

### ### Title

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

### ### Facts

The case revolves around a dispute between Gaisano Cagayan, Inc. (petitioner) and Insurance Company of North America (respondent) concerning claims under fire insurance policies with book debt endorsements. Intercapitol Marketing Corporation (IMC) and Levi Strauss (Phils.) Inc. (LSPI), the makers and distributors of Wrangler Blue Jeans respectively, had obtained from the respondent insurance policies covering book debts related to sales of ready-made clothing materials delivered to various customers, including the petitioner. The conditions of the policies required the insured to report unpaid accounts exceeding six months from the date of the covering invoice or delivery, whichever occurred first.

On February 25, 1991, a fire consumed the Gaisano Superstore Complex in Cagayan de Oro City, which included stocks of clothing from IMC and LSPI. Subsequently, IMC and LSPI claimed their insurance, and the respondent, having paid these claims, sought subrogation rights to recover the amounts from the petitioner. The petitioner countered, claiming the loss was due to a fortuitous event and denied liability for the goods lost in the fire.

The Regional Trial Court initially dismissed the respondent's complaint, attributing the loss to an accident and noting that IMC and LSPI retained ownership of the goods until full payment by the petitioner. The Court of Appeals, however, reversed this decision, holding the petitioner liable for the payment of the book debts to the respondent insurer.

### ### Issues

1. Whether the fire insurance policy on book debts covers the unpaid accounts of IMC and LSPI or the loss of goods delivered to the petitioner.
2. Whether the risk of loss of goods should be borne by the seller (IMC and LSPI) or the buyer (petitioner) under the Civil Code.
3. Whether the petitioner is liable for the payment of the book debts despite the destruction of goods in a fire.

### ### Court's Decision

The Supreme Court sided with the respondent on two primary issues but modified the appellate court's decision regarding LSPI's claim due to insufficient evidence.

1. **\*\*Insurance Coverage:\*\*** The Court clarified that the insurance policies clearly covered "book debts" related to the sold or delivered ready-made clothing materials, not the physical

goods themselves. Therefore, the policies intended to protect IMC and LSPI against the risk of the petitioner's non-payment, not against the loss of goods in a fire.

2. **Risk of Loss:** Under Article 1504 (1) of the Civil Code, the risk of loss passes to the buyer once delivery is made, even if ownership is retained by the seller as security for payment. Thus, the Court concluded that the petitioner bore the risk of loss.

3. **Liability for Payment:** The Court held the petitioner accountable for the book debts, asserting that an obligation to pay money persists despite the destruction of goods by a fortuitous event. This decision rested on the principle that "the genus of a thing never perishes" - in this case, the monetary obligation. However, the Court found no sufficient evidence to support the claim against the petitioner concerning LSPI's insurance claim, leading to the exclusion of this obligation from the appellate court's decision.

### ### Doctrine

The Supreme Court reiterated the principle that in insurance policy terms, the insurance specifically covering "book debts" pertains to the protection against the risk of non-payment by the debtor, not against the loss of the physical goods. Moreover, it underlined that an obligation to pay money is not extinguished by the fortuitous destruction of specific goods if the debt pertains to a generic obligation, reinforcing the adage "genus nunquam perit" (the genus of a thing never perishes).

### ### Class Notes

- **Insurance on Book Debts:** Protects the creditor against the debtor's non-payment, not physical loss of goods.
- **Risk of Loss (Article 1504 [1], Civil Code):** Transfers to the buyer upon delivery of goods, even if ownership is retained by the seller as security for payment.
- **Nature of Obligation:** An obligation to pay money persists despite the fortuitous destruction of the specific goods tied to the debt.
- **Subrogation Rights (Article 2207, Civil Code):** Upon paying the insurance claim, the insurer is entitled to be subrogated to the rights of the insured against any third party, including recovery of unpaid book debts.

### ### Historical Background

This case illustrates the nuanced application of insurance law and sales provisions of the Civil Code in the Philippines, particularly regarding book debts and the principle of subrogation. It delineates the boundaries of liability and risk allocation between sellers and

buyers, emphasizing the enduring nature of financial obligations over the fortuitous loss of goods.