



REPUBLIC OF THE PHILIPPINES
Supreme Court
Baguio
SECOND DIVISION

April 18, 2016

G.R. No. 195176

THE INSULAR LIFE ASSURANCE COMPANY, LTD., Petitioner,

vs.

PAZ Y. KHU, FELIPE Y. KHU, JR., and FREDERICK Y. KHU, Respondents.

DECISION

DEL CASTILLO, J.:

The date of last reinstatement mentioned in Section 48 of the Insurance Code pertains to the date that the insurer approved the application for reinstatement. However, in light of the ambiguity in the insurance documents to this case, this Court adopts the interpretation favorable to the insured in determining the date when the reinstatement was approved.

Assailed in this Petition for Review on *Certiorari*¹ are the June 24, 2010 Decision² of the Court of Appeals (CA), which dismissed the Petition in CA-GR. CV No. 81730, and its December 13, 2010 Resolution³ which denied the petitioner Insular Life Assurance Company Ltd. 's (Insular Life) motion for partial reconsideration.⁴

Factual Antecedents

On March 6, 1997, Felipe N. Khu, Sr. (Felipe) applied for a life insurance policy with Insular Life under the latter's Diamond Jubilee Insurance Plan. Felipe accomplished the required medical questionnaire wherein he did not declare any illness or adverse medical condition. Insular Life thereafter issued him Policy Number A000015683 with a face value of P1 million. This took effect on June 22, 1997.⁵

On June 23, 1999, Felipe's policy lapsed due to non-payment of the premium covering the period from June 22, 1999 to June 23, 2000.⁶

On September 7, 1999, Felipe applied for the reinstatement of his policy and paid P25,020.00 as premium. Except for the change in his occupation of being self-employed to being the Municipal Mayor of Binuangan, Misamis Oriental, all the other information submitted by Felipe in his application for reinstatement was virtually identical to those mentioned in his original policy.⁷

On October 12, 1999, Insular Life advised Felipe that his application for reinstatement may only be considered if he agreed to certain conditions such as payment of additional premium and the cancellation of the riders pertaining to

premium waiver and accidental death benefits. Felipe agreed to these conditions⁸ and on December 27, 1999 paid the agreed additional premium of P3,054.50.⁹

On January 7, 2000, Insular Life issued Endorsement No. PNA000015683, which reads:

This certifies that as agreed by the Insured, the reinstatement of this policy has been approved by the Company on the understanding that the following changes are made on the policy effective June 22, 1999:

1. The EXTRA PREMIUM is imposed; and
2. The ACCIDENTAL DEATH BENEFIT (ADB) and WAIVER OF PREMIUM DISABILITY (WPD) rider originally attached to and forming parts of this policy [are] deleted.

In consequence thereof, the premium rates on this policy are adjusted to P28,000.00 annually, P14,843.00 semi-annually and P7,557.00 quarterly, Philippine currency.¹⁰

On June 23, 2000, Felipe paid the annual premium in the amount of P28,000.00 covering the period from June 22, 2000 to June 22, 2001. And on July 2, 2001, he also paid the same amount as annual premium covering the period from June 22, 2001 to June 21, 2002.¹¹

On September 22, 2001, Felipe died. His Certificate of Death enumerated the following as causes of death:

Immediate cause: a. End stage renal failure, Hepatic failure

Antecedent cause: b. Congestive heart failure, Diffuse myocardial ischemia.

Underlying cause: c. Diabetes Neuropathy, Alcoholism, and Pneumonia.¹²

On October 5, 2001, Paz Y. Khu, Felipe Y. Khu, Jr. and Frederick Y. Khu (collectively, Felipe's beneficiaries or respondents) filed with Insular Life a claim for benefit under the reinstated policy. This claim was denied. Instead, Insular Life advised Felipe's beneficiaries that it had decided to rescind the reinstated policy on the grounds of concealment and misrepresentation by Felipe.

