

The

A publication of the United Farmers Agents Association

Summer '01

Voice



**Farmers just gave you
a \$60 million cut
in compensation!
... and Mr. Feinstein
got an 11%
pay raise!**

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NEWS FLASH!

**Mr. Feinstein delays
commission cut
for 6 months!**

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The United Farmers Agents Association is a professional association committed to helping our members through education, communication, support and information and to establishing a true partnership with Farmers Group, Inc.



WE ARE UFAA!



An Association of
Professional Farmers Agents

AND JUST WHY ARE WE SO PROUD OF THAT?

- ★ Our quarterly magazine, *The Voice*, is published with you, the member, in mind. It regularly addresses issues, reports current events, and provides you, the member, with a chance to freely express your opinion.
- ★ Our past legal endeavors now allow you to have that PC on your desk.
- ★ Our nationwide activities opposing agent-owned ACA accounts led to the management company creating a company-owned ACA — saving you money.
- ★ Our efforts on the national level, in conjunction with the CEAA, effectively eliminated the 15.3% SECA tax on your contract value.
- ★ Constant questions from our members nationwide led to lower E&O rates for all agents.
- ★ We introduced the "Original" E&O Deductible Recovery Program to help you earn more money from outside business without the worry of a large deductible.
- ★ Our outside legal opinion of the HMA agreement was designed to assist you in making decisions about your future.
- ★ Our efforts on the national level defeated legislation designed to change the IRS definition of independent contractors — a change that would have adversely affected our livelihood.
- ★ Pro-agent legislation has been introduced in many states — and passed in several — that benefits all exclusive agents.
- ★ UFAA Technology Services, a subsidiary of UFAA, now is available to all members. UFAA Technology Services will assist members with computer hardware and software questions and problems, recommend computer programs to assist members in operating their offices, and recommend hardware configurations.
- ★ We are a member of the Coalition of Exclusive Agent Associations (CEAA) and, through our Washington, D.C., lobbyist, we have played a major role in protecting the interests of our independent contractor exclusive agents through national legislation.
- ★ We have produced and made available our UFAA Technology Video, which provides information valuable to your agency's success.
- ★ Weekly updates are e-mailed to our members to keep them informed about the latest developments.
- ★ We have made available the information you need to set up a paperless office.

Our association is forging ahead — assisting our members in developing their agencies, providing valuable information, and being active in the legislative arena to promote and protect our members interests. Join with us now in this exciting endeavor.

It truly is a great time to be a UFAA member!

*The Board of Directors
The United Farmers Agents Association*

The Voice



Summer '01

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The Voice is published four times per year by The United Farmers Agents Association, a professional association committed to helping our members through education, communication, support and information and to establishing a true partnership with Farmers Group, Inc. The content of *The Voice* is the responsibility of the elected National Board Members who comprise The Voice Committee. Products and services advertised are not endorsed by The United Farmers Agents Association, Inc. or its affiliates. Complaints or inquiries should be forwarded directly to the advertiser. All purchases are at the complete discretion of the customer.

Coming events

JUNE

17 UFAA National Board meeting, Luxor Hotel, Las Vegas

18 Chapter Presidents meeting, Luxor Hotel, Las Vegas

19-21 National Convention, Luxor Hotel, Las Vegas

AUGUST

Autumn issue of *The Voice* mailed to the agency force.

OCTOBER

UFAA National Board meeting

Let us know if ...

UFAA needs to know: Have you or someone you know:

- ✓ Been terminated on a 30-day notice for wanting to postpone an audit of their files?
- ✓ Been successful in transferring from one district to another?
- ✓ Filed suit against the company (or plan to) for wrongful termination or another violation of our Agent Appointment Agreement?
- ✓ Taken over an agency from a parent or other relative in the last three years?
- ✓ Received a 90-day, 30-day, or immediate notice of termination?
- ✓ Acquired an agency from a spouse?
- ✓ Received supplemental folio checks after notifying the company they were underpaid or not paid earned commissions?

If you have any information on any of these subjects, please contact me by phone toll-free at 888-763-5300 or by e-mail at Larryten@aol.com.

— Larry Tencer



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RALPH BUCHANAN
PRESIDENT

Dear Agent,

Each of us received a "Call to Action" letter from Lynch, Gelfand, and Leaman dated April 12, 2001. Since that date, the letter has been renamed "The commission cut letter."

Shortly after that, UFAA responded. Our response was e-mailed or faxed to more than 7,000 agents. (It is reproduced on the opposite page, if you haven't read it yet.) In our letter we addressed seven issues: cheaters, Marshall Swift, the surplus, management fee reduction, examining competition, the new Quality Business Program and fire commissions.

In a letter dated May 7, addressed to "Dear Colleagues," the company attempted to respond. We know they will never address the letter "Dear UFAA" but, nonetheless, it very much appears to be an attempt to address some of the questions and concerns raised in our "Honest and Open" letter. And since they said their letter would be "just one in a series of similar letters" we thought a response would be appropriate.

"But we do think we should regularly review our commission structure to make sure it compares favorably with the industry around us." There is the "out" for future commission cuts in spite of the line where they deny having "any intent to further reduce commissions." Didn't Marty, less than 12 months ago, promise to never reduce commissions? So why should this "promise" be any different? Agents can only hope that they "regularly review our commission structure" as often as they have "reviewed" interactive shares.

The Quality Business Program looks fine on paper but is highly suspect. Why was just a portion of the program released? "While more details of this program are coming" implies that it was not well thought out and was released to try to impress someone. Whoever that someone is. If 15% of the agency force is allegedly causing the loss problems, why are so many more involved? Why are agents taking pictures of breaker boxes and kitchens? Why are DMs requesting report after report from every agent in their district? Why is one DM demanding a report on commercial losses, losses that occurred five years ago? Take the problem agencies, use IMPACT to determine what is causing the losses, identify whether the losses could have been avoided or reduced through good field underwriting and take appropriate action. Good grief, what is so hard about that? Instead you choose to do reinspection blitzes and harass the whole agency force.

You say "a small number of agents are abusing the system," yet your DMs are attacking and harassing every agent who ever made a change on the FPPS screens. If we talk to our customers, if we review the homeowners rating criteria, if we do our jobs correctly, and if you trust us (?), then go after the "small number" and let the rest of the agency force run their businesses! You also say, "The rest of our agents have told us in no uncertain terms that it is about time we did something." How many times do you have to be told?

The word "cheat" has been used for years to describe agents who continually abuse the system. The two pickup trucks, rate class 9 in Farmers, with landscaping signs on the doors would, most likely, be defined as an agent "cheating." But, because the agent is a big producer, nothing was done. Your regional managers and state executives have continually chosen to accept the wrongdoings of certain agents in exchange for sales count. It is time to quit talking and start doing. It's time for you to "walk the walk."

You brag about the values assigned by the Marshall Swift program but agents around the country soundly disagree. You have compared commissions with our competition but did you ever compare replacement cost information? If we, UFAA, conducted surveys in various areas of the country and produced replacement cost information used by our competitors, would you accept it? Would you lower your figures if the survey showed the competition was lower than we are?

And lastly, why isn't anybody in management listening to the agency force? After all the letters, calls and comments you have received throughout the years and in the last month or so, you still send out employees to talk to agents. Fifty employees, according to your May 14 letter, who ask, "What seems to be the problem?"

Maybe the time has come. Maybe it is time for the leadership of the management company to step aside. This once great company has suffered far too much and far too long. The management style of threatening and harassing has not stopped and probably never will, unless major changes are made. It's time for the change.

Sincerely,

A handwritten signature in cursive script that reads "Ralph".

Ralph Buchanan, National President
United Farmers Agents Association

A letter to Farmers management

"Honest and Open," says your "Call to Action" letter and I don't believe it is either.

How long have good, honest agents, the majority of the agency force, screamed for and begged the management company to eliminate the cheaters from our midst? You have known about or we have told you about many cheaters in the past. Remember the agents in the Texas town that reported another agent that was cheating on square footage? Or when the agents in Phoenix reported an agent writing landlord protector on homes used as models in subdivisions? Did you not know about the California agent that reportedly had privileges beyond belief and is now under investigation because money, a lot of money, has disappeared? And more. And more. And more. But the cheaters are never terminated because they write so much business. So, Mr. "Honest and Open" will you actually fire the cheaters or are we practicing the usual and customary lip service game?

The multiplier you use in the Marshall Swift program could possibly be the highest in the industry. Agents around the country are reporting fire renewals with both huge increases in coverage and huge increases in the rates. And many of these changes are far less than 12 months old, which is insufficient time to judge the impact yet you are planning another round of increases and decreasing agent's commissions. That would indicate a management problem, one that you need to correct internally and immediately.

You talk about the decrease in surplus. If you want to really be "Honest and Open," how much of the decrease was from the purchase of Foremost? How much was from Foremost itself? How much was from the three FACT companies? How much was from the settlement of Bad Faith law suits? How much was from "subsidizing" the rates of the independent agent's back east? Have you cut the commissions being paid to those agents selling for the FACT companies?

Have you increased their rates? Have you changed the rates and lowered the commissions paid to the independents back east? It is time to be "Honest and Open." Will you be?

You state in your letter that you are taking a 10% reduction (\$30 million) in fire management fees. You send over \$1 billion to Zurich each year in the form of profit. You are freezing employee salaries. You are cutting back on profit sharing. Between the freeze and the cutback in profit sharing, the distribution to Zurich will not suffer. The \$30 million is not impressive.

