EN BANC

[G.R. No. 223134, August 14, 2019]

VICENTE G. HENSON, JR., PETITIONER, VS. UCPB GENERAL INSURANCE CO., INC., RESPONDENT.

D E C I S I O N

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*[1] are the Decision[2] dated November 13, 2015 and the Resolution[3] dated February 26, 2016 of the Court of Appeals (CA) in CA-G.R. SP. No. 138147, which affirmed the Orders dated June 10, 2014[4] and September 22, 2014[5] of the Regional Trial Court of Makati City, Branch 138 (RTC) in Civil Case No. 10-885, ruling that the suit filed by respondent UCPB General Insurance Co., Inc. (respondent) has yet to prescribe, and resultantly, allowing the inclusion of petitioner Vicente G. Henson, Jr. (petitioner) as party-defendant to the same.

The Facts

From 1989 to 1999, National Arts Studio and Color Lab[6] (NASCL) leased the front portion of the ground floor of a two (2)-storey building located in Sto. Rosario Street, Angeles City, Pampanga, then owned by petitioner.[7] In 1999, NASCL gave up its initial lease and instead, leased the right front portion of the ground floor and the entire second floor of the said building, and made renovations with the building's piping assembly.[8] Meanwhile, Copylandia Office Systems Corp. (Copylandia) moved in to the ground floor.[9] On **May 9, 2006**, a water leak occurred in the building and damaged Copylandia's various equipment, causing injury to it in the amount of P2,062,640.00.[10] As the said equipment were insured with respondent,[11] Copylandia filed a claim with the former. Eventually, the two parties settled on **November 2, 2006** for the amount of P1,326,342.76.[12] This resulted in respondent's subrogation to the rights of Copylandia over all claims and demands arising from the said incident.[13] On **May 20, 2010**, respondent, as subrogee to Copylandia's rights, demanded from, *inter alia*, NASCL for the payment of the aforesaid claim, but to no avail.[14] Thus, it filed a complaint for damages[15] against NASCL, among others, before the RTC, docketed as Civil Case No. 10-885.[16]

Meanwhile, sometime in 2010, petitioner transferred the ownership of the building to Citrinne Holdings, Inc. (CHI), where he is a stockholder and the President.[17]

On **October 6, 2011**, respondent filed an Amended Complaint (Second Amendment),[18] impleading CHI as a party-defendant to the case, as the new owner of the building. However, on **April 21, 2014**, respondent filed a Motion to

Admit Attached Amended Complaint and Pre-Trial Brief (Third [A]mendment),[19] praying that petitioner, instead of CHI, be impleaded as a party-defendant to the case, considering that petitioner was then the owner of the building when the water leak damage incident happened.[20]

In the said complaints, respondent faults: (*a*) NASCL for its negligence in not properly maintaining in good order the comfort room facilities where the renovated building's piping assembly was utilized; and (*b*) CHI/petitioner, as the owner of the building, for neglecting to maintain the building's drainage system in good order and in tenantable condition. According to respondent, such negligence on their part directly resulted in substantial damage to Copylandia's various equipment amounting to P2,062,640.00.[21]

CHI opposed[22] the motion principally on the ground of prescription, arguing that since respondent's cause of action is based on *quasi-delict*, it must be brought within four (4) years from its accrual on May 9, 2006. As such, respondent is already barred from proceeding against CHI/petitioner, especially since the latter never received any prior demand from the former.[23]

The RTC Ruling

In an Order[24] dated June 10, 2014, the RTC ruled in respondent's favor and accordingly, ordered the: (*a*) dropping of CHI as party-defendant; and (*b*) joining of petitioner as one of the party-defendants in the case.[25]

The RTC pointed out that respondent's cause of action against the party-defendants, including petitioner, arose when it paid Copylandia's insurance claim and became subrogated to the rights and claims of the latter in connection with the water leak damage incident. Since respondent was merely enforcing its right of subrogation, the prescriptive period is ten (10) years based on an obligation created by law reckoned from the date of Copylandia's indemnification, or on November 2, 2006. As such, respondent's claim against petitioner has yet to prescribe when it sought to include the latter as party-defendant on April 21, 2014.[26]

CHI moved for reconsideration,[27] which was, however, denied in an Order[28] dated September 22, 2014. Aggrieved with his inclusion as party-defendant to the case, petitioner filed a petition for *certiorari*[29] under Rule 65 of the Rules of Court before the CA, docketed as CA-G.R. SP. No. 138147.

