



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

GOVERNMENT SERVICE G.R. No. 165585
INSURANCE SYSTEM,
Petitioner,

-versus -

PRUDENTIAL GUARANTEE
AND ASSURANCE, INC.,
DEVELOPMENT BANK OF
THE PHILIPPINES, and LAND
BANK OF THE PHILIPPINES,
Respondents.

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GOVERNMENT SERVICE G.R. No. 176982
INSURANCE SYSTEM,
Petitioner,

- versus -

PRUDENTIAL GUARANTEE
AND ASSURANCE, INC.,
Respondent.

Present:

CARPIO, J., Chairperson,
BRION,
DEL CASTILLO
PEREZ, and
PERLAS-BERNABE, JJ.

Promulgated:
NOV 20 2013

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DECISION

PERLAS-BERNABE, J.:

Assailed in these consolidated petitions for review on *certiorari*¹ are separate issuances of the Court of Appeals (CA) in relation to the complaint for sum of money filed by Prudential Guarantee and Assurance, Inc. (PGAI) against the Government Service Insurance System (GSIS) before the

¹ Rollo (G.R. No. 165585), pp. 3-35; rollo (G.R. No. 176982) pp. 9-29.

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Regional Trial Court of Makati City, Branch 149 (RTC), docketed as Civil Case No. 01-1634.

In particular, the petition in G.R. No. 165585 assails the Decision² dated May 26, 2004 and Resolution³ dated October 6, 2004 of the CA in CA-G.R. SP No. 69289 which affirmed the Order⁴ dated February 14, 2002, as well as the Order,⁵ Notices of Garnishment,⁶ and Writ of Execution,⁷ all dated February 19, 2002, issued by the RTC authorizing execution pending appeal.

On the other hand, the petition in G.R. No. 176982 assails the Decision⁸ dated October 30, 2006 and Resolution⁹ dated March 12, 2007 of the CA in CA-G.R. CV No. 73965 which dismissed the appeal filed by GSIS, affirming with modification the Order¹⁰ dated January 11, 2002 of the RTC rendering judgment on the pleadings.

The Facts

Sometime in March 1999, the National Electrification Administration (NEA) entered into a Memorandum of Agreement¹¹ (MOA) with GSIS insuring all real and personal properties mortgaged to it by electrical cooperatives under an Industrial All Risks Policy (IAR policy).¹² The total sum insured under the IAR policy was ₱16,731,141,166.80, out of which, 95% or ₱15,894,584,108.40 was reinsured by GSIS with PGAI for a period of one year or from March 5, 1999 to March 5, 2000.¹³ As reflected in Reinsurance Request Note No. 99-150¹⁴ (reinsurance cover) and the Reinsurance Binder¹⁵ dated April 21, 1999 (reinsurance binder), GSIS agreed to pay PGAI reinsurance premiums in the amount of ₱32,885,894.52 per quarter or a total of ₱131,543,578.08.¹⁶ While GSIS remitted to PGAI the reinsurance premiums for the first three quarters, it, however, failed to pay the fourth and last reinsurance premium due on December 5, 1999 despite demands. This prompted PGAI to file, on November 15, 2001, a

² *Rollo* (G.R. No. 165585), pp. 39-50. Penned by Associate Justice Godardo A. Jacinto, with Associate Justices Elvi John S. Asuncion and Rosmari D. Carandang, concurring.

³ *Id.* at 51-54. Penned by Associate Justice Godardo A. Jacinto, with Associate Justices Rosmari D. Carandang and Rosalinda Asuncion Vicente, concurring.

⁴ *CA rollo* (CA-G.R. SP No. 69289), pp. 166-168. Penned by Judge Zeus C. Abrogar.

⁵ *Rollo* (G.R. No. 165585), p. 60.

⁶ *CA rollo* (CA-G.R. SP No. 69289), pp. 161-164.

⁷ *Rollo* (G.R. No. 165585), pp. 61-62.

⁸ *Rollo* (G.R. No. 176982), pp. 143-161. Penned by Associate Justice Fernanda Lampas Peralta, with Associate Justices Bienvenido L. Reyes (now Associate Justice of the Supreme Court) and Myrna Dimaranan-Vidal, concurring.

⁹ *Id.* at 174.

¹⁰ *Id.* at 103-107.

¹¹ *Id.* at 42-45.

