

SECOND DIVISION

[G.R. No. 198588, July 11, 2012]

UNITED MERCHANTS CORPORATION, PETITIONER, VS. COUNTRY BANKERS INSURANCE CORPORATION, RESPONDENT.

D E C I S I O N

CARPIO, J.:

The Case

This Petition for Review on Certiorari^[1] seeks to reverse the Court of Appeals' Decision^[2] dated 16 June 2011 and its Resolution^[3] dated 8 September 2011 in CA-G.R. CV No. 85777. The Court of Appeals reversed the Decision^[4] of the Regional Trial Court (RTC) of Manila, Branch 3, and ruled that the claim on the Insurance Policy is void.

The Facts

The facts, as culled from the records, are as follows:

Petitioner United Merchants Corporation (UMC) is engaged in the business of buying, selling, and manufacturing Christmas lights. UMC leased a warehouse at 19-B Dagot Street, San Jose Subdivision, Barrio Manresa, Quezon City, where UMC assembled and stored its products.

On 6 September 1995, UMC's General Manager Alfredo Tan insured UMC's stocks in trade of Christmas lights against fire with defendant Country Bankers Insurance Corporation (CBIC) for P15,000,000.00. The Fire Insurance Policy No. F-HO/95-576 (Insurance Policy) and Fire Invoice No. 12959A, valid until 6 September 1996, states:

AMOUNT OF INSURANCE:

FIFTEEN
MILLION PESOS
PHILIPPINE
CURRENCY

x x x

PROPERTY INSURED: On stocks in trade only, consisting of Christmas Lights, the properties of the Assured or held by them in trust, on commissions, or on joint account with others and/or for which they are responsible in the event of loss and/or damage during the currency of this policy, whilst contained in the building of one lofty storey in height, constructed of concrete and/or hollow blocks with portion of galvanized

iron sheets, under galvanized iron roof, occupied as Christmas lights storage.^[5]

On 7 May 1996, UMC and CBIC executed Endorsement F/96-154 and Fire Invoice No. 16583A to form part of the Insurance Policy. Endorsement F/96-154 provides that UMC's stocks in trade were insured against additional perils, to wit: "typhoon, flood, ext. cover, and full earthquake." The sum insured was also increased to P50,000,000.00 effective 7 May 1996 to 10 January 1997. On 9 May 1996, CBIC issued Endorsement F/96-157 where the name of the assured was changed from Alfredo Tan to UMC.

On 3 July 1996, a fire gutted the warehouse rented by UMC. CBIC designated CRM Adjustment Corporation (CRM) to investigate and evaluate UMC's loss by reason of the fire. CBIC's reinsurer, Central Surety, likewise requested the National Bureau of Investigation (NBI) to conduct a parallel investigation. On 6 July 1996, UMC, through CRM, submitted to CBIC its Sworn Statement of Formal Claim, with proofs of its loss.

On 20 November 1996, UMC demanded for at least fifty percent (50%) payment of its claim from CBIC. On 25 February 1997, UMC received CBIC's letter, dated 10 January 1997, rejecting UMC's claim due to breach of Condition No. 15 of the Insurance Policy. Condition No. 15 states:

If the claim be in any respect fraudulent, or if any false declaration be made or used in support thereof, or if any fraudulent means or devices are used by the Insured or anyone acting in his behalf to obtain any benefit under this Policy; or if the loss or damage be occasioned by the willful act, or with the connivance of the Insured, all the benefits under this Policy shall be forfeited.^[6]

On 19 February 1998, UMC filed a Complaint^[7] against CBIC with the RTC of Manila. UMC anchored its insurance claim on the Insurance Policy, the Sworn Statement of Formal Claim earlier submitted, and the Certification dated 24 July 1996 made by Deputy Fire Chief/Senior Superintendent Bonifacio J. Garcia of the Bureau of Fire Protection. The Certification dated 24 July 1996 provides that:

This is to certify that according to available records of this office, on or about 6:10 P.M. of July 3, 1996, a fire broke out at United Merchants Corporation located at 19-B Dag[o]t Street, Brgy. Manresa, Quezon City incurring an estimated damage of Fifty-Five Million Pesos (P55,000,000.00) to the building and contents, while the reported insurance coverage amounted to Fifty Million Pesos (P50,000,000.00) with Country Bankers Insurance Corporation.

