

EXAMINATION REPORT OF
TOYOTA MOTOR INSURANCE COMPANY
CEDAR RAPIDS, IOWA
AS OF DECEMBER 31, 2020

West Des Moines, Iowa
May 19, 2022

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

TOYOTA MOTOR INSURANCE COMPANY

CEDAR RAPIDS, IOWA

AS OF DECEMBER 31, 2020

at the Company's home office, 6565 Headquarters Dr. PM351, Plano, Texas 75024.

INTRODUCTION

Toyota Motor Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2015 by examiners of the Iowa Insurance Division. The examination reported herein was conducted as an examination of the Company by the contracting firm, Risk & Regulatory Consulting, LLC, on behalf of the Iowa Insurance Division.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2016 to close of business on December 31, 2020, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company 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 significant findings of fact and general information about the insurer and its financial condition.

HISTORY

On March 1, 1990, Toyota Motor Credit Corporation acquired a shell company, formerly Iowa National Mutual Insurance Company (Iowa National), from the liquidator of Iowa National. The Company was converted from a mutual company to a stock company and the name changed to the current name in accordance with the restated Articles of Incorporation adopted on March 1, 1990.

CAPITAL STOCK AND DIVIDENDS THEREON

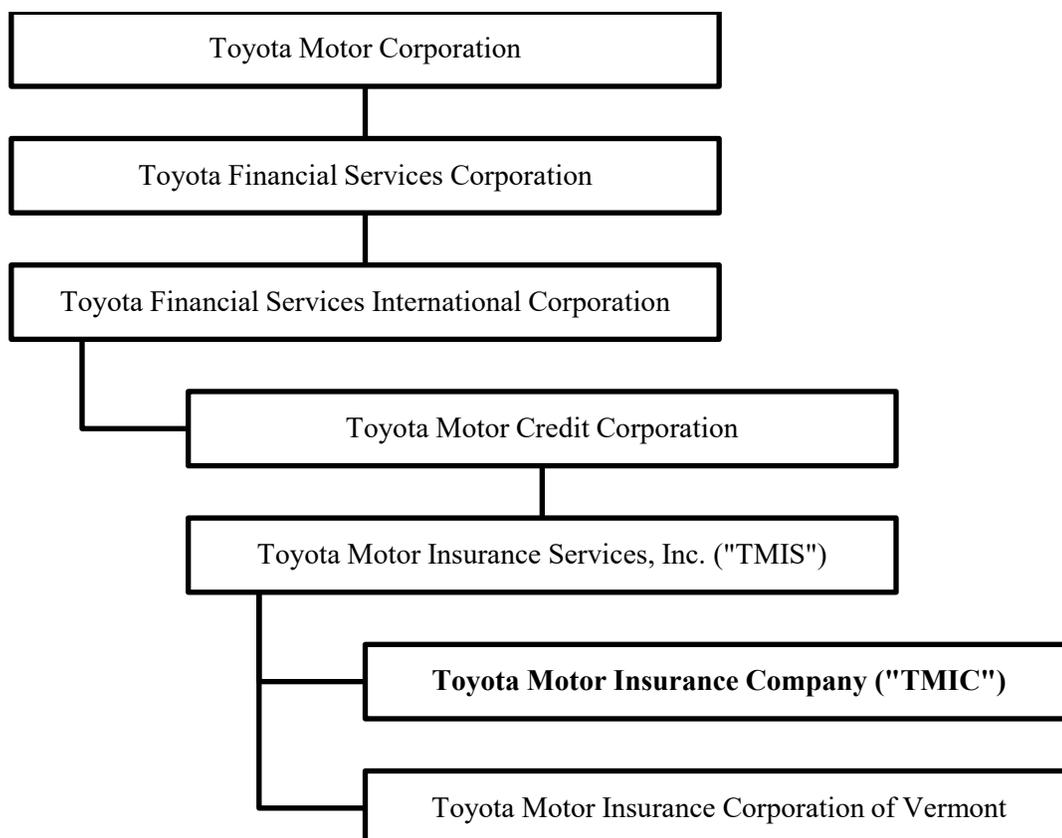
The Articles of Incorporation provide for authorized capital of 50,000 shares of common stock with a par value of \$1,000 per share. The number of shares issued and outstanding as of December 31, 2020 is 3,000, resulting in a common capital stock account of \$3,000,000. Gross paid in and contributed surplus totaled \$54,690,000. There has been no change in these balances during the period under examination. The immediate parent, Toyota Motor Insurance Services, Inc. (TMIS), currently holds all outstanding shares.

