

**THE INTERNATIONAL COMMISSION
ON HOLOCAUST ERA INSURANCE CLAIMS**

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MEMORANDUM

DATE: **June 17, 2003**

TO: **U.S. Insurance Regulators**

FROM: **Lawrence S. Eagleburger**

SUBJECT: **ICHEIC Budget Details**

I have instructed Pat Bowditch, our CFO, to issue the following budgetary details to those US regulators who have expressed interest in reviewing the ICHEIC budget in more detail. As I am sure you know, this information is confidential and subject to change. In accordance with the confidentiality agreements signed by all ICHEIC members, it is not to be shared with anyone outside of ICHEIC without the approval of Pat Bowditch.

While I have attached various charts that provide the figures, I wanted to offer a few comments as well to provide more depth to the financial budget information. There are operational changes that have taken place since the Lifetime Budget was approved in October 2002 that are reflected in the Revised Budget figures. There are additional changes that are taking place that will generate further savings that have not yet been reflected in the Revised Budget. There is also the pleasant outcome of having received the German Foundation funds in Euro. Through the conversion of a significant part of the funds to US dollars, we enjoyed some substantial realized exchange gains on both the Humanitarian and Claims and Expenses Funds.

Currency Conversions

The ICHEIC Investment Guidelines require that investments be made in the mix of currencies that match ICHEIC's various obligations, including, but not limited to the US Dollar, British Pound and the Euro.

Therefore, ICHEIC converted €132 million of the German Foundation Humanitarian Fund to US dollars to match the \$132 million commitment to social welfare for Nazi victims and other estimated humanitarian obligations such as the 8A process. The conversions generated \$13.8 million in realized exchange gains when compared to the US Dollar/Euro exchange rate in October 2002 when the funds were received.

More recently, €40 million of the German Foundation Claims and Expenses fund has been converted to US dollars, again to cover Claims and Expenses obligations in US dollars. These conversions generated realized exchange gains of \$8.4 million.

In total, ICHEIC has realized \$22.2 million in exchange gains through the conversion of Euro to US Dollar. No exchange gain or loss was anticipated when the Lifetime Budget and Sources of Funds statements were prepared and presented to the full ICHEIC in October 2002. If not needed to pay claims or for operations, this will represent additional funds ultimately available for humanitarian purposes.

Appeals Budget Revision

The original Lifetime Budget reflected an Appeals budget of \$2.2 million in 2003 and \$4.1 million in 2004, running the process on an outsourced basis. ICHEIC and the Appeals judges have developed and agreed to an in-house process that will result in a budget of one-half of the total outsourced budget; \$1.2 million in 2003 and \$1.9 million in 2004, for a total net savings of \$3.2 million. This lower Revised Budget was recently approved by the FAAC.

Commission and General and Administrative Budget

There are certain operational changes that are taking place within ICHEIC which will result in further reductions in cost. They have not yet been reflected in the Revised Budget since they have not yet been finalized and brought to the FAAC for approval.

The elimination of the Vice Chairman position in London and replacement of the Chief of Staff position should generate a savings of about \$350,000 through December 2004 (in both the Commission and the G&A budget).

The outsourced business consulting services are being analyzed at this time. Ultimately, about \$200,000 in savings could be generated by reducing the provision of certain services.

ICHEIC Operations

While I am pleased with our ability to provide for meaningful cost reductions, I still realize that this is a costly venture. However, I believe there have been great accomplishments, particularly over the last year with the signing of the German Foundation Agreement and the momentum that brought.

With the active involvement of all members of the ICHEIC staff, but particularly Mara Rudman and her associates from the Cohen Group as the outsourced COO, Pat Bowditch of Bowditch & Associates, LLC, the outsourced CFO, and Tom Howard of Ballard Spahr, our outside counsel, ICHEIC has:

- Started making payments to the GDV for claims payments under the German Foundation agreement.
- Committed \$132 million to social welfare programs to aid Nazi victims.
- Worked diligently with the Generali Trust Fund to improve communications between the two organizations, to improve the performance of the Fund with respect to claimants, to clarify the GTF reports to ICHEIC on both claims cases and finances, so that ICHEIC might itself improve its overall reporting upon receiving more reliable statistics from GTF.

