

## SECOND DIVISION

[ G.R. No. 201199, October 16, 2013 ]

**STEEL CORPORATION OF THE PHILIPPINES, PETITIONER, VS.  
MAPFRE INSULAR INSURANCE CORPORATION, NEW INDIA  
ASSURANCE COMPANY LIMITED, PHILIPPINE CHARTER  
INSURANCE CORPORATION, MALAYAN INSURANCE CO., INC.,  
AND ASIA INSURANCE PHIL. CORP., RESPONDENTS.**

### D E C I S I O N

**CARPIO, J.:**

#### The Case

This is a petition<sup>[1]</sup> for review on certiorari under Rule 45 of the Rules of Court. Petitioner Steel Corporation of the Philippines (SCP) challenges the 8 February 2012 Decision<sup>[2]</sup> and 27 March 2012 Resolution<sup>[3]</sup> of the Court of Appeals in CA-G.R. SP No. 1 19760. The Court of Appeals declared void the 1 June 2011 Order<sup>[4]</sup> of the Regional Trial Court (RTC), acting as rehabilitation court, Fourth Judicial Region, Branch 3, Batangas City, in SP. PROC. No. 06-7993.

#### The Facts

SCP is a domestic corporation engaged in the manufacture and distribution of cold-rolled and galvanized steel sheets and coils. It obtained loans from several creditors and, as security, mortgaged its assets in their favor. The creditors appointed Bank of the Philippine Islands (BPI) as their trustee. On 17 December 1997, SCP and BPI entered into a Mortgage Trust Indenture (MTI) requiring SCP to insure all of its assets until the loans are fully paid. Under the MTI, the insurance policies were to be made payable to BPI.

During the course of its business, SCP suffered financial difficulties. On 11 September 2006, one of the creditors, Equitable PCI Bank, Inc., now known as Banco de Oro-EPCI, Inc., filed with the RTC a petition to have SCP placed under corporate rehabilitation. On 12 September 2006, the RTC issued a stay order to defer all claims against SCP and appointed Atty. Santiago T. Gabionza, Jr. as rehabilitation receiver. On 3 December 2007, the RTC rendered a Decision approving the modified rehabilitation plan.

Under Collective Master Policy No. UCPB Gem HOF075089, SCP insured against material damage and business interruption its assets located in Barangay Munting Tubig, Balayan, Batangas, for the period 19 August 2007 to 19 August 2008. On 8 June 2008, a fire broke out at SCP's plant damaging its machineries. Invoking its right under the MTI, BPI demanded and received from the insurers \$450,000 insurance proceeds.

On 13 October 2009, SCP filed with the RTC a motion to direct BPI to turn over the \$450,000 insurance proceeds in order for SCP to repair and replace the damaged machineries. On 5 January 2010, the RTC issued an Order directing BPI to release the insurance proceeds directly to the contractors and suppliers who will undertake the repairs and replacements of the damaged machineries. BPI filed with the Court of Appeals a petition for certiorari under Rule 65 of the Rules of Court and, in its 28 September 2010 Decision,<sup>[5]</sup> the Court of Appeals affirmed the RTC's 5 January 2010 Order. However, in its 3 October 2012 Amended Decision,<sup>[6]</sup> the Court of Appeals reversed itself and set aside the RTC's 5 January 2010 Order. SCP filed with the Court a petition for review on certiorari under Rule 45 and, in its 16 September 2013 Resolution,<sup>[7]</sup> the Court denied the petition. The Court held that:

After a judicious review of the records, the Court resolves to DENY the instant petition and AFFIRM the October 3, 2012 Amended Decision and July 2, 2013 Resolution of the Court of Appeals (CA) in CA-G.R. SP No. 113078 for failure of Steel Corporation of the Philippines (petitioner) to show that the CA committed any reversible error in holding Bank of the Philippine Islands (respondent) entitled to receive and hold in trust the subject insurance proceeds. Section 4.04, sub-paragraph (f) of the Mortgage Trust Indenture Agreement between the parties expressly stipulated that respondent shall receive the insurance proceeds in case the risk or risks covered by the said policy occur and it may be released, applied, and/or paid to petitioner to procure replacement equipment and/or machinery only upon written notice to the creditors, who shall issue a Deed of Undertaking. No such compliance was shown. It is hornbook that a contract is the law between the parties and the obligation arising therefrom should be complied with in good faith. Moreover, the rehabilitation proceedings were already terminated by the CA (which decisions are immediately executory), hence, petitioner's justification for release of the insurance proceeds in its favor, i.e., to replace the burnt machineries, is not feasible at this time.

