Republic of the Philippines
SUPREME COURT
Manila

FIRST DIVISION

G.R. No. 114427 February 6, 1995

ARMANDO GEAGONIA, petitioner,
vs.
COURT OF APPEALS and COUNTRY BANKERS INSURANCE CORPORATION, respondents.

DAVIDE, JR., *J.:*

Four our review under Rule 45 of the Rules of Court is the decision[1] of the Court of Appeals in CA-G.R. SP No. 31916, entitled "Country Bankers Insurance Corporation versus Armando Geagonia," reversing the decision of the Insurance Commission in I.C. Case No. 3340 which awarded the claim of petitioner Armando Geagonia against private respondent Country Bankers Insurance Corporation.

The petitioner is the owner of Norman's Mart located in the public market of San Francisco, Agusan del Sur. On 22 December 1989, he obtained from the private respondent fire insurance policy No. F-14622[2] for P100,000.00. The period of the policy was from 22 December 1989 to 22 December 1990 and covered the following: "Stock-in-trade consisting principally of dry goods such as RTW's for men and women wear and other usual to assured's business."

The petitioner declared in the policy under the subheading entitled CO-INSURANCE that Mercantile Insurance Co., Inc. was the co-insurer for P50,000.00. From 1989 to 1990, the petitioner had in his inventory stocks amounting to P392,130.50, itemized as follows:

Zenco Sales, Inc.	P55,698.00
F. Legaspi Gen. Merchandise	86,432.50
Cebu Tesing Textiles	250,000.00 (on credit)
	P392,130.50

The policy contained the following condition:

> 3. The insured shall give notice to the Company of any insurance or insurances already affected, or which may subsequently be effected, covering any of the property or properties consisting of stocks in trade, goods in process and/or inventories only hereby insured, and unless such notice be given and the particulars of such insurance or insurances be stated therein or endorsed in this policy pursuant to Section 50 of the Insurance Code, by or on behalf of the Company before the occurrence of any loss or damage, all benefits under this policy shall be deemed forfeited, *provided however*, that this condition shall not apply when the total insurance or insurances in force at the time of the loss or damage is not more than P200,000.00.

On 27 May 1990, fire of accidental origin broke out at around 7:30 p.m. at the public market of San Francisco, Agusan del Sur. The petitioner's insured stock-in-trade were completely destroyed prompting him to file with the private respondent a claim under the policy. On 28 December 1990, the private respondent denied the claim because it found that at the time of the loss the petitioner's stocks-in-trade were likewise covered by fire insurance policies No. GA-28146 and No. GA-28144, for P100,000.00 each, issued by the Cebu Branch of the Philippines First Insurance Co., Inc. (hereinafter *PFIC)*. [3] These policies indicate that the insured was "Messrs. Discount Mart (Mr. Armando Geagonia, Prop.)" with a mortgage clause reading:

> MORTGAGE: Loss, if any shall be payable to Messrs. Cebu Tesing Textiles, Cebu City as their interest may appear subject to the terms of this policy. CO-INSURANCE DECLARED: P100,000. — Phils. First CEB/F 24758.[4]

The basis of the private respondent's denial was the petitioner's alleged violation of Condition 3 of the policy.

The petitioner then filed a complaint [5] against the private respondent with the Insurance Commission (Case No. 3340) for the recovery of P100,000.00 under fire insurance policy No. F-14622 and for attorney's fees and costs of litigation. He attached as Annex "AM"[6] thereof his letter of 18 January 1991 which asked for the reconsideration of the denial. He admitted in the said letter that at the time he obtained the private respondent's fire insurance policy he knew that the two policies issued by the PFIC were already in existence; however, he had no knowledge of the provision in the private respondent's policy requiring him to inform it of the prior policies; this requirement was not mentioned to him by the private respondent's agent; and had it been mentioned, he would not have withheld such information. He further asserted that the total of the amounts claimed under the three policies was below the actual value of his stocks at the time of loss, which was P1,000,000.00.

In its answer,[7] the private respondent specifically denied the allegations in the complaint and set up as its principal defense the violation of Condition 3 of the policy.

