

R & B SURETY & INSURANCE CO., INC., PETITIONER, VS. THE INTERMEDIATE APPELLATE COURT AND ANGELINA USON, RESPONDENTS.

G.R. No. 64515. June 22, 1984

Ponente: GUTIERREZ, JR., J.

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GUTIERREZ, JR., J.:

This is a petition for review on certiorari, seeking to set aside the decision of the Intermediate Appellate Court which awarded the private respondent moral and exemplary damages plus attorney's fees, after finding that the petitioner acted in bad faith in filing an action against said respondent.

The facts are stated in the decision of the appellate court:

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"x x x On January 3, 1969, defendant Maria Isabel Diaz was granted a loan of P20,000.00 by the Philippine National Bank. To secure the repayment of the loan, Maria Isabel Diaz submitted a surety bond (Exh. B) of plaintiff R & B Surety & Insurance Co., Inc. for the sum of P20,000.00 in favor of the Philippine National Bank. In turn, defendants executed an indemnity agreement with the chattel mortgage (Exh. C) to indemnify the plaintiff surety 'for any damage, prejudice, loss, costs, payments, advances and expenses of whatever kind and nature, including attorney's fees, which the corporation may, at any time, become liable for, sustain or incur, as a consequence of having executed the above-mentioned Bond, its renewals, extensions, or substitutions and said attorney's fees not to be less than twenty (20%) per cent of the total amount claimed by the corporation in each action, the same to be due, demandable and payable, irrespective of whether the case is settled judicially or extrajudicially and whether the amount has been actually paid or not.'

"Maria Isabel Diaz did not file her answer to the complaint or the crossclaim of defendant Angelina Uson, and she was declared in default in both cases. Defendant Eliseo Santos filed his answer to the complaint wherein he admits signing the indemnity agreement but claims that 'all the time he thought he was and actually intended to be a character witness only.' In his counterclaim, he asks for attorney's fees, expenses of litigation and other damages in unspecified amounts against the plaintiff. Defendant Angelina Uson filed a separate answer, stating her signatures appearing on the indemnity agreement are all forgeries. By way of counterclaim against the plaintiff, she asks for P100,000.00 as moral damages and a sum equivalent to 25% of the amount of damages she may recover as and for counsel fees. By way of crossclaim against defendant Maria Isabel Diaz, she asks for the payment of moral damages and attorney's fees in like amounts for forging or causing to be forged her signature in the indemnity agreement.

"After due trial, judgment was rendered by the Court of First Instance the dispositive portion of which reads as follows:

""WHEREFORE, judgment is hereby rendered in favor of the plaintiff and against the defendants Maria Isabel Diaz and Eliseo Santos, ordering them, jointly and severally, to pay the former the sum of P20,000.00, with interest thereon at the rate of 13-1/2% from January 16, 1974, the date when plaintiff paid the Philippine

National Bank; a sum equal to 20% thereof as and for attorney's fees; and the costs of suit. The complaint is dismissed as against the defendant Angelina Uson.

"The counterclaims of the defendants Eliseo Santos and Angelina Uson are hereby dismissed."

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Respondent appealed the dismissal of her counterclaim. On April 29, 1982, the Intermediate Appellate Court[*] modified the decision of the lower court and ordered the plaintiff-appellee R & B Surety and Insurance Co., Inc. (R & B), to pay "the sum of P100,000.00 as moral damages, twenty five (25%) per cent of said amount as attorney's fees and P10,000.00 as exemplary damages x x x", on a finding that R & B acted in bad faith when it filed the action against defendant-appellant Uson. A motion for reconsideration was filed by R & B but the same was denied. Hence, this petition.

Petitioner R & B assigns the following errors:

1. The respondent appellate Court has committed grievous error in drawing from the established facts a conclusion that herein Petitioner is guilty of bad faith and negligence, and, therefore liable to private respondent for moral and exemplary damages, attorney's fees and costs;
2. The respondent appellate Court has committed grave error in over-riding legal presumptions of law by and with conjectural, illogical, flimsy and misleading deductions not supported by the established facts;
3. The respondent appellate Court has awarded a kind of damage (exemplary damage) which is not within the contemplation of the pleadings and which, even the private respondent had not conceived and asked for; and
4. Generally, the respondent appellate Court had rendered a decision which, in a way, is not in accord with law or with the applicable decisions of this Honorable Supreme Court.

