WERE DPI CRITICS CORRECT ABOUT CORPORATE PROFITEERING? CAN CORPORATIONS USE LIFE INSURANCE AS AN INVESTMENT?

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This paper analyzes the controversial insurance practice pejoratively referred to as Dead Peasant Insurance (DPI) from both the perspective of DPI critics and an analysis based on economics and ethics. This paper concludes that the critic’s argument lacks any rigor or logic and is solely based on feelings and emotions. On the strength of their arguments, the critics were wrong. But this does not mean the critics were completely wrong. As will be shown by the economic and ethical analysis in this paper, DPI was an insurance practice that was detrimental to society and should have been opposed. The conclusion drawn from this analysis is that correct conclusions are necessary but not sufficient for opposing controversial policies. The rationale for opposing controversial polices, such as DPI, must also be based on a logical argument, facts, and normative criteria in order for society to know that the conclusions were correct.

INTRODUCTION

This paper analyzes a controversial type of Corporate Owned Life Insurance (COLI) pejoratively called Dead Peasant Insurance (DPI). DPI was common for about 20 years starting in the 1980s and lasted until the Federal Pension Protection Act of 2006 (FPP) restricted the practice (Appleby, 2021) (US Government, 2006). Despite current restrictions and there being very few DPI policies purchased since 2006, criticism of the practice has continued to the present day. Antibusiness critics have written articles condemning the practice almost every year since 2006, criticism of the practice has continued to the present day. Antibusiness critics have written articles condemning the practice almost every year since 2006, Michael Moore featured the practice in his 2009 antibusiness film “Capitalism a Love Story”, and business professors have included DPI cases in business textbooks as recently as 2022. This is clearly a topic that its critics have recycled long after its relevance has waned.

For reasons that will be analyzed in this paper, DPI was detrimental to society. After the critics became aware of the practice in the 1990s, they argued against DPI policies claiming DPI
was “creepy” (Marco, 2007) and “ghoulish.” (McCann, 2014) These arguments against DPI policies were based on feelings and emotions. The critic’s lack of normative economic and ethical reasoning is troubling since there were exceptionally good reasons based on normative criteria for opposing DPI policies.

As long as the controversy surrounding DPI is not going away, society should more fully understand the normative reasons for opposing such problems so as not to resort to frivolous reasons for public policy changes. This paper will first provide an overview of the characteristics and assumptions behind the different types of insurance that are part of the DPI issue. This assumes a basic understanding of insurance concepts. Appendix 1 provides a summary of life insurance concepts. The critics’ arguments against DPI will be presented, analyzed, and critiqued. Because the accusation that corporations profited from DPI is paradoxical to anyone who understands how insurance is supposed to work, the accusation requires a detailed analysis and explanation. The analysis of DPI will detail the specific normative principles violated by DPI. This paper will conclude with a short discussion about the necessity of both valid arguments and conclusions when making policy decisions that harness the government’s compulsory authority to restrict the freedom of individuals and businesses.

**Corporate Owned Life Insurance**

Corporations have always been able to purchase Corporate Owned Life Insurance (COLI) policies on top-level executives because of their value to the company. Top-level executives included CEOs and any other strategically relevant leaders. If these individuals died during employment, the company might have incurred significant financial losses until the corporation could replace the executive. The argument for allowing corporations to purchase life insurance on executives was that corporations had an “insurable interest” in the lives of their high-level executives because their loss would cause a financial hardship to the firm.

**Insurable Interest and Moral Hazard** (Pureza, 2022) (Twin, 2022) (Jaiswal, 2021)

Insurable interest is a relatively old requirement for all types of insurance. First enacted into law by the British Parliament in the Marine Insurance Act of 1745, the insurance industry instituted the requirement of Insurable Interest to prevent speculators, those with no business stake in the outcome, from purchasing marine cargo insurance. In essence, speculators used insurance to gamble on whether a ship would reach its destination. Without the requirement of insurable interest, critics implied that some speculators might cause cargos to be stolen or destroyed. Those who stood to benefit financially in the loss of a cargo might facilitate acts such as piracy or promote international warfare. This is an example of moral hazard.

