

EIRFeature

The British Empire's Lloyd's of London conspiracy

by John Hoefle

Lloyd's of London is widely known around the world for its willingness to insure almost anything, including the legs and other body parts of Hollywood movie stars and celebrities. Lloyd's prides itself on being willing to accept any risk—for the right price, of course—and on always paying its claims. In its public statements, Lloyd's waxes eloquently over the sanctity of its relationship with its policyholders, and its commitment to honesty in the marketplace.

Appearances are often deceiving.

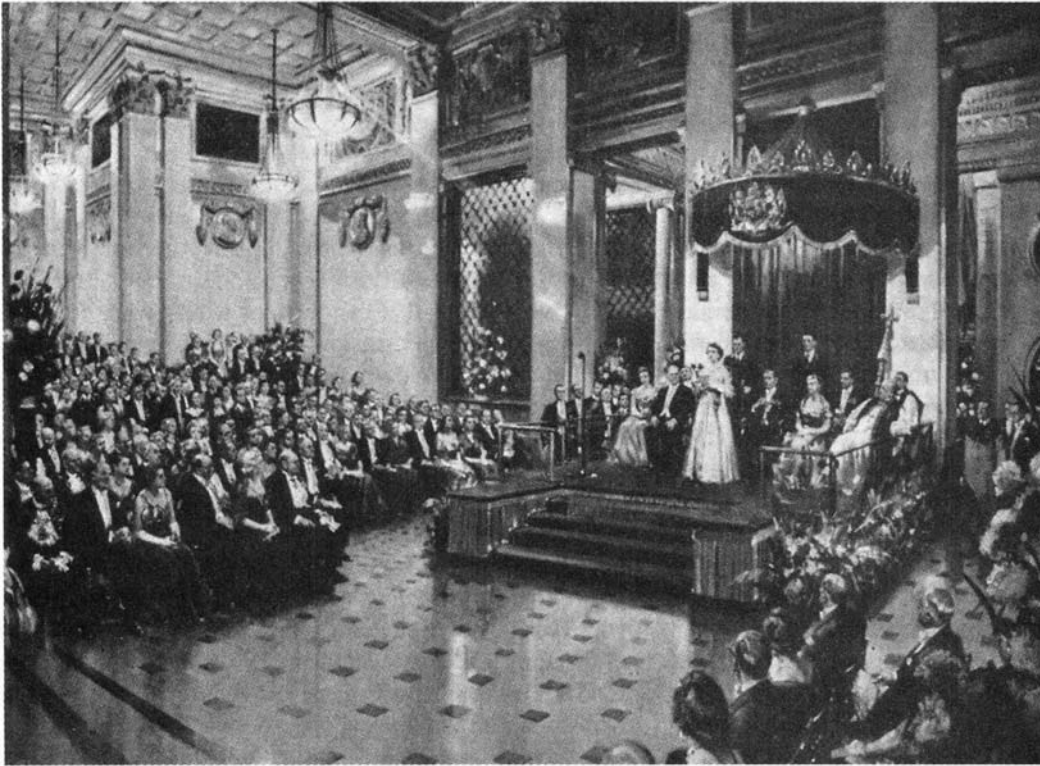
In this report we will lift the veil of Lloyd's carefully crafted facade, exposing a ruthless, dog-eat-dog world of greed, corruption, and arrogance, and a 30-year conspiracy to bilk tens of thousands of investors out of their life savings, while throwing the holders of billions of dollars of Lloyd's-backed insurance policies to the wolves.

To prove Lloyd's are crooks, all you have to do is quote them, which we shall do extensively, beginning with the infamous quote of Ralph Hiscox, who said of the Names (the Lloyd's term for investors), "If God had not meant for them to be sheared, he would not have made them sheep." Such an attitude is business as usual at Lloyd's, of which Hiscox would rise to be deputy chairman.

We must stress at the outset, that this is not simply a story about Lloyd's of London. The Lloyd's case cannot be properly understood by viewing Lloyd's as an independent entity: Lloyd's is an instrument of the British Empire, and of the international financial oligarchy known as the Club of the Isles. It is these oligarchs who control Lloyd's and direct its activities; the employees at Lloyd's merely carry out the directives from their oligarchic controllers.

Turning back the clock

The crisis for Lloyd's began in the wake of the assassination of John F. Kennedy, who was killed by the Anglo-American oligarchy for reasserting U.S. national sovereignty and committing the United States to economic growth through



Queen Elizabeth and Prince Philip visit the Underwriting Room at Lloyd's of London, Nov. 6, 1952. Painting by Terence Cuneo. Lloyd's is not an independent entity, but an instrument of the British Empire.

the space program; moves which threatened to break the political straitjacket the British Empire and its Anglophile allies in the United States had constructed after the death of Franklin D. Roosevelt.

Determined to reverse this technological breakout, the British Empire began organizing an anti-science counterculture, under the cover of an ecology movement supposedly designed to protect Mother Earth from the ravages of man, kicked off by the 1970 Earth Day extravaganza.

Among the tactics used was the creation of a series of environmental terror campaigns, targeting one substance after another, to convince Americans and citizens of other nations that scientific progress was dangerous, and should be abandoned.

One of the first such campaigns was against asbestos, which had been widely considered a wonder mineral due to its heat-resistant qualities. Asbestos, when inhaled in large quantities, is quite dangerous, and many workers, especially those who worked in asbestos plants and shipyards during World War II, would suffer severe respiratory problems; many would die.

The British cynically seized on this danger to organize an asbestos scare, to convince people that any exposure to asbestos was deadly, and to terrorize people into demanding that all traces of asbestos be removed from society, even though the scientific evidence showed that such actions were not only unnecessary, but counterproductive.

