

REPORT OF EXAMINATION
OF THE
TESLA PROPERTY & CASUALTY, INC.
AS OF
DECEMBER 31, 2022

Commissioners Signature

A handwritten signature in blue ink, appearing to be 'D. DeLoe', written over a horizontal line.

Filed on May 29, 2024

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Los Angeles, California
May 15, 2024

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

TESLA PROPERTY & CASUALTY, INC.

(hereinafter also referred to as the Company). The Company's statutory home office is located at 45500 Fremont Boulevard, Fremont, California 94538.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2022.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial

statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination and was conducted concurrently with the examinations of Tesla Insurance Company (California) and Tesla General Insurance, Inc. (Arizona). California served as the lead state.

COMPANY HISTORY

The Company was incorporated in the state of California on December 10, 1952, as Meritplan Insurance Company and commenced business on April 21, 1953.

On January 21, 2022, Tesla Insurance Holdings, LLC (TIH), a wholly-owned subsidiary of Tesla, Inc., acquired control of Tesla Insurance Company (TIC) (formerly known as Balboa Insurance Company), including its wholly-owned subsidiaries, the Company and Tesla General Insurance, Inc. (formerly known as Newport Insurance Company) from BA Insurance Group Inc (BA). In the first quarter of 2022, the Company's name was changed from Meritplan Insurance Company to its current name, Tesla Property & Casualty Insurance, Inc.

Tesla, Inc., the ultimate controlling entity, is a publicly traded company incorporated in Delaware and registered with the Security and Exchange Commission.

Capitalization

The Company is authorized to issue 300,000 shares of common stock with a par value of \$24 per share. As of December 31, 2022, there were 235,000 shares issued and outstanding and held by TIC.

Dividends

On November 20, 2019, the Company paid a return of capital distribution to TIC, in the amount of \$2,000,000. The California Department of Insurance (CDI) approved this transaction on November 8, 2019.

On December 17, 2021, the Company paid a return of capital distribution to TIC in the amount of \$1,500,000. The CDI approved this transaction on December 14, 2021.

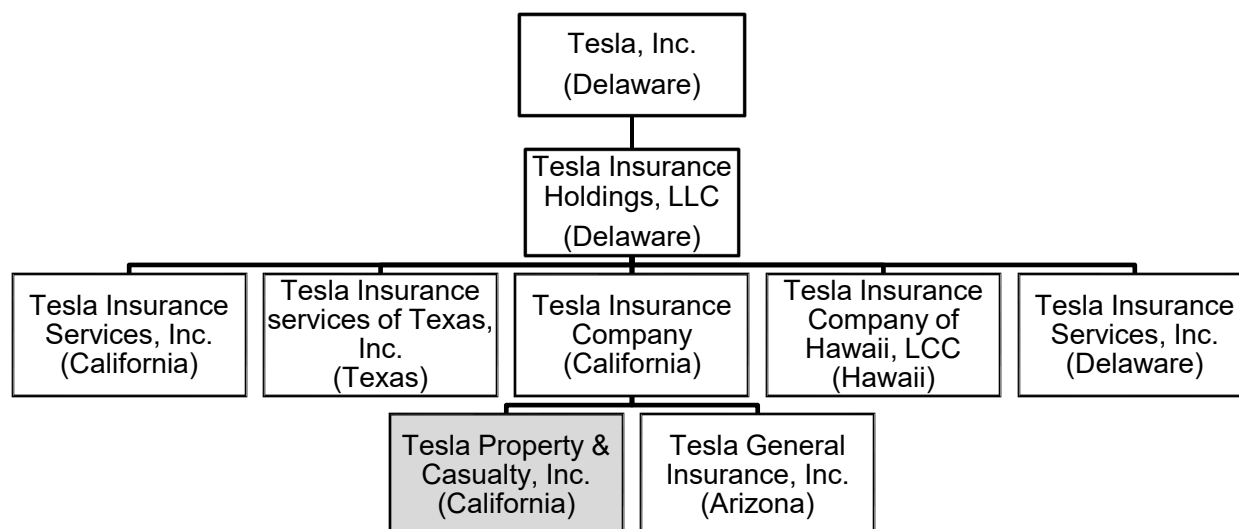
Capital Contributions

The Company received capital cash contributions from TIC in the amount of \$7,000,000, on December 30, 2022.