Besides, the petition suffers from procedural defect in that it lacked copy of the Regional Trial Court Order as well as relevant pleadings thereto, as required under Section 4(d), Rule 45 of the Rules of Court.

SO ORDERED.<sup>[8]</sup>

Under Industrial All Risks Insurance Policy No. F-369430, SCP insured with respondents Mapfre Insular Insurance Corporation, New India Assurance Company Limited, Philippine Charter Insurance Corporation, Malayan Insurance Co., Inc., and Asia Insurance Phil. Corp. (respondent insurers) against material damage and business interruption its assets located in Barangay Munting Tubig for the period 19 August 2009 to 19 August 2010. On 7 December 2009, a fire again broke out at SCP's plant damaging its cold rolling mill and other machineries.

On 17 December 2010, SCP filed with the RTC a motion to direct respondent insurers to pay insurance proceeds in the amounts of \$28,000,000 property damage and \$8,000,000 business interruption.

During the 21 January 2011 hearing of SCP's 17 December 2010 motion, respondent insurers entered a special appearance solely for the purpose of

questioning the RTC's jurisdiction over the insurance claim. On 7 February 2011, respondent insurers filed with the RTC an opposition *ad cautelam* praying that SCP's 17 December 2010 motion be denied.

In a letter dated 22 March 2011, respondent insurers denied liability on SCP's insurance claim because (1) SCP failed to comply with the terms of the policies; (2) SCP defrauded the respondent insurers; (3) the gross over-insurance of the cold rolling mill constitutes prima facie proof of arson; (4) SCP failed to show the actual damage sustained by its machineries; (5) SCP failed to commence the repair and replacement of the damaged machineries within 12 months; (6) SCP's negligence caused the fire; and (7) since SCP's claim for property damage is non-compensable, its claim for business interruption is also non-compensable. In their *ad cautelam* opposition dated 24 March 2011, respondent insurers prayed that SCP's 17 December 2010 motion be denied because (1) the amount of the claim for property damage was increased from \$28,000,000 to \$30,000,000; (2) the RTC lacked jurisdiction; (3) the RTC's 5 January 2010 Order directing BPI to release the insurance proceeds directly to the contractors and suppliers who will undertake the repairs and replacements of SCP's damaged machineries did not apply; and (4) respondent insurers already denied SCP's insurance claim.

On 25 March and 8 April 2011, the RTC issued an Order directing (1) SCP to formally manifest its amenability to the repair and replacement of the damaged machineries instead of payment of insurance proceeds; (2) SCP and respondent insurers to file their memoranda; and (3) the creditors to file their respective comments.

### **The RTC's Ruling**

In its 1 June 2011 Order, the RTC granted SCP's 17 December 2010 motion and directed respondent insurers to pay SCP \$33,882,393 property damage and \$8,000,000 business interruption. The RTC held that:

At the outset, this Court notes that SCP's manufacturing operations have suffered from two separate fire incidents: one which damaged the ABB roll on June 8, 2008, and the other which damaged the entire Cold Rolling Mill (CRM) on December 7, 2009. The claim for the first fire incident was partially paid by the insurers but the proceeds were withheld by BPI as MTI Trustee. Thus, feeling aggrieved, SCP was forced to file a Motion to Direct Trustee to Release Insurance Proceeds to SCP which was granted by the previous judge, (over and above the objections of BPI which argued that this Court had no jurisdiction over the matter) through his Order dated January 5, 2010 x x x.

This Court, in resolving the instant motion, is inclined to agree with the previous judge's order and so upholds that it has jurisdiction over the insurance claims filed by SCP in these rehabilitation proceedings. x x x.

In a resolution dated September 28, 2010, the Court of Appeals (BPI vs. Hon. Albert A. Kalalo, C.A.-G.R. SP No. 113078) confirmed this Court's authority and jurisdiction to take cognizance of the insurance matter in the same rehabilitation proceedings. The appellate court made it very clear that this court's jurisdiction includes the necessary and usual

incidental powers that are essential to effectuate SCP's rehabilitation. x x x.

