Republic of the Philippines
SUPREME COURT
Manila

THIRD DIVISION

G.R. No. 198174 **September 2, 2013**

ALPHA INSURANCE AND SURETY CO., PETITIONER,
vs.
ARSENIA SONIA CASTOR, RESPONDENT.

D E C I S I O N

PERALTA, *J.:*

Before us is a Petition for Review on Certiorari under Rule 45 of the Rules of Court assailing the Decision[1] dated May 31, 2011 and Resolution[2] dated August 10, 2011 of the Court of Appeals (CA) in CA-G.R. CV No. 93027.

The facts follow.

On February 21, 2007, respondent entered into a contract of insurance, Motor Car Policy No. MAND/CV-00186, with petitioner, involving her motor vehicle, a Toyota Revo DLX DSL. The contract of insurance obligates the petitioner to pay the respondent the amount of Six Hundred Thirty Thousand Pesos (₱630,000.00) in case of loss or damage to said vehicle during the period covered, which is from February 26, 2007 to February 26, 2008.

On April 16, 2007, at about 9:00 a.m., respondent instructed her driver, Jose Joel Salazar Lanuza (Lanuza), to bring the above-described vehicle to a nearby auto-shop for a tune-up. However, Lanuza no longer returned the motor vehicle to respondent and despite diligent efforts to locate the same, said efforts proved futile. Resultantly, respondent promptly reported the incident to the police and concomitantly notified petitioner of the said loss and demanded payment of the insurance proceeds in the total sum of ₱630,000.00.

In a letter dated July 5, 2007, petitioner denied the insurance claim of respondent, stating among others, thus:

Upon verification of the documents submitted, particularly the Police Report and your Affidavit, which states that the culprit, who stole the Insure[d] unit, is employed with you. We would like to invite you on the provision of the Policy under Exceptions to Section-III, which we quote:

1.) The Company shall not be liable for:

x x x x

(4) Any malicious damage caused by the Insured, any member of his family or by "A PERSON IN THE INSURED'S SERVICE."

In view [of] the foregoing, we regret that we cannot act favorably on your claim.

In letters dated July 12, 2007 and August 3, 2007, respondent reiterated her claim and argued that the exception refers to damage of the motor vehicle and not to its loss. However, petitioner's denial of respondent's insured claim remains firm.

Accordingly, respondent filed a Complaint for Sum of Money with Damages against petitioner before the Regional Trial Court (RTC) of Quezon City on September 10, 2007.

In a Decision dated December 19, 2008, the RTC of Quezon City ruled in favor of respondent in this wise:

WHEREFORE, premises considered, judgment is hereby rendered in favor of the plaintiff and against the defendant ordering the latter as follows:

To pay plaintiff the amount of ₱466,000.00 plus legal interest of 6% per annum from the time of demand up to the time the amount is fully settled;

To pay attorney's fees in the sum of ₱65,000.00; and

To pay the costs of suit.

All other claims not granted are hereby denied for lack of legal and factual basis.[3]

Aggrieved, petitioner filed an appeal with the CA.

On May 31, 2011, the CA rendered a Decision affirming in toto the RTC of Quezon City's decision. The fallo reads:

WHEREFORE, in view of all the foregoing, the appeal is DENIED. Accordingly, the Decision, dated December 19, 2008, of Branch 215 of the Regional Trial Court of Quezon City, in Civil Case No. Q-07-61099, is hereby AFFIRMED in toto.

SO ORDERED.[4]

Petitioner filed a Motion for Reconsideration against said decision, but the same was denied in a Resolution dated August 10, 2011.

Hence, the present petition wherein petitioner raises the following grounds for the allowance of its petition:

> WITH DUE RESPECT TO THE HONORABLE COURT OF APPEALS, IT ERRED AND GROSSLY OR GRAVELY ABUSED ITS DISCRETION WHEN IT ADJUDGED IN FAVOR OF THE PRIVATE RESPONDENT AND AGAINST THE PETITIONER AND RULED THAT EXCEPTION DOES NOT COVER LOSS BUT ONLY DAMAGE BECAUSE THE TERMS OF THE INSURANCE POLICY ARE [AMBIGUOUS] EQUIVOCAL OR UNCERTAIN, SUCH THAT THE PARTIES THEMSELVES DISAGREE ABOUT THE MEANING OF PARTICULAR PROVISIONS, THE POLICY WILL BE CONSTRUED BY THE COURTS LIBERALLY IN FAVOR OF THE ASSURED AND STRICTLY AGAINST THE INSURER.
>
> WITH DUE RESPECT TO THE HONORABLE COURT OF APPEALS, IT ERRED AND COMMITTED GRAVE ABUSE OF DISCRETION WHEN IT [AFFIRMED] IN TOTO THE JUDGMENT OF THE TRIAL COURT.[5]

Simply, the core issue boils down to whether or not the loss of respondent's vehicle is excluded under the insurance policy.