Hence, respondents instituted a complaint for specific performance with damages. Respondents prayed that the reinstated life insurance policy be declared valid, enforceable and binding on Insular Life; and that the latter be ordered to pay unto Felipe's beneficiaries the proceeds of this policy, among others.¹³

In its Answer, Insular Life countered that Felipe did not disclose the ailments (viz., Type 2 Diabetes Mellitus, Diabetes Nephropathy and Alcoholic Liver Cirrhosis with Ascites) that he already had prior to his application for reinstatement of his insurance policy; and that it would not have reinstated the insurance policy had Felipe disclosed the material information on his adverse health condition. It contended that when Felipe died, the policy was still

contestable.¹⁴

Ruling of the Regional Trial Court (RTC)

On December 12, 2003, the RTC, Branch 39 of Cagayan de Oro City found¹⁵ for Felipe's beneficiaries, thus:

WHEREFORE, in view of the foregoing, plaintiffs having substantiated [their] claim by preponderance of evidence, judgment is hereby rendered in their favor and against defendants, ordering the latter to pay jointly and severally the

sum of One Million (P1,000,000.00) Pesos with legal rate of interest from the date of demand until it is fully paid representing the face value of Plan Diamond Jubilee No. PN-A000015683 issued to insured the late Felipe N. Khu[,] Sr; the sum of P20,000.00 as moral damages; P30,000.00 as attorney's fees; P10,000.00 as litigation expenses.

SO ORDERED.¹⁶

In ordering Insular Life to pay Felipe's beneficiaries, the RTC agreed with the latter's claim that the insurance policy was reinstated on June 22, 1999. The RTC cited the ruling in *Malayan Insurance Corporation v. Court of*

*Appeals*¹⁷ that any ambiguity in a contract of insurance should be resolved strictly against the insurer upon the principle that an insurance contract is a contract of adhesion.¹⁸ The RTC also held that the reinstated insurance policy had already become incontestable by the time of Felipe's death on September 22, 2001 since more than two years had already lapsed from the date of the policy's reinstatement on June 22, 1999. The RTC noted that since it was Insular Life itself that supplied all the pertinent forms relative to the reinstated policy, then it is barred from taking advantage of any ambiguity/obscurity perceived therein particularly as regards the date when the reinstated insurance policy became effective.

Ruling of the Court of Appeals

On June 24, 2010, the CA issued the assailed Decision¹⁹ which contained the following decretal portion:

WHEREFORE, the appeal is DISMISSED. The assailed Judgment of the lower court is AFFIRMED with the MODIFICATION that the award of moral damages, attorney's fees and litigation expenses [is] DELETED.

SO ORDERED.²⁰

The CA upheld the RTC's ruling on the non-contestability of the reinstated insurance policy on the date the insured died. It declared that contrary to Insular Life's contention, there in fact exists a genuine ambiguity or obscurity in the language of the two documents prepared by Insular Life itself, viz., Felipe's Letter of Acceptance and Insular Life's Endorsement; that given the obscurity/ambiguity in the language of these two documents, the construction/interpretation that favors the insured's right to recover should be adopted; and that in keeping with this principle, the insurance policy in dispute must be deemed reinstated as of June 22, 1999.²¹

Insular Life moved for partial reconsideration²² but this was denied by the CA in its Resolution of December 13, 2010.²³ Hence, the present Petition.

Issue

The fundamental issue to be resolved in this case is whether Felipe's reinstated life insurance policy is already incontestable at the time of his death.

Petitioner's Arguments

In praying for the reversal of the CA Decision, Insular Life basically argues that respondents should not be allowed to recover on the reinstated insurance policy because the two-year contestability period had not yet lapsed inasmuch as the insurance policy was reinstated only on December 27, 1999, whereas Felipe died on September 22, 2001;²⁴ that the CA overlooked the fact that Felipe paid the additional extra premium only on December 27, 1999, hence, it is only upon this date that the reinstated policy had become effective; that the CA erred in declaring that resort to the principles of statutory construction is still necessary to resolve that question given that the Application for Reinstatement, the Letter of Acceptance and the Endorsement in and by themselves already embodied unequivocal provisions stipulating that the two-year contestability clause should be reckoned from the date of approval of the reinstatement;²⁵ and that Felipe's misrepresentation and concealment of material facts in regard to his health or adverse medical condition gave it (Insular Life) the right to rescind the contract of insurance and consequently, the right to deny the claim of Felipe's beneficiaries for death benefits under the disputed policy.²⁶

Respondents' Arguments

Respondents maintain that the phrase "effective June 22, 1999" found in both the Letter of Acceptance and in the Endorsement is unclear whether it refers to the subject of the sentence, i.e., the "reinstatement of this policy" or to the subsequent phrase "changes are made on the policy;" that granting that there was any obscurity or ambiguity in the insurance policy, the same should be laid at the door of Insular Life as it was this insurance company that prepared the necessary documents that make up the same;²⁷ and that given the CA's finding which effectively affirmed the RTC's finding on this particular issue, it stands to reason that the insurance policy had indeed become incontestable upon the date of Felipe's death.²⁸

Our Ruling

We deny the Petition.