Moral hazard exists anytime an insurance participant acts in ways that increases risks without paying the associated costs. Acts involving moral hazard are generally treated as illegal fraud. It was very difficult in the 1700s to investigate moral hazard in international shipping. Insurable interest links the risk of loss more closely to the cost of insurance and therefore is a simple way to reduce moral hazard. The requirement of insurable interest, as well as improvements in
investigative techniques for assessing fraud greatly reduces, but does not completely eliminate, 
moral hazard in the modern market for life insurance.

Until the 1980s, insurance companies could not sell life insurance without demonstrating the 
existence of sufficient insurable interest to manage moral hazard. In the 1980s, the insurance 
industry successfully lobbied many states to allow employers to purchase insurance on all their 
employees even without sufficient insurable interest (Schultz & Francis, 2002). While there was 
no publicized discussion of the insurance industry’s rationale for the changes, they likely used 
either or both of the following arguments. They may have argued that employers could use 
insurance proceeds to pay for employment expenses such as health care, pensions and retirement 
benefits, hiring and training costs, and other expenses normally paid out from the firm’s operating 
budget. The insurance industry may also have argued that moral hazard could be mitigated through 
insurance investigations and law enforcement.

**Dead Peasant Insurance**

Dead Peasant Insurance (DPI) is a subset of COLI. Starting in the 1980s, corporations 
purchased DPI policies to insure rank and file employees, usually without the insured employee’s 
knowledge. Like other COLI policies, employers purchased DPI from insurance companies, paid 
the premiums, named themselves as the beneficiary of the policy, and collected the death benefit 
if the employee died during the eligibility window.

During the approximately 20 years when corporations could purchase DPI, they purchased 
policies in large numbers. In 2002, it was estimated that 25% of 500 largest corporations in the 
United States had purchased DPI policies on almost 6 million rank and file employees (Stone, 
2009). Some of these companies included: Walmart (350,000 policies), Proctor & Gamble, 
AT&T, Dow Chemical, Walt Disney, Winn-Dixie, Nestle (18,000 policies), Enron, National 
Convenience Store, and Camelot Music (Sixel, 2002) (Stone, 2009). Premium payments on DPI 
policies eventually exceeded $8 billion before the practice was restricted.

DPI policies did not initially attract any attention because corporations and the insurance 
industry did not openly discuss the practice. Corporations treated DPI policies as part of their 
financial strategy, keeping the existence of DPI policies confidential from outsiders. With few 
exceptions, the size of individual policies was average and ranged from $50,000 to $80,000. The 
modest size of the policies may have been intentional to avoid detection and to reduce the financial 
riskiness of individual policies. When questioned about DPI, many corporations were evasive or 
outright deceitful claiming that they did not own DPI policies when in fact they did (Marco, 2007) 
(McCann, 2014) (Silvestrini, 2007). This secrecy lead to intense criticisms about DPI practices 
after they were eventually discovered (Schultz & Francis, 2002) (Sixel, 2002).

The corporations and insurance companies probably justified the secrecy surrounding DPI 
policies based on the legal understanding that COLI policies were a private contract between the 
corporation and the insurance company (Upcounsel.com, 2023). Contract law does not require 
outside parties to be informed about insurance contracts unless those outside parties had 
obligations or rights under the requirements of the contract. The insured and their families had no
costs (obligations) or benefits (rights) associated with DPI therefor there was no legal requirement to inform them about DPI policies owned by employers.

