

FIRST DIVISION

[G.R. No. 195728, April 19, 2016]

**PARAMOUNT LIFE & GENERAL INSURANCE CORPORATION,
PETITIONER, VS. CHERRY T. CASTRO AND GLENN ANTHONY T.
CASTRO, RESPONDENTS.**

[G.R. No. 211329]

**CHERRY T. CASTRO AND GLENN ANTHONY T. CASTRO,
PETITIONERS, VS. PARAMOUNT LIFE & GENERAL INSURANCE
CORPORATION, RESPONDENT.**

D E C I S I O N

SERENO, C.J.:

These Petitions for Review on Certiorari under Rule 45 of the Rules of Court originate from a Complaint^[1] for Declaration of Nullity of Individual Insurance Contract (Civil Case No. 09-599^[2]). The Complaint was instituted by Paramount Life & General Insurance Corporation (Paramount) against Cherry T. Castro and Glenn Anthony T. Castro (Castros) and filed before the Regional Trial Court, Makati City, Branch 61 (RTC), on 2 July 2009.

The Petition^[3] docketed as G.R. No. 195728 assails the Court of Appeals (CA) Decision^[4] dated 4 October 2010 and Resolution^[5] dated 21 February 2011 in CA-G.R. SP No. 113972. The CA remanded the case to the RTC for the admission of the Castros' Third-Party Complaint against the Philippine Postal Savings Bank, Incorporated (PPSBI).^[6]

On the other hand, the Petition^[7] docketed as G.R. No. 211329 assails the Resolution^[8] of the RTC in Civil Case No. 09-599 dated 11 February 2014. The trial court ordered that the Motion to Dismiss filed by the defendants (the Castros) be deemed expunged from the records, as they had previously been declared to be in default. Nonetheless, due to the protracted nature of the proceedings, the RTC allowed the plaintiff no more than two settings for the presentation of evidence.^[9]

These Petitions have been consolidated as they involve the same parties, arise from an identical set of facts, and raise interrelated issues.^[10] The Court resolves to dispose of these cases jointly.

Facts of the Case

In 2004, the PPSBI applied for and obtained insurance from Paramount,^[11] which accordingly issued Group Master Policy No. G-086^[12] effective 1 September 2004.

Under Section 20, Article IV of the said policy, "all death benefits shall be payable to the creditor, PPSBI, as its interest may appear."^[13]

Meanwhile, Virgilio J. Castro (Virgilio) - Cherry's husband and Glenn's father - obtained a housing loan from the PPSBI in the amount of P1.5 million.^[14] PPSBI required Virgilio to apply for a mortgage redemption insurance (MRI) from Paramount to cover the loan.^[15] In his application for the said insurance policy, Virgilio named Cherry and Glenn as beneficiaries.^[16] Paramount issued Certificate No. 041913 effective 12 March 2008 in his favor, subject to the terms and conditions of Group Master Policy No. G-086.^[17]

On 26 February 2009, Virgilio died of septic shock.^[18] Consequently, a claim was filed for death benefits under the individual insurance coverage issued under the group policy.^[19] Paramount however denied the claim, on the ground of the failure of Virgilio to disclose material information, or material concealment or misrepresentation.^[20] It said that when Virgilio submitted his insurance application on 12 March 2008, he made some material misrepresentations by answering "no" to questions on whether he had any adverse health history and whether he had sought medical advice or consultation concerning it. Paramount learned that in 2005, Virgilio had sought consultation in a private hospital after complaining of a dull pain in his lumbosacral area.^[21] Because of the alleged material concealment or misrepresentation, it declared Virgilio's individual insurance certificate (No. 041913) rescinded, null, and absolutely void from the very beginning.^[22]

On 2 July 2009, Paramount filed a Complaint^[23] with the RTC docketed as Civil Case No. 09-599. It prayed that Application and Insurance Certificate No. 041913 covering the individual insurance of Virgilio be declared null and void by reason of material concealment and misrepresentation. It also prayed for attorney's fees and exemplary damages.^[24]