The Company paid \$19,600,000 ordinary dividends to TMIS on November 26, 2018. This was the only dividend paid during the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. An Insurance Holding Company System Registration Statement was filed annually with the Insurance Division of Iowa for each year of the examination period.

An abbreviated organizational chart of the Toyota holding company system directly related to Toyota Motor Insurance Company is shown below.



AFFILIATE AGREEMENTS

Insurance Management Services Agreement

Effective January 15, 1997, the Company entered into a Management Services Agreement with TMIS.

The Company appointed TMIS as its general agent and underwriting manager with respect to the Company's business in each of the states of the U.S. in which the Company and TMIS are licensed to transact insurance by a state insurance department.

TMIS has the power and authority for the solicitation, underwriting and servicing of policies, which includes the underwriting and pricing of each application for insurance, the collection of premiums, making of endorsements, changes and modifications to insurance policies, and effecting cancellation and non-renewal of policies. The Company retains the ultimate right and responsibility to refuse any risk and/or cancel any policy.

The Company has the ultimate responsibility for claims adjustments and payments. TMIS receives all claims, reviews, processes, investigates, adjusts, and settles or resists all claims. In addition, TMIS arranges for appropriate reinsurance and provides all marketing and advertising services.

TMIS collects all funds due the Company and all funds are held by TMIS in a trustee bank account or depository separate from any other account or depository. TMIS pays all expenses which they incur in the performance of their duties. The Company is responsible for all expenses which the Company incurs.

TMIS receives fees based on the reasonable cost of providing such services. The Management Services Agreement states that the fees shall be no greater than the Company would expend in providing such services for itself, the fees shall be paid on a monthly basis. At the end of each calendar quarter, TMIS and the Company may adjust the fees based upon the costs and expenses of the services.

Affiliate Transaction Settlement Agreement

Effective January 1, 2007, the Company entered into an Affiliate Transaction Settlement Agreement with Toyota Motor Insurance Services, Inc., Toyota Motor Insurance Company of Vermont, Toyota Credit de Puerto Rico Corp, Toyota Motor Credit Corporation, and Toyota Motor Sales, U.S.A., Inc.

Under this agreement, the Company and each affiliated entity agree to settle all payments relating to any transactions between the Company and that particular affiliated entity within sixty days of the applicable transaction, unless otherwise mutually agreed to.

Tax Sharing Agreement

Effective April 1, 2006, Toyota Financial Services Americas Corporation (name changed to Toyota Financial Services International Corporation effective July 1, 2016) and each of its affiliates, including the Company, entered into a Tax Sharing Agreement.

This agreement states that each party shall calculate income and other taxes based on its own income, books and financial statements. If Toyota Financial Services International Corporation or its parent company prepares and files a consolidated tax return that includes the net income of any affiliate, the affiliate shall pay to Toyota Financial Services International Corporation an amount equal to the affiliate's tax liability on a stand-alone basis or the increase in consolidated tax liability attributable to the inclusion of the taxable income of the affiliate whichever is less.