You "examined our competition" and found what? That Farmers agents do far more work than the competition? That Farmers agents pay far more for their computer systems? That Farmers agents have been lied to for years concerning Interactive Shares? Did you also examine the rates, the Marshall Swift multiplier or the Contract Value/Termination Pay provisions of our competition? Or did you limit your examination to just commissions?

When in doubt, hang a new label on a problem. The Business Quality Program is just a new label on several old programs and resembles the very old LUA program. Meeting after meeting with three or more company personnel, threats and intimidation included will not solve the problem of an agent being unprofitable. Did you ever ask, "What causes most of our fire losses?" Water damage? Storm damage? Theft? Surely you must have that information. Surely that must be important. If it is theft, why are DMs making agents in Kansas City take photos of the front and back of houses as well as a picture of the circuit/fuse box? If you are serious about the decrease in the surplus, lets identify the problem in each area and then lets all get to work. I do believe underwriters talk about a program called "Impact " which could and should be used.

And lastly, let's address the agent's commission problem. I am sure you plan to raise your fees sometime in the future, probably the very near future. Your "Honest and Open" letter did not address whether the commission cut is temporary or permanent. Will you state that commissions and the management fees will both be returned to normal when the loss ratio falls to a certain percentage? Will you put that in writing?

We are supposed to be a "team." We are supposed to be "Partners." Yet you make decisions that adversely affect the lives of thousands of hard working, honest and dedicated agents like it was an every day occurrence.

There is probably nothing we, as agents, can do individually to prevent this from happening but rest assured, this is not liked or appreciated. And without truly "Honest and Open" communication, the morale of the agency force will continue to deteriorate. You are paid by the policyholders to manage the affairs of the Exchanges and, quite frankly, you don't seem to be doing a good job. Let me ask, Will you fire the cheaters regardless of their sales count? (Just ask the underwriters for names.)

Will you wait on future fire rate increases until the last round of increases take effect?

Will you identify actual cause of losses by state, territory and/or zip code so agents can be better informed and take the appropriate action?

Will you instruct your district managers to work with the agents to solve the problem rather than threaten and intimidate?

Will you adjust the premiums charged for policies written by the independent agents back east?

Will you adjust the premiums charged on policies written through the three FACT companies?

Will you make your "sacrifice" as big as you are asking the agents to make?

Will you commit, in writing, to increase the commissions when the problem is corrected?

Will you consider continuing to base Contract Value on the 14% renewal commission rather than the new 12% commission?

We do have a problem and it will take "Honest and Open" communication as well as hard work to correct it. You can address this letter in an "Honest and Open" way or you can ignore it. It is your choice, but your response, or lack of a response, will be noted by all agents, not just UFAA members.

I await your reply.

Ralph Buchanan
President
United Farmers Agents Association

Black Friday

*More work, less pay, more Company profit.
Let's stop the undermining of our livelihood!*

I've been with Farmers for almost 35 years, almost equally split between being an agent and a company man. I went through Turn Around 76 etc, as I know you did. This is not the company I went to work for in 1966 and this is the lowest we have sunk. I'm enclosing my thoughts on the recent actions.

I don't think we fully grasp what went on Friday the 13th. It is obvious the main purpose of the "Call to Action" was to lower our commissions in such a way that we will willingly accept it. But let's analyze who got the "call."

First we must understand how the company works. This is a reciprocal. That means that the Exchanges (Farmers, Fire, and Truck) are owned by the policyholders. The policyholders hire a company, Farmers Group Inc. (or whatever the official name is now) to handle their business. For this FGI charges a fee — I believe it is currently 12%. This fee has been as much as 20%.

For this fee they do the work of the Exchanges —

issue policies, keep statistics, etc. They *do not* pay the agents or claims people. Look at your contract. You are contracted to the Exchanges, not Farmers Group Inc.

I will refer to the management company as the Company. In the past few years, the Company has shifted the work of the Exchanges from their employees to the Exchanges' employees, in other words, to us the agents. They don't pay us, so the savings to the company have been tremendous. That is why they can close so many offices and reduce their staff. While they no longer do the work they are contracted to do, they still take their percentage off the top. Corporate profits must be soaring.

While the Company's profits must be incredible, the Exchanges are suffering under their mismanagement. APPS, FPPS, and EasyPay did not hurt them, but it severely hurt the Exchanges in lost revenues. Insolvency was a word used in our district meeting about this. The scare was put into us. So we are all called to action — or are we? ➤

UFAA solves the problem of the Exchanges' profitability!

UFAA has reviewed all of the facts and actions of the management company, placed them in our new paradigm, found where the cheese was moved to and determined how to insure only those clients who will not have losses. This exhaustive study, done in minutes, will help the management company see that we, UFAA, are as committed as they are to solving the problem of the dwindling surplus.

There are just three simple steps to guarantee the profitability of the Exchanges:

1) Convert all captive Farmers agents to independent Farmers agents. When the Exchanges need to compete for their business and offer lower rates it seems that they are profitable. It must be the competition and competitive rates that guarantee profitability otherwise

those independent agents back East would be under the same threats that we, the captive agents, are under.

2) Pay newly converted independent agents a higher commission! The independent agents are paid 20% new business and 18% renewal. It must be that extra commission that makes the independent agent able to guarantee that he or she will only insure those clients that don't have losses. Senior management must know that higher commissions equal fewer losses. But if they know that, why are they cutting ours?

3) Make the profitability bonus based on premium volume and actual losses only. That's right folks, the more you write, the less losses you suffer, the higher your profitability bonus! Heck, we are wasting all of our energy tracking

life policy issued, value added product sales, lapse ratios and sales count when we should only be concerned with the amount of premium volume and losses. After all, that's the way the bonus is defined in the independent agent's contract.

If you think this is some kind of sick joke you are wrong. Those items exist in the independent Farmers agents contract and they are not taking a commission cut. Do you know why? The answer is simple: Farmers has to compete for that business. As captive agents, you and I do not have that luxury. We do, however, have the ability to make them listen.

Help us help you and join UFAA today. Or you can just sit back and watch your commissions and contract value continue to dwindle away.

What is the solution to the Exchanges' woes? The agents, who now do a great deal of the Company's former work, are paid 2% less. This means you will be paid 10% less commissions than before.

But that's not all. Your contract value is based on the year's service commissions. This means that you will lose a similar amount off your contract value next year.

Now let's not forget the sacrifice the Company is making. They are reducing their management fee and losing millions of dollars — or are they?

First of all, they are raising rates. This means that they will get a percentage of the increase with no increase in expenses.

Secondly, they are telling their employees (the Company employees) they will no longer receive a portion of their profit sharing. In other words, the employees will foot the bill, not the Company.

The stability of the Exchanges is just a smoke screen to lower our commissions. This is not the first time they have lowered commissions. We got 14% on Fire and EC. We now write only Landlord Protectors and get 10%. Remember the \$5 policy fee that jumped to \$10? We got \$2.50 of the \$5 and nothing of the \$10.

Bottom line is the agents do more work for less pay. The Company makes more money. Is this right? No it's not right, but it is the way it is.

What can we do about it? Probably nothing. But this much is true: *Divided We Fall!* Can we stand if we are united? Only time will tell.

It looks as if the Company is doing away with the agency force as we know it. If that is the case, we can't stop it.

But the only chance we have is to unite as one voice and try to stop the undermining of our livelihood.

— A California Agent

Chapter news

Tips for success

Arizona Chapters 16 Tucson and 46 Phoenix held their 7th Annual Business Expo and Golf Tournament on May 4 in Casa Grande. In addition to the UFAA members, this event was open to all agents and Farmers personnel. In addition to numerous vendors who deal with the agency force on a daily basis, the Expo featured the UBS\|PaineWebber team, which introduced the 401K retirement program now available to UFAA members; Homer Jones, who demonstrated his latest version of the Farmers agency management program; and Steve Todd, our technology expert and website administrator. In addition to gaining information on how to successfully operate your agency, everyone enjoyed an excellent lunch and a magnificent afternoon of golf.

From the director:

Media Relations

Honesty is the foundation of trust

By Ken Unrein

Don't you just love the way Farmers management has a way of presenting their programs in a positive manner?

In their announcement that informed you of a commission cut, they said, "We will reduce the management fee in personal line fire 10% (or \$30 million a year)." The language they used to explain your commission reduction was "your new business and renewal commission will be reduced by 2%." At first glance, this looks like the management company is taking a 10% loss of revenue and the agency force is taking a 2% loss of revenue.

The reality of the matter is quite different. While the management company is returning \$30 million to the surplus, the agents are returning \$60 million to surplus. Why is the agents' portion of return to surplus twice as much as the management company's portion?

The management company tells us they will be returning \$30 million a year to surplus. That is great! Makes them look like the savior of the Exchanges! Why did they not tell us the dollar amount the agents would be returning to the Exchanges? Surely they could have applied the 2% commission reduction to the annual premium paid to the Exchanges to come up with the figure. Could it be that if they had given us that number it would have taken away from the grandeur of their gesture? Or could it be that the uproar from the agency force would be unbearable if the agents really knew how much money the company has taken from the agency force?

The management company has unilaterally made the decision that the agents will take a \$60 million cut in compensation. Martin Feinstein's total compensation was increased from \$2,072,946 in 1999 to \$2,268,415.00 in 2000 (information obtained from the Nebraska Department of Insurance). So while the agents compensation will be decreased by \$60,000,000.00 (10%), Mr. Feinstein's compensation increased by \$195,469.00 (11%)!

The burden of paying for the mismanagement of the Exchanges has again fallen on the shoulders of the agency force. Meanwhile, the person responsible for the mismanagement receives an 11% increase in compensation for his failure to competently manage the Exchanges.