Subsequent to the examination period in September 27, 2023, November 3, 2023, and February 9, 2024, the Company received capital cash contributions from TIC in the amount of \$1,500,000, \$12,000,000, and \$15,000,000, respectively.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Tesla, Inc. is the ultimate controlling entity. Following is an abridged organizational chart reflecting the ownership structure at December 31, 2022. All ownership is 100%.



The three members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2022:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Zachary P. Kirkhorn ⁽¹⁾ Oakland, California	Chief Financial Officer Tesla Inc.
Charles S. Lee Fremont, California	Secretary Tesla Insurance Company
Nelson K. Wong ⁽²⁾ San Francisco, California	President and Chief Financial Officer Tesla Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Zachary P. Kirkhorn ⁽¹⁾	Chairman of the Board
Nelson K. Wong	President and Chief Financial Officer
Charles S. Lee	Secretary

⁽¹⁾ Effective August 4, 2023, Zachary Kirkhorn resigned from the Company's Board.

(2) Effective November 15, 2023, Nelson Wong was elected as the Chairman of the Board.

Management Agreements

Management Services Agreement: Effective April 18, 2022, the Company entered into a Management Services Agreement with Tesla Insurance Services, Inc. (TIS), an affiliate. Services provided by TIS to the Company include certain general management and administrative, the use of assets, legal and governmental relations, personnel, payroll and human resources, information systems and technology, finance and treasury, risk management and actuarial, auditing, office administration and logistics, and such other services the Company may request from time to time. TIS may also provide investment services, including trading, sales, and maintenance of short-term securities. Based on the terms of the Agreement, compensation shall be fair and reasonable in conformity with Statements of Statutory Accounting Principles (SSAP) No. 25, and shall be based on actual cost without a profit factor built into the cost. This Agreement was approved by the California Department of Insurance (CDI) on August 8, 2022, as required under California Insurance Code (CIC) Section 1215.5(b)(4). For 2022, the Company paid TIS \$228,886 in service fees.

Managing General Agency Agreement: Effective April 18, 2022, the Company entered into a Managing General Agency Agreement with TIS. TIS acts as the Company's general agent with respect to the sale of private auto insurance policies issued by the Company. TIS authority includes: productions, underwriting, accounting, and claims handling. The Company compensates TIS with a commission of 5.25% of net premiums earned. Additionally, the Company pays TIS the actual cost of fees incurred by TIS to adjust claims and for the settlement of claims. This Agreement was approved by the CDI on August 8, 2022, as required under CIC Section 1215.5(b)(4). For 2022, the Company paid TIS \$180,152 in agency fees.

Section 5 and Section 8 of the Management Services Agreement and the Managing General Agency Agreement, respectively, provide that amounts to be charged be presented to the Company no less frequently than on a quarterly basis, and such amounts

shall be due and payable within 30 days of such presentation. It was noted that charges under the agreements for the period under the examination were not settled in accordance with the terms of the agreements. It is recommended that the Company implement procedures to ensure future compliance with the settlement provisions of its affiliated management agreements.

During the course of the examination, it was observed that the Company began settling intercompany balances in accordance with the terms of the agreements, beginning in the third quarter of 2023.

Tax Sharing Agreement: CIC Section 1215.5(b)(4) requires, in part, that management agreements, involving a domestic insurer and any person in its holding company system, may be entered into only if the insurer has notified the commissioner in writing of its intention to enter into the transaction at least 30 days prior thereto, or a shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period. Effective January 21, 2022, the Company was included in a consolidated federal tax return with its ultimate parent, Tesla, Inc., without a written tax sharing agreement. It is recommended that the Company enter into a written tax sharing agreement with Tesla, Inc., and file the agreement with the CDI in compliance with CIC Section 1215.5(b)(4). On March 6, 2024, the Company filed a Tax Sharing Agreement with the CDI and is currently under review. In 2022, the Company received a refund of \$(1,849) on federal income taxes.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company was licensed in the following 37 states.

Alabama	Hawaii	Michigan	New Mexico	Tennessee
Arizona	Idaho	Minnesota	New York	Texas
California	Indiana	Mississippi	North Carolina	Utah
Colorado	Iowa	Missouri	Ohio	Washington
Connecticut	Kansas	Montana	Oklahoma	Wisconsin
Delaware	Kentucky	Nebraska	Oregon	
Florida	Louisiana	Nevada	Pennsylvania	
Georgia	Maryland	New Jersey	South Carolina	

The Company’s primary line of business is private passenger automobile. The Company started writing new premiums during the second quarter of 2022. During 2022, the Company wrote \$5,953,493 in direct premiums written. Of the total direct premiums written \$3,329,566 (56%) was written in Colorado, \$1,783,919 (30%) was written in Maryland, \$681,764 (11%) was written in Utah, and \$158,244 (3%) was written in Minnesota. In 2023, the Company began writing business in Texas.