- Reviewed more than 2,200 claims in the London ICHEIC office in early 2003, led by the Cohen Group. This review covered a significant bulk of the universe of offers and well-documented denials to date. Participants included two individuals from the insurance regulators' offices. This review, among other things, identified areas where improvements in claims processing by ICHEIC and by companies and the GTF were warranted.
 - Following the London claims review, the Cohen Group met, called, and communicated with MOU companies and the GTF in Israel and Europe to discuss the review exercise findings; and
 - Have started to implement a verification role within the ICHEIC London office.
- Worked towards improved communications with ICHEIC constituents, including U.S. regulators, Jewish representatives, companies, the State of Israel, U.S. government officials and Members of Congress, press and, most importantly, ICHEIC claimants.
 - Developed the ICHEIC Quarterly Report to facilitate regularly scheduled communication with ICHEIC constituents.
- Is working to obtain final settlement of the AWZ Agreement.
- Developed an ICHEIC claims processing guide in English. The guide is intended as a tool to help claims resolution professionals, claimants, and all ICHEIC constituent members understand the procedure using this step-by-step guide through the claims process.
- Led by Dale Franklin for ICHEIC, successfully published the list of the German Jewish policy holders in April, as scheduled.
- Participated in settlement negotiations between Generali and class action lawyers.
- Responded to discovery requests in the Generali lawsuit.
- Developed a Lifetime Budget, as was originally tasked to ICHEIC management by the Commission members in September 2000.
- Brought full accounting and reporting responsibility to the Washington DC office, reducing cost and providing more timely information.
- Developed budget to actual analyses on a monthly basis; with quarterly budget to actual reporting to the FAAC.
- Developed regular, consistent reporting to the FAAC regarding financial results, annual independent audits of ICHEIC's books and records, reporting against the budget and at least annual refinements to the budget for FAAC consideration.
- Constituted an Investment Committee to provide professional advice with regard to investment decisions.
- Developed competitive investment environment to monitor returns of ICHEIC's investments within the narrow band of the ICHEIC Investment Guidelines.
- Canvassed the humanitarian community to hear as many voices as possible with regards to the greater Jewish communities' feelings about how the humanitarian funds should be spent.
- After a complete RFP process, negotiated a contract with the Claims Conference to process 8A claims. 8A processing costs will be charged to ICHEIC at the Claims Conference's cost, with no built-in profit margin. It is anticipated that the entire 8A process will be completed at a cost that is less than the \$2 million

included in the Lifetime Budget (this outsourced contract has not yet been included in the Revised Budget);

Other categories that were included in the lifetime budget remain as contingencies, with no fixed budget. They include:

| <u>(in 000's)</u> | |
|-------------------------------|---------|
| Humanitarian purposes: | |
| Humanitarian Fund | \$2,000 |
| Contingencies: | |
| Matching Projection | \$2,500 |
| 2005 Contingency | 4,000 |
| General Contingency | 6,000 |

We are currently working on matching and expect the total cost of matching to be substantially less than the \$2.5 million projected as a contingency included in the Lifetime Budget.

The 2005 Contingency is an estimate of operating costs should the ICHEIC not be able to complete its mission by the end of 2004; this remains a possibility, although all parties are doing all in their power to move swiftly on each and every impediment to that goal.

There is no obligation that is currently outstanding that would fall under the General contingency. It was included to account for occurrences that may arise, but are not known today.

It is difficult to measure a budget without understanding the results of the budgeted costs. In a profit driven company, success is easily measured by the bottom line. In this environment, we have to assess the results on an empirical basis, rather than purely financial, which is why I felt it would be helpful to focus on the ICHEIC process; how far we have come, and what tools we need to complete the job, with quality, effectiveness and efficiency.

Above all, it is our duty to pay claims accurately and expeditiously. The budget reflects the costs necessary to continue that process, to make further improvement, and to ensure that all valid claims are paid in as timely a fashion as possible.