**Consumer Life Insurance**

While all life insurance policies are contracts between the owner/purchaser and the insurance company, COLI policies differ significantly from consumer owned life insurance policies. Unlike corporations, individual life insurance consumers purchase insurance policies to replace the income of the insured in the event of death. The owner pays the premiums, designates the beneficiaries, and the beneficiaries collect the death benefit. A special case of consumer life insurance exists where the employer purchases a life insurance policy and gives it to the employee as a pecuniary benefit of employment. In this case, the employee owns the policy. The employee usually pays the premiums on the policy, but may negotiate with the employer to pay some or all of the premiums in lieu of additional cash compensation. The employee determines the beneficiaries and therefore determines who receives the death benefits. In the case of consumer life insurance, the insured has both rights and obligations under the policy and therefore a right to know.

**The Operation of Properly Functioning Insurance Markets**

In properly functioning insurance markets, the only stakeholders that profit from the sale of insurance are insurance companies because the insurance companies must charge enough in premiums to cover their costs including overhead, death benefits, and profits. Appendix 1 provides an explanation of how insurance works for both the insurance customers and insurance companies. Insurance customers cannot profit from insurance. At best, insurance customers only break-even because they pay premiums, sometimes for years, to have a loss replaced with a death benefit of equal value. Even in the case of pure speculation, where there is no insurable interest and no actual loss to the insurance customer, insurance markets are designed so that the ‘expected value’ of an insurance contract is negative to the customer. More speculators will lose money than will make money. For this reason, no rational investor uses insurance as an investment.

What remains unexamined and unexplained was why corporations purchased DPI. The accusation of corporate profiteering is paradoxical. The critics certainly believed that corporations profited from DPI but they never provided a believable explanation as to how this was possible. The critics suggested that tax benefits motivated corporations to purchase DPI, however the aggregate tax benefits on a net negative investment are still negative. Until a reasonable explanation is provided, the accusation that employers profited from DPI must remain suspect. The Analysis and Implications section of this article will provide a logical and normatively reasoned explanation against DPI rather than erroneous assertions of corporate profiteering.

**The Critics Argue Against DPI**

A survey of the various articles written by critics reveals five distinct, although frequently combined, arguments against DPI (Sixel, 2002) (Schultz & Francis, 2002) (Marco, 2007)
(McCann, 2014) (Silvestrini, 2007). 1. It was ethically or legally wrong for an employer to participate in the life insurance industry. 2. The incentives resulting from DPI caused employers to intentionally engage in insurance fraud by putting insured employees at greater risk of death in order to increase the likelihood of an insurance payout. 3. The families did not receive any of the benefits. 4. Employees had a right to know about DPI policies. 5. There was something else vaguely unethical about DPI prompting emotional accusations.

The first argument against DPI, that employers should be restricted from participation in the life insurance market, overlooks several superordinate ethical and legal principles. The ethical and legal principles of property rights, liberty and freedom, and capitalism strongly undermine the critics’ first argument. Contract law treat insurance contracts as private arrangements between consenting parties (Upcounsel.com, 2023) and does not restrict contracts unless the contract violates the law. US Supreme Court decisions established that life insurance contracts are private property that can be bought and sold like financial instruments provided the original owner had an insurable interest when the policy was purchased (Grigsby v. Russell, 1911). The principles of liberty and freedom allow the members of society to enter into legal contracts without government restriction. Capitalism and competitive markets permit consumers and producers to freely buy and sell goods, such as life insurance contracts. The results of these legal principles are properly functioning competitive markets leading to an increase in societal welfare (Walters, 1992).

Because of the great benefits of properly functioning markets, government restrictions that violate individual liberty and freedom should be avoided unless there are compelling reasons for such interference (Walters, 1992) (Friedman, 1962). As an example, some jurisdictions have prohibited the practice of gambling because law makers in those jurisdictions believe the societal costs outweigh the societal benefits. So while COLI is justified using the concept of insurable interest, the lack of insurable interest might prohibit DPI based on the public policy against gambling.

A version of this argument assumes that insurance markets allow employers to profit from death. This assumption is prima facie incorrect for reasons previously stated. And even if it were profitable, the critics don’t give a compelling ethical reason why two parties privately contracting to a transaction contingent on the outcome of an event should be prohibited.

