

### Title:

**\*\*Stronghold Insurance Company, Inc. vs. Tokyu Construction Company, Ltd.\*\***

### Facts:

Tokyu Construction Company, Ltd. (Tokyu) was awarded a contract for the construction of NAIA Terminal 2 and entered into a subcontract with G.A. Gabriel Enterprises for storm drainage and sewage treatment works. Provided with advance payment, Gabriel secured surety and performance bonds from Stronghold Insurance Company, Inc. (Stronghold) to guarantee repayment and performance. Gabriel defaulted, leading Tokyu to demand compliance from Stronghold under the bonds. Revision of the work scope and price was agreed upon, and new bonds were obtained from Tico Insurance Company, Inc. (Tico) when Stronghold's bonds neared expiration. Gabriel eventually abandoned the project, prompting Tokyu to file a complaint against Gabriel, Tico, and Stronghold with the Construction Industry Arbitration Commission (CIAC).

### Procedural Posture:

Following Gabriel's default, CIAC issued a decision holding Gabriel, Tico, and Stronghold liable for various claims. Both Stronghold and Tokyu appealed to the Court of Appeals (CA), leading to a modified decision. Stronghold then filed a petition for review with the Supreme Court, challenging the CA's decision.

### Issues:

1. Whether the CIAC had jurisdiction over insurance claims.
2. Validity and effect of the bonds after the modification of the subcontract agreement.
3. Expiration and replacement of the bonds by those issued by Tico.
4. Impact of non-notification of the subcontract agreement's modification on Stronghold's liability.

### Court's Decision:

The Supreme Court:

- Affirmed the CIAC's jurisdiction as stipulated by Executive Order No. 1008.
- Denied the petition, upholding CA's decision with modification. It clarified that Stronghold's liability under its bonds was not affected by the subcontract agreement's modifications or by the bonds issued by Tico. It was emphasized that a surety's obligation is direct and primary; thus, revision of the subcontract without notification did not absolve Stronghold from its obligations as a surety.

### Doctrine:

The liabilities of a surety are determined strictly by the terms of the contract of suretyship in relation to the principal contract. Modifications to the principal contract that do not make the obligation of the surety more onerous do not extinguish the surety's liability. A surety's obligation is direct, primary, and absolute, regardless of its direct interest in the obligations or benefits thereof.

### Class Notes:

- **Suretyship**: An agreement where the surety guarantees the principal's obligation to the obligee. Liability is direct, primary, and limited to the bond amount.
- Obligations under suretyship are not affected by modifications to the principal contract unless these make the surety's obligations more onerous.
- Jurisdiction of CIAC includes disputes connected with construction contracts, as stipulated in Executive Order No. 1008.
- **Novation** requires, among other things, that the obligee explicitly consent to the changes for it to affect the surety's obligations. Without making surety's responsibility more burdensome, modifications to the contract do not relieve the surety of its liability.

### Historical Background:

This case contextualizes the complexities involved in construction contracts, specifically within the Philippine legal framework governing suretyship and arbitration (CIAC under E.O. 1008). It illustrates the stringent nature of surety obligations and the procedural intricacies in asserting claims related to construction projects, highlighting the role of arbitration in resolving such disputes efficiently.