First Dollar Contractual Liabilities Policies and Reimbursement Policies

The Company has First Dollar Contractual Liability Policies and Reimbursement Policies in place with TMIS. These are filed in various states (for approval by that state) for the various programs sold by the Company. TMIS is the contract provider for the programs available to purchasers or lessors of vehicles from dealers. These agreements note that TMIS is obligated to pay liabilities and collect premiums from dealers. If TMIS fails to timely complete obligations, then dealers can directly file claims with TMIC.

MANAGEMENT AND CONTROL

SHAREHOLDERS

The annual meeting of the shareholders shall be held not later than six months following the end of the Company's fiscal year, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. Written notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to shareholders entitled to vote thereat not less than ten nor more than fifty days before the date of the meeting, by the secretary or the assistant secretary, but such notice may be waived in writing by any shareholder.

Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Chairman of the Board, the President or by the Board of Directors, and shall be called by the President at the request of the holders of not less than one-tenth of all outstanding shares of the corporation entitled to vote at any such meeting.

The Articles of Incorporation provide that, "at all meetings of the shareholders, each holder of common stock will be entitled to one vote for each such share held". Only persons in whose names' shares entitled to vote are registered on the stock records of the corporation on the day of any meeting of shareholders, unless some other day be fixed by the Board of Directors for determination of shareholders of record, shall be entitled to vote at such meeting. A majority of the outstanding shares of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders for the transaction of business.

BOARD OF DIRECTORS

The Bylaws provide that the business and affairs of the Company shall be managed by a Board of Directors of at least five but not more than ten members, provided that the authorized number of directors within such range shall be determined from time to time by the Shareholders or by the Board of Directors. Each director shall be elected by the Shareholders at each annual meeting thereof and shall serve for a term of one year or until his or her successor is elected and qualifies, or until his or her earlier resignation or removed. Directors need not be residents of the State of Iowa. Directors shall be at least eighteen years of age and a majority shall be citizens and residents of the United States.

The Bylaws require the Board of Directors to meet immediately after, and at the same place as, the annual meeting of shareholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Iowa, for the holding of additional regular meetings without other notice than such resolution.

Special meetings of the Board may be called by or at the request of the Chairman of the Board, the President or any Vice President who is a director. The person or persons calling a special meeting of the Board of Directors may fix any place either within or without the State of Iowa, as the place for holding thereof.

Elected members serving as directors at December 31, 2020 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Mark S. Templin University Park, TX	President and Chief Executive Officer Toyota Motor Credit Corporation	2021
Mao Saka Frisco, TX	Treasurer Toyota Motor Credit Corporation	2021
Alec D. Hagey Prosper, TX	Group Vice President, Sales, Product and Marketing Toyota Motor Credit Corporation	2021
Diane Y. Gilbert Frisco, TX	National Manager – Insurance and Commercial Lines Toyota Motor Credit Corporation	2021
Scott D. Cooke Westlake, TX	Group Vice President and Chief Financial Officer Toyota Motor Credit Corporation	2021

COMMITTEES

The Company's Board of Directors has not established any committees. Toyota Motor Credit Corporation's Board of Directors and certain management committees will perform certain functions on behalf of TMIC.

OFFICERS

The Bylaws direct that the officers of the Company shall be a President, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by, and hold office at the pleasure of the Board of Directors. The Company may also have, at the discretion of the Board of Directors, a Chairman of the Board and one or more Assistant Secretaries, one or more Assistant Treasurers and such other officers as may be elected or appointed by the Board. Any two or more offices, except those of President and Secretary may be held by the same person.

Officers duly elected and serving at December 31, 2020 were:

<u>Name</u>	<u>Title</u>
Mark S. Templin	President and Chief Executive Officer
Mao Saka	Executive Vice President and Treasurer
Alec D. Hagey	Group Vice President
Ellen L. Farrell	Secretary
William P. Neubauer	Assistant Secretary

CONFLICT OF INTEREST

The Company has an established procedure for disclosure to Internal Audit of any material interest or affiliation on the part of its directors, officers or key employees which is in, or likely to, conflict with the official duties of such person. The members of the Board of Directors all provided signed conflict of interest disclosures. No instances of conflict of interest situations were reported.

