

MEMO



INTERNAL AUDIT DIVISION

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TO: M. R. Greenberg

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RE: XY-Warranty System

The XY-Warranty System is a mainframe system that will be utilized by AIG to process the Auto Warranty runoff business including administration of contracts and payments of claims. Dealer and contract information, premium rates, fees, vehicle data, claim data, receipt and disbursement information, etc. will be maintained in the system. Claim payment data will be interfaced with CDCS from XY-Warranty, which will be mapped and programmed by XyberNet, Inc. based on file layouts received from AIG. Management indicates that the system has the capacity to handle expected volume. Although the system has capabilities and functionality to handle the runoff process, AIG Warranty would consider alternative systems if a decision is made to continue the business on a direct basis.

XyberNet, Inc. will programmatically convert historical dealer, contract, and claim data related to inforce contracts from the existing WARP (NATS) System. AIG Warranty and XyberNet have started the conversion process. Management indicated that data conversion would occur once prior to establishment of the Orlando operation; subsequently, contract, dealer, and claim data received after the conversion will be input directly into the XY-Warranty system in Orlando. Going forward, XY-Warranty data will feed the WARP System and be utilized for financial reporting purposes.

System edits and report functionality are being established by AIG and programmed by XyberNet, Inc. including system access, authority levels, required data fields, etc. Although the system is capable of verifying coverage, this process will be performed manually in Orlando as data converted from WARP may not be complete or reliable. Standard reporting functionality is part of the system package and includes contract, TPA, and dealer level reports. Additional customized reports can be generated by the users as needed.

On-site system training will be provided by XyberNet including claims and cancellation processing, reporting capabilities, new contract set up and support functionality. Model Office will be conducted after training to allow users to validate knowledge and AIG Warranty to document workflows and procedures.

As mentioned in my note of 10/27 (attached), the expected cost of running this system is approximately \$2 million to be paid over the next seven years. The fee structure is variable based on number of claims processed and contracts in force. We calculated the estimated costs by taking the actual in force contracts as of May and running the contracts off based on expiration date. The claims costs were calculated assuming two claims per in force contract, which is conservative.

cc: C. Schader

