FIRST DIVISION

[G.R. No. 124520, August 18, 1997]

SPOUSES NILO CHA AND STELLA UY CHA, AND UNITED INSURANCE CO., INC., PETITIONERS, VS. COURT OF APPEALS AND CKS DEVELOPMENT CORPORATION, RESPONDENTS.

D E C I S I O N

PADILLA, J.:

This petition for review on certiorari under Rule 45 of the Rules of Court seeks to set aside a decision of respondent Court of Appeals.

The undisputed facts of the case are as follows:

> 1.   Petitioner-spouses Nilo Cha and Stella Uy-Cha, as lessees, entered into a lease contract with private respondent CKS Development Corporation (hereinafter CKS), as lessor, on 5 October 1988.

> 2.   One of the stipulations of the one (1) year lease contract states:

"18. x x x. The LESSEE shall not insure against fire the chattels, merchandise, textiles, goods and effects placed at any stall or store or space in the leased premises without first obtaining the written consent and approval of the LESSOR. If the LESSEE obtain(s) the insurance thereof without the consent of the LESSOR then the policy is deemed assigned and transferred to the LESSOR for its own benefit; x x x"[1]

> 3.   Notwithstanding the above stipulation in the lease contract, the Cha spouses insured against loss by fire their merchandise inside the leased premises for Five Hundred Thousand (P500,000.00) with the United Insurance Co., Inc. (hereinafter United) without the written consent of private respondents CKS.

> 4.   On the day that the lease contract was to expire, fire broke out inside the leased premises.

> 5.   When CKS learned of the insurance earlier procured by the Cha spouses (without its consent), it wrote the insurer (United) a demand letter asking that the proceeds of the insurance contract (between the Cha spouses and United) be paid directly to CKS, based on its lease contract with Cha spouses.

> 6.   United refused to pay CKS. Hence, the latter filed a complaint against the Cha spouses and United.

> 7.   On 2 June 1992, the Regional Trial Court, Branch 6, Manila,

rendered a decision* ordering therein defendant United to pay CKS the amount of P335,063.11 and defendant Cha spouses to pay P50,000.00 as exemplary damages, P20,000.00 as attorney's fees and costs of suit.

8.   On appeal, respondent Court of Appeals in CA GR CV No. 39328 rendered a decision** dated 11 January 1996, affirming the trial court decision, deleting however the awards for exemplary damages and attorney's fees. A motion for reconsideration by United was denied on 29 March 1996.

In the present petition, the following errors are assigned by petitioners to the Court of Appeals:

I

THE HONORABLE COURT OF APPEALS ERRED IN FAILING TO DECLARE THAT THE STIPULATION IN THE CONTRACT OF LEASE TRANSFERRING THE PROCEEDS OF THE INSURANCE TO RESPONDENT IS NULL AND VOID FOR BEING CONTRARY TO LAW, MORALS AND PUBLIC POLICY

II

THE HONORABLE COURT OF APPEALS ERRED IN FAILING TO DECLARE THE CONTRACT OF LEASE ENTERED INTO AS A CONTRACT OF ADHESION AND THEREFORE THE QUESTIONABLE PROVISION THEREIN TRANSFERRING THE PROCEEDS OF THE INSURANCE TO RESPONDENT MUST BE RULED OUT IN FAVOR OF PETITIONER

III

THE HONORABLE COURT OF APPEALS ERRED IN AWARDING PROCEEDS OF AN INSURANCE POLICY TO APPELLEE WHICH IS NOT PRIVY TO THE SAID POLICY IN CONTRAVENTION OF THE INSURANCE LAW

IV

THE HONORABLE COURT OF APPEALS ERRED IN AWARDING PROCEEDS OF AN INSURANCE POLICY ON THE BASIS OF A STIPULATION WHICH IS VOID FOR BEING WITHOUT CONSIDERATION AND FOR BEING TOTALLY DEPENDENT ON THE WILL OF THE RESPONDENT CORPORATION.[2]

The core issue to be resolved in this case is whether or not the aforequoted paragraph 18 of the lease contract entered into between CKS and the Cha spouses is valid insofar as it provides that any fire insurance policy obtained by the lessee (Cha spouses) over their merchandise inside the leased premises is deemed assigned or transferred to the lessor (CKS) if said policy is obtained without the prior written of the latter.

It is, of course, basic in the law on contracts that the stipulations contained in a contract cannot be contrary to law, morals, good customs, public order or public policy.[3]