¹² *Rollo* (G.R. No. 165585), p. 40.

¹³ *Id.*

¹⁴ *Rollo* (G.R. No. 176982), p. 46.

¹⁵ *Rollo* (G.R. No. 165585), p. 40.

¹⁶ *Id.*

Complaint¹⁷ for sum of money (complaint) against GSIS before the RTC, docketed as Civil Case No. 01-1634.

In its complaint, PGAI alleged, among others, that: (a) after it had issued the IAR policy, it further reinsured the risks covered under the said reinsurance with reputable reinsurers worldwide such as Lloyds of London, Copenhagen Re, Cigna Singapore, CCR, Generali, and Arig;¹⁸ (b) the first three reinsurance premiums were paid to PGAI by GSIS and, in the same vein, NEA paid the first three reinsurance premiums due to GSIS;¹⁹ (c) GSIS failed to pay PGAI the fourth and last reinsurance premium due on December 5, 1999;²⁰ (d) the IAR policy remained in full force and effect for the entire insurable period and, in fact, the losses/damages on various risks reinsured by PGAI were paid and accordingly settled by it;²¹ (e) PGAI is under continuous pressure from its reinsurers in the international market to settle the matter;²² and (f) GSIS acknowledged its obligation to pay the last reinsurance premium as it, in turn, demanded from NEA the fourth and last reinsurance premium.²³

In its Answer,²⁴ GSIS admitted, among others, that: (a) its request for reinsurance cover was accepted by PGAI in a reinsurance binder;²⁵ (b) it remitted to PGAI the first three reinsurance premiums which were paid by NEA;²⁶ and (c) it failed to remit the fourth and last reinsurance premium to PGAI.²⁷ It, however, denied, *inter alia*, that: (a) it had acknowledged its obligation to pay the last quarter's reinsurance premium to PGAI;²⁸ and (b) the IAR policy remained in full force and effect for the entire insurable period of March 5, 1999 to March 5, 2000.²⁹ GSIS also proffered the following affirmative defenses: (a) the complaint states no cause of action against GSIS because the non-payment of the last reinsurance premium only renders the reinsurance contract ineffective, and does not give PGAI a right of action to collect;³⁰ (b) pursuant to the regulations issued by the Commission on Audit, GSIS is prohibited from advancing payments to PGAI occasioned by the failure of the principal insured, NEA, to pay the insurance premium;³¹ and (c) PGAI's cause of action lies against NEA since GSIS merely acted as a conduit.³² By way of counterclaim, GSIS prayed that

¹⁷ *Rollo* (G.R. No. 176982), pp. 31-41. Dated November 12, 2001.

¹⁸ *Id.* at 33.

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.* at 34.

²² *Id.* at 35.

²³ *Id.* at 36.

²⁴ *Id.* at 81-88. Dated December 12, 2001.

²⁵ *Id.* at 82.

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.* at 83.

²⁹ *Id.* at 82.

³⁰ *Id.* at 84.

³¹ *Id.* at 86.

³² *Id.* at 86-87.

PGAI be ordered to pay exemplary damages, including litigation expenses, and costs of suit.³³

On December 18, 2001, PGAI filed a Motion for Judgment on the Pleadings³⁴ averring that GSIS essentially admitted the material allegations of the complaint, such as: (a) the existence of the MOA between NEA and GSIS; (b) the existence of the reinsurance binder between GSIS and PGAI; (c) the remittance by GSIS to PGAI of the first three quarterly reinsurance premiums; and (d) the failure/refusal of GSIS to remit the fourth and last reinsurance premium.³⁵ Hence, PGAI prayed that the RTC render a judgment on the pleadings pursuant to Section 1, Rule 34 of the Rules of Court (Rules). GSIS opposed³⁶ the foregoing motion by reiterating the allegations and defenses in its Answer.

