The e-Voice

Spring '05

Welcome to UFAA's e-Voice! **(All Agents)**
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Credit Scoring

Toxic System

We live in a societal system whereby individuals must divulge personal/financial information in order to:

-- Get a loan to purchase a home, car, etc.

-- Obtain a credit card

-- Purchase insurance

-- Apply for a job

-- Rent an apartment or house

The list goes on...

Everyone wants to know everything about you - *everything*.

The information is used to offer or refuse credit - decide your terms: Grant or refuse insurance and decide your rate.

The information collected does not stay with the bank, insurance company, etc. It is shared with "affiliates" and sent to central data collection companies.

It is used for sales purposes, to segment you according to your desirability as decided by the users and to make money for the companies that collect and distribute your data for a fee.

Fair Isaac and Company (FICO) is the father of the whole system. It created the whole concept of financial algorithms and marketed its services and systems. Then, when its systems began to be misused, abused and data stolen, it profited further by marketing a "repair" service to the public!

A consumer really cannot opt-out of this all-pervasive system. For the most part, Congress allows almost unlimited exploitation of consumers and their confidential information.

The system is *defaulted* to allow almost unfettered use of the data. It takes a great deal of time and energy by a consumer to contact the exploiters, one by one, to effect a very limited restriction on the use of his/her data.

Consumers have no choice but to allow the data collection/distribution companies, and their users, to profit from individuals' confidential data. Did I say confidential? Confidential to whom? Certainly not from the companies that originally required the data; Certainly not from their affiliates; Certainly not from the companies that pay for the data; And, as has become abundantly clear, not from crooks who can easily evade sloppy security systems.

Seems the only people who have difficulty accessing the system and fixing problems are the very consumers whose data is sold (or is easily stolen) to almost anyone who wants it.

The "Credit Score" game cannot be played and won by the consumer. Different rules for the game are set up by each type of entity: Mortgage lender, insurance company, rental agency, employer, etc. Those rules are secret, constantly changing and are varied according to the marketing strategy of the various entities.

A consumer cannot arrange their financial structure in such a way as to get the "best" score from every entity. A good score for a mortgage company may be only an average score for an insurance company, employer or rental agency - or vice versa.

Often, those who are prudent and sharp (sharp, meaning taking advantage of good credit deals) in their use of credit, get poorer scores.

The inference is that some companies don't want truly savvy customers. They want those who are more susceptible to their marketing pitches.

As I said before, the collection and use of credit information, beyond its original intent - for loan repayment purposes - is Toxic.

A Retired California agent

Panel objects to Granholm's proposed credit scoring ban

February 17, 2005, Detroit Free Press

LANSING, Mich. (AP) -- A legislative panel wants to stop the state insurance office from banning the use of credit scores by insurers to set home and motor vehicle insurance rates.

The Republican-controlled Joint Committee on Administrative Rules voted 6-3 Thursday to file a notice of objection to the proposed rules, which are set to take effect July 1. The Legislature has 15 session days to pass a bill rejecting the rules.

But the bill is unlikely to get past Democratic Gov. Jennifer Granholm. Andy Schor, spokesman for the state Office of Financial and Insurance Services, said he assumes Granholm would oppose any attempt to reject the ban since her administration proposed it.

The state Office of Financial and Insurance Services wants to end the practice of basing insurance rates on credit scores because it says such scoring is unfair, inaccurate and illegal.

Insurers, however, say there is a strong connection between credit history and the likelihood of someone filing a claim. They want to keep credit scoring in place.

Generally, the better one's credit score, the lower a customer's insurance premiums will be. Those with worse scores usually pay higher rates.

The proposed rules would require insurers to reduce the base premium rates charged to all policyholders. But insurers warn that, if credit scoring is banned, many consumers would see their insurance rates rise.

"We like to find ways to reduce rates," said Sen. Mike Bishop, R-Rochester, who supported filing the notice of objection. "I'm very concerned these proposed rules will have the opposite effect."

Bishop said lawmakers don't want to waste time, however. He said the formal objection may be futile since the Granholm administration supports the new rules.

Web Sites to check out

Insurers Concerned With 'Burdensome' N.Y. Credit Score Regulations
http://www.insurancejournal.com/news/east/2005/02/24/51905.htm

Ark. House Approves Bill to Ban Credit as Factor in Rating Auto Premiums
http://www.insurancejournal.com/news/southcentral/2005/02/24/51913.htm

Texas House Committee Hears Testimony on Insurance Score Ban
http://www.insurancejournal.com/news/southcentral/2005/02/23/51883.htm

Public Backing Needed To Save Credit Scoring
Editorial & Opinion

By Ernie Csiszar, National Underwriter, February 28, 2005

This year, the Texas Legislature will decide whether credit history should be used to underwrite insurance policies, but the issue goes much further than that.

Ultimately, Texas lawmakers will determine if fiscally responsible consumers who drive safely, maintain their homes and avoid risk should pay higher insurance premiums to cover the losses of those consumers who live more recklessly.

The focal point of the debate is a recently completed Texas Department of Insurance study that reaffirmed the link between credit history and claims experience. Not only did the study confirm the correlation between credit and risk, it also determined that credit history provides "additional predictive information distinct from other rating variables."

What that means is that by using credit history, companies can more accurately price their products so that high-risk consumers pay more for their policies and low-risk consumers pay less.

In his letter to state legislators that accompanied the study, Insurance Commissioner Jose Montemayor stated: "Prior to the study, my initial suspicions were that while there may be a correlation to risk, credit scoring's value in pricing and underwriting risk was superficial. The study, however, did not support those initial suspicions. Credit scoring…is not unfairly discriminatory…because credit scoring is not based on race, nor is it a precise indicator of one's race. Further, its use…adds value to the insurance transaction."

