view of the latter's concealment of a material fact.

ACCORDINGLY, I vote for the dismissal of the petition for certiorari.

[1] Rollo, p. 49. See CA Decision.

[2] Ponencia, p. 2.

[3] Rollo, p. 260.

[4] Ponencia, p. 2.

[5] Id.

[6] Id. at 3.

[7] Id. at 4.

[8] Id.

[9] Id.

[10] 715 Phil. 404 (2013) [Per J. Del Castillo, Second Division].

[11] Id. at 415-416.

[12] Ponencia, p. 8.

SEPARATE CONCURRING OPINION

LOPEZ, J.:

I concur.

I write separately to clarify my views on the construction of Section 48 of the Insurance Code,[1] as amended, and its relationship with group life insurance, particularly credit-linked insurance policies.

Substantively, this Court resolved the controversy based on the rules on concealment under Section 27 of the Insurance Code.[2] I agree that Manila Bankers Life Insurance was entitled to rescind on that basis. In addition, I would expound on why Section 48 of the Insurance Code,[3] on its own terms, does not govern the present policy,

and further, to elucidate the mechanism provided by the Insurance Code for such instances.

The Insurance Code grants insurers the right to rescind under Sections 27, 29, and 45, among others, on account of concealment or misrepresentation:

SECTION 27. A concealment whether intentional or unintentional entitles the injured party to rescind a contract of insurance.

SECTION 29. An intentional and fraudulent omission, on the part of one insured, to communicate information of matters proving or tending to prove the falsity of a warranty, entitles the insurer to rescind.

SECTION 45. If a representation is false in a material point, whether affirmative or promissory, the injured party is entitled to rescind the contract from the time when the representation becomes false.

These rights, however, are not indefinite. Section 48 imposes statutory limitations, one of which is the incontestability clause. This provision mandates that after a policy of life insurance "shall have been in force during the lifetime of the insured for a period of two (2) years," the insurer may no longer rescind on the ground of concealment or misrepresentation:

SECTION 48. Whenever a right to rescind a contract of insurance is given to the insurer by any provision of this chapter, such right must be exercised previous to the commencement of an action on the contract.

After a policy of life insurance made payable on the death of the insured shall have been in force during the lifetime of the insured for a period of two (2) years from the date of its issue or of its last reinstatement, the insurer cannot prove that the policy is void ab initio or is rescindable by reason of the fraudulent concealment or misrepresentation of the insured or his agent.

In *Tan v. Court of Appeals*,^[4] this Court characterized the two-year contestability period as Congress' "answer to the various tactics employed by insurance companies to avoid liability," thus:

The legislative answer to the arguments' posed by the petitioners is the "incontestability clause" added by the second paragraph of Section 48.

The insurer has two years from the date of issuance of the insurance contract or of its last reinstatement within which to contest the policy, whether or not, the insured still lives within such period. After two years, the defenses of concealment or misrepresentation, no matter how patent or well founded, no longer lie. Congress felt this was a sufficient answer to the various tactics employed by insurance companies to avoid liability.^[5]

Notably, the two-year contestability period has been in place since 1947 when then Insurance Act of 1914^[6] was amended by Republic Act No. 171.^[7] This language has remained substantially the same despite the enactment of Presidential Decree No. 612^[8] in 1974 and the current Republic Act No. 10607.^[9]

Further, *Manila Bankers Life Insurance Corp. v. Aban*^[10] emphasized that Section 48 protects both the insurer and the insured and ultimately, promotes industry stability:

Section 48 serves a noble purpose, as it regulates the actions of both the insurer and the insured. Under the provision, an insurer is given two years—from the effectivity of a life insurance contract and while the insured is alive—to discover or prove that the policy is void ab initio or is rescindible by reason of the fraudulent concealment or misrepresentation of the insured or his agent. After the two-year period lapses, or when the insured dies within the period, the insurer must make good on the policy, even though the policy was obtained by fraud, concealment, or misrepresentation. This is not to say that insurance fraud must be rewarded, but that insurers who recklessly and indiscriminately solicit and obtain business must be penalized, for such recklessness and lack of discrimination ultimately work to the detriment of bona fide takers of insurance and the public in general.

