



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

**MANILA BANKERS LIFE
INSURANCE CORPORATION,**

Petitioner.

G.R. No. 175666

Present:

- versus -

CARPIO, *Chairperson*,
BRION,
DEL CASTILLO,
PEREZ, *and*
PERLAS-BERNABE, *JJ.*

CRESENCIA P. ABAN,
Respondent.

Promulgated:
JUL 29 2013

X ----- X

DECISION

DEL CASTILLO, J.:

The ultimate aim of Section 48 of the Insurance Code is to compel insurers to solicit business from or provide insurance coverage only to legitimate and *bona fide* clients, by requiring them to thoroughly investigate those they insure within two years from effectivity of the policy and while the insured is still alive. If they do not, they will be obligated to honor claims on the policies they issue, regardless of fraud, concealment or misrepresentation. The law assumes that they will do just that and not sit on their laurels, indiscriminately soliciting and accepting insurance business from any Tom, Dick and Harry.

Assailed in this Petition for Review on *Certiorari*¹ are the September 28, 2005 Decision² of the Court of Appeals (CA) in CA-G.R. CV No. 62286 and its November 9, 2006 Resolution³ denying the petitioner's Motion for Reconsideration.⁴ *Maan*

¹ *Rollo*, pp. 3-14.

² CA *rollo*, pp. 38-47; penned by Associate Justice Amelita G. Tolentino and concurred in by Associate Justices Danilo B. Pine and Vicente S.E. Veloso.

³ *Id.* at 59-60; penned by Associate Justice Amelita G. Tolentino and concurred in by Associate Justices Regalado E. Maambong and Vicente S.E. Veloso.

⁴ *Id.* at 48-56.

Factual Antecedents

On July 3, 1993, Delia Sotero (Sotero) took out a life insurance policy from Manila Bankers Life Insurance Corporation (Bankers Life), designating respondent Cresencia P. Aban (Aban), her niece,⁵ as her beneficiary.

Petitioner issued Insurance Policy No. 747411 (the policy), with a face value of ₱100,000.00, in Sotero's favor on August 30, 1993, after the requisite medical examination and payment of the insurance premium.⁶

On April 10, 1996,⁷ when the insurance policy had been in force for more than two years and seven months, Sotero died. Respondent filed a claim for the insurance proceeds on July 9, 1996. Petitioner conducted an investigation into the claim,⁸ and came out with the following findings:

1. Sotero did not personally apply for insurance coverage, as she was illiterate;
2. Sotero was sickly since 1990;
3. Sotero did not have the financial capability to pay the insurance premiums on Insurance Policy No. 747411;
4. Sotero did not sign the July 3, 1993 application for insurance;⁹ [and]
5. Respondent was the one who filed the insurance application, and x x x designated herself as the beneficiary.¹⁰

For the above reasons, petitioner denied respondent's claim on April 16, 1997 and refunded the premiums paid on the policy.¹¹

On April 24, 1997, petitioner filed a civil case for rescission and/or annulment of the policy, which was docketed as Civil Case No. 97-867 and assigned to Branch 134 of the Makati Regional Trial Court. The main thesis of the Complaint was that the policy was obtained by fraud, concealment and/or misrepresentation under the Insurance Code,¹² which thus renders it voidable under Article 1390¹³ of the Civil Code.

⁵ *Rollo*, p. 6.

⁶ *Id.* at 6-7, 71.

⁷ *Records*, p. 23.

⁸ *Rollo*, p. 7.

⁹ *Id.* at 7, 16.

¹⁰ *Records*, p. 2.

¹¹ *Id.*

¹² Presidential Decree No. 612.

¹³ Art. 1390. The following contracts are voidable or annulable, even though there may have been no damage to the contracting parties:

Respondent filed a Motion to Dismiss¹⁴ claiming that petitioner's cause of action was barred by prescription pursuant to Section 48 of the Insurance Code, which provides as follows:

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.

