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Republic of the Philippines
SUPREME COURT
Manila

SECOND DIVISION

G.R. No. 89741 March 13, 1991

SUN INSURANCE OFFICE, LTD., petitioner,
vs.
COURT OF APPEALS and EMILIO TAN, respondents.

Alfonso Felix, Jr., for petitioner.
William B. Devilles for private respondent.

PARAS, *J.:*

This is a petition for review on *certiorari* of the June 20, 1989 decision[1] of the Court of Appeals in CA-G.R. SP. Case No. 13848 affirming the November 3, 1987 and January 14, 1988 orders of the Regional Trial Court[2] of Iloilo, Branch 27, in Civil Case No. 16817, denying the motion to dismiss and the subsequent motion for reconsideration; and the August 22, 1989 resolution of the same court denying the motion for reconsideration.

On August 15, 1983, herein private respondent Emilio Tan took from herein petitioner a P300,000.00 property insurance policy to cover his interest in the electrical supply store of his brother housed in a building in Iloilo City. Four (4) days after the issuance of the policy, the building was burned including the insured store. On August 20, 1983, Tan filed his claim for fire loss with petitioner, but on February 29, 1984, petitioner wrote Tan denying the latter's claim. On April 3, 1984, Tan wrote petitioner, seeking reconsideration of the denial of his claim. On September 3, 1985, Tan's counsel wrote the Insurer inquiring about the status of his April 3, 1984 request for reconsideration. Petitioner answered the letter on October 11, 1985, advising Tan's counsel that the Insurer's denial of Tan's claim remained unchanged, enclosing copies of petitioners' letters of February 29, 1984 and May 17, 1985 (response to petition for reconsideration). On November 20, 1985, Tan filed Civil Case No. 16817 with the Regional Trial Court of Iloilo, Branch 27 but petitioner filed a motion to dismiss on the alleged ground that the action had already prescribed. Said motion was denied in an order dated November 3, 1987; and petitioner's motion for reconsideration was also denied in an order dated January 14, 1988.

Petitioner went to the Court of Appeals and sought the nullification of the said Nov. 3, 1987 and January 14, 1988 orders, but the Court of Appeals, in its June 20, 1989 decision denied the petition and held that the court *a quo* may continue until its final termination.

A motion for reconsideration was filed, but the same was denied by the Court of Appeals in its resolution of August 22, 1989 (*Rollo*, pp. 42-43).

Hence, the instant petition.

The Second Division of this Court, in its resolution of December 18, 1989 resolved to give due course to the petition and to require the parties to submit simultaneous memoranda (*Ibid.*, p. 56).

Petitioner raised two (2) issues which may be stated in substance, as follows:

I

WHETHER OR NOT THE FILING OF A MOTION FOR RECONSIDERATION INTERRUPTS THE TWELVE (12) MONTHS PRESCRIPTIVE PERIOD TO CONTEST THE DENIAL OF THE INSURANCE CLAIM; and

II

WHETHER OR NOT THE REJECTION OF THE CLAIM SHALL BE DEEMED FINAL ONLY IF IT CONTAINS WORDS TO THE EFFECT THAT THE DENIAL IS FINAL.

The answer to the first issue is in the negative.

While it is a cardinal principle of insurance law that a policy or contract of insurance is to be construed liberally in favor of the insured and strictly against the insurer company, yet, 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 (Pacific Banking Corp. v. Court of Appeals, 168 SCRA 1 [1988]).

Condition 27 of the Insurance Policy, which is the subject of the conflicting contentions of the parties, reads:

> 27. *Action or suit clause — If* a claim be made and rejected and an action or suit be not commenced either in the Insurance Commission or in any court of competent jurisdiction within twelve (12) months from receipt of notice of such rejection, or in case of arbitration taking place as provided herein, within twelve (12) months after due notice of the award made by the arbitrator or arbitrators or umpire, then the claim shall for all purposes be deemed to have been abandoned and shall not thereafter be recoverable hereunder.

As the terms are very clear and free from any doubt or ambiguity whatsoever, it must be taken and understood in its plain, ordinary and popular sense pursuant to the above-cited principle laid down by this Court.

Respondent Tan, in his letter addressed to the petitioner insurance company dated April 3, 1984 (*Rollo*, pp. 50-52), admitted that he received a copy of the letter of rejection on April 2, 1984. Thus, the 12-month prescriptive period started to run from the said date of April 2, 1984, for such is the plain meaning and intention of Section 27 of the insurance policy.

