



STATE OF IOWA

KIM REYNOLDS
GOVERNOR

DOUG OMMEN
COMMISSIONER OF INSURANCE

ADAM GREGG
LT. GOVERNOR

March 1, 2019

Mr. W. Charles Smithson
Secretary of the Iowa Senate
State Capitol
Des Moines, Iowa 50319

Ms. Carmine Boal
Chief Clerk of the Iowa House
State Capitol
Des Moines, Iowa 50319

RE: Dram Shop Liability Insurance in Iowa Report

Dear Secretary Smithson and Chief Clerk Boal:

Enclosed please find the Iowa Insurance Division's first biennial report which evaluates the dram shop liability insurance market in Iowa pursuant to Senate File 2169.¹

If you have questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Doug Ommen", written over a horizontal line.

Doug Ommen
Commissioner of Insurance

¹ Senate File 2169 provides that biennially, an evaluation and report concerning minimum coverage requirements of dram shop liability insurance be conducted.

Dram Shop Liability Insurance in Iowa

First Biennial Report

for the period of January 1, 2016 to December 31, 2017

Pursuant to the directive within Senate File 2169 (codified at Code Section 505.33), the Iowa Insurance Division opened an investigation under Iowa Code §§ 505.11, 515I.3, and 515I.4 that requested dram shop data from insurance carriers that sold general liability coverage in Iowa. Those carriers were asked to provide annual statement-like details of insurance coverage written in Iowa for liability against a licensee or permittee for injuries sustained as a result of the sale and service of alcohol to an intoxicated person (dram shop liability coverage).

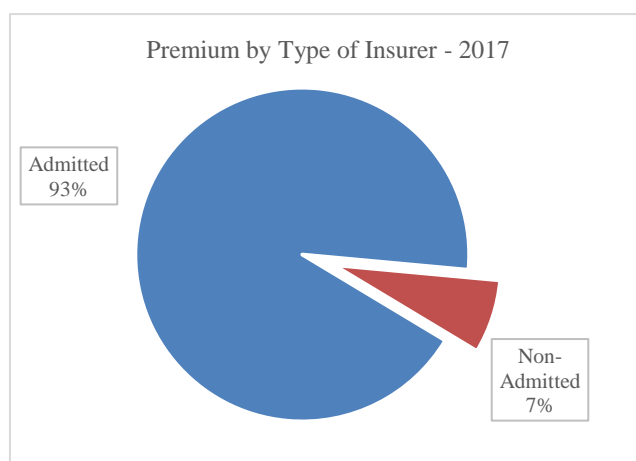
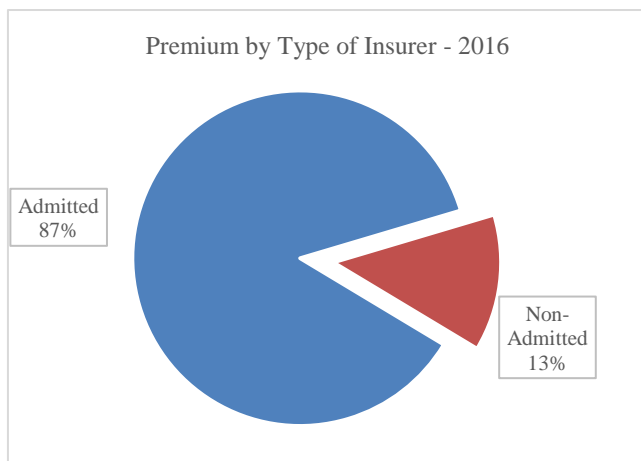
This report has been compiled using the data submitted by companies. As a result, the accuracy of this report is dependent on the accuracy of each company's submission. Future releases of this data may contain revisions.

Response Overview

Data was provided from 499 companies, 89 of which wrote dram shop liability premium in 2016 and 94 companies in 2017, which is an increase of 6%. The companies can be broken down into 43 separate NAIC group codes in 2016 and 45 in 2017.

The table and chart below break down the type of insurer and the amount of premium reported.