In their Answer with Counterclaim,^[25] the Castros argued that Virgilio had not made any material misrepresentation. They contended that he had submitted the necessary evidence of insurability to the satisfaction of Paramount. They further argued that by approving Virgilio's application, Paramount was estopped from raising the supposed misrepresentations.^[26] The Castros made a counterclaim for actual and exemplary damages, as well as attorney's fees, for the alleged breach of contract by Paramount arising from its refusal to honor its obligation as insurer of the P1.5 million loan.^[27]

Statement of the Cases

G.R. No. 195728

On 29 October 2009, the Castros filed a motion^[28] to include the PPSBI as an indispensable party-defendant. The RTC thereafter denied the motion, reasoning that Paramount's Complaint could be fully resolved without the PPSBT's participation.^[29]

Consequently, the Castros filed a Motion for Leave to File a Third Party-Complaint and to Admit Attached Third-Party Complaint.^[30] They argued that due to the death of Virgilio, and by virtue of Group Policy No. G-086 in relation to Certificate No. 041913, PPSBI stepped into the shoes of Cherry and Glen under the principle of "indemnity, subrogation, or any other reliefs" found in Section 22, Rule 6 of the Rules of Court.^[31] This motion was likewise denied, on the ground that "what the defendants herein want is the introduction of a controversy that is entirely foreign and distinct from the main cause."^[32] The Castros' Motion for Reconsideration was again denied in a Resolution^[33] dated 19 April 2010.

On 13 May 2010, the Castros assailed the RTC Resolutions through a Petition for Certiorari filed with the CA.^[34] They likewise subsequently filed a Motion for Leave of Court to File and to Admit Attached Supplemental Petition for Review.^[35]

In its Decision^[36] dated 4 October 2010, the CA partially granted the Petition by allowing a third-party complaint to be filed against the PPSBI. It ruled that the Castros were freed from the obligation to pay the bank by virtue of subrogation, as the latter would collect the loan amount pursuant to the MRI issued by Paramount in Virgilio's favor.^[37] Paramount moved for reconsideration, but the CA denied the motion through a Resolution^[38] dated 21 February 2011.

On 11 April 2011, Paramount filed a Petition for Review under Rule 45, arguing that the case could be fully appreciated and resolved without involving the PPSBI as a third-party defendant in Civil Case No. 09-599.^[39]

G.R. No. 211329

Meanwhile, on 7 January 2014, the Castros filed a Motion to Dismiss^[40] the Complaint on the ground of failure to prosecute for an unreasonable length of time without justifiable cause and to present evidence *ex parte* pursuant to a court order. In a Resolution^[41] dated 11 February 2014, the RTC denied the motion. Owing to its previous Order dated 26 May 2010, which declared the Castros as in default for failure to attend the pretrial, the RTC treated the Motion to Dismiss as a mere scrap of paper and expunged it from the records.

The Castros come straight to this Court via a Petition for Review^[42] under Rule 45, assailing the RTC Resolution dated 11 February 2014.

The Issues

1. Whether the CA erred in remanding the case to the RTC for the admission of the Third-Party Complaint against PPSBI
2. Whether the RTC erred in denying the Motion to Dismiss filed by the Castros

The Court's Ruling

G.R. No. 195728

The Castros sought to implead the PPSBI as a third-party defendant in the nullification case instituted by Paramount. They theorized that by virtue of the death of Virgilio and the mandate of the group insurance policy in relation to his individual insurance policy, the PPSBI stepped into the shoes of Cherry and Glenn. According to the Castros, upon Virgilio's death, the obligation to pay the third-party defendant (PPSBI) passed on to Paramount by virtue of the Mortgage Redemption Insurance, [43] and not to them as Virgilio's heirs.