Perhaps the time has come for the agency force to obtain the proxies from the policyholders, which would give the agency force the votes to elect a responsible Board of Governors. Perhaps a responsible board could find a management company that could competently manage the Exchanges.

RETIRED?



By Larry Tencer

Scenario One: You've planned for this day the better part of your working career and you have given the Company at least 30 days and in some cases 90 days notice of your intended retirement.

Scenario Two: You haven't planned for this day and never thought it would happen to you, but you receive a 90-day notice of termination. This ends your Farmers career sooner than you ever imagined and you were probably told it would never happen. What do these two events have in common?

Both should trigger the start of the process to determine and prepare your first contract value payment. It should, but it doesn't. Although the Company has had

ample notice of your departure date to have your first contract value payments ready for you, they won't. But they will demand that you turn over your files, manuals and all Farmers material on your last day or sooner. They may also demand your telephone number, which your Agent Appointment Agent says they have a right to. If they do ask for your phone number make sure they agree, in writing, to pick up any yellow page advertising you have contracted for.

In the last year, I have talked to literally dozens of retiring or terminated agents and not one of them has said they received their first payment within 30 days of their termination date. Please see the letter below from recently retired agent Ron Inglis and what he had to ►

Are you thinking of leaving?

By Ron Inglis

I retired effective Jan. 1, after 11 years as a Farmers agent. I provided the Company 90 days notice of my intended retirement date. I would like to share my experience as a departing agent with you.

As I read the Agency Appointment Agreement, it appears to me that when you terminate your agency and turn over your files, someone should be waiting with payment for part of your contract value in hand. Don't count on it! If you receive it in two weeks, you will be extremely fortunate. If it takes

three weeks, you will still be pretty lucky. The bottom line is not to expect to receive your first payment for about a month. And if you have a contract value loan at the credit union, you can expect to pay additional interest and late charges.

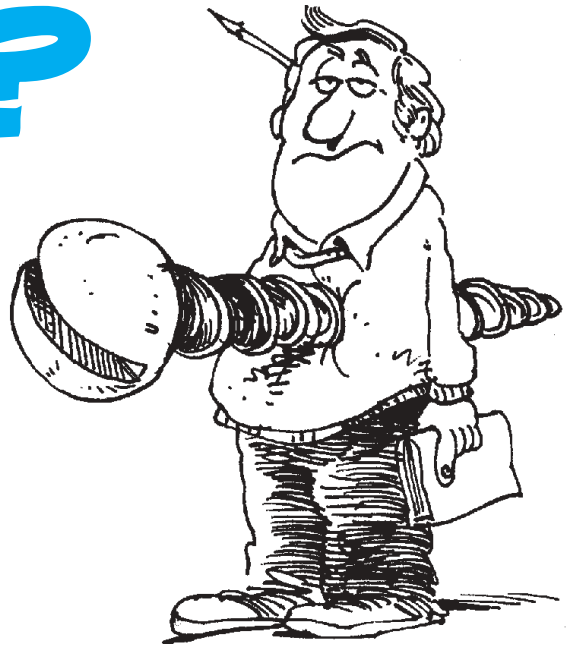
I didn't expect to get a check the minute I walked out the door. However, after a week I called and was referred to someone in marketing. She informed me that the paperwork was completed and "just needed to be signed by the state agency manager". (I had provided 90 days written notice, but my

paperwork had yet to be signed). She further informed me that after it was signed, it would be sent to another department (accounting, I suspect) where they would verify my contract value and check for outstanding loans with the credit union. Once that was complete, it would come back to marketing and then be forwarded to Home Office for payment.

She estimated the process would take about two weeks. She assured me it would be signed that day and sent down to the next department. I thought about that ►

OR FIRED?

Your AAA gives you certain rights when the Company is taking over your agency. Only UFAA will tell you what they are.



go through to get his first check.

The Company is very quick to cite Sections H and I of your Agent Appointment Agreement and imply or tell you they will withhold your contract value if you don't turn over your files, phone, manuals, etc. on or before your termination date. Now your AAA does obligate you to do that, but the Company is obligated to pay you the first third of your contract value on that day also.

Normally, I won't provide information that will benefit nonmembers, something the Association's assembly decreed. However in this case I wish to point out how unfairly all agents are treated. Maybe the nonmembers reading this will finally realize who their friends are.

Prior to the introduction of the 1984 Agent

Appointment Agreement, the AAA stated (the last sentence of Section G) that "The first installment will be paid as soon as possible following termination." The AAA signed on or after 1984 didn't contain that sentence. It was replaced by the sentence (also the end of Section G) "The Agent may elect to receive Contract Value in three or more equal annual installments, the first to be paid upon termination."

So when you decide to retire or the management company makes the decision for you, remember when and what you have the contractual right to expect. Also remember UFAA provided this information. Not your DM or state office, but UFAA, the only organization that really cares about you and your future.

overnight and decided to attempt another avenue.

I called the state agency manager and was referred to an assistant. He agreed that this was taking entirely too long and would look into the matter and get it expedited.

That was Wednesday morning, and he called me back late the next afternoon, basically repeating what I had already heard.

He also indicated that the paperwork had been signed that day by the state agency manager and had been sent to accounting to determine contract value. (So much

for the assurance it would be done two days earlier).

I called the state agency manager one more time on Jan. 26 and was referred to another assistant, who said the check had been printed, according to the computer, and she would call Home Office and verify it had been mailed.

I left town and had a message on my recorder on Jan. 30, saying she didn't have an answer yet and that if I had not yet received it to call her back. I returned home Feb. 4, and the check was waiting for me. It was dated Jan. 18 and postmarked

Jan. 24, so I suspect it was delivered Jan. 29.

When you decide to leave, if you don't become a squeaky wheel, it may take longer to get your money.

And if you are counting on payment of contract value to cover your expenses that first month, you had better have an alternative solution.

Making contract value payments to former agents is not a priority with the company.

Ron Inglis is a retired agent in Southlake, Texas.

Broadband technology ... and you

Soon, you'll be able to work from home at a speed that makes you feel like you're at the office. And virtual meetings with clients and prospects are just around the corner!

By Steve Todd

So Farmers has made the commitment to do business through the internet and through the capability of an IPN (Internet Private Network). To allow for fast connectivity of agents with the various locations, you too will need broadband connections. Currently the company is placing these connections in agents offices, installing the routers, hubs, Ethernet cards, etc.

Over the last few months, I have been getting an increasing number of calls from folks who are curious about what DSL and other modes of broadband are.

Hang on to your hats! We are going to go on a journey to help you to understand broadband technology.

What is broadband and how does it work?

There are a couple of different components that come into play with broadband technology. They are the DSL series of solutions, DSL, ADSL, etc. and Cable solutions. Now though, there comes a new player to those that don't have the ability to obtain either of the solutions and that is satellite connections.

How do they work?

DSL - Digital Subscriber Line, refers to a family of related telecommunications technologies that were developed to transmit information over the copper wires that make up the local loop of the public switched telephone network. It bypasses the circuit-switched lines that make up that network and yields much faster data transmission rates than analog modem technologies.

Communication speeds using conventional analogue modems over the phone line are constrained by the fact that the telephone company filters information that arrives as digital data, puts it into analog form for your telephone line, and requires your modem to change it back into digital. In other words, the analog transmission between your home or business and the phone company is a bandwidth bottleneck.

DSL delivers large amounts of data that can be represented in various ways which means users of DSL will

need special equipment to convert their digital data into appropriate digital signals and vice versa. For this digital conversion DSL uses a device called a CSU/DSU (channel service unit/data service unit). This unit is actually two separate functional devices. The CSU terminates the digital data communications line while the DSU converts the digital signals coming from the computer-networking device into a digital signal understood by the data communications link. This conversion of data is the reason that many DSL products are referred to as DSL modems, though this term is more marketing oriented than technical. The term DSL modem is more a metaphor to describe the devices modem-like functionality in making the connection to the Internet through the DSL Wide Area Network (WAN).

The capacity of any data communications line is based on the medium and the frequency range used by the data transfer technology. With DSL, the medium on which these voice and data transmissions are carried are the twisted pair copper wires that make up the local loop. Understanding these telephone lines and their inherent frequency capabilities is important in understanding how the same telephone line can be used for analog service while at the same time support higher bandwidth connections. Frequency is the number of complete cycles of electrical current occurring in one second, measured in Hertz or cycles per second. Higher frequencies allow more data to be transferred.

DSL has the ability to carry both voice and high-speed data transmissions simultaneously. This is due to the wide frequency range available on the twisted-pair copper wires, and the relatively small range used for typical voice transmissions. Telephones typically carry these voice transmissions, or POTS (plain old telephone service) in a range of 300 to 3,300 Hz. DSL technologies exploit the much higher range of frequencies between 4 kHz and 1.1 MHz.

Although the use of higher frequency ranges results in higher data communications speeds it does come at



comparatively few homes and almost no small businesses. Even with the distance limitations of DSL, studies estimate that as high as 60% to 80% of the United States population lives close enough to a CO to take advantage of the service.

ADSL - Asymmetric Digital Subscriber Line is currently the most popular version of the DSL technology family. It delivers simultaneous high-speed data and POTS (plain old telephone service) over the same telephone line. ADSL modems use digital coding techniques to squeeze up to 99% more capacity out of a phone line without interfering with your regular phone services. That means you could be simultaneously talking on the phone or sending a fax — while surfing the web. ADSL supports a range of speeds from 1.5 Mbps to 8 Mbps downstream and 64 to 1.0 Mbps upstream.

