

**Notice of Guangzhou Housing and Urban-Rural Development
Bureau, Guangdong Bureau of the China Banking and Insurance
Regulatory Commission, Guangzhou Local Financial Supervision
and Administration Bureau, and Guangzhou Municipal Planning
and Natural Resources Bureau on the Issuance of the *Interim
Measures for the Management of Latent Quality Defect Insurance for
Housing Projects in Guangzhou***

To all parties concerned:

In order to improve the business environment in Guangzhou, establish a robust management system for quality risks of construction projects, and comprehensively enhance the quality of housing projects, Guangzhou Municipal Housing and Urban-Rural Development Bureau, Guangdong Bureau of the China Banking and Insurance Regulatory Commission, Guangzhou Local Financial Supervision and Administration Bureau, and Guangzhou Municipal Planning and Natural Resources Bureau have jointly formulated the *Interim Measures for the Management of Latent Quality Defect Insurance for Housing Projects in Guangzhou*. These Measures are now issued for your due implementation.

Guangzhou Municipal Housing and Urban-Rural Development Bureau
Guangdong Bureau of the China Banking and Insurance Regulatory Commission
Guangzhou Local Financial Supervision and Administration Bureau
Guangzhou Municipal Planning and Natural Resources Bureau

June 23, 2020

Interim Measures for the Management of Latent Quality Defect Insurance for Housing Projects in Guangzhou

Chapter I General Provisions

Article 1 In order to establish a robust management system for quality risks of construction projects, comprehensively enhance the quality of housing projects, and safeguard the legitimate rights of housing project titleholders, these Measures are enacted pursuant to the *Construction Law of the People's Republic of China*, *Insurance Law of the People's Republic of China*, and *Contract Law of the People's Republic of China*, and in conjunction with the *Guangdong Provincial Provisions for Quality Management of Construction Projects*, and *Measures of Guangzhou on Quality Management of Buildings and Municipal Infrastructure Engineering Projects*.

Article 2 In these Measures, “latent quality defect insurance for housing projects” (hereinafter referred to as “latent defect insurance”) refer to insurance taken out by housing project developers where the insurance company shall, pursuant to the terms of the insurance policy, bear liability for compensation for any damage to the insured buildings caused by latent construction quality defects within the scope and period of coverage.

“Housing projects”, as referred to in the preceding paragraph, include commercial residential housing, subsistence housing projects, and other built structures within the same property management boundaries.

For the purpose of these Measures, “latent construction quality defects” refer to quality defects in housing projects exposed during the process of use that had not been discovered during project completion acceptance, and are caused by construction quality that does not meet mandatory construction standards or the requirements of the contract or construction drawing and design documents due to reasons related to project surveying, design, construction, supervision, or reasons related to construction materials, construction parts, or construction equipment.

For the purpose of these Measures, “property owners” refer to holders of titles to residential properties or other construction projects, who shall be the claimants to the insurance contract.

Article 3 Guangzhou requires construction quality latent defect insurance coverage for new housing projects. Parties that engage in latent defect insurance activities for the above-mentioned housing projects within the administrative jurisdiction of Guangzhou, and parties that oversee and manage such activities, should abide by these Measures.

Article 4 When residential land in Guangzhou is transferred, the transferor should include the purchase of latent defect insurance as a condition for its transfer, and include the purchase of such insurance in the terms of the land transfer agreement.

The purchase of latent defect insurance for uncompleted projects led by private investment is encouraged.

When issuing construction oversight notifications, construction quality oversight agencies should verify if the project developer has fulfilled its fiduciary duties and purchased latent defect insurance per the conditions of land transfer, and record project developers that fail to purchase the required latent defect insurance as having abrogated their fiduciary duties.

Article 5 The basic underwriting scope of latent defect insurance includes foundational engineering, main structural engineering, thermal insulation, and waterproofing works. The specific scope thereof shall be based on the *Unified Standard for Constructional Quality Acceptance of Building Engineering* (GB50300).

(1) Foundation engineering and main structural engineering:

1. Overall or partial collapse;
2. Differential settlement of the foundation exceeding design specifications;
3. Emergence of cracks, deformations, damages or fractures in the foundation or main structural components that compromise structural safety;
4. Emergence of cracks, deformations, damages or fractures in cantilevered components such as balconies, awnings, cornices, and air-conditioner brackets;
5. Quality defects that affect the safety of usage, such as collapse (including peeling) of exterior walls;
6. Emergence of other latent construction quality defects in the foundation or main structural components that compromise structural safety.

(2) Thermal insulation and waterproofing works:

1. Damage or detachment of the thermal insulation layer of the building envelope;
2. Leakage in underground, roof, or bathroom waterproofing works;
3. Leakage in exterior walls (including areas where exterior windows meet exterior walls);
4. Leakages in other areas where waterproofing requirements apply.

(3) Renovation projects:

Insurance companies may provide project developers with insurance services in the form of supplemental insurance with respect to the following types of projects: building renovation projects; water supply, sewerage and heating projects; ventilation and air-conditioning projects; electrical projects; “smart building” projects; energy conservation projects; elevator projects. The scope, duration, and starting date of coverage for a supplemental insurance policy will be defined in the insurance contract between the project developer and the insurance company.

