

PERLA COMPANIA DE SEGUROS, INC., PETITIONER, VS. THE COURT OF APPEALS, HERMINIO LIM AND EVELYN LIM, RESPONDENTS.

G.R. No. 96452. May 07, 1992

Ponente: NOCON, J.

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NOCON, J.:

These are two petitions for review on certiorari, one filed by Perla Compania de Seguros, Inc. in G.R. No. 96452, and the other by FCP Credit Corporation in G.R. No. 96493, both seeking to annul and set aside the decision dated July 30,1990[1] of the Court of Appeals in CA-G.R. No. 13037, which reversed the decision of the Regional Trial Court of Manila, Branch VIII in Civil Case No. 83-19098 for replevin and damages. The dispositive portion of the decision of the Court of Appeals reads, as follows:

“WHEREFORE, the decision appealed from is reversed; and appellee Perla Compania de Seguros, Inc. is ordered to indemnify appellants Herminio and Evelyn Lim for the loss of their insured vehicle; while said appellants are ordered to pay appellee FCP Credit Corporation all the unpaid installments that were due and payable before the date said vehicle was carnapped; and appellee Perla Compania de Seguros, Inc. is also ordered to pay appellants moral damages of P12,000.00 for the latter's mental sufferings, exemplary damages of P20,000.00 for appellee Perla Compania de Seguros, Inc. ‘s unreasonable refusal on sham grounds to honor the just insurance claim of appellants by way of example and correction for public good, and attorney's fees of P10,000.00 as a just and equitable reimbursement for the expenses incurred therefor by appellants, and the costs of suit both in the lower court and in this appeal.”[2]

The facts as found by the trial court are as follows:

On December 24, 1981, private respondents spouses Herminio and Evelyn Lim executed a promissory note in favor of Supercars, Inc. in the sum of P77,940.00, payable in monthly installments according to the schedule of payment indicated in said note,[3] and secured by a chattel mortgage over a brand new red Ford Laser 1300 5DR Hatchback 1981 model with motor and serial No. SUPJYK-03780, which is registered under the name of private respondent Herminio Lim[4] and insured with the petitioner Perla Compania de Seguros, Inc. (Perla for brevity) for comprehensive coverage under Policy No. PC/41PP-QCB-43383.[5]

On the same date, Supercars, Inc., with notice to private respondents spouses, assigned to petitioner FCP Credit Corporation (FCP for brevity) its rights, title and interest on said promissory note and chattel mortgage as shown by the Deed of Assignment.[6]

At around 2:30 P.M. of November 9, 1982, said vehicle was carnapped while parked at the back of Broadway Centrum along N. Domingo Street, Quezon City. Private respondent Evelyn Lim, who was driving said car before it was carnapped, immediately called up the Anti-Carnapping Unit of the Philippine Constabulary to report said incident and thereafter, went to the nearest police substation at Araneta, Cubao to make a police report regarding said incident, as shown by the certification issued by the Quezon City police.[7]

On November 10, 1982, private respondent Evelyn Lim reported said incident to the Land Transportation

Commission in Quezon City, as shown by the letter of her counsel to said office,[8] in compliance with the insurance requirement. She also filed a complaint with the Headquarters, Constabulary Highway Patrol Group.[9]

On November 11, 1982, private respondent filed a claim for loss with the petitioner Perla but said claim was denied on November 18, 1982[10] on the ground that Evelyn Lim, who was using the vehicle before it was carnapped, was in possession of an expired driver's license at the time of the loss of said vehicle which is in violation of the authorized driver clause of the insurance policy, which states, to wit:

“AUTHORIZED DRIVER:

Any of the following: (a) The Insured (b) Any person driving on the Insured's order, or with his permission. Provided that the person driving is permitted, in accordance with the licensing or other laws or regulations, to drive the Scheduled Vehicle, or has been permitted and is not disqualified by order of a Court of Law or by reason of any enactment or regulation in that behalf.”[11]

On November 17, 1982, private respondents requested from petitioner FCP for a suspension of payment on the monthly amortization agreed upon due to the loss of the vehicle and, since the carnapped vehicle was insured with petitioner Perla, said insurance company should be made to pay the remaining balance of the promissory note and the chattel mortgage contract.

Perla, however, denied private respondents' claim. Consequently, petitioner FCP demanded that private respondents pay the whole balance of the promissory note or to return the vehicle[12] but the latter refused.

