

MEMO

PLAINTIFF'S  
EXHIBIT  
39



INTERNAL AUDIT DIVISION  
*Keith L. Duckett, Director*

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CONFIDENTIAL

TO: M.R. Greenberg

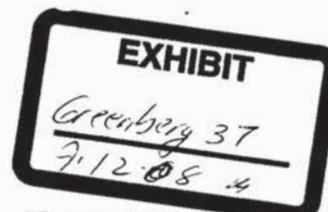
Date: January 12, 2000

RE: Special Review - Auto Warranty - Status

The two issues outstanding are the quantification of savings associated with vehicle inspections and the expert review and assessment of the extent of claims mishandling. The status of each is summarized below.

- We are still in the process of obtaining ISI's data. They have given us their data base which gives us historical claims and contract data and will allow us to handle the runoff claims prospectively; however the individual claim files are needed to complete the investigative portion of the review. The claims files are currently being microfilmed by a 3<sup>rd</sup> party (Docutek) on our behalf. Most of the files received to date relate to older years (i.e. 1996 and prior). However, more than 80% of the claims volume was in 1997, 1998 and 1999, which is where we are going to focus our review. It is expected that the remaining files will be microfilmed by early February. We have refined our statistical sampling model and have identified different "buckets" from which statistical samples will be selected. As mentioned previously, we've identified buckets most likely to contain errors/exceptions. The buckets will be mutually exclusive. Once the buckets are run, we will select a statistical sample of the remaining transactions to ensure coverage on the universe of transactions. We have identified a professor of mathematics (Simeon Berman, PhD), who specializes in Statistics and probability at NYU who has independently reviewed our sampling methodology, is helping us to determine necessary sample sizes and has also agreed to extrapolate our results when our testing is completed. I have asked PwC to select the samples to avoid any claim of bias should we end up in court, which is likely. We will give the files to the experts as they become available. As you are aware, we are currently in litigation with Warrantech and are attempting to obtain the original claim files, as the cost to copy the files would be prohibitive.
- With respect to the assessment of the relative value of auto inspections, we've gone through the data recently received from ISI and identified approximately 100 claims for which inspections were ordered and for which we have received the files from ISI. We are currently working through the files with Bob Langley (AIU Warranty Claims Manager) and should have a conclusion on this portion for you by the end of the week.
- I currently have auditors in both Warrantech and NAWS in conjunction with Chuck Schader's team reviewing premium trust and claims accounts to ensure that all cash is accounted for.

cc: C. Schader



3/31/00 AIG WARRANTY (WARP)  
SUMMARY OF CLAIMS BY LOSS YEAR

TPA-CODE	YEAR LOSS OCCURRED	TOT-CLM-AM	TOT-CLM-CTR
AMN	1998	9,267.70	24.00
AMN	1999	5,214.08	12.00
AMN		14,481.78	36.00
CRC		1,593.86	3.00
CRC	1997	32,750.26	46.00
CRC	1998	340,577.50	563.00
CRC	1999	350,567.72	556.00
CRC		725,489.34	1,168.00
DMN		856,454.53	1,735.00
DMN	1900	1,391.00	1.00
DMN	1993	36,637.69	123.00
DMN	1994	509,054.46	1,658.00
DMN	1995	1,488,416.29	4,639.00
DMN	1996	2,643,782.52	7,601.00
DMN	1997	3,549,108.15	8,910.00
DMN	1998	4,915,227.47	11,335.00
DMN	1999	3,523,936.77	7,631.00
DMN		17,524,008.88	43,633.00
GST	1997	1,863.69	5.00
GST	1998	230,734.81	440.00
GST	1999	437,660.07	753.00
GST		670,258.57	1,198.00
ISI	1985	2,584.44	18.00
ISI	1986	50,367.47	232.00
ISI	1987	225,659.27	839.00
ISI	1988	490,511.12	1,817.00
ISI	1989	854,284.79	3,310.00
ISI	1990	1,364,605.98	5,290.00
ISI	1991	1,526,925.40	6,320.00
ISI	1992	1,739,248.95	6,915.00
ISI	1993	2,392,718.76	8,395.00
ISI	1994	3,550,260.29	10,765.00
ISI	1995	5,705,627.01	14,789.00
ISI	1996	10,028,876.56	22,504.00
ISI	1997	24,215,030.46	48,818.00
ISI	1998	42,915,933.57	81,831.00
ISI	1999	35,737,232.62	63,644.00
ISI		130,799,866.69	275,487.00
MBA	1994	356.71	4.00
MBA	1995	9,459.22	47.00
MBA	1996	341,949.72	674.00
MBA	1997	3,021,526.71	5,760.00

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MBA	1997	3,021,526.71	5,760.00

TPA-CODE	YEAR LOSS OCCURRED	TOT-CLM-AM	TOT-CLM-CTR
MBA	1998	6,580,451.41	11,565.00
MBA	1999	4,893,253.73	7,854.00
MBA		14,846,997.50	25,904.00
NAW	1995	402,063.85	783.00
NAW	1996	1,942,009.08	3,900.00
NAW	1997	5,402,766.60	9,818.00
NAW	1998	5,550,029.86	10,996.00
NAW		13,296,869.39	25,497.00
RPI	1998	5,804.34	8.00
RPI		5,804.34	8.00
UWC	1993	1,447.52	4.00
UWC	1994	1,596,073.03	4,414.00
UWC	1995	5,126,752.66	14,980.00
UWC	1996	10,652,519.77	27,524.00
UWC	1997	19,212,209.01	46,181.00
UWC	1998	30,164,343.58	68,685.00
UWC	1999	20,722,414.66	45,958.00
UWC		87,475,760.23	207,746.00
WTC	1968	215.58	1.00
WTC	1969	1,267.46	1.00
WTC	1980	831.73	1.00
WTC	1987	119.08	1.00
WTC	1988	486.30	2.00
WTC	1990	40.40	1.00
WTC	1992	210.40	2.00
WTC	1993	1,088,051.96	2,651.00
WTC	1994	4,704,140.76	11,520.00
WTC	1995	9,011,020.34	21,912.00
WTC	1996	18,533,576.39	35,960.00
WTC	1997	35,445,821.33	65,069.00
WTC	1998	56,579,437.41	98,938.00
WTC	1999	55,019,680.33	96,397.00
WTC		180,384,899.47	332,456.00
WTC		445,744,436.19	913,133.00