Knowing that Lloyd's had directly, or indirectly, through

reinsurance, provided insurance protection to asbestos manufacturers who were sure to be devastated by this campaign, the lords of the British Empire set out to lure in members of what they considered to be the "lower classes"—Americans, Canadians, middle-class Brits, and others—upon whom they would dump these self-inflicted losses. This they proceeded to do, through a series of scams which continues to this very day.

The deliberate takedown of civilization which the British were orchestrating, would also hit Lloyd's by increasing the costs of natural disasters, such as hurricanes, fires, floods, earthquakes, windstorms, and snowstorms, all exacerbated by the lack of infrastructure development, the cancellation of flood control projects and the proliferation of shoddy construction practices, and by the dramatic increase in financial speculation triggered by the decline of productive economic activity.

To protect themselves against the consequences of their deliberate actions, the British Empire, through the person of Lord Cromer, launched what American Names Association executive director Jeffrey C. Peterson has termed "the largest fraud in world history." Some day, when the truth comes out, Peterson said, "college textbooks may refer to 'Lloyd's schemes' instead of 'Ponzi schemes.'" Names were lured by the tens of thousands, into insurance syndicates in which Lloyd's placed billions of dollars of current and future asbestos, pollution, and health hazard losses; many of these new Names would lose their businesses, their life savings, their homes, and even their lives as a result of Lloyd's preda-

tory practices.

Many of the aggrieved American Names turned to the U.S. legal system for relief, to little avail. The Securities and Exchange Commission, under enormous pressure from the Anglo-American financial oligarchy, turned a blind eye to Lloyd's scheme. Suits were filed against Lloyd's in several federal courts, but all were thrown out, on the basis that the defrauded Names had agreed as part of their contract with Lloyd's, that any disputes be heard in English courts under English law—where, it should be noted, Lloyd's and its officers had obtained virtual immunity from suit by act of Parliament. The fact that the contracts themselves were the product of fraud, was not considered relevant by the cowardly courts.

The Names next sought help from the state securities regulators, many of whom were appalled by Lloyd's tactics. Twelve states filed actions against Lloyd's and/or its agents, charging them with securities fraud, including Missouri, where Secretary of State Rebecca Cook stated, "It is now time to bring Lloyd's activities to an abrupt halt before further losses are incurred and more Missourians are caught in this web of deceit." The North American Securities Administrators Association (NASAA), an association of state regulators, formed a task force headed by Colorado Securities Commissioner Philip Feigin to seek a resolution of the problem.

The securities administrators, for their efforts, were hit with a vicious counterattack by British-connected elements of the insurance industry. When the California Corporation Commission sought a lien on Lloyd's American Trust Fund, California Insurance Commissioner Chuck Quackenbush (closely allied with Lloyd's main U.S. law firm) went to court to stop the lien, claiming that such a move would "render insolvent numerous insurance companies."

NASAA and the Utah Securities Division commissioned a study of Lloyd's, which debunked Lloyd's claims that the insurance world would not survive were Lloyd's forced to operate within the law, and showed that U.S. insurance companies, also hit with huge asbestos and pollution claims, were able to pay those claims without resorting to raping and pillaging.

In May of this year, the SEC, perhaps reflecting the open political warfare between the Clinton administration and the British Empire, finally spoke, stating that the "in England under English law" clauses in the Names' contracts were null and void, as they violated the explicit provisions of U.S. securities law. That didn't stop one federal judge, who threw out a case in Texas, from stating that "25 years of silence from the SEC is not just glacial government, it is consent."

The major weakness of the Names, was their failure to comprehend the nature of their fight, that victory would be won or lost in the political arena, not in the courts. What they were up against was the might of the British Empire, the most powerful political force on the planet. It was the British Empire, not the clerks at Lloyd's, who cheated the Names;

the failure to understand who the enemy was and react accordingly, crippled their defense.

That point was made vividly by what happened to Feigin and his NASAA task force when they went to London in June to negotiate with Lloyd's. In the words of one American Name, "Feigin went in like a tiger and came out like a pussy-cat." The task force, unaware of the true nature of the battle, walked right into a British psychological trap; terrified by Lloyd's assertions that their actions would bring down the global insurance industry and therefore the global financial system, the task force capitulated, sold out the American Names, and cut a deal with Lloyd's. The legal battle is not over, but the failure of the American Names to take the fight to a higher level is a serious and perhaps fatal handicap.

Ironically, the NASAA task force had a powerful weapon, were it to have had the sense to wield it. The British Empire has a beautifully vulnerable flank, due to the in-progress collapse of the British-dominated cancerous global financial system. The only force on Earth with the power to break the back of this oligarchical system, is the U.S. government. Had the NASAA task force the courage and wisdom to withstand the British assault, and insist upon justice for American citizens, it could have won a major victory for the United States, and for the world. Instead, to paraphrase the great poet and fighter Friedrich Schiller, a great moment was missed by little people.

We present with this report, not just a story of the corruption of Lloyd's of London, but also a metaphor for America's fight against the evil nature of the British Empire. Thus far, it is a tragedy and will remain so, unless we, unlike the unfortunate Mr. Feigin, find the wisdom and the courage to win the fight for justice.

Dossier

Lloyd's insurance policies fall into five categories: marine, non-marine, motor, aviation, and life. Lloyd's has historically been a world leader in marine insurance (the insuring of ships and their cargoes), dating to the time when the British Empire ruled the seas. At the beginning of this century, more than half of the world's marine insurance was written by Lloyd's.