On July 25, 1983, petitioner FCP filed a complaint against private respondents, who in turn filed an amended third party complaint against petitioner Perla on December 8, 1983. After trial on the merits, the trial court rendered a decision, the dispositive portion of which reads:

“WHEREFORE, in view of the foregoing, judgment is hereby rendered as follows:

1. Ordering defendants Herminio Lim and Evelyn Lim to pay, jointly and severally, plaintiff the sum of P55,055.93 plus interest thereon at the rate of 24% per annum from July 2, 1983 until fully paid;
2. Ordering defendants to pay plaintiff P5,000.00 as and for attorney's fees; and the costs of suit.

Upon the other hand, likewise, ordering the DISMISSAL of the Third-Party Complaint filed against Third-Party Defendant.”[13]

Not satisfied with said decision, private respondents appealed the same to the Court of Appeals, which reversed said decision.

After petitioners' separate motions for reconsideration were denied by the Court of Appeals in its resolution of December 10, 1990, petitioners filed these separate petitions for review on certiorari.

Petitioner Perla alleged that there was grave abuse of discretion on the part of the appellate court in holding that private respondents did not violate the insurance contract because the authorized driver clause is not applicable to the “Theft” clause of said Contract.

For its part, petitioner FCP raised the issue of whether or not the loss of the collateral exempted the debtor from his admitted obligations under the promissory note particularly the payment of interest, litigation expenses and attorney's fees.

We find no merit in Perla's petition.

The comprehensive motor car insurance policy issued by petitioner Perla undertook to indemnify the private

respondents against loss or damage to the car (a) by accidental collision or overturning, or collision or overturning consequent upon mechanical breakdown or consequent upon wear and tear; (b) by fire, external explosion, self-ignition or lightning or burglary, housebreaking or theft; and (c) by malicious act.[14]

Where a car is admittedly, as in this case, unlawfully and wrongfully taken without the owner's consent or knowledge, such taking constitutes theft, and, therefore, it is the "THEFT" clause, and not the "AUTHORIZED DRIVER" clause, that should apply. As correctly stated by the respondent court in its decision:

"x x x Theft is an entirely different legal concept from that of accident. Theft is committed by a person with the intent to gain or, to put it in another way, with the concurrence of the doer's will. On the other hand, accident, although it may proceed or result from negligence, is the happening of an event without the concurrence of the will of the person by whose agency it was caused. (Bouvier's Law Dictionary, Vol. I, 1914 ed., p. 101).

Clearly, the risk against accident is distinct from the risk against theft. The 'authorized driver clause' in a typical insurance policy is in contemplation or anticipation of accident in the legal sense in which it should be understood, and not in contemplation or anticipation of an event such as theft. The distinction -- often seized upon by insurance companies in resisting claims from their assureds --- between death occurring as a result of accident and death occurring as a result of intent may, by analogy, apply to the case at bar. Thus, if the insured vehicle had figured in an accident at the time she drove it with an expired license, then, appellee Perla Compania could properly resist appellants' claim for indemnification for the loss or destruction of the vehicle resulting from the accident. But in the present case, the loss of the insured vehicle did not result from an accident where intent was involved; the loss in the present case was caused by theft, the commission of which was attended by intent."[15]

It is worthy to note that there is no causal connection between the possession of a valid driver's license and the loss of a vehicle. To rule otherwise would render car insurance practically a sham since an insurance company can easily escape liability by citing restrictions which are not applicable or germane to the claim, thereby reducing indemnity to a shadow.

We however find the petition of FCP meritorious.

This Court agrees with petitioner FCP that private respondents are not relieved of their obligation to pay the former the installments due on the promissory note on account of the loss of the automobile. The chattel mortgage constituted over the automobile is merely an accessory contract to the promissory note. Being the principal contract, the promissory note is unaffected by whatever befalls the subject matter of the accessory contract. Therefore, the unpaid balance on the promissory note should be paid, and not just the installments due and payable before the automobile was carnapped, as erroneously held by the Court of Appeals.

However, this does not mean that private respondents are bound to pay the interest, litigation expenses and attorney's fees stipulated in the promissory note. Because of the peculiar relationship between the three contracts in this case, i, e., the promissory note, the chattel mortgage contract and the insurance policy, this Court is compelled to construe all three contracts as intimately interrelated to each other, despite the fact that at first glance there is no relationship whatsoever between the parties thereto.

