

THIRD DIVISION

[G.R. No. 96727, August 28, 1996]

**RIZAL SURETY & INSURANCE COMPANY, PETITIONER, VS.
COURT OF APPEALS AND TRANSOCEAN TRANSPORT
CORPORATION, RESPONDENTS.**

DECISION

PANGANIBAN, J.:

Was a *trust relationship* established between an insurer and the two insureds over the balance of the insurance proceeds being held by the insurer for the account of the two insureds, pending a final settlement by and between the two insureds of their respective claims to said proceeds? Can the insurer -- whether or not considered a trustee -- be held liable for interest on the said insurance proceeds, which proceeds the said insurer failed or neglected to deposit in an interest-bearing account, contrary to the specific written instructions of the two insureds? And should attorney's fees be awarded in this case?

These questions confronted the Court in resolving the instant petition for review on certiorari, which assailed the Decision^[1] of the Court of Appeals^[2] promulgated October 25, 1990 affirming and modifying the decision^[3] dated September 19, 1986 of the Regional Trial Court of Manila, Branch 33,^[4] in Civil Case No. 125886.

The Facts

As culled from the stipulations between the parties and the assailed Decision, the factual background of this case is as follows:

On December 5, 1961, the Reparations Commission (hereinafter referred to as REPACOM) sold to private respondent Transocean Transport Corporation the vessel 'M/V TRANSOCEAN SHIPPER' payable in twenty (20) annual installments. On June 22, 1974, the said vessel was insured with petitioner Rizal Surety & Insurance Company for US\$3,500,000.00, with stipulated value in Philippine Currency of P23,763,000.00 under Marine Hull Policy MH-1322 and MH-1331.^[5] The said policies named REPACOM and herein private respondent as the insured. Subsequently, petitioner reinsured the vessel with a foreign insurance firm.

Sometime in February, 1975, during the effectivity of the aforementioned marine insurance policies, the vessel 'M/V TRANSOCEAN SHIPPER' was lost in the Mediterranean Sea. The insured filed claims against herein petitioner for the insurance proceeds. Shortly thereafter, a partial compromise agreement was entered into between the REPACOM and respondent Transocean regarding the insurance proceeds.

On April 18, 1975, anticipating payment of the insurance proceeds in dollars, private

respondent requested the Central Bank (CB) to allow it to retain the expected dollar insurance proceeds for a period of three (3) months, to enable it to complete its study and decide on how to utilize the said amount.^[6] The CB granted the request subject to conditions, one of which was that the proceeds be deposited with a local commercial bank in a special dollar account up to and until July 31, 1975.^[7]

On November 18, 1975, private respondent and REPACOM requested petitioner to pay the insurance proceeds in their joint names,^[8] despite problems regarding the amount of their respective claims.

On November 20, 1975, the CB authorized petitioner to receive the insurance proceeds from the English re-insurance firm in foreign currency and to deposit it in the same currency with any local bank in a non-interest bearing account, jointly in the names of private respondent and REPACOM.^[9]

On December 2, 1975, upon the request of petitioner,^[10] CB authorized it to receive and deposit the dollar insurance proceeds in a non-interest bearing account *in the name of petitioner* and for the joint account of REPACOM and private respondent.^[11]

On January 3, 1976, petitioner informed private respondent and REPACOM that the entire insurance proceeds for the loss of the vessel M/V "Transocean Shipper", consisting of: (a) P2,614,150.00 from local insurance companies and reinsurers, and (b) US\$3,083,850.00 from the petitioner's London insurance broker, had been deposited with Prudential Bank and Trust Company, Escolta Branch, Manila, the latter sum in a non-interest bearing account as authorized by CB.^[12]

On January 29, 1976, private respondent and REPACOM entered into a partial compromise agreement,^[13] wherein they agreed to divide and distribute the insurance proceeds in such a manner that each would receive as its initial share thereof that portion not disputed by the other party (thus, REPACOM -- US\$434,618.00, and private respondent -- US\$1,931,153.00), leaving the balance in dispute for future settlement, either by way of compromise agreement or court litigation, pending which the said balance would continue to be kept in the same bank account in trust for private respondent and REPACOM unless the parties otherwise agree to transfer said balance to another bank account. Copies of this compromise agreement were sent to petitioner.