Lloyd's character, and lack thereof, was forged in marine insurance, where good connections and intelligence were often more important than the ability to assess actuarial risks. The benefits of inside information were illustrated in the case of the *Titanic*, in which, according to *Risky Business*, the owners managed to insure it after it had sunk, but before the word got out. It worked the other way, as well. Thanks to Lloyd's far-flung intelligence apparatus, Lloyd's often knew more about ships than the owners. Frequently, a nervous shipowner, worried about an overdue ship, would seek insurance coverage from Lloyd's which, thanks to its intelligence appa-

ratus, knew the ship was safe, and could make a tidy profit writing a no-risk insurance policy.

Lloyd's propensity to profit from inside information carried over into its non-marine business. Non-marine is a catch-all category for policies which do not fall into marine, motor, aviation, or life. The non-marine policies run the gamut from the exotic—insuring the body parts of celebrities, insuring the diamond markets, writing kidnap and ransom policies—to more mundane areas, such as fire and general liability insurance. The diamond and kidnapping lines often bring Lloyd's into contact—and some say collusion—with the international criminal underworld, an additional source of intelligence and profits.

Lloyd's created its first non-marine syndicate in 1885, and, by the turn of the century, was writing non-marine policies in the United States. In the 1930s, Lloyd's began to underwrite American unlimited liability policies; many of these policies were written on a claims-incurred basis, rather than a claims-made basis, a crucial distinction.

On a claims-made policy, claims must be filed within the period of the policy; a claim on a policy covering the year 1950 must have been filed in 1950. Claims-incurred policies have no such time limitations, such that, for example, a worker exposed to asbestos in 1950 who comes down with asbestosis in 1996, could still file a valid claim, for which the insurer which wrote the 1950 policy would be liable. These claims-incurred policies are often called "long-tail" policies, since decades can pass before all the claims are known. Lloyd's wrote many of these long-tailed policies in the United States prior to World War II, both directly, as the primary insurer, and indirectly, through reinsurance policies written for the primary insurer.

Losses on the horizon

Heavy exposure to asbestos, especially crocidolite (blue) asbestos, can cause lung cancer, asbestosis, and mesothelioma, a fact of which the British have been aware since at least the turn of the century. During the 1920s, the *British Medical Journal* published several studies on the issue. Lloyd's was clearly aware of the dangers of asbestos, sending Committee of Lloyd's member Charles Skey to New York to inspect the asbestos situation as early as 1948.

In 1968, with the British Empire gearing up for the launch of the ecology movement with the 1970 Earth Day extravaganza, the top echelons of the Empire knew that their environmental terror campaign would result in large losses for Lloyd's. To counteract that, the Empire launched a scheme to shift the losses from the insiders at Lloyd's, by luring in thousands of new members. The insiders quietly stacked the deck against the newcomers, many of whom would be bankrupted by Lloyd's scheme, losing their businesses, their homes, their life savings. Some would even lose their lives: Dozens would commit suicide, leaving their loved ones to



"WELL, DON'T JUST STAND THERE, SCOGGINS—
THROW SOME YANKS UNDER THE STERN!"

face the relentless Lloyd's bill collectors.

The agent of this imperial scheme was the Earl of Cromer, head of the Baring banking family, a member of the Privy Council, and a former governor of the Bank of England. In addition to being ranking members of the British financial oligarchy, the Baring family had a long history at Lloyd's. Thomas Baring was the chairman of Lloyd's from 1851 to 1869, and another Baring, Lord Revelstoke, was chairman from 1887 to 1892.

In November 1968, Lord Cromer undertook a "study" of the capitalization of Lloyd's, which had lost money in the 1965 and 1966 years of account, and seen the number of Names drop slightly (losing 79 Names between 1967 and 1970). Under Lloyd's antiquated system, results are reported three years in arrears, such that the results of the 1965 year of account were not published until mid-1968, shortly before Cromer began his study.

In the Lloyd's system, there is a direct correlation between the amount of money pledged to Lloyd's by the Names and the amount of insurance Lloyd's can underwrite, so a decline in the number of Names generally signals a decline in overall underwriting capacity. More importantly, however, the decline in the number of Names meant that the looming asbestos and pollution losses would fall on a smaller number of shoulders, many of whom were ranking members of the British Empire. This was, from the British perspective, simply not acceptable, and Cromer's task was to insure that it did not happen.

Among those recruited by Cromer for his study was Ralph Hiscox, who would become a deputy chairman of Lloyd's

in 1992. Hiscox expressed the attitude of much of Lloyd's leadership toward the new Names the Cromer panel's actions would lure into the market, when he issued the following reply to a Name seeking information in 1981: "I have no sympathy for Names who regularly get lousy returns from their syndicates. . . . If God had not meant them to be sheared, he would not have made them sheep."

The Cromer panel issued its report in December 1969, and recommended that the number of Names be significantly increased, putting forth the rationale that such an increase would make Lloyd's more competitive in world insurance markets. The report was distributed to Lloyd's insiders, but not the general membership, many of whom were not aware of its existence until 1986. To accomplish his goal, Cromer recommended that the financial requirements for becoming a Name at Lloyd's be dramatically lowered, and that the amount of insurance a Name could underwrite per dollar (or pound) on deposit, be greatly increased. In short, Cromer recommended that large numbers of less wealthy Names should be brought in, and that they should be allowed to write insurance at higher levels of leverage than previously allowed. Since the level of risk exposure increases with the amount of insurance written, the effect of Cromer's report was to knowingly heap more risk on Names less able to afford that risk.

Cromer made his motive clear with the comment that, in the past, the unlimited liability of Names had been "a legal obligation which was of no practical importance," but that "in the last few years the obligations of unlimited liability have become a reality."

