



The NAAFA Report.....

Who We Are

The National Association of American Family Agents (NAAFA) is a professional organization established to promote education and communication between American Family Agents and American Family Insurance Company, for whom the Agents supply the lifeline that enables American Family Insurance to exist. Our desire is to be a vital, active group who is interested in sharing our experiences and knowledge with other agents, always encouraging, listening, and growing in ways that not only profit the Agents, but the Company and Customer, as well.

www.NAAFA.com

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For the past year, NAAFA has tried to send each American Family agent a copy of the NAAFA Report through the US Mail. **If you have not received your copy, please notify NAAFA immediately.** (www.NAAFA.com or call 1-800-567-9668) The cost to send 3 or 4 mailings a year is tremendous. If you appreciate receiving these newsletters and/or visiting the NAAFA website, we urgently ask you to **SUPPORT NAAFA BY JOINING TODAY.** We cannot continue with these expenses without your help. You all need to know what is going on in other parts of the Company. This is the only place you'll get the whole truth!

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Why is American Family so threatened by NAAFA? Why do District Managers warn agents NOT to join? NAAFA has never done anything to harm the Company unless "informing" has been harmful. Is it that AF doesn't want agents to know the truth? Doesn't the Company want to hear agents voice their opinions?

You will need what some call the "ambiguity" of the All-American and the "straightforwardness" of the NAAFA Report to have a fair and balanced insight into the functions of American Family and its Agency

Force. Without the NAAFA Report you would only be hearing what the Company wants you to hear!

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THE GREAT DEBATE: DAVE, JACK AND RICK And what it may mean to you, the agent!

If you thought the January issue of the All-American article by Chairman Dave Anderson, President Jack Salzwedel and Vice-President of Public Relations Rick Fetherston, raised more questions than it answered, you are not alone! If you have not read the article, I urge every agent to do so and then ask yourself this question: "Exactly, how committed is American Family to the agent distribution system?"

The article starts out with Dave commenting on changes the Company will see due to external pressures and the changing environment. He states "I think that will have a significant impact on the way we do business". He goes on to say "I think the industry will continue to respond as more and more customers become fluent in technology. I think that will finally have a significant impact on how we do business - and it's more than just sales." Then he

says that the first part of American Family's response is through the 'claim customer care centers.'

Well, we have already experienced the affect *technology* has had on the claims service as more and more claims offices have been closed and claims people have been transferred or terminated. The claims personnel who remain are being required to carry heavier workloads. A former American Family agent (now an independent) reported to NAAFA that one of the companies he writes for (State Auto of Ohio) did an outstanding job of responding to one of his client's claims in less than 4 hours. When he complimented one of State Auto's representatives, the rep was horrified and said he would report such slow response to his claims management because their response should never be over 2 hours! Imagine that! American Family says their response will be 24 to 48 hours. Evidently, American Family's response just doesn't cut it in the market place.

Is this the future we agents can look forward to, also? We have all heard of the larger/super agency. We are seeing more and more agents with satellite offices. Will competent veteran agents become things of the past because the Company has eliminated their agencies and combined their policies with those from several other agencies to establish these super agencies? We have already established, in previous articles, the huge financial benefit to the Company when it transfers large blocks of policies. It was also recently disclosed by an ex-American Family V.P. that transfer blocks of business were to be given to new AASP agents to help secure their future success. Many of these "new" AASP agents are often unsuccessful district managers returning to the sales force. Agents "who are told" they will receive blocks of transfer business if they achieve AFLIC and/or ALL-American, beware

because the new company directive is to give these block transfers to the "new" AASP agents.

Jack continues to talk about fundamentals. To me, fundamentals mean basics. When Jack says "I think there are fundamental changes", what exactly is he talking about? In the same section he goes on to discuss what customers are looking for. He continues talking about the impact Geico and Progressive have had on auto business. These are companies who have been committed to *online and call center sales*, but they are now opening agent offices in Madison, Wisconsin.

What customers (and agents) really want is a *good product at a reasonable cost and a company which is easy to deal with. (good service)* American Family offers a good product. However, their pricing has been a deterrent to sales for years. And if we want to discuss "easy to deal with," all one has to do is look at the billing system. If that is not enough for you to recognize that the Company is not easy to deal with, how about those "friendly" repair letters they are constantly sending to clients? Every agent can relate to how easy these letters are to deal with!