End of story, right? Not quite.

The insurance department's study also determined that, on average, a higher percentage of younger, lower-income, African-American and Hispanic consumers have poorer credit histories than white, Asian-American, older and higher-income consumers.

As a result, some public policymakers are now calling for the Legislature to ban the use of such scores because they do not affect every segment of the population in exactly the same way—the so-called "disproportionate impact."

Because the action taken by state legislators will be felt in the pocketbook of every consumer in the state, it is important that lawmakers proceed deliberately and with a full understanding of the consequences—intended and unintended—of their actions. Again, one of the best places to start their deliberations is Commissioner Montemayor's letter.

"By the nature of risk-based pricing and underwriting, all factors used in insurance have a disproportionate impact to some extent," wrote Mr. Montemayor. The commissioner dismissed implications that the use of credit was somehow unfairly discriminatory, saying that reverting to a pricing system that homogenizes risk and charges everyone the same price "would be a setback to all Texans, of all races, especially those of moderate-to-lower income whose risk remains low."

The bottom line is that insurers underwrite individuals, not ethnic or economic groups, and apply every underwriting factor equally to everyone. Insurers never collect information on the income or ethnicity of a consumer, ensuring that the underwriting process is objective and colorblind.

The response from opponents of risk-based pricing has been predictable. Essentially, they have said that they don't care what any study says—use of credit history is "immoral" and should be banned. In the greatest irony, the head of the Texas chapter of the American Association of Retired Persons is publicly supporting a ban on credit despite the insurance department report's findings that older consumers are most likely to benefit from the use of credit in underwriting. Go figure.

In 2003 state legislators enacted a law that allowed insurers to consider credit history with some important restrictions. For instance, insurers cannot use credit history to underwrite policies for individuals who face unexpected and difficult economic challenges such as divorce, death of a spouse, medical catastrophe, temporary loss of employment or identity theft. These safeguards make certain that every consumer gets a fair shake.

Insurers will communicate these messages to Texas lawmakers when proposals to ban the use of credit history are heard in committees or get attached to other legislation—such as school financing measures—on the House or Senate floors.

However, some legislators are going to need more than a study and the opinion of industry lobbyists to convince them that a ban on credit history is a bad idea. Insurers need to muster the grassroots strength of the millions of consumers that benefit from the use of credit history—and whose rates will increase if it is banned—to win the day in Texas.

It won't be easy. We've seen that critics of credit history are quite willing to play the race card to achieve their ultimate goal of rate subsidization. We must make sure that legislators see through this smoke screen.

The best way to accomplish this is to make certain that they hear from financially responsible constituents in every ethnic and income category who would pay higher insurance premiums if credit history were banned.

Ernie Csiszar is president and CEO of the Property Casualty Insurers Association of America in Des Plaines, Ill., and former president of the National Association of Insurance Commissioners.

Truth On Credit Scoring Will Set Consumers Free

By Birny Birnbaum, March 7, 2005, National Underwriter

Final Say: Counterpoint

The biggest reason why insurance credit scoring continues to be a hot-button issue for consumers and legislators around the country is that insurers have simply not told the truth about credit scoring and its detrimental effect on insurance consumers.

The "Final Say" in last week's edition of National Underwriter by Ernie Csiszar, president and CEO of the Property Casualty Insurers Association of America assembles much of the misinformation in one place and makes the bizarre claim that insurers need to generate grass-roots support for credit scoring.

How this will occur is anyone's guess, since the vast majority of consumers oppose credit scoring. (In 2003, a Scripps Howard Texas Poll on insurance credit scoring found that fully 68 percent of Texans supported a total ban.) Consumers oppose credit scoring for many reasons.

First, even if we assume that credit reports are accurate and complete, credit scoring is inherently unfair.

Fully 87 percent of family bankruptcies result from job loss, major medical bills and divorce. It is only in the cloistered world of insurance actuaries and executives that charging higher auto- and homeowners insurance rates to some who suffered an economic or medical catastrophe is considered fair.

Second, credit scoring discriminates against poor and minority consumers.

A Missouri insurance department study last year found race to be the single best predictor of an insurance score, and that credit scores for minorities were consistently lower than scores for non-minorities.

In addition, a Texas insurance department study found a consistent pattern of differences in credit scores among the different racial/ethnic groups. The average credit scores for whites and Asians are better than those for African-Americans and Hispanics. In addition, African-Americans and Hispanics tend to be over represented in the worst credit-score categories and underrepresented in the better credit-score categories.

Seems pretty unequivocal, doesn't it? But Mr. Csiszar cites Texas Insurance Commissioner Jose Montemayor's letter to the Texas Legislature, in which Mr. Montemayor concludes no bias in credit scoring. Mr. Montemayor's explanation might be plausible if it did not contradict the actual findings of his department's study.

Interestingly, for many years, insurers have justified the use of credit scoring based on a simple correlation between credit scores and loss ratios. Yet, the Missouri and Texas insurance departments found precisely this type of relationship a strong correlation between credit scores and race. For insurers, what's good for the goose is apparently not good for the gander.

Third, credit scoring is arbitrary and penalizes consumers for rational behavior.

The fact is that credit reports often have errors or missing data. Not all lenders report to even one of the major credit bureaus, let alone all three. Consequently, a consumer's credit score can vary from very bad to very good based upon which bureau provided the information. I recently checked my credit reports from all three bureaus and found the information on inquiries completely different in each bureau's report.

A consumer's payment history makes up a small portion of the factors in a credit scoring model. Rather, factors concerning the type of credit, the length of credit history, inquiries, credit balance to limits, and when loans were opened carry more weight than whether a consumer pays bills on time. The absence of credit information hurts a score more than a late payment.