Faced with the "reality" of unlimited liability, the men of the Empire went looking for suckers, and, after a gearing-up period in which prospects were identified and recruited, found them by the thousands. At the time the report was issued, there were just over 6,000 Names; by 1980, there were 19,000 Names; and by 1989, there were 34,000 (see **Figure 1**). Today, of those 34,000 Names, only 12,800 are actively underwriting; the rest are trapped in limbo in bankrupt syndicates.

One place Lloyd's knew it would find plenty of suckers, was the Anglophile community in the United States, which had previously been barred from membership in the exclusive Lloyd's club. Historically, only male members of the British Empire had been allowed into Lloyd's inner sanctum, but that was quickly changed: Non-U.K. and non-Commonwealth males were admitted in 1968, U.K. female members were admitted in 1969, and non-British females were admitted in 1970.

To make sure adequate numbers of Names were obtained, Lloyd's established an aggressive recruiting program, paying its agents commissions for each new member they recruited.

"I feel they set out to defraud the colonials," one female American Name would later accurately observe.

In 1971, two years after releasing his report, Cromer was appointed British ambassador to the United States, where he

undoubtedly helped pave the way politically for this scheme, which required the turning of a blind eye by U.S. regulators.

Further confirmation that Lloyd's knew of the looming asbestos losses, came in 1973—nearly two decades before the general public became aware of the massive losses—in a warning from Ralph Rokeby-Johnson, the leading underwriter at Sturge, a prominent Lloyd's managing agency. "What I can tell you, my friend, is that asbestosis is going to change the wealth of nations. Lloyd's will probably be bankrupted in the final chapter unless something happens to intervene," Rokeby-Johnson told a fellow Lloyd's member on the golf course that year. He forecast that asbestos losses would rise to \$120 billion by the end of the century.

In September 1973, a U.S. court, in a ruling for the plaintiff in *Borel v. Fibreboard Paper Products Company*, found that an asbestos manufacturer had a duty to warn industrial insulation workers of the dangers associated with asbestos. The judgment also stated that 21 million Americans—one in ten—had been in contact with an asbestos-related product.

The insiders dump their losses

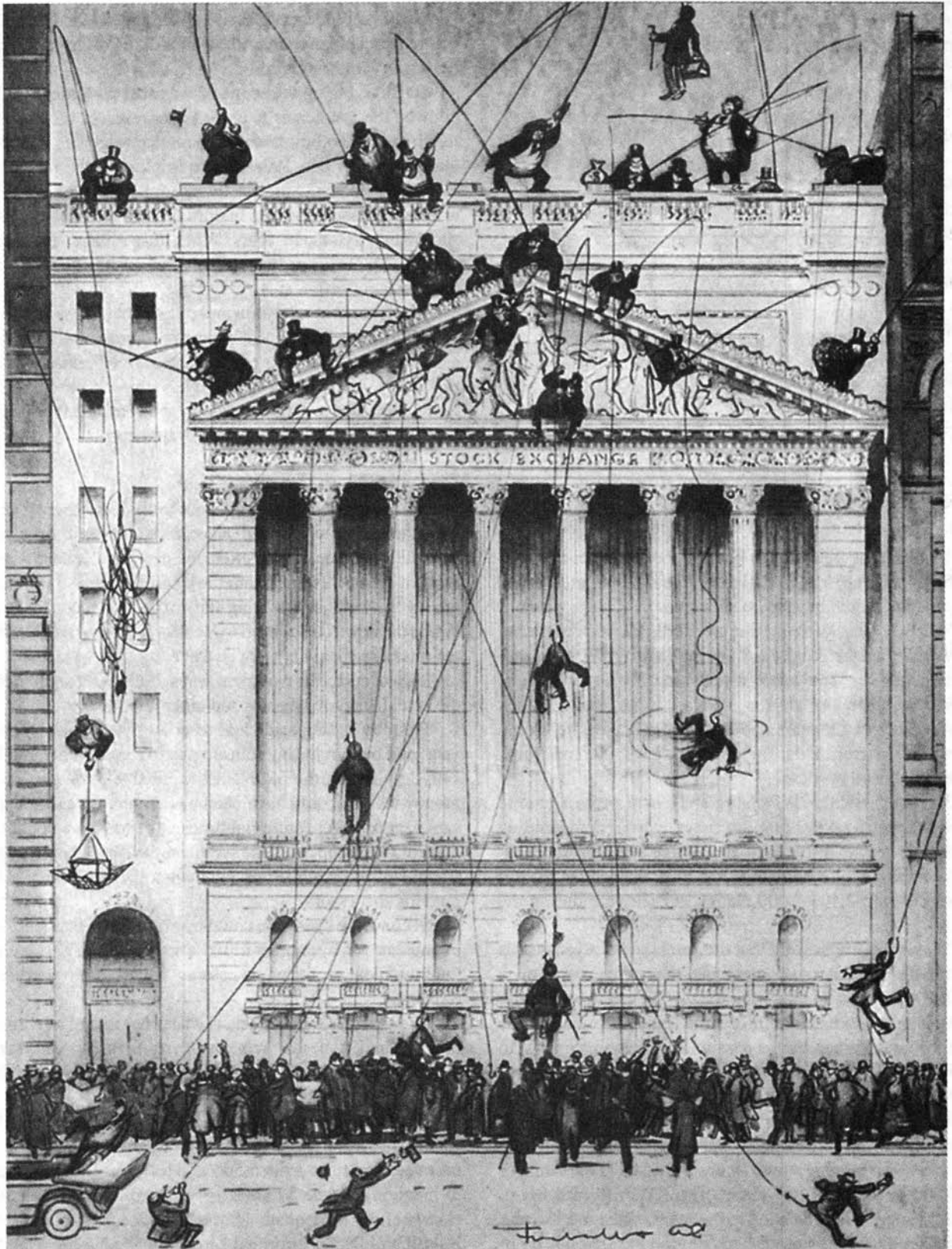
Faced with the knowledge that billions of dollars of insurance claims were slowly making their way through the U.S. courts to Lloyd's, the insiders began maneuvering to shift these losses to the new Names.

