

## SECOND DIVISION

[ G.R. No. 113899, October 13, 1999 ]

**GREAT PACIFIC LIFE ASSURANCE CORP., PETITIONER VS.  
COURT OF APPEALS AND MEDARDA V. LEUTERIO,  
RESPONDENTS.**

### DECISION

**QUISUMBING, J.:**

This petition for review, under Rule 45 of the Rules of Court, assails the Decision<sup>[1]</sup> dated May 17, 1993, of the Court of Appeals and its Resolution<sup>[2]</sup> dated January 4, 1994 in CA-G.R. CV No. 18341. The appellate court affirmed in toto the judgment of the Misamis Oriental Regional Trial Court, Branch 18, in an insurance claim filed by private respondent against Great Pacific Life Assurance Co. The dispositive portion of the trial court's decision reads:

"WHEREFORE, judgment is rendered adjudging the defendant GREAT PACIFIC LIFE ASSURANCE CORPORATION as insurer under its Group policy No. G-1907, in relation to Certification B-18558 liable and ordered to pay to the DEVELOPMENT BANK OF THE PHILIPPINES as creditor of the insured Dr. Wilfredo Leuterio, the amount of EIGHTY SIX THOUSAND TWO HUNDRED PESOS (P86,200.00); dismissing the claims for damages, attorney's fees and litigation expenses in the complaint and counterclaim, with costs against the defendant and dismissing the complaint in respect to the plaintiffs, other than the widow-beneficiary, for lack of cause of action."<sup>[3]</sup>

The facts, as found by the Court of Appeals, are as follows:

A contract of group life insurance was executed between petitioner Great Pacific Life Assurance Corporation (hereinafter Grepalife) and Development Bank of the Philippines (hereinafter DBP). Grepalife agreed to insure the lives of eligible housing loan mortgagors of DBP.

On November 11, 1983, Dr. Wilfredo Leuterio, a physician and a housing debtor of DBP applied for membership in the group life insurance plan. In an application form, Dr. Leuterio answered questions concerning his health condition as follows:

"7. Have you ever had, or consulted, a physician for a heart condition, high blood pressure, cancer, diabetes, lung, kidney or stomach disorder or any other physical impairment?

Answer: No. If so give details \_\_\_\_\_.

8. Are you now, to the best of your knowledge, in good health?

Answer: [ x ] Yes [ ] No."<sup>[4]</sup>

On November 15, 1983, Grepalife issued Certificate No. B-18558, as insurance coverage of Dr. Leuterio, to the extent of his DBP mortgage indebtedness amounting to eighty-six thousand, two hundred (P86,200.00) pesos.

On August 6, 1984, Dr. Leuterio died due to "massive cerebral hemorrhage." Consequently, DBP submitted a death claim to Grepalife. Grepalife denied the claim alleging that Dr. Leuterio was not physically healthy when he applied for an insurance coverage on November 15, 1983. Grepalife insisted that Dr. Leuterio did not disclose he had been suffering from hypertension, which caused his death. Allegedly, such non-disclosure constituted concealment that justified the denial of the claim.

On October 20, 1986, the widow of the late Dr. Leuterio, respondent Medarda V. Leuterio, filed a complaint with the Regional Trial Court of Misamis Oriental, Branch 18, against Grepalife for "Specific Performance with Damages."<sup>[5]</sup> During the trial, Dr. Hernando Mejia, who issued the death certificate, was called to testify. Dr. Mejia's findings, based partly from the information given by the respondent widow, stated that Dr. Leuterio complained of headaches presumably due to high blood pressure. The inference was not conclusive because Dr. Leuterio was not autopsied, hence, other causes were not ruled out.

On February 22, 1988, the trial court rendered a decision in favor of respondent widow and against Grepalife. On May 17, 1993, the Court of Appeals sustained the trial court's decision. Hence, the present petition. Petitioners interposed the following assigned errors:

"1. THE LOWER COURT ERRED IN HOLDING DEFENDANT-APPELLANT LIABLE TO THE DEVELOPMENT BANK OF THE PHILIPPINES (DBP) WHICH IS NOT A PARTY TO THE CASE FOR PAYMENT OF THE PROCEEDS OF A MORTGAGE REDEMPTION INSURANCE ON THE LIFE OF PLAINTIFF'S HUSBAND WILFREDO LEUTERIO ONE OF ITS LOAN BORROWERS, INSTEAD OF DISMISSING THE CASE AGAINST DEFENDANT-APPELLANT [Petitioner Grepalife] FOR LACK OF CAUSE OF ACTION.