In many forms of data communications, including several forms of DSL, one data channel supports a larger data communications capacity than the other channel. This unequal flow

of information is referred to as asymmetric, which means that data moving in one direction moves faster because of a higher capacity than data moving in the opposite direction. For an Internet connection an asymmetric connection can be established where data coming from the Internet to your computer travels at a much higher speed than data going from your computer to the Internet.

This has appeal to the consumer market which typically has a greater need for downstream capacity which allows customers to browse the Web and download material, but at the same time does not allow for much more upstream capacity than is needed to send text e-mail messages.

ADSL enables two general types of applications — interactive video and high-speed data communications. Interactive video includes movies, TV segments, 3D accelerated games, video catalogs, and video information retrieval, all on demand. Data communications covers Internet access, telecommuting (remote LAN access), and specialized network access.

ADSL also has tighter data security than other technologies. To ensure this, ADSL can be delivered using both CAP (carrier amplitude phase - a modulation transceiver technology) or DMT (discrete multi-tone) methods

a price. The use of such high frequencies results in a much shorter local loop reach. This is because high-frequency signals transmitted over copper loops dissipate energy faster than lower frequency signals. The electrical properties of copper wiring create resistance and interference problems with data transmissions. This forms the basis of the inherent limitations of DSL service based on the distance between a customer's premises and the CO (central office) serving the area.

Since these high frequency signals lose energy when transmitted over copper loops, DSL employs a form of modulation. These modulation techniques minimize the loss of electrical energy as it passes over a copper wire by reducing the frequency, which in turn extends the local loop reach. This modulation is achieved through different line coding schemes. Some line codes are spectrally incompatible with each other, causing their frequencies to spill over into adjacent wire pairs and interfere with the signal.

The strength of DSL compared to other high speed transmission alternatives (such as cable modems or Fiber To The Neighborhood (FTTN)) lies in the number of existing telephone lines — now approaching 750 million — compared to new cabling which has reached

of line coding. ADSL distinguishes itself from the other forms of DSL by its use of a POTS splitter. The splitter allows existing analog voice and data services to co-exist on the same line as the one used for the high-speed data service. POTS splitters are filters used at both ends of a local loop to split the data traffic between low-frequency voice communications and high-frequency data communications. Because ADSL shares the same line used for POTS service, you can convert an existing POTS line to an ADSL line. However, the line coding used for ADSL can cause cross-talk problems in cable bundles. This problem may hamper the availability of ADSL in many areas, particularly those with large numbers of existing T-1 lines.

Like other forms of DSL, ADSL is distance sensitive. The longer the distance between your premises and the CO (telephone company's central office), the lower your speeds will be.

Cable Modem - Cable modems are devices that allow high-speed access to the Internet via a cable television network. While similar in some respects to a traditional analog modem, a cable modem is significantly more powerful, capable of delivering data approximately 500 times faster.

Current Internet access via a 28.8, 33.6, or 56kbps modem is referred to as voiceband modem technology. Like voiceband modems, cable modems modulate and demodulate data signals. However, cable modems incorporate more functionality suitable for today's high-speed Internet services.

In a cable network, data from the network to the user is referred to as downstream, whereas data from the user to the network is referred to as upstream. From a user perspective, a cable modem is a 64/256 QAM RF receiver capable of delivering up to 30 to 40 Mbps of data in one 6-MHz cable channel. This is approximately 500 times faster than a 56kbps modem. Data from a user to the network is sent in a flexible and programmable system under control of the headend. The data is modulated using a QPSK/16 QAM transmitter with data rates from 320 kbps up to 10 Mbps. The upstream and downstream data rates may be flexibly configured using cable modems to match subscriber needs. For instance, a business service can be programmed to receive as well as transmit higher bandwidth. A residential user, however, may be configured to receive higher bandwidth access to the Internet while limited to low bandwidth transmission to the network.

A subscriber can continue to receive cable television service while simultaneously receiving data on cable modems to be delivered to a personal computer (PC) with the help of a simple one-to-two splitter. The data service offered by a cable modem may be shared by up to sixteen users in a local-area network (LAN) configuration.

Because some cable networks are suited for broadcast television services, cable modems may use either a standard telephone line or a QPSK/16 QAM modem over a two-way cable system to transmit data upstream from a user location to the network. When a telephone line is used in conjunction with a one-way broadcast

network, the cable data system is referred to as a telephony return interface (TRI) system. In this mode, a satellite or wireless cable television network can also function as a data network.

At the cable headend, data from individual users is filtered by upstream demodulators (or telephone-return systems, as appropriate) for further processing by a cable modem termination system (CMTS). A CMTS is a data switching system specifically designed to route data from many cable modem users over a multiplexed network interface. Likewise, a CMTS receives data from the Internet and provides data switching necessary to route data to the cable modem users. Data from the network to a user group is sent to a 64/256 QAM modulator. The result is user data modulated into one 6-MHz channel, which is the spectrum allocated for a cable television channel such as ABC, NBC, or TBS for broadcast to all users.

Satellite - Continuing to push into the broadband market, EarthLink is rolling out two-way high speed satellite service nationwide. The service will be provisioned by DirecPC, and is called EarthLink Satellite Powered by DirecPC. The company said the service will provide broadband coverage to most of the continental United States.

The service is already available in the Northeast and Northwest. EarthLink has said it can provide downstream speeds of up to 400 Kbps and upstream speeds of up to 128 Kbps.

"The ability to offer broadband service to virtually the entire country has been our ultimate target," said Tom Andrus, vice president of emerging technologies at EarthLink. "By adding satellite to our product lineup, we will reach areas not served by cable and DSL. From all the positive feedback we've received, we know there is a big market for broadband among Internet users whose only option up to now was dial-up."

Is this important?

Yes! While the 'early-adopters' of technology have been the first to upgrade their dial-up connection to high-speed, the majority of mainstream Internet users are still not convinced of the value in upgrading to broadband.

One report pegs the broadband count in the US at over 9.4 million in 2000 but estimates that it will be around 58 million, a 517 percent rise, by 2004, adding that dialup access will peak next year and begin to decline as more homes become broadband-ready.

For you as an agent, this means you can access more resources faster. If you telecommute and have a broadband solution at either end, at home and at the office, you can connect into your office and do work with speed that makes you feel you ARE at the office. You can also connect with other agents and with the improving web-cam solutions can virtual meetings and conferences be far from an everyday occurrence with you? Imagine being able to meet with your clients and prospects via the broadband technology... anything is possible.

From the director: Governmental Affairs

Legislative update

By Frank Mortimer

The Coalition of Exclusive Agent Associations Inc. is a national association whose member companies insure over 60 million families in the United States. CEAA members are associations for agents with American Family, Farm Bureau, Allstate, State Farm, Nationwide, United MSI, and Farmers.

Ralph Buchanan, Chuck Simpson, and myself represented UFAA at the CEAA meeting held March 11-13 in Alexandria, Va.

Don Cassell, NIICA President and CEAA President briefed us on national legislation and the National Association of Insurance Commissioners meetings he attended. Woody Marks briefed us on the progress of the Flood Insurance Producers National Committee meetings. Woody commented about the major changes implemented in the program. If you haven't received any information on the changes, read about them at www.fema.org. Woody, the CEAA representative to the FIPNC, will become president of the committee next year. Each association reported on what was happening in their area. Gary Gasper, the CEAA lobbyist, reported on legislation affecting agents. And an independent agent from Maryland addressed the group on working on legislation at a local level.

We met with various congressmen and senators on Tuesday. We submitted proposals to Reps. Kleczka and Amo Houghton concerning HB 1525 (Independent Contractors Legislation). We also visited with Rep. Johnson concerning capital gains treatment on contract value, Rep. Weller on his SECA tax bill and Reps. Herger and Foley as well as Sen. Kyl, asking them to support CEAA legislative efforts in the area of health insurance premiums and tax deductions, and fair credit reporting.

In April we reviewed several bills currently being presented to the lawmakers in Texas. We recommend supporting three and opposing five. This information was faxed to all Farmers agents in Texas and I volunteered to provide the names of congressmen. The one important bill named "Wrongful Termination" has passed the House but at the time this article was written, had not passed the Senate. I congratulate our Texas Chapter Presidents for the great job they are doing to get

the troops behind this bill. In California, there are three bills that are important to agents and I have notified all the Chapter Presidents and requested they fax all their members to take action by calling or writing their representatives.

Many members have requested SECA tax kits from UFAA National Office. I am presently in the process of updating the kits with the latest information. By the time you receive this issue of *The Voice*, the updated kits will be available.

Yes, I would like a copy of the UFAA Technology Tape!

- Enclosed is my check for \$7.25
Please rush my copy of "A Brief Tour of UFAA Technology"
- Enclosed is my check, or credit card authorization for \$300.
I understand this is a non-refundable, annual dues payment for membership in UFAA. I've also included a completed application. Please rush my full copy of "UFAA Technology's Office Automation"
- Please give me a free subscription to the UFAA E-mail Updates

X _____
Signature

Name

Street

City, State, Zip

E-mail Address

Phone

Fax

Mail to:

UFAA Technology Tape Offer
8978 Watson Road, #C, St. Louis, MO 63119

'Wrongful termination' legislation

\$\$\$ might is not right!

By Jerry Beauchamp

In the Texas battle for legislative protection from "wrongful termination," agents have finally become vocal and effective. They were always there, but many were silent. Agents who have always supported their companies have gone underground and are fighting. It is interesting to see new faces and names appear on our phone IDs and fax machines.

