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# **Notice of the Office of the Leading Group for the Pilot Reform of the Construction Project Review and Approval System in Guangzhou on the Issuance of the Work Plan on the Construction Quality and Safety Insurance Pilot Program for Small and Low-Risk Projects (1.0) (Trial)**

To all parties concerned:

Under the requirements of *the Notice of the Office of the Leading Group for the Pilot Reform of the Construction Project Review and Approval System in Guangzhou on the Issuance of the Guangzhou Pilot Work Plan for the “Checklist System + Notification & Commitment System” Reform of Construction Project Review and Approval* (Sui Jian Gai [2020] No. 14), and in conjunction with the guiding principles of *the Notice of the General Office of the Ministry of Housing and Urban-Rural Development on Piloting the Government Purchase of Supervision and Inspection Services* (Jian Ban Shi Han [2020] No. 443), to further streamline procedures, strengthen safety oversight during the construction process, and enhance the construction quality, Guangzhou has launched the construction quality and safety insurance system. Relevant matters are hereby notified as follows:

## **1. Date and Scope for the Pilot Implementation of the Construction Quality and Safety Insurance System**

With effect from January 1, 2021, the construction quality and safety insurance system will be implemented on a pilot basis for the following categories of construction projects in Guangzhou.

1.1. Within the administrative jurisdiction of Guangzhou, based on the provisions of Article 17 of *the Guangdong Provincial Construction Project Supervision Regulations*, a pilot program to replace construction supervision with a system for construction quality and safety insurance will be implemented for building construction projects led by private investment that have a constructed area smaller than 3,000 square meters within the boundaries of the lot or a total cost of construction less than CNY 8 million and spans not longer than 30 meters.

1.2. In order to further improve the business environment, advance reforms in the construction project review and approval system, better benefit enterprises, and achieve alignment with the World Bank evaluation criteria, a pilot program to replace construction supervision with a system for construction quality and safety insurance will be implemented within the administrative jurisdiction of Guangzhou for new ordinary warehouse and workshop construction projects led by private investment that have, within the boundaries of the lot, a constructed area of less than 10,000 square meters, a building height of no more than 24 meters, spans not longer than 30 meters, a single function, and simple technical requirements.

1.3. In Nansha New District, Huangpu Development Zone, and Zengcheng Development Zone, project developers may choose whether to carry out construction supervision for industrial building projects led by private investment that have a constructed area of less than 10,000 square meters and spans not longer than 30 meters within the boundaries of the lot and industrial building projects within an industrial block with pre-determined schematic designs at the point of transfer. If the project developer decides not to carry out construction supervision for the project, the construction quality and safety insurance system may be implemented on a pilot basis.

## **2. Implementation of the Construction Quality and Safety Insurance System**

The role of the market in allocating resources will be fully leveraged. Management and control of project plans and the construction process will be strengthened through the

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provision of risk management and insurance services by insurance companies, to build a more effective risk management mechanism through innovation in management. The pilot program to replace construction supervision with the purchase of comprehensive construction quality and safety insurance aims to enhance the level of construction quality and safety management, explore new directions in construction project supervision, and sustain the healthy development of the construction industry.

A risk control and risk transfer mechanism centered upon quality and safety insurance will be established for projects under the pilot program to build a construction quality and safety risk management system.

#### 2.1.Types of Insurance

Mandatory types of insurance include latent construction quality defect insurance (hereinafter referred to as “defect insurance”) and safety production liability insurance (hereinafter referred to as “safety insurance”).

The scope of defect insurance covers: (1) foundation engineering and main structural engineering; (2) thermal insulation and waterproofing works; (3) finishes, water supply, sewerage and heating systems, ventilation and air-conditioning systems; electrical systems.

The scope of safety insurance covers: (1) death of employees or third parties; (2) rescue expenses and litigation expenses; (3) disability arising from injuries of employees or third parties; (4) medical expenses of employees or third parties; (5) liability for the sudden death or death from heatstroke of employees.

Optional types of insurance include construction project all-risk insurance, installation works all-risk insurance, construction project group personal accident insurance, professional liability insurance (juridical persons/natural persons), and construction project quality assurance insurance.

Construction supervision is no longer mandatory for projects under the pilot program. The project developer shall instead purchase mandatory latent construction quality defect insurance and safety production liability insurance. Purchase of optional types of insurance shall be determined by the various insured parties.

In principle, premiums for mandatory types of insurance during the duration of the pilot program should not be higher than the costs that would be incurred by a project developer in hiring a construction supervision company.

#### 2.2.Purchase and Underwriting of Insurance Policies

2.2.1.Projects under the pilot program shall purchase relevant types of insurance before formally applying for building construction permits. In principle, mandatory types of insurance should be provided by the same insurance company or main underwriting company. Construction quality and safety oversight agencies shall verify insurance policies during their first oversight inspection.

2.2.2.Standard insurance policies and claims services will apply to the underwriting of construction quality and safety insurance.

2.2.3.Construction quality and safety insurance may be underwritten by a single insurer or two or more insurers.

2.2.4.In principle, insurance companies that provide construction quality and safety insurance should have experience as the main or sole underwriter of latent construction quality defect insurance and safety production liability insurance in two or more cities in China, as well as have acted as the main or sole underwriter for no fewer than ten defect insurance policies. The relevant insurance information and risk management data of the insurance company should be linked with the systems of administrative authorities overseeing construction projects, achieving the sharing of data.