What has made Geico and Progressive so successful is not their online method of doing business. It is their way of cutting out the middle man, the agent, and passing that savings onto the client. But Geico is now opening up agent offices in Madison Wisconsin because the thing their clients want is an office where they can go and get personal service from their own *personal agent*.

If you read further in the article, Dave states American Family employs 8,200 people and 4,000 agents. Agents have always been considered a necessary expense to the Company, but considering that each agent is supporting over 2 employees for every agent, where is the "fat" really?

Should we talk about the expense ratio for a moment? If it weren't for the agent, American Family would not exist! Agents are the ONLY people bringing money into

the Company. You could argue that the Company investment people also bring in some income, but even this would be impossible without agents because the agents brought in the capital to be invested in the first place. Agents are now doing the majority of the underwriting and data entry besides selling all the policies. Gentlemen, you simply cannot have it both ways. Either you let the agents do the job of selling (the job for which they were trained) *or* you let them do your underwriting and data entry for you. There is a limit to how thin an agent can be spread. Believe me, it is *not* the agent who is driving up the expense ratio!

Dave comments that 'technology is what is driving the expense ratio up, but it will only be a short term situation.' On American Family's home page they list about 1,100 technical people as employees. They have been employed for years so what *is* really driving up the expense ratio? Could it be that too many of the employees are providing service to management rather than to the sales force that actually brings in the money in the first place? It is so ironic that the Company blindly tries to lower its expenses by spending more on technology, but really doesn't know what to do to bring in more income. Your answer, gentlemen, is to let your employees do the data input again and allow the agents to SELL! Expense ratio solved.

The real meat of the entire article is when Jack talks about "What we have to do now is develop the products and deliver some of the tools customers want online, which we don't have right now." Let me remind you of the Progressive system. You may purchase your insurance at a lower cost by eliminating the middle man (the agent) through *Progressive Direct*, or you may have an agent for an additional cost through *Progressive Drive*. In essence, our parent company, American Family, becomes our (the agent's) **direct competition**.

Rick reminded Dave that eight years ago his biggest question was whether or not the millions of dollars spent on technology would pay off in terms of agent productivity. Rick then stated that agents' monthly app production is up only 4.6 since 1998!

Let's take a quick look at history. First, agents' commissions were cut. Then directly after that, premiums (especially auto premiums) sky rocketed, followed by the burden of added data entry responsibilities, more under-writing requirements, inspection letters to follow up on, and multitudes of other responsibilities that were placed on agents. The agent lost income and then was required to do more and more of the Company's work. It does not take a rocket scientist to figure out that if American Family wants to increase sales, all it has to do is fairly compensate agents for selling and take back the Company burdens that have been placed on agents. (More competitive rates wouldn't hurt either.)

If agent production is not going up and the number of agents is not increasing, then how are agencies growing as reported by Dave? That answer is simple; through agents being terminated, threatened with production letters so that agents simply quit, and through the normal attrition accomplished by the transfer of large blocks of policies. There is NO other answer!

Maybe American Family's answers can be found by looking at its own reflection in the mirror. The competitive edge is the agent! The agent is not the *cause* for driving up the expense ratio. It is not the agent's fault the Company has burdened them to the point that they are simply too busy doing company work to sell. If you would look at how the expense ratio of the agency has skyrocketed (due to having to hire more staff to do the Company's work!) in the last 8 years, perhaps you would more clearly understand why so many agents are quitting American Family. There is no reason American Family needs 2+ employees for every agent now that the agent is doing all their work. The real expense exists because American Family is top heavy with management. These folks require big salaries. [Check out these salaries at www.naafa.com if you are a member of NAAFA. The 2006 salaries will be posted mid year 2007.]

Finally, the next time belt-tightening is expected from everyone Company wide, maybe it really should mean EVERYONE!

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SUPPORT THE AGENT!