During the proceedings on the Motion to Dismiss, petitioner's investigator testified in court, stating among others that the insurance underwriter who solicited the insurance is a cousin of respondent's husband, Dindo Aban,¹⁵ and that it was the respondent who paid the annual premiums on the policy.¹⁶

Ruling of the Regional Trial Court

On December 9, 1997, the trial court issued an Order¹⁷ granting respondent's Motion to Dismiss, thus:

WHEREFORE, defendant CRESENCIA P. ABAN's Motion to Dismiss is hereby granted. Civil Case No. 97-867 is hereby dismissed.

SO ORDERED.¹⁸

In dismissing the case, the trial court found that Sotero, and not respondent, was the one who procured the insurance; thus, Sotero could legally take out insurance on her own life and validly designate – as she did – respondent as the beneficiary. It held further that under Section 48, petitioner had only two years from the effectivity of the policy to question the same; since the policy had been in force for more than two years, petitioner is now barred from contesting the same or seeking a rescission or annulment thereof.

(1) Those where one of the parties is incapable of giving consent to a contract;

(2) Those where the consent is vitiated by mistake, violence, intimidation, undue influence or fraud.

These contracts are binding, unless they are annulled by a proper action in court. They are susceptible of ratification.

¹⁴ Records, pp. 19-22.

¹⁵ TSN, May 5, 1998, pp. 12-13; records, pp. 95-96.

¹⁶ Id. at 15; id. at 98.

¹⁷ Records, pp. 55-56; penned by Judge Ignacio M. Capulong.

¹⁸ Id. at 56.

Petitioner moved for reconsideration, but in another Order¹⁹ dated October 20, 1998, the trial court stood its ground.

Petitioner interposed an appeal with the CA, docketed as CA-G.R. CV No. 62286. Petitioner questioned the dismissal of Civil Case No. 97-867, arguing that the trial court erred in applying Section 48 and declaring that prescription has set in. It contended that since it was respondent – and not Sotero – who obtained the insurance, the policy issued was rendered void *ab initio* for want of insurable interest.

Ruling of the Court of Appeals

On September 28, 2005, the CA issued the assailed Decision, which contained the following decretal portion:

WHEREFORE, in the light of all the foregoing, the instant appeal is **DISMISSED** for lack of merit.

SO ORDERED.²⁰

The CA thus sustained the trial court. Applying Section 48 to petitioner's case, the CA held that petitioner may no longer prove that the subject policy was void *ab initio* or rescindible by reason of fraudulent concealment or misrepresentation after the lapse of more than two years from its issuance. It ratiocinated that petitioner was equipped with ample means to determine, within the first two years of the policy, whether fraud, concealment or misrepresentation was present when the insurance coverage was obtained. If it failed to do so within the statutory two-year period, then the insured must be protected and allowed to claim upon the policy.

Petitioner moved for reconsideration,²¹ but the CA denied the same in its November 9, 2006 Resolution.²² Hence, the present Petition.

Issues

Petitioner raises the following issues for resolution:

I

[WHETHER] THE COURT OF APPEALS ERRED IN SUSTAINING THE

¹⁹ Id. at 116-119.

²⁰ CA *rollo*, p. 46.

²¹ Id. at 48-56.

²² Id. at 59-60.

ORDER OF THE TRIAL COURT DISMISSING THE COMPLAINT ON THE GROUND OF PRESCRIPTION IN CONTRAVENTION (OF) PERTINENT LAWS AND APPLICABLE JURISPRUDENCE.

II

[WHETHER] THE COURT OF APPEALS ERRED IN SUSTAINING THE APPLICATION OF THE INCONTESTABILITY PROVISION IN THE INSURANCE CODE BY THE TRIAL COURT.

III

[WHETHER] THE COURT OF APPEALS ERRED IN DENYING PETITIONER'S MOTION FOR RECONSIDERATION.²³

Petitioner's Arguments

In praying that the CA Decision be reversed and that the case be remanded to the trial court for the conduct of further proceedings, petitioner argues in its Petition and Reply²⁴ that Section 48 cannot apply to a case where the beneficiary under the insurance contract posed as the insured and obtained the policy under fraudulent circumstances. It adds that respondent, who was merely Sotero's niece, had no insurable interest in the life of her aunt.

