



China, People's Republic of: Strengthening Liability Insurance and Improving Social Governance in Neijiang City

Project Name	Strengthening Liability Insurance and Improving Social Governance in Neijiang City	
Project Number	51049-001	
Country	China, People's Republic of	
Project Status	Approved	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA: Strengthen Liability Insurance and Improve Social Governance in Neijiang City	
	Technical Assistance Special Fund	US\$ 530,000.00
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development Knowledge solutions	
Sector / Subsector	Public sector management - Public administration	
Gender Equity and Mainstreaming	Some gender elements	
Description	1. The proposed knowledge and support technical assistance (TA) will support Neijiang city (Neijiang) of Sichuan province (Sichuan), People's Republic of China (PRC) to explore using liability insurance strengthen social governance in the city. The proposed TA will analyze the potential for developing liability insurance products in the areas of environment protection, medical treatment, food safety, and rural land transactions that might help Neijiang mitigate social confrontations, and develop recommendations to increase the role of liability insurance in these areas. The aim would be to replicate Neijiang's experiences in other cities in the PRC. The TA is included in Asian Development Bank's (ADB) country operations business plan, 2017 2019 for the PRC.	

Project Rationale and Linkage to Country/Regional Strategy

Neijiang is a city in Sichuan, located in the southwest PRC, with a territory of 5,385 square kilometers and 4.2 million inhabitants. Neijiang's economy is dominated by agriculture and traditional manufacturing (e.g. machine and steel), with a relatively small service sector. In 2016, its per capita gross domestic product was CNY34,700, well below the provincial average of CNY39,835 and national average of CNY53,817, respectively.

Neijian faces a challenging social governance system because of its large territory, dense population, and less developed economy. In 2016, there were 3,748 civil lawsuits related to various liability claims, e.g. health damages for polluted air, water or soil; unsuccessful medical treatments; and property (including land) disputes. Official statistics understate the volume of liability claims, as parties often resort to illegal social confrontation, frequently violent, to resolve their claims, instead of using peaceful legal procedures. The prevalence of such social confrontations, particularly those involving illegal radical measures and/or vulnerable people has become a key concern for the city government. Traditional conflict resolution, which relies on government agencies to handle social confrontation and maintain social stability, was inherited from the planning system and carried forward during the decades of reforming and opening-up until 2013. In order to maintain order when there is a social confrontation, the government has tended to intervene to help stakeholders find out an acceptable solution, including on financial compensations. This social management system worked well in the planning era when the government dominated social affairs. It still worked reasonably well in the early stage of reforms. However, in recent years, the government found that stakeholders have increasingly been unable to agree on financial compensation, mostly because of over-claims and confusing liabilities.

Social governance is a term that frequently has appeared in PRC policy documents since the Decisions on Major Issues Concerning Comprehensively Deepening Reforms (the Decisions) were adopted by the Third Plenary Session of the 18th Central Committee of the Communism Party of China in November 2013. The Decisions were widely seen as a cornerstone policy document, which set the tone for reforms thereafter. The Decisions called for an innovative social governance system, including (i) innovative ways of handling social affairs; (ii) all stakeholders, including government agencies, social corporations, nonprofit organizations, and individuals playing their roles in managing social affairs; (iii) an efficient and effective mechanism for preventing and resolving social disputes; and (v) a sound and well-functioning social safety net.

The 13th Five-Year Plan (2016-2020) re-emphasizes the importance of innovative social governance and sets out principles for strengthening and reforming the system. Among others, the 13th Five-Year Plan calls for establishing and strengthening (i) an effective and efficient mechanism for expression, coordination and protection of individual interests to solve or de-escalate conflicts; (ii) a social risk evaluation system for significant decision-making to minimize social impact; and (iii) an emergency management system to safeguard individual interests and peaceful development.

In the wake of this guidance, Neijiang city government wishes to explore using expanded liability insurance to help reduce the prevalence of social conflicts. Specifically, Neijiang wishes to develop liability insurance products to mitigate the impact or de-escalate conflicts in the areas of air and water pollution, soil contamination, land transactions, and products and services with potentially high risk, e.g. pharmaceuticals and medical devices, asbestos, tobacco, recreational equipment, mechanical and electrical products, chemicals and pesticides, agricultural products and equipment, and food.

Liability insurance is a part of the general insurance system of risk financing to protect the insured from the risks of liabilities imposed by lawsuits and similar claims. It is designed to offer specific protection against third party insurance claims, i.e., payment is not typically made to the insured, but rather to someone suffering loss who is not a party to the insurance contract. In general, damage caused intentionally and contractual liability are not covered under liability insurance policies. When a claim is made, the insurance carrier has the duty (and right) to defend the insured.

In many countries, liability insurance is a compulsory form of insurance for those at risk of being sued by third parties for negligence. The most usual classes of mandatory policy cover the drivers of vehicles, those who offer professional services to the public, those who manufacture products that may be harmful, those who offer employment, and constructors. The reason for such laws is that the classes of insured are deliberately engaging in activities that put others at risk of injury or loss. Public policy therefore requires that such individuals should carry insurance so that, if their activities do cause loss or damage to another, money will be available to pay compensation.

The PRC is already the ninth largest commercial liability insurance market globally, with premiums of CNY3.1 trillion in 2016 and strong annual average growth of 13.5% since 2011. However, penetration remains low at 0.04% of the gross domestic product, comparing to 0.5% in the United States and 0.16% 0.25% in continental Europe. Growth has been driven by increasing risk awareness and regulatory changes. Neijiang's liability insurance penetration rate is 0.03% in 2016, below the national average.

Impact Social governance improved

Project Outcome

Description of Outcome An effective third party insurance expanded in Neijiang

Progress Toward Outcome

Implementation Progress

Description of Project Outputs A comprehensive report on strengthening liability insurance produced
Awareness of liability insurance by stakeholders enhanced

Status of Implementation Progress (Outputs, Activities, and Issues)

Geographical Location Neijiang Shi

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Business Opportunities

Consulting Services A consulting firm will provide 21 person-months (pm) of national inputs. Individual consultants will be recruited for the International Agriculture Insurance Specialist (4 pm) and International Agriculture Risk Management specialist (2.5 pm). The consultants will submit progress reports, which will be reviewed by ADB and the government. All reports will be written in English and translated into Chinese. Resource persons may be invited to review the consultants' outputs and share knowledge during workshops and conferences. The consulting firm will be engaged following ADB's Guidelines on the Use of Consultants (2013, as amended from time to time) using the quality- and cost-based selection method with a quality cost ratio of 90:10 by inviting simplified technical proposals. Individual consultants will be engaged following the Individual Consultant Selection method. In line with the action plan for the Midterm Review of Strategy 2020, an output-based contract may be offered.

Procurement Equipment procurement will be conducted through shopping method.

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Responsible ADB Department East Asia Department

Responsible ADB Division PRC Resident Mission

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Timetable

Concept Clearance 04 Aug 2017

Fact Finding 21 Aug 2017 to 25 Aug 2017

MRM -

Approval 03 Nov 2017

Last Review Mission -

Last PDS Update 03 Nov 2017

Project Page <https://www.adb.org/projects/51049-001/main>

Request for Information <http://www.adb.org/forms/request-information-form?subject=51049-001>

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