The argument that this Court cannot possibly pass upon the insurance claim of SCP because it is only acting as a rehabilitation court cannot hold water. The mere fact that this Court by raffle has been designated as a rehabilitation court in view of the inhibition of RTC Branches 2 and 4 does not mean that it has lost its powers or authority as a court of general jurisdiction. x x x.

x x x x

It is not true that the second panel of insurers are not "affected parties" and therefore cannot be deemed covered by the *in rem* nature of the rehabilitation proceedings. It is apt to note that the second panel of insurers unequivocally admitted, in par. 21 of their Opposition, that "the panel of insurers are aware that any proceeding initiated under the Rules on [C]orporate Rehabilitation shall be considered *in rem* and that jurisdiction over all persons affected by the proceedings shall be considered acquired upon publication of the notice of the commencement of the proceedings in any newspaper of general circulation in the Philippines as required by the Rules."

The panel of insurers' argument that they are not "affected parties" in the rehabilitation proceedings because they do not hold any asset belonging to SCP ["]which should be reflected in its audited financial statements" was sufficiently rebutted by SCP when the latter argued that the insurers, holding as they do, sums of money, recovery of which is sought by SCP, as the insured, are parts of the assets of its estate (Bank of the Philippine Islands vs. Posadas, 56 Phil. 215, 230). They are sums of money redounding to the benefit of its estate (i.e. assets) as an insured (Heirs of Loreto Maramag vs. Heirs of Maramag, et al., 586 SCRA 774, 787). Thus, the fact that SCP, as insured, is claiming the proceeds of insurance policies issued to it, makes the insurers affected parties covered by the instant rehabilitation proceedings.

The panel of insurers further contend, that the claim "may not be resolved summarily as the same requires a full-blown trial" such that it may be considered a complaint and therefore this Court did not acquire jurisdiction over the *res* because of the non-payment of docket fees. Contrary to this line of reasoning however, it should be pointed out that the Interim Rules of Procedure on Corporate Rehabilitation clearly recognizes the right of the parties affected by the proceedings to file their opposition (Rule 3, Secs. 6, 10 and 20). The rehabilitation judge can hold clarificatory hearings if there is a need to clarify certain questions arising from such opposition. In short, the right to oppose (together with the corresponding right to be heard on the opposition) does not necessarily mean that a "full-blown trial" should be conducted. The instant proceedings does [sic] not automatically become "adversarial" (as compared to "summary" proceedings) necessitating "full-blown trial" just because the insurers have conveyed their intent to oppose (which they did) the claim.

As the insurers themselves admit in par. 37 of their Opposition adversarial proceedings simply means that it is "one having opposing parties, contested as distinguished from an *ex-parte* application, one of which the party seeking relief has given legal warning to the other party and afforded the latter an opportunity to contest it" (Republic of the Philippines vs. Valencia, 141 SCRA 462[, ] 1986). It is very clear that the insurers have all the opportunity in these proceedings to oppose even without the necessity of a "full-blown hearing."

And since the subject motion for payment of the insurance claim does not necessarily entail full-blown hearings despite it being an adversarial motion (i.e. contested), the argument of the insurers that it is a complaint that must be resolved in an original, separate, full-blown proceedings, independently of the instant case which is summary in nature, and necessarily must comply with Sec. 141 of the Revised Rules of Court regarding the payment of filing fees ["]upon filing of the pleading or other application which initiates an action or proceeding" does not hold water and is fallacious.

x x x x

As to the corollary issue of the rightful payee of the insurance proceeds, this Court hereby rules that contrary to the creditors' argument that the proceeds of the insurance claims should be given to the MTI Trustee pursuant to the MTI, it is appropriate for this Court to emphasize what the appellate court in BPI vs. Hon. Kalalo, has said – that although it is beyond dispute that the provisions of the MTI continue to bind the parties, the MTI's binding effect should be qualified. Pursuant to the provision of the Interim Rules and in deference to the purpose of rehabilitation proceedings, "the Mortgage Trust Indenture would be binding only insofar as it does not conflict with the provisions of the rehabilitation plan undertaken by the private respondent as well as if it does not hinder the corporate rehabilitation of private respondent itself". In deciding who has the better right to receive the disputed insurance proceeds, the Court of Appeals said that "utmost regard must be had to the restoration of herein private respondent to a position of successful operation and solvency."

x x x x

It is not true as contended by the second panel of insurers that there are distinctions between the instant motion (for the second fire) from the first motion (for the first fire) which had already been ruled in favor of SCP by the previous judge. The factual circumstances under the first motion and the present one are similar or analogous even if not entirely identical. Both motions refer to disputed insurance claims arising from losses covered by existing policies issued to SCP. Both have been disputed or opposed either by the MTI Trustee or by the insurers themselves. Thus, both motions should be resolved in the same manner in order to maintain consistency and stability in this Court's judicial pronouncements.