If nothing else happens, it will let all the companies who have captive agents know that the time has come to listen to the agents. Treat them fairly, and most of all it may cause some additional thinking in the higher management areas. Allstate and Farmers management have been exposed for their underhanded tactics. State Farm has learned that money and lobbyists do not control the people's government.

It has been an exhilarating and exhausting two weeks! Because of our communication network, the phone systems in the House and Senate committees have been overworked. In the Texas House Insurance Committee, their phones had to be handled by answering machines. The message ... "If you are calling about HB 1384, please be informed that the bill has been sent to the House Calendars Committee." Wow! This has never happened before in the Capitol.

\$\$\$ might is not right.

Jerry Beauchamp is Vice President for Governmental Affairs, State Farm Agents Association

Editors Note: At the time of editing, the bill was still pending in Senate committee with only one further opportunity to be voted out. The Lieutenant Governor's office has asked for a letter from the agent's representative to present to the Senate. This letter is being faxed to his office as we write. It simply states: "Why can one individual hold a bill from the Senate, when the votes are there to get it out?" This is good news. We will keep you informed.

Chapter 4: Professional growth

Chapter 4 has committed itself to promoting professional growth for its members.

Starting in May, Chapter 4 began conducting CLU, ChFC and CFP classes. We are working with The American College and Insurance Achievement study materials. The classes are scheduled for four consecutive Tuesdays per course; the first began May 15.

Each class will review five to six chapters of the Insurance Achievement study materials and allow for a final review prior to taking the National exam.

There is no cost for the Insurance Achievement books (Farmers agents enjoy the Tuition Advance Program, TAP). You need

not register for the class with The American College until just before you are ready to take the exam. You will know that you pass the exam at the testing site and can place a request for reimbursement immediately so you're not even out the interest on your credit card for the cost of the class.

There are additional benefits of free CE credits (30 per course) and a bonus of \$1,000 for the CLU and \$200 for the ChFC. All classes are moderated by the chapter president an LUTCF, LUTC moderator and soon to be CLU. If you are interested in attending these classes contact Mark Von Kronemann, LUTCF, at 805-499-2418.

Congrats to Texas agents!

Congratulations on the "Wrongful Termination" legislation efforts

You Texas agents exemplify the phrase "Don't mess with Texas." Great job! Keep it coming! Politicians who serve the interests of big money will pay the ultimate price at the polls. We must track these guys and expose them for what they are. If they will not serve in the public's best interest we can help replace them with someone who will. When that message gets out we will have more support for our issues.

I view this action as a turning point among agent attitudes. We at our respective agent associations need to use this as the rally point as was the Alamo in the fight for Texas independence.

Win or lose, you folks blazed a trail that every agent (members and nonmembers) must follow if we want fair and just treatment.

Thank you,
Leon Alexander
Director
National Association of
Professional Allstate Agents

Find the latest
breaking news
on the insurance
industry at
[www.ufaa.com!](http://www.ufaa.com)

From the director: At Large

Is CEAA worth the money?

By Steve Lenard

Are we getting our money's worth from the CEAA? This question is usually asked at Convention time because the delegates all see the high price we pay in dues each year. I've surely asked the question before, myself. But, after our battle this year to pass legislation in Texas to protect ourselves from unjust terminations, I have experienced firsthand the benefits of a coalition of fellow exclusive agents.

It has been a tremendous experience realizing that we could all work together for a common goal and use each other's resources to enhance our results. But, it has not been an easy lesson.

Our UFAA chapter started working on this type of legislation in 1991. We had some dedicated individuals who worked very hard going to the capitol, writing letters, urging others and making calls. Our efforts ended, when we hit the brick wall of the company's lobbyist and the "influence" this previously unknown entity had on the legislators. We didn't stand a chance!

After a couple more vain attempts, we decided that we simply did not have the money necessary to conquer that hill, so we gave up. Fortunately, some of our fellow agents with the other companies picked up the ball and continued the fight. However, they could not get very far either — until this year.

What was different? When the bill started to stall in the Insurance Committee, as it always had before, we united our efforts. I called Ralph Buchanan and he gave me some contacts in Texas because of his involvement

in the CEAA. We began to share our e-mails and faxes with each other. This let us pick up on some great ideas and approaches that each other had individually. We were able to pool our resources and hire one of those lobbyist creatures. When it all came together, we had a much more effective message and our field soldiers had been multiplied because we were spreading each other's messages among our members.

What was the final result? As of the writing deadline, I'm sorry to say that we can't announce a total victory. But I can let you know about some mini-victories.

We packed the House Insurance Committee with agents to testify in favor of the bill. We flooded the Insurance Committee with calls and e-mails. Contrary to the forecast and in spite of a pronouncement of death, we got that bill out of the committee. It proceeded to the Calendar Committee where it stalled again. We made some initial calls and the committee members didn't even know what we were talking about. Well, we cranked up our communication chains and you better believe they found out about the bill. Before we could hardly blink, they set it for a House vote.

We shocked the Insurance companies when we carried the vote. But it was a close margin, 68-67 with a heated debate. A second, or "recall," vote was granted. The companies hired more lobbyists and turned up the pressure. It seemed as though we were going to hit that brick wall again, but we didn't give up. We felt the companies would be able to change a couple of non-solid votes, so we contacted some legislators who did not vote in our favor. We couldn't change their minds — "commitments had been made." One of the agents suggested his legislator could take a bathroom break when the vote came up and thereby keep from reneging on a "commitment." We shocked the companies again when the vote carried the second time with a 63-62 margin.

The moral of this story is that we learned we could come together from different companies and accomplish much more than we ever could individually. We've learned a lot and we'll do an even better job next time as we build on our experiences! Let's face it, if we had known the major difference our new alliance would have made, we would have started much earlier. I hope you benefit from our slow learning process.

When we meet at the convention in a few days, and you hear the questions: "Is the CEAA worth the money?" "Does the CEAA really do anything?" "Does the CEAA even work?" Maybe the better questions would be: "Are you getting your Chapters money's worth?" "Is there anything we can do for the CEAA?" and "Are you making the CEAA work for you?"

It's our money. Let's make it work!

Call to action!

(1) Get your database cleaned up and collect as many e-mail addresses as you can. But if you really want to protect that information, don't put it in APPS and FPPS. If you need assistance determining a better way, check with UFAA Technology.

(2) Contact your DM, your DMM, and other management company personnel. Ask them what they are going to do with that information. Ask them to provide a "privacy statement." If you get one, pass it on to us for review.

(3) Ask them why they can't provide you the information they want distributed, so you can perform your duty of direct customer contact and communication in a manner that best fits your agency.

Do it for all the right reasons — do it for yourself. We're "Agents Helping Agents"

United Farmers Agents Association

"GOTCHA!"

**Commission cut
delayed 6 months!**
page 30



**YOU found the business.
YOU wrote the business. YOU continue to service the business.**

The big "GOTCHA" is that you ain't gonna be paid what you were told, in writing,
that you were gonna be paid because ***commissions are being cut!***

Mismanagement and greed by the Company have driven away our *best customer base*.
And negative selectivity has left us with runaway losses.

They are paying for **their** mistakes with **your** money. *Your future is in jeopardy!*

If you've been around for awhile, you know this *will not* stop.

You can do something!

Join your fellow agents Join UFAA!

Put aside all your ideas about UFAA. You *can't afford them*.

UFAA is good agents, like *you*,
trying to protect their livelihood, working for the common good.
History has shown that great things happen
when ordinary people join together in a *common cause*.

Attorneys, legislators, and former Company management people tell us that
if the *majority of agents* joined UFAA,
the Company *would have to address our concerns*.

There is no longer a good reason not to join UFAA

Join in one common voice. Protect your future!

Fax your application *right now* to 314-729-0598.

One month free!

Here's the deal. If you join now, take the membership application on the opposite page,
write "Gotcha" on the top, select PAC as the payment mode, attach a voided check,
and fax it to UFAA. Your checking account will not be tapped until the 11th of the next month.
One month free! Such a deal!

P.S. Your dues will come back 10-fold! Our new retirement tax package
will help you protect your contract value from predatory taxes.



Application for Membership

United Farmers Agents Association

8978 Watson Road #C, St. Louis, MO 63119 Phone: 800-275-8668 Fax: 314-729-0598

Mission Statement — The United Farmers Agents Association is a professional association committed to helping our members through education, communications, support, and information, and to establish a true partnership with Farmers Group, Inc.

Name: _____ Chapter: _____

Address: _____ Phone: _____

_____ Fax: _____

Agent #: _____ E-mail: _____

Dues: (Please select one)

\$300 annually \$150 semi-annually \$25 PAC \$50 Associate, Affiliate or Career annually

United Farmers Agents Association, Inc.

(Select one)

Enclosed is my check for \$ _____.

In addition to my dues, I wish to contribute: \$ _____ to the Declaratory Relief Action Fund.

Charge to my credit card: Mastercard Visa

Credit card number: _____ Expiration Date: _____

Signature: _____

“Agents Helping Agents”

The General Objectives of UFAA are:

1. To create meaningful communication between company and Agent
2. To improve professional status in the community
3. To improve company-client relationship
4. To improve Agent-to-Agent relationships
5. To stand united to accomplish these objectives

The Specific Security Objectives of UFAA are:

1. A two-way negotiated contract.
2. For rendered services contractual compensation schedules encompassing full commission of all premiums.
3. Agent ownership of policies and expirations.
4. Termination for just stated-cause only.
5. Ending discrimination of Agent or Agent authority.
6. To foster cooperation for mutual benefit, between other agent associations.