Article 6 The duration of a latent defect insurance policy shall include the construction phase, defect liability phase, and the insurance liability phase, beginning from the date that the policy comes into force.

(1) The construction phase starts from the date that the insurance policy comes into force, and

ends on the date that the project passes completion acceptance.

(2) The defect liability phase lasts for a period of two years, beginning from the date that the project passes completion acceptance.

(3) The insurance liability phase starts from the date that the defect liability phase ends. With regards to Article 5 (insurance liabilities), the insurance liability phase lasts for ten years for “foundation and main structural engineering” as defined in Item (1), and five years for “thermal insulation and waterproofing works” as defined in Item (2); the period of liability for renovation projects, as defined in Item (3), will be separately determined by the project developer and the insurance company in the insurance contract.

During the defect liability phase, the project developer shall bear the responsibility for maintenance works to rectify latent construction quality defects.

During the insurance liability phase, compensations for latent construction quality defects shall be borne by the insurance company in accordance with the terms of the insurance contract.

Article 7 Quality defects caused by property owners, users, third parties, or force majeure do not fall within the scope of insurance liabilities as stipulated by these Measures.

Article 8 Insurance companies shall strictly implement all provisions regarding insurance policies and relevant requirements on the management of insurance premiums issued by the China Banking and Insurance Regulatory Commission.

Insurance premiums shall be calculated by insurance companies based on factors such as the total cost of construction and insurance premium rates. Project developers shall timely pay all insurance premiums as specified in the insurance contract.

Project developers shall clearly indicate construction defect insurance premiums in their project estimates.

There shall be no deductibles for insurance against defects in the foundation, main structural engineering, thermal insulation, and waterproofing works.

Chapter III Purchase and Underwriting of Insurance Policies

Article 9 During construction works, the project developer should cooperate with the insurance company in conducting construction quality risk assessments.

Article 10 Co-insurance with respect to the underwriting of latent defect insurance is applicable. Unified insurance clauses, unified premium rates, unified claims services, and a unified information platform will be implemented with respect to the underwriting of latent defect insurance.

Article 11 The main underwriting company should have a separate division administering affairs related to latent defect insurance and adequate personnel specialized in construction, legal affairs, and risk management in order to conduct centralized management of matters related to latent defect insurance.

All companies participating in underwriting shall establish dedicated accounting ledgers to conduct separate accounting for operations related to latent defect insurance. Apart from risk management fees, applicable taxes, operations and management costs divided as per insurance premiums ratios, and appropriate performance-based pay for staff members, such companies may not include other business development fees, sales fees, departmental incentive pay expenditures, or intermediary fees in these accounts. Such companies may not set targets relating to the total amount of latent defect insurance premiums, assess corporate divisions based on the total amount of insurance premiums, nor offer or commit to offer monies related to latent defect insurance business activities to any other entity or individual.

The main underwriting company bears direct responsibility for managing the insurance policy, is responsible for overseeing the regulatory compliance of other insurance companies and risk management agencies participating in co-insurance, and bears joint and several liability for acts in violation of relevant regulations on the part of other co-insurance companies or risk management agencies.

The main underwriting company should issue a formal insurance policy and *fapiao* (official invoice) after receiving full payment of premiums for latent defect insurance policies. The main underwriting company may not reduce the scope of coverage and the sum assured by means of artificially reducing constructed area, excluding renovation costs, or the like. The main underwriting company may not use insurance terms or insurance premium rates in contravention of regulations, nor engage in unfair competition by imposing illicit fees.

Article 12 A project developer should execute an insurance contract in writing with the insurance company before applying for a building construction permit, and pay all premiums as specified in the contract in one instalment (including risk management fees not exceeding 30% of the insurance premiums).

A single insurance policy should be issued where a single construction project is the subject matter of insurance. The insurance contract shall cover the insured housing project and other built structures within the same property management boundaries. The maximum compensation liability borne by the insurance company under the insurance policy is the sum assured by the same policy.

Insurance companies should formulate implementation plans for construction quality risk assessments, insurance notifications, and insurance claims exigency plans. Upon endorsement by the project developer, these shall be annexed to the insurance contract.

Article 13 Where a latent defect insurance policy is purchased for a housing project, per agreed terms, the insurance contract may not be arbitrarily terminated.

Where a project developer is legally dissolved or goes bankrupt after an insurance contract comes into force, the insurance company shall continue to bear all insurance liabilities per the terms of the contract.

Article 14 Where the title to a residential property or other built structure is transferred during the period of insurance coverage, the transferee of the subject matter of insurance shall inherit the benefits of the relevant insurance policy taken out by the project developer.

Article 15 Insurance companies should establish latent defect insurance information

platforms and record information related to underwriting, construction quality risk assessment, and insurance claims in the information platforms for analysis of statistics related to risk management and insurance claims. Such information shall be shared with housing and urban-rural development authorities and insurance regulators.