On January 11, 2002, the RTC issued an Order³⁷ (January 11, 2002 Order) granting PGAI's Motion for Judgment on the Pleadings. It observed that the admissions of GSIS that it paid the first three quarterly reinsurance premiums to PGAI affirmed the validity of the contract of reinsurance between them. As such, GSIS cannot now renege on its obligation to remit the last and remaining quarterly reinsurance premium.³⁸ It further pointed out that while it is true that the payment of the premium is a requisite for the validity of an insurance contract as provided under Section 77 of Presidential Decree No. (PD) 612,³⁹ otherwise known as "The Insurance Code," it was held in *Makati Tuscan Condominium Corp. v. CA*⁴⁰ (*Makati Tuscan*) that insurance policies are valid even if the premiums were paid in installments, as in this case.⁴¹ Thus, in view of the foregoing, the RTC ordered GSIS to pay PGAI the last quarter reinsurance premium in the sum of ₱32,885,894.52, including interests amounting to ₱6,519,515.91 as of July 31, 2000 until full payment, attorney's fees, and costs of suit.⁴² Dissatisfied, GSIS filed a notice of appeal.⁴³

Meanwhile, PGAI filed a Motion for Execution Pending Appeal⁴⁴ based on the following reasons: (a) GSIS' appeal was patently dilatory since it already acknowledged the validity of PGAI's claim;⁴⁵ (b) GSIS posted no valid defense as its Answer raised no genuine issues;⁴⁶ and (c) PGAI would

³³ Id. at 87.

³⁴ Id. at 90-93. Dated December 17, 2001.

³⁵ Id. at 90.

³⁶ Id. at 95-101. Opposition to Motion for Judgment on the Pleadings and Motion to Set Affirmative Defenses for Preliminary Hearing dated January 2, 2002.

³⁷ Id. at 103-107.

³⁸ Id. at 107.

³⁹ Entitled "ORDAINING AND INSTITUTING AN INSURANCE CODE OF THE PHILIPPINES."

⁴⁰ G.R. No. 95546, November 6, 1992, 215 SCRA 462.

⁴¹ *Rollo* (G.R. No. 176982), p. 107.

⁴² Id.

⁴³ *CA rollo* (CA-G.R. SP No. 69289), p. 112. Dated January 15, 2002.

⁴⁴ Id. at 113-120. Dated January 17, 2002.

⁴⁵ Id. at 114-115.

⁴⁶ Id. at 117-118.

suffer serious and irreparable injury as it may be blacklisted as a consequence of the non-payment of premiums due.⁴⁷ PGAI also manifested its willingness to post a sufficient surety bond to answer for any resulting damage to GSIS.⁴⁸ The latter opposed⁴⁹ the motion asserting that there lies no sufficient ground or urgency to justify execution pending appeal. It also claimed that all its funds and properties are exempted from execution citing Section 39 of Republic Act No. (RA) 8291,⁵⁰ otherwise known as “The Government Service Insurance System Act of 1997.”⁵¹

On February 14, 2002, the RTC issued an Order⁵² (February 14, 2002 Order) granting PGAI’s Motion for Execution Pending Appeal, conditioned on the posting of a bond. It further held that only the GSIS Social Insurance Fund is exempt from execution. Accordingly, PGAI duly posted a surety bond which the RTC approved through an Order⁵³ dated February 19, 2002, resulting to the issuance of a writ of execution⁵⁴ and notices of garnishment⁵⁵ (February 19, 2002 issuances), all of even date, against GSIS.

The CA Proceedings Antecedent to G.R. No. 165585

Aggrieved by the RTC’s February 14, 2002 Order, as well as the February 19, 2002 issuances, GSIS – without first filing a motion for reconsideration (from the said order of execution) or a sufficient *supersedeas* bond⁵⁶ – filed on February 26, 2002 a petition for *certiorari*⁵⁷ before the CA, docketed as **CA-G.R. SP No. 69289**, against the RTC and PGAI. It also impleaded in the said petition the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) as nominal parties so as to render them subject to the writs and processes of the CA.⁵⁸

In its petition, GSIS argued that: (a) none of the grounds proffered by PGAI justifies the issuance of a writ of execution pending appeal;⁵⁹ and (b) all funds and assets of GSIS are exempt from execution and levy in accordance with RA 8291.⁶⁰

⁴⁷ Id. at 119.

⁴⁸ Id.

⁴⁹ Id. at 123-133. Opposition to Motion for Execution Pending Appeal dated January 29, 2002.

⁵⁰ “AN ACT AMENDING PRESIDENTIAL DECREE NO. 1146, AS AMENDED, EXPANDING AND INCREASING THE COVERAGE AND BENEFITS OF THE GOVERNMENT SERVICE INSURANCE SYSTEM, INSTITUTING REFORMS THEREIN AND FOR OTHER PURPOSES.”

⁵¹ CA *rollo* (CA-G.R. SP No. 69289), p. 124.

⁵² Id. at 166-168.

⁵³ *Rollo* (G.R. No. 165585), p. 60.

⁵⁴ Id. at 61-62.

⁵⁵ CA *rollo* (CA-G.R. SP No. 69289), pp. 161-164.

⁵⁶ *Rollo* (G.R. No. 165585), p. 42.

⁵⁷ CA *rollo* (CA-G.R. SP No. 69289), pp. 4-26. Petition (with Urgent Motion for Issuance of TRO and Writ of Preliminary Injunction).

⁵⁸ Id. at 6.

⁵⁹ Id. at 13-17.

⁶⁰ Id. at 17-19.

On April 4, 2002, the CA issued a temporary restraining order (TRO)⁶¹ enjoining the garnishment of GSIS' funds with LBP and DBP. Nevertheless, since the TRO's effectivity lapsed, GSIS' funds with the LBP were eventually garnished.⁶²

On May 26, 2004, the CA rendered a Decision⁶³ dismissing GSIS' petition, upholding, among others, the validity of the execution pending appeal pursuant to the RTC's February 14, 2002 Order as well as the February 19, 2002 issuances. It found that the impending blacklisting of PGAI constitutes a good reason for allowing the execution pending appeal (also known as "discretionary execution") considering that the imposition of international sanctions on any single local insurance company puts in grave and immediate jeopardy not only the viability of that company but also the integrity of the entire local insurance system including that of the state insurance agency. It pointed out that the insurance business thrives on credibility which is maintained by honoring financial commitments.

On the claimed exemption of GSIS funds from execution, the CA held that such exemption only covers funds under the Social Insurance Fund which remains liable for the payment of benefits like retirement, disability and death compensation and not those covered under the General Insurance Fund, as in this case, which are meant for investment in the business of insurance and reinsurance.⁶⁴

GSIS' motion for reconsideration⁶⁵ was denied by the CA in a Resolution⁶⁶ dated October 6, 2004. Hence, the petition for review on *certiorari* in **G.R. No. 165585**.⁶⁷

The CA Proceedings Antecedent to G.R. No. 176982

Separately, GSIS also assailed the RTC's January 11, 2002 Order which granted PGAI's Motion for Judgment on the Pleadings through an appeal⁶⁸ filed on October 7, 2002, docketed as **CA G.R. CV No. 73965**.

GSIS averred that the RTC gravely erred in: (a) rendering judgment on the pleadings since it specifically denied the material allegations in PGAI's complaint; (b) ordering execution pending appeal since there are no

⁶¹ Id. at 172-173.

⁶² *Rollo* (G.R. No. 165585), p. 43.

⁶³ Id. at 39-50.

⁶⁴ Id. at 47-48.

⁶⁵ *CA rollo* (CA. G.R. SP No. 69289), pp. 332-346.

⁶⁶ *Rollo* (G.R. No. 165585), pp. 51-54.

⁶⁷ Id. at 3-35.

⁶⁸ *Rollo* (G.R. No. 176982), pp. 111-141. Brief for Defendant-Appellant dated October 4, 2002.

justifiable reasons for the same; and (c) effecting execution against funds and assets of GSIS given that RA 8291 exempts the same from levy, execution and garnishment.⁶⁹

For its part, PGAI maintained that: (a) the judgment on the pleadings was in order given that GSIS never disputed the facts as alleged in its complaint; (b) the discretionary execution was proper in view of the dilatory methods employed by GSIS in order to evade the payment of a valid obligation; and (c) the general insurance fund of GSIS, which was attached and garnished by the RTC, is not exempt from execution.⁷⁰

In a Decision⁷¹ dated October 30, 2006, the CA sustained the RTC's January 11, 2002 Order but deleted the awards of interest and attorney's fees for lack of factual and legal basis.⁷²

The CA ruled that judgment on the pleadings was proper since GSIS did not specifically deny the genuineness, due execution, and perfection of its reinsurance contract with PGAI.⁷³ In fact, PGAI even settled reinsurance claims during the covering period rendering the reinsurance contract not only perfected but partially executed as well.⁷⁴

Passing on the issue of the exemption from execution of GSIS funds, the CA, citing *Rubia v. GSIS*⁷⁵ (*Rubia*), held that the exemption provided for by RA 8291 is not absolute since it only pertains to the social security benefits of its members; thus, funds used by the GSIS for business investments and commercial ventures, as in this case, may be attached and garnished.⁷⁶

GSIS' motion for reconsideration⁷⁷ was denied by the CA in a Resolution⁷⁸ dated March 12, 2007. Hence, the present petition for review on *certiorari* in **G.R. No. 176982**.⁷⁹

The Issues Before the Court

In these consolidated petitions, the essential issues are the following: (a) in **G.R. No. 165585**, whether the CA erred in (1) upholding the RTC's

⁶⁹ Id. at 115-116.

⁷⁰ Id. at 289-290. See Brief for Plaintiff-Appellee dated November 19, 2002.

⁷¹ Id. at 143-161.

⁷² Id. at 160.

⁷³ Id. at 150.

⁷⁴ Id. at 152-153.

⁷⁵ G.R. No. 151439, June 21, 2004, 432 SCRA 529.

⁷⁶ *Rollo* (G.R. No. 176982), pp. 157-159.

⁷⁷ Id. at 163-172. Motion for Reconsideration dated November 21, 2006.

⁷⁸ Id. at 174.

⁷⁹ Id. at 9-29.

February 14, 2002 Order authorizing execution pending appeal, and (2) ruling that only the Social Insurance Fund and not the General Fund of the GSIS is exempt from garnishment; and (b) in **G.R. No. 176982**, whether the CA erred in sustaining the RTC's January 11, 2002 Order rendering judgment on the pleadings.

The Court's Ruling

The petitions are partly meritorious.

A. *Good reasons to allow execution pending appeal and the nature of the exemption under Section 39 of RA 8291.*

The execution of a judgment pending appeal is an exception to the general rule that only a final judgment may be executed.⁸⁰ In order to grant the same pursuant to Section 2,⁸¹ Rule 39 of the Rules, the following requisites must concur: (a) there must be a motion by the prevailing party with notice to the adverse party; (b) there must be a good reason for execution pending appeal; and (c) the good reason must be stated in a special order.⁸²

Good reasons call for the attendance of compelling circumstances warranting immediate execution for fear that favorable judgment may yield to an empty victory. In this regard, the Rules do not categorically and strictly define what constitutes "good reason," and hence, its presence or absence must be determined in view of the peculiar circumstances of each case. As a guide, jurisprudence dictates that the "good reason" yardstick imports a superior circumstance that will outweigh injury or damage to the adverse party.⁸³ Corollarily, the requirement of "good reason" does not necessarily entail unassailable and flawless basis but at the very least, an invocation thereof must be premised on solid footing.⁸⁴

⁸⁰ *Diesel Construction Company, Inc. v. Jollibee Foods Corp.*, 380 Phil. 813, 818 (2000).

⁸¹ Sec. 2. *Discretionary execution.* —

(a) *Execution of a judgment or final order pending appeal.* — On motion of the prevailing party with notice to the adverse party filed in the trial court while it has jurisdiction over the case and is in possession of either the original record or the record on appeal, as the case may be, at the time of the filing of such motion, said court may, in its discretion, order execution of a judgment or final order even before the expiration of the period to appeal.

After the trial court has lost jurisdiction the motion for execution pending appeal may be filed in the appellate court.

Discretionary execution may only issue upon good reasons to be stated in a special order after due hearing.

x x x x

⁸² *Archinet International, Inc. v. Becco Philippines, Inc.*, G.R. No. 183753, June 19, 2009, 590 SCRA 168, 180-181 (citations omitted).

⁸³ *Diesel Construction Company v. Jollibee Foods Corp.*, supra note 80, at 829.

⁸⁴ *National Power Corporation, v. Adiong*, A.M. No. RTJ-07-2060, July 27, 2011, 654 SCRA 391, 404.

In the case at bar, the RTC, as affirmed by the CA, granted PGAI's motion for execution pending appeal on the ground that the impending sanctions against it by foreign underwriters/reinsurers constitute good reasons therefor. It must, however, be observed that PGAI has not proffered any evidence to substantiate its claim, as it merely presented bare allegations thereon. It is hornbook doctrine that mere allegations do not constitute proof. As held in *Real v. Belo*,⁸⁵ "[i]t is basic in the rule of evidence that bare allegations, unsubstantiated by evidence, are not equivalent to proof. In short, mere allegations are not evidence."⁸⁶ Hence, without any sufficient basis to support the existence of its alleged "good reasons," it cannot be said that the second requisite to allow an execution pending appeal exists. To reiterate, the requirement of "good reasons" must be premised on solid footing so as to ensure that the "superior circumstance" which would impel immediate execution is not merely contrived or based on speculation. This, however, PGAI failed to demonstrate in the present case. In fine, the Court therefore holds that the CA's affirmance of the RTC's February 14, 2002 Order authorizing execution pending appeal, as well as the February 19, 2002 issuances related thereto, was improper.

Nevertheless, while an execution pending appeal should not lie in view of the above-discussed reasons, it must be noted that the funds and assets of GSIS may – after the resolution of the appeal and barring any provisional injunction thereto – be subject to execution, attachment, garnishment or levy since the exemption under Section 39 of RA 8291⁸⁷ does not operate to deny private entities from properly enforcing their

⁸⁵ 542 Phil. 109 (2007).

⁸⁶ Id. at 122.

⁸⁷ Sec. 39. *Exemption from Tax, Legal Process and Lien.* - It is hereby declared to be the policy of the State that the actuarial solvency of the funds of the GSIS shall be preserved and maintained at all times and that contribution rates necessary to sustain the benefits under this Act shall be kept as low as possible in order not to burden the members of the GSIS and their employers. Taxes imposed on the GSIS tend to impair the actuarial solvency of its funds and increase the contribution rate necessary to sustain the benefits of this Act. Accordingly, notwithstanding any laws to the contrary, the GSIS, its assets, revenues including all accruals thereto, and benefits paid, shall be exempt from all taxes, assessments, fees, charges, or duties of all kinds. These exemptions shall continue unless expressly and specifically revoked and any assessment against the GSIS as of the approval of this Act are hereby considered paid. Consequently, all laws, ordinances, regulations, issuances, opinions or jurisprudence contrary to or in derogation of this provision are hereby deemed repealed, superseded and rendered ineffective and without legal force and effect.

Moreover, these exemptions shall not be affected by subsequent laws to the contrary unless this section is expressly, specifically and categorically revoked or repealed by law and a provision is enacted to substitute or replace the exemption referred to herein as an essential factor to maintain or protect the solvency of the fund, notwithstanding and independently of the guaranty of the national government to secure such solvency or liability.

The funds and/or the properties referred to herein as well as the benefits, sums or monies corresponding to the benefits under this Act **shall be exempt from attachment, garnishment, execution, levy or other processes issued by the courts, quasi-judicial agencies or administrative bodies** including Commission on Audit (COA) disallowances and from all financial obligations of the members, including his pecuniary accountability arising from or caused or occasioned by his exercise or performance of his official functions or duties, or incurred relative to or in connection with his position or work except when his monetary liability, contractual or otherwise, is in favor of the GSIS. (Emphasis supplied)

contractual claims against GSIS.⁸⁸ This has been established in the case of *Rubia* wherein the Court held as follows:

[T]he declared policy of the State in **Section 39** of the GSIS Charter granting GSIS an exemption from tax, lien, attachment, levy, execution, and other legal processes should be read together with the grant of power to the GSIS to invest its “excess funds” under Section 36 of the same Act. Under Section 36, the GSIS is granted the ancillary power to invest in business and other ventures for the benefit of the employees, by using its excess funds for investment purposes. In the exercise of such function and power, the GSIS is allowed to assume a character similar to a private corporation. Thus, it may sue and be sued, as also explicitly granted by its charter. **Needless to say, where proper, under Section 36, the GSIS may be held liable for the contracts it has entered into in the course of its business investments.** For GSIS cannot claim a special immunity from liability in regard to its business ventures under said Section. **Nor can it deny contracting parties, in our view, the right of redress and the enforcement of a claim, particularly as it arises from a purely contractual relationship of a private character between an individual and the GSIS.**⁸⁹ (Emphases supplied and citations omitted)

Thus, the petition in **G.R. No. 165585** is partly granted.

B. Propriety of judgment on the pleadings.

Judgment on the pleadings is appropriate when an answer fails to tender an issue, or otherwise admits the material allegations of the adverse party’s pleading. The rule is stated in Section 1, Rule 34 of the Rules which reads as follows:

Sec. 1. *Judgment on the pleadings.* – Where an answer fails to tender an issue, or otherwise admits the material allegations of the adverse party’s pleading, the court may, on motion of that party, direct judgment on such pleading. x x x.

In this relation, jurisprudence dictates that an answer fails to tender an issue if it does not comply with the requirements of a specific denial as set out in Sections 8⁹⁰ and 10,⁹¹ Rule 8 of the Rules, resulting in the admission

⁸⁸ See *GSIS v. Regional Trial Court of Pasig City, Branch 71*, G.R. No. 175393 and G.R. No. 177731, December 18, 2009, 608 SCRA 552, 582-584.

⁸⁹ *Rubia v. GSIS*, supra note 75, at 541-543.

⁹⁰ Sec. 8. *How to contest such documents.* — When an action or defense is founded upon a written instrument, copied in or attached to the corresponding pleading as provided in the preceding Section, the genuineness and due execution of the instrument shall be deemed admitted unless the adverse party, under oath specifically denies them, and sets forth what he claims to be the facts; but the requirement of an oath does not apply when the adverse party does not appear to be a party to the instrument or when compliance with an order for an inspection of the original instrument is refused.

⁹¹ Sec. 10. *Specific denial.* — A defendant must specify each material allegation of fact the truth of which he does not admit and, whenever practicable, shall set forth the substance of the matters upon which he relies to support his denial. Where a defendant desires to deny only a part of an averment, he shall

of the material allegations of the adverse party's pleadings.⁹² As such, it is a form of judgment that is exclusively based on the submitted pleadings without the introduction of evidence as the factual issues remain uncontroverted.⁹³

In this case, records disclose that in its Answer, GSIS admitted the material allegations of PGAI's complaint warranting the grant of the relief prayed for. In particular, GSIS admitted that: (a) it made a request for reinsurance cover which PGAI accepted in a reinsurance binder effective for one year;⁹⁴ (b) it remitted only the first three reinsurance premium payments to PGAI;⁹⁵ (c) it failed to pay PGAI the fourth and final reinsurance premium installment;⁹⁶ and (d) it received demand letters from PGAI.⁹⁷ It also did not refute the allegation of PGAI that it settled reinsurance claims during the reinsured period. On the basis of these admissions, the Court finds that the CA did not err in affirming the propriety of a judgment on the pleadings.

GSIS' affirmative defense that the non-payment of the last reinsurance premium merely rendered the contract ineffective pursuant to Section 77⁹⁸ of PD 612 no longer involves any factual issue, but stands solely as a mere question of law in the light of the foregoing admissions hence allowing for a judgment on the pleadings. Besides, in the case of *Makati Tuscany*, the Court already ruled that the non-payment of subsequent installment premiums would not prevent the insurance contract from taking effect; that the parties intended to make the insurance contract valid and binding is evinced from the fact that the insured paid – and the insurer received – several reinsurance premiums due thereon, although the former refused to pay the remaining balance, *viz.*:

We hold that the subject policies are valid even if the premiums were paid on installments. The records clearly show that petitioner and private respondent intended subject insurance policies to be binding and effective notwithstanding the staggered payment of the premiums. The initial insurance contract entered into in 1982 was renewed in 1983, then in 1984. In those three (3) years, the insurer accepted all the installment payments. Such acceptance of payments speaks loudly of the insurer's intention to honor the policies it issued to petitioner. Certainly, basic

specify so much of it as is true and material and shall deny only the remainder. Where a defendant is without knowledge or information sufficient to form a belief as to the truth of a material averment made in the complaint, he shall so state, and this shall have the effect of a denial.

⁹² *Mongao v. Pryce Properties Corporation*, G.R. No. 156474, August 16, 2005, 467 SCRA 201, 209.

⁹³ See *Luzon Development Bank v. Conquilla*, G.R. No. 163338, September 21, 2005, 470 SCRA 533, 549.

⁹⁴ *Rollo* (G.R. No. 176982), p. 82. See also *CA rollo*, p. 45.

⁹⁵ *Id.*

⁹⁶ *Id.*

⁹⁷ *Id.* at 83.

⁹⁸ Sec. 77. An insurer is entitled to payment of the premium as soon as the thing insured is exposed to the peril insured against. Notwithstanding any agreement to the contrary, no policy or contract of insurance issued by an insurance company is valid and binding unless and until the premium thereof has been paid, except in the case of a life or an industrial life policy whenever the grace period provision applies.

principles of equity and fairness would not allow the insurer to continue collecting and accepting the premiums, although paid on installments, and later deny liability on the lame excuse that the premiums were not prepaid in full.

We therefore sustain the Court of Appeals. **We quote with approval the well-reasoned findings and conclusion of the appellate court** contained in its Resolution denying the motion to reconsider its Decision

While the import of Section 77 is that prepayment of premiums is strictly required as a condition to the validity of the contract, We are not prepared to rule that the request to make installment payments duly approved by the insurer, would prevent the entire contract of insurance from going into effect despite payment and acceptance of the initial premium or first installment. Section 78 of the Insurance Code in effect allows waiver by the insurer of the condition of prepayment by making an acknowledgment in the insurance policy of receipt of premium as conclusive evidence of payment so far as to make the policy binding despite the fact that premium is actually unpaid. **Section 77 merely precludes the parties from stipulating that the policy is valid even if premiums are not paid, but does not expressly prohibit an agreement granting credit extension, and such an agreement is not contrary to morals, good customs, public order or public policy** (De Leon, the Insurance Code, at p. 175). So is an understanding to allow insured to pay premiums in installments not so proscribed. **At the very least, both parties should be deemed in estoppel to question the arrangement they have voluntarily accepted.**

[I]n the case before Us, **petitioner paid the initial installment and thereafter made staggered payments resulting in full payment of the 1982 and 1983 insurance policies.** For the 1984 policy, **petitioner paid two (2) installments although it refused to pay the balance.**

It appearing from the peculiar circumstances that the parties actually intended to make three (3) insurance contracts valid, effective and binding, petitioner may not be allowed to renege on its obligation to pay the balance of the premium after the expiration of the whole term of the third policy (No. AH-CPP-9210651) in March 1985. Moreover, as correctly observed by the appellate court, where the risk is entire and the contract is indivisible, the insured is **not entitled to a refund of the premiums paid if the insurer was exposed to the risk insured for any period, however brief or momentary.**⁹⁹ (Emphases supplied and citation omitted)

Thus, owing to the identical complexion of *Makati Tuscan*y with the present case, -the Court upholds PGAI's right to be paid by GSIS the amount of the fourth and last reinsurance premium pursuant to the reinsurance contract between them. All told, the petition in **G.R. No. 176982** is denied.

WHEREFORE, the petition in **G.R. No. 165585** is **PARTLY GRANTED.** The Decision dated May 26, 2004 and Resolution dated October 6, 2004 of the Court of Appeals in CA-G.R. SP No. 69289 are **MODIFIED** only insofar as it upheld the validity of Prudential Guarantee and Assurance, Inc.'s execution pending appeal. In this respect, the Order

⁹⁹ *Makati Tuscan*y Condominium Corp. v. CA, supra note 40, at 467-468.

dated February 14, 2002 of the Regional Trial Court of Makati, Branch 149 as well as all other issuances related thereto are set aside.

On the other hand, the petition in **G.R. No. 176982** is **DENIED**. The Decision dated October 30, 2006 and Resolution dated March 12, 2007 in CA-G.R. CV No. 73965 are hereby **AFFIRMED**.

SO ORDERED.

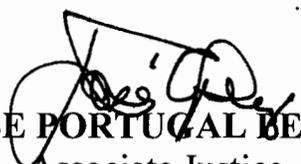

ESTELA M. PERLAS-BERNABE
Associate Justice

WE CONCUR:


ANTONIO T. CARPIO
Associate Justice
Chairperson

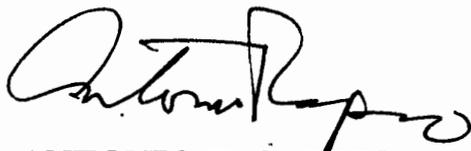

ARTURO D. BRION
Associate Justice


MARIANO C. DEL CASTILLO
Associate Justice


JOSE PORTUGAL BEREZ
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the cases were assigned to the writer of the opinion of the Court's Division.


ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the cases were assigned to the writer of the opinion of the Court's Division.



MARIA LOURDES P. A. SERENO
Chief Justice