

FIRST DIVISION

[G.R. NO. 156956, October 09, 2006]

REPUBLIC OF THE PHILIPPINES, REPRESENTED BY EDUARDO T. MALINIS, IN HIS CAPACITY AS INSURANCE COMMISSIONER, PETITIONER, VS. DEL MONTE MOTORS, INC., RESPONDENT.

DECISION

PANGANIBAN, CJ:

The securities required by the Insurance Code to be deposited with the Insurance Commissioner are intended to answer for the claims of *all* policy holders in the event that the depositing insurance company becomes insolvent or otherwise unable to satisfy their claims. The security deposit must be ratably distributed among all the insured who are entitled to their respective shares; it cannot be garnished or levied upon by a single claimant, to the detriment of the others.

The Case

Before us is a Petition for Review^[1] under Rule 45 of the Rules of Court, seeking to reverse the January 16, 2003 Order^[2] of the Regional Court (RTC) of Quezon City (Branch 221) in Civil Case No. Q-97-30412. The RTC found Insurance Commissioner Eduardo T. Malinis guilty of indirect contempt for refusing to comply with the December 18, 2002 Resolution^[3] of the lower court. The January 16, 2003 Order states in full:

"On January 8, 2003, [respondent] filed a Motion to Cite Commissioner Eduardo T. Malinis of the Office of the Insurance Commission in Contempt of Court because of his failure and refusal to obey the lawful order of this court embodied in a Resolution dated December 18, 2002 directing him to allow the withdrawal of the security deposit of Capital Insurance and Surety Co. (CISCO) in the amount of P11,835,375.50 to be paid to Sheriff Manuel Paguyo in the satisfaction of the Notice of Garnishment pursuant to a Decision of this Court which has become final and executory.

"During the hearing of the Motion set last January 10, 2003, Commissioner Malinis or his counsel or his duly authorized representative failed to appear despite notice in utter disregard of the order of this Court. However, Commissioner Malinis filed on January 15, 2003 a written Comment reiterating the same grounds already passed upon and rejected by this Court. This Court finds no lawful justification or excuse for Commissioner Malinis' refusal to implement the lawful orders of this Court.

"Wherefore, premises considered and after due hearing, Commissioner

Eduardo T. Malinis is hereby declared guilty of Indirect Contempt of Court pursuant to Section 3 [of] Rule 71 of the 1997 Rules of Civil Procedure for willfully disobeying and refusing to implement and obey a lawful order of this Court."^[4]

The Facts

On January 15, 2002, the RTC rendered a Decision in Civil Case No. Q-97-30412, finding the defendants (Vilfran Liner, Inc., Hilaria Villegas and Maura Villegas) jointly and severally liable to pay Del Monte Motors, Inc., P11,835,375.50 representing the balance of Vilfran Liner's service contracts with respondent. The trial court further ordered the execution of the Decision against the counterbond posted by Vilfran Liner on June 10, 1997, and issued by Capital Insurance and Surety Co., Inc. (CISCO).

On April 18, 2002, CISCO opposed the Motion for Execution filed by respondent, claiming that the latter had no record or document regarding the alleged issuance of the counterbond; thus, the bond was not valid and enforceable.

On June 13, 2002, the RTC granted the Motion for Execution and issued the corresponding Writ. Armed with this Writ, Sheriff Manuel S. Paguyo proceeded to levy on the properties of CISCO. He also issued a Notice of Garnishment on several depository banks of the insurance company. Moreover, he served a similar notice on the Insurance Commission, so as to enforce the Writ on the security deposit filed by CISCO with the Commission in accordance with Section 203 of the Insurance Code.

On December 18, 2002, after a hearing on all the pending Motions, the RTC ruled that the Notice of Garnishment served by Sheriff Paguyo on the insurance commission was valid. The trial court added that the letter and spirit of the law made the security deposit answerable for contractual obligations incurred by CISCO under the insurance contracts the latter had entered into. The RTC resolved thus:

"Furthermore, the Commissioner of the Office of the Insurance Commission is hereby ordered to comply with its obligations under the Insurance Code by upholding the integrity and efficacy of bonds validly issued by duly accredited Bonding and Insurance Companies; and to safeguard the public interest by insuring the faithful performance to enforce contractual obligations under existing bonds. Accordingly said office is ordered to withdraw from the security deposit of Capital Insurance & Surety Company, Inc. the amount of P11,835.50 to be paid to Sheriff Manuel S. Paguyo in satisfaction of the Notice of Garnishment served on August 16, 2002."^[5]

On January 8, 2003, respondent moved to cite Insurance Commissioner Eduardo T. Malinis in contempt of court for his refusal to obey the December 18, 2002 Resolution of the trial court.

