The Effect of Suicide Exclusion Clause on Suicide Rate among the Life Insured

This report investigates the effect of suicide exclusion clause on the suicide rate among the life insurance policyholders in Korea. The exclusion clause on suicide refers to the life insurers being exempted from paying claims to beneficiaries if the policyholder has committed suicide within a certain period of taking out the policy. The suicide exclusion clause is designed to prevent the purchase of life insurance policy in an attempt to escape from financial burden by committing the suicide. In Korea, the suicide exemption period is currently set at 24-month.

Using the dataset of life insurance policyholders in Korea from 2006 to 2010, we analyze the suicidal behavior of the insured. First, we compare the suicide rate before and after the exemption period of 24-month and find that there is significant rise in suicide rate after the exemption period. Second, we find that the peak of suicide rate exist right after the exemption period and that such a trend in suicide rate differs from that in natural death from illness. Third, we augment the Cultler-Glaeser-Norberg index to an intertemporal setting and find that the suicide rate of the insured varies most in 24-36 month period, which suggests a particular concentration of suicide. All of above results are found to be robust as various statistical techniques such as odd-ratio test and Chi-Square test suggest.

This report also provide several remarks on the effect of extending the exemption period on suicidal behavior of the insured. Using a standard economic apparatus on risk taking behavior, we suggest that
the extension of exemption period may lower the suicide rate among
the insured by lessening the problems of adverse selection and moral
hazard. First, the extension of exemption period lowers the incentive
to purchase the life insurance policy and ex ante prevents such a
purchase in an attempt to escape from the financial burden by
committing the suicide. Second, the extension of exemption period
also raises the relative price of suicide for the insured and ex post
prevents the possible opportunistic behavior when the insured faces
the financial difficulty.