Relying on the results of the investigation that it conducted after the claim for the insurance proceeds was filed, petitioner insists that respondent's claim was spurious, as it appeared that Sotero did not actually apply for insurance coverage, was unlettered, sickly, and had no visible source of income to pay for the insurance premiums; and that respondent was an impostor, posing as Sotero and fraudulently obtaining insurance in the latter's name without her knowledge and consent.

Petitioner adds that Insurance Policy No. 747411 was void *ab initio* and could not have given rise to rights and obligations; as such, the action for the declaration of its nullity or inexistence does not prescribe.²⁵

Respondent's Arguments

Respondent, on the other hand, essentially argues in her Comment²⁶ that the CA is correct in applying Section 48. She adds that petitioner's new allegation in its Petition that the policy is void *ab initio* merits no attention, having failed to raise the same below, as it had claimed originally that the policy was merely

²³ *Rollo*, p. 9.

²⁴ *Id.* at 69-75.

²⁵ Citing Article 1410 of the Civil Code:

Art. 1410. The action or defense for the declaration of the inexistence of a contract does not prescribe.

²⁶ *Rollo*, pp. 57-67.

voidable.

On the issue of insurable interest, respondent echoes the CA's pronouncement that since it was Sotero who obtained the insurance, insurable interest was present. Under Section 10 of the Insurance Code, Sotero had insurable interest in her own life, and could validly designate anyone as her beneficiary. Respondent submits that the CA's findings of fact leading to such conclusion should be respected.

Our Ruling

The Court denies the Petition.

The Court will not depart from the trial and appellate courts' finding that it was Sotero who obtained the insurance for herself, designating respondent as her beneficiary. Both courts are in accord in this respect, and the Court is loath to disturb this. While petitioner insists that its independent investigation on the claim reveals that it was respondent, posing as Sotero, who obtained the insurance, this claim is no longer feasible in the wake of the courts' finding that it was Sotero who obtained the insurance for herself. This finding of fact binds the Court.

With the above crucial finding of fact – that it was Sotero who obtained the insurance for herself – petitioner's case is severely weakened, if not totally disproved. Allegations of fraud, which are predicated on respondent's alleged posing as Sotero and forgery of her signature in the insurance application, are at once belied by the trial and appellate courts' finding that Sotero herself took out the insurance for herself. "[F]raudulent intent on the part of the insured must be established to entitle the insurer to rescind the contract."²⁷ In the absence of proof of such fraudulent intent, no right to rescind arises.

Moreover, the results and conclusions arrived at during the investigation conducted unilaterally by petitioner after the claim was filed may simply be dismissed as self-serving and may not form the basis of a cause of action given the existence and application of Section 48, as will be discussed at length below.

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

²⁷ *Great Pacific Life Assurance Corporation v. Court of Appeals*, 375 Phil. 142, 152 (1999).

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.

The Court therefore agrees fully with the appellate court's pronouncement that –

[t]he “incontestability clause” is a provision in law that 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 rescindible by reason of fraudulent concealment or misrepresentation of the insured or his agent.

The purpose of the law is to give protection to the insured or his beneficiary by limiting the rescinding of the contract of insurance on the ground of fraudulent concealment or misrepresentation to a period of only two (2) years from the issuance of the policy or its last reinstatement.

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. The provision also makes clear when the two-year period should commence in case the policy should lapse and is reinstated, that is, from the date of the last reinstatement.

After two years, the defenses of concealment or misrepresentation, no matter how patent or well-founded, will no longer lie.

Congress felt this was a sufficient answer to the various tactics employed by insurance companies to avoid liability.

The so-called “incontestability clause” precludes the insurer from raising the defenses of false representations or concealment of material facts insofar as health and previous diseases are concerned if the insurance has been in force for at least two years during the insured’s lifetime. The phrase “during the lifetime” found in Section 48 simply means that the policy is no longer considered in force after the insured has died. The key phrase in the second paragraph of Section 48 is “for a period of two years.”

