

SECOND DIVISION

[G.R. No. 205657, March 29, 2017]

INTERNATIONAL EXCHANGE BANK NOW UNION BANK OF THE PHILIPPINES, PETITIONER, VS. SPOUSES JEROME AND QUINNIE BRIONES, AND JOHN DOE, RESPONDENTS.

DECISION

LEONEN, J.:

Upon accepting an agency, the agent becomes bound to carry out the agency and shall be held liable for the damages, which the principal may incur due to the agent's non-performance.^[1]

This resolves the Petition for Review on *Certiorari*^[2] filed by International Exchange Bank (iBank), now Union Bank of the Philippines, assailing the Court of Appeals' September 27, 2012 Decision^[3] and February 6, 2013 Resolution^[4] in CA-G.R. CV. No. 97453, which upheld the June 16, 2011 Decision^[5] of Branch 138, Makati City Regional Trial Court in Civil Case No. 04-557.

On July 2, 2003, spouses Jerome and Quinnie Briones (Spouses Briones) took out a loan of P3,789,216.00 from iBank to purchase a BMW Z4 Roadster.^[6] The monthly amortization for two (2) years was P78,942.00.^[7]

The Spouses Briones executed a promissory note with chattel mortgage that required them to take out an insurance policy on the vehicle.^[8] The promissory note also gave iBank, as the Spouses Briones' attorney-in-fact, irrevocable authority to file an insurance claim in case of loss or damage to the vehicle.^[9] The insurance proceeds were to be made payable to iBank.^[10]

On November 5, 2003, at about 10:50 p.m., the mortgaged BMW Z4 Roadster was carnapped by three (3) armed men in front of Metrobank Banlat Branch in Tandang Sora, Quezon City.^[11] Jerome Briones (Jerome) immediately reported the incident to the Philippine National Police Traffic Management Group.^[12]

The Spouses Briones declared the loss to iBank, which instructed them to continue paying the next three (3) monthly installments "as a sign of good faith," a directive they complied with.^[13]

On March 26, 2004, or after the Spouses Briones finished paying the three (3)-month installment, iBank sent them a letter demanding full payment of the lost vehicle.^[14]

On April 30, 2004, the Spouses Briones submitted a notice of claim with their insurance company, which denied the claim on June 29, 2004 due to the delayed

reporting of the lost vehicle.^[15]

On May 14, 2004, iBank filed a complaint for replevin and/or sum of money against the Spouses Briones and a person named John Doe.^[16] The Complaint alleged that the Spouses Briones defaulted in paying the monthly amortizations of the mortgaged vehicle.^[17]

After no settlement was arrived at during the Pre-trial Conference, the case was referred to Mediation and Judicial Dispute Resolution.^[18] However, the parties still failed to agree on a compromise settlement.^[19]

After pre-trial and trial on the merits, the Regional Trial Court^[20] dismissed iBank's complaint. It ruled that as the duly constituted attorney-in-fact of the Spouses Briones, iBank had the obligation to facilitate the filing of the notice of claim and then to pursue the release of the insurance proceeds.^[21]

The Regional Trial Court also pointed out that as the Spouses Briones' agent, iBank prioritized its interest over that of its principal when it failed to file the notice of claim with the insurance company and demanded full payment from the spouses.^[22]

The dispositive portion of the Regional Trial Court Decision read:

WHEREFORE, premises considered, judgment is hereby rendered dismissing this case as the obligation of both parties to each other has already been considered extinguished by compensation.

SO ORDERED.^[23] (Emphasis in the original)

The Regional Trial Court's Decision was appealed by iBank to the Court of Appeals, which dismissed^[24] it on September 27, 2012.

