

PERLA COMPANIA DE SEGUROS, INC., PETITIONER, VS. HONORABLE COURT OF APPEALS AND MILAGROS CAYAS, RESPONDENTS.

G.R. No. 78860. May 28, 1990

Ponente: FERNAN, C.J.

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FERNAN, C.J.:

This is a petition for review on certiorari of the decision of the Court of Appeals[1] affirming in toto the decision of the Regional Trial Court of Cavite, Branch XVI,[2] the dispositive portion of which states:

"IN VIEW OF THE FOREGOING, judgment is hereby rendered ordering defendant Perla Compania de Seguros, Inc. to pay plaintiff Milagros Cayas the sum of P50,000.00 under its maximum liability as provided for in the insurance policy; and the sum of P5,000.00 as reasonable attorney's fees, with costs against said defendant.

"SO ORDERED." [3]

Private respondent Milagros Cayas was the registered owner of a Mazda bus with serial no. TA3H4 P-000445 and plate no. PUB-4G-593.[4] Said passenger vehicle was insured with Perla Compania de Seguros, Inc. (PCSI) under policy no. LT0/60CC-04241 issued on February 3, 1978.[5]

On December 17, 1978, the bus figured in an accident in Naic, Cavite injuring several of its passengers. One of them, 19--year-old Edgardo Perea, sued Milagros Cayas for damages in the Court of First Instance of Cavite, Branch I[6] docketed as Civil Case No. NC-794; while three others, namely: Rosario del Carmen, Ricardo Magsarili and Charlie Antolin, agreed to a settlement of P4,000.00 each with Milagros Cayas.

At the pre-trial of Civil Case No. NC-794, Milagros Cayas failed to appear and hence, she was declared as in default. After trial, the court rendered a decision[7] in favor of Perea with its dispositive portion reading thus:

"WHEREFORE, under our present imperatives, judgment is hereby rendered in favor of the plaintiffs and against the defendant Milagros Cayas who is hereby ordered to compensate the plaintiff Edgar Perea with damages in the sum of Ten Thousand (P10,000.00) Pesos for the medical predicament he found himself as damaging consequences of defendant Milagros Cayas' complete lack of 'diligence of a good father of a family' when she secured the driving services of one Oscar Figueroa on December 17, 1978; the sum of Ten Thousand (P10,000.00) Pesos for exemplary damages; the sum of Five Thousand (P5,000.00) Pesos for moral damages; the sum of Seven Thousand (P7,000.00) Pesos for Attorney's fees, under the imperatives of the monetary power of the peso today;

"With costs against the defendant.

"SO ORDERED."

When the decision in Civil Case No. NC-794 was about to be executed against her, Milagros Cayas filed a complaint against PCSI in the Office of the Insurance Commissioner praying that PCSI be ordered to pay P40,000.00 for all the claims against her arising from the vehicular accident plus legal and other expenses.[8]

Realizing her procedural mistake, she later withdrew said complaint.[9]

Consequently, on November 11, 1981, Milagros Cayas filed a complaint for a sum of money and damages against PCSI in the Court of First Instance of Cavite (Civil Case No. N-4161). She alleged therein that to satisfy the judgment in Civil Case No. NC-794, her house and lot were levied upon and sold at public auction for P38,200;[10] that to avoid numerous suits and the "detention" of the insured vehicle, she paid P4,000 to each of the following injured passengers: Rosario del Carmen, Ricardo Magsarili and Charlie Antolin; that she could not have suffered said financial setback had the counsel for PCSI, who also represented her, appeared at the trial of Civil Case No. NC-794 and attended to the claims of the three other victims; that she sought reimbursement of said amounts from the defendant, which notwithstanding the fact that her claim was within its contractual liability under the insurance policy, refused to make such reimbursement; that she suffered moral damages as a consequence of such refusal, and that she was constrained to secure the services of counsel to protect her rights. She prayed that judgment be rendered directing PCSI to pay her P50,000 for compensation of the injured victims, such sum as the court might approximate as damages, and P6,000 as attorney's fees.

In view of Milagros Cayas' failure to prosecute the case, the court *motu proprio* ordered its dismissal without prejudice.[11] Alleging that she had not received a copy of the answer to the complaint, and that "out of sportsmanship", she did not file a motion to hold PCSI in default, Milagros Cayas moved for the reconsideration of the dismissal order. Said motion for reconsideration was acted upon favorably by the court in its order of March 31, 1982.

About two months later, Milagros Cayas filed a motion to declare PCSI in default for its failure to file an answer. The motion was granted and plaintiff was allowed to adduce evidence *ex-parte*. On July 13, 1982, the court rendered judgment by default ordering PCSI to pay Milagros Cayas P50,000 as compensation for the injured passengers, P5,000 as moral damages and P5,000 as attorney's fees.