The Bureau further certifies that no evidence was gathered to prove that the establishment was willfully, feloniously and intentionally set on fire.

That the investigation of the fire incident is already closed being ACCIDENTAL in nature.^[8]

In its Answer with Compulsory Counterclaim^[9] dated 4 March 1998, CBIC admitted the issuance of the Insurance Policy to UMC but raised the following defenses: (1) that the Complaint states no cause of action; (2) that UMC's claim has already prescribed; and (3) that UMC's fire claim is tainted with fraud. CBIC alleged that UMC's claim was fraudulent because UMC's Statement of Inventory showed that it had no stocks in trade as of 31 December 1995, and that UMC's suspicious purchases for the year 1996 did not even amount to P25,000,000.00. UMC's GIS and Financial Reports further revealed that it had insufficient capital, which meant UMC could not afford the alleged P50,000,000.00 worth of stocks in trade.

In its Reply^[10] dated 20 March 1998, UMC denied violation of Condition No. 15 of the Insurance Policy. UMC claimed that it did not make any false declaration because the invoices were genuine and the Statement of Inventory was for internal revenue purposes only, not for its insurance claim.

During trial, UMC presented five witnesses. The first witness was Josie Eborá (Eborá), UMC's disbursing officer. Eborá testified that UMC's stocks in trade, at the time of the fire, consisted of: (1) raw materials for its Christmas lights; (2) Christmas lights already assembled; and (3) Christmas lights purchased from local suppliers. These stocks in trade were delivered from August 1995 to May 1996. She stated that Straight Cargo Commercial Forwarders delivered the imported materials to the warehouse, evidenced by delivery receipts. However, for the year 1996, UMC had no importations and only bought from its local suppliers. Eborá identified the suppliers as Fiber Technology Corporation from which UMC bought stocks worth P1,800,000.00 on 20 May 1996; Fuze Industries Manufacturer Philippines from which UMC bought stocks worth P19,500,000.00 from 20 January 1996 to 23 February 1996; and Tomco Commercial Press from which UMC bought several Christmas boxes. Eborá testified that all these deliveries were not yet paid. Eborá also presented UMC's Balance Sheet, Income Statement and Statement of Cash Flow. Per her testimony, UMC's purchases amounted to P608,986.00 in 1994; P827,670.00 in 1995; and P20,000,000.00 in 1996. Eborá also claimed that UMC had sales only from its fruits business but no sales from its Christmas lights for the year 1995.

The next witness, Annie Pabustan (Pabustan), testified that her company provided about 25 workers to assemble and pack Christmas lights for UMC from 28 March 1996 to 3 July 1996. The third witness, Metropolitan Bank and Trust Company (MBTC) Officer Cesar Martinez, stated that UMC opened letters of credit with MBTC for the year 1995 only. The fourth witness presented was Ernesto Luna (Luna), the delivery checker of Straight Commercial Cargo Forwarders. Luna affirmed the delivery of UMC's goods to its warehouse on 13 August 1995, 6 September 1995, 8 September 1995, 24 October 1995, 27 October 1995, 9 November 1995, and 19 December 1995. Lastly, CRM's adjuster Dominador Victorio testified that he inspected UMC's warehouse and prepared preliminary reports in this connection.

On the other hand, CBIC presented the claims manager Edgar Caguindagan

(Caguindagan), a Securities and Exchange Commission (SEC) representative, Atty. Ernesto Cabrera (Cabrera), and NBI Investigator Arnold Lazaro (Lazaro). Caguindagan testified that he inspected the burned warehouse on 5 July 1996, took pictures of it and referred the claim to an independent adjuster. The SEC representative's testimony was dispensed with, since the parties stipulated on the existence of certain documents, to wit: (1) UMC's GIS for 1994-1997; (2) UMC's Financial Report as of 31 December 1996; (3) SEC Certificate that UMC did not file GIS or Financial Reports for certain years; and (4) UMC's Statement of Inventory as of 31 December 1995 filed with the BIR.