In its decision of 21 June 1993,[8] the Insurance Commission found that the petitioner did not violate Condition 3 as he had no knowledge of the existence of the two fire insurance policies obtained from the PFIC; that it was Cebu Tesing Textiles which procured the PFIC policies without informing him or securing his consent; and that Cebu Tesing Textile, as his creditor, had insurable interest on the stocks. These findings were based on the petitioner's testimony that he came to know of the PFIC policies only when he filed his claim with the private respondent and that Cebu Tesing Textile obtained them and paid for their premiums without informing him thereof. The Insurance Commission then decreed:

> WHEREFORE, judgment is hereby rendered ordering the respondent company to pay complainant the sum of P100,000.00 with legal interest from the time the complaint was filed until fully satisfied plus the amount of P10,000.00 as attorney's fees. With costs. The compulsory counterclaim of respondent is hereby dismissed.

Its motion for the reconsideration of the decision [9] having been denied by the Insurance Commission in its resolution of 20 August 1993, [10] the private respondent appealed to the Court of Appeals by way of a petition for review. The petition was docketed as CA-G.R. SP No. 31916.

In its decision of 29 December 1993, [11] the Court of Appeals reversed the decision of the Insurance Commission because it found that the petitioner knew of the existence of the two other policies issued by the PFIC. It said:

> It is apparent from the face of Fire Policy GA 28146/Fire Policy No. 28144 that the insurance was taken in the name of private respondent [petitioner herein]. The policy states that "DISCOUNT MART (MR. ARMANDO GEAGONIA, PROP)" was the assured and that "TESING TEXTILES" [was] only the mortgagee of the goods.
>
> In addition, the premiums on both policies were paid for by private respondent, not by the Tesing Textiles which is alleged to have taken out the other insurance without the knowledge of private respondent. This is shown by Premium Invoices nos. 46632 and 46630. (Annexes M and N). In both invoices, Tesing Textiles is indicated to be only the mortgagee of the goods insured but the party to which they were issued were the "DISCOUNT MART (MR. ARMANDO GEAGONIA)."
>
> In is clear that it was the private respondent [petitioner herein] who took out the policies on the same property subject of the insurance with petitioner. Hence, in failing to disclose the existence of these insurances private respondent violated Condition No. 3 of Fire Policy No. 1462. . . .
>
> Indeed private respondent's allegation of lack of knowledge of the provisions insurances is belied by his letter to petitioner [of 18 January 1991. The body of the letter reads as follows;]
>
> xxx xxx xxx
>
> > Please be informed that I have no knowledge of the provision requiring me to inform your office about my
> > prior insurance under FGA-28146 and F-CEB-24758. Your representative did not mention about said requirement at the time he was convincing me to insure with you. If he only die or even inquired if I had other existing policies covering my establishment, I would have told him so. You will note that at the time he talked to me until I decided to insure with your company the two policies aforementioned were already in effect. Therefore I would have

> no reason to withhold such information and I would have desisted to part with my hard earned peso to pay the insurance premiums [if] I know I could not recover anything.
>
> Sir, I am only an ordinary businessman interested in protecting my investments. The actual value of my stocks damaged by the fire was estimated by the Police Department to be P1,000,000.00 (Please see xerox copy of Police Report Annex "A"). My Income Statement as of December 31, 1989 or five months before the fire, shows my merchandise inventory was already some P595,455.75. . . . These will support my claim that the amount claimed under the three policies are much below the value of my stocks lost.
>
> xxx xxx xxx
>
> The letter contradicts private respondent's pretension that he did not know that there were other insurances taken on the stock-in-trade and seriously puts in question his credibility.

His motion to reconsider the adverse decision having been denied, the petitioner filed the instant petition. He contends therein that the Court of Appeals acted with grave abuse of discretion amounting to lack or excess of jurisdiction:

> A — . . . WHEN IT REVERSED THE FINDINGS OF FACTS OF THE INSURANCE COMMISSION, A QUASI-JUDICIAL BODY CHARGED WITH THE DUTY OF DETERMINING INSURANCE CLAIM AND WHOSE DECISION IS ACCORDED RESPECT AND EVEN FINALITY BY THE COURTS;
>
> B — . . . WHEN IT CONSIDERED AS EVIDENCE MATTERS WHICH WERE NOT PRESENTED AS EVIDENCE DURING THE HEARING OR TRIAL; AND
>
> C — . . . WHEN IT DISMISSED THE CLAIM OF THE PETITIONER HEREIN AGAINST THE PRIVATE RESPONDENT.