While the question of whether or not the insured was definitely advised of the rejection of his claim through the letter (*Rollo*, pp. 48-49) of petitioner dated February 29, 1984, may arise, the certainty of the denial of Tan's claim was clearly manifested in said letter, the pertinent portion of which reads:

> We refer to your claim for fire loss of 20th August, 1983 at Huervana St., La Paz, Iloilo City.
>
> We now have the report of our adjusters and after a thorough and careful review of the same and the accompanying documents at hand, we are rejecting, much to our regrets, liability for the claim under our policies for one or more of the following reasons:
>
> 1. xxx xxx xxx
>
> 2. xxx xxx xxx
>
> For your information, we have referred all these matters to our lawyers for their opinion as to the compensability of your claim, particularly referring to the above violations. It is their opinion and in fact their strong recomendation to us to deny your claim. By this letter, we do not intend to waive or relinquish any of our rights or defenses under our policies of insurance.

It is also important to note the principle laid down by this Court in the case of *Ang v. Fulton Fire Insurance Co*., (2 SCRA 945 [1961]), to wit:

> The condition contained in an insurance policy that claims must be presented within one year after rejection is not merely a procedural requirement but an important matter essential to a prompt settlement of claims against insurance companies as it demands that insurance suits be brought by the insured while the evidence as to the origin and cause of destruction have not yet disappeared.

In enunciating the above-cited principle, this Court had definitely settled the rationale for the necessity of bringing suits against the Insurer within one year from the rejection of the claim. The contention of the respondents that the one-year prescriptive period does not start to run until the petition for reconsideration had been resolved by the insurer, runs counter to the declared purpose for requiting that an action or suit be filed in the Insurance Commission or in a court of competent jurisdiction from the denial of the claim. To uphold respondents' contention would contradict and defeat the very principle which this Court had laid down. Moreover, it can easily be used by insured persons as a scheme or device to waste time until any evidence which may be considered against them is destroyed.

It is apparent that Section 27 of the insurance policy was stipulated pursuant to Section 63 of the Insurance Code, which states that:

> Sec. 63. A condition, stipulation or agreement in any policy of insurance, limiting the time for commencing an action thereunder to a period of less than one year from the time when the cause of action accrues, is void.

The crucial issue in this case is: When does the cause of action accrue?

In support of private respondent's view, two rulings of this Court have been cited, namely, the case of *Eagle Star Insurance Co. vs. Chia Yu* (96 Phil. 696 (1955]), where the Court held:

> The right of the insured to the payment of his loss accrues from the happening of the loss. However, the cause of action in an insurance contract does not accrue until the insured's claim is finally rejected by the insurer. This is because before such final rejection there is no real necessity for bringing suit.

and the case of *ACCFA vs. Alpha Insurance & Surety Co., Inc*. (24 SCRA 151 [1968], holding that:

> Since "cause of action" requires as essential elements not only a legal right of the plaintiff and a correlated obligation of the defendant in violation of the said legal right, the cause of action does not accrue until the party obligated (surety) refuses, expressly or impliedly, to comply with its duty (in this case to pay the amount of the bond).

Indisputably, the above-cited pronouncements of this Court may be taken to mean that the insured's cause of action or his right to file a claim either in the Insurance Commission or in a court of competent jurisdiction commences from the time of the denial of his claim by the Insurer, either expressly or impliedly.

But as pointed out by the petitioner insurance company, the rejection referred to should be construed as the rejection, in the first instance, for if what is being referred to is a reiterated rejection conveyed in a resolution of a petition for reconsideration, such should have been expressly stipulated.

Thus, to allow the filing of a motion for reconsideration to suspend the running of the prescriptive period of twelve months, a whole new body of rules on the matter should be promulgated so as to avoid any conflict that may be brought by it, such as:

> a) whether the mere filing of a plea for reconsideration of a denial is sufficient or must it be supported by arguments/affidavits/material evidence;
>
> b) how many petitions for reconsideration should be permitted?

While in the *Eagle Star case* (96 Phil. 701), this Court uses the phrase "final rejection", the same cannot be taken to mean the rejection of a petition for reconsideration as insisted by respondents. Such was clearly not the meaning contemplated by this Court. The Insurance policy in said case provides that the insured should file his claim, first, with the carrier and then with the insurer. The "final rejection" being referred to in said case is the rejection by the insurance company.

PREMISES CONSIDERED, the questioned decision of the Court of Appeals is REVERSED and SET ASIDE, and Civil Case No. 16817 filed with the Regional Trial Court is hereby DISMISSED.

SO ORDERED.

Melencio-Herrera, Padilla, Sarmiento and Regalado, JJ., concur.

Footnotes

[1] Penned by Justice Jesus M. Elbinias, and concurred in by Associate Justices Luis A. Javellana and Emeterio C. Cui.

[2] Penned by Judge Julian Ereno.

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