The critics’ second argument of intentional fraud or other moral hazard is undermined by the fact that both law enforcement and the insurance industry have a strong incentive to investigate and prosecute insurance fraud. When employees die under suspicious circumstances, employers are investigated. It makes little or no sense to believe that employers could be able to get away with subjecting millions of employees to greater risk of death to benefit sufficiently from DPI. The risk of criminal prosecution and the financial liability from insurance fraud would more than eliminate any possible benefit for the employer. In addition, workplace safety improvements have continuously improved after the passage of the Occupational Safety and Health Act of 1970 created OSHA (Carroll & Brown, 2023). During the period when DPI was legal, it would have been obvious to both employees and government regulators if corporations increase workplace risks.
While such an argument might appeal to some in society, these kinds of *ad hominem* attacks break down under scrutiny.

The critics’ third argument, that the employee’s family received no benefits from DPI, is both entirely accurate and entirely irrelevant. The critics’ argument insinuates that the insured had some property rights to an insurance policy even if they are not party to the insurance contract. Absent rights that did not exist prior to the DPI controversy, this was not accurate.

Employers were largely silent in response to this criticism. Their silence is easy to understand. Contract law involving life insurance policies clearly specifies that the owner explicitly designates a beneficiary and that no one else is entitled to the death benefit. While critics, the surviving family members, and their lawyers might covet the death benefit of DPI, they can make no legal or legitimate claim of ownership. Another good reason for avoiding a direct response was to avoid the public relations disaster of defending themselves against grieving families. Every rationale defense would come across as insensitive. Consider how either of the following two arguments would be twisted by the critics in the media. “You are taking ‘our’ death benefits. Taking what is legally ours is stealing”; “The employee and their family could have purchased as much life insurance as they wanted. The fact that they did not purchase insurance was proof that they did not want insurance.” The only rational response by the corporations was public silence and the hope that the courts and juries would be swayed more by law than emotions and sympathy.

Perhaps, for related reasons, employers followed the practice of keeping their DPI policies secret.

The critics’ fourth argument against DPI policies was that employees had the ‘right to know’ if their employer purchased DPI with the employee as the insured. This argument was sometimes coupled with the accusation of deception by some corporations especially after critics caught some employers lying about their purchases of DPI policies.

There is no question that lying is always unethical, but were such deceptions illegal? From the corporation’s perspective such information was confidential between them and their insurance company. During the 1980s and 1990s when employers were purchasing DPI on employees, insured employees had no legally established “right to know” about such policies. As the controversy evolved and the other stakeholders organized to appropriate the employer’s death benefits, one can certainly understand why employers and the insurance industry tried to keep DPI information confidential from the public.

The critics, the families of deceased employees, and their legal advocates made their argument by presuming that information about the insured belonged to them. Had this been true, it would have been a violation of their right to know. At the time DPI policies were being purchased, there was no legal right for outsiders to know anything about private contracts. Only after the controversy became public did some states pass laws giving employees and their survivors the right to know about and approve of DPI policies written on family members. The federal government took similar action with the FPP in 2006 to provide insured individuals with the right to know and approve of DPI policies. The FPP also removed the tax benefits, specifically the tax free death benefits and tax deferred growth of any investment component, for all future DPI
policies. DPI policies executed prior to state and federal restrictions were ‘grandfathered’. Those ‘grandfathered’ policies were likely retired as the policies lapsed.

The critics’ fifth argument involved accusations of vague ethical violations. Critics and survivors objected to DPI policies on the basis that the practice was callous, “creepy” or “ghoulish” (Marco, 2007) (Silvestrini, 2007) (McCann, 2014). These arguments, like portions of the preceding arguments, were based on emotions, feelings, dubious assumptions, questionable assertions of law, and logical fallacies. Notwithstanding the weaknesses of these arguments, state governments gradually passed new laws to curtail DPI.

When the public became aware of the existence of DPI policies in the late 1990s, the families of deceased workers filed and won lawsuits against the employers that purchased DPI policies. A comprehensive Wall Street Journal article (Schultz & Francis, 2002) provided five detailed examples of individuals who had been insured by their employers and where the surviving families had sued the employers for wrongdoing. To facilitate these lawsuits, the critics and legal activists successfully promoted a number of arguments, such as the right for insured individuals to know if employers purchased DPI policies on them. These new legal arguments allowed surviving family members to engage in lawsuits against the employers that owned DPI policies.

The Government’s Response to DPI Critics
DPI remained legal until some states reconsidered and reversed the decision to allow employers an insurable interest in all employees. Texas was one state that always prohibited the sale of DPI policies on rank and file employees. Even then, changes in the insurance regulations in one state did not eliminate the practice in other states. Corporations could simply purchase policies in states where it was still legal. For example, Wal-Mart purchased at least one DPI policy on a Texas employee in the state of Georgia where it was still legal (Silvestrini, 2007). Texas courts tried to claim and exercise jurisdiction over employers in Texas courts whenever it discovered out of state DPI policies in effect, but those policies were difficult to detect and prosecute. (Sixel, 2002)

Other states responded by assigning the “right to know and consent” to insured persons. In these states, employers could still purchase DPI insurance but only after informing the employee and getting their written consent. In many cases, employees denied their employers the ability to purchase DPI. And even where states failed to enact regulations and laws restricting DPI, many critics prevailed because judges, and juries were sympathetic to grieving families and accusations of corporate profiteering.

The FPP required notification and permission from the insured for all DPI policies in the US starting in 2006 (Appleby, 2021) (US Government, 2006). The FPP was largely responsible for curtailting DPI policies. After the FPP was passed, very few new DPI policies were sold and then only with the insured’s permission. As of 2023, it was unlikely that many DPI policies were still in effect. Insurance companies have paid out the death benefits or those policies have lapsed for the vast majority as the insured reach age 65.

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1 Wal-Mart stopped acquiring DPI policies in 1995 and terminated all outstanding DPI policies in 2000.
Can Insurance be Used as an Investment?

The accusation that employers were ‘profiting’ from the death of their employees, and the related question, ‘can life insurance be an investment?’ should raise serious concerns (Schultz & Francis, 2002) (Metre, 2016) (Twin, 2022) (Sixel, 2002) (McCann, 2014). If the industry accurately computes the risk of loss and calculates premiums so that they always profit, is it rational to conclude other stakeholders could profit from life insurance? Unless something is wrong with insurance markets, the answer is no.

On average, the purchase of insurance by a policyholder will produce a net negative return. Most policyholders will pay in more than their families receive in the form of death benefits. Of course, there will be individual cases where a policyholder dies young and their beneficiaries receive death benefits that exceed the premiums paid to the insurance company. But a good analyst will also note that death benefits are used to offset the loss of the wage earner’s lifetime income. Intangibles aside, this is an equal trade which is hardly a gain for the beneficiary of an insurance policy. It appears no rational investor uses insurance as an investment.

Why is it then that large businesses adopted the practice of purchasing DPI? It was unfortunate that no one ever offered a plausible explanation to justify why employers purchased DPI or explain why DPI was bad for society. The next section offers that plausible explanation.

ANALYSIS AND IMPLICATIONS

Very Large Corporations can Undermine Insurance Assumptions

DPI policies only yield profits for customers when the customers are able to exploit imperfections in the insurance market. The only way DPI policies could have been profitable were if corporations had better information on the health of their employees and their risk of dying than was available to the insurance industry. These companies could then chose to take out DPI policies on those employees most likely to die. Only the largest corporations, those with thousands of employees, have sufficient numbers of employees and the data collection capability required to calculate which employees to insure.