I, _____, am currently a Farmers Insurance agent and do hereby apply for membership in the United Farmers Agents Association, Inc., and agree to abide by the bylaws and the code of ethics. I further agree with the above stated principles.

(x) _____ Date: _____

06/01

Authorization to honor checks drawn by the United Farmers Agents Association, Inc.

For my benefit and convenience, I hereby request and authorize the United Farmers Agents Association, Inc., to draw a check in the amount of \$ _____ on or about the 10th day of each month, payable to its own order. This authorization will remain in effect until revoked by me in writing and until they actually receive such notice. (Please include a voided check with this application.)

(X) _____

From the director: Membership

We can turn this around!

By Don Green

I wish to welcome *all* the new members who are joining UFAA in record numbers! And to those of you who aren't yet UFAA members, please, now is the time to join.

As our membership rolls swell and reach a point where we truly are representing most Farmers agents, the management will have to listen to our concerns.

I am not going to tell you about all the problems that are facing our agency force. You already know about them. Farmers has gone too far in my opinion by cutting our commissions. What can we do?

Our contract says that they will pay according to the commission schedule that is in effect at the time the commission is paid. Clearly they have the ability to change the commission schedule. We were told that the district managers were also having their fire commissions lowered, Employee's were having their profit sharing program changed so one half of what they will be paid is contingent on attaining a set goal.

Why can't our commissions be raised back to present levels if that goal is met?

Another gesture of helping us shoulder the cost of running our agencies would be to eliminate what we pay to lease our computer from IBM. Also the AS/400 has enough power for one computer to be used by an entire region. Please don't insult our intelligence any longer by saying you have security concerns. It can be secured easily! You know it and we know it.

Another step in the right direction would be several agents or all agents in a district hooking up to one computer and really saving money.

It has become evident that there is a serious management problem in Farmers. If we ran our agencies the way our company is being run, all of us would be terminated.

This management problem is exacerbated by the fact that billions of dollars are flowing to Zurich yearly. Why don't you put more of it into surplus? No problem. We can just manipulate the figures again and Marshall & Swift can add more premium to our intake of money. No problem that we are already 20% to 30% above reality. Unfortunately the billion dollar golden egg is about to turn to tin. Maybe then we will see someone return to run our company who cares about the customer and the agents. UFAA needs *all* of you to join. Get involved at the local level. We need members to go to their legislators and let them know what is going on to their constituents. Remember agents and their customer base constitute a large group of people. Let them know what is happening in your area. You know it better than anyone does. If you are member of UFAA, you will

have other members in your area standing by your side, so you are not alone.

UFAA's legal and legislative efforts are growing! At the time this article was written in May, an effort was made at the Texas state capitol in Austin to pass legislation concerning wrongful termination of captive agents. The house bill passed and the senate bill was pending. Farmers, State Farm and Allstate agents stood together to try and get legislation passed to help us. Basically, the legislation would only allow captive agents to be terminated for stated reasons, not at will. Farmers through their FEPAC and FLAG organizations actually had a few agents testify against the bill. I can only guess why an agent would be against this bill.

We must *all* stand together. We need you to join UFAA. When we have thousands of agents standing together, saying we have had enough, listen to us. We can show you how to turn this around. Then we will have the clout to make them listen to our ideas and get our fine company back where it belongs, providing fast, fair and friendly service at a fair price.

Lawsuit alleges Farmers used inferior auto parts

Los Angeles — Farmers Group Inc. faces a lawsuit from policy owners who claim the fourth-largest U.S. home and car insurer uses auto repair shops that install inferior replacement parts on damaged vehicles.

The suit, filed in Los Angeles Superior Court, claims Farmers broke a contractual duty to provide replacement parts of "like kind and quality" by referring policyholders to shops that use standard parts. In a similar suit, an Illinois state jury in 1999 ordered State Farm Mutual Automobile Insurance Co. to pay policy owners \$1.2 billion for allegedly using inferior replacement parts. The company is appealing that verdict.

The California plaintiffs, who want to change Farmers' alleged "undisclosed internal policies and procedures," claim that their vehicles were not returned to pre-collision condition after repairs. The suit seeks class-action status and disgorgement of Farmers' profits from the practice, and unspecified damages.

AHHH . . . AT LAST !!!

A 401K & Profit Sharing Plan for all Farmers agents and their employees

That's right, contract value
and thousands of \$\$\$\$ more!

Are you relying on your
contract value at retirement?

Did you know you may lose
up to 40% in taxes?

You know the story of 100 men,
that only a handful are secure at age 65?

Don't be among the 94 who aren't!

Secure your own retirement fund, use pre-tax dol-
lars to invest in a Qualified Retirement Plan.

Many of our insurance clients have a 401K that they're
proud of. Why? Because, through good times and bad,
they feel comfortable, knowing they are building
security for themselves and their families.



After more than 30 years in the insurance business,
I've finally found a plan that puts me on par with Fortune 500 company plans.

Diana Schaeffer and Signe Beck, financial advisors for UBS/PaineWebber,
did months of research and planning.

This exclusive UFAA plan allows me
to potentially pool my resources with thousands of other agents.

This is a great thing for you and me, my family and my employees...
a chance for financial freedom!

For more information or to open your 401K,
call Diana Schaeffer or Signe Beck of UBS/PaineWebber
at 1-800-231-9628 ext. 468 or 495

Lock up your own retirement plan! Join UFAA now!

For UFAA membership information,
contact our National Office at 1-800-275-8668

A brief history of the United Farmers Agents Association



*Last in a series of articles
tracing the history of UFAA*

I believe there are more instances of the abridgement of the freedom of the people by gradual and silent encroachments of those in power, than by violent and sudden usurpations. ... This danger ought to be wisely guarded against.

— James Madison



Improving margins at agent expense

Since the 1945 contract, Farmers had steadily made inroads against agent freedom, trying to force less “profitable” agents to generate higher levels of income for the company — or leave the agency force. The company also began to shift overhead expenses onto agents to increase its profit margins.

One of the most notable examples of this was the advent of the Business Processing System in 1992. By using computer technology, the company was able to transfer a large portion of its clerical load (and overhead) to the agent, reducing staff expenses (and employee numbers) dramatically. The next year, the company introduced the Agents Credit Advice, a daily electronic funds transfer program that eliminated regional office bookkeeping jobs, shifted a new load of overhead costs onto agents, and boosted company income from premium investment. One agent estimated implementation of electronic policy processing increased his labor expenses 10-to-1 over company reimbursements.

The Spring 1994 issue of *The Voice* noted five times in the space of a few years that the management company cut back the agent’s ability to make commission dollars, while Farmers’ contributions to BAT were rising steadily. PR Newswire reported Farmers had increased profits by \$840 million despite dramatically lower surpluses, lower life profits, and only a slight increase in general business profits.

A devastating earthquake in Northridge, Calif., in 1994 gave the company an unusual opportunity to force state lawmakers to delink earthquake insurance from fire insurance. The company unilaterally declared a moratorium on earthquake insurance, left it in place more than two years — in clear violation of its rules and manuals — and even received \$1.24 billion in reinsurance. UFAA mobilized help for California agents, whose losses were hundreds of millions of dollars in new business and renewals.

Perhaps the most egregious example of improving company margins at agent expense is Farmers’ expansion into the eastern United States. Farmers began using independent agents to sell Farmers’ products for artificially low premiums and higher commissions — with company employees handling the agents’ paperwork — and subsidizing the entire operation with the unnecessarily higher and uncompetitive rates forced on captive agents.

Competing with agents

Pressure to modernize led Farmers to introduce the Agency Computer System and Business Processing System. Pressure to increase market share caused the company to resort to the Priority Agent program and the Deteriorating Agency Rehabilitation Guidelines. Perhaps the most dramatic decision the company made in recent years, however, was to compete with its own agents.

The change began on two fronts.

First, Farmers moved toward using independent agents to sell its products. For example, in May 1994 Farmers set up three new insurance companies in “underserved” California markets and began the process of appointing independent agents to handle the business, which Farmers’ own captive agents were forbidden to pursue. In January 1997, a state court approved a cause of action against Farmers by captive agents who claimed the new

“FACT” project had cost them \$14 million in premiums and \$2.8 million in commissions. UFAA mobilized legal and financial resources to assist the California agents in their fight to protect their businesses.

Second, Zurich Direct, a subsidiary of Farmers’ parent company, began sending promotional flyers for its Zurich Kemper products to Farmers’ policyholders. Agents receiving the flyers were aghast at the tactic — and the fact the Zurich Kemper rates were so dramatically lower than the Farmers New World Life premiums the agents were stuck with. UFAA quickly notified agents about the development and the danger it represented to their livelihoods.

The HMA

In 1997, Farmers introduced a new contract, the Horizontal Marketing Agent Relationship Agreement, to agents in Arizona and Oregon. The HMA allowed an agent to represent the company on a wide range of branded specialty products, beginning with an auto loan program but eventually to include relocation services, auto leasing, and home loans. Expansion of the product line was intended to keep the company competitive against financial services companies entering the insurance industry.

UFAA’s general counsel, Jon Heim, examined the HMA contract and pointed out that, while it placed many restrictions on agents, it did not appear to bind the company at all. Calling the HMA “unfair and one-sided,” Heim explained that key passages in the contract in effect said (1) no promises made by company representatives were binding and (2) the management company could search an agent’s office without prior notice. Heim produced a sample contract that would be fair and neutral. UFAA argued that competitive interest rates and pricing and fair commissions would do more to lock up customers than another one-sided contract. Observers pointed out the irony of threatening agents with termination if they did not sell branded products but refusing to let them sell fire insurance issued by subsidiaries of Farmers Exchanges.

