

REPORT OF EXAMINATION
OF THE
TESLA INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

Commissioners Signature

A handwritten signature in blue ink, appearing to read "D. DeLoach", 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 INSURANCE COMPANY

(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 Property & Casualty 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 February 6, 1948, as Balboa Insurance Company and commenced business on April 15, 1948.

On January 21, 2022, Tesla Insurance Holdings, LLC (TIH), a wholly-owned subsidiary of Tesla, Inc., acquired control of the Company, including its wholly-owned subsidiaries, Tesla Property & Casualty, Inc. (formerly known as Meritplan Insurance 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 Balboa Insurance Company to Tesla Insurance Company.

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 30,000 shares of common stock with a par value of \$170 per share. As of December 31, 2022, there were 25,000 shares issued and outstanding and held by TIH.

Dividends

On October 29, 2018, the Company paid an extraordinary cash dividend to BA in the amount of \$10,000,000. The California Department of Insurance (CDI) approved this transaction on October 23, 2018.

Return on Capital

On October 29, 2018, the Company paid a return of capital distribution to BA in the amount of \$15,000,000. The CDI approved this transaction on October 23, 2018.

On November 20, 2019, the Company paid a return of capital distribution to BA in the amount of \$7,000,000. The CDI approved this transaction on November 8, 2019.

On December 31, 2021, the Company paid a return of capital distribution to BA in the amount of \$20,000,000. The CDI approved this transaction on December 14, 2021.

The Company received a return of capital distributions from its subsidiary, Tesla Property & Casualty Insurance Inc., in the amounts of \$2,000,000 and \$1,500,000, in 2019 and 2021, respectively.

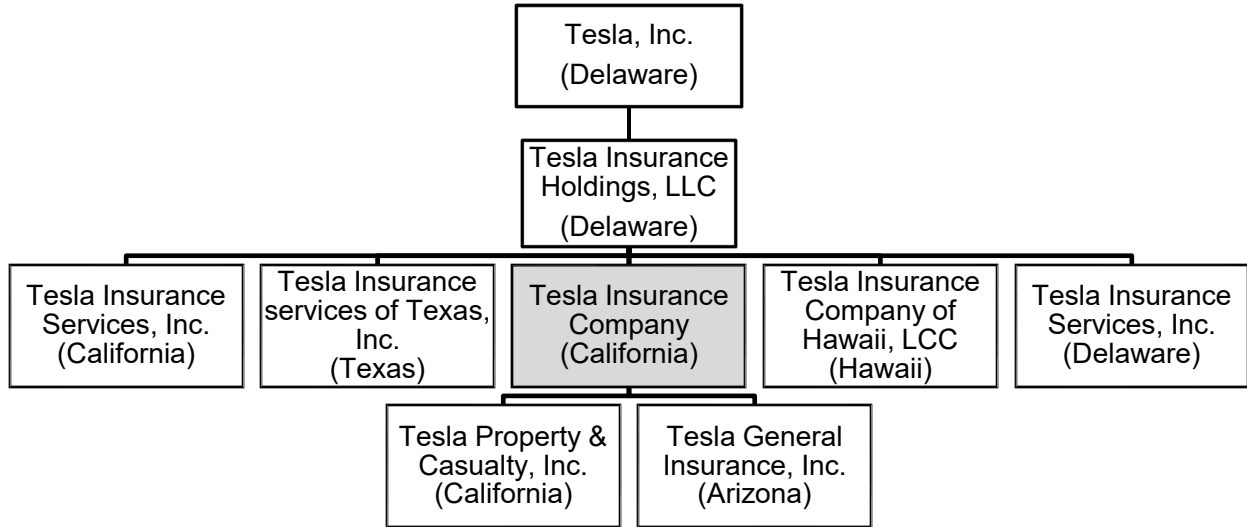
Capital Contributions

The Company received capital cash contributions from TIH in the amounts of \$1,250,000, \$250,000, and \$9,000,000 on April 20, 2022, August 30, 2022, and December 30, 2022, respectively. The Company made corresponding capital cash contributions to Tesla General Insurance, Inc., in the amounts of \$1,250,000, \$250,000, and \$2,000,000, on April 20, 2022, August 30, 2022, and December 30, 2022, respectively. The Company also made a capital cash contribution in the amount of \$7,000,000 to Tesla Property & Casualty, Inc. on December 30, 2022.

