

****Title:**** Country Bankers Insurance Corporation v. Antonio Lagman

****Facts:**** Nelson Santos applied for a license with the National Food Authority (NFA) to store a significant quantity of palay, requiring a bond as per Act No. 3893 or the General Bonded Warehouse Act. Country Bankers Insurance Corporation, through Antonio Lagman, issued two bonds in 1989 in favor of Santos, with the NFA as the obligee. When Santos defaulted on a loan secured by his warehouse receipts, the bonded palay could not be located, leading Country Bankers to pay a substantial sum under the surety bonds. Country Bankers subsequently initiated a suit for reimbursement in the Regional Trial Court (RTC) of Manila, leading to a protracted legal battle that reached the Supreme Court.

****Procedural Posture:**** Country Bankers filed a complaint against Lagman and others at the RTC, leading to a decision against Lagman and co-defendants. Lagman appealed to the Court of Appeals, which reversed the RTC's decision. Disagreeing, Country Bankers filed a petition for review with the Supreme Court under Rule 45 of the 1997 Rules of Civil Procedure.

****Issues:****

1. Whether the Court of Appeals erred by concluding that the 1990 Bond superseded the 1989 Bonds notwithstanding their non-cancellation by the NFA.
2. Whether the Court of Appeals erred in prioritizing receipts for payment of premiums over the surety bond's express provisions regarding its term.

****Court's Decision:****

The Supreme Court granted Country Bankers' petition, setting aside the Court of Appeals' decision and reinstating the RTC's decision. The Court held that the 1989 Bonds were continuing obligations until explicitly cancelled by the NFA, as prescribed by both the bonds' terms and Section 177 of the Insurance Code. It rejected the argument that the 1990 Bond superseded the 1989 Bonds, primarily because the purported 1990 Bond lacked verifiable existence due to the inadmissibility of the photocopy presented. The Court emphasized that novation, as argued by Lagman, required a valid new contract, which was not established.

****Doctrine:**** The case reaffirmed the principle that a surety bond remains in force until cancelled by the obligee, as mandated by the Insurance Code, emphasizing that the non-payment of premiums does not automatically determine the bond's effectivity. It also highlighted the hierarchy of evidence, particularly the best evidence rule requiring the

original document when its contents are in question.

****Class Notes:****

- ****Surety Bonds:**** Obligations that remain in force until explicitly cancelled by the obligee or a competent authority.
- ****Best Evidence Rule:**** Original documents must be presented when their contents are questioned, except under specific circumstances.
- ****Novation:**** Requires a previous valid obligation, agreement to a new contract, extinguishment of the old contract, and a valid new contract.
- ****Solidary Liability in Indemnity Agreements:**** Co-signors in indemnity agreements can be held jointly and severally liable for the obligations stated therein.

****Historical Background:**** This case illustrates the intricacies of surety bonds within the framework of Philippine business licensing requirements, highlighting the legal considerations around bond continuity, the acceptance of indemnity agreements, and the application of the best evidence rule in the context of bond documentation. The dispute underscores the pivotal role of administrative actions (or inactions) by entities like the NFA in determining the obligations of bonding companies and their agents.