We are UFAA!

As the company has tightened the screws on agents, UFAA has forged ahead — assisting our members in developing their agencies, providing valuable information to them, promoting and protecting their interests in the legislative arena.

Advertisement

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(Applicable to Texas agents only)

P R O M I S E S

We would like to thank all the agents who took the time to fill out, have notarized and return the "Promises" affidavit that appears below and in the last issue of *The Voice*. Because of the potential benefit the three unhonored promises may have for all agents, we wanted to give every agent another opportunity to participate.

If one or more of the promises below were made to you before you signed your Agent Appointment Agreement, please take a few moments to fill in the requested information, have the affidavit notarized, and send it to our National Office at 8978 Watson Rd., Suite C., St. Louis, MO 63119; fax 314-729-0598.

AFFIDAVIT

The undersigned, being first duly sworn on oath, deposes and says:

I am or was a duly appointed agent for Farmers Insurance Exchange, Truck Insurance Exchange, Fire Insurance Exchange, Mid-Century Insurance Company and Farmers New World Life Insurance Company. During the time I was being recruited by my district manager or other company representative, statements were made to me that are the same, or substantially the same, as those checked below:

"Just work hard for _____ years and when you reach your comfort level, you can sit back and enjoy life."

"Don't worry about the clause in your Agent Appointment Agreement that says, 'This agreement may be terminated ... on three (3) months written notice.' The companies never terminate an agent without good cause."

"You don't have any production requirement in any specific company."

Dated: _____

X _____
(Signature of Agent)

(Printed or Typed Name of Agent)

Agent Number: _____

Appointment Date: _____

Address: _____

[SEAL]

Subscribed and sworn to before me on _____.

(Signature of Notary Public)

(Printed or Typed Name of Notary Public)

What's happening in Idaho?

By Bill Eimers

We are seeing a gradual but noticeable downward shift in agency morale in Idaho. Folks who formerly never could see themselves belonging to UFAA are regarding us in the larger perspective as a meaningful voice of consensus now.

The graying of our agency culture is no doubt responsible for this. Agents who have invested their lives' effort in building a business are now sensing a threat to the institution they have built for themselves, in spite of having spent the best years of their lives sincerely trying to operate a business that brings credit to themselves and their partner, Farmers Insurance Group.

A lot of our agents started back in the '70s when Farmers wasn't in constant turmoil. It was a time of comparative stability in the agent's world. The company was operating

on a fairly uniform track and there weren't constant rumblings from LAHO about whether the agency sales force was of questionable utility to our stockholder owners. The company wasn't thrashing to and fro in an effort to diversify into ancillary products and other outlets like contracting with independents to distribute them, or most recently cutting fire commissions to reverse underwriting losses. UFAA's primary focus was the inequities in the cost of the agency computer system.

But with all that, agents didn't feel any threat to our future like we do now. There was no nagging fear about what will happen if we fail to sell 17 life policies a year and not grow our agencies to 3,000 policies within two years. What we worried about then was whether we could build an adequate income for our desired lifestyle and whether we

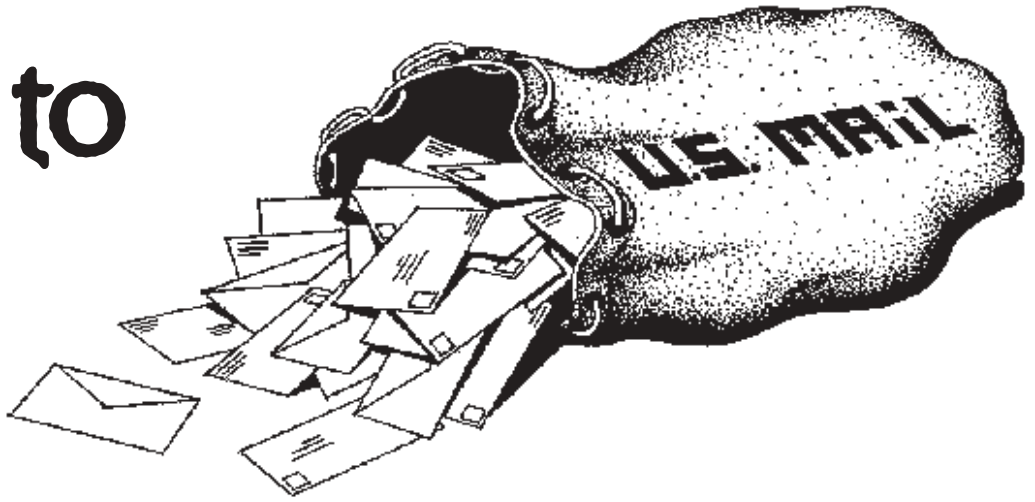
could make it show a consistent profit for Farmers. If you achieved these goals, it was a win-win proposition for you and the company. If you didn't, UFAA would be first to tell you you shouldn't be representing Farmers.

Soon we'll be reaching out to agents in Idaho who feel they are about to be cut adrift from their secure identity with the old Farmers values. Agents who have spent years giving their all for Farmers will be welcomed into a society of colleagues who expect in return a sense of stable relations from our corporate partner.

This foreboding gives us a great opportunity to band together and establish our concerns. More of our agents than ever before are planning to attend the National Convention to find mutual support and guidance.

Connectivity

Letters to the editor



The other shoe has dropped

I want to convey to all of the agents what their hard work in gathering Social Security numbers has accomplished. In Utah the other shoe has dropped. Take a good look at how Farmers is going to use the FARA scores in Utah.

The notice we have received from Farmers regarding our upcoming rate increase reads as follows:

"We will further segment the FARA code discounts and weight the increases to those codes with the highest loss ratios."

Our FARA code discount groups will now be:

FARA CODE	SCORE	DISCOUNT
High	ABC	-0.2%
Medium High	DFG	-2.3%
Medium Low	HJK	+5.6%
Low	RSTUVWXYZ	+60.0%

We can now look forward to explaining to a 10-year customer that has no change in driving records why their rate has been increased by 60%! The rates of the entire household is increased, head of household, wife, son, or daughter when the head of the household has a FARA score of R through Z.

— Another dissatisfied Utah agent

UFAA opposes credit underwriting

The United Farmers Agents Association (UFAA) is a professional association of Farmers Insurance agents with members in 29 states that is dedicated to helping our members through education, communication, support and information.

UFAA is opposed to the use of credit for underwriting or rating insurance.

In 1997, the National Association of Insurance Commissioners (NAIC) published a white paper called "Credit Reports and Insurance Underwriting." In that report and in various other places, the insurance industry claims that the use of credit allows them to predict future losses. They claim, statistically, they can prove "a correlation exists between credit history and loss experience" (NAIC report, page 16). Fair Isaac and Company, the major provider of the scoring models used by the insurance industry to determine credit scores, claims their programs are proprietary and will not divulge the underlying data used to compute the score. UFAA believes that the industry and consumers should be skeptical of programs using "proprietary" or "unknown" criteria. Unfortunately, consumers are basically unaware of just how widespread this problem is and how much their lives have been invaded.

Does the use of credit really assist in predicting future losses in insurance? How long has the industry

been using credit scoring in your state? How long, after the implementation of credit scoring, will it take to show positive underwriting results? Are loss ratios trending downward yet?

How can the consumer protect and or help themselves when they are surcharged or denied coverage by a software program? Does your constituent, who has a perfect driving record, deserve to pay higher premiums just because he pays his electric bill late? Does your constituent deserve to pay higher rates without ever knowing why?

The best solution would be to refuse to allow the use of credit, in any form, in underwriting insurance coverage and premiums. In lieu of that, a law requiring absolutely full disclosure would help the consumers of your state. Full disclosure would require the insurer (not the agent) to inform the customer, in writing, the exact reasons for the higher rate, the refusal to issue a policy or any cancellation. And "your credit score" is not full disclosure.

Not paying your electric bill on time cannot, under any stretch of the imagination, cause a person to have future losses. This has to be stopped.

Ralph Buchanan
President
United Farmers Agents Association

Cheats? Liars? Unethical? Who?

California SED thinks agents would cheat the Company out of 3¢ per policy per month

California State Executive Director Jerry Carnahan, in a memo sent to district managers dated April 11, is now challenging your ethics, your ability to keep your binding authority, and even your Agents Appointment Agreement.

It seems Mr. Carnahan believes FPPS is so perfect that you, the agent, would only make changes on the size of a dwelling or the interior code to reduce the coverage and premium a client has to pay.

District managers have been instructed to contact their agents and have them explain the reasons for changes made to fire policies, policies that have been identified by a new report developed by the

management company.

You, the agent, who did not input the original data into FPPS and who made changes — for a mere three pennies per month per policy — while doing your field underwriting and re-underwriting (Can you say FFR?) are now being held accountable for those changes.

You are going to be held to the highest standard possible and made to explain your every move (I hope you documented your files!) or you risk losing everything.

It has nothing to do with a system that produces errors by the truckload, only the report that they produce and the accusations they say are justified.

The greatest insult comes from the ethical department.

Mr. Carnahan is concerned that you're not being ethical in your business practices if you made a change and don't have the documentation to prove you weren't cheating. (See if your taking the client's word is enough proof.)

It is amazing! These fine fellows of the management company forget they embezzled the California agents' commissions on automobile renewals and cancellations for 10 years (Spring Voice, p.10). Now they criticize and condemn agents for alleged ethical violations.

Go figure!