The chief issues that crop up from the first and third grounds are (a) whether the petitioner had prior knowledge of the two insurance policies issued by the PFIC when he obtained the fire insurance policy from the private respondent, thereby, for not disclosing such fact, violating Condition 3 of the policy, and (b) if he had, whether he is precluded from recovering therefrom.

The second ground, which is based on the Court of Appeals' reliance on the petitioner's letter of reconsideration of 18 January 1991, is without merit. The petitioner claims that the said letter was not offered in evidence and thus should not have been considered in deciding the case. However, as correctly pointed out by the Court of Appeals, a copy of this letter was attached to the petitioner's complaint in I.C. Case No. 3440 as Annex "M" thereof and made *integral part* of the complaint. [12] It has attained the status of a judicial admission and since its due execution and authenticity was not denied by the other party, the petitioner is bound by it even if it were not introduced as an independent evidence. [13]

As to the first issue, the Insurance Commission found that the petitioner had no knowledge of the previous two policies. The Court of Appeals disagreed and found otherwise in view of the explicit admission by the petitioner in his letter to the private respondent of 18 January 1991, which was quoted in the challenged decision of the Court of Appeals. These divergent findings of fact constitute an exception to the general rule that in petitions for review under Rule 45, only questions of law are involved and findings of fact by the Court of Appeals are conclusive and binding upon this Court. [14]

We agree with the Court of Appeals that the petitioner knew of the prior policies issued by the PFIC. His letter of 18 January 1991 to the private respondent conclusively proves this knowledge. His testimony to the contrary before the Insurance Commissioner and which the latter relied upon cannot prevail over a written admission made *ante litem motam*. It was, indeed, incredible that he did not know about the prior policies since these policies were not new or original. Policy No. GA-28144 was a renewal of Policy No. F-24758, while Policy No. GA-28146 had been renewed twice, the previous policy being F-24792.

Condition 3 of the private respondent's Policy No. F-14622 is a condition which is not proscribed by law. Its incorporation in the policy is allowed by Section 75 of the Insurance Code [15] which provides that "[a] policy may declare that a violation of specified provisions thereof shall avoid it, otherwise the breach of an immaterial provision does not avoid the policy." Such a condition is a provision which invariably appears in fire insurance policies and is intended to prevent an increase in the moral hazard. It is commonly known as the additional or "other insurance" clause and has been upheld as valid and as a warranty that no other insurance exists. Its violation would thus avoid the
policy. [16] However, in order to constitute a violation, the other insurance must be upon same subject matter, the same interest therein, and the same risk.[17]

As to a mortgaged property, the mortgagor and the mortgagee have each an independent insurable interest therein and both interests may be one policy, or each may take out a separate policy covering his interest, either at the same or at separate times. [18] The mortgagor's insurable interest covers the full value of the mortgaged property, even though the mortgage debt is equivalent to the full value of the property.[19] The mortgagee's insurable interest is to the extent of the debt, since the property is relied upon as security thereof, and in insuring he is not insuring the property but his interest or lien thereon. His insurable interest is *prima facie* the value mortgaged and extends only to the amount of the debt, not exceeding the value of the mortgaged property. [20] Thus, separate insurances covering different insurable interests may be obtained by the mortgagor and the mortgagee.

