

### Title:

\*\*Gaisano Cagayan, Inc. vs. Insurance Company of North America\*\*

### Facts:

The legal journey began when the Insurance Company of North America filed a complaint against Gaisano Cagayan, Inc. following a fire incident. Both InterCapitol Marketing Corporation (IMC) and Levi Strauss (Phils.) Inc. (LSPI), having delivered ready-made clothing to Gaisano Cagayan, Inc., had their merchandise covered under fire insurance policies with book debt endorsements from the Insurance Company of North America. Following the fire destruction, IMC and LSPI claimed their insurance, which the Insurance Company of North America settled, thus being subrogated to their rights against Gaisano Cagayan, Inc. When demands for payment of the unpaid accounts were unmet by Gaisano, litigation ensued. The decision by the Regional Trial Court (RTC) dismissing the complaint in favor of Gaisano was reversed by the Court of Appeals (CA), which found Gaisano liable to pay the insurance coverage amounts. Gaisano's subsequent motion for reconsideration was denied, propelling the case to the Supreme Court on the grounds that the CA had erred in its interpretation of the insurance coverage and the nature of subrogation under Article 2207 of the Civil Code.

### Issues:

1. Whether the fire insurance policy covering book debts was essentially an insurance over credit.
2. Whether all risks over the subject goods had transferred to Gaisano upon delivery.
3. Whether there was automatic subrogation under Article 2207 of the Civil Code in favor of the respondent.

### Court's Decision:

The Supreme Court partially granted the petition. It held:

- The insurance covered the unpaid accounts of IMC and LSPI with Gaisano, not the destruction of goods by fire. The obligation of Gaisano was for payment, not tied to the loss by fire, and such obligation was not extinguished by the fortuitous event.
- Upon delivery of the goods, the risk of loss was transferred to Gaisano due to the stipulation that retained ownership with the vendors merely for securing payment, as per Article 1504 (1) of the Civil Code.
- There is rightful subrogation of the insurance company to the rights of IMC against Gaisano, based on the payment of the insurance claim and supported by Article 2207 of the Civil Code. However, sufficient evidence for subrogation to the rights of LSPI was lacking.

The case was remanded with modifications, deleting the order for Gaisano to pay the amount regarding LSPI due to insufficient evidence of subrogation rights.

### Doctrine:

1. Ownership retention clauses for securing payment do not affect the transfer of the risk of loss to the buyer upon delivery of goods.
2. An insurance company is subrogated to the rights of the insured against a third party upon payment of the claim, as stipulated in Article 2207 of the Civil Code.

### Class Notes:

- **\*\*Insurable Interest\*\***: Defined under Section 13 of the Insurance Code, it exists when a party stands to suffer a direct pecuniary loss from the destruction of the insured property.
- **\*\*Risk Transfer Upon Delivery\*\***: As per Article 1504 (1) of the Civil Code, the risk of loss transfers to the buyer upon delivery when ownership is retained by the seller merely to secure the payment.
- **\*\*Subrogation Principle\*\***: Article 2207 of the Civil Code allows an insurance company to step into the shoes of the insured, to claim against a third party responsible for the loss, upon paying the claim to the insured.

### Historical Background:

This case illustrates the application of insurance principles, particularly subrogation and insurable interest, within the context of commercial transactions involving the sale of goods and accompanies insurance policies with book debt endorsements. It reflects on the legal understanding of risk transfer, obligations arising from unique contractual stipulations, and the growing importance of insurance in securing transactions in the Philippine legal landscape.