The only issue raised in the above assignments of errors is whether or not, on the basis of the evidence found in the records, the respondent court correctly adjudged the petitioner guilty of bad faith and negligence in filing the complaint against respondent Uson sufficient to warrant an award of moral and exemplary damages and attorney's fees in the total amount of P135,000.00.

The appellate court tried to justify the award by stating:

"The plaintiff did not appeal from the findings of the lower court that the signatures appearing in the indemnity agreement (Exh. C), purporting to be those of Miss Uson, are all forgeries, which meant that some other person, upon the inducement of Maria Isabel Diaz, signed the names of Uson in said Exhibit C. This could only be done if Exhibit C was signed in the absence of the representative of the plaintiff corporation, or because the corporation entrusted blank copies or forms of the indemnity agreement to Maria Isabel Diaz to be signed and accomplished. Herein lies the plaintiff's bad faith. The perpetration of the forgeries was made possible due to the negligence of plaintiff. Yet, the plaintiff presented Crisoforo Lopez, its Assistant Manager, who had the temerity to claim that Miss Uson signed Exhibit C. On top of all this is the uncontradicted testimony of Uson that before the case was filed in court she personally informed Atty. Armando Abad, an official of plaintiff, that the signatures appearing to be hers in Exhibit C are forgeries (pp. 13-15, t.s.n., Nov. 6, 1974). Plaintiff's negligence is also demonstrated by its omission to request, as required of it by Commonwealth Act No. 465, otherwise known as the Residence Certificate Law, Uson, if she was really present, to exhibit her latest residence certificate before it signed said indemnity agreement. This circumstance likewise shows that Uson was not present during the execution of Exhibit C."

Petitioner contends that bad faith and negligence cannot be deduced from the fact that it handed out blank forms of the indemnity agreement to Maria Isabel Diaz for her and her co-signatories to accomplish without any

representative from the petitioner corporation being present and to return the same to the latter already duly notarized. Petitioner also maintains that neither can bad faith be presumed from the fact that it pursued the filing of an action against Uson notwithstanding the fact that the latter had already informed petitioner beforehand that her signatures on the said agreement were forged.

We find merit in the petition.

While petitioner might have been negligent in not verifying the authenticity of the signatures in the indemnity agreement, still the same does not amount to bad faith as to justify the award of damages and the conclusion that the act of filing the complaint against respondent Uson amounts to malicious prosecution. In filing the action, the petitioner was only protecting its business interests by trying to recover the amount it had already paid to the Philippine National Bank.

In a long line of cases, we have consistently ruled that in the absence of a wrongful act or omission or of fraud or bad faith, moral damages cannot be awarded and that the adverse result of an action does not per se make the action wrongful and subject the actor to the payment of damages, for the law could not have meant to impose a penalty on the right to litigate. (*Salao v. Salao*, 70 SCRA 86, 87, citing *Barreto v. Arevalo*, 99 Phil. 771, 779, *Herrera v. Luy Kim Guan*, 110 Phil. 1020, 1028, *Heirs of Justina v. Gustilo*, 61 O.G. 6959; *Castillo v. Castillo*, 95 SCRA 68, *Mirasol v. De la Cruz*, 84 SCRA 342, 343; citing *Pacific Merchandising Corporation v. Diestro Logging Development Corporation*, 34 SCRA 704; *Octot v. Ybañez*, 111 SCRA 84, 85; citing *Ong Yiu v. Court of Appeals*, 91 SCRA 223 and *Inhelder Corporation v. Court of Appeals*, 122 SCRA 584-585, citing *Buenaventura v. Sto. Domingo*, 103 Phil. 239).

In the case at bar, the act of filing the complaint against respondent Uson was not at all motivated by ill will or by any desire to vex and humiliate the respondent. This can be gleaned from the fact that after the termination of the case before the trial court, the petitioner did not appeal the dismissal of the case against the respondent even though it knew that it would have a greater chance of collecting what it paid for if all the defendants were adjudged to pay the amount in the indemnity agreement especially since the main signatory to the agreement had already been declared in default and was nowhere to be found.