Effective October 28, 2021, the Company established its own Code of Ethics for the CEO and Senior Financial Management.

CORPORATE RECORDS

There were no amendments to the Articles of Incorporation or Bylaws during the examination period.

Review of the Examination Report prepared by the Iowa Insurance Division, as of December 31, 2015, by each member of the Board of Directors was not documented as required by Iowa Code 507.10. Rather, the Board of Directors documented in its meeting minutes that a summary of that Examination Report was provided to each member of the Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

The Company is insured under a crime bond providing \$1,000,000 of coverage. This meets the minimum requirements set by the NAIC. In addition, Toyota Motor Insurance Services, Inc., the parent company, has errors and omissions coverage with a \$5,000,000 aggregate limit and property coverage of \$500,000,000.

EMPLOYEE WELFARE

The Company has no employees. All services are provided through the management agreement with Toyota Motor Insurance Services, Inc.

REINSURANCE

Assumed

The Company assumed 50% quota share percentage of reinsurance from a third party, Sentruity Casualty Company, related to the Tire and Wheel program written through a third-party administrator until the agreement was discontinued effective September 4, 2018. The Company continues to run off this business and assumed cancelations of \$110,000, loss and loss adjustments payments & case reserves of \$136,000 and unearned premium of \$494,000 in 2020.

Ceded

The Company cedes certain risk from the Vehicle Service Agreements (VSA), Guaranteed Auto Protection (GAP), and Used Vehicle Limited Warranty (UVLW), written through certain dealers to non-affiliated, not-controlled foreign corporations (NCFC) and controlled foreign corporations (CFCs); also referenced as Producer Owned Reinsurance Companies (PORCs), Affiliated Reinsurance Companies (AFCs), or affiliated CFCs, less ceding commissions and certain expenses, such as premium and excise taxes. ARCs are not affiliated with TMIC but with dealers.

Below is a summary of the NCFCs and CFCs in place at December 31, 2020:

- There is one NCFC – North Bay Reinsurance Ltd, SPC., which provides coverage for VSA and UVLW coverage.
- There are 24 enrolled CFCs in VSA
- There are 11 enrolled CFCs in UVLW
- There are 63 enrolled CFCs for GAP coverage.

Due to the reinsurers all being unauthorized, the Company withholds premiums in an amount covering all reserves or obtains a letter of credit. The balance in the funds held account was \$35,724,104 including interest of \$17,023,018 at December 31, 2020. The collateral is controlled by TMIC and TMIC pays interest income on the collateral funds to the reinsurers.

The Company wrote \$150,100,957 in direct premiums for 2020 of which a total of \$10,668,744 in premiums were ceded or 7.1%.

There were only four commutations during the examination or subsequent to date. The net impact of the commutations was immaterial.

STATUTORY DEPOSITS

The 2020 book/adjusted carrying values of securities held in custodial accounts for the benefit of all policyholders totaled \$3,333,111. All other special deposits were held with book/adjusted carrying values as follows:

Arkansas	\$120,293	New Mexico	\$360,878
Delaware	120,293	North Carolina	360,878
Georgia	40,098	Oregon	120,293
Massachusetts	120,293	Virginia	240,586
Nevada	240,586		

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in all fifty states and the District of Columbia. Premiums written by the Company relate to providing contractual liability coverage to providers or obligors of VSA, GAP agreements, Excess Wear and Use (EWU) agreements, Tire and Wheel (TW) agreements, Key Replacement Protection (KRP) agreements and UVLW agreements.

The Company uses a direct marketing system. The reimbursement insurance policies issued by the Company to participating Toyota, Lexus, Mazda and their affiliated dealerships are handled by Area Sales Managers (ASMs) who are salaried employees of the Company's parent company. No commissions are paid to the ASMs for the solicitation.