2.2.5Where construction quality and safety insurance has been purchased for a small and low-risk project, per agreed terms, the insurance contract may not be arbitrarily terminated.

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2.2.6. Premiums for latent construction quality defect insurance shall be calculated based on the total construction and installation costs and insurance premium rates. The total construction and installation costs for new small and low-risk projects may not be lower than the average costs for projects of the same type and similar finishes in the same region.

### 2.3. Oversight During Construction Works

2.3.1. Insurance companies shall appoint qualified independent third-party risk management agencies to carry out technical inspections for construction quality and safety risk control throughout all project stages. The duties of third-party risk management agencies shall include quality control and safety management, but exclude legal liabilities relating to construction supervision, or progress management and cashflow management.

The project developer and construction contractor shall cooperate with the work of third-party risk management agencies and provide them with the necessary facilities. They may not impede the normal performance of their risk management work.

2.3.2. Third-party risk management agencies shall carry out oversight inspections and risk management of construction projects periodically (at least once every month) or at key points. An inspection report should be prepared after each inspection, which shall include quality and safety hazards and problems discovered during the inspection, as well as relevant opinions and recommendations. The inspection report shall be submitted to the insurance company, construction quality and safety oversight agencies, and the project developer. After receiving the inspection report, the project developer shall promptly organize rectifications by the various parties participating in the construction. After quality defects and safety hazards are rectified, the project developer shall promptly notify the insurance company.

2.3.3. Third-party risk management agencies shall carry out a full inspection before the completion acceptance for each subproject, as well as carry out an overall assessment of the quality inspections and quality defect follow-ups throughout the entire project implementation process, which shall be forwarded to construction quality oversight agencies per relevant requirements. In the event that quality defects are not rectified, the project developer may not organize acceptance inspections for the relevant portion.

2.3.4. Before insurance liability comes into force, third-party risk management agencies shall carry out an inspection of construction quality and summarize the uncovered quality defects in *the Completion Review Quality Risk Assessment Report*. The project developer should enjoin construction contractors to repair quality defects or damage mentioned in the report.

2.3.5. For projects within the scope of the pilot program where construction supervision is not required, the project developer may arrange in-house supervision by technical personnel of the appointed construction contractors, who shall be responsible for the documents and formalities that would have been filled in, signed, and stamped by the construction supervision company in relation to various construction quality and safety matters, such as supervision checklists, joint review of drawings, design changes, rectification reply acknowledgments, and acceptance.

### 2.4. Completion Acceptance

Upon the completion of a project, the risk management agency shall carry out an overall assessment of the quality inspections and quality defect follow-ups throughout the entire project implementation process, and compile *the Quality and Safety Risk Final Inspection Report* (hereinafter referred to as the “final inspection report”). After affixation of their official seal, the documents shall be submitted to the project developer and insurance company. The final inspection report should include the following content: a summary of the inspections, a summary of rectifications of quality defects, and an overall risk assessment. If the insurance company points out that the final inspection report indicates quality defects in the construction project, the project developer shall promptly organize rectifications by

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relevant parties. The main underwriting company shall participate in the completion acceptance and furnish a final inspection report. If the latent quality defects listed in the final inspection report are not properly rectified, the project will not be allowed to pass completion acceptance. The final inspection report shall be one of the components of completion acceptance.

2.5. Information Platforms

Competent authorities for housing and urban-rural development in Guangzhou have added small low-risk engineering insurance module functions into the Guangzhou Construction Project Supervision Platform.

Insurance companies should assign dedicated departments and personnel to promptly upload full data on latent construction quality defect insurance, safety production liability insurance, risk control inspection data, and claims data to the information supervision platform of the Guangzhou Municipal Housing and Urban-Rural Development Bureau. Risk control inspection data will be forwarded by the information supervision platform to the construction quality and safety oversight agencies for further follow-up.

2.6. Insurance Claims

After completion of a project, the project developer and property owners may seek compensation from the insurance company in the event of quality defects within the insurance liability phase. The insurance company shall pay compensation in advance per the terms of the insurance contract. If a construction contractor is obviously liable for the defect, the insurance company shall concurrently make a subrogated claim against the relevant party.

In the event of safety incidents during construction works resulting in injury or death, insurers shall promptly make payouts in strict accordance with the terms of the contract. Insurers shall establish fast claims settlement mechanisms and make the determined payouts per legal provisions or contractual terms upon the occurrence of such incidents. Companies shall promptly issue the insurance payouts to the injured persons or the beneficiaries of deceased persons, or request insurers to directly make payments to the victims. If companies neglect to make such requests, victims have the right to directly request due compensations from the insurer.

2.7. Management of Disputes

Where there are disputes between the insured party and the insurance company as to the existence of insurance liability, maintenance outcomes, or the amount of compensation, they may jointly appoint a third-party arbitrator (for defect insurance) or apply to authorities responsible for the supervision and administration of safety production for a written Incident Findings Report affixed with their official seal (for safety production liability insurance). The relevant reports shall be a basis for compensation. If no agreement on compensation can be reached, the parties shall resolve their dispute per the methods set out in terms of the insurance contract.

2.8. Implementation

Administrative authorities overseeing housing and urban-rural development, construction quality oversight agencies, construction industry associations, and insurance industry associations at all levels shall actively advance the orderly implementation of this pilot scheme.