And let's not even get into errors in credit reports. Identity theft is the fastest growing financial crime, and it directly affects consumers' credit scores. It seems we learn each week about a credit bureau getting hacked or a lender losing data affecting millions of consumers.

For all practical purposes, an error in a credit report is irreparable for an insurance consumer. The process of finding out that credit was used in pricing, that a credit score resulted in an adverse action, obtaining the reasons for the adverse action, obtaining a credit report, and then trying to get the credit bureau and lenders to fix the errors is not only next to impossible but so time consuming as to make the exercise irrelevant in challenging an insurers' credit score.

Fourth, credit scoring undermines the critical role of insurance in loss prevention.

Insurance has two critical purposes to provide consumers, businesses and communities with an essential financial security tool in the event of a catastrophic event, and to promote loss prevention. Insurance credit scoring undermines insurance availability and affordability and, just as important, undermines the loss prevention role of insurance.

Insurance credit scoring minimizes the role of rating factors that are under a consumer's control and that provide economic incentives for less risky behavior. Instead of transparency in rating to help a consumer understand what type of behavior will be rewarded with lower premiums, credit scoring makes insurance rating an opaque process disconnected from loss prevention.

While criticizing opponents of credit scoring for pointing out that credit scoring discriminates against minorities "playing the race card" Mr. Csiszar has absolutely no hesitation in playing one group of consumers against another. He throws out the tired claims that credit scoring rewards fiscally responsible consumers and that a ban on credit scoring will cause good risks to subsidize bad. Both claims have been shown to be false for years, but that never stops insurers from engaging in class warfare.

The fact is that a credit history is not a measure of financial responsibility and that a good credit history does not equate to a good credit score. A review of actual credit scoring models which are public information in Texas shows that the vast majority of factors in credit scoring have nothing to do with payment history and everything to do with economic status.

The fact is that a credit report contains only a small piece of a consumer's financial picture there is no information on savings, investments, insurance or routine payments for rent and utilities. Together with the arbitrary nature of credit scoring, described above, these facts lay the fiscal responsibility myth further in the grave.

As for subsidies, insurers have lost sight of the fundamental purpose of insurance for consumers to spread risk in a fashion that provides economic incentives for less risky behavior and economic disincentives for more risky behavior. It is not a subsidy to treat two consumers the same if they have similar risk profiles but a different number of credit cards or loans from different types of lenders. Rather, it is basic fairness.

Mr. Csiszar's arguments about credit scoring are belied by the facts about credit scoring. If consumers embrace credit scoring the way that insurers say they should, why don't we see even one insurer advertising its use of credit scoring? We see ads for safe drivers, but no ads telling consumers about the great rates for good credit scores. The answer, of course, is consumers loathe credit scoring and insurers know it.

Mr. Csiszar's reaction to the Texas chapter of AARP opposing credit scoring should not be the dismissive "go figure," but some serious reflection on why a group of consumers who allegedly benefit from credit scoring demand a ban on the practice. Opponents of credit scoring, contrary to Mr. Csiszar's claims, are not opposed to risk-based pricing. We are opposed to unfair practices that discriminate against minorities and undermine the basic role of insurance in our society.

If insurers could see beyond the short-term bottom line, they'd see a richer long-term bottom line with the end of credit scoring. Consumers' fight against insurance credit scoring grows stronger every day.

Birny Birnbaum, a former insurance regulator, directs the Center for Economic Justice, an Austin, Texas-based non-profit that advocates on behalf of low-income and minority consumers on insurance matters.

B of A Loses Data Tapes of Federal Accounts

Confidential records about government employees were lost in transit, the bank says.
By E. Scott Reckard, Los Angeles Times, February 26, 2005

In the latest financial privacy slip-up, Bank of America Corp. said Friday that it lost computer tapes containing personal information on federal employees who use 1.2 million bank-issued cards to pay for expenses.

The data included Social Security numbers and home addresses of workers at dozens of government agencies, possibly including U.S. senators, a bank official said. The bank could not say how many workers were involved because some hold multiple cards.

The tapes were lost in December while being shipped to a backup data center, said Eloise Hale, a spokeswoman for Charlotte, N.C.-based Bank of America. She wouldn't disclose the method of shipment or how the loss occurred.

U.S. Sen. Charles Schumer (D-N.Y.) said he was told in a briefing that baggage handlers probably stole the data backup tapes from a commercial plane. Sen. Patrick J. Leahy (D-Vt.) was among the senators whose information was on the missing tapes, a Leahy spokeswoman said.

Bank spokeswoman Alexandra Trower said the Visa-branded cards were used to pay for work-related travel and entertainment expenses. Bank of America expressed regret for the incident and said cardholders would not be liable for any losses.

"The investigation to date has found no evidence to suggest the tapes or their content have been accessed or misused, and the tapes are now presumed lost," the bank said in a statement.

The bank's statement said a "small number" of tapes had been lost, without mentioning that those tapes contained confidential information on more than 1 million accounts.

"That seems like a fairly large number," said Joanne McNabb, head of the Office of Privacy Protection at California's Department of Consumer Affairs.

Bank of America shares rose 59 cents to $46.79 on the New York Stock Exchange.

ChoicePoint Had Earlier Data Leak

Scammers accessed personal financial information five years ago in a scheme similar to a recent case.

By David Colker and Joseph Menn, Los Angeles Times Staff Writers, March 2, 2005

Scammers penetrated ChoicePoint Inc.'s vast online database of personal records five years ago in an operation similar to a more recent case that has triggered a national furor over privacy, court records show.

Two Nigerian-born fraud artists were arrested in Los Angeles in 2002 by federal officials who charged that the pair used ChoicePoint to gain access to confidential information about at least 7,000 people and possibly many more, resulting in at least $1 million in losses.