Section 48 regulates both the actions of the insurers and prospective takers of life insurance. It gives insurers enough time to inquire whether the policy was obtained by fraud, concealment, or misrepresentation; on the other hand, it forewarns scheming individuals that their attempts at insurance fraud would be timely uncovered—thus deterring them from venturing into such nefarious enterprise. At the same time, legitimate policy holders are absolutely protected from unwarranted denial of their claims or delay in the collection of insurance proceeds occasioned by allegations of fraud, concealment, or misrepresentation by insurers, claims which may no longer be set up after the two-year period expires as ordained under the law.

Thus, the self-regulating feature of Section 48 lies in the fact that both the insurer and the insured are given the assurance that any dishonest scheme to obtain life insurance would be exposed, and attempts at unduly denying a claim would be struck down. Life insurance policies that pass the statutory two-year period are essentially treated as legitimate and beyond question, and the individuals who wield them are made secure by the thought that they will be paid promptly upon claim. In this manner, Section 48 contributes to the stability of the insurance industry.[11]

Clearly, therefore, Section 48 reflects a balance of competing interests. It affords the insurer defined period within which to investigate and contest a life insurance policy on grounds of fraudulent concealment or misrepresentation. After that period lapses, such defenses no longer lie, and the policy attains relative stability in favor of the insured.

In addition to Section 48, the Insurance Code reinforces the balance by expressly mandating the inclusion of incontestability clauses in all types of life insurance policies, whether individual [Section 233(b)][12], group [Section 234(b)], [13] or industrial [Section 236(b)]. [14]

In the present case, however, the two-year period cannot logically apply.

For the premise of incontestability to operate as designed, the policy must be capable of remaining "in force... for a period of two (2) years." This is necessarily so since incontestability clauses logically contemplate open-ended terms, such as an insured's lifetime. Where, as here, the three-month term of Insurance Certificate No. 537912 is such that it cannot remain in force for two years, the threshold of Section 48 is not met, rendering it inoperative.

To be sure, the two-year contestability window is inherently premised on a contract capable of running for at least that duration. In products like credit-linked group life insurance, where the insurance is usually tied to a loan that may last for a shorter term than two years, the literal application of Section 48 creates a legal absurdity. If an insurer is permitted the full two-year window to rescind a policy that expires in one year, the coverage becomes effectively illusory, as every potential claim would fall within the contestable period.

If Section 48 is read in isolation, this would lead to a gap that would leave insured debtors without the balancing protection that Congress sought to provide. While it may appear logical to exercise judicial restraint and defer to Congress to address this, it must be emphasized that the Insurance Code already provides a mechanism for cases where the two-year period cannot apply. It is my view that the Insurance Code does not treat the incontestability period in Section 48 as an inflexible rule.

Under Section 234 of the Insurance Code, which solely applies to group life insurance, the law establishes standard provisions while simultaneously affirming the Insurance Commissioner's discretion to approve language that is "in substance" equivalent or "more favorable" to the specified parties:

SECTION 234. No policy of group life insurance shall be issued and delivered in the Philippines unless it contains in substance the following provisions, or provisions which in the opinion of the Commissioner are more favorable to the persons insured, or at least as favorable to the persons insured and more favorable to the policyholders:

(b) A provision that the validity of the policy shall not be contested, except for nonpayment of premiums after it has been in force for two (2) years from its date of issue; and that no statement made by any insured under the policy relating to his insurability shall be used in contesting the validity of the insurance with respect to which such statement was made after such insurance has been in force prior to the contest for a period of two (2) years during such person's lifetime nor unless contained in a written instrument signed by him[.]

Section 234, thus, sets the minimum standards for group life policies, while allowing substitute provisions subject to the Insurance Commissioner's approval. To be precise, any such substitute must be more favorable to the persons insured, or at least as favorable to them and more favorable to the policyholders.

