

FIRST DIVISION

[G.R. No. 125678, March 18, 2002]

PHILAMCARE HEALTH SYSTEMS, INC., PETITIONER, VS. COURT OF APPEALS AND JULITA TRINOS, RESPONDENTS.

DECISION

YNARES-SANTIAGO, J.:

Ernani Trinos, deceased husband of respondent Julita Trinos, applied for a health care coverage with petitioner Philamcare Health Systems, Inc. In the standard application form, he answered no to the following question:

Have you or any of your family members ever consulted or been treated for high blood pressure, heart trouble, diabetes, cancer, liver disease, asthma or peptic ulcer? (If Yes, give details).^[1]

The application was approved for a period of one year from March 1, 1988 to March 1, 1989. Accordingly, he was issued Health Care Agreement No. P010194. Under the agreement, respondent's husband was entitled to avail of hospitalization benefits, whether ordinary or emergency, listed therein. He was also entitled to avail of "out-patient benefits" such as annual physical examinations, preventive health care and other out-patient services.

Upon the termination of the agreement, the same was extended for another year from March 1, 1989 to March 1, 1990, then from March 1, 1990 to June 1, 1990. The amount of coverage was increased to a maximum sum of P75,000.00 per disability.^[2]

During the period of his coverage, Ernani suffered a heart attack and was confined at the Manila Medical Center (MMC) for one month beginning March 9, 1990. While her husband was in the hospital, respondent tried to claim the benefits under the health care agreement. However, petitioner denied her claim saying that the Health Care Agreement was void. According to petitioner, there was a concealment regarding Ernani's medical history. Doctors at the MMC allegedly discovered at the time of Ernani's confinement that he was hypertensive, diabetic and asthmatic, contrary to his answer in the application form. Thus, respondent paid the hospitalization expenses herself, amounting to about P76,000.00.

After her husband was discharged from the MMC, he was attended by a physical therapist at home. Later, he was admitted at the Chinese General Hospital. Due to financial difficulties, however, respondent brought her husband home again. In the morning of April 13, 1990, Ernani had fever and was feeling very weak. Respondent was constrained to bring him back to the Chinese General Hospital where he died on the same day.

On July 24, 1990, respondent instituted with the Regional Trial Court of Manila, Branch 44, an action for damages against petitioner and its president, Dr. Benito Reverente, which was docketed as Civil Case No. 90-53795. She asked for reimbursement of her expenses plus moral damages and attorney's fees. After trial, the lower court ruled against petitioners, viz:

WHEREFORE, in view of the forgoing, the Court renders judgment in favor of the plaintiff Julita Trinos, ordering:

1. Defendants to pay and reimburse the medical and hospital coverage of the late Ernani Trinos in the amount of P76,000.00 plus interest, until the amount is fully paid to plaintiff who paid the same;
2. Defendants to pay the reduced amount of moral damages of P10,000.00 to plaintiff;
3. Defendants to pay the reduced amount of P10,000.00 as exemplary damages to plaintiff;
4. Defendants to pay attorney's fees of P20,000.00, plus costs of suit.

SO ORDERED.^[3]

On appeal, the Court of Appeals affirmed the decision of the trial court but deleted all awards for damages and absolved petitioner Reverente.^[4] Petitioner's motion for reconsideration was denied.^[5] Hence, petitioner brought the instant petition for review, raising the primary argument that a health care agreement is not an insurance contract; hence the "incontestability clause" under the Insurance Code^[6] does not apply.

Petitioner argues that the agreement grants "living benefits," such as medical check-ups and hospitalization which a member may immediately enjoy so long as he is alive upon effectivity of the agreement until its expiration one-year thereafter. Petitioner also points out that only medical and hospitalization benefits are given under the agreement without any indemnification, unlike in an insurance contract where the insured is indemnified for his loss. Moreover, since Health Care Agreements are only for a period of one year, as compared to insurance contracts which last longer,^[7] petitioner argues that the incontestability clause does not apply, as the same requires an effectivity period of at least two years. Petitioner further argues that it is not an insurance company, which is governed by the Insurance Commission, but a Health Maintenance Organization under the authority of the Department of Health.

Section 2 (1) of the Insurance Code defines a contract of insurance as an agreement whereby one undertakes for a consideration to indemnify another against loss, damage or liability arising from an unknown or contingent event. An insurance contract exists where the following elements concur:

1. The insured has an insurable interest;
2. The insured is subject to a risk of loss by the happening of the designated peril;

3. The insurer assumes the risk;
4. Such assumption of risk is part of a general scheme to distribute actual losses among a large group of persons bearing a similar risk; and
5. In consideration of the insurer's promise, the insured pays a premium.^[8]

Section 3 of the Insurance Code states that any contingent or unknown event, whether past or future, which may damnify a person having an insurable interest against him, may be insured against. Every person has an insurable interest in the life and *health* of himself. Section 10 provides:

Every person has an insurable interest in the life and health:

- (1) of himself, of his spouse and of his children;
- (2) of any person on whom he depends wholly or in part for education or support, or in whom he has a pecuniary interest;
- (3) of any person under a legal obligation to him for the payment of money, respecting property or service, of which death or illness might delay or prevent the performance; and
- (4) of any person upon whose life any estate or interest vested in him depends.

In the case at bar, the insurable interest of respondent's husband in obtaining the health care agreement was his own health. The health care agreement was in the nature of non-life insurance, which is primarily a contract of indemnity.^[9] Once the member incurs hospital, medical or any other expense arising from sickness, injury or other stipulated contingent, the health care provider must pay for the same to the extent agreed upon under the contract.

Petitioner argues that respondent's husband concealed a material fact in his application. It appears that in the application for health coverage, petitioners required respondent's husband to sign an express authorization for any person, organization or entity that has any record or knowledge of his health to furnish any and all information relative to any hospitalization, consultation, treatment or any other medical advice or examination.^[10] Specifically, the Health Care Agreement signed by respondent's husband states:

We hereby declare and agree that all statement and answers contained herein and in any addendum annexed to this application are full, complete and true and bind all parties in interest under the Agreement herein applied for, that there shall be no contract of health care coverage unless and until an Agreement is issued on this application and the full Membership Fee according to the mode of payment applied for is actually paid during the lifetime and good health of proposed Members; that no information acquired by any Representative of PhilamCare shall be binding upon PhilamCare unless set out in writing in the application; that