We rule in the negative.

Significant portions of Section III of the Insurance Policy states:

SECTION III – LOSS OR DAMAGE

The Company will, subject to the Limits of Liability, indemnify the Insured against loss of or damage to the Schedule Vehicle and its accessories and spare parts whilst thereon:

(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;

(c)

by malicious act;

(d)

whilst in transit (including the processes of loading and unloading) incidental to such transit by road, rail, inland waterway, lift or elevator.

x x x x

EXCEPTIONS TO SECTION III

The Company shall not be liable to pay for:

Loss or Damage in respect of any claim or series of claims arising out of one event, the first amount of each and every loss for each and every vehicle insured by this Policy, such amount being equal to one percent (1.00%) of the Insured's estimate of Fair Market Value as shown in the Policy Schedule with a minimum deductible amount of Php3,000.00;

Consequential loss, depreciation, wear and tear, mechanical or electrical breakdowns, failures or breakages;

Damage to tires, unless the Schedule Vehicle is damaged at the same time;

Any malicious damage caused by the Insured, any member of his family or by a person in the Insured's service.[6]

In denying respondent's claim, petitioner takes exception by arguing that the word "damage," under paragraph 4 of "Exceptions to Section III," means loss due to injury or harm to person, property or reputation, and should be construed to cover malicious "loss" as in "theft." Thus, it asserts that the loss of respondent's vehicle as a result of it being stolen by the latter's driver is excluded from the policy.

We do not agree.

Ruling in favor of respondent, the RTC of Quezon City scrupulously elaborated that theft perpetrated by the driver of the insured is not an exception to the coverage from the insurance policy, since Section III thereof did not qualify as to who would commit the theft. Thus:

Theft perpetrated by a driver of the insured is not an exception to the coverage from the insurance policy subject of this case. This is evident from the very provision of Section III – "Loss or Damage." The insurance company, subject to the limits of liability, is obligated to indemnify the insured against theft. Said provision does not qualify as to who would commit the theft. Thus, even if the same is committed by the driver of the insured, there being no categorical declaration of exception, the same must be covered. As correctly pointed out by the plaintiff, "(A)n insurance contract should be interpreted as to carry out the purpose for which the parties entered into the contract which is to insure against risks of loss or damage to the goods. Such interpretation should result from the natural and reasonable meaning of language in the policy. Where restrictive provisions are open to two interpretations, that which is most favorable to the insured is adopted." The defendant would argue that if the person employed by the insured would commit the theft and the insurer would be held liable, then this would result to an absurd situation where the insurer would also be held liable if the insured would commit the theft. This argument is certainly flawed. Of course, if the theft would be committed by the insured himself, the same would be an exception to the coverage since in that case there would be fraud on the part of the insured or breach of material warranty under Section 69 of the Insurance Code.[7]

Moreover, contracts of insurance, like other contracts, are to be construed according to the sense and meaning of the terms which the parties themselves have used. If such terms are clear and unambiguous, they must be taken and understood in their plain, ordinary and popular sense.[8] Accordingly, in interpreting the exclusions in an insurance contract, the terms used specifying the excluded classes therein are to be given their meaning as understood in common speech.[9]

Adverse to petitioner's claim, the words "loss" and "damage" mean different things in common ordinary usage. The word "loss" refers to the act or fact of losing, or failure to keep possession, while the word "damage" means deterioration or injury to property.

Therefore, petitioner cannot exclude the loss of respondent's vehicle under the insurance policy under paragraph 4 of "Exceptions to Section III," since the same refers only to "malicious damage," or more specifically, "injury" to the motor vehicle caused by a person under the insured's service. Paragraph 4 clearly does not contemplate "loss of property," as what happened in the instant case.

