Suicide and Life Insurance*

by

Joe Chen  Yun Jeong Choi  Yasuyuki Sawada
Faculty of Economics  Faculty of Economics  Faculty of Economics
University of Tokyo  University of Tokyo  University of Tokyo
joechen@e.u-tokyo.ac.jp  yun@e.u-tokyo.ac.jp  sawada@e.u-tokyo.ac.jp

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Abstract
In this paper, we investigate the nexus between life-insurance and suicide behavior using OECD cross-country data from 1980 to 2002. Through semiparametric regressions, we find that there exists a robust positive relationship between suicide rate and life insurance. Since life insurance policies pay out death benefits to individuals died by suicides after the exemption period expires, the presence of adverse selection and moral hazard suggests an incentive effect that leads to this positive relationship. The novelty of our analysis is utilizing the variation in the length of suicide exemption period in life insurance policies as the identifying instrument for life-insurance density. Our analysis allows us to distinguish adverse selection from moral hazard involved in life-insurance contracts. The results suggest that life-insurance participation in OECD countries involves significant adverse selection and moral hazard problems.

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