The Insurance Code pertinently provides that:

Sec. 48. 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.

The rationale for this provision was discussed by the Court in *Manila Bankers Life Insurance Corporation v. Aban*,²⁹

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.

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

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'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'.

In *Lalican v. The Insular Life Assurance Company, Limited*,³⁰ which coincidentally also involves the herein petitioner, it was there held that the reinstatement of the insured's policy is to be reckoned from the date when the

application was processed and approved by the insurer. There, we stressed that:

To reinstate a policy means to restore the same to premium-paying status after it has been permitted to lapse. x x x

X X X X

In the instant case, Eulogio's death rendered impossible full compliance with the conditions for reinstatement of Policy No. 9011992. True, Eulogio, before his death, managed to file his Application for Reinstatement and deposit

the amount for payment of his overdue premiums and interests thereon with Malaluan; but Policy No. 9011992 could only be considered reinstated after the Application for Reinstatement had been processed and approved by Insular Life during Eulogio's lifetime and good health.³¹

Thus, it is settled that the reinstatement of an insurance policy should be reckoned from the date when the same was approved by the insurer.

In this case, the parties differ as to when the reinstatement was actually approved. Insular Life claims that it approved the reinstatement only on December 27, 1999. On the other hand, respondents contend that it was on June

22, 1999 that the reinstatement took effect.

The resolution of this issue hinges on the following documents: 1) Letter of Acceptance; and 2) the Endorsement.

The Letter of Acceptance³² wherein Felipe affixed his signature was actually drafted and prepared by Insular Life. This pro-forma document reads as follows:

LETTER OF ACCEPTANCE

Place: Cag. De [O]ro City

The Insular Life Assurance Co., Ltd.
P.O. Box 128, MANILA

Policy No. A000015683

Gentlemen:

Thru your Reinstatement Section, I/WE learned that this policy may be reinstated provided I/we agree to the following condition/s indicated with a check mark:

Accept the imposition of an extra/additional extra premium of [P]5.00 a year per thousand of insurance; effective June 22, 1999

Accept the rating on the WPD at _____ at standard rates; the ABD at _____ the standard rates; the SAR at P_____ annually per thousand of Insurance;

Accept the cancellation of the Premium waiver & Accidental death benefit.

I am/we are agreeable to the above condition/s. Please proceed with the reinstatement of the policy.

Very truly yours,

Felipe N. Khu, Sr.

After Felipe accomplished this form, Insular Life, through its Regional Administrative Manager, Jesse James R. Toyhorada, issued an Endorsement³³ dated January 7, 2000. For emphasis, the Endorsement is again quoted as follows:

ENDORSEMENT

PN-A000015683

This certifies that as agreed to by the Insured, the reinstatement of this policy has been approved by the Company on the understanding that the following changes are made on the policy effective June 22, 1999:

1. The EXTRA PREMIUM is imposed; and
2. The ACCIDENTAL DEATH BENEFIT (ADB) and WAIVER OF PREMIUM DISABILITY (WPD) rider originally attached to and forming parts of this policy is deleted.

In consequence thereof, the PREMIUM RATES on this policy are adjusted to [P]28,000.00 annually, [P]14,843.00 semi-annually and [P]7,557.00 quarterly, Philippine Currency.

Cagayan de Oro City, 07 January 2000.
RCV/

(Signed) Authorized Signature

Based on the foregoing, we find that the CA did not commit any error in holding that the subject insurance policy be considered as reinstated on June 22, 1999. This finding must be upheld not only because it accords with the evidence, but also because this is favorable to the insured who was not responsible for causing the ambiguity or obscurity in the insurance contract.³⁴

The CA expounded on this point thus –

The Court discerns a genuine ambiguity or obscurity in the language of the two documents.

In the Letter of Acceptance, Khu declared that he was accepting "the imposition of an extra/additional x x x premium of P5.00 a year per thousand of insurance; effective June 22, 1999". It is true that the phrase as used in this

particular paragraph does not refer explicitly to the effectivity of the reinstatement. But the Court notes that the reinstatement was conditioned upon the payment of additional premium not only prospectively, that is, to cover the

remainder of the annual period of coverage, but also retroactively, that is for the period starting June 22, 1999. Hence, by paying the amount of P3,054.50 on December 27, 1999 in addition to the P25,020.00 he had earlier paid on September 7, 1999, Khu had paid for the insurance coverage starting June 22, 1999. At the very least, this circumstance has engendered a true *lacuna*.

