

MEMO



INTERNAL AUDIT DIVISION
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TO: M.R. Greenberg

Date: January 14, 2000

RE: Auto Warranty - Inspection Savings

Internal Audit, with the assistance of Bob Langley (AIU International Warranty Manager), has completed a review of 100 ISI claims from 1999 and 1998 for which inspections had been performed. Our purpose was to identify savings directly attributable to the use of inspections. Our approach was as follows.

- A) We reviewed the repairs (and related costs) requested by repair facilities.
- B) We reviewed the repairs recommended by inspectors. It should be noted that inspectors do not quantify the costs of their recommended repairs; this is the responsibility of the claims adjuster/TPA.
- C) With the help of Bob Langley, we identified repairs on the repair facility invoices deemed necessary based on the repairs recommended by the inspector. The difference between the cost of repairs requested by the dealer and those recommended by the inspector represented the benefit associated with the inspection. It should be noted that we did not re-price the repairs, we accepted prices provided by the repair facility. Any savings associated with price negotiations are attributable to adjusters' expertise.

We found that the 100 claims tested had a total of \$40,364 of repairs requested by the repair facility that were not required per the inspector, an average savings of \$404 per claim. The cost of inspections is \$100 per claim resulting in an average net savings of \$304. Savings were recognized for 55 claims; for 45 claims, the inspector concluded that the repairs requested by the dealer were necessary. Our results are summarized in more detail below.

	Files Tested	Repair Cost per Repair Facility	Cost per Claim before Inspection	Repair Cost per Inspector	Cost per Claim after Inspection	Total Savings	Savings per Claim	% Savings
Files with Savings	55	\$95,042	\$1,728	\$54,678	\$994	\$40,364	\$734	42%
Files w/o Savings	45	\$70,303	\$1,562	\$70,303	\$1,562	\$0	\$0	0%
TOTAL	100	\$165,345	\$1,653	\$124,981	\$1,250	\$40,364	\$404	24%

PLAINTIFF'S
 EXHIBIT NO. 68
 FOR IDENTIFICATION
 DATE: 7/24/00 RPTR: WJH
PENGAD 800-631-6989

I must emphasize that our calculations represent only those savings that we could directly attribute to the inspections. Additional savings could be recognized due to the adjusters' decisions to deny claims due to a determination that the failed parts are not covered under the warranty, the cause of failure was not covered, or that the failure was caused by a pre-existing condition. Since each of these scenarios requires an element of adjuster expertise, we deemed the related savings to be attributable to the claims handling/adjustment process. Consequently, our numbers represent the minimum savings attributable to inspections. Additional savings can also be achieved by price negotiations on parts and labor, but these are clearly not attributable to inspections. While these savings are only attributable to ISI, I would expect similar results across TPAs.

If you would like anything further, please advise.

A handwritten signature in black ink, appearing to be 'J. H. Smith' or similar, written in a cursive style.

Cc: C. Schader