Chapter IV Risk Management

Article 16 Implementation plans for construction quality risk assessment formulated by insurance companies should include the names of agencies and relevant personnel conducting construction quality risk assessments, the specific scope, implementation plans, key points, and key processes of construction quality risk assessments, specific matters requiring the cooperation of the project developer, and notification obligations.

Article 17 After the conclusion of a latent defect insurance contract, the insurance company should appoint a construction quality risk management agency (hereinafter referred to as “risk management agency”) to conduct risk management. The insurance company should execute a written entrustment agreement with the risk management agency to define the rights and obligations of both parties in accordance with the law. The risk management agency may not have affiliation with any company participating in the said project, nor directly or indirectly participate in surveying, design, construction, supervision, or supply of construction materials related to the said project.

The risk management agency shall conduct construction quality risk assessment for a construction project based on relevant laws and regulations, engineering and construction standards, specifications of construction drawings and design documents, and the requirements of insurance contracts. Such agency shall issue process evaluation reports and final evaluation reports of construction quality risks to the insurance company and the project developer. These evaluation reports should clearly indicate the quality defects uncovered and the rectification thereof.

After receiving such evaluation reports, the project developer should enjoin the construction contractor to timely rectify quality defects. Disputes regarding the identification of construction quality defects in the evaluation reports shall be resolved as per the terms agreed upon by both parties in the insurance contract.

Insurance companies should participate in completion acceptance and raise opinions regarding quality assessments.

Chapter V Insurance Claims

Article 18 Insurance companies shall prepare a *Notification of Latent Construction Quality Defects*, the contents of which shall include the scope of insurance coverage, duration, date from which insurance liabilities commence, insurance claims procedures, departments in charge of claims and their contact information, and obligations to notify the insurance company of any change in property owner. The project developer shall hand over the *Notification of Latent Construction Quality Defects* together with the *Residential Property Quality Assurance* and the *Residential Property Instruction Manual* when property owners perform residential property ownership transfer procedures.

A property owner may submit a claim to the insurance company upon discovering a project quality defect within the scope of insurance coverage during the validity of the latent defect insurance policy.

After receiving the claim, the insurance company should dispatch personnel to conduct on-site inspections within two days. The insurance company should make an assessment within seven days of receiving a claim from a property owner; under complex circumstances, an assessment should be made within 30 days, the outcome of which should be communicated to the property owner.

With respect to claims that fall within the scope of insurance liabilities, the insurance company should fulfil its compensation obligations within ten days of reaching a compensation agreement with the property owner. With respect to claims that do not fall within the scope of insurance liabilities, the insurance company should notify the property owner that the claim has been rejected within three days of assessment, and clearly specify the reasons for rejecting the claim.

Insurance companies should establish convenient claims procedures to process claims from property owners and organize on-site surveys and maintenance.

Specific service standards for the processing of claims, conduct of on-site inspections, assessment of claims, and claims for maintenance fees shall be specified in the insurance contract between the project developer and the insurance company.

Article 19 In the event of disputes between a property owner and the insurance company regarding the scope of insurance liabilities, maintenance outcomes, and compensation amounts, a qualified construction quality inspection agency or housing safety appraisal agency may be jointly appointed by both parties to conduct inspections and appraisals. Relevant reports shall serve as the basis for compensation payouts. If no agreement can be reached regarding compensation payouts, such disputes shall be resolved through channels agreed upon in the insurance contract.

Article 20 Insurance companies should formulate *Exigency Plans for Insurance Claims*, which should clearly specify the circumstances where exigency plans would be activated, the exigency procedures, and exigency procedures to be adopted.

With respect to claims applications regarding matters that adversely impact daily life and are within the scope of insurance coverage, the insurance company should complete on-site surveys as soon as possible after receiving an application from the claimant, and pay compensation in advance per the timeframe specified in the insurance contract.

Chapter VI Legal Liabilities

Article 21 Legal liabilities that should be borne by project surveying companies, project design companies, construction contractors, construction supervision companies, and suppliers of construction materials (components) and equipment as per relevant laws and regulations or contractual terms will not be waived by reason of purchase of latent defect insurance by the project developer.

A project developer should reach an agreement with the insurance company as regards the rights and obligations of both parties by means of executing an agreement.

Article 22 After an insurance company fulfills its obligations to compensate losses arising from quality defects as stipulated in the latent defect insurance contract, it reserves the right to exercise its right of subrogation against relevant parties bearing liabilities for quality defects. Project developers and relevant responsible parties shall provide full cooperation.

Chapter VII Supplementary Provisions

Article 23 Housing and urban-rural development authorities, planning and natural resources authorities, insurance regulatory authorities, and local financial regulators should strengthen guidance and implementation of policies related to latent defect insurance, and timely formulate and implement supporting policy measures.

Article 24 The purchase of latent defect insurance by other construction projects shall be conducted with reference to these Measures.

Article 25 Where other laws or regulations stipulate otherwise, such stipulations shall prevail.

Article 26 These measures shall be effective from the date of issuance until December 31, 2024.