Effects of War on Insurance Contracts

The West Coast Life Insurance Company had its home office in San Francisco, California, and a branch office in Manila. On August 1, 1940 it issued to Patricio H. Gubagaras and his wife a joint twenty-year endowment participating policy for ₱2.000.00. The last premium paid covered the period up to and including February 1, 1942. Because of the war, the Manila office was closed and no premium thereafter due was tendered. The wife died May 30, 1945. The company having refused to pay, the surviving spouse brought the matter to court. The main question, therefore, was whether non-payment of premiums due during the Japanese occupation of the Philippines annulled the policy or merely suspended it. The Supreme Court, following the decision in the leading cases of Constantino v. Asia Life Insurance Co.[1] and Peralta v. Asia Life Insurance Co.[2], held that since time is material and of the essence of an insurance contract, failure to pay the premium when the same fell due, resulted in absolute forfeiture of the insurance policy. (West Coast Life Insurance Co. v. Patricio Gubagaras, G. R. No. L-2810, Oct. 10, 1950).

As stated by the Supreme Court in its decision, the question raised in this case had been finally disposed of in the Asia Life Insurance Co. cases and in several others.[3] The issue raised in these various cases received a careful consideration from the Supreme Court, because the Court realized that the interest of thousands of policy holders and the obligations of many insurance companies operating in this country would be involved.

The Insurance Law of the Philippines was taken verbatim from the law of California.[4] In cases of deficiencies in the law, the Supreme Court had occasion to supplement it by general principles prevailing on the subject, principles which follow from the best considered American authorities.[5]

As defined in the Insurance Act (Act 2427), "insurance is a contract whereby one undertakes for a consideration to indemnify another against loss, damage, or liability arising from an unknown or contingent event."[6] It is a

[1] G.R. No. L-1669 (Aug. 31, 1950).
[2] G.R. No. L-1670 (Aug. 31, 1950).
[3] McGuire v. Manufacturer Life Insurance Co., G.R. No. L-3581 (Sept. 21, 1950); National Leather v. U.S. Life Insurance Co., G.R. No. L-2668 (Sept. 30, 1950); Hidalgo Vda. de Carrero v. Manufacturers Life Insurance Co., G.R. No. L-3032 (Oct. 10, 1950).
[4] Ang Giok Chip v. Springfield Fire and Marine Insurance Co., 56 Phil. 375
[5] Gercio v. Sun Life Insurance Co. of Canada, 48 Phil. 53.
[6] Sec. 2, Act 2427.

voluntary contract, and like other contracts, must be assented to by both parties, either in person or by their agents.[7] Being a voluntary contract, as long as the terms and conditions made therefor are not unreasonable as in violation of legal rules and requirements, the parties may make it on such terms and incorporate such provisions and conditions as they may see fit to adopt.[8] The conditions of contracts of insurance, when plainly expressed in a policy, are binding upon the parties and should be enforced by the courts, if the evidence brings the case clearly within their meaning and intent.[9] In insurance contracts, the presence of a forfeiture clause is not unusual. In the absence of any ambiguity, such clause although regarded with disfavor by the courts will nevertheless be enforced; nor will equity relieve against such "forfeiture" unless fraud or mistake be shown.[10] The principles of interpreting insurance contracts favorably to the insured is applicable only in cases of doubt, not when the intention of the policy is clear.[11] In the present case, the policy was clear. Fraud or mistake was not alleged nor proven. Therefore, the forfeiture clause was held valid and enforceable.

However, the plaintiffs in the several insurance cases cited, claimed that non-payment of premiums was not due to negligence or fault on their part, but was the consequence of war; therefore, it was excusable and should not cause the forfeiture of the policy. The Court, quoting Professor Vance on this point, cited the United States rule, which declares that the contract is not merely suspended, but is abrogated by reason of non-payment of premiums since the time of the payments is peculiarly of the essence of the contract. Another view is expressed in the New York rule which holds that war between States in which parties reside merely suspends the contract of life insurance, and that upon tender of all premiums due by the insured or his representative after the war has terminated, the contract revives and becomes fully operative. Our Supreme Court followed the United States rule, as expressed in the Statham case,[12] believing it to be logically and juridically sound. In the above mentioned case, the court took into consideration the nature of the business of life insurance, stating that forfeiture for non-payment is a necessary means of protecting the insurance companies from embarrassment and unless the forfeiture clause be enforceable, the business would be thrown into utter confusion. And besides, a decision holding otherwise would operate most unjustly against the insurer. There is little possibility for good risks to be revived, because instead of paying the premiums in arrears those in good health could easily procure new and cheaper policies; whereas, the bad risks, policies of the dead and the dying, have a great chance of being revived. Thus the parties do not stand on equal ground.

Such were the grounds relied upon by our highest tribunal in rendering its decision. It was aware of the fact that neither

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[7] De Lim v. Sun Life Assurance Co. of Canada, 41 Phil. 53.
[8] 44 CJS 929-930.
[9] Young v. Midland Insurance Co., 80 Phil. 617.
[10] Vance on the Law of Insurance, p. 292.
[11] San Francisco del Monte Pictures Inc. v. Glen Falls Insurance Co., 40 O.G. 4628.
[12] New York Life Insurance Co. v. Statham, 93 US 24.

party was at fault, the non-payment having been due to an inevitable event. Yet the loss must fall on one or the other and our Supreme Court decided that it should be borne by the insured. Forfeiture due to non-payment being essential to the life of the business, courts may protect insurance companies from embarrassment and loss. But just like any other business, insurance companies must bear certain risks, and enjoy or suffer now and then the rise and fall in profits, depending on the circumstances. War may be considered as one of these circumstances that bring about business adversities, the effect of which must be borne by the insurer, although innocent, and the likewise innocent insured should not bear the unfavorable consequence of forfeiture.

Viewing the decision from another point, the rule which is advantageous to the insurance business may serve as an encouragement especially to local insurance companies. Because of the serious problems confronting the world today and the possibility that another global war is in the making, people who desire to take up insurance contracts would be more inclined to do so with local insurance companies than with companies having their head offices a thousand miles away. As Vance states, the outbreak of war between the countries in which the insurer and the insured respectively reside renders it unlawful that premiums should be paid or any other business transacted between them. Notwithstanding this, the impossibility of lawfully paying the premiums falling due during the war will not excuse non-payment nor prevent forfeiture. Therefore, prospective policy holders would most possibly enter into insurance contracts with companies whose principal place of business is more accessible for the payment of premiums rather than one which, because of location, would entail expense and inconvenience on the part of the insured, if not render the payment totally impossible.

The rule which is clearly prejudicial to the insured whose policy has been forfeited has been laid down, and unless overruled by another decision, the insured has to bear it like the other effects which war has brought. As between two innocent parties, the Court raised its protecting hand in favor of the insurer stating that "if, as alleged, the consequences of war should not prejudice the insured, neither should they bear down on the insurer." But who would be in a better position to bear such consequences, the thousands of policy holders many of whom may be in financial straits, if not actually on the verge of poverty, or the insurance companies who by soliciting more subscribers may be able to recover their losses, sooner or later?

● TERESITA J. HERNANDEZ

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