That security breach, which received no public attention at the time, is similar to the case in which a North Hollywood man, also a Nigerian native, pleaded no contest last month to felony identity theft. He had obtained as many as 145,000 ChoicePoint records by setting up a fake business claiming to have a legitimate need for the information.

The most recent incident came to light because of a new California law that requires credit agencies to notify victims of identity theft.

ChoicePoint executives on Tuesday declined to comment.

Consumer advocates said they were outraged.

ChoicePoint "tried to suggest there really wasn't a problem" after the recent case became public, said Marc Rotenberg, executive director of the Electronic Privacy Information Center. "This makes it clear they had been aware of earlier problems with the wrongful sale of their information to criminals."

Consumers Union attorney Gail Hillebrand, who was attending a state meeting on identity theft convened Tuesday by Gov. Arnold Schwarzenegger, called the earlier case an "illustration that you can't rely on companies with a business incentive to distribute information to restrict that access."

ChoicePoint records, which can include credit reports, addresses and Social Security numbers, are invaluable to identity thieves, who use the information to open fraudulent accounts.

The recent ChoicePoint case came to light because Atlanta-based ChoicePoint was forced to notify 35,000 Californians — in accordance with the law — that their records might have been compromised.

After angry officials nationwide called for wider disclosure, the company sent notifications to an additional 110,000 people. Senate Judiciary Committee Chairman Arlen Specter (R-Pa.) said he would hold hearings on identity theft.

California Sen. Dianne Feinstein (D-CA.) said Tuesday that the discovery of the previous case gave ammunition to proponents — including her — of a national disclosure law.

"Clearly ChoicePoint had been violated once before," Feinstein said. "In the most recent case, if it weren't for the California law, I don't believe they would have done anything about it."

In both California cases, the people convicted of the crimes were illegal immigrants of Nigerian descent living in the San Fernando Valley. They used multiple fake identities to establish accounts with ChoicePoint, allowing them to comb through database records for personal data. Authorities say they don't know if there is any link between the perpetrators in the two cases.

"I think the people in this area of crime know that ChoicePoint and companies like them are a great resource for theft," said Assistant U.S. Atty. Mark Krause, who prosecuted the earlier case.

Pleading guilty in that case was Bibiana Benson, 39, of Sherman Oaks and her brother, Adedayo Benson, 38, of Encino.

According to court documents, Bibiana Benson admitted to opening a ChoicePoint account in 2000 in the name of Christine Burton and the company C&B Research, showing a real estate broker's license and driver's license for identification.

Both licenses were faked, Krause said. When federal authorities contacted the real Burton, a resident of Indiana, she said she had never opened a ChoicePoint account or heard of C&B Research.

Bibiana Benson obtained personal information — including Social Security numbers and addresses — from the ChoicePoint databases and sold the data for $40 to $65 per name, prosecutors said in court documents.

Her customers for the information, mostly Nigerian immigrants, numbered about 20, including her brother, Krause said. In some cases, the ring would supply a name and she would search for records.

"They would want to see if it was worth taking over the identity, if the person's credit was good enough," Krause said.

In September 2002, Bibiana Benson pleaded guilty to one felony count of unlawful use of identification and was sentenced to 54 months in prison. An appeal of the sentence is pending.

Krause said a Secret Service investigation found that the information she garnered from ChoicePoint resulted in at least $1 million in illegal purchases. Authorities said they did not know whether ChoicePoint notified victims that their records had been compromised.

Adedayo Benson pleaded guilty last November to three felony counts concerning the use and attempted use of fake credit cards. His sentencing is scheduled for Monday. Prosecutors plan to ask for a five-year prison term.

No other arrests have been made in that case, but it remains open, Krause said.

ChoicePoint isn't the only information broker to have been penetrated in recent years.

A Boca Raton, Fla., man was charged last year with obtaining bank, credit card and other data on millions of individuals through ChoicePoint rival Acxiom Corp. of Little Rock, Ark.

Federal prosecutors say Scott Levine, who headed an e-mail marketing company, planned to incorporate the information in his firm's services. But the prosecutors say they have no evidence that Levine or others rang up fraudulent charges.

And in January, New Yorker Philip Cummings was sentenced to 14 years in prison for his part in downloading credit reports on more than 30,000 people over more than two years.

Cummings, a former help-desk employee at a company that makes financial software, worked with more than a dozen partners who obtained new credit cards in the names of their victims and made at least $50 million in fraudulent purchases, authorities said.

Letter to the editor

It is with great reluctance and sadness that the following Opinions are finally expressed.

If you are an agent that produces 70 or less count per month and/or have 800 or fewer PIF, the management company is coming after your agency. The most obvious reason for this is that the typical career agent is averaging 35 auto policies PER YEAR, while attaining 1500 or more life/FFS sales count PER YEAR. The career agents “appear” to be “heroes” but these heroes are not making any money. Consequently management has to support these “heroes” in some way and management is going to support them with your agencies.

But that is only part of the story. The more insidious reason that management wants these “deadwood” (this phrase attributed to a local DDM) agencies is that management believes that FIG’s unprecedented decline is the agent’s fault, specifically the “older” agents fault. It’s as if management thinks that the older agents <u>purposely</u> do not want to sell 20 to 30 auto/home/life policies per month. Can anyone think of any FIG agent of any age that does not want to sell at least 20 to 30 policies per month? What could possibly have brought management to think this way? And because management is thinking this way, management thinks it is justified in “stealing” (how else to describe it?) these agencies to give to the newbies.

But let us return for a moment to the question—”What could possibly have brought management to think this way?” Imagine for a moment that you are an executive that keeps coming up with programs (the cheese is moving), from education loans, FARA/FPRA, auto buying, ad infinitum, and the programs keep failing. All along the way your salary keeps doubling and your bonuses keep going up and everyone immediately around you keeps doing better and better. All the while you are oblivious to the fact that what the company was about from the beginning is fading into the sunset.