In response to the March 10, 1976 letter-request of the parties, the CB on March 15, 1976 authorized private respondent and REPACOM to transfer the balance of the insurance proceeds, amounting to US\$718,078.20, into an *interest-bearing* special dollar account with any local commercial bank.^[14] The CB's letter-authorization was addressed to REPACOM, with private respondent and petitioner duly copy-furnished.

Having obtained the CB authorization, REPACOM and private respondent then wrote the petitioner on April 21, 1976, requesting the latter to remit the said US\$718,078.20 to the Philippine National Bank, Escolta Branch for their joint account.^[15]

In a reply dated May 10, 1976, petitioner indicated that it would effect the

requested remittance when both REPACOM and private respondent shall have unconditionally and absolutely released petitioner from all liabilities under its policies by executing and delivering the Loss and Subrogation Receipt prepared by petitioner.^[16]

Because the parties proposed certain amendments and corrections to the Loss and Subrogation Receipt, a revised version thereof was finally presented to the Office of the Solicitor General, and on May 25, 1977, then Acting Solicitor General Vicente V. Mendoza wrote petitioner demanding that it pay interest on the dollar balance per the CB letter-authority. His letter read in relevant part:^[17]

"From the foregoing, it is clear that effective as of the date of your receipt of a copy of the letter of the Central Bank authorizing the deposit of the amount in an interest-bearing special dollar account x x x, the same should bear interest at the authorized rates, and it was your duty as trustee of the said funds to see to it that the same earned the interest authorized by the Central Bank. As trustee, you were morally and legally bound to deposit the funds under terms most advantageous to the beneficiaries. If you did not wish to transfer the deposit from the Prudential Bank and Trust Company, which we understand is your sister company, to another bank where it could earn interest, it was your obligation to require the Prudential Bank and Trust Company, at least, to place the deposit to an interest-bearing account.

In view hereof, we hereby demand in behalf of the Reparations Commission payment of interest on the dollar deposit from the date of your receipt of the authorization by the Central Bank at the authorized rates."

In a reply dated June 14, 1977, petitioner through counsel rejected the Acting Solicitor General's demand, asserting that (i) there was no trust relationship, express or implied, involved in the transaction; (ii) there was no obligation on the part of petitioner to transfer the dollar deposit into an interest-bearing account because the CB authorization was given to REPACOM and not to petitioner, (iii) REPACOM did not ask petitioner to place the dollars in an interest-bearing account, and, (iv) no Loss and Subrogation Receipt was executed.

On October 10, 1977, private respondent and REPACOM sent petitioner the duly executed Loss and Subrogation Receipt, dated January 31, 1977, without prejudice to their claim for interest on the dollar balance from the time CB authorized its placement in an interest bearing account.

On February 27, 1978, a final compromise agreement^[18] was entered into between private respondent and REPACOM, whereby the latter, in consideration of an additional sum of one million pesos paid to it by the former, transferred, conveyed and assigned to the former all its rights, interests and claims in and to the insurance proceeds. The dollar balance of the insurance proceeds was then remitted to the Philippine National Bank, Escolta branch for the sole account of private respondent.

On April 14, 1978, a demand letter for interest on the said dollar balance was sent by private respondent's counsel to petitioner and Prudential Bank, which neither replied thereto nor complied therewith.

On August 15, 1979, private respondent filed with the Regional Trial Court of Manila, Branch 33, a complaint for collection of unearned interest on the dollar balance of the insurance proceeds.

On September 19, 1986, the trial court issued its decision holding that (i) a trust relationship existed between petitioner as trustee and private respondent and REPACOM as beneficiaries, (ii) from April 21, 1976, petitioner should have deposited the remaining dollar deposit in an interest-bearing account either by remitting the same to the PNB in compliance with the request of REPACOM and private respondent, or by transferring the same into an interest-bearing account with Prudential Bank, and (iii) this duty to deposit the funds in an interest-bearing account ended when private respondent signed the Loss and Subrogation Receipt on January 31, 1977. Thus, petitioner was ordered to pay (1) interest on the balance of US\$718,078.20 at 6% per annum, computed from April 21, 1976 until January 31, 1977 based on the then prevailing peso-dollar rate of exchange; (2) interest of 6% per annum on the accrued interest earned until fully paid; (3) 10% of the total amount claimed as attorney's fees and (4) costs of suit.^[19] The complaint against defendant Prudential Bank and Trust was dismissed for lack of merit.

