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"Crises" in medical malpractice insurance: Evidence of excessive price-cutting in the preceding soft market ☆

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Abstract

Prior work suggests that heterogeneous information or weak incentives for solvency could have caused some general liability insurers to charge low ex ante prices during the early 1980s and mid-to-late 1990s, putting downward pressure on other firms' prices and plausibly aggravating subsequent periods of rapid premium growth. We analyse whether the 1994–1999 "soft" market in medical malpractice insurance led some firms to underprice, grow rapidly, and subsequently experience upward revisions in loss forecasts ("loss development"), which could have aggravated subsequent market "crises". Consistent with the underpricing hypothesis, the results indicate a positive relation between loss development and premium growth among growing firms. Underpricing was likely more prevalent among non-specialist malpractice insurers.

JEL classification: G22; L8; L11

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