Blinded by your “success” you KNOW that the company’s decline cannot be the result of <u>your</u> incompetence. But wait a minute,

“We better get back to the basics before its too late” (the cheese moved back--or in fact the cheese never moved at all!) So now you go back to the agents with another NEW program-SELL AUTO INSURANCE!!!! “You/we deserve to grow!!”

Unbeknownst to you, selling auto insurance is something that the agents (specifically the older agents) have known all along was the most important part of our business, but because of the decade long unabated assault by FIG management, competitors, and the legal system (do not call list) the agents know exactly what position we are in now. So what does management do—— they raise the rates again and add ANOTHER level of management! Can you believe it??? Then management says “Go out and market and sell auto insurance and don’t lose anymore policies, and if you don’t do what we say we are going to STEAL your agencies (spelled L-i-v-e-l-y-h-o-o-d) away from you! Is anyone surprised that the agents might be a little upset when, after all of the above, management replaces one clearly incompetent CEO with someone from the same regime who is even less qualified than the CEO he is replacing.

If you are an agent and you are reading this, and you are not a member of UFAA, you need to join NOW! If you are a “big” agent and you think you are invulnerable, how many policies have you lost these last few years? How’s your current lapse ratio? In the future, UFAA may be a pipeline for information regarding legal activity in conjunction with age discrimination and/or franchise infringement. If UFAA membership were to take a quantum leap it’s possible that management might be slowed in their arrogant march against the agents.

Has anyone ever noticed how management rarely takes notes at any meetings with agents? From their vantage point the conversation really only needs to go in one direction. But this is because upper management treats lower management in the same way. There is only one-way communication- from on high-if you disagree get out! A sure sign of insecurity and incompetence. However, the surest measure of the rightness of all that has been discussed above is FIG's nosedive in almost every line of business (I know Marty painted a rosy picture with all of his figures but we all know the real picture) except FFS (I hesitate to mention this because upper management might fire the one executive who actually knew what he was doing.)

Farmers slide is accelerating. Even if Paul Hopkins knew what he was doing Marty fouled things up so badly no one can stop FIG's free fall. The only comfort one can take from this entire situation is that the current FIG management will be gone sooner rather than later. And guess why the "older" agents who have survived all the aforementioned can and still want to stay around? Because we sold a lot of auto/home insurance "back in the day" and we can and will survive. It's even possible that with a new management, the agent can get Farmers back where it belongs.

In the meantime time, protect yourself--join UFAA!

An old agent from the Midwest.

***<u>Salaries:</u>* Are policyholders getting their moneys worth?**

Name and Position	Year	Salary	Bonus	All other	Total
Martin D. Feinstein,	**2004**	**$1,200,000**	**$1,440,000**	**$853,169**	**$3,493,619**
Chairman and CEO	2003	1,200,000	650,000	332,668	2,192,668
	2002	1,200,000	850,000	241,214	2,291,214
Paul N. Hopkins,	**2004**	**525,000**	**390,600**	**337,250**	**1,252,850**
Chairman and CEO	2003	420,000	238,500	121,414	779,914
	2002	350,833	252,900	121,484	725,217
Keitha T. Schofield	**2004**	**438,000**	**345,700**	**490,012**	**1,273,712**
Executive VP	2003	418,000	261,100	139,460	818,560
	2002	405,000	234,300	165,104	804,404
Jason L. Katz	**2004**	**443,000**	**354,200**	**381,470**	**1,178,670**
Exec VP & General Counsel	2003	425,000	268,100	145,170	838,270
	2002	410,000	252,900,	169,132	832,032
C. Paul Patsis	**2004**	**430,000**	**359,775**	**335,679**	**1,125,454**
Senior VP	2003	410,000	243,300	105,576	758,876
	2002	395,000	210,500	121,875	727,175
Stanley R. Smith	**2004**	**375,500**	**221,100**	**274,578**	**871,178**
Executive VP	2003	316,833	112,500	101,788	531,121
	2002	226,000	84,700	98,182	407,882
Pierre C. Wauthier	**2004**	**385,000**	**284,625**	**197,335**	**866,980**
CFO, Treasurer, & Exec VP	2003	330,000	99,700	71,232	500,932
	2002	150,000		69,174	219,174
F. Robert Woudstra	**2004**	**327,000**	**251,000**	**256,893**	**834,893**
Senior VP	2003	313,150	147,000	88,262	548,412
	2002	293,500	145,400	90,041	528,941

Data provided by the Nebraska Department of Insurance

Farmers' wants Independants

Declaration of independents
At Farmers, independent agents are welcomed, valued, and supported
By Elisabeth Boone, CPCU

What happens when a giant exclusive agency company opens its doors to independent agents?

Plenty!

In 1989, when Farmers Insurance Group began to manage the East Coast personal lines business of Zurich Insurance, the country's third largest auto and homeowners insurer also became a major player in the independent agency system. Before becoming part of Zurich Financial Services Group, Farmers did not have a presence on the eastern seaboard. Today the insurer's products are sold in 12 eastern states (see box on page 38) by some 1,100 independent agents, who enjoy strong local support for marketing, underwriting, and claims handling. In 2000, Farmers acquired Foremost Insurance, the leading writer of mobile home and recreational vehicle insurance, in a move that both enhanced Farmers' product portfolio and strengthened its ties to independent agents.

Carriers' use of multiple distribution channels is no longer a rarity. Each company, however, approaches the issue from its own unique perspective, and the Farmers model offers valuable insights into the process of diversified distribution.