When an employer has the ability to monitor the health of large groups of employees on a daily basis, they can collect better information on the insured than the insurance companies get through underwriting. Employers can monitor an employee’s preventive measures to stave off illness through diet and exercise. They can monitor who gets sick frequently and who is overweight. Supervisors can monitor and record the health complaints of employees and those who are absent frequently due to their health. Ultimately, they can determine those employees most likely to have health problems and are likely to die. The senior managers can then purchase DPI policies only on employees deemed sufficiently risky.

From a statistical standpoint, to be profitable the corporation would purchase DPI on only a small percentage, perhaps 1%-5%, of employees most likely to die in the next few years. These
would be employees who possessed risk factors known to the employer but not the insurance company. It was this asymmetric information that gave employers the ability to gain advantage over the insurance market. The corporation would pay relatively low premiums on risky employees, which resulted in high aggregate revenues from the death benefits. This is, of course, dependent on developing sophisticated health and financial metrics for determining which employees to insure. Large corporate finance departments had the personnel and tools for developing the appropriate databases and metrics for selecting employees to ensure with DPI.

**Employee Information Available to the Largest Employers**

An employer interested in purchasing DPI policies on their employees would probably use all available information to make optimal choices about whom to insure. Large corporate employers have the ability to collect, organize, and use extensive amounts of information on their employees using Enterprise Resource Planning (ERP) systems. ERP Systems provide access to authorized individuals throughout the corporation. It is not hard to see how companies the size of Proctor and Gamble, Wal-Mart, and Disney, with their vast human resource databases could use that data for many valuable purposes. Determining the differences between the most and least healthy employees can be done by large employers if they structure daily routines to collect employee data.

When employees miss work, a supervisor might collect information explaining absences. Was it because the employee wanted to participate in a healthy activity like running a marathon? Or was it due to illness or other health related problem. Many employees are happy to discuss their beneficial activities and hobbies, such as cooking, swimming, biking, and running. Employees may also complain about their health problems, such as diabetes, heart disease, and cancer. Large corporate databases and data collection procedures can be set up to collect this kind of information automatically and from supervisor input.

Supervisors might observe the employees eating meals and note which employees eat healthy made-from-scratch meals, and which employees consume junk foods, such as candy, greasy chips, super-sized sodas, and overly caloric fast foods. The employer might collect information on observable health related issues that could potentially affect an employee’s work performance such as obesity. Observant managers might notice employees who regularly take large numbers of prescription drugs for treating illnesses.

If employers collected this type of health related information on vast numbers of employees, it would enable them to identify and select the least healthy employees to insure with DPI, and identify the healthy employees to avoid. This would give employers a powerful advantage over the underwriting process used by insurance companies for assessing the risk of death for the typical insurance customer.

While the preceding analysis is speculative, this explanation has an underlying logic that explains why corporations chose to spend over $8 billion on DPI. If employers were innocent of collecting employee data to use in undermining the insurance market with DPI, they would be
losing a lot of money by ‘investing’ in DPI. While there might be alternative explanations, this explanation fits theory and observation.

**Direct Economic Consequences of DPI**

The presence of employers with asymmetric information, purchasing large numbers of DPI policies, in the overall market for life insurance would create an economic inefficiency in the insurance market. When employers purchase DPI using asymmetric information, they will be able to generate more death benefit revenues than they pay in premiums. Tax free death benefits amplify those profits in ways unavailable with regular investments. All things equal, the payment of profits to employers would normally disadvantage insurance companies. In order to remain profitable, insurance companies respond by raising premiums on all insurance customers. Individual insurance consumers pay slightly more in premiums than is justified by the actual risk, and large employers earn a positive rate of return by insuring only those employees most likely to die.

The economic consequences of manipulation of the life insurance market is essentially that consumers will pay higher premiums for their insurance, and the insurance companies transfer a portion of those funds to employers who purchase DPI policies. When insurance policies are priced artificially high, individual consumers consume fewer policies than in efficient markets. When employers can profit from DPI policies, they respond by purchasing more DPI policies than in efficient markets. The overall effect is that individual insurance consumers overpay for insurance while both insurance companies and corporate DPI customers profit.