The Court of Appeals ruled that the terms and stipulations of the promissory note with chattel mortgage were clear.^[25] Sections 6 and 22 of the promissory note provided that the Spouses Briones, as the mortgagors, would insure the vehicle against loss, damage, theft, and fire with the insurance proceeds payable to iBank, as the mortgagee.^[26] Furthermore, in the event of loss or damage, Spouses Briones irrevocably appointed iBank or its assigns as their attorney-in-fact with full power to process the insurance claim.^[27]

The Court of Appeals stated that as the Spouses Briones' agent, iBank was bound by its acceptance to carry out the agency.^[28] However, instead of filing an insurance claim, iBank opted to collect the balance of Spouses Briones' loan.^[29] By not looking after the interests of its principal, the Court of Appeals ruled that iBank should be held liable for the damages suffered by Spouses Briones.^[30]

The Court of Appeals likewise upheld the Regional Trial Court's ruling that "the denial of the insurance claim [for delayed filing] was a direct consequence of [the] bank's inaction in not filing the insurance claim."^[31]

The dispositive portion of the Court of Appeals Decision read:

WHEREFORE, the instant appeal is hereby **DENIED**. The assailed Decision dated June 16, 2011 of the Regional Trial Court, Branch 138, Makati City is **AFFIRMED**.

SO ORDERED.^[32] (Emphasis in the original)

On February 6, 2013, the Court of Appeals denied^[33] iBank's motion for reconsideration,^[34] prompting iBank to appeal the denial to this Court.

Petitioner iBank claims that it is entitled to recover the mortgaged vehicle or, in the alternative, to collect a sum of money from respondents because of the clear wording of the promissory note with chattel mortgage executed by respondents.^[35] Petitioner also insists that it is entitled to the award of damages.^[36]

Petitioner maintains that the insurance coverage taken on the vehicle is "only an aleatory alternative that [respondents] are entitled [to]" if their claim is granted by the insurance company.^[37] Petitioner asserts that it was the duty of the respondents to file a claim with the insurance company. Thus, they should not be allowed to pass on that responsibility to petitioner and they should be held accountable for the loan taken out on the carnapped vehicle.^[38]

Moreover, petitioner posits that respondent Jerome's direct dealing with the insurance company was a revocation of the agency relationship between petitioner and respondents.^[39]

Petitioner holds that respondents only shifted the blame after the insurance company denied respondents' claim.^[40]

On the other hand, respondents insist that when the mortgaged vehicle was carnapped, petitioner, as the agent, should have asserted its right "to collect, demand and proceed against the [insurance company]."^[41]

Respondents state that after they had informed petitioner of the loss of the mortgaged vehicle, they continued to pay the monthly installment for three (3) months as compliance with petitioner's request. Nonetheless, despite their good faith and the insurance policy taken out on the carnapped vehicle, petitioner still demanded full payment from them.^[42]

Finally, respondents maintain that petitioner failed to exercise the "degree of diligence required [of it considering] the fiduciary nature of its relationship with its client[s]."^[43]

The issues for this Court's resolution are as follows:

First, whether an agency relationship existed between the parties;

Second, whether the agency relationship was revoked or terminated; and

Finally, whether petitioner is entitled to the return of the mortgaged vehicle or, in the alternative, payment of the outstanding balance of the loan taken out for the mortgaged vehicle.

The Petition is devoid of merit.

In a contract of agency, "a person binds himself to render some service or to do something in representation or on behalf of another, with the consent or authority of the latter."^[44] Furthermore, Article 1884 of the Civil Code provides that "the agent is bound by his acceptance to carry out the agency, and is liable for the damages which, through his non-performance, the principal may suffer."^[45]

Rallos v. Felix Go Chan & Sons Realty Corporation^[46] lays down the elements of agency:

Out of the above given principles, sprung the creation an acceptance of the *relationship of agency* whereby one party, called the principal (*mandante*), authorizes another, called the agent (*mandatario*), to act for and in his behalf in transactions with third persons. The essential elements of agency are: (1) there is consent, express or implied, of the parties to establish the relationship; (2) the object is the execution of a juridical act in relation to a third person; (3) the agent acts as a representative and not for himself; and (4) the agent acts within the scope of his authority.^[47] (Emphasis in the original, citation omitted)

