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M E M O R A N D U M

Date: September 19, 2023

To: California State Lottery Commission

From: Alva V. Johnson, Director AJ

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Finance Division

Subject: Item 8(b) – Insurable Risk Analysis

ISSUE

Pursuant to the California State Lottery's (Lottery) Insurable Risk Policy, the Lottery is required to conduct an enterprise risk analysis every five years to ensure that it is tracking the appropriate risk exposures and that the Lottery is most effectively managing its insurable risk.

BACKGROUND

The Lottery's comprehensive risk management policy protects the Lottery's beneficiary by ensuring that insurable risks are effectively administered. This policy applies to all enterprise-wide insurable risks and determines the appropriate management solution for each risk. Further, the policy requires a periodic review and analysis of insurable risk exposures to optimize the organization's approach to managing those exposures while continuing to maximize supplemental funding for public education.

DISCUSSION

The Lottery conducted an enterprise-wide assessment of the organization's insurable risk exposures along with a comprehensive analysis (Analysis [attached]) to determine the most appropriate approach to manage these risks. The Analysis identified nine insurable risk categories that represented the Lottery's most significant risk exposures: property losses; general liability; automobile liability and physical damages; crime; errors and omissions; law enforcement and security liability; workers' compensation; cybercrime; and advertising injury. In its Analysis, the Lottery also acknowledged its capital risk tolerances, or its ability to absorb insurance related expenses without exceeding its statutory limit for administrative expenses.

Based on the Analysis, staff is recommending to continue with a combination of insurance and self-insurance to appropriately manage the Lottery's risks. Specifically, as shown in the table below, staff recommends transferring the risks shown in the left-hand column to an insurance provider and continuing to self-insure the risks shown in the right-hand column.

Proposed Lottery Insurance	**Proposed Lottery Self-Insurance**
Property Losses	General Liability Exposure
Automobile Liability (excluding physical damage)	Automobile Physical Damage
Workers' Compensation	Crime Exposures including Exposures to Third Party and Employee Theft
	Directors, Officers, and Public Officials Errors & Omissions Exposures
	Liabilities from Law Enforcement and Security
	Cybercrime
	Advertising Injury

Staff recommends continuing with a general risk exposure threshold of $15 million to determine which risks will be transferred to an insurance provider versus which risks will be self-insured. Any risks that are identified to be above the self-insurance threshold will be transferred to an insurance provider unless an exception is identified in the Analysis and approved by the Director. Lastly, staff recommends maintaining a $5 million reserve for insurable risk within the Lottery's annual budget to cover the majority of risks that the Lottery has elected to self-insure. As noted in the Analysis, the Lottery is actively assessing cybercrime coverage and commits to ongoing efforts, such as utilizing risk reports and maintaining cross-divisional committees, to mitigate crime exposure.

RECOMMENDATION

Staff recommends the California State Lottery Commission approve the recommendations included in the Lottery's Analysis and summarized above to appropriately manage the Lottery's insurable risk. These recommendations should best enable the Lottery to maximize the amount of supplemental funding provided to public education.

Attachment