Said decision was set aside after the PCSI filed a motion therefor. Trial of the case ensued. In due course, the court promulgated a decision in Civil Case No. N-4161, the dispositive portion of which was quoted earlier, finding that:

"In disavowing its obligation to plaintiff under the insurance policy, defendant advanced the proposition that before it can be made to pay, the liability must first be determined in an appropriate court action. And so plaintiff's liability was determined in that case filed against her by Perea in the Naic CFI. Still, despite this determination of liability, defendant sought escape from its obligation by positing the theory that plaintiff Milagros Cayas lost the Naic case due to her negligence because of which, efforts exerted by defendant's lawyers in protecting Cayas' rights proved futile and rendered nugatory. Blame was laid entirely on plaintiff by defendant for losing the Naic case. Defendant labored under the impression that had Cayas cooperated fully with defendant's lawyers, the latter could have won the suit and thus relieved of any obligation to Perea. Defendant's posture is stretching the factual circumstances of the Naic case too far. But even accepting defendant's postulate, it cannot be said, nor was it shown positively and convincingly, that if the Naic case had proceeded on trial on the merits, a decision favorable to Milagros Cayas could have been obtained. Nor was it definitely established that if the pre-trial was undertaken in that case, defendant's lawyers could have mitigated the claim for damages by Perea against Cayas." [12]

The court, however, held that inasmuch as Milagros Cayas failed to establish that she underwent moral suffering and mental anguish to justify her prayer for damages, there should be no such award. But, there being proof that she was compelled to engage the services of counsel to protect her rights under the insurance policy, the court allowed attorney's fees in the amount of P5,000.

PCSI appealed to the Court of Appeals, which, in its decision of May 8, 1987 affirmed in toto the lower court's

decision. Its motion for reconsideration having been denied by said appellate court, PCSI filed the instant petition charging the Court of Appeals with having erred in affirming in toto the decision of the lower court.

At the outset, we hold as factual and therefore undeserving of this Court's attention, petitioner's assertions that private respondent lost Civil Case No. NC-794 because of her negligence and that there is no proof that the decision in said case has been executed. Said contentions, having been raised and threshed out in the Court of Appeals and rejected by it, may no longer be addressed to this Court.

Petitioner's other contentions are primarily concerned with the extent of its liability to private respondent under the insurance policy. This, we consider to be the only issue in this case.

Petitioner seeks to limit its liability only to the payment made by private respondent to Perea and only up to the amount of P12,000.00. It altogether denies liability for the payments made by private respondents to the other three (3) injured passengers Rosario del Carmen, Ricardo Magsarili and Charlie Antolin in the amount of P4,000.00 each or a total of P12,000.00.

There is merit in petitioner's assertions.

The insurance policy involved explicitly limits petitioner's liability to P12,000.00 per person and to P50,000.00 per accident.[13] Pertinent provisions of the policy also state:

"SECTION I - Liability to the Public

"X X X X X X X X

"3. The Limit of Liability stated in Schedule A as applicable (a) to THIRD PARTY is the limit of the Company's liability for all damages arising out of death, bodily injury and damage to property combined so sustained as the result of any one accident; (b) "per person" for PASSENGER liability is the limit of the Company's liability for all damages arising out of death or bodily injury sustained by one person as the result of any one accident; (c) "per accident" for PASSENGER liability is, subject to the above provision respecting per person, the total limit of the Company's liability for all such damages arising out of death or bodily injury sustained by two or more persons as the result of any one accident."

"Conditions Applicable to All Sections

"X X X X X X X X

"5. No admission, offer, promise or payment shall be made by or on behalf of the Insured without the written consent of the Company which shall be entitled, if it so desires, to take over and conduct in his (sic) name the defense or settlement of any claim, or to prosecute in his (sic) name for its own benefit any claim for indemnity or damages or otherwise, and shall have full discretion in the conduct of any proceedings in the settlement of any claim, and the insured shall give all such information and assistance as the Company may require. If the Company shall make any payment in settlement of any claim, and such payment includes any amount not covered by this Policy, the Insured shall repay the Company the amount not so covered.

We have ruled in *Stokes vs. Malayan Insurance Co., Inc.*[14] that the terms of the contract constitute the measure of the insurer's liability and compliance therewith is a condition precedent to the insured's right of recovery from the insurer.