Type of Insurer	2016			2017		
	Number	Premium	% of Market	Number	Premium	% of Market
Admitted	79	\$ 7,249,171	87%	84	\$ 7,334,807	93%
Non-Admitted	10	1,086,083	13%	10	565,285	7%
Totals	89	\$ 8,335,254		94	\$ 7,900,091	



64 companies failed to respond to the data request, 40 of which are admitted carriers and 24 are non-admitted carriers. Appropriate action will be taken against the companies. Additionally, nine (9) non-admitted companies acknowledged receipt of the data request and affirmatively responded that the company would not be providing data.

Annual Statement

Below is a summary of the annual statement lines that were collected.

Annual Statement Line	2016	2017
Direct Premiums Written	\$ 8,335,254	\$ 7,900,091
Direct Premiums Earned	\$ 7,900,888	\$ 7,738,231
Dividends To Policyholders On Direct Business	\$ 119	\$ -
Direct Unearned Premium Reserves	\$ 3,903,542	\$ 3,775,963
Direct Losses Paid	\$ 1,984,582	\$ 2,432,386
Direct Losses Incurred	\$ 2,602,215	\$ 3,512,362
Direct Losses Unpaid	\$ 5,832,979	\$ 6,654,669
Direct Defense And Cost Containment Expense Paid	\$ 419,858	\$ 523,967
Direct Defense And Cost Containment Expense Incurred	\$ 465,646	\$ 714,729
Direct Defense And Cost Containment Expense Unpaid	\$ 1,094,731	\$ 1,170,127
Commission And Brokerage Expenses	\$ 1,545,447	\$ 1,507,560
Taxes, Licenses And Fees	\$ 83,910	\$ 84,671
Written Exposures (Annual)	5,178	4,902
Paid Loss Count	61	48
Claims Closed Without Payment	32	34

Direct Premium

As a whole, direct premium written decreased by 5.2% from 2016 to 2017. Correspondingly, direct premium earned and direct unearned premium reserves both decreased, by 2.1% and 3.3% respectively.

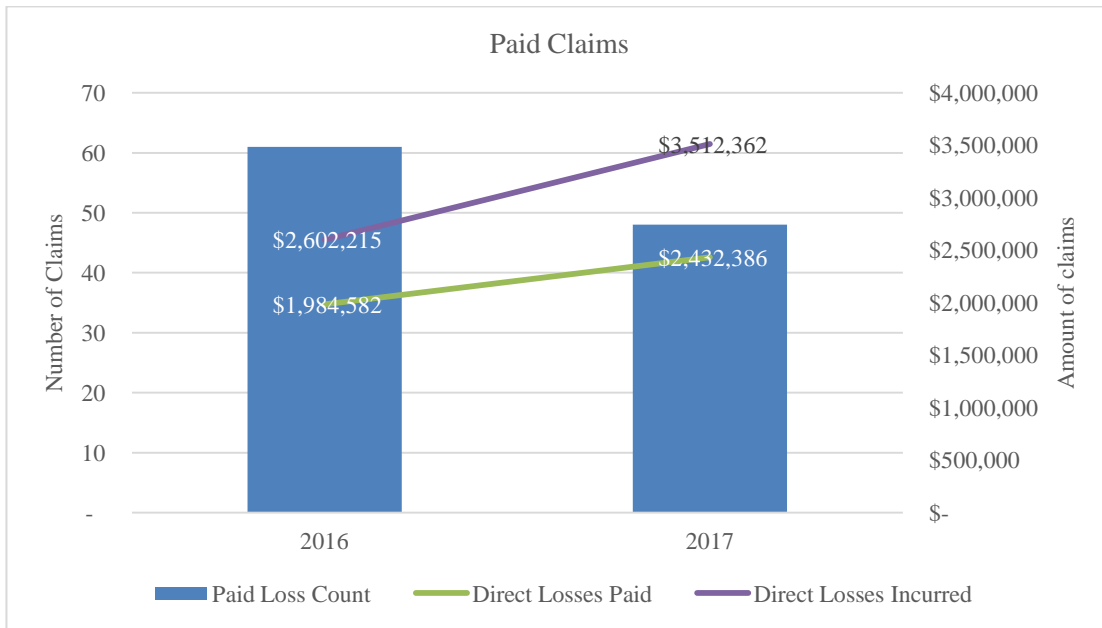
Dividends to policyholders

From 2016 to 2017, only one company, Grinnell Mutual Reinsurance Company, gave a policyholder dividend of \$119 which was paid in 2016.