In the autumn of 1974, Sturge's Rokeby-Johnson got the U.S.-based Fireman's Fund insurance company to reinsure his non-marine syndicate 210 for the 1969 and prior years of account, knowingly shifting huge future asbestos losses to the American company. (Once Fireman's Fund figured out what Sturge had done, it pressured Lloyd's to take the risk back, and in 1981 it did: Rokeby-Johnson arranged for Outhwaite syndicate 317/661 to take half of the risk, and for Merrett syndicates 417 and 421 to take the rest. The Outhwaite and Merrett syndicates would later collapse under the load; the Fireman's Fund contract ended up producing 40% of the underwriting loss of Merrett 421 for the 1983 year of account.)

By this time, the asbestos claims were rolling in. Claims from Bell Asbestos began to hit the London market, growing to 4,000-5,000 claims by the late 1970s, and asbestos was placed on the "big five" latent disease list, alongside Agent Orange, Dalcon Shield, DES, the Love Canal, and pollution.

In March 1976, U.K. Secretary of State of Employment Michael Foot formed an Advisory Committee on Asbestos. Two years later, asbestos maker Keene Corp. sued INA, its insurer; the court ruled that Keene could collect on both an "exposure" and a "manifestation" basis, greatly increasing the liabilities of the insurance companies.

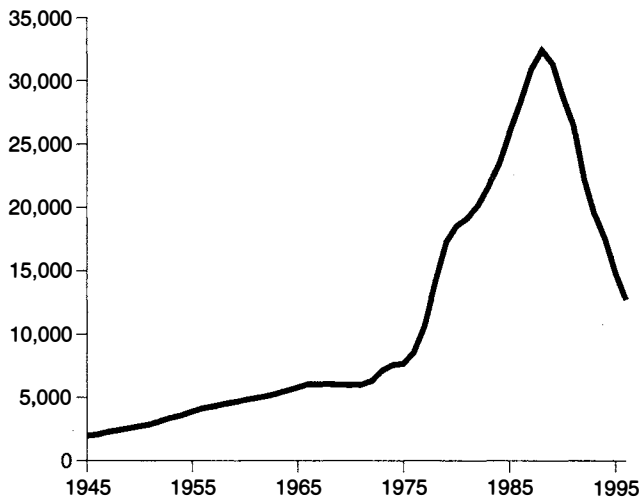
Twelve Lloyd's underwriters and managers journeyed to New York in September 1979, where they privately discussed asbestos with Lloyd's lead U.S. attorneys LeBoeuf, Lamb, Greene, and MacRae. At a private dinner, Tom Hitchcock, the Citibank officer who managed the Lloyd's American Trust



A 1921 cartoon entitled "The Anglers" shows shady operators fishing for victims in the stock exchange—a practice not unlike those of Lloyd's then, and now.

FIGURE 1

Number of active Lloyd's Names



Source: Lloyd's of London, Adam Raphael.

Fund, noted that there wasn't enough money in the fund (\$4 billion at that time) to cover asbestos losses alone, and warned that the fund would have to be bolstered.

Nearly a year later, in August 1980, the Committee of Lloyd's formed the Asbestos Working Party (AWP) to monitor the situation. The AWP was chaired by Committee of Lloyd's member Ted Nelson, of K.F. Adler, and included Charles Skey of Edwards and Payne Syndicate 219, Robin Jackson of Merrett, Don Tayler of Pulbrook 90, and Ralph Rokeby-Johnson of Sturge.

On Aug. 5, 1980, AWP chairman Nelson wrote a letter to Lloyd's agents, saying that attorneys were recommending that syndicates set reserves of an average of \$75,000 per asbestos claimant, plus expenses, and also advised the market to expect some 2,400-3,000 claims in each year during the 1980s.

"It must be emphasized that the potential involved here is so large and the issue so complicated that we cannot allow a 'muddle through somehow' approach," Nelson's letter said. But no action was taken to inform the External Names of the risk (External Names are the passive investors, in contrast to the Working Names, who work for Lloyd's, its agents, or its brokers).

By December 1980, the AWP knew that the \$75,000 per claim figure it had previously published was dramatically low, and that a more accurate figure would be in the range of \$100,000 to \$125,000 per claim. The AWP decided not to make these new figures known, however, since the Lloyd's Audit Committee did not wish to mention the asbestos problem in the annual audit. That same month, Lloyd's was notified by one of its U.S. law firms that Lloyd's would soon

be receiving reinsurance claims from the Travelers', a U.S. insurance company which had already paid out millions of dollars in asbestos claims.

By covering up the scope of the asbestos losses, Lloyd's allowed the syndicates to carry lower reserves than actually required, and to buy their "reinsurance to close" at fraudulently lower prices. Reinsurance to close is the process by which syndicates, which actively underwrite insurance for one-year periods, pass the liabilities from their policies on to succeeding syndicate years. When that reinsurance is provided by another syndicate, or an insurer outside Lloyd's, it is called a run-off.

This annual syndication and reinsurance is the key to the Lloyd's scam. Unlike a corporation which continues year after year, each syndicate is a succession of yearly ventures run by the same managing agency. Names can, and often do, change syndicates at the beginning of a year, and they usually belong to several syndicates at the same time.

Like lambs to the slaughter

Names are steered to syndicates by their members' agents, who theoretically work to place their Names on the most suitable syndicates; in practice, the members' agents steered most of the new Names onto the most dangerous syndicates, where the bulk of the long-tail losses were concentrated. While the new Names were led in, like lambs to the slaughter, the old Names quietly stepped aside.