Further, the CA aptly ruled that "malicious damage," as provided for in the subject policy as one of the exceptions from coverage, is the damage that is the direct result from the deliberate or willful act of the insured, members of his family, and any person in the insured's service, whose clear plan or purpose was to cause damage to the insured vehicle for purposes of defrauding the insurer, viz.:

This interpretation by the Court is bolstered by the observation that the subject policy appears to clearly delineate between the terms "loss" and "damage" by using both terms throughout the said policy. x x x

x x x x

If the intention of the defendant-appellant was to include the term "loss" within the term "damage" then logic dictates that it should have used the term "damage" alone in the entire policy or otherwise included a clear definition of the said term as part of the provisions of the said insurance contract. Which is why the Court finds it puzzling that in the said policy's provision detailing the exceptions to the policy's coverage in Section III thereof, which is one of the crucial parts in the insurance contract, the insurer, after liberally using the words "loss" and "damage" in the entire policy, suddenly went specific by using the word "damage" only in the policy's exception regarding "malicious damage." Now, the defendant-appellant would like this Court to believe that it really intended the word "damage" in the term "malicious damage" to include the theft of the insured vehicle.

The Court does not find the particular contention to be well taken.

True, it is a basic rule in the interpretation of contracts that the terms of a contract are to be construed according to the sense and meaning of the terms which the parties thereto have used. In the case of property insurance policies, the evident intention of the contracting parties, i.e., the insurer and the assured, determine the import of the various terms and provisions embodied in the policy. However, when the terms of the insurance policy are ambiguous, equivocal or uncertain, such that the parties themselves disagree about the meaning of particular provisions, the policy will be construed by the courts liberally in favor of the assured and strictly against the insurer.[10]

Lastly, a contract of insurance is a contract of adhesion. So, when the terms of the insurance contract contain limitations on liability, courts should construe them in such a way as to preclude the insurer from non-compliance with his obligation. Thus, in Eternal Gardens Memorial Park Corporation v. Philippine American Life Insurance Company,[11] this Court ruled –

It must be remembered that an 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 latter's interest. Thus, in Malayan Insurance Corporation v. Court of Appeals, this Court held that:

Indemnity and liability insurance policies are construed in accordance with the general rule of resolving any ambiguity therein in favor of the insured, where the contract or policy is prepared by the insurer. A contract of insurance, being a contract of adhesion, par excellence, any ambiguity therein should be resolved against the insurer; in other words, it should be construed liberally in favor of the insured and strictly against the insurer. Limitations of liability should be regarded with extreme jealousy and must be construed in such a way as to preclude the insurer from non-compliance with its obligations.

In the more recent case of Philamcare Health Systems, Inc. v. Court of Appeals, we reiterated the above ruling, stating that:

When the terms of insurance contract contain limitations on liability, courts should construe them in such a way as to preclude the insurer from non-compliance with his obligation. Being a contract of adhesion, the terms of an insurance contract are to be construed strictly against the party which prepared the contract, the insurer. By reason of the exclusive control of the insurance company over the terms and phraseology of the insurance contract, ambiguity must be strictly interpreted against the insurer and liberally in favor of the insured, especially to avoid forfeiture.[12]

WHEREFORE, premises considered, the instant Petition for Review on Certiorari is DENIED. Accordingly, the Decision dated May 31, 2011 and Resolution dated August 10, 2011 of the Court of Appeals are hereby AFFIRMED.

SO ORDERED.

DIOSDADO M. PERALTA
Associate Justice

WE CONCUR:

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson

ROBERTO A. ABAD
Associate Justice

JOSE CATRAL MENDOZA
Associate Justice

MARVIC MARIO VICTOR F. LEONEN
Associate Justice

A T T E S T A T I O N

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.

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson, Third Division

C E R T I F I C A T I O N

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

Footnotes

[1] Penned by Associate Justice Romeo F. Barza, with Associate Justices Rosalinda Asuncion-Vicente and Edwin D. Sorongon, concurring; rollo, pp. 16-32.

[2] Id. at 33-35.

[3] Id. at 41.

[4] Id. at 31. (Emphasis in the original)

[5] Id. at 9.

[6] Id. at 42-43. (Emphasis ours)

[7] Id. at 40. (Italics in the original)

[8] New Life Enterprises v. Court of Appeals, G.R. No. 94071, March 31, 1992, 207 SCRA 669, 676.

[9] Fortune Insurance and Surety Co., Inc. v. Court of Appeals, 314 Phil. 184, 196 (1995).

[10] Id. at 25-29. (Emphasis and underscoring in the original; citation omitted)

[11] G.R. No.166245, April 9, 2008, 551 SCRA 1.

[12] Eternal Gardens Memorial Park Corporation v. Philippine American Life Insurance Company, supra, at 13. (Citation omitted)

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