BosaNova

From the director: Legal Activities

DRA in discovery phase

By Larry Tencer

In the Spring issue of *The Voice*, I indicated UFAA had cleared the first hurdle, surviving the Companies' attempt to have the DRA dismissed. We are now in the discovery stage of the case and have filed, received and answered a number of discovery requests to and from the Companies. I would anticipate this process continuing for the most of this year. We originally submitted a request for admissions and form interrogatories to the Companies and received requests for documents, form and special interrogatories.

According to the California Code of Civil Procedure "each answer to an interrogatory shall be complete and straightforward as the information reasonably available to the responding party permits. If an interrogatory cannot be answered completely, it shall be answered to the extent possible. If the responding party does not have personal knowledge sufficient to respond fully, that party shall so state, but shall make a reasonable and good faith effort to obtain the information...." The above was quoted to us by one of the Companies' attorneys in response to our answers to their initial set of form and special interrogatories. Now after admonishing us, you would think the Companies would respond to our discovery requests in a complete and straightforward manner. Well, that's not exactly how they play the game.

Our requests for admissions asked the Companies to admit to or deny 109 statements. According to our attorney, Ray Estabrook, the Companies objected to 98 of the 109 requests and only appeared to answer 11 in a straightforward manner and without objection.

As an example of the games they play, I would like to share their responses to several of our requests

for admissions (Nos. 56, 57 and 58) which deal with Paragraph A.3 of our AAA. Admission #56 asked "Under Paragraph A.3 of the Farmers Insurance Group of Companies Agent Appointment Agreement, an example of which is attached as Exhibit 'A', the Companies are obligated to provide to agents approved forms necessary to carry out the provisions of the agreement at the Companies' own expense." Admission #57 asks the same question except it deals with policyholder records and #58 deals with company manuals. As the three admissions were very similar, so was Farmers response to them. Here are portions (due to space limitations) of their responses to these three admissions:

"We (the Companies) object to this request on the grounds that it seeks information that is neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. The only agents at issue in this case are Ravet and California

members of UFAA. Information pertaining to all other agents is irrelevant and beyond the scope of discovery. Additionally, in order to respond to this request, it appears Plaintiffs (UFAA & Ravet) require the Companies to apply any knowledge it might have regarding the contractual understanding of the Agent Appointment Agreement held by all agents. This is inappropriate, and irrelevant, because in order for UFAA to proceed on its theory of associational standing, neither the claim asserted nor the relief request [may require] the participation of individual members in the lawsuit" Moreover, UFAA is limited to attempting to represent the interests of California UFAA members and no other agents. Objection is further made on the ground that to respond to this request that would place an undue burden upon the Companies. Plaintiff do not limit their inquiry to agents Ravet and California members of UFAA. Additionally, in order to respond, the Companies will be

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Name

Signature

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St Louis, MO 63119**

required to ascertain the contractual understanding of all of their appointed agents throughout the United States. Such is inappropriate, overburdensome and in relevant part, improperly requires the individualized participation of UFAA's California members. Objection is further made on the grounds that this request is so vague and ambiguous as to be totally unintelligible. Objection is further made on the grounds that this request appears to contend the phrase "own expense" should be inserted into paragraph A.3 of the Agent Appointment Agreement. However, in order for Plaintiffs to attempt to insert such language, they would need to convince the court extrinsic evidence is admissible. The Companies further object to the definition of "Companies" to the extent it suggests the Insurer Defendants "do business as" Farmers Insurance Group of Companies."

The Companies object that we

are claiming paragraph A.3 requires the Companies to provide manuals, policyholder records and forms at their expense. I find amazing considering paragraph B.2 (which covers what the agents agree to do in consideration of the Companies agreements) says: "To provide the facilities necessary to furnish insurance services to all policyholders of the Companies including, but not limited to collecting and promptly remitting monies due the Companies, receiving and adjusting claims within the Agent's authority, and servicing all policyholders in such a manner as to advance the interests of the policyholders, the Agent and the Companies."

Now if the Companies aren't obligated to provide manuals, forms and policyholder records at their expense, how does that same language obligate us, the agents, to provide office facilities, staffing, etc., at our expense? We also are asking the court to determine if business

written during moratoriums or when ineligible or unacceptable must be rewritten to the Companies when the moratorium ends or the business becomes eligible or acceptable. Are we obligated to write policies that are not underwritten by the Companies? Who is obligated to pay for the Series 6 & 63 licensing? And if the Companies do not offer a particular coverage or feature, are we prevented from placing that business with an outside company that provides the coverage or feature?

As you know, any legal action is expensive, especially when the Companies can afford to hire one of the largest law firms in the state — and when they can write checks from an account only limited by the surplus of the Exchanges and Mid-Century. If you haven't contributed to the DRA Fund yet, please take a moment and send your check into the National Office or fill out the "I'm a Supporter" slip on the opposite page.

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There are some costs to running your own business. Managing your only commodity — your client's information — is not an area you should delegate to another party — an outside business — namely, Farmers Group, Inc.

If you are not currently using a system other than

FAME or Client-Vision, contact UFAA Technology manager Steve Todd. He can help determine what is best for your situation and get you started.

If you are using Agency Business Systems, ACT, Goldmine, Maximizer, or any of the other professional options available, we would like to put you together with others to collaborate and increase each other's effectiveness. We can help each other to do a better job and increase our revenues.

Fill out the form below and fax it to us. We'll get you started toward a more effective and independent future. "Agents Helping Agents!"

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System One Support ad

The 'other' commissions lawsuit

Proposed 'settlement' will net 'opt-in' agents about \$100 each

Editors note: There are two different class action lawsuits filed in California over the improper payment (or nonpayment) of commissions. The first was filed last July on behalf of two agents and two DMs. The second suit, as amended, was filed on behalf of Mark Von Kronemann and UFAA after we discovered the other parties were talking settlement with Farmers. This was a clear indication that a sell-out was in the making, which is what we suspected when we discovered the company was the one that recommended including the DMs in the suit. Here is Mark's update on the lawsuit filed by the agents and DMs:

I have just read the public documents filed with the Los Angeles Superior Court in the issue of *Mason v. Farmers et al* (the other suit). Amazingly, the agents are getting pennies while the district managers are getting dollars. There are so many inequities involved that I could write a book about it. In this article I will cover just the basics of their proposed "settlement."

Here are some of the initial facts as proposed and presented in their "settlement" offer, an offer worked on in conjunction with the management company.

1. The agent class is comprised of some 20,000 current and former agents. The district manager class is comprised of some 1,000 current and former DMs. The gross settlement amount for the agent class is \$3,025,090.86 while the gross settlement amount for the district manager class is \$2,287,787.44.

2. Out of the gross settlement amount the law firm representing the class will get 22% of the agents' share but only 18% of the DMs' share for legal fees (plus expenses).

3. All of the issues for the agent class are limited to 48 months while some issues in the district manager class go back to 1991.

4. If agents decide to opt-out of this settlement (which might turn out to be the recommendation of UFAA), the proposed settlement funds of those agents will be divided and given to agents who have produced \$10,000 of Truck or Workman's Compensation premium for the last five years. The district managers proposed settlement funds would simply be divided among the remaining district managers who did not opt-out of the settlement.

5. The vast majority of the proposed settlement money for the agents is based on the lack of payment on automobile surcharges for new business. Quite a few other important issues are not ignored but do not address monetary compensation to the agency force. Interestingly, the district manager's settlement covers a far larger range of items.

The analysis

On the face of it, the settlement will net \$100 per agent range and \$2,000 per district manager. There appears to be little, if any, actual discovery done by the plaintiffs' lawyer. They also seem to have accepted the management company's word for many of the problems and solutions, the same company that knew about and allowed the problem to exist for years and years. We will keep you posted as to the outcome of this settlement discussion.

Visit www.ufaa.com

to read the details on the filing
of the "other" commissions lawsuit.
And watch the web site for updates!
Click on the icon for the
Commissions Class Action Lawsuit.

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Only agents licensed to do business in Texas need apply. *All inquiries are confidential.* Call for more details, 800-766-2478 or 512-338-8100. Ask for Phil.

NEWS FLASH!

On May 21, Martin Feinstein announced a reversal of the management team's decision to cut agent commissions that were to be effective in July.

He announced that the decision was premature and the agents should have had an opportunity to correct the loss ratio problem before the commissions were reduced.

He has given the agency force until the end of the year (six months) to correct the situation before the commission reduction will be effective.

He has made it clear, however, that if the agents do not return profitability to the Fire Exchange in six months, bolder actions will be taken.

Getting visible on the Web

By John Ashenhurst

In the brick-and-mortar world, your customers can find you via telephone, mail, or a face-to-face visit. But what if you want customers and prospects to find your Web site? The consumer has no simple, dependable way to find it.

You can take some simple steps to improve the likelihood your Web site will be found by the people who are (perhaps unknowingly) looking for it.

Publicize your site. Include inserts in all your mailings. Make certain your stationery, business cards, Yellow Pages ad and other advertising contain your Web site address.

Investigate reciprocal links. Look into reciprocal links with attorneys, accountants, realtors, and other businesses that create transactions that may require an insurance element.

Check your company agency finder. Make certain that your agency is included in your company's agency finder —with complete and accurate information.

Look into online Yellow Pages. Investigate the enhanced Yellow Pages of the most popular Web portals — AOL, Yahoo!, etc.

Be aware of search engine positioning. Register your home page with search engines so they will index your Web site.

A simple Web address. If you don't already have a Web site address, you ought to reserve one right away. It should be something easy to remember and spell.

John Ashenhurst is publisher of a monthly newsletter that focuses on insurance and the Internet (visit www.soundingline.com). The complete text of this article is at www.roughnotes.com/rnmag/april01/04p76.htm.



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