Across the country, Farmers/Foremost maintains relationships with some 40,000 independent agents and is represented by about 15,000 exclusive agents, according to Jack Hannigan, who is chief marketing officer for independent agency operations. Hannigan began his career with CIGNA and in 1983 joined Foremost Insurance, where he held a succession of top executive positions.
In total, some 55,000 agents sell Foremost products; while 1,100 independent agents sell Farmers' personal auto and homeowners coverages and about 100 agents offer small commercial products in the carrier's 12-state East Coast territory. "Part of our strategy is to continue to roll out Farmers' products to our independent agents in the East with whom we have relationships through Foremost," Hannigan says. Although Foremost maintains its own identity in the Farmers/Foremost partnership, "in mid-2003 we began to merge the Foremost marketing group and the Farmers independent agency marketing group in the East. That allows us to take advantage of economies of scale and to share technologies," Hannigan notes. "We want to bring the independent agent a broad portfolio of Farmers and Foremost products that includes auto, home, specialty, and commercial coverages from one organization. Our goal is to penetrate all of the personal and commercial lines market segments in which Farmers and Foremost offer products. We think bringing together the specialty products of Foremost and the Farmers standard lines products is a great value for the independent agent."

Some carriers that use multiple distribution channels have increased their market penetration—but have done so at the expense of their relationships with independent agents who resent being forced to compete with exclusive agents, banks, and Internet direct marketing operations. Hannigan is quick to emphasize that there is no conflict between Farmers' exclusive agents and the independent agents who represent the company on the East Coast. Independent agents are active only in states where Farmers has no exclusive agents. As a result, Hannigan points out, the organization is able to build market share by drawing on the strengths of both kinds of agents without pitting them against each other.

Value of independent agents

By building a strong independent agency network, Hannigan observes, Farmers is responding to the desire of most consumers to work with an agent who offers a full menu of product choices. According to research, he notes, eight out of 10 people want to buy their insurance from a local adviser. “We want to sell insurance in the way the consumer wants to buy it,” he asserts.

“The Farmers/Foremost organization has the opportunity to maximize the penetration of all our products in the independent agency network,” says Hannigan. “The Farmers organization currently writes about $400 million of auto and homeowners volume through independent agents, and our presence in the eastern states offers us the opportunity to grow that business.”

In addition to growth, Hannigan remarks, “Working with independent agents and having to compete against very strong players in that marketplace helps us develop our technologies and helps us understand the kinds of services and processes that make a company stronger. The value that independent agents bring to the marketplace and to the consumer is important, and we want to be part of it.”

On the technology side, Hannigan says, “we have begun to invest heavily in our Web-enabled front-end processing systems so we can compete on the same level as the other strong carriers that our independent agents represent.” Based on both in-house and outside research, Hannigan remarks, “We know that agents obviously are looking for stability in companies, and they’re also looking for technology and customer services. We think that by blending our organizations and making major investments in technology to support our independent agents, we can become their carrier of choice.”

Over the next 18 months, Hannigan says, Farmers plans to expand its East Coast independent agency force by some 2,000 agents. The carrier seeks relationships with agents who are experienced and have a growing book of business in personal and commercial lines. “We want them to be marketing oriented and technologically savvy so they can interface with us through the Web,” Hannigan says. “For the agents with whom we already have established relationships, we’re looking to give them access to more of our products.”

Throughout its East Coast territory, Farmers maintains a field marketing force to support its independent agents. Agency operations in each state are overseen by a Zone Executive Director. A service operation for Farmers business is based in Baltimore, and Foremost service operations are located in Foremost’s home city of Grand Rapids, Michigan, as well as Baltimore and Kansas City. Branch claims operations are located throughout the East Coast territory. “We have a full set of marketing, underwriting, claims, and customer service capabilities for our agents,” Hannigan declares. What’s more, he continues, “Our research tells us that agents want companies to offer a solid compensation package. We believe our compensation packages across the board are very competitive.”

Kudos from agents

What are independent agents saying about their partnership with Farmers? “The feedback we get deals with issues like brand identification,” Hannigan responds. “The Farmers and Foremost brands are very well known. When long-time Farmers customers from Midwestern and western states move to the East Coast, they want to know how they can get Farmers products,” he says. “Our name brand is a major benefit for the independent agents who represent us in the eastern states. Our ability to deliver a full range of products is another benefit our agents appreciate. We believe we can offer almost all of our agents a marketplace for well over 80% of the business they write.”

Another key issue for agents is stability. “Both the Foremost and Farmers organizations have been in their respective businesses, and are mainstays in those businesses, for many years: Farmers for 77 years and Foremost for 53 years,” Hannigan remarks. “We’re starting now to get feedback on the services we provide as our technology and delivery systems become increasingly state of the art,” he

continues. “Those are the factors we hear about from our agents when they tell us why they want to do business with us. Many agents tell us they are trying to streamline their operations by consolidating company representation, and the fact that we offer easy access to a variety of products is very attractive to them.”

Looking ahead, Farmers is considering expansion of its independent agency network into additional states, including New Jersey and South Carolina, where no exclusive agents are located. Adding more states, however, isn’t the company’s primary objective in building its independent agency presence. “We see so much opportunity in the states we are in. We haven’t yet maximized our agency penetration with our full product line, and that’s where we’re going to focus our efforts,” Hannigan says.

Asked to characterize the key challenges and opportunities his organization faces over the next few years, Hannigan says, “This is a very competitive market, and our challenge is to determine how to compete effectively with the best companies in the independent agency channel. Another challenge is to maximize our technological capabilities to give agents the kinds of systems that will help differentiate us in their minds. We need to continue to develop our technology so we can become a major player,” he remarks.

