

PLAINTIFF'S
EXHIBIT
57

MEMO

INTERNAL AUDIT DIVISION

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CONFIDENTIAL

TO: M.R. Greenberg

Date: July 12, 2000

RE: Special Review - Auto Warranty - Status

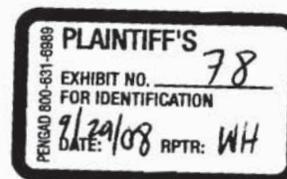
The status of our auto warranty review is as follows:

Warrantech

- We continue to validate cancellations and the accuracy of refund amounts requested by Warrantech as received. We have completed this review for 1/5/00 - 5/31/00; the requests were generally valid. Of the total \$1.2MM requested by Warrantech for the past 5 months, we have disputed approximately \$18k (1.5%) due to duplicate entries, policies previously cancelled, policies for which no premiums were received and questionable flat cancellations.
- As mentioned in the last status memo, Warrantech alleged that we were late in processing cancellation refunds. At the request of outside counsel, we analyzed the timeliness of cancellation requests by Warrantech for April by comparing dates that cancellation notification was received from the dealers/insureds to the date the requests were sent to AIG. Results indicated that on average, 15 days elapse from the time the dealer signs the cancellation request to the time Warrantech receives it. It takes on average, an additional 46 days for AIG to receive the batch for validation review. We generally complete our validation work within 8 days. The delays do not appear to be attributable to AIG. The results have been turned over to legal counsel for their review.
- After reevaluating the potential for recovery from Warrantech and consulting with outside counsel, it has been determined that a re-adjudication of Warrantech claims is necessary to support our legal action against Warrantech. We have selected our sample and are attempting to gain legal access to the hard copy claim files currently located at a third party warehouse. The establishment of the contract imaging database is expected to be complete by the end of this week. As soon as we have access to both, the re-adjudication process can begin.
- We have reconciled total payments by Warrantech through the Z.B.A. account since the 4th quarter of 1997 to claims account replenishments through the CMO system. We are in the process of reconciling total premiums from Warrantech's premium accounts to premiums reported to AIG.

ISI

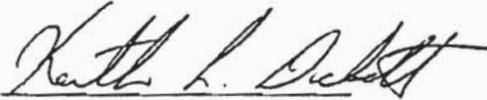
- The claims re-adjudication process has been delayed due to a shift in resources and priorities to ensure an efficient and effective transfer of claims handling from ISI into AIG (Maitland) and receipt of incomplete claim data from ISI. We have recently received a new tape which is being uploaded and read by the Chief Technology Office (CTO). Once this is done, the re-adjudication process will continue. Priority has been given to the Warrantech claim re-adjudication process due to the status of the current litigation.



- We received the first cancellation refund request from ISI on June 29 and have begun validating the accuracy of the request, including ensuring policies were not previously cancelled and policy premium has been received by AIG prior to disbursement of return premiums. These procedures will mirror those performed for the Warrantech cancellations.

Other

- We are visiting the Maitland claims office during the week of July 17 to review the adequacy of the current procedures and controls.
- EDP reports from the WARP/NATS system which identified suspicious items, including in force policies with \$0 premium, flat cancelled policies with claims paid, and claims paid outside of the effective period have been forwarded to legal counsel and Division management for their review.



c.c. C. Schader