**Direct Ethical Consequences of DPI**

DPI is unethical based on the principle of distributive justice. It is distributively unjust to create market conditions that treat consumers differently unless there are justifiable reasons for different treatment (Velasquez, 1992). In the case of the DPI issue, there were no legitimate reasons why insurance companies should have given large employers an advantage over individual insurance consumers or smaller employers. The insurance industry concealed the existence of this market manipulation. Successful large employers already earned substantial profits from their market activities. Were these facts known, society would see transfers from individual consumers to large employers, who provide nothing in exchange, as unjust.

Voluntary and mutually beneficial exchanges between different parties are the basis of trade. Trade is founded on the ethical principles of freedom and of property rights. Trade views market manipulation, transferring property from one group to another without exchanging property and currency of similar value, as the crime of theft. Manipulation of insurance rates by corporate customers undermines the entire purpose of the insurance industry which is to manage risk due to the death of the insured. Tolerance of industry manipulation by the insurance industry equally undermines the trust of individual insurance customers.

**CONCLUSIONS**
The principle of insurable interest might be an old concept but it remains an endurable and valuable safeguard for insurance markets. Politicians and regulators did not need to protect society from DPI by inventing new rights and new legal theories, such as the right to know and the requirement to add non-participants to private contracts. All they needed was to apply existing legal principles such as insurable interest and property rights, and ethical principles such as distributive justice and economic freedom.

Those economic and ethical principles would have provided critics with rigorous normative arguments for opposing DPI. Emotional arguments against DPI that attacked a firm’s right to earn profits or that accused firms of being insensitive, ‘creepy’, or ‘ghoulish’ lacked logic and normative reasoning. The weakness of the critics’ argument and the obvious financial incentives to surviving family members, should have triggered some skepticism.

As this analysis of DPI has shown, DPI is detrimental to society both economically and ethically. DPI should have been opposed for the reasons presented – exploiting informational inefficiencies in markets undermines competitive markets. The economic theory of competitive markets requires all parties to have complete information about their consumptive choices (Walters, 1992). When one party to a transaction has more or better information, the disadvantaged party will be unable to properly value the transaction – in essence, the transaction will be inefficiently and unfairly priced.

Normative criteria such as from economics, law, and ethics provides standards by which society can judge the intentions and behaviors of the members of society (Carroll & Brown, 2023). These normative criteria allow us to judge intentions and actions as good or bad, right or wrong, virtuous or evil, fair or unfair (Velasquez, 1992). Feeling, emotions, greed, and self-interest do not qualify as normative criteria for judging intentions or actions of the members of society.

The critic’s conclusion about DPI was correct – DPI was detrimental to insurance markets. Their reasoning behind that conclusion was not. This begs a discussion of which is more important, a correct conclusion or a valid explanation that supports a correct conclusion? After all, should anyone trust a conclusion without adequate justification? In the case of DPI, the critics got lucky and guessed correctly. It does not mean that government decision makers should have listened.

But the critics did not show that DPI violated the general welfare using normative arguments. In fact, they offered no normative criteria at all for restricting the liberty and freedom of those who wanted to purchase DPI. Without normative reasoning, politicians and government bureaucrats should have resisted the critics.

**APPENDIX 1: Understanding Insurance**

**How Insurance Works for the Insurance Consumer**

Life insurance is a private legal contract between the insurance consumer and the insurance company. Insurance consumers purchase life insurance to ameliorate the loss of income due to
the death of an insured person. The insurance consumer (the owner) purchases a policy on the insured and the policy pays the beneficiary a predetermined amount (death benefit) if the insured dies. The owner buys the policy by making periodic payments (premiums) to the insurance company. The policy lapses and will be cancelled by the insurance company if the owner fails to pay the required premiums. Typically, the policy owner is the insured or the beneficiary. A common arrangement is for a member of a household to purchase a life insurance policy on the primary wage earner to ensure the survivors have replacement funds in the event of the sudden loss of wages due to the wage earner’s death. People purchase life insurance because the sudden risk of loss of an income earning member of a household is worse than the long term prospect of a monthly premium payment.