Hannigan points to something he considers to be a critical factor in Farmers’ success, as well as its ability to differentiate itself in the market. “In each of the markets we make available to independent agents—personal auto, homeowners, mobile homes, motorcycles, marine, recreational vehicles, and small commercial—we’ve built the organization so that we have specialized expertise in each of those markets in terms of products, marketing, systems, and claims,” Hannigan says. “We’re structured in such a way that we can maximize the strengths of bringing Farmers and Foremost together. I think that has positioned us not only to grow our business, but also to grow it profitably.”

In the insurance business, as in every other field of endeavor, people make mistakes. The key is to learn from those mistakes and make changes to get back on track for success. “We entered the independent agency market with the Farmers product in late 1989 and early 1990,” Hannigan says, “and in 1992 and 1993 we had to put a moratorium on new business because we made some mistakes in the way we launched the program. Many agents questioned our staying power and our ability to withstand some of the pressures in the market. We’ve told our agents that if we weren’t a stable organization, we wouldn’t have been able to stay in the market during those times of challenge. Because our organization is strong, we were able to learn where we were making mistakes,” Hannigan says. “We’ve corrected those mistakes and are making the investments we need to be successful. We think the strength and stability of Farmers and Foremost are important to agents, and their feedback tells us that is the case.” *

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Insurer Drops Agents

By Ben Boulden
Times Record • bboulden@swtimes.com

Until the termination of his contract with Farmers Insurance Group this fall, insurance agent Mark Corbin of Russellville felt honored by the company for the business he had brought it.

Now, he feels like just another brick in the Walk of Fame at their home office in Los Angeles.

As do former Farmers' agents Junior Day of Logan County and Carol Gunn of Greenwood.

Day said he was honored three times with membership in the company's Toppers Club in the 27 years he wrote and sold insurance policies for Farmers.

Like Corbin, Gunn said her name is on a brick in the walk, too.

Corbin's was added as recently as 2003.

"The walk is paved with bricks engraved with the names of those men and women who in 2002 and 2003 challenged themselves to rise above their peers," Corbin said, reading the certificate during a recent telephone interview. "I'm proud to say you are one of the select few to be so honored."

Corbin said he received a contract bonus the last two years of his business with Farmers and would have qualified in 2004 if not for his termination.

"My contract was terminated without cause," Corbin said. "I wasn't actually given a reason."

Farmers gave him 90 days notice prior to the termination of his contract on Oct. 29, Corbin said. Corbin had a contract with the company for 16 years.

Because of steep insurance rate increases before his contract ended, Corbin said he had lost 750 policies but was being pressed even harder to produce more sales of new policies.

Rate increases lose business and keep you from producing new ones, he said.

Tiffany O'Shea, spokesperson for the American Insurance Association in the southwest regional office in Austin, Texas, said she isn't aware of any general economic factors in the industry that are putting price pressure on insurance rates in rural areas in particular. The source of the pressure on rates might be specific to Farmers, she said.

"When I was first put on the program, I was above the average production for an agent in the district," Corbin said. "Most people think, 'This guy got fired. He's a deadbeat.' I never was the gung-ho type salesman. Never was from the day I signed up. I did build and retain business well with competitive rates. I moved myself to a position where I was the probably the second largest in sales in the district."

Similarly, Day said he worked hard to build his insurance business in Booneville and for most of his career enjoyed a good living from it.

"We were doing exactly what we were told," Day said. "Of course, we don't have anything in writing. It's my word against theirs. We were told, 'Work your butt off for 10 years, get it where you want it and sit back and let it take care of itself. Be there for clients and walk-ins. Take care of what you've got and you'll have referrals and all. You'll have good benefits.' I did. I wasn't going to start over again at 64 years old with those 12-hour days."

Day also blamed higher insurance rates for losses in the final years of his career.

“They got the rates so high that we couldn’t write anything,” he said. “Then they were hollering because we weren’t selling financial services and writing life (insurance policies) and we were losing business. I was losing it hand over fist and it hurt.”

What Day was used to and had been successful selling in the past was property and casualty coverage, but he felt Farmers wasn’t as interested in those policies anymore as it was life insurance and financial services.

Mike Wolfe, Farmers Insurance’s district manager for western Arkansas, said the company still is committed to selling property and casualty as well as life and financial services. He and Don Sturm in Farmers Insurance’s Little Rock office declined to comment on the specifics of the terminations of the contracts of the three agents. Sturm said Friday the company’s legal department in Los Angeles was reviewing files of those agents.

Inquiries made with company officials at Farmers’ Los Angeles-based national offices were not answered by 5 p.m. on Friday.

While competing with other companies and agencies, Day learned that Zurich Financial Services Group, the company that owns Farmers, was competing against him. He said a woman brought in a homeowners policy from Zurich that was half of the cost of the Farmers policy he was selling.

In January 2004, Day’s contract was terminated by Farmers.

Although Corbin’s business was moved to another new Farmers agent in Russellville, Day’s customers had their policies moved to an office in Danville.

To him, that didn’t make business sense.

“People in Booneville, Arkansas, don’t go to Danville,” he said. “They go to Fort Smith. They go through Greenwood.” [See map at the conclusion of this article.]

Day has lived in a travel trailer since May 2004 while waiting for construction on a new house to be completed.

The house is insured with a “builder’s risk” policy Day said he purchased from another insurer for less than half what it would have cost him to obtain from Farmers.

Working under the restriction of a “no compete” clause that prohibits him from doing business with former clients, Corbin is building a business as an independent agent.

Carole Gunn, an agent for Farmers for 24 years until Dec. 27, also hopes to rebuild her business.

Her recent experience was very similar to Day’s and Corbin’s.

“They just take our book of business and give it to another agent,” she said. “They don’t tell the customer, ‘Here’s a list of agents. Let us know who you want.’ They just give it to a new agent and send out a letter that says you’ve got a new agent.”

Both Day and Gunn feel Farmers treated them coldly.