2. THE LOWER COURT ERRED IN NOT DISMISSING THE CASE FOR WANT OF JURISDICTION OVER THE SUBJECT OR NATURE OF THE ACTION AND OVER THE PERSON OF THE DEFENDANT.

3. THE LOWER COURT ERRED IN ORDERING DEFENDANT-APPELLANT TO PAY TO DBP THE AMOUNT OF P86,200.00 IN THE ABSENCE OF ANY EVIDENCE TO SHOW HOW MUCH WAS THE ACTUAL AMOUNT PAYABLE TO DBP IN ACCORDANCE WITH ITS GROUP INSURANCE CONTRACT WITH DEFENDANT-APPELLANT.

4. THE LOWER COURT ERRED IN - HOLDING THAT THERE WAS NO CONCEALMENT OF MATERIAL INFORMATION ON THE PART OF WILFREDO LEUTERIO IN HIS APPLICATION FOR MEMBERSHIP IN THE GROUP LIFE INSURANCE PLAN BETWEEN DEFENDANT-APPELLANT OF THE INSURANCE CLAIM ARISING FROM THE DEATH OF WILFREDO LEUTERIO."<sup>[6]</sup>

Synthesized below are the assigned errors for our resolution:

1. Whether the Court of Appeals erred in holding petitioner liable to DBP as beneficiary in a group life insurance contract from a complaint filed by the widow of the decedent/mortgagor?
2. Whether the Court of Appeals erred in not finding that Dr. Leuterio concealed that he had hypertension, which would vitiate the insurance contract?
3. Whether the Court of Appeals erred in holding Grepalife liable in the amount of eighty six thousand, two hundred (P86,200.00) pesos without proof of the actual outstanding mortgage payable by the mortgagor to DBP.

Petitioner alleges that the complaint was instituted by the widow of Dr. Leuterio, not the real party in interest, hence the trial court acquired no jurisdiction over the case. It argues that when the Court of Appeals affirmed the trial court's judgment, Grepalife was held liable to pay the proceeds of insurance contract in favor of DBP, the indispensable party who was not joined in the suit.

To resolve the issue, we must consider the insurable interest in mortgaged properties and the parties to this type of contract. The rationale of a group insurance policy of mortgagors, otherwise known as the "mortgage redemption insurance," is a device for the protection of both the mortgagee and the mortgagor. On the part of the mortgagee, it has to enter into such form of contract so that in the event of the unexpected demise of the mortgagor during the subsistence of the mortgage contract, the proceeds from such insurance will be applied to the payment of the mortgage debt, thereby relieving the heirs of the mortgagor from paying the obligation.<sup>[7]</sup> In a similar vein, ample protection is given to the mortgagor under such a concept so that in the event of death; the mortgage obligation will be extinguished by the application of the insurance proceeds to the mortgage indebtedness.<sup>[8]</sup> Consequently, where the mortgagor pays the insurance premium under the group insurance policy, making the loss payable to the mortgagee, the insurance is on the mortgagor's interest, and the mortgagor continues to be a party to the contract. In this type of policy insurance, the mortgagee is simply an appointee of the insurance fund, such loss-payable clause does not make the mortgagee a party to the contract.<sup>[9]</sup>

Section 8 of the Insurance Code provides:

"Unless the policy provides, where a mortgagor of property effects insurance in his own name providing that the loss shall be payable to the mortgagee, or assigns a policy of insurance to a mortgagee, the insurance is deemed to be upon the interest of the mortgagor, who does not cease to be a party to the original contract, and any act of his, prior to the loss, which would otherwise avoid the insurance, will have the same effect, although the property is in the hands of the mortgagee, but any act which, under the contract of insurance, is to be performed by the mortgagor, may be performed by the mortgagee therein named, with the same effect as if it had been performed by the mortgagor."

The insured private respondent did not cede to the mortgagee all his rights or interests in the insurance, the policy stating that: "In the event of the debtor's death before his indebtedness with the Creditor [DBP] shall have been fully paid, an