Both petitioner and private respondent appealed the trial court's decision. Private respondent alleged that the trial court erred when it absolved defendant Prudential Bank from liability and when it ruled that the interest on the balance of the dollar deposit, for which petitioner was held liable, should be computed only until January 31, 1977 (when the Loss and Subrogation Receipt was signed) instead of January 10, 1978 (when the actual transfer of the dollar deposit was made to the bank chosen by private respondent).^[20] On the other hand, petitioner charged that the trial court had seriously erred in finding that a trust relationship existed and that petitioner was liable for the interest on the dollar balance despite the execution of the Loss and Subrogation Receipt wherein petitioner was unconditionally and absolutely released from all its liabilities under the marine hull policies.^[21]

On October 25, 1990, the Court of Appeals upheld the judgment of the trial court, and confirmed that a trust had in fact been established and that petitioner became liable for interest on the dollar account in its capacity as trustee, not as insurer. As for the Loss and Subrogation document, the appellate Court ruled that petitioner gave undue importance thereto, and that the execution thereof did not bar the claims for accrued interest. By virtue of that document, petitioner was released only from its liabilities arising from the insurance policies, i.e., in respect of the principal amount representing the insurance proceeds, but not insofar as its liability for accrued interest was concerned, which arose from the violation of its duty as trustee -- i.e., its refusal to deposit the dollar balance in an interest-bearing account, under terms most advantageous to the beneficiaries. The respondent Court modified the trial court's judgment by ordering petitioner to pay said interest computed from April 21, 1976 up to January 10, 1978.

On December 17, 1990, the Court of Appeals denied the petitioner's motion for reconsideration.

Hence, this petition.

Assignment of Errors

Petitioner alleges that the Court of Appeals erred:

"I. xxx when it held that Rizal is liable to Transocean for supposed interest on the balance of US\$718,078.20 after admitting that Transocean and REPACOM had unconditionally and absolutely released and discharged Rizal from its total liabilities when they signed the loss and subrogation receipt xxx on January 31, 1977;

II. xxx in assuming that REPACOM and Transocean on one hand and Rizal, on the other, intended to create a trust;

III.xxx in not holding that Transocean had acted in palpable bad faith and with malice in filing this clearly unfounded civil action, and in not ordering Transocean to pay to Rizal moral and punitive damages xxx, plus attorney's fees and expenses of litigation xxx; and

IV.xxx in affirming the RTC decision which incorrectly awarded attorney's fees and costs of suit to Transocean."^[22]

The foregoing grounds are almost exactly the same grounds pleaded by petitioner before the respondent Court. At the heart of the matter is the question of whether the petitioner is liable for accrued interest on the dollar balance of the insurance proceeds. Reiterating the arguments it ventilated before the respondent appellate Court, petitioner continues to deny the existence of the trust, alleging that it never intended to enter into a fiduciary relationship with private respondent and REPACOM and that it held on to the dollar balance only as a means to protect its interest. Furthermore, petitioner insists that the Loss and Subrogation Receipt signed by the insureds released and absolved petitioner from all liabilities, including the claimed interest.

Briefly, the key issues in this case may be re-stated thus:

- I. The existence of a trust relationship;
- II. The significance of the Loss and Subrogation Receipt;
- III. Petitioner's liability for accrued interest on the dollar balance; and
- IV. Correctness of the award of attorney's fees.

The Court's Ruling

The shop-worn arguments recycled by petitioner are mainly devoid of merit. We searched for arguments that could constitute reversible errors committed by respondent Court, but found only one in the last issue.

First Issue: The Trust Relationship

Crucial in the resolution of this case is the determination of the role played by petitioner. Did it act merely as an insurer, or was it also a trustee? In ruling that petitioner was a trustee of the private respondent and REPACOM, the Court of Appeals ratiocinated thus: