Legal Subrogation in Insurance: Abandonment of the *Vector Shipping Corporation v. American Home Assurance Company* Ruling

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I. INTRODUCTION

Subrogation is defined as "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."[1] Essentially, it refers to full substitution, wherein the

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1. Lorenzo Shipping Corp. v. Chubb and Sons, Inc., 431 SCRA 266, 275 (2004) (citing BLACK'S LAW DICTIONARY (6th ed. 1990)).

party subrogated will be placed "in the shoes of the creditor[.]"[2] Thus, the party subrogated may utilize all the means and methods available to the creditor for the enforcement of payment.[3]

The principle of subrogation can be categorized into two, to wit: (1) legal and (2) conventional.[4] Legal subrogation refers to "an equitable doctrine and arises by operation of the law, without any agreement to that effect executed between the parties[.]"[5] Evidently, as legal subrogation is subrogation by operation of law, it is not presumed, except in the cases expressly provided by law.[6]

Significantly, Article 1302 of the Civil Code states —

> [Art.] 1302. It is presumed that there is legal subrogation:
>
> (1) When a creditor pays another creditor who is preferred, even without the debtor's knowledge;
>
> (2) When a third person, not interested in the obligation, pays with the express or tacit approval of the debtor; [and]
>
> (3) When, even without the knowledge of the debtor, a person interested in the fulfillment of the obligation pays, without prejudice to the effects of confusion as to the latter's share.[7]

Moreover, Article 2207 of the Civil Code provides —

> [Art.] 2207. If the plaintiff's 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

2. *Lorenzo Shipping Corp.*, 431 SCRA at 275 (citing Riemer v. Columbia Medical Plan, Inc., 747 A. 2d 677, 682 (Ct. App. 2000) (U.S.)).

3. *Id.*

4. Republic Flour Mills Corporation v. Forbes Factors, Inc., 659 SCRA 537, 542 (2011).

5. *Id.* (citing Financial Sec. Assur., Inc. v. Stephens, Inc., 500 F.3d 1276, 1287 (11th Cir. Ct. App. 2007) (U.S.)).

6. An Act to Ordain and Institute the Civil Code of the Philippines [CIVIL CODE], Republic Act No. 386, art. 1300 (1950).

7. *Id.* art. 1302.

> fully cover the injury or loss, the aggrieved party shall be entitled to recover the deficiency from the person causing the loss or injury.[8]

On the other hand, conventional subrogation "rests on a contract, arising where 'an agreement is made that the person paying the debt shall be subrogated to the rights and remedies of the original creditor.'" [9] In conventional subrogation, the consent of the original parties, i.e., the debtor and the original creditor, as well as the third person, i.e., the new creditor, is an indispensable requirement.[10] Distinctly, conventional subrogation must be clearly established in order that it may take effect.[11]

Subrogation, both legal and conventional, has the effect of transferring to the person subrogated the credit and all the rights and actions that could have been exercised by the former creditor either against the debtor or against third persons, be they guarantors or mortgagors.[12] Importantly, the effect of legal subrogation may not be modified by agreement, while the effect of conventional subrogation is subject to the stipulation of the parties.[13]

In the case of *Vector Shipping Corporation v. American Home Assurance Company* (Vector),[14] the Court tackled the concept of legal subrogation in insurance as contemplated in Article 2207 of the Civil Code.[15] Citing the case of *Pan Malayan Insurance Corporation v. Court of Appeals*,[16] the Court held that "[p]ayment 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."[17] Verily, the right of subrogation arises once the insurer settles the insurance claim.[18]

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8. *Id.* art. 2207 (emphasis supplied).
9. *Republic Flour Mills Corporation*, 659 SCRA at 542 (citing *Financial Sec. Assur., Inc.*, 500 F.3d 1276 at 1287).
10. CIVIL CODE, art. 1301.
11. *Id.* art. 1300.
12. *Id.* art. 1303.
13. *See* CIVIL CODE, art. 1303.
14. Vector Shipping Corporation v. American Home Assurance Company, 700 SCRA 385 (2013).
15. *Id.* at 393-94.
16. Pan Malayan Insurance Corporation v. Court of Appeals, 184 SCRA 54 (1990).
17. *Vector Shipping Corporation*, 700 SCRA at 394 (citing *Pan Malayan Insurance Corporation*, 184 SCRA at 58) (emphasis omitted).
18. *Id.*

The Court in *Vector* ruled that legal subrogation under Article 2207 of the Civil Code gives rise to a cause of action created by law.[19] Hence, pursuant to Article 1144 (2) of the Civil Code, the period of limitation is 10 years from the accrual of the action.[20] Accordingly, the subrogee-insurer has a period of 10 years within which to file an action against the wrongdoer.[21]

Notably, the *Vector* ruling was abandoned in the recent case of *Vicente G. Henson, Jr. v. UCPB General Insurance Co., Inc.* (Henson, Jr.).[22] In the case of *Henson, Jr.*, the Court held that the *Vector* doctrine failed to realize that no new obligation was actually created between the debtor and the subrogee-insurer, considering that a subrogee merely steps into the shoes of the subrogor.[23] Thus, "the subrogee-insurer only assumes the rights of the subrogor-insured based on the latter's original obligation with the debtor."[24] With respect to prescription, the subrogee-insurer is only allowed to utilize "the remaining period within which the [subrogor-]insured may file an action against the wrongdoer."[25]

II. CASE LAW

The Court in a line of cases has thoroughly discussed the concept of legal subrogation in the context of insurance, to wit: *Compañia Maritima v. Insurance Company of North America*,[26] *Fireman's Fund Insurance Company v. Jamila &*

19. *Vector Shipping Corporation*, 700 SCRA at 387.

20. CIVIL CODE, art. 1144 (2). "The following actions must be brought within ten years from the time the cause of action accrues:

...

(2) Upon an obligation created by law[.]" *Id.*

21. *Vector Shipping Corporation*, 700 SCRA at 393 (citing CIVIL CODE, art. 1144).