Annual statement lines of business may be reported as Warranty, Credit, Write- ins or Other Liability depending on the state and product. Earned premiums in 2020 totaled \$106,933,194.

\$65 million - GAP: The Company provides reimbursement insurance coverage to lessors or creditors of the GAP product. GAP waives the lessee's or buyer's deficiency balance owed to the financial institutions in the event a lease or retail customer suffers a total loss of their vehicle due to collision, destruction or theft.

\$15 million – VSA: The Company provides contractual liability coverage to obligors of VSAs in states where required by statute. VSAs provide for the repair or replacement of coverage components due to mechanical failure during the term of the agreement, and include additional benefits such as roadside assistance. VSAs are marketed to franchised Toyota and Lexus dealers as well as non- Toyota/Lexus dealerships.

\$21 million - EWU: The Company provides reimbursement insurance coverage to Toyota Motor Credit Corporation (TMCC) under the EWU product which waives excess wear and use charges assessed at lease termination. EWU coverage includes dings, dents, minor interior damage, etc. This product is offered only on new Toyota and Lexus vehicles with lease financing by TMCC and is provided through participating dealers.

\$4 million - TW: The Company provides contractual liability coverage to obligors of the TW product in states where required by statute. The TW product, introduced in December 2013, provides coverage in the event that a covered vehicle's tires or wheels become damaged as a result of a road hazard or structural failure due to defect in material or workmanship to the extent not covered by manufacturer or tire distributor warranty. TW is marketed to franchised Toyota and Lexus dealers as well as non-Toyota/Lexus dealerships.

Less than \$1 million - KRP: The Company provides coverage for expenses related to replacing or reprogramming keys or key remotes in the event of damage or loss.

Less than \$1 million - UVLW: The Company provides coverage for used vehicles repair or replacement of covered components in the event of mechanical failure.

GROWTH OF COMPANY

The growth of the Company is reflected by the following data taken from the Company's copies of the filed annual statements for the years indicated.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2016	\$ 518,572,411	\$ 246,850,440	\$ 73,391,845	\$ 48,413,196	\$ 12,921,768
2017	557,737,157	254,109,588	80,658,507	59,264,074	13,536,464
2018	557,788,908	236,655,814	88,397,598	73,810,534	15,140,307
2019	620,023,911	241,869,675	95,623,858	79,479,593	16,883,724
2020	684,418,230	284,437,138	106,933,194	56,364,216	14,938,342

ACCOUNTS AND RECORDS

Trial balances were prepared for all years of the examination period. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2020.

SUBSEQUENT EVENTS

Amendment to the Articles of Incorporation and Bylaws

Effective December 2, 2021, the Articles of Incorporation and the Bylaws were amended to remove the requirement that the annual meeting of the shareholders had to be held within six months following the prior fiscal year end.

Affiliate Captive Insurance Company

TFS Reinsurance Hawaii, Inc., a Hawaii Corporation and captive insurance company, was incorporated in October 2021. TFS Reinsurance Hawaii, Inc. is a wholly owned subsidiary of Toyota Financial Services Corporation and an affiliate of the Company.

COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2020.

STATEMENT OF ASSETS, LIABILITIES AND SURPLUS

ASSETS

	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 520,804,830	\$ -	\$ 520,804,830
Cash and cash equivalents	132,501,539	-	132,501,539
Investment income due and accrued	2,449,976	-	2,449,976
Uncollected premiums in course of collection	16,326,196	-	16,326,196
Net deferred tax asset	<u>16,363,354</u>	<u>4,027,665</u>	<u>12,335,689</u>
 Total assets	 <u>\$ 688,445,895</u>	 <u>\$ 4,027,665</u>	 <u>\$ 684,418,230</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 24,540,987
Reinsurance payable on paid losses and loss adjustment expenses	80,647
Loss adjustment expenses	630,444
Other expenses	353,097
Taxes, licenses and fees	625,902
Current federal and foreign income taxes	8,937,473
Borrowed money	17,023,018
Unearned premiums	325,718,975
Funds held by company under reinsurance treaties	18,711,087
Provision for reinsurance	18,000
Payable to parent, subsidiaries and affiliates	<u>3,341,462</u>
 Total liabilities	 <u>\$ 399,981,092</u>
 Common capital stock	 \$ 3,000,000
Gross pain-in and contributed surplus	54,690,000
Unassigned funds (surplus)	<u>226,747,138</u>
 Surplus as regards policyholders	 <u>\$ 284,437,138</u>
 Total liabilities and surplus	 <u>\$ 684,418,230</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 106,933,194