In the Endorsement, the obscurity is patent. In the first sentence of the Endorsement, it is not entirely clear whether the phrase "effective June 22, 1999" refers to the subject of the sentence, namely "the reinstatement of this policy," or to the subsequent phrase "changes are made on the policy."

The court below is correct. Given the obscurity of the language, the construction favorable to the insured will be adopted by the courts.

Accordingly, the subject policy is deemed reinstated as of June 22, 1999. Thus, the period of contestability has lapsed.³⁵

In *Eternal Gardens Memorial Park Corporation v. The Philippine American Life Insurance Company*,³⁶ we ruled in favor of the insured and in favor of the effectivity of the insurance contract in the midst of ambiguity in the insurance contract provisions. We held that:

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 noncompliance with its obligations.

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As a final note, to characterize the insurer and the insured as contracting parties on equal footing is inaccurate at best. Insurance contracts are wholly prepared by the insurer with vast amounts of experience in the industry

purposefully used to its advantage. More often than not, insurance contracts are contracts of adhesion containing technical terms and conditions of the industry, confusing if at all understandable to laypersons, that are imposed on those who wish to avail of insurance. As such, insurance contracts are imbued with public interest that must be considered whenever the rights and obligations of the insurer and the insured are to be delineated. Hence, in order to protect the interest of insurance applicants, insurance companies must be obligated to act with haste upon insurance applications, to either deny or approve the same, or otherwise be bound to honor the application as a valid, binding, and effective insurance contract.³⁷

Indeed, more than two years had lapsed from the time the subject insurance policy was reinstated on June 22, 1999 vis-a-vis Felipe's death on September 22, 2001. As such, the subject insurance policy has already become incontestable at the time of Felipe's death.

Finally, we agree with the CA that there is neither basis nor justification for the RTC's award of moral damages, attorney's fees and litigation expenses; hence this award must be deleted.

WHEREFORE, the Petition is **DENIED**. The assailed June 24, 2010 Decision and December 13, 2010 Resolution of the Court of Appeals in CA-GR. CV No. 81730 are **AFFIRMED**.

SO ORDERED.

MARIANO C. DEL CASTILLO

Associate Justice

WE CONCUR:

ANTONIO T. CARPIO

Associate Justice
Chairperson

ARTURO D. BRION

Associate Justice

JOSE CATRAL MENDOZA

Associate Justice

MARVIC M.V.F. LEONEN

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

Footnotes

¹ *Rollo*, pp. 28-29.

² Id. at 70-82; penned by Associate Justice Romuio V Borja and concurred in by Associate Justices Edgardo T. Lloren and Ramon Paul L. Hernando.

³ Id. at 83-84.

⁴ Id. at 442-461.

⁵ Id. at 71.

⁶ Id.

⁷ Id.

⁸ Id. at unpaginated before p. 72.

⁹ Id. at 72.

¹⁰ Records, p. 80.

¹¹ *Rollo*, p. 72.

¹² Id. at 72-73.

¹³ Id. at 70 and 73.

¹⁴ Id. at unpaginated before p. 74.

¹⁵ Id. at 277-297; penned by Judge Downey C. Valdevilla.

¹⁶ Id. at 296-297.

¹⁷ 336 Phil. 977 (1997).

¹⁸ Id. at 989.

¹⁹ *Rollo*, p. 70-82.

²⁰ Id. at 81-82.

²¹ Id. at 80-81.

²² Id. at 442-461.

²³ Id. at 83-84.

²⁴ Id. at 583.

²⁵ Id. at 581-582.

²⁶ Id. at 592.

²⁷ Id. at 611.

²⁸ Id. at 607.

²⁹ G.R. No. 175666, July 29, 2013, 702 SCRA 417, 427-429.

³⁰ 613 Phil. 518 (2009).

³¹ Id. at 535-537.

³² Records, p. 85, dorsal side.

³³ Id. at 80.

³⁴ CIVIL CODE OF THE PHILIPPINES, Art. 1377. The interpretation of obscure words or stipulations in a contract shall not favor the party who caused the obscurity.

³⁵ *Rollo*, pp. 80-81.

³⁶ 574 Phil. 161 (2008).

³⁷ *Id.* at 172-174.