MASS EXODUS OF ARIZONA AGENTS

The actual numbers of agents who have terminated their contracts with American Family continue to increase. Arizona seems to outnumber other states at the moment. Reasons why each agent leaves vary. However, some leave because their renewals are dropping, some because their extended earnings are diminishing, some because of too much Company paper work and data entry responsibilities, and some because of production requirements.

However, the major consensus is *total dissatisfaction with their careers at American Family.*

Several of the agents who have left American Family in Arizona to start their own independent agencies have told NAAFA that they have had their extended earnings halted by the Company. The reason the Company has given for taking this action is "violation of the no solicit

portion of their contracts." The question of whether or not these agents actually violated the "no-solicit" portion of their contract is not clear because American Family has not been able to provide any proof the violations actually occurred. Without providing documentation that

there were, in fact, any violations, it is highly suspected that American Family took this action to scare and discourage other agents from following in mass

exodus. American Family does not realize that the action they have taken against these agents has only confirmed that there are problems in American Family land. It has *encouraged*, rather than discouraged other agents, to consider escaping from under the grips of such a company.

NAAFA often hears from agents who say, "I just couldn't take it anymore. I had to get out!"

It is reassuring for agents to learn that there is "life after American Family," however, it is sad to think that what used to be the

"best place in the world to work" is no longer just that.

www.naafa.com

We will keep you posted on American Family's actions against these Arizona agents through the "members only" portion of www.NAAFA.com.

**Trust him not with your secrets, who, when left alone in your office, turns over your papers.
By Johann Kaspar Lavater**

**In the second Quarter issue of The NAAFA Report, we will be featuring an article on
"The American Family Agency Today Compared to 25 Years Ago."
You won't want to miss it. We hope to show you how things used to be at American Family.
You know how they are today.**

CONTROL, CONTROL, AND MORE CONTROL!

As American Family imposes more and more "control" over the way agents conduct their business, the more the question arises: Are agents employees or independent contractors? This discussion is not new, but it is once again becoming more of a concern to all agents! Here are a few areas where the Company is tightening its grip.

Can American Family "control" the agent's staff people? Well, the Company *does* have a legitimate concern about whether an agent's employees can be trusted with client money, but beyond that, what does a person's driving record have to do with someone being financially responsible?

Several of my underwriters have had driving violations including DWI's. Does this mean they are not qualified to be working for American Family? American Family does have the right to control *their* employees, but OUR employees are NOT employees of American Family! Agents, as independent contractors, have the right to hire whomever they wish. As agents, we are responsible for the actions of our employees.

Can American Family arbitrarily attach *any* production number requirement that comes to mind for agents receiving the infamous "Six-Month Termination Notice?" The agent contract does mention production in Section 4.h where it says the agent agrees "to meet the Company's production, profitability and service requirements." Now one would reason that because all agents have signed the *same* contract (except for those

that chose to stay with their old contracts) and because all agents

have the same profitability and service requirements, why wouldn't they all have the same production requirements?

Agents in all states, especially in Ohio, are reporting receiving Six-Month Termination letters for production. Ironically, the Company has rescinded some of these letters at the end of the probationary period. Why? Because some of the agents did meet the demands of the letter, but a majority of them did not. Often the requirement is impossible to reach. We have seen app demands be much higher than the district average or even the state average in some cases. We have seen unreasonable requirements be put on agents living in small rural communities that would be very difficult for even an agent in a metropolitan area to meet. In a few cases, agents have had their Six-Month Termination letter rescinded and no reason was given to the agent at all. *We do know that American Family has plans to transfer necessary policies to AASP agents to "keep them afloat" so perhaps this factors into a reason for their mysterious action.* Or does American Family know something we don't know? Or perhaps something we thought we didn't know?

As independent contractors, production requirements should *not* be included in an independent contractor's contract. If we had a franchise contract, then production requirements could be included, but then no stipulation could be made as to the ownership of the business if the agent were to quit or be terminated. That business would be owned by the agent. It appears American Family has combined the wording of an

Independent contractor's contract and that of a franchise contract and incorporated these two types of contracts into something that strictly benefits American Family. The problem American Family may be

facing is the possibility of a legal battle to determine whether the current contract is enforceable. Perhaps American Family rescinded the probationary letters in fear that a mass termination of agents might lead to a court battle. Wouldn't it be interesting to find out that the agent's contract is not legitimate?