Prior to 2023, the Company’s business was produced solely by its affiliate general agent, Tesla Insurance Services, Inc. (TIS). In 2023, the Company appointed Tesla Insurance Services of Texas as its managing general agent, solely pertaining to its business in Texas. The Company’s primary sales channel utilizes direct, online, and app-based quote flows for new and existing Tesla vehicle owners. The Company utilizes a call center staffed with licensed agents employed by TIS.

LOSS EXPERIENCE

The Company experienced underwriting losses and net losses as of December 31, 2022, as well as in the subsequent period as of December 31, 2023 as follows:

<u>Year</u>	<u>Net Underwriting Losses</u>	<u>Net Losses</u>	<u>Surplus</u>
2022	\$ (1,234,935)	\$ (1,234,935)	\$ 15,953,059
2023	\$ (20,205,155)	\$ (20,037,349)	\$ 24,415,710

The main causes of the net underwriting losses and net losses in both 2022 and 2023 were primarily attributed to a higher-than-expected loss ratio on the private passenger automobile line of business, commissions expenses, and premium deficiency recorded when the Company commenced writing new business. As discussed in the COMPANY HISTORY section above, the Company received capital contributions from its parent, Tesla Insurance Company, to alleviate the losses.

REINSURANCE

Intercompany Reinsurance Agreement

Since January 1, 2005, the Company, Tesla Insurance Company (TIC), and Tesla General Insurance Inc. (TGI), participated in the Property and Casualty Companies Pooling Agreement. Under the terms of the Agreement, all business net of non-affiliated reinsurance is pooled. The pooled premiums, losses, and expenses are reapportioned and shared by the three companies, using the following percentages: 4% each for the Company and TGI, and 92% for TIC. The pooling agreement was approved by the California Department of Insurance (CDI) on April 4, 2005. This Agreement was amended as of January 21, 2022 to limit the business pooled thereunder to the business transacted by the companies immediately prior to January 21, 2022. As a result of the amendment, this Agreement has no effect on any business transacted by the companies on or subsequent to January 21, 2022. The amendment was approved by the CDI on March 10, 2023, as required under California Insurance Code Section 1215.5(b)(4).

Assumed

Other than the Property and Casualty Companies Pooling Agreement discussed above, the Company had no other active assumed reinsurance business as of the examination date.

Ceded

Effective June 1, 2011, the Company entered into a 100% Quota Share Reinsurance Agreement with QBE Insurance Corporation (QBE), an authorized reinsurer. Pursuant to this Agreement, QBE assumed substantially all of the insurance liabilities of the Company, whether arising before or after the effective time of the reinsurance, for contracts of insurance or reinsurance (1) issued by the Company on or before June 1, 2011, relating to property and casualty business (other than involuntary unemployment insurance and warranty/service contract insurance) or (2) issued by the Company after June 1, 2011, at the direction of QBE.

ACCOUNTS AND RECORDS

Annual Statement Instructions

According to the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions, Actuarial Opinion Section, Paragraph 7, the actuarial report should be consistent with the documentation and disclosure requirement of the Actuary Statement of Practice (ASOP) No. 41. The actuarial report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to the Company management, the Board of Directors, the regulator, or other authority the findings, recommendations, and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. The technical component must show the analysis from the basic data, e.g., loss triangles, to the conclusions.

Based on a review of the Company's 2022 Actuarial Report, it was determined that the technical component did not contain a complete set of exhibits in sufficient detail providing a clear demonstration of how the analysis supports the Statement of Actuarial Opinion. However, additional information was provided during the course of the examination in order for the Casualty Actuary with the California Department of Insurance to evaluate the work. It is recommended that the Company implement procedures to ensure compliance with the documentation and disclosure guidelines outlined in the NAIC Annual Statement Instructions for the Actuarial Report.