A mortgagor may, however, take out insurance for the benefit of the mortgagee, which is the usual practice. The mortgagee may be made the beneficial payee in several ways. He may become the assignee of the policy with the consent of the insurer; or the mere pledgee without such consent; or the original policy may contain a mortgage clause; or a rider making the policy payable to the mortgagee "as his interest may appear" may be attached; or a "standard mortgage clause," containing a collateral independent contract between the mortgagee and insurer, may be attached; or the policy, though by its terms payable absolutely to the mortgagor, may have been procured by a mortgagor under a contract duty to insure for the mortgagee's benefit, in which case the mortgagee acquires an equitable lien upon the proceeds. [21]

In the policy obtained by the mortgagor with loss payable clause in favor of the mortgagee as his interest may appear, the mortgagee is only a beneficiary under the contract, and recognized as such by the insurer but not made a party to the contract himself. Hence, any act of the mortgagor which defeats his right will also defeat the right of the mortgagee. [22] This kind of policy covers only such interest as the mortgagee has at the issuing of the policy.[23]

On the other hand, a mortgagee may also procure a policy as a contracting party in accordance with the terms of an agreement by which the mortgagor is to pay the premiums upon such insurance. [24] It has been noted, however, that although the mortgagee is himself the insured, as where he applies for a policy, fully informs the authorized agent of his interest, pays the premiums, and obtains on the assurance that it insures him, the policy is in fact in the form used to insure a mortgagor with loss payable clause. [25]

The fire insurance policies issued by the PFIC name the petitioner as the assured and contain a mortgage clause which reads:

> Loss, if any, shall be payable to MESSRS. TESING TEXTILES, Cebu City as their interest may appear subject to the terms of this policy.

This is clearly a simple loss payable clause, not a standard mortgage clause.

It must, however, be underscored that unlike the "other insurance" clauses involved in *General Insurance and Surety Corp*. *vs*. *Ng Hua* [26] or in *Pioneer Insurance & Surety Corp*. *vs*. *Yap*, [27] which read:

> The insured shall give notice to the company of any insurance or insurances already effected, or which may subsequently be effected covering any of the property hereby insured, and unless such notice be given and the particulars of such insurance or insurances be stated in or endorsed on this Policy by or on behalf of the Company before the occurrence of any loss or damage, all benefits under this Policy shall be forfeited.

or in the 1930 case of *Santa Ana vs*. *Commercial Union Assurance Co*. [28] which provided "that any outstanding insurance upon the whole or a portion of the objects thereby assured must be declared by the insured in writing and he must cause the company to add or insert it in the policy, without which such policy shall be null and void, and the insured will not be entitled to indemnity in case of loss," *Condition 3* in the private respondent's policy No. F-14622 does not absolutely declare void any violation thereof. It expressly provides that the condition "shall not apply when the total insurance or insurances in force at the time of the loss or damage is not more than P200,000.00."

It is a cardinal rule on insurance that a policy or insurance contract is to be interpreted liberally in favor of the insured and strictly against the company, the reason being, undoubtedly, to afford the greatest protection which the insured was endeavoring to secure when he applied for insurance. It is also a cardinal principle of law that forfeitures are not favored and that any construction which would result in the forfeiture of the policy benefits for the person claiming thereunder, will be avoided, if it is possible to construe the policy in a manner which would permit recovery, as, for example, by finding a waiver for such forfeiture. [29] Stated differently, provisions, conditions or exceptions in policies which tend to work a forfeiture of insurance policies should be construed most strictly against those for whose benefits they are inserted, and most favorably toward those against whom they are intended to operate. [30] The reason for this is that, except for riders which may later be inserted, the insured sees the contract already in its final form and has had no voice in the selection or arrangement of the words employed therein. On the other hand, the language of the contract was carefully chosen and deliberated upon by experts and legal advisers

who had acted exclusively in the interest of the insurers and the technical language employed therein is rarely understood by ordinary laymen. [31]

With these principles in mind, we are of the opinion that Condition 3 of the subject policy is not totally free from ambiguity and must, perforce, be meticulously analyzed. Such analysis leads us to conclude that (a) the prohibition applies only to double insurance, and (b) the nullity of the policy shall only be to the extent exceeding P200,000.00 of the total policies obtained.

The first conclusion is supported by the portion of the condition referring to other insurance "covering any of the property or properties consisting of stocks in trade, goods in process and/or inventories only hereby insured," and the portion regarding the insured's declaration on the subheading CO-INSURANCE that the co-insurer is Mercantile Insurance Co., Inc. in the sum of P50,000.00. A double insurance exists where the same person is insured by several insurers separately in respect of the same subject and interest. As earlier stated, the insurable interests of a mortgagor and a mortgagee on the mortgaged property are distinct and separate. Since the two policies of the PFIC do not cover the same interest as that covered by the policy of the private respondent, no double insurance exists. The non-disclosure then of the former policies was not fatal to the petitioner's right to recover on the private respondent's policy.