This occurred in two main ways, both based upon hiding the actual level of asbestos and other liabilities.

First, by setting aside less reserves than necessary every year, and by purchasing reinsurance to close at an unrealistically low figure, the old Names were able to take as profit, money which should have been passed on to the next syndicate year to cover future liabilities. An old Name could take his profit and drop out of the syndicate at year-end, keeping his fraudulent profit while passing the known-but-hidden losses onto his successors.

Second, the syndicate could buy run-off reinsurance from a syndicate run by another Lloyd's managing agency, keeping the fraudulent profits while passing the risks onto another set of Names.

The latter, as we shall see, is what a number of top Lloyd's officials and Asbestos Working Party members did, taking advantage of their positions and inside information to deliberately defraud the External Names.

The cover-up continued into 1981 when, on Feb. 10, AWP Chairman Nelson revealed that the number of claims in the past year had risen from 5,500 to 8,000, but again neglected to mention that the \$75,000 per asbestos claim cost figure, was woefully inadequate. In March, Chicago attorneys Lord, Bissell and Brook informed Lloyd's that asbestos would be the most costly problem in the history of the insurance industry, citing a U.S. government projection that over the next 30

years, 13-18% of all cancer deaths would be asbestos-related. In May, the British insurance company Commercial Union released a study which concluded that "it is conceivable that the damages that will ultimately be awarded will exceed the combined assets of the insurance and asbestos industries." The report also cited a U.S. Insurance Services Office study that found that the average payment (out-of-court settlements and jury awards) in an asbestos case from July 1976 to March 1977, was approximately \$170,000. In May, the AWP met again, this time to discuss the asbestos-claims and policies database being set up by one of its U.S. law firms, Mendes and Mount.

While the AWP continued to stonewall, the insiders were bailing out:

- In August 1981, Michael Cockell, deputy chairman of the Lloyd's Underwriters Non-Marine Association, placed a run-off reinsurance policy for his syndicate 570 with Outhwaite's combined marine 317 and non-marine 661 syndicates, effectively dumping his losses on Outhwaite's Names;

- In November 1981, AWP member Rokeby-Johnson persuaded Outhwaite and Merrett to reinsure Fireman's Fund, returning to Lloyd's—but not to Sturge—the losses Sturge had suckered Fireman's Fund into taking in 1974;

- In January 1982, Don Tayler, the new chairman of the AWP, unloaded the losses of Pulbrook syndicate 90's 1974 and prior years of account, half of which were assumed by Outhwaite 317 and 661. Pulbrook 90 was facing heavy losses from asbestos manufacturer Johns-Manville.

- In March 1982, Lloyd's Deputy Chairman Murray Lawrence unloaded the 1978 and prior liabilities of syndicate 362; Outhwaite 317-661 wrote 66.67% of the risk.

- In August 1982, AWP member Charles Skey unloaded the pre-1968 losses of syndicate 219, with Outhwaite 317/661 taking 50% of the risk.

During the period the insiders were dumping their hidden losses on the Outhwaite Names and others, the asbestos information kept rolling in. In addition to Johns-Manville, Owens Corning Fiberglass had also exhausted its primary coverage, and reinsurance claims were soon to hit Lloyd's. Lord, Bissell and Brook warned of a "potential flood of asbestos litigation," from the 8 million to 11 million U.S. workers exposed to asbestos, of which as many as one-third had, or were expected to, die of asbestos-related diseases.

Nevertheless, Lloyd's Audit Committee decided to cover up the asbestos losses for the second straight year, by omitting references to asbestos in the 1981 annual audit of syndicates. Once again, the External Names were cheated.

In January 1982, Dr. Irving Selikoff of Mt. Sinai Hospital in New York issued a 650-page report which estimated that 13.2 million workers were significantly exposed to asbestos between 1940 and 1979, and that the cost to insurers could ultimately reach \$170 billion.

In February 1982, the accounting firm Neville Russell

requested a meeting with Lloyd's Underwriting Agents and Audit Department, to warn that were auditors to force syndicates to establish proper reserves for future asbestos losses, many of the 1979 syndicate years of account would be unable to close, and that the entire Lloyd's market could go bankrupt.

Rampant corruption

The insider dumping of asbestos losses would develop into a huge scandal, one of many to hit Lloyd's in the 1980s, scandals which Lloyd's would invariably try to sweep under the rug.

In 1974, Richard Henry Moffit Outhwaite had left the Merrett Group, where he was joint underwriter, to form his own firm, and the linked syndicates marine 317 and non-marine 661. Within five years, he had over 1,600 Names, 75% of whom were External Names. Outhwaite specialized in writing run-off policies, which reinsured other syndicates, and his syndicates were a favorite dumping ground for the long-tail asbestos and pollution liabilities of the Lloyd's insiders. He was, in effect, the insurance version of the derivatives traders who buy the risky paper known as "toxic waste"—a lucrative business, until it explodes.

Outhwaite 317/661 was the biggest player in the run-off field, writing nearly 50 such policies for the 1982 year of account. But when closing time for the 1982 year of account came in 1985, auditors Ernst and Whinney balked at signing off on the reinsurance to close (RITC) figures. "We are unable to express an opinion on the accuracy of RITC and therefore the result of the 1982 year of account," the auditors stated.

Outhwaite was forced to leave the 1982 year of account open; with no reinsurance to close, his Names were trapped, unable to resign and forced to pay out of their own pockets, the claims which were rolling in—many of them claims which had been fraudulently dumped on them by Lloyd's insiders. As Lord Cromer had warned, the obligations of unlimited liability had become a reality, and the suckers were taking the hit.

