PLAINTIFF'S EXHIBIT 22

MEMO

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CONFIDENTIAL

TO: M. R. Greenberg **Date:** October 15, 1999

RE: Special Review - Auto Warranty Business - Status

History of Business

Division 16 began writing Auto Warranty business in 1993 in Southfield Michigan with the majority of underwriting staff recruited from Motors Insurance Company, a division of General Motors. Dan Sosniak headed the division from 1993-1995. Underwriters established and filed rates based on a modified GM experience model, which had a different portfolio mix than the business written by AIG. The first rate filings were implemented for VSC in December 1994 and MBI in January 1995. Rates were consistent across TPA's irrespective of TPA loss experience, systems capabilities, claims handling expertise, etc.

Our relationship with Warrentech was established in 1993. During the same period, auto warranty business was separately written and managed by Lexington on the GE account beginning in 1992; consequently, there were no filed rates for the GE program. GE subcontracted the administration of the business to ISI, including underwriting, premium and claim reporting and claim settlement. Profitability and TPA mismanagement issues resulted in the termination of our relationship with GE.

In 1994, AIG contracted with North American Technologies (NAT) to develop a database to maintain information reported by TPAs. The database was intended to enable AIG to run statistical data to manage the business at the TPA level. The NAT system was funded via surcharge to the TPA's. The system was developed without edits for required data fields, integrity checks, etc. Premium and claim transactions were bulk coded into the AIG underwriting and claims systems.

In 1995, Tom Knighten was hired to manage the warranty division in Michigan. Dan Sosniak subsequently left the company. Data submitted from the TPA's continued to be incomplete and/or inadequate. The Division did not enforce complete and accurate reporting by TPAs, resulting in an inability to monitor TPA results or evaluate rate adequacy based on loss experience.

In 1996, the management of Auto Warranty business was consolidated into the Product Warranty business, under Mark Vivori. All functions including underwriting and monitoring of auto warranty business were moved from Michigan into New York. Tom Knighten canceled the ISI business based on a Profit Center audit of ISI, however, Mark Vivori signed a new contract with ISI in December 1996 and released ISI from any previous erroneous practices. New MBI rates were filed in 1997.

The NAT system continued to be managed by North American Technologies and data was still not reliable, reconciled or formatted in a useful way. There were delays in receiving data from TPAs and numerous accuracy issues. A project was undertaken in 1998 by Ted Heller to review and reconcile NATS financial data to monthly TPA premium and claim bordereaux submissions. T. Heller was successful in reconciling inception to date financial data through 1998 and initiated the use of NATS financial data in improving the underwriting audit approach.

Operational and Control Issues

Premium rates utilized were not adequate.

- During 1997, the profit center updated rates and presented them to Mark Vivori. In October 1997, Mark Vivori negotiated 10% rate increases from TPAs. These increases were known to be insufficient, however, Mark Vivori believed that this was all that the market would bear. Warrentech did not accept the rate increases until early 1998. These increases were recorded as negative expenses under Allowance to Managers. This resulted in a understatement of earned premium and an overstatement of loss ratios. An actuarial review in mid-1998 indicated that rates were still inadequate.
- Extended Eligibility coverage was significant. This cover allows the purchase of a warranty by a car owner at any point prior to the expiration of the underlying manufacturers' warranty. Extended eligibility risks have a significantly higher loss experience, however the coverage was priced at normal rates plus $80 surcharge for all warranties irrespective of the type of vehicle or the timing of the purchase of the warranty. The profit center calculated the surcharges solely to compensate for lost investment income, believing that no anti-selection would occur. This type of coverage currently constitutes approximately half of contracts inforce.
- There were no controls in place to determine if required premium rates were actually charged and reported. An audit was performed in September, 1998 of Warrentech by the auto warranty division and revealed an average deficiency of 5.8% in premiums remitted.
- Our review indicates that dealer markups average 300%; AIG inception to date premium totaled $532MM, however the amounts charged by dealers totaled $1.6B. For business reported by Warrantech, dealer markups for approximately 26K contracts were over 1000%. It appears that most of the margins are retained by the TPAs and dealers.

Underwriting process and premium/contract reporting was not managed by AIG or TPA.

- There were no reviews to determine timeliness of reporting by the TPA or to determine if dealers were selling warranties as losses were incurred.
- Pre-numbered contracts are not utilized or contract sequence numbers managed to detect unreported premium. There were no controls to ensure timely and complete reporting of contracts sold. It was possible for dealers to withhold premiums and only remit them if there was a claim.
- Warranty contract coverages are inclusionary rather than exclusionary.
- Cancellations were not monitored for timeliness and accuracy of premium calculations.

AIG Auto Warranty did not manage TPA claim adjustment practices or give incentive to TPA to manage claim costs.

- Commissions on the MBI business ranged from 40-50%. The VSC business had no commissions; large dealer and TPA mark-ups encouraged the TPA to grow the business. Profit sharing arrangements provided a possible incentive for TPAs to manage claim costs. However, this was negated by the poor emerging loss experience since performance did not warrant payouts under the plans.
- The TPA claim authority levels were established at $6K; few claims reached this level, essentially rendering the Home Office approval process moot.
- Warranty contracts do not permit directing customers to repair shops, nor do TPA's steer customers to selected/network repair shops. Customers bring cars to repair shops of their choice, hindering our ability to manage claim costs. There are approximately 6,400 selling dealers reflected in our system, however claims are associated with over 50,000 repair shops.