The CA Ruling

In a Decision[30] dated November 13, 2015, the CA affirmed the RTC ruling. It held that respondent's cause of action has not yet prescribed since it was not based on *quasi-delict*, which must be brought within four (4) years from the date of the occurrence of the negligent act. Rather, it is based on an obligation created by law, which has a longer prescriptive period of ten (10) years reckoned from its accrual. [31]

Undaunted, petitioner moved for reconsideration,[32] but the same was denied in a

Resolution[33] dated February 26, 2016; hence, this petition.

The Issue Before the Court

The issue for the Court's Resolution is whether or not respondent's claim has yet to prescribe.

The Court's Ruling

In ruling that respondent's claim against petitioner has yet to prescribe, the courts *a quo* cited *Vector Shipping Corporation v. American Home Assurance Company* (*Vector*).[34] In that case, therein petitioner Vector Shipping Corporation (Vector) entered into a contract of affreightment with Caltex Philippines, Inc. (Caltex) for the transport of the latter's goods. In connection therewith, Caltex insured its goods with therein respondent American Home Assurance Company (American Home). During transport on **December 20, 1987**, Vector's ship collided with another vessel and sank, resulting in the total loss of Caltex's goods. On **July 12, 1988**, American Home fully indemnified Caltex for its loss in the amount of P7,455,421.08, and thereafter, filed a suit against, *inter alia*, Vector for the recovery of such amount on **March 5, 1992**. Initially, the RTC ruled that American Home's claim against Vector has prescribed as it was based on a *quasi-delict* which should have been filed within four (4) years from the time Caltex suffered a total loss of its goods. However, the CA reversed the ruling, holding that the claim has yet to prescribe as it is based on a breach of Vector's contract of affreightment with Caltex, which has a longer prescriptive period often (10) years, again reckoned from the time of the loss.[35] The Court, in *Vector*, agreed with the CA that the claim has yet to prescribe, but qualified that "the present action was not upon a written contract, but upon an obligation created by law,"[36] *viz*.:

> We concur with the CA's ruling that respondent's action did not yet prescribe. The legal provision governing this case was not Article 1146 of the Civil Code, but Article 1144 of the Civil Code, which states:
>
> > Article 1144. The following actions must be brought within ten years from the time the cause of action accrues:
> >
> > (1) Upon a written contract;
> > (2) Upon an obligation created by law;
> > (3) Upon a judgment.
>
> We need to clarify, however, that we cannot adopt the CA's characterization of the cause of action as based on the contract of affreightment between Caltex and Vector, with the breach of contract being the failure of Vector to make the M/T Vector seaworthy, so as to make this action come under Article 1144 (1), supra. **Instead, we find and hold that the present action was not upon a written contract, but upon an obligation created by law.** Hence, it came under Article 1144 (2) of the Civil Code. This is because the subrogation of respondent to the rights of x x x the insured was by virtue of the express provision of law embodied in Article 2207 of the Civil Code, to wit:

> Article 2207. If the plaintiffs property has been insured, and he has received indemnity from the insurance company for the injury or loss arising out of the wrong or breach of contract complained of, **the insurance company shall be subrogated to the rights of the insured against the wrongdoer or the person who has violated the contract**. If the amount paid by the insurance company does not fully cover the injury or loss, the aggrieved party shall be entitled to recover the deficiency from the person causing the loss or injury.

The juridical situation arising under Article 2207 of the *Civil Code* is well explained in *Pan Malayan Insurance Corporation v.* [*CA*,[37]] as follows:

> Article 2207 of the Civil Code is founded on the well-settled principle of subrogation. If the insured property is destroyed or damaged through the fault or negligence of a party other than the assured, then the insurer, upon payment to the assured, will be subrogated to the rights of the assured to recover from the wrongdoer to the extent that the insurer has been obligated to pay. **Payment by the insurer to the assured operates as an equitable assignment to the former of all remedies which the latter may have against the third party whose negligence or wrongful act caused the loss. The right of subrogation is not dependent upon, nor does it grow out of, any privity of contract or upon written assignment of claim. It accrues simply upon payment of the insurance claim by the insurer** [*Compañia Maritima v. Insurance Company of North America*, 120 Phil. 998 (1964); *Fireman's Fund Insurance Company v. Jamila & Company, Inc.*, 162 Phil. 421 (1976)].