22. Vicente G. Henson, Jr. v. UCPB General Insurance Co., Inc., G.R. No. 223134, Aug. 14, 2019, *available at* http://sc.judiciary.gov.ph/8124 (last accessed Sep. 30, 2020).

23. *Id.* at 6.

24. *Id.*

25. *Id.* at 10.

26. Compañia Maritima v. Insurance Company of North America, 12 SCRA 213 (1964).

Company, Inc.,[27] *St. Paul Fire & Marine Insurance Co. v. Macondray & Co., Inc.*,[28] and *Pan Malayan Insurance Corporation*.

In the case of *Compañia Maritima*, Macleod and Company of the Philippines (Macleod) orally contracted the services of Compañia Maritima (petitioner), a shipping corporation, for the shipment of 2,645 bales of hemp.[29] The hemp was to be shipped from petitioner's Sasa private pier at Davao City to Manila and subsequently, transshipped to Boston, Massachusetts, United States (U.S.), onboard the S.S. Steel Navigator.[30] "This oral contract was later on confirmed [through] a formal and written booking[.]"[31] Subsequently, petitioner had its two lighters, i.e., LCT Nos. 1023 and 1025, sent to Macleod's wharf for the loading of the shipment.[32] The patrons of these lighters issued the corresponding carrier's receipts.[33] The carrier receipt designated for LCT No. 1025 partly stated —

> Received in behalf of S.S. Bowline Knot in good order and condition from MACLEOD AND COMPANY OF PHILIPPINES, Sasa, Davao, for [transshipment] at Manila onto S.S. Steel Navigator.
>
> FINAL DESTINATION: Boston.[34]

"[T]he two loaded barges left Macleod's wharf and proceeded to and moored at the government's marginal wharf ... [in anticipation of] the arrival of the S.S. Bowline Knot[.]"[35] The S.S. Bowline Knot belonged to petitioner, and the shipment was supposed to be loaded thereon.[36] However, LCT No. 1025 sank, resulting in the damage of 1,162 bales of hemp.[37] The shipment was insured with the Insurance Company of North America (respondent).[38]

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27. Fireman's Fund Insurance Company v. Jamila & Company, Inc., 70 SCRA 323 (1976).
28. St. Paul Fire & Marine Insurance Co. v. Macondray & Co., Inc. 70 SCRA 122 (1976).
29. *Compañia Maritima*, 12 SCRA at 214.
30. *Id.*
31. *Id.*
32. *Id.*
33. *Id.*
34. *Id.*
35. *Compañia Maritima*, 12 SCRA at 214.
36. *Id.*
37. *Id.*
38. *Id.* at 215.

Accordingly, respondent settled Macleod's claim for the loss it suffered.[39] The payment of the insurance claim "was noted down in a document which [served not only as] a receipt of the amount paid [but also as] a subrogation agreement between Macleod and [respondent,] wherein the former assigned to the latter its rights over the insured and damaged [shipment]."[40]

When brought before the Court, one of the issues raised was whether respondent could sue under its insurance contract as assignee of Macleod.[41] The Court held —

> There can also be no doubt that the insurance company can recover from the carrier as assignee of the owner of the cargo for the insurance amount it paid to the latter under the insurance contract. And this is so because since the cargo that was damaged was insured with respondent company and the latter paid the amount represented by the loss, it is but fair that it be given the right to recover from the party responsible for the loss. *The instant case, therefore, is not one between the insured and the insurer, but one between the shipper and the carrier, because the insurance company merely stepped into the shoes of the shipper. And since the shipper has a direct cause of action against the carrier on account of the damage of the cargo, no valid reason is seen why such action cannot be asserted or availed of by the insurance company as a subrogee of the shipper.* Nor can the carrier set up as a defense any defect in the insurance policy not only because it is not a privy to it but also because it cannot avoid its liability to the shipper under the contract of carriage which binds it to pay any loss that may be caused to the cargo involved therein.[42]

Concerning the case of *Fireman's Fund Insurance Company*, Jamila & Company, Inc. (respondent) entered into a contract with Firestone Tire and Rubber Company of the Philippines (Firestone).[43] Under such contract, the former was to supply security guards to the latter.[44] As a guarantee for respondent's obligations under such contract, First Quezon City Insurance Co., Inc. (First Quezon City) executed a bond.[45] Unfortunately, the properties of Firestone were lost because its employees connived with respondent's security guard.[46] As the insurer of Firestone, Fireman's Fund

39. *Id.*

40. *Id.*

41. *Compañia Maritima*, 12 SCRA at 216.

42. *Id.* at 219-20 (emphasis supplied).

43. *Fireman's Fund Insurance Company*, 70 SCRA at 324.

44. *Id.*

45. *Id.*

46. *Id.*

Insurance Company (petitioner) paid the amount of the loss.[47] Hence, petitioner was subrogated to Firestone's right to seek reimbursement for the payment of the insurance claim from respondent and its surety, First Quezon City.[48] As a defense, respondent emphasized that petitioner's complaint had no allegation that it had consented to the subrogation and thus, petitioner had no cause of action against it.[49]

The Court held that petitioner had a cause of action against respondent.[50] By reason of Article 2207 of the Civil Code, petitioner, as the insurer, "is entitled to go after the person or entity that violated its contractual commitment to answer for the loss insured against[.]"[51] The Court ruled —

> The trial court erred in applying to this case the rules on novation. The plaintiffs[,] in alleging in their complaint that Fireman's Fund 'became a party in interest in this case by virtue of a subrogation right given in its favor by' Firestone, were not relying on the novation by change of creditors as contemplated in articles 1291 and 1300 to 1303 of the *Civil Code* but rather on [*A*]*rticle* ***2207***.
>
> *Article* ***2207*** is a restatement of a settled principle of American jurisprudence. Subrogation has been referred to as the *doctrine of substitution*. It 'is an *arm of equity* that may guide or even force one to pay a debt for which an obligation was incurred but which was in whole or in part paid by another.'
>
> Subrogation is founded on *principles of justice and equity*, and its operation is governed by *principles of equity*. It rests on the principle that substantial justice should be attained regardless of form, that is, its basis is the doing of complete, essential, and perfect justice between all the parties without regard to form.
>
> Subrogation is a normal incident of *indemnity insurance*. Upon payment of the loss, the insurer is entitled to be subrogated *pro tanto* to any right of action which the insured may have against the third person whose negligence or wrongful act caused the loss.
>
> The right of subrogation is of the *highest equity*. The loss in the first instance is that of the insured but after reimbursement or compensation, it becomes the loss of the insurer.
>
> Although many policies including policies in the standard form, now provide for subrogation, and thus determine the rights of the insurer in this respect,

47. *Id.*

48. *Id.*

49. *Fireman's Fund Insurance Company*, 70 SCRA at 324-25.

50. *Id.* at 327.

51. *Id.*

> the equitable right of subrogation as the legal effect of payment inures to the insurer without any formal assignment or any express stipulation to that effect in the policy. Stated otherwise, *when the insurance company pays for the loss, such payment operates as an equitable assignment to the insurer of the property and all remedies which the insured may have for the recovery thereof. That right is not dependent upon, nor does it grow out of, any privity of contract, or upon written assignment of claim, and payment to the insured makes the insurer an assignee in equity*.[52]

As regards the case of *St. Paul Fire & Marine Insurance Co.*, Winthrop Products, Inc., of New York, New York, U.S. shipped aboard the SS "Tai Ping," which was owned and operated by Wilhelm Wilhelmsen, 218 cartons and drums of drugs and medicine.[53] The shipment was consigned to Winthrop Stearns, Inc., Manila, Philippines and insured by Winthrop Products, Inc. against loss and/or damage with the St. Paul Fire & Marine Insurance Company (petitioner).[54] When the SS "Tai Ping" arrived at the Port of Manila, the shipment was "discharged complete and in good order with the exception of one [ ] drum and several cartons which were in bad order condition[ ]" into the custody of Manila Port Service, the arrastre contractor for the Port of Manila.[55] Because Winthrop Stearns, Inc., Manila, Philippines did not receive the entire shipment and some cartons were received in bad order, it filed a claim for the value of the damaged drum and cartons with Wilhelm Wilhelmsen and Manila Port Service (respondents).[56] Respondents refused to pay.[57] Hence, Winthrop Stearns, Inc. filed an insurance claim with petitioner.[58] Petitioner paid the insurance claim and as subrogee of the rights of Winthrop Stearns, Inc., it instituted an action against respondents for recovery of the amount it paid.[59]

The issue brought before the Court concerned the liabilities of respondents with respect to the lost and/or damaged shipment.[60] Petitioner

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52. *Id.* at 327-28 (citing 83 C.J.S. 576, 678 n. 16; Aetna Life Ins. Co. v. Moses, 287 U.S. 530, 542 (1933); 44 AM. JUR. 2nd 745-46; Shambley v. Jobe-Blackley Plumbing and Heating Co., 264 N.C. 456 (1965) (U.S.)) (emphases supplied).

53. *St. Paul Fire & Marine Insurance Co.*, 70 SCRA at 123.

54. *Id.* at 123-24.

55. *Id.* at 124.

56. *Id.*

57. *Id.*

58. *Id.*

59. *St. Paul Fire & Marine Insurance Co.*, 70 SCRA at 124.

60. *Id.* at 125.

asserted that, "as subrogee of the consignee, it [was] entitled to recover from [respondents] the amount ... which it actually paid to the consignee[.]"[61] On the other hand, respondents claimed that their liability only corresponded to the cost, insurance, and freight (C.I.F.) value of the goods, in accordance with the contract of sea carriage stated in the bill of lading.[62]

According to the Court, a bill of lading sets out "the rights and liabilities of the parties [with respect] to the contract to carry."[63] Unless the shipper or owner declares a greater value, a stipulation limiting the common carrier's liability to the value of the goods as seen in the bill of lading is valid and binding.[64] Here, the liabilities of respondents as regards the loss and/or damages sustained by the shipment are expressly limited to the C.I.F. value of the goods as per contract of sea carriage expressed in the bill of lading, to wit —

> Whenever the value of the goods is less than [U.S.]$500 per package or other freight unit, their value in the calculation and adjustment of claims for which the Carrier may be liable shall for the purpose of avoiding uncertainties and difficulties in fixing value be deemed to be the *invoice value*, plus [*freight*] and *insurance* if paid, irrespective of whether any other value is greater or less.
>
> The *limitation of liability* and other provisions herein *shall inure not only to the benefit of the carrier*, its agents, servants and employees, *but also to the benefit of any independent contractor performing services* including stevedoring in connection with the goods covered hereunder.[65]

The Court ruled —

> *The plaintiff-appellant, as insurer, after paying the claim of the insured for damages under the insurance, is subrogated merely to the rights of the assured. As subrogee, it can recover only the amount that is recoverable by the latter. Since the right of the assured, in case of loss or damage to the goods, is limited or restricted by the provisions in the bill of lading, a suit by the insurer as subrogee necessarily is subject to like limitations and restrictions.*
>
> *The insurer after paying the claim of the insured for damages under the insurance is subrogated merely to the rights of the insured and therefore can necessarily recover only that to what was recoverable by the insured.*

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61. *Id.*

62. *Id.* at 126.

63. *Id.*

64. *Id.*

65. *St. Paul Fire & Marine Insurance Co.*, 70 SCRA at 127.

> *Upon payment for a total loss of goods insured, the insurance is only subrogated to such rights of action as the assured has against* [*third*] *persons who caused or are responsible for the loss. The right of action against another person, the equitable interest in which passes to the insurer, being only that which the assured has, it follows that if the assured has no such right of action, none passes to the insurer, and if the assured's right of action is limited or restricted by lawful contract between him and the person sought to be made responsible for the loss, a suit by the insurer, in the right of the assured, is subject to like limitations or restrictions.*[66]

With reference to the case of *Pan Malayan Insurance Corporation*, Pan Malayan Insurance Company (petitioner) instituted an action for damages against Erlinda Fabie and her driver (private respondents).[67] Petitioner essentially alleged "that it insured a Mitsubishi Colt Lancer car ... [which was] registered in the name of Canlubang Automotive Resources Corporation [(Canlubang)]."[68] Because of "the 'carelessness, recklessness, and imprudence' of the unknown driver of a pick-up ... , the insured car was hit and suffered damages[.]"[69] Petitioner paid for the repair of the insured car and thereby, was subrogated to the rights of Canlubang against private respondents.[70] It sought reimbursement for the cost of repair from private respondents.[71] However, the latter failed and refused to pay.[72]

As it reached the Court, the main issue concerned whether petitioner may "institute an action to recover the amount it had paid its assured in settlement of an insurance claim against private respondents as the parties allegedly responsible for the damage caused to the insured vehicle."[73]

The Court pronounced —

> PANMALAY alleged in its complaint that, pursuant to a motor vehicle insurance policy, it had indemnified CANLUBANG for the damage to the insured car resulting from a traffic accident allegedly caused by the negligence of the driver of private respondent, Erlinda Fabie. PANMALAY contended,

66. *Id.* at 128 (citing Phoenix Ins. Co. v. Erie & W. Transp. Co., 117 U.S. 312, 321 (1886)) (emphasis supplied).

67. *Pan Malayan Insurance Corporation*, 184 SCRA at 56.

68. *Id.*

69. *Id.*

70. *Id.*

71. *Id.*

72. *Id.*

73. *Pan Malayan Insurance Corporation*, 184 SCRA at 56.

> therefore, that its cause of action against private respondents was anchored upon *Article* **2207** *of the Civil Code*, which reads:
>
> If the plaintiff's 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 ... .
>
> PANMALAY is correct.
>
> *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.*
>
> There are a few recognized exceptions to this rule. For instance, if the assured by his own act releases the wrongdoer or third party liable for the loss or damage, from liability, the insurer's right of subrogation is defeated. Similarly, where the insurer pays the assured the value of the lost goods without notifying the carrier who has in good faith settled the assured's claim for loss, the settlement is binding on both the assured and the insurer, and the latter cannot bring an action against the carrier on his right of subrogation. And where the insurer pays the assured for a loss which is not a risk covered by the policy, thereby effecting 'voluntary payment[,'] the former has no right of subrogation against the third party liable for the loss.
>
> None of the exceptions are availing in the present case.[74]

74. *Id*. at 57-59 (citing CIVIL CODE, art. 2207; *Compañia Maritima*, 12 SCRA; *Fireman's Fund Insurance Company*, 70 SCRA; *Phoenix Ins. Co.*, 117 U.S.; Insurance Co. of North America v. Elgin, J. & E. Ry. Co., 229 F.2d 705 (1956) (U.S.); McCarthy v. Barber Steamship Lines, 45 Phil. 488 (1923); & Sveriges Angfartygs Assurans Forening v. Qua Chee Gan, 21 SCRA 12 (1967)) (emphasis supplied).

III. *VECTOR SHIPPING CORPORATION V. AMERICAN HOME ASSURANCE COMPANY*

A. The Case

Significantly, in the case of *Vector*, the Court tackled the issue of prescription when legal subrogation under Article 2207 of the Civil Code takes place.[75] Article 2207 of the Civil Code states —

> [Art.] 2207. If the plaintiff's 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*.[76]

The Court held in the case that "subrogation under Article 2207 of the Civil Code gives rise to a cause of action created by law."[77] It pronounced that "[f]or purposes of the law on the prescription of actions, the period of limitation is [10] years."[78] Thus, in an action of a subrogee-insurer against a tortfeasor, the former has a period of 10 years within which to file the same.[79]

Here, the motor tanker M/T Vector was operated by Vector Shipping Corporation (Vector) and registered under the name of Francisco Soriano (Soriano) (petitioners).[80] Caltex Philippines, Inc. (Caltex) entered into a contract of affreightment with Vector, wherein the latter would transport the former's petroleum cargo through the M/T Vector.[81] Caltex insured the shipment with American Home Assurance Company (respondent).[82]

On the evening of 20 December 1987, the M/T Vector and the M/V Doña Paz, a vessel owned and operated by Sulpicio Lines, Inc. (Sulpicio), figured into a collision.[83] As a result thereof, both vessels sank.[84] The entire

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75. *Vector Shipping Corporation*, 700 SCRA at 392.

76. CIVIL CODE, art. 2207 (emphasis supplied).

77. *Vector Shipping Corporation*, 700 SCRA at 387.

78. *Id.*

79. *Id.*

80. *Id.*

81. *Id.*

82. *Id.*

83. *Vector Shipping Corporation*, 700 SCRA at 387-88.

84. *Id.* at 388.

shipment of Caltex on board the M/T Vector perished.[85] Caltex filed an insurance claim with respondent, which the latter settled.[86] Thereafter, respondent filed a complaint against petitioners and Sulpicio seeking to recover the sum it paid to Caltex before the Regional Trial Court (RTC).[87]

In its Resolution dated 10 December 1997, the RTC dismissed the complaint, to wit —