Paid claims

From 2016 to 2017, companies reported fewer but costlier claims. In 2016, the average cost per paid claim was \$32,534; however, in 2017 the average was \$50,675. The loss ratio, or claims incurred as a percentage of earned premium, for all reporting companies was 33% in 2016 and 45% in 2017.

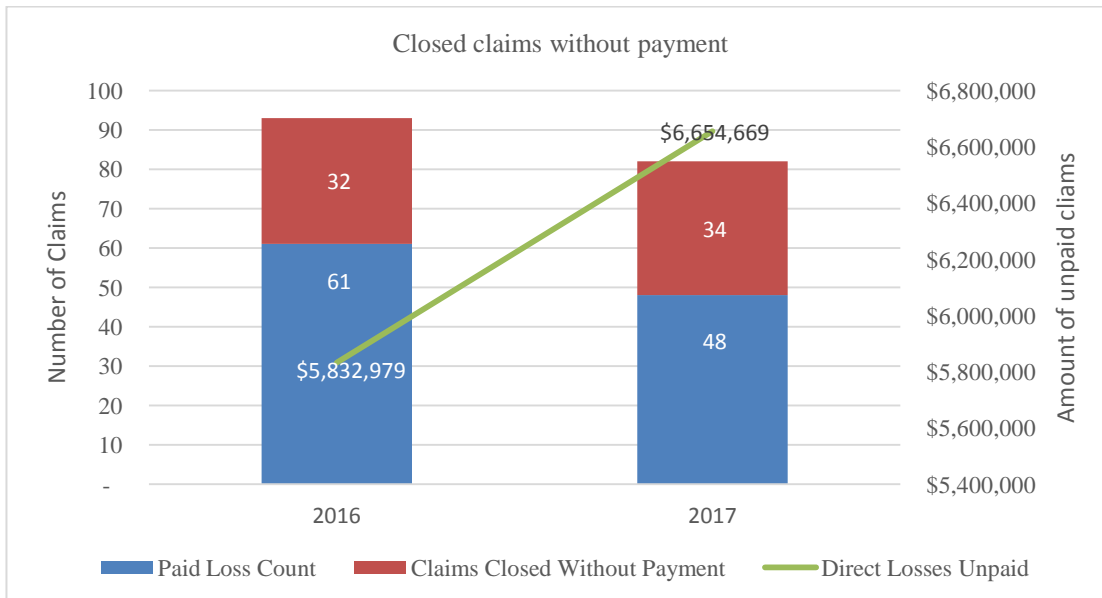
The graph below shows the increase in direct losses paid and incurred against the paid losses by count.



Claims closed without payment

In 2016, there were 61 paid losses reported and 32 closed without payment. In 2017, companies reported 48 paid losses and 34 closed without payment. The companies closed claims without payment at a rate of 52% in 2016 and 71% in 2017.

The graph below shows the percent of paid claims to closed claims without payment and the increase in amount of unpaid claims.