Verily, the contract of affreightment that Caltex and Vector entered into did not give rise to the legal obligation of Vector and Soriano to pay the demand for reimbursement by respondent because it concerned only the agreement for the transport of Caltex's petroleum cargo. As the Court has aptly put it in *Pan Malayan Insurance Corporation v.* [*CA*], supra, respondent's right of subrogation pursuant to Article 2207, supra, was "not dependent upon, nor d[id] it grow out of, any privity of contract or upon written assignment of claim [but] accrue[d] simply upon payment of the insurance claim by the insurer."

Considering that the cause of action accrued as of the time respondent actually indemnified Caltex in the amount of P7,455,421.08 on July 12, 1988, the action was not yet barred by the time of the filing of its complaint on March 5, 1992, which was well within the 10-year period prescribed by Article 1144 of the Civil Code.[38] (Emphases and underscoring supplied)

In *Vector*, the Court held that the insured's (*i.e.*, American Home's) claim against the debtor (*i.e.*, Vector) was premised on the right of subrogation pursuant to Article 2207 of the Civil Code and hence, an obligation created by law. While indeed

American Home was entitled to claim against Vector by virtue of its subrogation to the rights of the insured (*i.e.*, Caltex), the Court failed to discern that **no new obligation was created between American Home and Vector** for the reason that a subrogee only steps into the shoes of the subrogor; hence, **the subrogee-insurer only assumes the rights of the subrogor-insured based on the latter's original obligation with the debtor**.

To expound, subrogation's legal effects under Article 2207 of the Civil Code are primarily between the subrogee-insurer and the subrogor-insured: by virtue of the former's payment of indemnity to the latter, it is able to acquire, by operation of law, all rights of the subrogor-insured against the debtor. The debtor is a stranger to this juridical tie because it only remains bound by its original obligation to its creditor whose rights, however, have already been assumed by the subrogee. In *Vector*'s case, American Home was able to acquire *ipso jure* all the rights Caltex had against Vector under their contract of affreightment by virtue of its payment of indemnity. If at all, subrogation had the effect of obliging Caltex to respect this assumption of rights in that it must now recognize that its rights against the debtor, *i.e.*, Vector, had already been transferred to American Home as the subrogee-insurer. In other words, by operation of Article 2207 of the Civil Code, Caltex cannot deny American Home of its right to claim against Vector. However, the subrogation of American Home to Caltex's rights did not alter the original obligation between Caltex and Vector.

Accordingly, the Court, in *Vector*, erroneously concluded that "the cause of action [against Vector] accrued as of the time [American Home] actually indemnified Caltex in the amount of P7,455,421.08 on July 12, 1988."[39] Instead, it is the subrogation of rights between Caltex and American Home which arose from the time the latter paid the indemnity therefor. Meanwhile, the accrual of the cause of action that Caltex had against Vector did not change because, as mentioned, no new obligation was created as between them by reason of the subrogation of American Home. The cause of action against Vector therefore accrued at the time it breached its original obligation with Caltex whose right of action just so happened to have been assumed in the interim by American Home by virtue of subrogation. "[A] right of action is the right to presently enforce a cause of action, while a cause of action consists of the operative facts which give rise to such right of action."[40]

The foregoing application hews more with the fundamental principles of civil law, especially on the well-established doctrines on subrogation. Article 1303 of the Civil Code states that "[s]ubrogation transfers to the person subrogated the credit with all the rights thereto appertaining, either against the debtor or against third persons x x x." In *Loadstar Shipping Company, Inc. v. Malayan Insurance Company, Inc.*, [41] the Court had clearly explained that because of the nature of subrogation as a mode of "creditor-substitution," the rights of a subrogee cannot be superior to the rights possessed by a subrogor, *viz.*:

> **The rights of a subrogee cannot be superior to the rights possessed by a subrogor.** "**Subrogation is the substitution of one person in the place of another with reference to a lawful claim or right**, so that he who is substituted succeeds to the rights of the other in relation to a debt or claim, including its remedies or securities. The rights to which the subrogee succeeds are the same as, but not greater than,