Notably, unlike the provisions governing individual life under Section 233 and industrial life under Section 236 of the Insurance Code, Section 234 for group life policies expressly allows the most flexibility for substitute provisions, subject to the opinion of the Insurance Commissioner. This reflects legislative recognition that group life insurance may vary in structure.

It may also be noted that, in the context of microinsurance life contracts, the Insurance Commissioner has also prescribed a one-year contestability period through Insurance Memorandum Circular No. 1-2010.[15] I refer to this issuance only to observe that the period of contestability involves regulatory judgment and which judgment has in fact been previously wielded by the Insurance Commissioner.

In finis, I emphasize that the incontestability period under Section 48 is not a detached and rigid rule. It operates within the broader design of the Insurance Code, and its application must remain contextual and coherent with the Code as a whole.

For these reasons, I concur.

[1] THE INSURANCE CODE. Amendments to Presidential Decree No. 612, as Amended, Republic Act No. 10607, August 15, 2013.

[2] THE INSURANCE CODE, sec. 27 states:

Section 27. A concealment whether intentional or unintentional entitles the injured party to rescind a contract of insurance.

[3] THE INSURANCE CODE, sec. 48 states:

Section 48. Whenever a right to rescind a contract of insurance is given to the insurer by any provision of this chapter, such right must be exercised previous to the commencement of an action on the contract.

After a policy of life insurance made payable on the death of the insured shall have been in force during the lifetime of the insured for a period of two (2) years from the date of its issue or of its last reinstatement, the insurer cannot prove that the policy is void ab initio or is rescindable by reason of the fraudulent concealment or misrepresentation of the insured or his agent.

[4] Tan v. Court of Appeals, 256 Phil. 158 (1989) [Per J. Gutierrez, Jr., Third Division].

[5] Id.

[6] The Insurance Act No. 2427, December 11, 1914.

[7] Republic Act No. 171, Amendments to Act No. 2427, June 20, 1947.

[8] THE INSURANCE CODE, Presidential Decree No. 612, December 18, 1974.

[9] THE INSURANCE CODE.

[10] Manila Bankers Life Insurance Corp. v. Aban, 715 Phil. 404 (2013) [Per J. Del Castillo, Second Division].

[11] Manila Bankers Life Insurance Corp. v. Aban, 715 Phil. 404 (2013) [Per J. Del Castillo, Second Division].

[12] THE INSURANCE CODE, sec. 233 states:

Section 233. In the case of individual life or endowment insurance, the policy shall contain in substance the following conditions:

....

(b) A provision that the policy shall be incontestable after it shall have been in force during the lifetime of the insured for a period of two (2) years from its date of issue as shown in the policy, or date of approval of last reinstatement, except for nonpayment of premium and except for violation of the conditions of the policy relating to military or naval service in time of war[.]

[13] THE INSURANCE CODE, sec. 234 states:

Section 234. No policy of group life insurance shall be issued and delivered in the Philippines unless it contains in substance the following provisions, or provisions which in the opinion of the Commissioner are more favorable to the persons insured, or at least as favorable to the persons insured and more favorable to the policyholders:

....

(b) A provision that the validity of the policy shall not be contested, except for nonpayment of premiums after it has been in force for two (2) years from its date of issue; and that no statement made by any insured under the policy relating to his insurability shall be used in contesting the validity of the insurance with respect to which such statement was made after such insurance has been in force prior to the contest for a period of two (2) years during such person's lifetime nor unless contained in a written instrument signed by him[.]

[14] THE INSURANCE CODE sec. 236 states:

Section 236. In the case of industrial life insurance, the policy shall contain in substance the following provisions:

....

(b) A provision that the policy shall be incontestable after it has been in force during the lifetime of the insured for a specified period, not more than two (2) years from its date of issue, except for nonpayment of premiums and except for violation of the conditions of the policy relating to naval or military service, or services auxiliary thereto, and except as to provisions relating to benefits in the event of disability as defined in the policy, and those granting additional insurance specifically against death by accident or by accidental means, or to additional insurance against loss of or loss of use of, specific members of the body[.]

[15] Insurance Memorandum Circular No. 1-2010, Regulations for the Provision of Microinsurance Products and Services, January 29, 2010.

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