

Smith EXHIBIT 116-B
10
REPORTING SERVICE
3-18-10 M. NOFENMAN-DANIEL

Memorandum

PLAINTIFF'S
EXHIBIT
24

To: M. R. Greenberg
From: C. R. Schader
CC: E. G. Greenberg, R. A. Hernandez, K. P. Moor, S. M. Riveta, H. I. Smith
Date: October 20, 1999
Re: Auto Warranty - Update

1. **Termination of Agreements/Policies/Agent Licenses:** Each program involves five different relationships, each with its own termination requirements.
- (a) **The Program Administrator Agreement:** This is the agreement which defines our overall relationship with the program administrator. All six of the major programs have been cancelled: Warrantech 11/1/99; ISI 11/29/99; Universal 12/30/99; Dimension 10/11/99; MBA 5/99; NAWS 11/10/97.
 - (b) **The Administrator Obligor Policy:** This is an insurance policy which insures the program administrator's performance under service contracts which it has issued to vehicle owners. Nonrenewal or cancellation is subject to the requirements of the applicable state's insurance regulatory law. Simultaneously with non-renewal, we are retrieving and destroying any unused contract stock bearing an AIG member company name
- The Warrantech policy is non-renewed effective 2/15/00, although all risk subsequent to 7/31/99 is being assumed by Reliance. We are also seeking to implement an amendatory termination endorsement with an earlier agreed termination date.
- The ISI (DFS) policy is nonrenewed effective 3/1/00, although American Bankers is assuming risk as quickly as its filings are approved. We expect them to be ready in 7-12 states in about 10 days. The ISI (Global) policy is non-renewed effective 11/29/99, although Lyndon Insurance Company has assumed risk from 2/1/99.
- Regarding the Universal policy, we are in negotiations with Universal for an assumption of that program, including an amendatory endorsement with an

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agreed to termination date. They have already been advised that we do not intend to remain on risk beyond 12/30/99.

The Dimension policy will be formally non-renewed effective 4/1/01. We are in active negotiations with ACE/Dimension for an assumption of that program, including an amendatory endorsement with an agreed to termination date.

The MBA policy will be non-renewed effective 3/15/00.

- (c) **The Dealer Obligor Policies:** These are insurance policies which insure the auto dealers' performance under service contracts which they have issued to vehicle owners. Nonrenewal or cancellation is subject to the requirements of the applicable state's insurance regulatory law. We are actively acquiring dealer registers from the program administrators and are setting up the Oden Terminator system to effect these non-renewals ourselves. (This is the same system we used effectively for the Div. 22 non-renewals.) At the same time, we are retrieving any blank contract stock bearing an AIG member company name, and are putting the dealers on notice that an use of that stock after policy termination constitutes a fraudulent act.
- (d) **Claims Handling Agreements:** These are actually included within the program administrator agreements, but have separate notice provisions for termination. The Warrantech and Universal agreements require 30 days notice; all others require only 10 days. As our claims handling capability in Orlando comes on line, we will be giving notice to the PA's to facilitate the most rapid takeover of claims handling possible.

We are giving priority to taking over Warrantech and ISI first, since combined they constitute nearly 950K outstanding contracts. During the notice period, we will deploy additional personnel on-site to provide intense claim handling oversight. I would prefer to use trained auto mechanical inspectors for this purpose and am discussing the feasibility of this approach with Centro Inspections. However, most inspectors view the PA's as their clients and may not be willing to injure their prospects for future assignments by assuming this adversarial role. If not, I already have commitments from AIGCS to supply property re-inspectors, as well as staff from the auto residual value program.

- (e) **Agency Licenses:** For purposes of selling the dealer obligor policies, the PA's use licensed agents as their marketing staff. We have 150-200 agents so licensed. DBG Compliance is identifying these agents and arranging for their licenses to be cancelled by the various states.
2. **Reinsurance/Assumption Arrangements:** I am attaching Susan Rivera's October 15, 1999 memo as a report on the status of our efforts to reinsure the Universal, Dimension and ISI programs.
 3. **Claims Handling Facility:** The action plan for the implementation of a new claims handling office, as included in my September 27, 1999 update, is on target. This week is

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critical. Employment ads have run twice in local newspapers, local Voc /Tech schools have been contacted and a Career Fair is being held locally this Saturday, October 23. A team of HR staff (from both New York and Florida), claims and operations personnel are on-site to conduct interviews and extend job offers. Our success this week in hiring qualified people in the requisite number will dictate how quickly we can begin transferring claims handling from PA's to our own installation.