As borne by the records, the policy was issued on August 30, 1993, the insured died on April 10, 1996, and the claim was denied on April 16, 1997. The insurance policy was thus in force for a period of 3 years, 7 months, and 24 days. Considering that the insured died after the two-year period, the plaintiff-appellant is, therefore, barred from proving that the policy is void *ab initio* by reason of the insured’s fraudulent concealment or misrepresentation or want of insurable interest on the part of the beneficiary, herein defendant-appellee.

Well-settled is the rule that it is the plaintiff-appellant’s burden to show that the factual findings of the trial court are not based on substantial evidence or that its conclusions are contrary to applicable law and jurisprudence. The plaintiff-appellant failed to discharge that burden.²⁸

Petitioner claims that its insurance agent, who solicited the Sotero account,

²⁸ CA rollo, pp. 44-46.

happens to be the cousin of respondent's husband, and thus insinuates that both connived to commit insurance fraud. If this were truly the case, then petitioner would have discovered the scheme earlier if it had in earnest conducted an investigation into the circumstances surrounding the Sotero policy. But because it did not and it investigated the Sotero account only after a claim was filed thereon more than two years later, naturally it was unable to detect the scheme. For its negligence and inaction, the Court cannot sympathize with its plight. Instead, its case precisely provides the strong argument for requiring insurers to diligently conduct investigations on each policy they issue within the two-year period mandated under Section 48, and not after claims for insurance proceeds are filed with them.

Besides, if insurers cannot vouch for the integrity and honesty of their insurance agents/salesmen and the insurance policies they issue, then they should cease doing business. If they could not properly screen their agents or salesmen before taking them in to market their products, or if they do not thoroughly investigate the insurance contracts they enter into with their clients, then they have only themselves to blame. Otherwise said, insurers cannot be allowed to collect premiums on insurance policies, use these amounts collected and invest the same through the years, generating profits and returns therefrom for their own benefit, and thereafter conveniently deny insurance claims by questioning the authority or integrity of their own agents or the insurance policies they issued to their premium-paying clients. This is exactly one of the schemes which Section 48 aims to prevent.

Insurers may 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. In the meantime, they benefit from collecting the interest and/or returns on both the premiums previously paid by the insured and the insurance proceeds which should otherwise go to their beneficiaries. The business of insurance is a highly regulated commercial activity in the country,²⁹ and is imbued with public interest.³⁰ “[A]n insurance contract is a contract of adhesion which must be construed liberally in favor of the insured and strictly against the insurer in order to safeguard the [former's] interest.”³¹

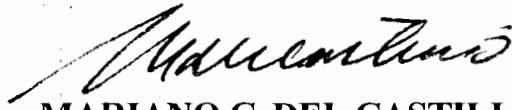
WHEREFORE, the Petition is **DENIED**. The assailed September 28, 2005 Decision and the November 9, 2006 Resolution of the Court of Appeals in CA-G.R. CV No. 62286 are **AFFIRMED**.

²⁹ *Tongko v. The Manufacturers Life Insurance Company (Phils.), Inc.*, G.R. No. 167622, June 29, 2010, 622 SCRA 58, 75.

³⁰ *Republic v. Del Monte Motors, Inc.*, 535 Phil. 53, 60 (2006); *White Gold Marine Services, Inc. v. Pioneer Insurance & Surety Corporation*, 502 Phil. 692, 700 (2005).

³¹ *Eternal Gardens Memorial Park Corporation v. Philippine American Life Insurance Company*, G.R. No. 166245, April 9, 2008, 551 SCRA 1, 13.

SO ORDERED.



MARIANO C. DEL CASTILLO
Associate Justice

WE CONCUR:


ANTONIO T. CARPIO
Associate Justice
Chairperson


ARTURO D. BRION
Associate Justice


JOSE PORTUGAL PEREZ
Associate Justice


ESTELA M. PERLAS-BERNABE
Associate Justice

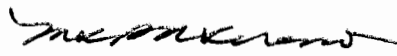
ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


ANTONIO T. CARPIO
Associate Justice
Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


MARIA LOURDES P. A. SERENO
Chief Justice