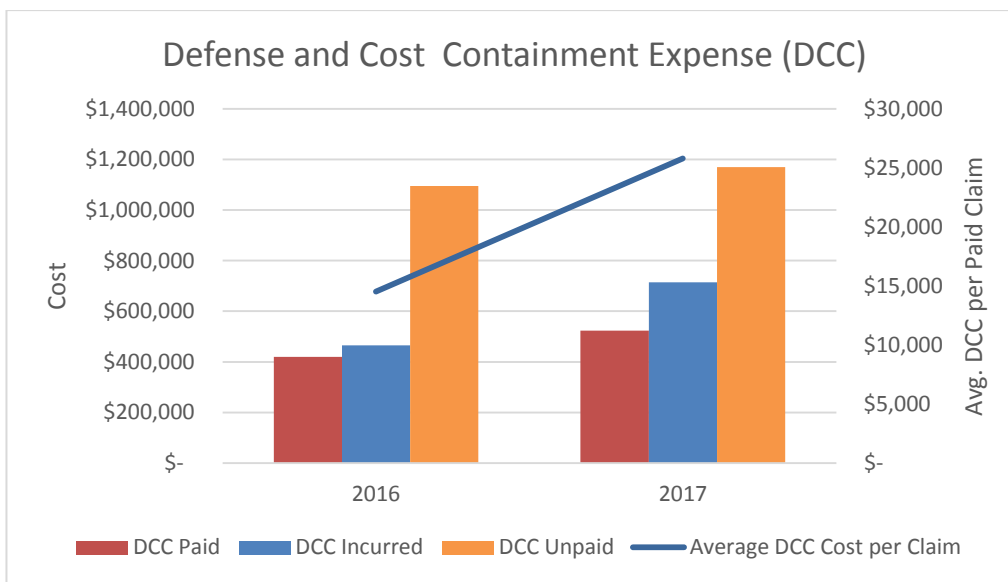
Defense and cost containment expense

Defense and cost containment (DCC) expense include defense, litigation, and medical cost containment expenses, whether as an internal or external expense.

The companies' DCC expense paid increased by 25% from \$419,858 in 2016 to \$523,967 which corresponds with the DCC expense incurred which increased by 53% that rose from \$465,646 to \$714,729.

The average cost of defending claims closed with payment was \$14,516 in 2016 and \$25,806 in 2017, which represents an increase of 78%.

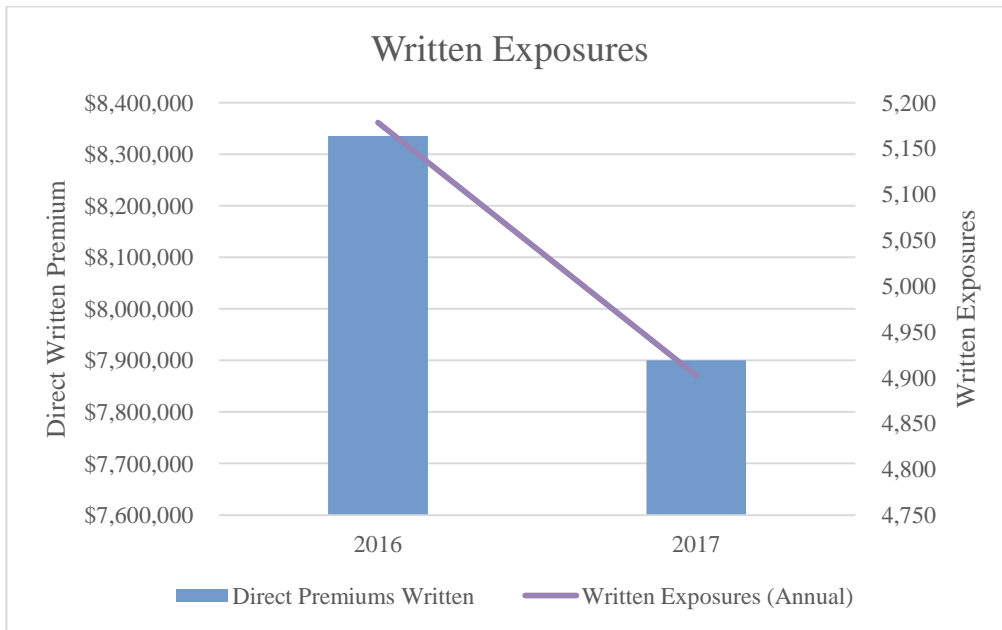
The chart below compares the DCC expenses and average DCC expense cost per claim.



Written Exposure

Written exposure was defined as one year of coverage for one establishment, or a count of establishments. The number of exposures decreased by 5% from 5,178 in 2016 to 4,902 in 2017. This correlates with the 5% decrease in premium. The average premium per exposure remained constant at \$1,610 in 2016 and \$1,611 in 2017.

The graph below shows the decreases in number of written exposures and the decrease in direct written premium.



Recommendation

In that only two years of data are available, it is premature to make a determination as to any trend or to evaluate the impact of legislative changes (SF 2169 effective July 1, 2018) and how such changes may have impacted the marketplace in Iowa.

The Iowa Insurance Division will work internally to develop an online portal and database for the companies to submit the required data thus reducing strain on resources. This would include a simpler option for carriers that do not sell dram shop coverage.

The Iowa Insurance Division recommends changing the due date to March 31st as to better match the annual statement filings and would include the dram shop request on the annual statement instructions. In addition, moving the due date would alleviate pressure on company resources during year-end financial accounting close. However, this would cause the report to the legislature to be one year in arrears.