

Memorandum

DATE: June 11, 2002
TO: M. R. Greenberg
FROM: C. R. Schader
RE: Auto Warranty Runoff - Update

- 1) If auto warranty claims had been left with the TPA's for handling, the projected loss, from 12/31/99 to conclusion of the programs, would have been 275% of net earned premium (NEP), or \$594.5mm. Under these circumstances, there would have been no additional loss adjustment expense (LAE) since the TPA's had already fully earned and been paid their fees.
- 2) On this same basis, from 12/31/99 through 1Q02, the losses would have been \$386.7mm. Our actual losses, plus LAE for this period are \$326.3mm, resulting in an actual net savings of \$60.4mm. from the original actuarial projection.
- 3) In projecting the *future* savings component, I have adjusted for those one time events which would otherwise distort the results, namely a) partial year handling of claims during 2000 by three of the TPA's (i.e. ISI, Universal and MBA); b) start-up expenses associated with our Maitland claims center; c) the legal expense and settlement costs associated with the Warrantech/Service Guard litigation; and d) the legal expense and settlements associated with the Arizona bad faith litigation. These one time costs are, of course, included in the total results.
- 4) Based on the original actuarial projection, our additional losses for 2Q02 through conclusion of the runoff would have been \$207.8mm. Based on our current level of performance, however, I project that losses and LAE from 2Q02 to conclusion of the runoff will be \$147.5mm, resulting in an additional net savings of \$60.3mm from the original actuarial projection.
- 5) In aggregate therefore, our losses and LAE from 12/31/99 to conclusion of the runoff will be \$473.8mm, a net savings of \$120.7mm from the originally projected loss of \$594.5mm.

Chad

