Risk Management & Insurance

Pre-Education Case Study: Level – Positioning & Maintenance

A case study is essentially a story – it provides an illustration of how financial lessons can be put into action by real people in real-world situations. Case studies are engaging and relatable, and offer solid evidence of the practical value financial education has to help people solve problems and make sound life decisions.

National Financial Educators Council

Positioning & Maintenance

Pre-education Case Study

Lars and Eva Hendersson, both 35, live an urban life with their teenaged son Alex. Having recently achieved success with their winery, Lars and Eva have just moved into the wealthier district of the city to be closer to their clientele. They are enjoying their new status and have started making friends with their new neighbors.

One night, Lars and Eva are awoken by a terrible noise. As it turned out, Alex had crashed their car into their next-door neighbor's vehicle after falling asleep at the wheel. Alex himself escaped with minor injuries, but both the Hendersson's and their neighbor's vehicles require significant repairs.

The two parties exchange insurance information and agree upon a settlement. A couple of weeks later, however, the Henderssons discover that they are being sued for an additional $13,000. Apparently, their insurance was able to cover the damage to the vehicles, but could not cover the damage done to the neighbor's front lawn. The neighbor claims he must also be compensated for the handmade art decorations that were trampled during the crash. Thus Lars and Eva discover that litigation is a favorite pastime of the rich.

Rather than go to court, their lawyer asks them if they have umbrella insurance coverage. Lars checks their documents and finds they had in fact bought such a policy a few years ago, although it had completely slipped their minds. The umbrella insurance can cover most of the amount of the lawsuit, much to their relief.

This case sparks Eva's interest. Now that they have more assets, she realizes that they may have more insurance needs. She decides to look up their policy online and compare it with offers from other companies.

To her surprise, she finds that if they had paid more attention to their umbrella insurance, they could have had double the coverage, higher limits of liability for asset protection, better auto coverage, and still save nearly $500 a year.

1. Why does one need to regularly check their insurance needs?

2. What could the Henderssons have done differently to gain better coverage?

3. Discuss the value of evaluating your insurance coverage based on: your net worth; the area where you live, and your family members.

4. What do you recommend that the Henderssons do next?