Cabrera and Lazaro testified that they were hired by Central Surety to investigate UMC's claim. On 19 November 1996, they concluded that arson was committed based from their interview with *barangay* officials and the pictures showing that blackened surfaces were present at different parts of the warehouse. On cross-examination, Lazaro admitted that they did not conduct a forensic investigation of the warehouse, nor did they file a case for arson.

For rebuttal, UMC presented Rosalinda Batallones (Batallones), keeper of the documents of UCPB General Insurance, the insurer of Perfect Investment Company, Inc., the warehouse owner. When asked to bring documents related to the insurance of Perfect Investment Company, Inc., Batallones brought the papers of Perpetual Investment, Inc.

The Ruling of the Regional Trial Court

On 16 June 2005, the RTC of Manila, Branch 3, rendered a Decision in favor of UMC, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered in favor of plaintiff and ordering defendant to pay plaintiff:

- a) the sum of P43,930,230.00 as indemnity with interest thereon at 6% *per annum* from November 2003 until fully paid;
- b) the sum of P100,000.00 for exemplary damages;
- c) the sum of P100,000.00 for attorney's fees; and
- d) the costs of suit.

Defendant's counterclaim is denied for lack of merit.

SO ORDERED.^[11]

The RTC found no dispute as to UMC's fire insurance contract with CBIC. Thus, the RTC ruled for UMC's entitlement to the insurance proceeds, as follows:

Fraud is never presumed but must be proved by clear and convincing evidence. (see *Alonso v. Cebu Country Club*, 417 SCRA 115 [2003]) Defendant failed to establish by clear and convincing evidence that the documents submitted to the SEC and BIR were true. It is common business practice for corporations to have 2 sets of reports/statements

for tax purposes. The stipulated documents of plaintiff (Exhs. 2 – 8) may not have been accurate.

The conflicting findings of defendant's adjuster, CRM Adjustment [with stress] and that made by Atty. Cabrera & Mr. Lazaro for Central Surety shall be resolved in favor of the former. Definitely the former's finding is more credible as it was made soon after the fire while that of the latter was done 4 months later. Certainly it would be a different situation as the site was no longer the same after the clearing up operation which is normal after a fire incident. The Christmas lights and parts could have been swept away. Hence the finding of the latter appears to be speculative to benefit the reinsurer and which defendant wants to adopt to avoid liability.

The CRM Adjustment report found no arson and confirmed substantial stocks in the burned warehouse (Exhs. QQQ) [underscoring supplied]. This is bolstered by the BFP certification that there was no proof of arson and the fire was accidental (Exhs. PPP). The certification by a government agency like BFP is presumed to be a regular performance of official duty. "Absent convincing evidence to the contrary, the presumption of regularity in the performance of official functions has to be upheld." (People vs. Lapira, 255 SCRA 85) The report of UCPB General Insurance's adjuster also found no arson so that the burned warehouse owner PIC was indemnified.^[12]

Hence, CBIC filed an appeal with the Court of Appeals (CA).

The Ruling of the Court of Appeals

On 16 June 2011, the CA promulgated its Decision in favor of CBIC. The dispositive portion of the Decision reads:

WHEREFORE, in view of the foregoing premises, the instant appeal is GRANTED and the Decision of the Regional Trial Court, of the National Judicial Capital Region, Branch 3 of the City of Manila dated June 16, 2005 in Civil Case No. 98-87370 is REVERSED and SET ASIDE. The plaintiff-appellee's claim upon its insurance policy is deemed avoided.

SO ORDERED.^[13]

The CA ruled that UMC's claim under the Insurance Policy is void. The CA found that the fire was intentional in origin, considering the array of evidence submitted by CBIC, particularly the pictures taken and the reports of Cabrera and Lazaro, as opposed to UMC's failure to explain the details of the alleged fire accident. In addition, it found that UMC's claim was overvalued through fraudulent transactions. The CA ruled:

We have meticulously gone over the entirety of the evidence submitted by the parties and have come up with a conclusion that the claim of the