

From the desk of
Charles R. Schader

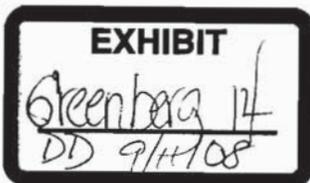
PLAINTIFF'S
EXHIBIT
21

To: M. R. Greenberg
From: Chuck Schader
Date: September 27, 1999
RE: AUTO WARRANTY

Attached is my first general update on auto warranty. I am aware that Keith Duckett and I are to report to you alone regarding the aspects of this project which relate to potential defalcations, fraud or other wrongdoing. Accordingly, these subjects will not be covered in the attached update since it is targeted to a broader executive distribution.



cc: K. Duckett



Memorandum

To: M. R. Greenberg
From: C. R. Schader
CC: E. G. Greenberg, R. A. Hernandez, K. P. Moor, S. M. Rivera, H. I. Smith
Date: September 27, 1999
Re: Auto Warranty – Update

- 1) **Projected Losses:** We are discontinuing six auto warranty programs – Warrantech, ISI, MBA, NAWS, Universal, and Dimension – totaling 1.4M net contracts. Estimates of total prospective loss vary widely. For the first three programs combined, the loss would be \$482M per Milliman & Robertson's study. This projection drops to \$288M using a tempered trend, and further drops to \$201M if we also project a net 15% reduction in losses through improved claims controls.
- 2) **Claims Controls:** Claims authority limits have already been lowered for Warrantech, ISI, MBA and NAWS. An AIG claims auditor is on site in each of these locations, supervising TPA claims staff, implementing controls, and authorizing payments. These measures have resulted in an average 20% reduction in paid losses to dates.

We are currently in active discussions with both Universal and Dimension regarding assumption of those programs by new insurance carriers. If those discussions are not progressing adequately by the end of this week, we will implement similar claim controls in their operations.
- 3) **New Claims Office:** We are setting up a new claims office in Orlando so that we can directly handle these claims ourselves. It will be operational by December 1, 1999. This installation will be capable of handling the claims for **all** discontinued auto warranty programs. It can also serve as the infrastructure for auto warranty claims handling in the future should AIG expand the other direct-marketed warranty programs planned for introduction in 2000. The initial action plan for the implementation of this office is attached.
- 4) **Litigation:**
 - a) **NAWS:** We are poised to initiate an action against NAWS, enforcing a parental guarantee of their now-insolvent captive insurer's reinsurance, as well as requiring NAWS to turn over needed claims handling information. While our background investigation has not disclosed any substantial assets to levy against, this offensive will permit further legal discovery to ascertain whether any assets have been secreted. We will time this initiative so that it will coincide with our capability to directly take over all pending and future claims.

September 27, 1999

- b) **Warrantech & ISI:** Until recently, we were engaged in negotiations with both Warrantech and ISI to find substitute insurance carriers who would retroactively assume some or all of our outstanding exposure. With one exception for part of the ISI program, these efforts were unsuccessful and are no longer being pursued. The relationship with each of these players is likely to become increasingly ugly and we are revisiting our litigation options over the next week to ten days.
- c) **Reliance:** In anticipation of a partial assumption of Warrantech's business by Reliance, Warrantech began to remit premium to Reliance, effective May 1, 1999. That assumption by Reliance is now a dead issue and we have demanded return of some \$5M in premium from them. This morning, we were advised that Reliance would not/could not return the \$5M. We are in the process of escalating the matter within Reliance's hierarchy and will bring swift action against both Warrantech and Reliance if it is not resolved amicably by week's end.



ACTION PLAN – IMPLEMENTATION OF NEW CLAIMS OFFICE

<u>Action Item</u>	<u>Target Date</u>	<u>Primary Person Responsible</u>
<u>Real Estate</u>		
Location of Space in Orlando	10/1	Toohey
Execution of Lease on Space	10/8	Toohey
Renovation plan; Order furniture, equipment	10/22	Toohey
<u>Claims</u>		
Expansion of PPO Network	Ongoing	Hernandez
Documentation of Claims Practices	10/22	Baines; Schader
<u>Human Resources</u>		
Staffing Model – Rough	10/1	Baines
Staffing Model – Refined	10/8	Baines; Anderson
Job Descriptions; Placement of Employment Ads	10/1	Baines; Mason
Development of Training Program	10/22	Baines; Taylor; Mason
Training Begins	10/22	Baines; Taylor; Mason
Training Completed	11/19	Baines; Taylor; Mason
<u>Systems</u>		
Review of Xybernet system for suitability	10/1	Taylor
Order equipment, voice/data lines	10/14	Taylor