In the case at bar, the insurance policy clearly and categorically placed petitioner's liability for all damages arising out of death or bodily injury sustained by one person as a result of any one accident at P12,000.00. Said amount complied with the minimum fixed by the law then prevailing, Section 377 of Presidential Decree No. 612 (which was retained by P.D. No. 1460, the Insurance Code of 1978), which provided that the liability of land

transportation vehicle operators for bodily injuries sustained by a passenger arising out of the use of their vehicles shall not be less than P12,000. In other words, under the law, the minimum liability is P12,000 per passenger. Petitioner's liability under the insurance contract not being less than P12,000.00, and therefore not contrary to law, morals, good customs, public order or public policy, said stipulation must be upheld as effective, valid and binding as between the parties.[15]

In like manner, we rule as valid and binding upon private respondent the condition above-quoted requiring her to secure the written permission of petitioner before effecting any payment in settlement of any claim against her. There is nothing unreasonable, arbitrary or objectionable in this stipulation as would warrant its nullification. The same was obviously designed to safeguard the insurer's interest against collusion between the insured and the claimants.

In her cross-examination before the trial court, Milagros Cayas admitted, thus:

"Atty. Yabut:

q With respect to the other injured passengers of your bus wherein you made payments you did not secure the consent of defendant (herein petitioner) Perla Compania de Seguros when you made those payments?

a I informed them about that.

q But they did not give you the written authority that you were supposed to pay those claims?

a No, sir."[16]

It being specifically required that petitioner's written consent be first secured before any payment in settlement of any claim could be made, private respondent is precluded from seeking reimbursement of the payments made to del Carmen, Magsarili and Antolin in view of her failure to comply with the condition contained in the insurance policy.

Clearly, the fundamental principle that contracts are respected as the law between the contracting parties finds application in the present case.[17] Thus, it was error on the part of the trial and appellate courts to have disregarded the stipulations of the parties and to have substituted their own interpretation of the insurance policy. In *Phil. American General Insurance Co., Inc. vs. Mutuc*,[18] we ruled that contracts which are the private laws of the contracting parties should be fulfilled according to the literal sense of their stipulations, if their terms are clear and leave no room for doubt as to the intention of the contracting parties, for contracts are obligatory, no matter what form they may be, whenever the essential requisites for their validity are present.

Moreover, we stated in *Pacific Oxygen & Acetylene Co. vs. Central Bank*,[19] that the first and fundamental duty of the courts is the application of the law according to its express terms, interpretation being called for only when such literal application is impossible.

We observe that although Milagros Cayas was able to prove a total loss of only P44,000.00, petitioner was made liable for the amount of P50,000.00, the maximum liability per accident stipulated in the policy. This is patent error. An insurance indemnity, being merely an assistance or restitution insofar as can be fairly ascertained, cannot be availed of by any accident victim or claimant as an instrument of enrichment by reason of an accident.[20]

Finally, we find no reason to disturb the award of attorney's fees.

WHEREFORE, the decision of the Court of Appeals is hereby modified in that petitioner shall pay Milagros Cayas the amount of Twelve Thousand Pesos (P12,000.00) plus legal interest from the promulgation of the

decision of the lower court until it is fully paid and attorney's fees in the amount of P5,000.00. No pronouncement as to costs.

SO ORDERED.

Gutierrez, Jr., Feliciano, Bidin, and Cortes, JJ., concur.

- [1] Jose A.R. Melo, J., ponente, with Esteban M. Lising and Celso L. Magsino, JJ., concurring.
- [2] Luis L. Victor, presiding judge.
- [3] p. 25, Rollo.
- [4] Exh. B.
- [5] Exh. A
- [6] Pablo D. Suarez, presiding judge.
- [7] Exh. C.
- [8] Exh. G.
- [9] Exh. H.
- [10] Original Record on Appeal, pp. 2 & 16.
- [11] Original Record on Appeal, p. 10.
- [12] p. 24. Rollo.
- [13] Limits of Liability, Exh. "A".
- [14] L-34768, February 28, 1984, 127 SCRA 766, 769, citing *Young vs. Midland Textile Insurance, Co.*, 30 Phil. 617.
- [15] Art. 1306, Civil Code.
- [16] TSN, April 29, 1983, p. 9.
- [17] *Henson vs. Intermediate Appellate Court*, G.R. No. 72456, February 19, 1987, 148 SCRA 11; *Dihiansan, et al. vs. Court of Appeals*, G.R. No. 49839, September 14, 1987, 153 SCRA 712; *Escano vs. Court of Appeals*, 100 SCRA 197.
- [18] G.R. No. L-19632, November 13, 1974, 61 SCRA 22, cited in *Castro vs. Court of Appeals*, G.R. No. L-44727, September 11, 1980, 99 SCRA 197.
- [19] G.R. No. L-21881, March 1, 1969, 22 SCRA 917.
- [20] Sec. 383, Insurance Code of 1978.

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