We agree with the trial court in its finding that:

"As regards Uson's counterclaim against the plaintiff, the evidence does not support a finding that the filing of the complaint against this defendant was done in bad faith and with malice. The plaintiff, it must be assumed was guided solely by the records in its possession in the filing of this case and it cannot be faulted if the defendant Uson was impleaded as a defendant since her name appears in the indemnity agreement and other supporting papers. It must be borne in mind that this case was filed more than four years after the said document was executed and, considering the volume of business done by the plaintiff of the same nature, defendant Angelina Uson was only a name as far as it is concerned."

Neither can bad faith be presumed from the fact that in spite of the respondent's declaration outside the court that her signatures were forged, the petitioner still included her in the complaint. There is no reason why such declaration should be given full faith and credit by herein petitioner as to totally exclude respondent from the complaint. It is natural for a prospective defendant to deny any participation or involvement in the subject matter of the litigation. Precisely, the very purpose of going to trial was to ascertain whether or not her signatures were indeed forged. And as stated earlier, the mere fact that an action is later found to be based on an erroneous ground does not per se make its initiator guilty of bad faith and liable for damages, much less in the amount of P110,000.00. Sound principles of justice and public policy demand that persons shall have free resort to courts of law for redress of wrongs and vindication of their rights without fear of later on standing trial for damages should

their actions lose ground. (*Inhelder Corporation v. Court of Appeals*, supra citing *Buenaventura v. Sto. Domingo*, 103 Phil. 239) In one case, we held that the award of moral and exemplary damages was uncalled for on the ground that the petitioner had not acted with malice, fraud or in bad faith despite the fact that petitioner in instituting the action, solely relied on a letter of the accounting firm which it knew was still unverified, undetailed, and incomplete. (*Panay Electric Co., Inc. v. Court of Appeals*, 119 SCRA 459). We reiterate the reminder to lower courts "to guard against the award of exorbitant damages that are way out of proportion to the environmental circumstances of a case and which time and again, this Court has reduced or eliminated. Judicial discretion granted to the courts in the assessment of damages must always be exercised with balanced restraint and measured objectivity." (*Inhelder Corporation v. Court of Appeals*, supra) In the case at bar, even if the respondent were entitled to damages, the award of a total amount of P135,000.00 as damages and attorney's fees was entirely way out of proportion.

In any case, we hold that the award of damages was erroneous. Moral damages are emphatically not intended to enrich a complainant at the expense of a defendant; they are awarded only to enable the injured party to obtain means, diversion or amusements that will serve to alleviate the moral suffering he has undergone, by reason of the defendant's culpable action. In other words, the award of moral damages is aimed at a restoration, within the limits of the possible of the spiritual status quo ante, and it must be proportionate to the suffering inflicted. (*Grand Union Supermarket, Inc. v. Espino, Jr.*, 94 SCRA 966, citing the concurring and dissenting opinion of Justice J. B. L. Reyes in *Pangasinan Transportation Company, Inc. v. Legaspi*, 12 SCRA 598)

In the absence of a wrongful act or omission or of fraud or bad faith, petitioner cannot be adjudged to pay moral damages. The award of exemplary damages and attorney's fees are likewise untenable for they can only be given in case the petitioner acted in a wanton, fraudulent, reckless, oppressive or malevolent manner and if the action instituted by it was clearly unfounded and so untenable as to amount to gross and evident bad faith. (See *Ong Yiu v. Court of Appeals*, supra and *Mirasol v. De la Cruz*, supra, citing *Rizal Surety & Insurance Co. v. Court of Appeals*, 20 SCRA 61). The records are bereft of proof to support any finding of bad faith on the part of the petitioner.

WHEREFORE, the petition is GRANTED. The decision of the Intermediate Appellate Court is hereby REVERSED and SET ASIDE and the decision of the Court of First Instance of Manila, Branch XVI is REINSTATED and AFFIRMED in toto. SO ORDERED.

Teehankee, (Chairman), Melencio-Herrera, Plana, Relova, and De la Fuente, JJ., concur.

[*] J. Sison, PV., Ponente, concurred in by JJ. Victoriano & Melo.

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