> *This action is upon a quasi-delict and as such must be commenced within four* [ ] *years from the day they may be brought*. '*From the day* [*the action*] *may be brought' means from the day the quasi-delict occurred*.
>
> The tort complained of in this case occurred on 20 December 1987. The action arising therefrom would under the law prescribe, unless interrupted, on 20 December 1991.
>
> When the case was filed against defendants Vector Shipping and Francisco Soriano on 5 March 1992, the action not having been interrupted, had already prescribed.
>
> Under the same situation, the cross-claim of Sulpicio Lines against Vector Shipping and Francisco Soriano filed on 25 June 1992 had likewise prescribed.
>
> The letter of demand upon defendant Sulpicio Lines allegedly on 6 November 1991 did not interrupt the [tolling] of the prescriptive period since there is no evidence that it was actually received by the addressee. Under such circumstances, the action against Sulpicio Lines had likewise prescribed.
>
> Even assuming that such written extra-judicial demand was received and the prescriptive period interrupted in accordance with Art. 1155 [of the] Civil Code, it was only for the 10-day period within which Sulpicio Lines was required to settle its obligation. After that period lapsed, the prescriptive period started again. A new [four]-year period to file action was not created by the extra-judicial demand; it merely suspended and extended the period for 10 days, which in this case meant that the action should be commenced by 30 December 1991, rather than 20 December 1991.
>
> Thus, when the complaint against Sulpicio Lines was filed on 5 March 1992, the action had prescribed.
>
> *PREMISES CONSIDERED*, the complaint of American Home Assurance Company and the cross-claim of Sulpicio Lines against Vector Shipping Corporation and Francisco Soriano are DISMISSED.

85. *Id.*

86. *Id.*

87. *Id.*

Without costs.

SO ORDERED.[88]

On appeal, the Court of Appeals (CA) reversed —

The resolution of this case is primarily anchored on the determination of what kind of relationship existed between Caltex and M/V Doña Paz and between Caltex and M/T Vector for purposes of applying the laws on prescription. The Civil Code expressly provides for the number of years before the extinctive prescription [sets] in depending on the relationship that governs the parties.

...

After a careful perusal of the factual milieu and the evidence adduced by the parties, We are constrained to rule that the relationship that existed between Caltex and M/V Doña Paz is that of a quasi-delict while that between Caltex and M/T Vector is culpa contractual based on a Contract of Affreightment or a charter party.

...

On the other hand, the claim of appellant against M/T Vector is anchored on a breach of contract of affreightment. The appellant averred that M/T Vector committed such act for having misrepresented to the appellant that said vessel is seaworthy when in fact it is not. The contract was executed between Caltex and M/T Vector on [30 September] 1987 for the latter to transport thousands of barrels of different petroleum products. Under *Article* ***1144*** of the New Civil Code, actions based on written contract must be brought within 10 years from the time the right of action accrued. A passenger of a ship, or his heirs, can bring an action based on culpa contractual within a period of 10 years because the ticket issued for the transportation is by itself a complete written contract. Viewed with reference to the statute of limitations, an action against a carrier, whether of goods or of passengers, for injury resulting from a breach of contract for safe carriage is one on contract, and not in tort, and is therefore, in the absence of a specific statute relating to such actions governed by the statute fixing the period within which actions for breach of contract must be brought.

Considering that We have already concluded that the prescriptive periods for filing action against M/V Doña Paz based on *quasi delict* and M/T Vector based on *breach of contract* have not yet expired, are We in a position to decide the appeal on its merit.

We say yes.

88. *Id.* at 388-89 (citing CIVIL CODE, arts. 1145 & 1150 & Capuno v. Pepsi-Cola Bottling Co. of the Phil., 13 SCRA 658, 662 (1965)) (emphases supplied).

...

> *Article 2207* of the Civil Code on subrogation is explicit that if the plaintiff's 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 should be subrogated to the rights of the insured against the wrongdoer or the person who has violated the contract. Undoubtedly, the herein appellant has the rights of a subrogee to recover from M/T Vector what it has paid by way of indemnity to Caltex.
>
> WHEREFORE, foregoing premises considered, the decision dated [10 December] 1997 of the RTC of Makati City, Branch 145 is hereby REVERSED. Accordingly, the defendant-appellees Vector Shipping Corporation and Francisco Soriano are held jointly and severally liable to the plaintiff-appellant American Home Assurance Company for the payment of ₱7,455,421.08 as and by way of *actual damages*.
>
> SO ORDERED.[89]

Aggrieved, petitioners sought redress from the Court.[90] The principal issue was whether the action of respondent was already barred by prescription, considering it was only instituted on 5 March 1992.[91] Moreover, connected to the aforesaid issue involves "the proper determination of the nature of the cause of action as arising either from a quasi-delict or a breach of contract."[92]

B. The Ruling

The Court ruled that the petition lacked merit.[93] It upheld the ruling of the CA that respondent's action had not yet prescribed.[94] The applicable legal provision in this case was Article 1144 of the Civil Code, not Article 1146 of the Civil Code.[95] Article 1144 of the Civil Code provides —

> [Art.] 1144. The following actions must be brought within ten years from the time the cause of action accrues:

89. *Vector Shipping Corporation*, 700 SCRA at 389-91 (citing Peralta de Guerrero, et al. v. Madrigal Shipping Co., Inc., 106 Phil. 485, 487 (1959) & 53 C.J.S. 1002) (emphasis supplied).

90. *Vector Shipping Corporation*, 700 SCRA at 392.

91. *Id.*

92. *Id.*

93. *Id.*

94. *Id.*

95. *Id.* at 392-93 (citing CIVIL CODE, art. 1144) (emphasis supplied).

(1) Upon a written contract;

(2) *Upon an obligation created by law*; [and]

(3) Upon a judgment.[96]

Instead of adopting 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, as to make this action come under Article 1144 (1) of the Civil Code [sic]," the Court held —

> [*T*]*he 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 Caltex as the insured was by virtue of the express provision of law embodied in Article* **2207** *of the Civil Code* ... [.]
>
> ...
>
> The juridical situation arising under Article 2207 of the Civil Code is well explained in *Pan Malayan Insurance Corporation v. Court of Appeals*, 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* ... .
>
> 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. Court of Appeals*, [ ] respondent's right of subrogation pursuant to Article 2207, [ ] 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.'

96. *Vector Shipping Corporation*, 700 SCRA at 393 (citing CIVIL CODE, art. 1144).