Bylaws – Committee Minutes

According to the Company's Amended and Restated Bylaws – Article III. Committees, Section 3.2 Committee Minutes, each committee of the board shall keep regular minutes of its meetings. However, the Investment Committee and the Information Security Committee convened concurrently with the board meetings and the board meeting minutes incorporated the board committee minutes. As a result, no separate meeting minutes were kept from the meetings of the Investment Committee or the Information

Security Committee. It is recommended that the Investment and Information Security Committees keep regular meeting minutes (separate from the board meeting minutes) in accordance with the Company's Bylaws.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments on financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statement as a result of the examination.

Statement of Financial Condition as of December 31, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through December 31, 2022

Statement of Financial Condition
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 2,953,513	\$	\$ 2,953,513	
Cash and short-term investments	14,006,206		14,006,206	
Receivable for securities	1,300,000		1,300,000	
Investment income due and accrued	26,659		26,659	
Uncollected premiums and agents' balances in the course of collection	2,618,447		2,618,447	
Amount recoverable from reinsurers	(7,207)		(7,207)	
Receivable from parent, subsidiaries and affiliates	158,380		158,380	
Aggregate write-ins for other than invested assets	449,547		449,547	
Total assets	<u>\$ 21,505,545</u>	<u>\$ 0</u>	<u>\$ 21,505,545</u>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 1,604,705	(1)
Reinsurance payable on paid losses and loss adjustment expense			4,463	
Loss adjustment expenses			108,040	(1)
Other expenses			249,450	
Taxes, licenses and fees			105,478	
Unearned premiums			3,009,665	
Ceded reinsurance premiums payable			9,822	
Aggregate write-ins for liabilities			<u>460,863</u>	
Total liabilities			5,552,486	
Aggregate write-ins for special surplus funds		\$ 39,671		
Common capital stock		5,640,000		
Gross paid-in and contributed surplus		10,047,919		
Unassigned funds (surplus)		<u>225,469</u>		
Surplus as regards policyholders			<u>15,953,059</u>	
Total liabilities, Surplus, and other funds			<u>\$ 21,505,545</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2022

Statement of Income

<u>Underwriting Income</u>	<u>Notes</u>
Premium earned	\$ 2,943,828
Deductions:	
Losses incurred	\$ 2,640,218
Loss adjustment expenses incurred	66,646
Other underwriting expenses incurred	971,365
Aggregate write-ins for underwriting deduction	<u>500,534</u>
Total underwriting deductions	<u>4,178,763</u>
Net underwriting loss	(1,234,935)
 <u>Investment Income</u>	
Net investment income earned	<u>\$ 73,761</u>
Net investment gain	73,761
 <u>Other Income</u>	
Aggregate write-ins for miscellaneous loss	<u>\$ (43,407)</u>
Total other loss	<u>(43,407)</u>
Net loss	<u>\$ (1,204,581)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021	\$ 10,157,640
Net loss	\$ (1,204,581)
Surplus adjustments:	
Paid-in	<u>7,000,000</u>
Change in surplus as regards policyholders for the year	<u>5,795,419</u>
Surplus as regards policyholders, December 31, 2022	<u>\$ 15,953,059</u>

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2018 through December 31, 2022

Surplus as regards policyholders, December 31, 2018				\$ 13,403,894
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net loss	\$	\$	952,450	
Change in provision for reinsurance			1,614	
Surplus adjustment: Paid-in			<u>3,500,000</u>	
Total gains and losses	<u>\$</u>	<u>\$</u>	<u>3,501,614</u>	<u>952,450</u>
Net increase in surplus as regards policyholders				<u>2,549,164</u>
Surplus as regards policyholders, December 31, 2022				<u>\$ 15,953,058</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary with the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2022, were found to be reasonably stated, and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements - Tax Sharing Agreement (Page 6): It is recommended that the Company enter into a written tax sharing agreement with Tesla, Inc., and file the agreement with the California Department of Insurance (CDI) in compliance with California Insurance Code Section 1215.5(b)(4). On March 6, 2024, the Company filed a Tax Sharing Agreement with the CDI and is currently under review.

Accounts and Records – Annual Statement Instructions - Actuarial Report (Page 8): It is recommended that the Company implement procedures to ensure compliance with the documentation and disclosure guidelines outlined in the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions for the Actuarial Report.

Accounts and Records – Bylaws – Committee Minutes: (Page 9): It is recommended that the Investment and Information Security Committees keep regular meeting minutes (separate from the board meeting minutes) in accordance with the Company's Bylaws.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

Elizabeth Nielson, CFE
Examiner-In-Charge
Contract Examiner
Noble Consulting
Department of Insurance
State of California

Cuauhtemoc Beltran, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California