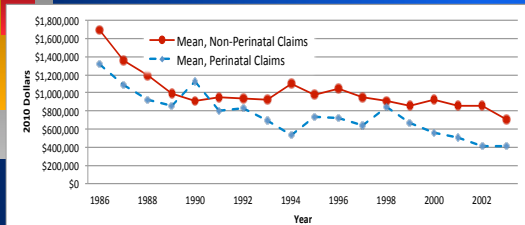
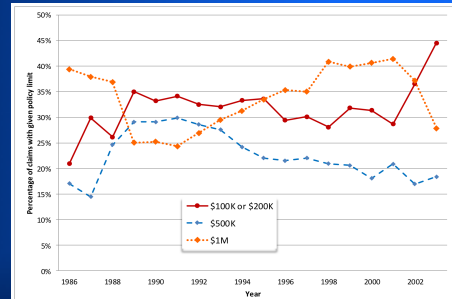


## Mean Real Policy Limits By Purchase Year



## Nominal Policy Limits By Purchase Year



## Few OOPPS: "Blood Money" Norms or Basic Economics?

- TX docs have reduced their personal exposure to near zero.
  - The remaining exposure appears to reflect a rational calculation that the added cost of a larger policy exceeds the added value.
- Why don't plaintiffs' attorneys pursue personal assets more often?
  - Baker (2001): Norm discourages lawyers from going after "blood money" barring special circumstances.
  - Economics 101: Opportunity cost of pursuing personal assets when policy limits are on the table exceeds the expected gain.

## Deterrent Impact of Tort Law

- Physicians have deficient incentives to protect patients from avoidable mistakes.
- The deterrent effect of med mal liability is mediated by insurers.
- Insurers do more than people think.
  - Risk-rated insurance premiums and underwriting.
  - Annual reviews upon renewal.
  - Required training and procedure compliance by physicians.
  - Discouraging part-time practice.
- Insurers' incentives are also deficient.

## Policy Limits Deserve More Attention

- Real policy limits have shrunk dramatically over time.
- Other changes (tort reforms, subrogation, etc.) have made med mal lawsuits less profitable.
  - Secular decline in med mal litigation.
- Financial responsibility is shifting/has shifted from providers and their insurers to patients, their insurers, and their families.

## A Simple Model . . .