Business was not properly managed or audited by AIG Auto Warranty.

- Under the contract, the TPA was required to use best efforts and good faith to achieve underwriting profits. However, TPA performance was not monitored to ensure compliance with this requirement.
- Audits were based on small samples selected by the TPA, resulting in satisfactory test results. Exception based reports were not utilized to highlight potential problems.
- Financial audits performed by DBG controllers pointed to abuses such as commingling of premium funds due AIG with the TPA's operating accounts, sweeping premium and claim funds into outside accounts which invest in such things as euro-dollars and repurchase agreements and lack of security obtained.
- Until late 1998, the underwriting and claims audits that were performed were operational rather than technical. Once technical audits were done in late 1998, premium reporting and claim handling deficiencies were identified and corrective action initiated (see profit center actions taken section for further discussion).

Credit review not performed and security not consistently obtained.

- A parental guarantee was not obtained from ISI although one was obtained from Warrantech. Security was also not obtained from Dimension, MBA, or Universal. In addition, one TPA, North American Warranty Services (NAWS) had a 95% quota share reinsurance agreement with Illinois Insurance Company, a wholly owned entity of the TPA. The reinsurer is now in receivership.
- In 1997, controls were amended requiring each TPA to set aside a certain amount ($5-$20) per contract in an escrow fund. This fund would be utilized to defray costs associated with finding an alternative administrator in the event of contract termination. Warrentech appears to have been excluded from this arrangement. ISI has a fund of $3.3M, however, AIG Auto Warranty is not certain that funds were maintained by any other TPA's.

Reinsurance Issues

- Eighty percent of the book was reinsured with Lloyds (1993-1995) and OPL(1995-1997). The reinsurance arrangement was canceled by Mark Vivori in 1997 to accommodate new profit sharing agreement. Subsequently, the reinsurer insisted that cancellation be retroactive to 9/30/96. We have been retaining the risk 100% net since the termination of the OPL arrangement. In addition, we provided a stop loss cover to OPL capping their loss ratio on the run-off book at 120%.
- Approximately 30 captives were established under the ISI and Warrantech programs by the TPA's with no financial review or approval by AIG. Ongoing financial reviews have not been performed, nor have security trust deficiencies been evaluated and addressed.

Profit Center Actions to Date

During May 1998, Rey Hernandez became the President of the Warranty Division and instituted actions to address profitability and business management issues. Management initiated changes in staffing to include better qualified personnel to perform claim audits and manage the business. NATS data was installed in-house and audits were performed utilizing the database information to focus on unusual or questionable transactions. New audit programs were developed, TPA claim authority levels were reduced, and AIG claim staff is on-site at ISI and Warrentech and RPI claims are adjusted in-house by AIG. Profitability initiatives were instituted, including canceling unprofitable TPAs and rate increases were discussed with certain TPA's.

NATS Data Analysis:

Utilizing NATS data, IAD generated numerous reports to identify transactions requiring further research and areas of audit focus. The accuracy of our results is contingent upon the reliability of the data in NATS. Some of the reports are discussed below.

- Reports comparing loss dates to contract sale dates, odometer readings at contract sale dates to reading at loss dates, and contract effective dates to dates contracts were reported to AIG. We noted loss dates within 30 days of contract sale dates, loss dates/odometers prior to sale dates/odometer, loss dates earlier than TPA posting dates.
- We identified claims paid on new cars within 3 years and 36K miles that are potentially covered under the manufacturer's warranty. Approximately 44,000 claims met this criteria.
- Our analysis revealed that 382K contracts had 711K claims. Net premiums of $154MM resulted in claim payments totaling $343MM. Average premium for contracts with claims is $405, average claim per contract is $895. 1.2MM contracts have not had any reported claims as of March 1999. Approximately 20,000 contracts had claim frequencies of 5 or more.
- Cancellation adjustments were made by the TPA/dealer resulting in 0 premiums for AIG. We identified 30,000 of these contracts for which claims totaling approximately 500K were paid.

ACTION PLAN GOING FORWARD:

Our reports indicate potential problems with respect to claims handling. Additionally, the Warranty profit center performed technical claims audits earlier this year, which indicated that both ISI and Warrantech had unsatisfactory claims handling practices resulting in claims overpayments. Management has communicated the difference to the TPAs. We have given our reports to Mike Golding; he is in the process of identifying people to further review our data to identify incidences of claims mishandling. We are attempting to show (at a minimum) that TPAs (particularly ISI and Warrentech) failed to fulfill their fiduciary responsibilities under the contract. We are also arranging to obtain inspection reports from Mike to compare to claims information reported by TPAs for consistency. Separately, we will have them review detailed claim information resident in our database to identify any other potential problems. We've developed all of our information internally; to date we have not contracted TPAs or dealers, as we do not want to disrupt Chuck Schader's TPA disengagement strategy. Once the claims are brought in house, we will have full access to the data and be able to perform a more thorough review and better quantify the extent of claims mishandling, overpayments, etc.