Deductions

Losses incurred \$ 56,364,216

Loss adjustment expenses incurred (566,826)

Other underwriting expenses incurred 28,159,902

Aggregate write-ins for underwriting deductions (3,228,372)

Total underwriting deductions \$ 80,728,920

Net underwriting gain (loss) \$ 26,204,274

Investment Income

Net investment income earned \$ 14,938,342

Net realized capital gains (losses) 9,950,296

Net investment gain (loss) \$ 24,888,638

Other Income

Aggregate write-ins for misc. income \$ (367,216)

Total other income \$ (367,216)

Net income before federal income tax \$ 50,725,696

Federal and foreign income taxes incurred 8,677,101

Net income \$ 42,048,595

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019 \$ 241,869,675

Gains and (Losses) in Surplus

Net income \$ 42,048,595

Change in net unrealized capital gains or (losses) 30,358

Change in net deferred income taxes 1,764,338

Change in non-admitted assets (1,502,828)

Change in provision for reinsurance 227,000

Change in surplus as regards policyholders for the year \$ 42,567,463

Surplus as regards policyholders, December 31, 2020 \$ 284,437,138

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ 136,158,701	
Net investment income	<u>16,196,911</u>	
Total		\$ 152,355,612
Benefit and loss related payments	\$ 74,037,647	
Commissions, expenses paid and aggregate write-ins	28,164,130	
Federal income taxes (paid) recovered	<u>2,924,614</u>	
Total		<u>\$ 105,126,391</u>
Net cash from operations		<u>\$ 47,229,221</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 303,343,162	
Net gains (losses) on cash and cash equivalents	<u>(500)</u>	
Total investment proceeds		\$ 303,342,662
Cost of investments acquired (long-term only):		
Bonds	<u>\$ 297,615,542</u>	
Total investments acquired		<u>\$ 297,615,542</u>
Net cash from investments		<u>\$ 5,727,120</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>\$ 1,832,678</u>	
Net cash from financing and miscellaneous sources		<u>\$ 1,832,678</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	\$ 54,789,019
Cash, cash equivalents and short-term investments:	
Beginning of year	<u>77,712,520</u>
End of period	<u>\$ 132,501,539</u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company is hereby acknowledged.

In addition to the undersigned, Jan Moenck, CFE, CIA, CFSA, CISA, CIRD, and Dave Evans, CFE, of Risk & Regulatory Consulting, LLC, participated in the examination and preparation of this report.

A review of losses and related items was performed under the direction of Dave Heppen, FCAS, MAAA, Jennifer Balester, FCAS, MAAA, and Andrew Chandler, ACAS, MAAA, of Risk & Regulatory Consulting, LLC.

A review of information technology was performed under the director of Tom Hayden, CISA, AES and Jan Moenck, CFE, CIA, CFSA, CISA, CIRD, of Risk & Regulatory Consulting, LLC.

Respectfully submitted,

/s/ Sara Jean Schumacher
Sara Jean Schumacher, CFE
Examiner in Charge
Risk & Regulatory Consulting, LLC
On behalf of the Iowa Insurance Division

/s/ Amanda Theisen
Amanda Theisen, CFE
Supervisor and Assistant Chief Examiner
Iowa Insurance Division