In *Great Pacific Life Assurance Corp. v. Court of Appeals*, [44] we defined mortgage redemption insurance as 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. 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. [45]

In this case, the PPSBI, as the mortgagee-bank, required Virgilio to obtain an MRI from Paramount to cover his housing loan. The issuance of the MRI, as evidenced by the Individual Insurance Certificate in Virgilio's favor, was derived from the group insurance policy issued by Paramount in favor of the PPSBI. Paramount undertook to pay the PPSBI "the benefits in accordance with the Insurance Schedule, upon receipt and approval of due proof that the member has incurred a loss for which benefits are payable." [46]

Paramount, in opposing the PPSBI's inclusion as a third-party defendant, reasons that it is only seeking the nullification of Virgilio's individual insurance certificate, and not the group insurance policy forged between it and the PPSBI. It concludes that the nullification action it filed has nothing to do with the PPSBI.

We disagree.

Should Paramount succeed in having the individual insurance certificate nullified, the PPSBI shall then proceed against the Castros. This would contradict the provisions of the group insurance policy that ensure the direct payment by the insurer to the bank:

Notwithstanding the provision on Section 22 "No Assignment" of Article IV Benefit Provisions, and in accordance with provisions of Section 6 "Amendment of this Policy" under Article II General Provisions of the Group Policy, it is hereby agreed that **all death benefits shall be payable to the Creditor, Philippine Postal Savings Bank** as its interest may appeal. [47] (Emphasis supplied.)

In allowing the inclusion of the PPSBI as a third-party defendant, the Court recognizes the inseparable interest of the bank (as policyholder of the group policy) in the validity of the individual insurance certificates issued by Paramount. The

PPSBI need not institute a separate case, considering that its cause of action is intimately related to that of Paramount as against the Castros. The soundness of admitting a third-party complaint hinges on causal connection between the claim of the plaintiff in his complaint and a claim for contribution, indemnity or other relief of the defendant against the third-party defendant.^[48] In this case, the Castros stand to incur a bad debt to the PPSBI - the exact event that is insured against by Group Master Policy No. G-086 - in the event that Paramount succeeds in nullifying Virgilio's Individual Insurance Certificate.

Paramount further argues that the propriety of a third-party complaint rests on whether the possible third-party defendant (in this case PPSBI) can raise the same defenses that the third-party plaintiffs (the Castros) have against the plaintiff. However, the Rules do not limit the third-party defendant's options to such a condition. Thus:

Section 13. *Answer to third (fourth, etc.)-party complaint.* — A third (fourth, etc.)-party defendant may allege in his answer his defenses, counterclaims or cross-claims, including such defenses that the third (fourth, etc.)-party plaintiff may have against the original plaintiffs claim. In proper cases, he may also assert a counterclaim against the original plaintiff in respect of the latter's claim against the third-party plaintiff.^[49]

As seen above, the same defenses the third-party plaintiff has against the original plaintiff are just some of the allegations a third-party defendant may raise in its answer. Section 13 even gives the third-party defendant the prerogative to raise a counterclaim against the original plaintiff in respect of the latter's original claim against the defendant/third-party plaintiff.

In *Firestone Tire & Rubber Co. of the Phil v. Tempongko*,^[50] We ruled that a defendant is permitted to bring in a third-party defendant to litigate a separate cause of action in respect of the plaintiffs claim against a third party in the original and principal case. The objective is to avoid circuitry of action and unnecessary proliferation of lawsuits, as well as to expeditiously dispose of the entire subject matter arising from one particular set of facts, in one litigation.

The CA correctly ruled that to admit the Castros' Third-Party Complaint, in which they can assert against the PPSBI an independent claim they would otherwise assert in another action, would prevent multiplicity of suits.^[51]

Considering also that the original case from which these present Petitions arose has not yet been resolved, the Court deems it proper to have all the parties air all their possible grievances in the original case still pending with the RTC.

Finally, the Court resolves the legal issues allegedly ignored by the CA, to wit: 1) whether legal grounds exist for the inhibition of Judge Ruiz (the presiding judge); and 2) whether the defendants were properly declared as in default for failure to appear at pretrial.

The first issue is unmeritorious. Counsel for the Castros postulates that since six rulings of the judge are being assailed for grave abuse of discretion, the judge should inhibit himself.^[52] According to counsel, no judge shall sit in any case if the