When you look closely at the agent contract, Section 6.a., [*It is the intent of the parties hereto that you are not an employee of the Company for any purposes, but are an independent contractor for all purposes including federal taxation with full control of your activities and the right to exercise independent judgment as to time, place, and the manner of soliciting insurance, servicing policyholders and otherwise carrying out the provisions of this agreement.*] you find that American Family directly violates the Independent Contractor Relationship by restricting the manner in which an agent may prospect such as using direct marketing outside the Company. The Company controls the agent's time by having "mandatory meetings," and some district managers even go so far as to tell the agent what hours his agency must be open, and whether or not he can take a vacation.

Now when you factor in all the other **controls** American Family imposes (both directly and contractually) such as the transfer of the company's work load (data entry) to the agent, **we find that American Family is directly violating IRS codes and we believe the Company knows it.** If this behavior does not stop soon, NAAFA

predicts that it is only a matter of time before disgruntled agents will again be contacting the IRS.

Agents are independent contractors! American Family must stop treating agents as employees. Agents are not powerless and we are sick and tired of being treated like employees! If American Family wants us to be independent contractors, (can

you imagine the cost of having to pay self-employment taxes for 4000 agents?) then treat all agents as such.

A starting point to rectify this dilemma would be for the Company to take back the work load with which they have burdened the agent. Stop threatening agents with probationary letters. Allow agents to hire staff *they see fit* to hiring. **Show some trust,**

respect, support, encouragement and admiration. These are the traits of ethical managers with mature insight in how to nurture faithful workers! And most importantly, let the agents get back to the job of selling!

**BE A PROFESSIONAL—
JOIN NAAFA TODAY**

Annual membership rates are still reduced till June 30th for new members or anyone who has lapsed during the past 2 years. Join now for only \$192.

This article appeared in the Milwaukee Journal Sentinel

THURSDAY, March 1, 2007, 12:31 p.m.

By David Doege

JURY TRIAL SET FOR INSURANCE AGENT

A former American Family Insurance agent will stand trial beginning next week on 104 felony counts accusing her of illegally establishing hundreds of secret insurance policies for unwitting people to maintain her company standing and collect commissions totaling \$265,000, attorneys told a judge Thursday. Xxxxxxx also faces two theft charges accusing her of pocketing \$54,000 that a commercial customer paid her for business insurance.

Note: On 3/14/2007, the agent was found guilty of all 104 counts and faces up to 200 years in prison when she is sentenced in April. (http://nl.newsbank.com/nl-search/we/Archives?p_action=doc&p_docid=117E0DAFA02BFE10&p_docnum=3)

WHOSE FAULT WAS IT ANYWAY?

Even though the identity of the agent was published in the preceding Milwaukee newspaper article, NAAFA has chosen not to mention either the agent's name or office location in this article

All agents should know the activities allegedly committed by this agent are felonies. What some agents may not think about is the impact such activities have on the trust relationships clients have with their agents. Behavior demonstrated by this agent reflects poorly on every insurance agent!

There is no question, if these allegations are true, that the agent was somehow motivated and encouraged by the Company to do so, either by financial rewards, AFLIC designation, trips or simply just to avoid being terminated. In this case, however, it is apparent that job retention was not a factor, but it is apparent the remaining reasons are all valid.

Besides questioning how any agent could write as many life applications as this agent apparently wrote, *one has to wonder how this agent was able to get all these applications past underwriting.* Yes, there were fraudulent signatures and the agent supposedly wrote premiums out of her own account, but what about the medical information and required medical exams? Was there some special *underwriting privilege* given to this agent because of the amount of policies that agent was writing? Was this the reason regular underwriting protocol was not adhered to? Is it possible the company gives more leeway to agents who write more or larger cases than the average agent?

And what about the district manager? Should the company have been aware something deceptive was going on? Was it overlooked again because this agent was producing a lot of life insurance? *We've seen it happen before, haven't we?*

In the article it states the agent was allegedly doing these activities for bonus money or maybe personal recognition. This brings up the ethical question again about whether there is really a need for campaigns that encourage agents to write "bogus" applications. It is not uncommon for agents to write life applications they know will not be accepted by underwriting with the full knowledge that the premiums paid will be returned to the applicant.