In addition, there was a \$310,722 tax payable on the Company's books at acquisition, which was paid by BA and recorded as an equity contribution by the Company in 2022.

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). No fees were paid by the Company to TIS in 2022 as the Company is not currently writing business.

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). No fees were paid by the Company to TIS in 2022 as the Company is not currently writing business.

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 which is currently under review. The Company did not pay or receive a refund on federal taxes in 2022.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company was licensed in all 50 states, the District of Columbia, Guam, U.S. Virgin Islands, and the Commonwealth of the North Mariana Islands. The Company is licensed in the state of Louisiana on a surplus lines basis only. The Company is not currently writing new business and has a pending new program filed with the California Department of Insurance to write personal automobile insurance in California.

REINSURANCE

Intercompany Reinsurance Agreement

Since January 1, 2005, the Company, Tesla Property and Casualty, Inc. (TPC), 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: 92% for the Company, and 4% each for TPC and TGI. 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

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	\$ 6,501,858	\$	\$ 6,501,858	
Common stocks	22,988,190		22,988,190	
Cash and cash equivalents	1,522,902		1,522,902	
Investment income due and accrued	97,368		97,368	
Uncollected premiums and agents' balances in the course of collection	235,689		235,689	
Amount recoverable from reinsurers	25,644		25,644	
Aggregate write-ins for other than invested assets	<u>1,124,083</u>		<u>1,124,083</u>	
 Total assets	 <u>\$ 32,495,734</u>	 <u>\$ 0</u>	 <u>\$ 32,495,734</u>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 20,020	(1)
Loss adjustment expenses			892,400	(1)
Other expenses			856,793	
Ceded reinsurance premiums payable			633,027	
Payable to parent, subsidiaries and affiliates			8,273	
Aggregate write-ins for liabilities			<u>(912,421)</u>	
Total liabilities			1,498,092	
Aggregate write-ins for special surplus funds	\$ 912,421			
Common capital stock		4,250,000		
Gross paid-in and contributed surplus		24,000,386		
Unassigned funds (surplus)		<u>1,834,835</u>		
Surplus as regards policyholders			<u>30,997,642</u>	
Total liabilities, Surplus, and other funds			<u>\$ 32,495,734</u>	

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

Statement of Income

<u>Underwriting Income</u>	<u>Notes</u>
Premium earned	\$ 0
Deductions:	
Losses incurred	\$ (938,716)
Loss adjustment expenses incurred	(59,654)
Other underwriting expenses incurred	<u>394,198</u>
Total underwriting deductions	<u>(604,172)</u>
Net underwriting gain	604,172
 <u>Investment Income</u>	
Net investment income earned	<u>\$ 227,796</u>
Net investment gain	227,796
 <u>Other Income</u>	
Aggregate write-ins for miscellaneous loss	<u>\$ (998,368)</u>
Total other loss	<u>(998,368)</u>
Net loss	<u>\$ (166,400)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021	\$ 25,463,770
Net loss	\$ (166,400)
Change in net unrealized capital losses	(5,120,823)
Surplus adjustments:	
Paid-in	10,810,722
Aggregate write-ins for gains in surplus	<u>10,373</u>
Change in surplus as regards policyholders for the year	<u>5,533,872</u>
Surplus as regards policyholders, December 31, 2022	<u>\$ 30,997,642</u>

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

Surplus as regards policyholders, December 31, 2018			\$ 78,011,500
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 156,319	\$ 6,212,677	
Change in net unrealized capital gains		6,212,677	
Change in provision for reinsurance	221,404		
Surplus adjustment: Paid-in		31,189,278	
Dividend to stockholders		10,000,000	
Aggregate write-ins for gains in surplus	<u>10,373</u>		
Total gains and losses	<u>\$ 355,096</u>	<u>\$ (47,401,955)</u>	
Net decrease in surplus as regards policyholders			<u>(47,013,859)</u>
Surplus as regards policyholders, December 31, 2022			<u>\$ 30,997,642</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 which is currently under review.

Accounts and Records – Bylaws – Committee Minutes: (Page 8): 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