

# Making Sense of Insurance: What Every Local Government Needs to Know



*Francesca de Joya, Insurance Services Representative and Broker  
Sonali Pande, Insurance Services Associate*

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# What We'll Cover

- How common insurance terms show up in local government work/contracts
- Who is protected under the different insurance arrangements
- How losses are classified and handled (first party vs third party)
- What contract clauses really do to risk and responsibility



# Core Insurance Terms

# Named Insured



## **Definition:**



The Named Insured is the primary policyholder and is covered for their own acts and operations. For a local government, this would usually be the municipality, city, district, or regional government.




## **What does it really mean:**



If your Local Government is the Named Insured, the policy is designed to protect your local government if a claim arises due to your actions/decisions or operations.

# Why This Matters



“Alone we  
can do so little;  
together we can  
do so much.”

HELEN KELLER, AUTHOR

- Shows who the insurance is really meant to protect.
- Prevents risky assumptions, like thinking the local government is covered just because it's involved in a project.
- Speeds up and improves contract and insurance reviews, especially when deciding whether additional insured status is needed.

# Named Insured - Scenario

## **Scenario:**

Your local government hires ABC Road Paving Contractor to resurface a local road.

## **Result:**

ABC is the Named Insured on their own liability policy.

The policy is designed to protect ABC first for claims arising from their work.

# Additional Insured



## Definition:



An Additional Insured is added to someone else's liability policy, but only for claims that arise from the named insured's work.



## What does it really mean:



Your local government is added to the contractor's insurance so that your local government is covered if a problem happens because of the contractor's work or activity.

# Why This Matters

- Helps shift risk to the right party, so their insurance responds first.
- Provides targeted protection when claims arise from someone else's work.

# Additional Insured – Scenario

## **Scenario:**

The City hires ABC Road Paving to repair a roadway and requires ABC to add the City as an Additional Insured on its liability insurance.

## **Result:**

- ABC contractor remains the Named Insured on the policy.
- The City is protected only for claims that arise from the contractor's work.
- If a member of the public is injured because of the ABC's work, ABC's insurance responds first (defense and legal costs).

# Additional Named Insured



## **Definition:**



Another party added to an insurance policy, enjoying nearly identical rights, coverages, and responsibilities as the named insured.



## **What does it really mean:**



An Additional Named Insured is someone added to an insurance policy who is treated almost like the owner of the policy.



# Why This Matters

- Covers the other party's own negligence.
- Shared or reduced policy limits.
- Broad rights similar to a policy owner.
- Operational changes without local government oversight.
- Conflicts and coverage complexity during claim.

# Additional Named Insured – Scenario

## **Scenario:**

The District hires a DEF Renovation Specialists to renovate a community hall.

As part of the contract, the District must be added as an Additional Named Insured on DEF's liability policy.

## **Result:**

- DEF's insurance is no longer focused on only the contractor.
- Shares and erodes policy limits.
- The policy may respond to the District's own actions, not just claims tied to the DEF's work.
- Creates conflicts and higher costs during claims.

# Knowledge Check

# Scenario:

**The City hires JKL Contractors to repair the roof at the library.**

# What is JKL's status on their policy?

1

**Named Insured**

2

**Additional Insured**

3

**Additional Named Insured**

## Scenario:

ABC Paving is hired to resurface 4th Ave. The City wants protection if a pedestrian is injured because of ABC's work zone.

# What is the City's status on ABC's policy?

1

**Named Insured**

2

**Additional Insured**

3

**Additional Named Insured**



# Party Roles in Insurance

# First Party



## **Definition:**

The first party is the named insured seeking coverage for their own losses or liabilities



## **What does it really mean?**

First Party is when the City makes a claim on its own insurance for damage to their buildings etc.

# First Party - Scenario

## **Scenario:**

A fire damages the Village's Rec Center overnight.

No members of the public are injured, and no one is making a claim against the Village.

## **Result:**

The Village is the First Party and makes a claim under its own insurance policy

The claim covers repairing or replacing the Village's building and restoring operations.

# Third Party



## **Definition of Third Party:**

A third party is an individual or organization not part of an insurance contract but can be affected and make claims.



## **What it really means:**

This is someone outside the City who can be affected and hold the City responsible.

# Third Party – Scenario

## **Scenario:**

The Village hosts an event in a public park.

A passerby trips over an electrical cable and is injured.

## **Result:**

- The injured passerby is a Third Party.
- The passerby makes a claim against the Village alleging injury.
- The claim is a third-party liability claim; your liability insurance will respond to defend.

# Why This Matters: First Party vs Third Party

Helps determine which insurance policy applies



Clarifies who is covered and who is making the claim



Affects how claims are handled and paid



Helps with risk planning and contract decisions

# Knowledge Check

# Scenario:

**A water pipe breaks overnight and causes damages the District's recreation centre. No one is injured.**

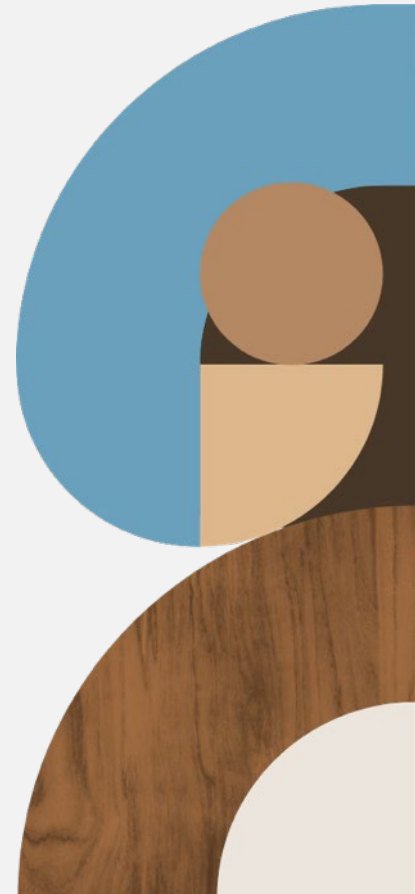
# Which loss is it?