There are two basic types of life insurance: “term” insurance and “whole-life” insurance. Term insurance insures solely against the death of the insured. Whole-life insurance includes term life insurance plus an investment component managed by the insurance company. There are several different versions of whole-life insurance policies depending on the financial securities used for the investment. Whole-life policies can be analyzed as if they could be broken into their insurance and investment components. The government does not tax life insurance death benefits of either type of policy or the growth in the investment component of whole life policies until the investment is withdrawn.

Term life insurance is usually taken out on an insured person during those years when the insured is working and for an amount (the death benefit) that would replace a portion of their lifetime income if they should die before retirement. Term life insurance policies typically have premiums that increase drastically over the life of the insured, as the risk of death increases, and those policies usually expire at age 65. Most insurance customers allow term life insurance policies to lapse as soon as they have accumulated sufficient retirement savings to ‘self-insure.’ Whole-life policies generally have much larger, level premiums because a substantial portion of the premium is invested in the early years. As the insured ages and the risk of death increases, more of the premium is used to pay the insurance component of the policy and less to the investment component. Whole life policies usually mature at age 65 when the death benefits end and the insured can start withdrawing a retirement income from the investment component.

Insurance is costly. Owners pay periodic payments (premiums) to insurance companies. Premiums are determined by insurance companies and take into account the death benefit, and the risk of death of the insured which varies due to occupation, health, individual behaviors, and age. Insurance companies must collect sufficient premiums from all policy owners to pay for all company expenses including death benefits, overhead, and profits.

**How Insurance Works for the Insurance Company**

The insurance business model is sustainable when the probability of death for each insured individual in a population can be computed accurately. In addition the following assumptions must be true

1. The loss of life for any individual is random and cannot be predicted in advance
2. Losses are not caused or influenced any actor in society.

Underwriting is the process used by insurance companies to determine the probability of death for each insured individual. For life insurance, this involves determining the risk of dying and likelihood of paying on a policy and involves determining the insured’s age, general health, and other relevant factors that affect longevity. Each state’s insurance regulations limit the types and amount of information that can be legally collected by insurance companies. Underwriting ensures that each insured person pays premiums that reflect the likelihood of death at that point in their life. The underwriting process ensures that the total of all life insurance premiums equals the total of all policy payouts plus administrative costs plus company profits. Without the ability to run the industry in a sustainable way, insurance companies would not provide life insurance and there would be no life insurance industry.

The magnitude of this risk of the loss of an income decreases with the accumulation of retirement savings so that the aggregate need for life insurance decreases to zero, sometime well before retirement. This means a majority of people will outlive their life insurance. They will cancel their insurance policies after paying premiums for decades and never receive death benefits from an insurance company. What insurance consumers receive in exchange is the assurance that if their wage-earner dies while they are still dependent on those wages, they will receive the death benefit in exchange.

It is axiomatic that the companies that sell insurance earn profits. Customers who purchase insurance policies pay for that profit as a portion of the premiums. A minority of insured individuals will die. While the beneficiaries who collect death benefits may seem to profit, they do not. The death benefit merely replaces the income which would have been provided by the insured.

The expected value of any individual insurance policy is therefore always less than zero. Given properly functioning insurance markets, there is no way for insurance consumers to earn profits. Insurance policies cannot be used as an investment.

**Similarities between Insurance and Gambling**

One final note about the lack of insurable interest in the life insurance market. Since the owner of a DPI policy lacks insurable interest in the insured, that purchase most resembles gambling on the death of the insured. The only way gamblers can earn profits is if the establishment rigs the game in their favor. Gambling establishments go to extreme lengths to prevent gamblers from gaining an advantage over the establishment. Just as gambling is not a sound investment strategy for gamblers, neither should corporations treat DPI policies as investments.
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US Constitution. (1789, 1792, 1868).
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