

Tort Liability, Insurance Rates, and the Insurance Cycle

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I provide an overview of volatility in premiums, coverage availability, and insurers' reported profits in U.S. commercial general liability insurance in the context of expanding tort liability. I first describe the "perfect markets model" of insurance prices and premium rates. I next summarize fluctuations in general liability insurance premiums, reported profits, and coverage availability during the past two decades and discuss whether the perfect markets model can largely explain those fluctuations. I then summarize other factors that may affect insurance market volatility and provide new evidence concerning one alternative: the possibility that aberrant pricing by some firms aggravates soft markets and, by implication, the severity of subsequent hard markets. I conclude with brief discussion of policy implications and areas for future research.