

## **MEDICAL MALPRACTICE: AVAILABILITY AND AFFORDABILITY**

Medical Malpractice insurance sector, dedicated for health care practitioners, was in a crisis since the 1970s. However, in the past 5 to 6 years it has drastically improved. The crisis existed because health care costs have been on the rise, and many policyholders became more litigious than in the past because of extensive media coverage and cultural changes in society. Various groups, including governmental and private organizations, have responded to this crisis and implemented and started extensive programs which have led to the increase in availability and affordability of this insurance.<sup>2</sup> Every state in the United States, except for West Virginia, passed reforms to deal with the crisis, and has also done research into avoidance of medical errors. Also, many doctors responded to the costly premiums by starting their own insurance pools with other doctors, and created competition in the sector. These make up half of the insurance coverage available today. The increased availability has led to an increase in supply of insurance policies that has led to increase in affordability.<sup>1</sup>

In recent developments of medical malpractice insurance, surveys show that rates are on a steady decline. Also, despite the growing number of availability and affordability of coverage, physicians are continuing to form risk retention groups (RRGs). Every year a dozen new RRGs are set up. These many new companies start off with no prior incurred or developed losses and therefore can afford to offer more favorable rates to physicians. This has increased competition in the sector as well. Premiums have also gone down because investment income has grown in the past few years. “According to the National Underwriter Data Services, the medical malpractice combined ratio, a measure of profitability, was 100.1 in 2005. This means that in 2005 for every medical malpractice premium dollar collected, insurers paid out a little over one

dollar in claims and expenses. This represents a significant drop from 2003, when the combined ratio was 138.8.”<sup>1</sup>

Multiple studies have been done to uncover the high costs of medical malpractice. University of Michigan did a three year study that revealed significant savings for errors that were disclosed and compensated for quickly and fairly. They found that between 2001 and 2005, litigation costs dropped from \$3 million to \$1 million and that the average time to settle claims and lawsuits also decreased from 20.7 months to 9.5 months. Considering that litigation costs center around 48% of a claim cost, one can understand why decrease in duration to settle claims has helped to lower costs. Another study found that this increase in lawsuits has had negative effects on health care costs. The PricewaterhouseCoopers found that increase in lawsuits has increased physicians attention to detail and has also increased the number of tests being conducted and many other defensive techniques that might be over and beyond what is necessary. But this type of prevention has partly led to increase in health care costs.<sup>1</sup>

Finance in medical sector has been a cyclical over time. Although the crisis of the 1970s no longer exists today, thanks to many research studies and reforms, there are still many unsolved problems at the core of the health care costs. These large costs play a significant role in the affordability and availability of medical malpractice insurance. Because of the many programs that have led to decrease in the frequency and severity of medical claims, and the increase in investment income, along with better physician care has led to increase in availability and affordability of medical malpractice in the past couple of years.

<sup>1</sup>: Insurance Information Institute. Medical Malpractice. <<http://www.iig.org/media/hottopics/insurance/medicalmal>>

<sup>2</sup>: William Sage, The Forgotten Third: Liability Insurance And The Medical Malpractice Crisis. Health Affairs, Volume 23, Number 4. Malpractice Crisis.