Ruling of the Trial Court

The RTC held Insurance Commissioner Malinis in contempt for his refusal to implement its Order. It explained that the commissioner had no legal justification for his refusal to allow the withdrawal of CISCO's security deposit.

Hence, this Petition.^[6]

Issues

Petitioner raises this sole issue for the Court's consideration:

"Whether or not the security deposit held by the Insurance Commissioner pursuant to Section 203 of the Insurance Code may be levied or garnished in favor of only one insured."^[7]

The Court's Ruling

The Petition is meritorious.

Preliminary Issue: Propriety of Review

Before discussing the principal issue, the Court will first dispose of the question of mootness.

Prior to the filing of the instant Petition, Insurance Commissioner Malinis sent the treasurer of the Philippines a letter dated March 26, 2003, stating that the former had no objection to the release of the security deposit to Del Monte Motors. Portions of the fund were consequently released to respondent in July, October, and December 2003. Thus, the issue arises: whether these circumstances render the case moot.

Petitioner, however, contends that the partial releases should not be construed as an abandonment of its stand that security deposits under Section 203 of the Insurance Code are exempt from levy and garnishment. The Republic claims that the releases were made pursuant to the commissioner's power of control over the fund, not to the lower court's Order of garnishment. Petitioner further invokes the jurisdiction of this Court to put to rest the principal issue of whether security deposits made with the Insurance Commission may be levied and garnished.

The issue is not totally moot. To stress, only a portion of respondent's claim was satisfied, and the Insurance Commission has required CISCO to replenish the latter's security deposit. Respondent, therefore, may one day decide to further garnish the security deposit, once replenished. Moreover, after the questioned Order of the lower court was issued, similar claims on the security deposits of various insurance companies have been made before the Insurance Commission. To set aside the resolution of the issue will only postpone a task that is certain to crop up in the future.

Besides, the business of insurance is imbued with public interest. It is subject to regulation by the State, with respect not only to the relations between the insurer and the insured, but also to the internal affairs of insurance companies.^[8] As this case is undeniably endowed with public interest and involves a matter of public policy, this Court shall not shirk from its duty to educate the bench and the bar by formulating guiding and controlling principles, precepts, doctrines and rules.^[9]

Principal Issue:
Exemption of Security Deposit
from Levy or Garnishment

Section 203 of the Insurance Code provides as follows:

"Sec. 203. Every domestic insurance company shall, to the extent of an amount equal in value to twenty-five *per centum* of the minimum paid-up capital required under section one hundred eighty-eight, invest its funds only in securities, satisfactory to the Commissioner, consisting of bonds or other evidences of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of government-owned or controlled corporations and entities, including the Central Bank of the Philippines: *Provided*, That such investments shall at all times be maintained free from any lien or encumbrance; and *Provided, further*, That such securities shall be deposited with and held by the Commissioner for the faithful performance by the depositing insurer of ***all its obligations under its insurance contracts***. The provisions of section one hundred ninety-two shall, so far as practicable, apply to the securities deposited under this section.

"Except as otherwise provided in this Code, **no judgment creditor or other claimant shall have the right to levy upon any of the securities of the insurer held on deposit pursuant to the requirement of the Commissioner.**" (Emphasis supplied)

Respondent notes that Section 203 does not provide for an absolute prohibition on the levy and garnishment of the security deposit. It contends that the law requires the deposit, precisely to ensure faithful performance of all the obligations of the depositing insurer under the latter's various insurance contracts. Hence, respondent claims that the security deposit should be answerable for the counterbond issued by CISCO.

The Court is not convinced. As worded, the law expressly and clearly states that the security deposit shall be (1) answerable for *all* the obligations of the depositing insurer under its insurance contracts; (2) *at all times* free from any liens or encumbrance; and (3) exempt from levy by any claimant.

To be sure, CISCO, though presently under conservatorship, has valid outstanding policies. Its policy holders have a right under the law to be equally protected by its security deposit. To allow the garnishment of that deposit would impair the fund by decreasing it to less than the percentage of paid-up capital that the law requires to be maintained. Further, this move would create, in favor of respondent, a preference of credit over the other policy holders and beneficiaries.

Our Insurance Code is patterned after that of California.^[10] Thus, the ruling of the state's Supreme Court on a similar concept as that of the security deposit is instructive. *Engwicht v. Pacific States Life Assurance Co.*^[11] held that the money required to be deposited by a mutual assessment insurance company with the state treasurer was "a trust fund to be ratably distributed amongst all the claimants entitled to share in it. Such a distribution cannot be had except in an action in the nature of a creditors' bill, upon the hearing of which, and with all the parties