Under the promissory note, private respondents are obliged to pay Supercars, Inc. the amount stated therein in accordance with the schedule provided for. To secure said promissory note, private respondents constituted a chattel mortgage in favor of Supercars, Inc. over the automobile the former purchased from the latter. The chattel mortgage, in turn, required private respondents to insure the automobile and to make the proceeds thereof payable to Supercars, Inc. The promissory note and chattel mortgage were assigned by Supercars, Inc. to petitioner FCP, with the knowledge of private respondents. Private respondents were able to secure an insurance policy from

petitioner Perla, and the same was made specifically payable to petitioner FCP.[16]

The insurance policy was therefore meant to be an additional security to the principal contract, that is, to insure that the promissory note will still be paid in case the automobile is lost through accident or theft. The Chattel Mortgage Contract provided that:

“THE SAID MORTGAGOR COVENANTS AND AGREES THAT HE/IT WILL CAUSE THE PROPERTY/IES HEREIN-ABOVE MORTGAGED TO BE INSURED AGAINST LOSS OR DAMAGE BY ACCIDENT, THEFT AND FIRE FOR A PERIOD OF ONE YEAR FROM DATE HEREOF AND EVERY YEAR THEREAFTER UNTIL THE MORTGAGE OBLIGATION IS FULLY PAID WITH AN INSURANCE COMPANY OR COMPANIES ACCEPTABLE TO THE MORTGAGEE IN AN AMOUNT NOT LESS THAN THE OUT-STANDING BALANCE OF THE MORTGAGE OBLIGATION; THAT HE/IT WILL MAKE ALL LOSS, IF ANY, UNDER SUCH POLICY OR POLICIES, PAYABLE TO THE MORTGAGEE OR ITS ASSIGNS AS ITS INTERESTS MAY APPEAR AND FORTHWITH DELIVER SUCH POLICY OR POLICIES TO THE MORTGAGEE. X X X.”[17]

It is clear from the abovementioned provision that upon the loss of the insured vehicle, the insurance company Perla undertakes to pay directly to the mortgagor or to their assignee, FCP, the outstanding balance of the mortgage at the time of said loss under the mortgage contract. If the claim on the insurance policy had been approved by petitioner Perla, it would have paid the proceeds thereof directly to petitioner FCP, and this would have had the effect of extinguishing private respondents' obligation to petitioner FCP. Therefore, private respondents were justified in asking petitioner FCP to demand the unpaid installments from petitioner Perla.

Because petitioner Perla had unreasonably denied their valid claim, private respondents should not be made to pay the interest, liquidated damages and attorney's fees as stipulated in the promissory note. As mentioned above, the contract of indemnity was procured to insure the return of the money loaned from petitioner FCP, and the unjustified refusal of petitioner Perla to recognize the valid claim of the private respondents should not in any way prejudice the latter.

Private respondents can not be said to have unduly enriched themselves at the expense of petitioner FCP since they will be required to pay the latter the unpaid balance of its obligation under the promissory note.

In view of the foregoing discussion, We hold that the Court of Appeals did not err in requiring petitioner Perla to indemnify private respondents for the loss of their insured vehicle. However, the latter should be ordered to pay petitioner FCP the amount of P55,055.93, representing the unpaid installments from December 30, 1982 up to July 1, 1983 as shown in the statement of account prepared by petitioner FCP,[18] plus legal interest from July 2, 1983 until fully paid.

As to the award of moral damages, exemplary damages and attorney's fees, private respondents are legally entitled to the same since petitioner Perla had acted in bad faith by unreasonably refusing to honor the insurance claim of the private respondents. Besides, awards for moral and exemplary damages, as well as attorney's fees are left to the sound discretion of the Court. Such discretion, if well exercised, will not be disturbed on appeal.[19]

WHEREFORE, the assailed decision of the Court of Appeals is hereby MODIFIED to require private respondents to pay petitioner FCP the amount of P55,055.93, with legal interest from July 2, 1983 until fully paid. The decision appealed from is hereby affirmed as to all other respects. No pronouncement as to costs.

SO ORDERED.

Melencio-Herrera, (Chairman), Paras, Padilla, and Regalado, JJ., concur.

[1] Ponente: Justice Jesus M. Elbinias; Justices Pedro A. Ramirez and Regina G. Ordoñez-Benitez, concurring.

[2] Decision of the Court of Appeals, p. 7; Rollo, p. 63.

[3] Exhibit "A", Exhibit "5".

[4] Exhibit "B".

[5] Exhibit "2", Exhibit "1-Perla".

[6] Exhibit "B".

[7] Exhibit "6", Records, p. 101.

[8] Exhibit "7".

[9] Exhibit "8".

[10] Exhibit "2-a-Perla".

[11] Exhibit "1-a Perla de Seguro"; Records, p. 88.

[12] Exhibits "C" and "D".

[13] RTC's Decision, pp. 8-9; Records, pp. 34-35.

[14] Exhibit "2".

[15] Decision of the Court of Appeals, p. 6; Rollo, p. 62.

[16] Exhibit "2"; Records, p. 88.

[17] Exhibit "B"; Records, p. 80. Emphasis supplied.

[18] Exhibit "D", Records, p. 84

[19] Philippine Airline, Inc. vs. Court of Appeals, 188 SCRA 461 (1990).

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