Furthermore, by stating within Condition 3 itself that such condition shall not apply if the total insurance in force at the time of loss does not exceed P200,000.00, the private respondent was amenable to assume a co-insurer's liability up to a loss not exceeding P200,000.00. What it had in mind was to discourage over-insurance. Indeed, the rationale behind the incorporation of "other insurance" clause in fire policies is to prevent over-insurance and thus avert the perpetration of fraud. When a property owner obtains insurance policies from two or more insurers in a total amount that exceeds the property's value, the insured may have an inducement to destroy the property for the purpose of collecting the insurance. The public as well as the insurer is interested in preventing a situation in which a fire would be profitable to the insured.[32]

WHEREFORE, the instant petition is hereby GRANTED. The decision of the Court of Appeals in CA-G.R. SP No. 31916 is SET ASIDE and the decision of the Insurance Commission in Case No. 3340 is REINSTATED.

Costs against private respondent Country Bankers Insurance Corporation.

SO ORDERED.

Padilla, Bellosillo, Quiason and Kapunan, JJ., concur.

Footnotes

1 Annex "A" of Petition; *Rollo*, 18-26. Per Associate Justice Vicente V. Mendoza, concurred in by Associate Justices Jesus M. Elbinias and Lourdes K. Tayao-Jaguros.

2 Exhibit "1"; Original Records (OR) (CA-G.R. SP. No. 31916), 34.

3 Exhibit "4"; Annex "C" of Petition; OR (CA-G.R. SP No. 31916), 27.

4 Exhibits "2" and "3"; Annexes "F" and "G," *Id*., 45-46.

5 Annex "E," *Id*.; *Rollo*, 38.

6 Annex "L," *Id*.; OR (CA-G.R. SP No. 31916), 66.

7 Annex "E" of Petition; *Rollo*, 43.

8 Annex "D," *Id*.; *Id*., 32.

9 Annex "G," *Id*.; *Id*., 47.

10 Annex "H" of Petition; *Rollo*, 52.

11 Annex "A," *Id*.; *Id*., 18.

12 It is specifically referred to in paragraph 7 of the complaint. *Rollo*, 40.

13 Philippine Bank of Communications vs. Court of Appeals, 195 SCRA 567 [1991].

14 Tolentino vs. De Jesus, 56 SCRA 167 [1974]; Remalante vs. Tibe, 158 SCRA 138 [1988].

15 P.D. No. 1460.

16 MARIA CLARA L. CAMPOS, *Insurance* (1983 ed.) citing General Insurance & Surety Corp. vs. Ng Hua, 106 Phil. 1117 [1960]; Petitioner Insurance & Surety Corp. vs. Yap, 61 SCRA 426 [1974]; Union Manufacturing Co., Inc. vs. Philippine Guaranty Co., Inc., 47 SCRA 271 [1972].

17 *Id*., JOHN F. DOBBYN, *Insurance Law in a Nutshell* 204 (2d ed. 1989.)

18 COUCH on Insurance 2d § 24:68 (1960 ed.).

19 *Id*., § 24:69.

20 *Id*., § 24:72.

21 WILLIAM R. VANCE, *Handbook on the Law on Insurance* 773-774 (3rd ed.)

22 *Id*., 775.

23 COUCH, *op cit*., § 24:72.

24 VANCE, *op cit*., 775.

25 COUCH, *op cit*., § 23:36.

26 *Supra* note 16.

27 *Supra* note 16.

28 55 Phil. 329, 334 [1930].

29 2 TEODORICO C. MARTIN, *Commentaries and Jurisprudence on the Philippine Commercial Laws,* 143 (1986 rev. ed.).

30 Trinidad vs. Orient Protective Assurance Association, 67 Phil. 181 [1939].

31 CAMPOS, *op cit*., 12.

32 Pioneer Insurance and Surety Corp. vs. Yap, *supra* note 16.

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