Some of the Lloyd's agents, to their credit, were appalled at the flagrant actions of the insiders. John Donner, chairman of Donner Underwriting Agencies, had in 1984 begun calling for an inquiry of the placing of run-off policies with Outhwaite.

"I have never used the word conspiracy," Donner said, "but what I do say is that information which was privy to a handful of people at the very top of Lloyd's was not properly disseminated." Donner continued to complain, and to charge that Lloyd's had deliberately withheld vital information about asbestos losses from the External Names.

After much pressure and stalling, Lloyd's agreed to hold an inquiry—into whether or not there should be an inquiry. On April 5, 1990, the Council of Lloyd's announced it had determined that no inquiry was warranted. "No evidence has

Lloyd's and the Club of the Isles

Lloyd's of London is more than just an insurance company. It is one of the "crown jewels" of the Club of the Isles, the London-headquartered international financier oligarchy, headed by the British House of Windsor. Cross-gridding the boards of directors of a dozen City of London's major banks, reinsurance companies, strategic metals cartels, chemical combines, and food-processing firms, reveals a high degree of "corporate intermarriage." Thus, for example, among the top half-dozen executives and directors of Lloyd's of London and Lloyds Bank PLC, one finds senior officials of S.G. Warburg, Midland Bank, the Royal Institute for International Affairs (RIIA), Reuters, and the Bank of England; as well as senior figures from the Ministry of Defense, the Government Accounting Service, and the Joint Nature Conservation Committee.

What distinguishes the Club of the Isles as a financial, raw materials, food, and insurance cartel, is the dovetailing of geopolitical initiatives and "investment" decisions. When the Club of the Isles, under the leadership of Queen Elizabeth II and her consort, Prince Philip, launches a geopolitical action, like the post-1989 destabilization of the Balkans, or the mid-1973-74 Middle East oil hoax, all of the relevant companies are able to conduct "insider trading," thus insuring that they reap tremendous financial profits, at the same time as they wage political warfare, especially against the nation-state system.

For a comprehensive look at the Club of the Isles, and the House of Windsor apparatus, in which Lloyd's operates, see *EIR's* two *Special Reports* on the subject: "The Coming Fall of the House of Windsor" (Oct. 28, 1994) and "The Sun Never Sets on the New British Empire" (May 24, 1996).

been provided which supports the suggestion that in placing their contracts the underwriters took advantage of information which was available to the AWP but was not made available to the market," the council concluded, in an action described by the chairman of one of the litigating Names groups as "a disgraceful cover-up."

Behind the scenes, it was obvious the insiders had pulled a fast one, and many of Outhwaite's run-off policies, including those of AWP Chairman Tayler and Lloyd's Deputy Chairman Murray Lawrence, were quietly renegotiated, lessening

somewhat the damage to the Outhwaite Names.

Alexander Howden, the 'Grobfather'

In 1982, giant U.S. insurance broker Alexander and Alexander bought the Alexander Howden Group, a Lloyd's managing agency chaired by Ken Grob, known by the nickname "Grobfather"; Grob ran Howden with three close partners, Ronald Comery, Jack Carpenter, and Alan Page. Howden had grown at a rate of 40% a year during the 1970s, thanks in large part to star underwriter Ian "Goldfinger" Posgate.

"I never knew much about underwriting risks," Posgate would later tell investigators. "I just made a book. If claims came in, the premiums went up. No claims, the premiums went down. I was allowed to be a bookmaker on a huge scale, autocratic, absolutely outrageous."

Posgate described the courtship of Alexander and Alexander Chairman Jack Bogardus of Grob and Howden this way: "He [Bogardus] was played like a salmon on the Tay. . . . Mr. Grob is immoral and a crook. Mr. Bogardus I think is a provincial and did not know what he was doing. It was a natural fit between the two of them."

What didn't fit were the numbers in Howden's books. Alexander and Alexander's accountants discovered, in their audit of Howden, that some \$55 million was missing, having been skimmed from its insurance syndicates via a series of phony reinsurance fees paid to companies controlled by Grob and his colleagues. Some of the funds had gone to employees involved in the scam, some had gone to dress up Howden's profits, and the rest went into the pockets of Grob and friends.

Once caught, Grob and company agreed to return some of the stolen assets and, in true Lloyd's fashion, wanted the whole affair kept secret. Unfortunately for them, former U.S. Securities and Exchange Commissioner Roderick Hills, an Alexander and Alexander director and chairman of the firm's audit committee, demanded that disclosure be made.

Alexander and Alexander made the affair public via an SEC filing, which forced the reluctant British Department of Trade and Industry (DTI) to launch an investigation. After three years of investigations, Lloyd's expelled Grob, Comery, and Carpenter from the market, and charges against Page were adjourned because of his ill health; Posgate was suspended for six months. After another four years of investigation, criminal charges were filed against Grob and Posgate; Page and Carpenter were too ill for a trial, and Comery had died in a car crash. The jury returned "not guilty" verdicts on all charges.

After all, they were just doing what comes naturally to the men of the British Empire, whose guiding philosophy is that of Hobbes, Locke, and Darwin. Posgate summed it up well: "In business I believe in dog-eat-dog, the survival of the fittest, not protection of the weakest."

Despite the acquittals, Lloyd's was not out of the woods, as the audit of Howden led investigators to the doors of the PCW underwriting syndicates, site of another Lloyd's fraud.

The PCW syndicate

The PCW syndicate had been set up in the 1960s by Peter Cameron-Webb, who had been a deputy underwriter with Janson Green, and Peter Dixon, who had been Green's financial director. In 1973, Minet, a leading Lloyd's broker, bought the rapidly growing PCW, and Minet Chairman John Wallrock joined the PCW board.