> *Considering that the cause of action accrued as of the time respondent actually indemnified Caltex in the amount of* ₱*7,455,421.08 on* [*12 July*] *1988, the action was not yet barred by the time of the filing of its complaint on* [*5 March*] *1992, which was well within the 10-year period prescribed by Article 1144 of the Civil Code.*[97]

IV. ABANDONMENT OF THE *VECTOR* RULING IN *VICENTE G. HENSON, JR. V. UCPB GENERAL INSURANCE CO., INC.*

A. The Case

Importantly, the *Vector* ruling was overturned by the Court in the case of *Henson, Jr.* Here, the Court held that, in *Vector*, it was erroneously concluded that the cause of action of respondent, the subrogee-insurer, accrued as of the time it indemnified Caltex, the subrogor-insured.[98] The Court in *Henson, Jr.* pronounced that what actually arose upon the payment of respondent was the subrogation of rights between it and Caltex.[99] Evidently, "the accrual of the cause of action that Caltex had against Vector did not change because ... no new obligation was created as between them by reason of the subrogation of [respondent]."[100] Hence, as regards prescription, the subrogee-insurer is only allowed to make use of the remaining period within which the subrogor-insured may file an action against the tortfeasor.[101]

In the case of *Henson, Jr.*, from 1989 to 1999, National Arts Studio and Color Lab (NASCL) leased the front portion of the ground floor of a building, which was then owned by Vicente G. Henson, Jr. (petitioner).[102] In 1999, instead of continuing with its original lease, NASCL leased the right front portion of the ground floor and the entire second floor of the subject building.[103] Moreover, it renovated the building's piping assembly.[104] "Meanwhile, Copylandia Office Systems Corp. (Copylandia) moved in to the

97. *Vector Shipping Corporation*, 700 SCRA at 393-95 (citing *Pan Malayan Insurance Corporation*, 184 SCRA at 58) (emphases supplied).

98. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 7 (citing *Vector Shipping Corporation*, 700 SCRA at 395).

99. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 7.

100. *Id.*

101. *Id.* at 10.

102. *Id.* at 2.

103. *Id.*

104. *Id.*

ground floor."[105] On 9 May 2006, there was a water leak in the building that ended up damaging Copylandia's equipment.[106] The aforesaid equipment was insured with UCPB General Insurance Co., Inc. (respondent).[107] Hence, Copylandia filed an insurance claim with respondent.[108] Upon reaching a settlement, respondent was subrogated to the rights of Copylandia over all claims and demands arising from the water leak incident.[109]

Accordingly, on 20 May 2010, respondent, as the subrogee-insurer, demanded reimbursement from NASCL.[110] Unfortunately, respondent's demand was left unheeded.[111] Thus, respondent filed a complaint for damages against NASCL before the RTC.[112] Meanwhile, during the same year, "petitioner transferred the ownership of the [subject] building to Citrinne Holdings, Inc. (CHI), where he is a stockholder and the President."[113]

On 6 October 2011, respondent filed an amended complaint to implead CHI as a party-defendant.[114] Nevertheless, "on [21 April] 2014, respondent filed a Motion to Admit Attached Amended Complaint and Pre-Trial Brief ... praying that petitioner, instead of CHI, be impleaded as a party-defendant[.]"[115] This was due to the fact that petitioner was the owner of the subject building when the water leak incident occurred.[116]

In these complaints, respondent essentially alleged that NASCL was negligent "in not properly maintaining in good order the comfort room facilities where the renovated building's piping assembly was utilized"[117] and that CHI (petitioner), being the owner of the subject building, was negligent in failing "to maintain the building's drainage system in good order and in

105. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 2.

106. *Id.*

107. *Id.*

108. *Id.*

109. *Id.*

110. *Id.*

111. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 2.

112. *Id.*

113. *Id.*

114. *Id.* at 2-3.

115. *Id.* at 3.

116. *Id.*

117. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 3.

tenantable condition."[118] Hence, NASCL and CHI (petitioner) were liable for damages.[119]

In its Order dated 10 June 2014, the RTC ruled in favor of respondent.[120] Accordingly, it dropped CHI as a party-defendant and joined petitioner as a party-defendant.[121] The RTC pronounced —

> [R]espondent'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* [ ]**10**[ ] *years based on an obligation created by law reckoned from the date of Copylandia's indemnification, or on* [**2** *November*] **2006**. *As such, respondent's claim against petitioner has yet to prescribe when it sought to include the latter as party-defendant on* [**21** *April*] **2014**.[122]

Undaunted, CHI moved for reconsideration, which was denied.[123] "Aggrieved with his inclusion as [a] party-defendant ... , petitioner filed a petition for certiorari ... before the CA[.]"[124]

In its Decision dated 13 November 2015, the CA affirmed —

> [R]espondent's cause of action has not yet prescribed since it was not based on quasi-delict, which must be brought within four [ ] 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* [**10**] *years reckoned from its accrual.*[125]

Unsatisfied, petitioner moved for reconsideration, which was denied.[126] Hence, petitioner filed a petition for review on certiorari before the Court.[127]

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118. *Id.*

119. *Id.*

120. *Id.*

121. *Id.*

122. *Id.* (emphasis supplied).

123. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 4.

124. *Id.* (emphasis omitted).

125. *Id.* (emphasis supplied).

126. *Id.*

127. *Id.*

B. The Ruling

Notably, both the Order dated 10 June 2014 of the RTC and the Decision dated 13 November 2015 of the CA cited the case of *Vector* as basis for the ruling that the claim of respondent against petitioner had not yet prescribed.[128] In that case, the Court pronounced that the subrogee-insurer claim against the tortfeasor "was premised on the right of subrogation [under] Article 2207 of the Civil Code and [thus], an obligation created by law."[129] However, while it is true that the subrogee-insurer was entitled to claim against the tortfeasor pursuant to its subrogation to the rights of the subrogor-insured, the Court "*failed to discern that no new obligation was created* [between the subrogee-insurer and the tortfeasor] *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.*"[130]

The Court expounded —

> [S]ubrogation'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 ₱7,455,421.08 on 12 July 1988.' *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*

128. *Id.* at 2 & 4.

129. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 6 (citing *Vector Shipping Corporation*, 700 SCRA at 396).

130. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 6 (emphases supplied).

> *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.'[131]

The Court explained that the aforesaid is more in line "with the fundamental principles of civil law, [particularly those concerning] subrogation."[132] Article 1303 of the Civil Code provides that "[s]ubrogation transfers to the person subrogated the credit with all the rights thereto appertaining, either against the debtor or against third persons[.]"[133] To emphasize how the rights of a subrogee can never be superior to the rights of a subrogor, the Court quoted the case of *Loadstar Shipping Company, Inc. v. Malayan Insurance Company, Inc.*[134] in this wise —

> *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, those of the person for whom he is substituted, that is, he cannot acquire any claim, security or remedy the subrogor did not have. In other words, a subrogee cannot succeed to a right not possessed by the subrogor. *A subrogee in effect steps into the shoes of the insured and can recover only if the insured likewise could have recovered*.
>
> Consequently, an insurer indemnifies the insured based on the loss or injury the latter actually suffered from. If there is no loss or injury, then there is no obligation on the part of the insurer to indemnify the insured. *Should the insurer pay the insured and it turns out that indemnification is not due, or if due, the amount paid is excessive, the insurer takes the risk of not being able to seek recompense from the alleged wrongdoer. This is because the supposed subrogor did not possess the right to be indemnified and therefore, no right to collect is passed on to the subrogee.*[135]

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131. *Id*. at 6-7 (citing Philippine American General Insurance Co., Inc. v. Sweet Lines, Inc., 212 SCRA 194, 208 (1992)) (emphasis supplied).

132. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 7.

133. *Id*. (citing CIVIL CODE, art. 1303).

134. Loadstar Shipping Company, Incorporated v. Malayan Insurance Company, Incorporated, 742 SCRA 627 (2014).

135. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 7-8 (citing *Loadstar Shipping Company, Inc.*, 742 SCRA at 642-43 (2014)).

According to the Court, despite the wrong ruling in *Vector* as regards the applicable prescriptive period, the case of *Vector* correctly cited the case of *Pan Malayan Insurance Corporation* which held that "subrogation, under Article 2207 of the Civil Code, operates as an *equitable assignment* whereby 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.[136] The term *equitable assignment* is used because subrogation under Article 2207 of the Civil Code is "an assignment of credit without the need of consent[.]"[137] Verily, the right of subrogation is not contingent upon a privity of a contract or a written assignment of a claim.[138] It arises once the insurer pays the insurance claim.[139]

The Court clarified —

> *It is only to this extent that the equity aspect of subrogation must be understood. Indeed, subrogation under Article* 2207 *of the Civil Code allows the insurer, as the new creditor who assumes ipso jure the old creditor's rights without the need of any contract, to go after the debtor, but it does not mean that a new obligation is created between the debtor and the insurer.* Properly speaking, *the insurer, as the new creditor, remains bound by the limitations of the old creditor's claims against the debtor, which includes, among others, the aspect of prescription.* Hence, the debtor's right to invoke the defense of prescription cannot be circumvented by the mere expedient of successive payments of certain insurers that purport to create new obligations when, in fact, what remains subsisting is only the original obligation. Verily, equity should not be stretched to the prejudice of another.[140]

The Court further differentiated an assignment of credit from conventional and legal subrogation —

> In an assignment of credit, the *consent of the debtor* is not necessary in order that the assignment may fully produce legal effects (as notice to the debtor suffices); also, in assignment, no new contractual relation between the assignee/new creditor and debtor is created. On the other hand, in conventional subrogation, an agreement between all the parties concerning the substitution of the new creditor is necessary. *Meanwhile, legal subrogation*

136. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 8 (citing *Vector Shipping Corporation*, 700 SCRA at 394 (citing *Pan Malayan Insurance Corporation*, 184 SCRA at 58)).

137. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 8 (citing *Pan Malayan Insurance Corporation*, 184 SCRA at 58).

138. *Id.*

139. *Id.*

140. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 8 (emphases supplied).

> *produces the same effects as assignment and also, no new obligation is created between the subrogee/new creditor and debtor.*
>
> ...
>
> Unlike assignment, however, legal subrogation, to produce effects, does not need to be agreed upon by the subrogee and subrogor, unlike the need of an agreement between the assignee and assignor. As mentioned, '[l]egal subrogation is that which takes place without agreement but by operation of law because of certain acts,' as in the case of payment of the insurer under Article 2207 of the Civil Code.
>
> In sum, as legal subrogation is not equivalent to conventional subrogation, no new obligation is created by virtue of the insurer's payment under Article 2207 of the Civil Code; also, as legal subrogation is not the same as an assignment of credit (as the former is in fact, called an 'equitable assignment'), no privity of contract is needed to produce its legal effects. Accordingly, 'the insurer can take nothing by subrogation but the rights of the insured, and is subrogated only to such rights as the insured possesses. This principle has been frequently expressed in the form that the rights of the insurer against the wrongdoer cannot rise higher than the rights of the insured against such wrongdoer, since the insurer as subrogee, in contemplation of law, stands in the place of the insured and succeeds to whatever rights he may have in the matter. Therefore, any defense which a wrongdoer has against the insured is good against the insurer subrogated to the rights of the insured,' and this would clearly include the defense of prescription.141

On the basis of the abovementioned discussions, the Court categorically "*abandon*[*ed*] *the ruling in Vector that an insurer may file an action against the tortfeasor within* [ ]*10*[ ] *years from the time the insurer indemnifies the insured*."[142] The correct ruling is as follows —

> *Following the principles of subrogation, the insurer only steps into the shoes of the insured and therefore, for purposes of prescription, inherits only the remaining period within which the insured may file an action against the wrongdoer.* To be sure, the prescriptive period of the action that the insured may file against the wrongdoer begins at the time that the tort was committed and the loss/injury occurred against the insured. The indemnification of the insured by the insurer only allows it to be subrogated to the former's rights, and does not

141. *Id.* at 10 (citing Ledonio v. Capitol Development Corporation, 526 SCRA 379, 395 (2007) & Pasker v. Harleysville Mut. Ins. Co., 192 N.J. Super. 133, 137 (1893) (U.S.)).

142. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 10 (emphasis supplied).

> create a new reckoning point for the cause of action that the insured originally has against the wrongdoer.[143]

Nevertheless, the Court clarified that the "*abandonment of the Vector* [*ruling*] should be *prospective in application*[.]"[144]

C. Guidelines Relative to the Application of Vector and Henson, Jr.

To sum up, the Court laid out the following guidelines with respect to the application of the doctrines found in *Vector* and *Henson, Jr.* regarding the prescriptive period in cases where, on the basis of a *quasi-delict*, the insurer is subrogated to the rights of the insured against a tortfeasor:

> (1) For actions of such nature that *have already been filed and are currently pending* before the courts at the time of the finality of this Decision, the *rules on prescription prevailing at the time the action is filed* would apply. Particularly:
>
> (a) For cases that were filed by the subrogee-insurer *during the applicability of the Vector ruling* (*i.e.*, from *Vector*'s finality on [15 August] 2013 up until the finality of this Decision), the prescriptive period is [10] years from the time of payment by the insurer to the insured, which gave rise to an obligation created by law.
>
> *Rationale*: Since the *Vector* doctrine was the prevailing rule at this time, issues of prescription must be resolved under *Vector*'s parameters.
>
> (b) For cases that were filed by the subrogee-insurer *prior to the applicability of the Vector ruling* (*i.e.*, before [15 August] 2013), the prescriptive period is four [ ] years from the time the tort is committed against the insured by the wrongdoer.
>
> *Rationale*: The *Vector* doctrine, which espoused unique rules on legal subrogation and prescription as aforedescribed, was not yet a binding precedent at this time; hence, issues of prescription must be resolved under the rules prevailing before *Vector*, which, incidentally, are the basic principles of legal subrogation vis-à-vis prescription of actions based on *quasi-delicts*.
>
> (2) For actions of such nature that have *not yet* been filed at the time of the finality of this Decision:
>
> (a) For cases *where the tort was committed and the consequent loss/injury against the insured occurred prior to the finality of this Decision*, the subrogee-insurer is given a period *not exceeding four* [ ] *years from*

143. *Id.*

144. *Id.* at 11 (emphases supplied).

> *the time of the finality of this Decision* to file the action against the wrongdoer; *provided*, that in all instances, the total period to file such case shall not exceed [ ]10[ ] years from the time the insurer is subrogated to the rights of the insured.
>
> *Rationale*: The erroneous reckoning and running of the period of prescription pursuant to the *Vector* doctrine should not be taken against any and all persons relying thereon because the same were based on the then-prevailing interpretation and construction of the Court. Hence, subrogees-insurers, who are, effectively, only now notified of the abandonment of *Vector*, must be given the benefit of the present doctrine on subrogation as ruled in this Decision.
>
> However, the benefit of the additional period (i.e., not exceeding four [ ] years) under this Decision must not result in the insured being given a total of more than [10] years from the time the insurer is subrogated to the rights of the insured (i.e., the old prescriptive period in *Vector*); otherwise, the insurer would be able to unduly propagate its right to file the case beyond the [10]-year period accorded by *Vector* to the prejudice of the wrongdoer.
>
> (b) For cases *where the tort was committed and the consequent loss/injury against the insured occurred only upon or after the finality of this Decision*, the *Vector* doctrine would hold no application. The prescriptive period is four [ ] years from the time the tort is committed against the insured by the wrongdoer.
>
> *Rationale*: Since the cause of action for *quasi-delict* and the consequent subrogation of the insurer would arise after due notice of *Vector*'s abandonment, all persons would now be bound by the present doctrine on subrogation as ruled in this Decision.[145]

V. CONCLUSION

In the case of *Vector*, the Court pronounced that legal subrogation in insurance pursuant to "Article 2207 of the Civil Code gives rise to a cause of action created by law."[146] Thus, as provided for by Article 1144 (2) of the Civil Code, the period of limitation for the subrogee-insurer in an action based on a *quasi-delict* against the tortfeasor is 10 years from the accrual of the action.[147]

Notwithstanding, the Court abandoned the *Vector* ruling through the recent case of *Henson, Jr.*.[148] The Court in *Henson, Jr.* held that the *Vector*

145. *Id.* at 12-13.

146. *Vector Shipping Corporation*, 700 SCRA at 387 (emphasis omitted).

147. CIVIL CODE, art. 1142 (2).

148. *Vicente G. Henson, Jr.*, G.R. No. 223134, at 10.

doctrine was erroneous because no new obligation was actually created with respect to legal subrogation in insurance under Article 2207 of the Civil Code.[149] This is precisely because the subrogee-insurer merely steps into the shoes of the subrogor-insured.[150] In other words, while legal subrogation in insurance under Article 2207 of the Civil Code allows the subrogee-insurer, as the new creditor who assumes *ipso jure* the old creditor's rights, to seek recourse from the debtor, the subrogee-insurer only assumes the rights of the subrogor-insured based on the latter's original obligation with the debtor. Accordingly, the subrogee-insurer continues to be bound by the limitations of the subrogor-insured's claims against the debtor. Thus, with respect to prescription, the subrogee-insurer is only allowed to utilize the remaining period within which the subrogor-insured may file an action against the wrongdoer.

Notably, for the guidance of the bench and the bar, the Court has finally clarified and resolved the issue of the applicable prescriptive period when there is legal subrogation in insurance under Article 2207 of the Civil Code through the case of *Henson, Jr.*[151]

149. *Id.* at 7.

150. *Id.* at 6.

151. *Id.* at 12–13.