"It's like it didn't bother them to lose all that business," she said. "Then, they terminated all of us. Most of the customers will not stay with Farmers."

Gunn has been independent less than a month now. She doesn't enjoy taking questions she can't answer and still bother her.

"That's what I dreaded," she said. "Having to explain it over and over. They'll ask, 'Well, why?' And, of course, I don't know why. I think in a year or so we'll know why. They have to have a plan. Why get rid of us for nothing, just because they can? I'm 56 and I have to start all over again."

Zurich Reports 29% Net Income Increase to $2.6 Billion; Rating Agency Comments

February 18, 2005

Swiss-based Zurich Financial Services (ZFS) reported strong financial results for 2004, tempered by increased loss reserves in the U.S. A.M. Best Co. saw no reason to change the Group's "A" (Excellent) rating, indicating that the results were in line with its expectations. Standard & Poor's Ratings Services, however, reacted by placing ZFS' "A+" ratings on its CreditWatch with negative implications, as the reserve strengthening had exceeded S&P's expectations.

Commenting on the results CEO James J. Schiro stated: "We are pleased to report a 29 percent increase in net income to $2.6 billion reflecting our well diversified portfolio and the strong underlying profitability of our businesses. Current operations in General Insurance were strong in all regions,

with excellent underwriting results in particular in Continental Europe, the United Kingdom and our International Businesses."

"I am particularly pleased with the ongoing improvements of our Life insurance operations. Our businesses in the United Kingdom and Switzerland continued their recovery and, based on our strong distribution platform, Germany recorded one of the best years ever. At the same time we continued to strengthen our balance sheet by adding to our reserves and growing our equity base."

Earnings highlights included the following:
-- Net income of $2.587 billion, generating a return on equity (ROE) of 13.3 percent
-- Business operating profit (BOP) of $3.143 billion, up 36 percent from 2003. BOP ROE after tax increased from 9.8 percent to 11.5 percent
-- Gross written premiums in General Insurance of $37.6 billion; combined ratio at 101.6 percent including hurricane and tsunami impact of 2.5 percentage points
-- Gross written premiums and policy fees in Life Insurance of $11 billion; new business profit margin improved by 2.4 percentage points to 11.4 percent
-- Net income at Farmers Management Services of $686 million, up 14 percent from 2003
-- Net insurance loss reserves of $43.5 billion, an increase of $6.5 billion of which $2.0 billion was prior year strengthening
-- Total shareholders' equity of $22.2 billion compared with $ 18.9 billion at December 31, 2003
-- Proposed payout of CHF 4.00 [$3.38] per share in form of a reduction of the nominal value. Earnings per share (diluted) of CHF 22.18 [$18.75]

Commenting on the investigations that have shaken the industry, ZFS said: "Last year, the insurance industry, including Zurich, came under heightened scrutiny by public authorities and regulators concentrating primarily on certain business practices involving insurance carriers and brokers, the use of non-traditional products and reinsurance. We proactively performed our internal reviews and have taken remedial actions where necessary. In particular, we completed our response to the information requests relating to certain business practices involving insurance brokers and insurance carriers. In addition, we finalized our internal review of reinsurance arrangements that the Group placed externally, where such risks were partially or fully retrocede to the Group, and have taken the appropriate accounting actions. The Group has also reported these transactions to appropriate regulatory bodies and is cooperating with all regulatory inquiries. We continue to strengthen our processes and are committed to comply with laws, regulations and ethical standards as embodied in Zurich Basics, our internal guideline defining the principles and values of our Group."

Commenting on Farmers Management Services, ZFS noted that the 14 percent rise in earnings was a record profit for the sector, management fees and other related revenue increasing by 5 percent to $2 billion. The premium volume of the Farmers Exchanges, which Zurich manages but does not own, grew by 3 percent to $14.2 billion and the Farmers Exchanges increased their surplus by $462 million.

The complete report, as well as ZFS presentation to analysts and investors is available on the groups website at: www.zurich.com.

While ZFS seemed well pleased with the results, S&P's rating actions raised a cautionary note. The $1.6 billion fourth quarter increase in prior-year reserves for its North American corporate business ($2.6 billion for full-year 2004), mainly to cover workers' compensation and liability lines in the U.S. exceeded the rating agencies' expectations.

"The CreditWatch placement reflects mounting concerns about the group's continued reserve strengthening for past accident years, in excess of our expectations," indicated S&P credit analyst Antonello Aquino. The rating agency said it expects to resolve ZFS status after discussions with the company. But Aquino warned that "upon resolution of the CreditWatch placement, Standard & Poor's may decide to lower the ratings on ZFS and related entities, although it is unlikely that the ratings will be lowered by more than one notch."

S&P also indicated, however, that ZFS' U.S. operations (ZUS) "could be lowered by two notches," If S&P decides to reclassify the unit as a strategically important subsidiary. S&P said it was mainly concerned about the increased reserves "resulting impact on ZUS' capital adequacy and earnings." It currently considers ZUS as a core unit of ZFS, and pool members are therefore currently rated at the same level as other core group companies.

S&P said it will "review the level of group support factored into its ratings on ZUS," and that it "understands that management remains committed to the U.S. operations and expects ZFS to continue to demonstrate strong financial backing. Although the announced reserve increases show management's determination to continue to take all necessary actions to restore full balance-sheet integrity, they also increase concerns on management's past reserving methodologies."

In contrast to S&P, Best's bulletin noted that ZFS' earnings increase had been achieved "in spite of a deterioration in the reported consolidated combined ratio for the year to 101.6 percent (97.9 percent for 2003), predominantly as a consequence of a strong reserve strengthening on U.S. prior years." Best said it would continue "to monitor ZFS' reserves development, particularly asbestos and U.S. prior years, and does not anticipate significant reserve strengthening in 2005."