All the elements of agency exist in this case. Under the promissory note with chattel mortgage, Spouses Briones appointed iBank as their attorney-in-fact, authorizing it to file a claim with the insurance company if the mortgaged vehicle was lost or damaged.^[48] Petitioner was also authorized to collect the insurance proceeds as the beneficiary of the insurance policy.^[49] Sections 6 and 22 of the promissory note state:

6. The MORTGAGOR agrees that he will cause the mortgaged property/ies to be insured against loss or damage by accident, theft and fire . . . with an insurance company/ies acceptable to the MORTGAGEE . . .; that he will make all loss, if any, under such policy/ies payable to the MORTGAGEE or its assigns . . . [w]ith the proceeds thereon in case of loss, payable to the said MORTGAGEE or its assigns . . . shall be added to the principal indebtedness hereby secured . . . *[M]ortgagor hereby further constitutes the MORTGAGEE to be its/his/her Attorney-in-Fact for the purpose of filing claims with insurance company including but not limited to apply, sign, follow-up and secure any documents, deeds . . . that may be required by the insurance company to process the insurance claim . . .*

22. *In case of loss or damage, the MORTGAGOR hereby irrevocably appoints the MORTGAGEE or its assigns as his attorney-in-fact with full power and authority to file, follow-up, prosecute, compromise or settle insurance claims; to sign, execute and deliver the corresponding papers, receipt and documents to the insurance company as may be necessary to prove the claim, and to collect from the latter the proceeds of insurance to the extent of its interest.*^[50] (Emphasis supplied, citation omitted)

Article 1370 of the Civil Code is categorical that when "the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control."^[51]

The determination of agency is ultimately factual in nature and this Court sees no reason to reverse the findings of the Regional Trial Court and the Court of Appeals. They both found the existence of an agency relationship between the Spouses Briones and iBank, based on the clear wording of Sections 6 and 22 of the promissory note with chattel mortgage, which petitioner prepared and respondents signed.

II

Petitioner asserts that the Spouses Briones effectively revoked the agency granted under the promissory note when they filed a claim with the insurance company.^[52]

Petitioner is mistaken.

Revocation as a form of extinguishing an agency under Article 1924^[53] of the Civil Code only applies in cases of incompatibility, such as when the principal disregards or bypasses the agent in order to deal with a third person in a way that excludes the agent.^[54]

In the case at bar, the mortgaged vehicle was carnapped on November 5, 2003 and the Spouses Briones immediately informed petitioner about the loss.^[55] The Spouses Briones continued paying the monthly installment for the next three (3) months following the vehicle's loss to show their good faith.^[56]

However, on March 26, 2004, petitioner demanded full payment from Spouses Briones for the lost vehicle.^[57] The Spouses Briones were thus constrained to file a claim for loss with the insurance company on April 30, 2004, precisely because petitioner failed to do so despite being their agent and being authorized to file a claim under the insurance policy.^[58] Not surprisingly, the insurance company declined the claim for belated filing.

The Spouses Briones' claim for loss cannot be seen as an implied revocation of the agency or their way of excluding petitioner. They did not disregard or bypass petitioner when they made an insurance claim; rather, they had no choice but to personally do it because of their agent's negligence. This is not the implied termination or revocation of an agency provided for under Article 1924 of the Civil Code.

While a contract of agency is generally revocable at will as it is primarily based on trust and confidence,^[59] Article 1927 of the Civil Code provides the instances when an agency becomes irrevocable:

Article 1927. An agency cannot be revoked if a bilateral contract depends upon it, or if it is the means of fulfilling an obligation already contracted, or if a partner is appointed manager of a partnership in the contract of partnership and his removal from the management is unjustifiable.

A bilateral contract that depends upon the agency is considered an agency coupled with an interest, making it an exception to the general rule of revocability at will.^[60] *Lim v. Saban*^[61] emphasizes that when an agency is established for both the principal and the agent, an agency coupled with an interest is created and the principal cannot revoke the agency at will.^[62]