

PLAINTIFF'S  
EXHIBIT  
49

MEMO

INTERNAL AUDIT DIVISION

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CONFIDENTIAL

TO: M.R. Greenberg

Date: March 30, 2000

RE: Special Review - Auto Warranty - Status

The status of our auto warranty review is as follows:

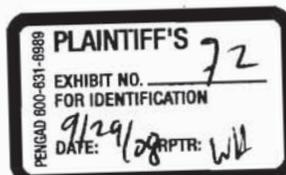
ISI

- As previously discussed, our strategy has been to develop statistical samples of claims for re-adjudication by independent experts. We have restricted our selection to claims incurred from 1997 to 1999 as this was the period of most significant claim activity. As you may also recall, we have stratified our samples into the following categories that we feel are most likely to contain errors. The categories are summarized below:

<u>Category</u>	<u>Description</u>	<u>Amounts Paid (1997-1999)</u>
Bucket 1	Contracts With Three Or More Claims (Failures)	\$ 63,551,764
Bucket 2	Claims Within Manufacturer's Warranty Period	760,792
Bucket 3	Claims Paid Within 60 Days/2000 Miles Of Sale	5,065,165
Bucket 4	Claims Paid 60Days/2000 Miles Prior to Expiration	2,280,326
Bucket 5	Balance Of Claims Paid Not Included In Above Buckets	40,657,368
	Total Paid Claims	\$112,315,415

- The independent claims expert has completed his re-adjudication of our sample of ISI claims that occurred within 60 days or 2000 miles of the contract sale date (Bucket 3). The sample results were extrapolated against the population by our statistical expert, who concluded with 99% confidence that these claims were overpaid by at least \$1.2MM (24% of the \$5.1MM paid) and with 95% confidence they were overpaid by at least \$1.6MM (31%). The expert has also re-adjudicated a portion of our sample of claims from our "all other bucket" (Bucket 5) and preliminary results indicate overpayment by ISI. We will extrapolate the results across the population when the review of this bucket is complete. If overpayments persist across all buckets, as I expect they will, the dollar overpayments associated with buckets 1 and 5 will be significantly higher as the paid amounts are significantly higher. Our review is continuing and we will forward results to you as available.

The re-adjudication process for ISI claims has been delayed due to the slow receipt of contract and claim data from ISI and Docutek (microfilming company) and we are forwarding files for review as soon as complete contract and claim data is received. Docutek is currently processing contracts for the 1994 to 1996 years; these are expected to be received no later than April 17th. In addition, Docutek claims they have sent all contracts relating to 1997-1999 and claim files for all contract years; however, we have significant gaps of missing contracts and claims based on ISI's database. We are coordinating with ISI and Docutek on the disconnect as well as discrepancies and gaps in data received.

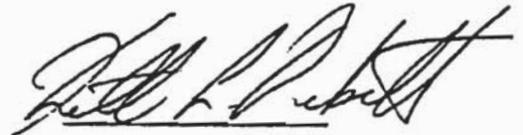


### Warrantech

- We have received the Warrantech database and are in the process of analyzing data and determining sample sizes for the claims re-adjudication process. However, obtaining the physical claim files will be difficult and time consuming as they are located at a third party warehouse pending current legal action with Warrantech.
- We are validating cancellations and the accuracy of refund amounts requested by Warrantech as received. We have completed this review for the 1/16/00 – 3/1/00 time period and for the most part the requests were valid. We have disputed minor amounts (totaling approximately \$6K) for duplicate entries, policies previously cancelled, and cancellations on policies for which no premiums were received. We are in the process of validating cancellation requests from 1/5/00 to 1/15/00. Although premiums have already been refunded for this period, any disputed amounts will be offset against future cancellation refunds.
- We have performed a reconciliation of total check and credit card claim payments by Warrantech through the Z.B.A. account since the 4<sup>th</sup> quarter of 1997 to the total claim amounts reported by Warrantech in the WARP system. There is approximately \$34.3MM of claim payments that were not reported by Warrantech. We are in the process of reconciling to the CMO system to determine the total AIG reimbursements to the Z.B.A. account and will resolve the differences and pursue any amounts due us. We are in the process of reconciling total premiums from Warrantech's premium accounts to premiums reported to AIG.

### NAWS

- We have reconciled the aggregate reported premiums and claims to the premium trust accounts and check/credit card payments through 11/30/99 and found a \$423K difference between total claim payments by NAWS (\$19MM) and total claims reported to and reimbursed by AIG (\$19.4MM). We are researching the difference with NAWS.



c.c. C. Schader