

MEMO

INTERNAL AUDIT DIVISION  
*Keith L. Duckett, Director*



175 Water Street - 14<sup>th</sup> Floor  
New York, N.Y. 10038  
Tel: (212) 458-3300  
Fax: (212) 227-0127

CONFIDENTIAL

TO: M.R. Greenberg

Date: November 1, 1999

RE: *Quantification of Savings Associated with  
Vehicle Inspections/Status of Investigation*

I met with Larry Centro-President Centro Inspection Agency, Inc. (CIA) last Thursday to further discuss his operations and obtain copies of inspection reports to facilitate completion of our review/investigation. Centro has about 5 years of reports on ISI, but nothing on Warrantech. Warrantech reports have always been given verbally, with no documentation maintained by CIA. Larry is unwilling to release copies of the reports absent the knowledge and consent of ISI. This is understandable given that ISI is Larry's client and ISI and other TPAs the sole source of his business. As you are aware, we have not contacted any TPAs for information to ensure that we do not hinder our disengagement strategies. However, ISI and Warrantech are well aware of our dissatisfaction with their claims handling. As a matter of fact, audits performed by the Warranty Division earlier this year, indicated that claims handling procedures at both TPAs were inadequate. The results were communicated to ISI and Warrantech and we subsequently placed our own people in both TPAs to oversee the operations and approve certain claims payments. To date, ISI has cooperated with us with respect to canceling the existing business. If they became aware that we are requesting documentation from CIA, they would probably not be as cooperative and would potentially begin to "purge" their files of information necessary to run the business off and complete our investigation. Our proposed strategy is to request the reports from Centro via subpoena simultaneous with our notification to ISI that we are bringing the claims in-house. At that point, Centro's notification to ISI of our request will be moot as we will immediately take possession of the TPA's files as well as the inspection reports prepared by Centro. This would allow for a complete review including an attempt to quantify the benefits related to inspections and the extent to which ISI has overpaid/mishandled claims. The information contained in our system (NATS) is insufficient to draw meaningful conclusions; the TPA files are critical to the completion of the review. The approach would be as follows:

- For claims that were inspected, we will compare the damage assessment made by the dealer/repair facility (hopefully retained in the TPA file) to the assessment made by the inspector. The difference between the related costs would be the savings resulting from the inspection. The results could then be summarized and general conclusions made regarding the value of inspections. Please note that the prior estimated savings of \$400 per inspection quoted by Mike can not be substantiated.

EXHIBIT

*Greenberg*  
*DD 9/1/08*

- We will compare the repairs recommended by the inspectors to those authorized by the TPA. Differences would have to be explained. Unexplained differences would imply that the adjuster (TPA) did not negotiate claims prudently and ultimately support our actions against them.
- We will review a large sample of uninspected claims to assess whether the claims were handled properly. This would include an assessment of whether or not the claims should have been covered under the warranty contract and the reasonableness of both the repairs made and amounts paid. This would be done for all TPA's. A similar review was performed by David Baines of the Warranty Division earlier this year for both Warrantech and ISI. Based on his sample, claims were overpaid on average between 20 and 25%.

Clearly, we will need people experienced in the industry to facilitate this review. Chuck and I have met with 2 individuals, identified by Mike Golding who could help us. In addition, we are in the process of hiring new people to run the business off. The newer people should do the quantification of the savings attributable to inspections to ensure the integrity and objectivity of the assessment. Chuck is approximately 3-4 weeks away from starting to bring the business in-house. We will continue to gather data behind the scenes, but the bulk of the work will commence at that time.

We are reviewing procedures surrounding the Domestic Brown and White (B&W) goods and the International Warranty Business (for both Auto and B&W goods). The results of these reviews will be reported under separate cover. The Domestic B&W report will be completed this week. The international report will be completed approximately a week-10 days later. If you have any questions or comments, please advise.



Keith L. Duckett

cc: C. Schader