1

**First party**

2

**Third party**



# Scenario:

The floor at the District's recreation centre is wet and a visitor slips and is injured. The visitor files a claim against the District.

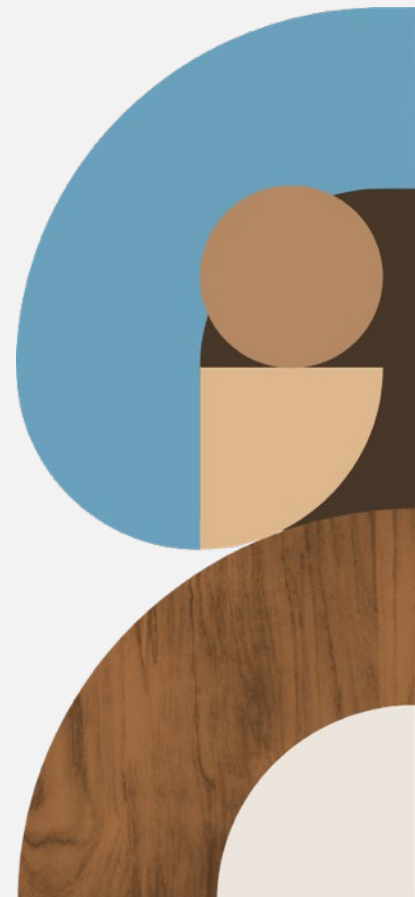
# Is this a First Party or Third Party Claim?

1

**First party**

2

**Third party**





# Contractual Risk Transfer

# Indemnity/Hold Harmless Agreement



## Definition:



An indemnity / hold harmless agreement is a contract clause where one party agrees to take responsibility for losses or legal problems instead of the other party.



## What does it really mean:



'If something goes wrong that is my fault, I'll handle the costs, so you don't have to.'



# Why this matters

- Transfers risk to the party doing the work.
- Clarifies responsibility for third-party claims.
- Supports fairness.

# Indemnity/Hold Harmless - Scenario

## Scenario:

The Village hires ABC Road Paving Company to repave a sidewalk.

During the road repairs, ABC leaves some equipment outside of their work area.

A member of the public is injured and makes a claim against the Village.

## Result:

- The injured person is a third party.
- Because of the hold harmless agreement clause, ABC must:
  - Defend the Village
  - Pay for legal costs and damages related to ABC's work.

# Waiver of Subrogation



## Definition:



A waiver of subrogation is a contract clause where a party agrees that their insurer will not try to recover money from another party, even if that party caused the loss



## What does it really mean:



A waiver of subrogation is when the contractor agrees that their insurance won't go after another party for money, even if that party caused the loss



# Why This Matters

- Reduces disputes between parties after a loss
- Used when pursuing recovery may not be worthwhile
- Reflects a balanced approach to sharing risk

# Waiver of Subrogation – Scenario

## **Scenario:**

Your local government leases one of your buildings to a non-profit organization.

The non profit organization accidentally causes water damage to a part of the building.

## **Result:**

Because of the waiver of subrogation:

- Your insurance pays to repair the damage
- Your insurer gives up the right to recover costs
- The loss stays with your local government

# Knowledge Check

## Scenario:

The Town hires ABC Paving to repave a road, with a hold harmless clause. ABC leaves equipment outside the work area, and a pedestrian is injured, and a claim is made against the Town.

# Because of the hold harmless clause, what happens next?

- 1 Your local government must pay for all legal costs and damages**
- 2 Each party pays for their own costs**
- 3 ABC paving must defend and reimburse your local government**

## Scenario:

The Village hires DEF Contractor to renovate the community center. The contract includes a waiver of subrogation in favor of DEF.

During the renovation, a fire caused by DEF damages part of the community center.

The Village makes a claim under its own property insurance.

# Because of the waiver of subrogation clause, what happens next?

1

**The Village pays the claims but cannot recover costs from DEF Contractors**

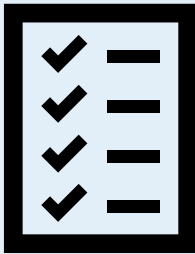
2

**The Village's insurer recovers repair costs from DEF Contractors**

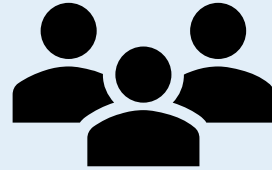
3

**DEF Contractors automatically pays for all damages**

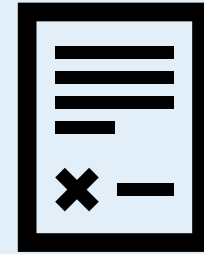
# Summary



- Named Insured
- Additional Insured
- Additional Named Insured



- First Party
- Third party



- Indemnity/ Hold-Harmless
- Waiver of Subrogation

# Questions?

