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Damages Caps, Insurability, and the Performance of Medical Malpractice Insurance

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Abstract

This article uses the complete property-casualty insurance files of the National Association of Insurance Commissioners from 1984 to 1991 to assess the effect of medical malpractice reforms pertaining to damages levels and the degree to which these damages are insurable. Limits on noneconomic damages were most influential in affecting insurance market outcomes. Several punitive damages variables specifically affected the medical malpractice insurance market, including limits on punitive damage levels, prohibitions of the insurability of punitive damages, and prohibition of punitive damages awards. Estimates for insurance losses, premiums, and loss ratios indicate effects of reform in the expected directions, where the greatest constraining effects were for losses. The quantile regression analysis of losses indicates that punitive damages reforms and limits were most consequential for firms at the high end of the loss spectrum. Tort reforms also enhanced insurer profitability during this time period.

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