



Memorandum

To: M. R. Greenberg
CC: E. G. Greenberg, K. P. Moor, S. M. Rivera, H. I. Smith, K. L. Duckett
From: C. R. Schader
Date: January 12, 2000
Re: Auto Warranty - Update

1. **Reinsurance Arrangements:** I am attaching Susan Rivera's January 10, 2000 e-mail as a report on our efforts to reinsure the ISI, Dimension, Universal and Canadian programs.
2. **Claims Handling Facility:** To date, staff at the Maitland Claim Center numbers 51. We are now handling claims for the NAWS, RPI and Warrantech programs. These programs total some 645K service contracts, 55% of the total we will be running off if the Dimension and Universal programs are reinsured; 80% of the total if the ISI program is also reinsured.

The volume of non-claim specific calls which followed the assumption of the Warrantech program was much larger than anticipated and strained the capability of both the telephone system and our staff to respond to claims as rapidly as desired. As a result of a) newly increased telephone capacity, b) alterations in the telephone workflow, c) elimination of a glitch in the Xybernet processing system, d) a new complaint handling procedure which routes inquiries and complaints away from the claim handling desks, and e) the increased maturity of our new staff, performance is now within acceptable parameters. The waiting time in the large claim and medium-sized claim units is almost nil. Waiting time in the small claim units, however, must be further reduced from its current 20-minute average. A 10-15% productivity improvement as staff continues to gain experience, combined with increased staffing, will continue to reduce waiting times.

It is very clear that claims handling by the former TPA's was passive and could more appropriately be called bill processing. Active claim handling, a difficult and cumbersome coverage verification process (due largely to poor information from the TPA's) and contentious discussions with dealers, agents and contract holders over our strict application of coverage terms is resulting in much longer claim handling times than was originally expected. Our staffing models are being adjusted accordingly. We are continuing to recruit, hire and train additional staff.

3. **Average Claim Payments:** Although it is far too early to draw any statistically credible conclusions, our average final claim payment to date is \$412 compared to the previous estimates of \$600 per claim paid by the TPA's, a reduction of 31%. The savings appear to be moving in the right direction.

4. **MBA:** Next week, one of our senior claims examiners will be on-site at MBA to supervise their claims handling process and approve individual claim payments. This action is in advance of assuming full claims handling responsibility in Maitland.
5. **Warrantech:** We have already been in court twice to compel Warrantech to produce documents for inspection and copying and are poised for a third visit to compel them to permanently turn over the original hard-copy claim files. (These files are in the custody of a third party vendor and are secure from tampering.) Our formal action against Warrantech for unremitted premium and damages will follow.
6. **NAWS:** We previously moved in court to freeze the claims imprest account. We now have a four person financial audit team (two from Run-off and two from IAD) on-site at NAWS performing a financial reconciliation. If our belief is borne out that AIG supplied claims funds were improperly used for other purposes, we will bring a formal action for conversion and initiate a criminal complaint in Illinois. We are simultaneously exploring whether we can place NAWS in receivership in New York or seek a similar remedy in Illinois.
7. **ISI:** Considering Susan Rivera's recent conversation with ISI regarding the possibility of reinsuring the entire ISI program with Lyndon Insurance Company, we have placed ISI behind MBA in priority for direct handling of their claims in Maitland. Lyndon, a subsidiary of Protective Life, is currently reinsuring the ISI programs back to February 1, 1999. In the meantime, scanning and microfilming of service contracts and historical claim files continues and will be completed in February.

Keith Duckett advised me today that his IT staff has been unable to locate ISI's 1999 and 1998 historical claim files on the microfilm provided by Docutek, our document management vendor. Docutek had been instructed to microfilm the most recent files first and work backwards chronologically. They claim that they did indeed follow those instructions. Clearly there is a disconnect between Keith's IT staff and the vendor. Rather than speculate on what might have happened, I will find out what actually did happen and work with Keith to get copies of the 1998 and 1999 files into his hands as quickly as possible.