Money motivates most people and insurance agents are no different! I am sure most agents know other agents who have taken applications on customers they know will not qualify for coverage in order to make themselves look good on some contest report. And if this is

the case, aren't those agents just as guilty as the agent in this news article but perhaps on a smaller scale? Isn't this betraying agent/client trust, also?

If any agent is doing these sorts of things just for self profit or gain, it should be stopped NOW. If an agent knows another who does such unethical things, that agent should report this person to the proper authorities. American Family has an ethics hotline. Use it. Then watch to see that American Family does something about it. If they don't, perhaps your State Insurance Commissioner should be contacted. Remember, *all* unethical and illegal behavior reflect poorly on all agents who are trying to service clients to the best of their abilities. Most agents work hard to maintain a good agency image and earn a living, and these achievements should not be jeopardized by those choosing to behave unethically.

A call must go out to the Company to help prevent these "temptations". Totally deemphasize the importance of being AFLIC. Honor and recognize the agents who do make AFLIC, but do not use AFLIC as a "measuring stick" of an agent's success or as a requirement for keeping their company contract. Stop having campaigns that condone and encourage agents to write poor or bogus business. Instead, pay a fair commission on all life sales. *American Family is paying less than half the commission the local independent agent earns on the sale of life policies.* Currently, the additional commissions that agents *should* be receiving on their life sales, go to the district managers to "hopefully" spend it on the agents in their district. A better idea is just to give the full commissions to the agents who sell life and let them decide how they want to spend it! By paying competitive commissions on all life sales and de-emphasizing the significance of being AFLIC in order to maintain your career with American Family, many of the "temptations" the company has created which simply promote this negative type of activity will be eliminated. After all, selling life because it is *suitable for the client* should be everyone's goal and as a result, everyone benefits.

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(Offer good through June 2007)

WWW.NAAFA.COM

If you appreciate The NAAFA Report, will you let us know? What topics would you like to hear more about? Is there a particular article you liked or disliked? We need to hear from you. Let us know your thoughts. Contact NAAFA, PO Box 578, Circle Pines, MN 55014 or Email us at: NAAFAwest@comcast.net

WHAT I WISH THE COMPANY KNEW

That there might be fewer lawsuits against American Family if they'd quit doing bad things.
That personality conflicts involve two people. Fire both of them, not just one!
That Competitive rates=more sales=better production=no termination letters!
That a Company usually reflects its leaders...good or bad.
That pride comes before the fall.

LEADERSHIP QUALITIES...do you have them?

Often we as agents think of our DM's as the "leaders," but we forget that we, too, are leaders. We are leaders of our agencies and office staff, and they reflect our leading. People who are successful in sales are successful leaders. Take a look at the characteristics Danny Cox gives below and decide if you meet the standard. Not many people say it better than he does. He often gives these ten leadership characteristics at some of his seminars. You may go to his website (www.dannycox.com) and read other ideas he has. He's quite interesting and inspirational. He says to remember that leadership is an art, not a science. He says the difference between a genuinely effective leader and a short-term motivator is found in the personal decisions he makes when choosing how to live his life. Danny says personal and professional ethics cannot be separated. He describes an effective leader as having:

- 1) A high standard of personal ethics.
- 2) High energy.
- 3) The ability to work priorities.
- 4) Courage.
- 5) A commitment & dedication to hard work.
- 6) An unorthodox urge to create or act *before* the phone rings.
- 7) The ability to make tough decisions because he is goal oriented.
- 8) The ability to inspire enthusiasm.
- 9) The ability to remain level-headed & respond rather than react to problems.
- 10) The desire to help others succeed.

Danny says to remember that no organization can rise above the quality of its leadership. Effective leaders are effective people. Does your agency have good leadership? Does American Family?

**NAAFA IS SUPPORTED ONLY BY 'LEADING' AMERICAN FAMILY AGENTS.
THEY'RE LEADERS BECAUSE THEY POSSESS THE ABOVE QUALITIES.**