As it turned out, one of the reasons PCW was profitable, was that it was skimming lots of money from its Names, via a series of phony reinsurance policies, in what the DTI would term "a systematic embezzlement of the funds of the main syndicates." As in the Howden case, the skimming took the form of buying rigged reinsurance policies from companies secretly owned by the principals, a process which produced healthy profits for virtually no risk—except for getting caught, which at Lloyd's was not particularly painful.

Cameron-Webb, Dixon, and Wallrock were summoned by the Committee of Lloyd's on Nov. 1, 1982, to answer questions. Cameron-Webb was abroad, so he did not attend. Dixon was immediately suspended from all his directorships, and, within weeks, Wallrock resigned his directorships of Minet and PCW, admitting that he had taken part in, and benefitted from Cameron-Webb's reinsurance scheme.

Cameron-Webb resigned before he could be disciplined, while Dixon was fined £1 million (roughly \$1.5 million) and expelled from the market. Neither man was brought to court, since by the time Britain's Serious Fraud Office got around to issuing warrants for their arrest in December 1982, they had both fled to the United States, and a life of luxury.

The PCW Names were not so lucky, facing losses of \$400 million; however, they only had to pay \$60 million, because Minet, members' agents, and Lloyd's covered the rest. (In a foreshadowing of the Equitas scheme, Lloyd's set up a special reinsurance company, Lioncover, to handle the PCW run-off.)

One of the reasons that the Serious Fraud Office stalled and Lloyd's agreed to pick up the tab, according to some reports, is that Prime Minister Margaret Thatcher had expressed her desire that the matter not be pursued.

Sir Peter Green toppled

The PCW affair would also bring down Janson Green's Sir Peter Green, then the chairman of Lloyd's. A member of one of Lloyd's leading families, Sir Peter had served on the Committee of Lloyd's for four years before being elected chairman in 1980.

The first information that PCW Names were being defrauded had come in 1981, almost a year before Alexander and Alexander bought Alexander Howden. The complaints revolved yet again around phony reinsurance schemes, this time placed on behalf of the PCW syndicates by Seascope, a small Lloyd's broker chaired by David d'Ambrumenil, another of the old Lloyd's families, and involving S.G. War-

burg's Zurich banker John Nash. Much of the money skimmed from Names in this case was used to fund International Reporting and Information Services (IRIS), a private global corporate intelligence service which folded in 1983.

When the PCW-Seascope matter surfaced, Sir Peter Green then took up a one-man inquiry, despite his close ties to Cameron-Webb, who had begun his career at Sir Peter's Janson Green. "I am satisfied that there has been no dishonesty on the part of anyone connected with the transaction," Sir Peter concluded.

Eight months later, when the details of the £40 million PCW frauds surfaced, whispers of a cover-up by Sir Peter swept the market, so Lloyd's investigated, confirming that "no dishonesty" had occurred, but admitting of Cameron-Webb and d'Ambrumenil that "they had behaved at times in an overbearing and unnecessarily secretive manner."

The DTI published the results of their inquiry in July 1986. DTI found that while Sir Peter had expressed "his honest opinion of the matter," his finding that there had been no dishonesty went farther than was justified by the available evidence. Lloyd's instituted disciplinary proceedings against d'Ambrumenil, found him guilty of three counts of discreditable conduct, and suspended him for two years. "Once again it appeared that Lloyd's was only too eager to forgive its favorite sons," observed Adam Raphael, author of *Ultimate Risk*, a detailed book on the Lloyd's affair.

Sir Peter was not out of the woods yet, however. As one of his first actions in 1983, new chief executive Ian Hay Davison required that all working members of Lloyd's disclose all their financial interests. That act forced Sir Peter to disclose to his Names, for the first time, the existence of reinsurance policies his syndicates had placed with Cayman Island-based Imperial Insurance, a company in which he held an interest. Trying to put the best face on the situation, Sir Peter claimed that those reinsurance policies were actually syndicate reserves, placed there to avoid the attention of the Inland Revenue Service, the British equivalent of the U.S. Internal Revenue Service.

This assertion, naturally, triggered an Inland Revenue investigation. In the autumn of 1983, after discreet consultations with the Bank of England, Sir Peter announced his resignation. He retired at the end of the year with honors, being awarded the Lloyd's Gold Medal, only the 13th medal awarded since it was instituted in 1913.

Sir Peter's honors were not to last. Two years later, parliamentary complaints prompted an investigation, which led to a disciplinary tribunal. Some sweetheart deals were found, and, in January 1983, \$10.6 million was repaid to the Janson Green syndicates. In 1986, a Lloyd's tribunal ruled that while Sir Peter had not acted dishonestly or in bad faith, his repeated failure over the years to ensure that his Names were treated fairly was such "serious or gross negligence" as to constitute "discreditable conduct," and he was fined £50,000.

"The case of its former chairman suggests that, even after the various attempts at reform, Lloyd's enjoys a much more relaxed regulatory environment than the rest of the business community," observed the London *Financial Times*.

Oakeley Vaughan

In 1981, Christopher Moran, who would soon become the only man to be expelled from Lloyd's under the Lloyd's Act of 1871, presented evidence to then-Lloyd's Chairman Sir Peter Green and Deputy Chairman Alex Higgins, that Oakeley Vaughan aviation syndicate 862 had improperly written insurance beyond its allowable limit, and that the syndicate had hidden the act through false bookkeeping and false filings with the Lloyd's Policy Signing Office (LPSO).

On March 6, 1981, Lloyd's announced a "purely technical" inquiry into the matter. In May, when the results were in, Oakeley Vaughan underwriter Barry Bowen was found to have falsified records, concealed evidence from auditors, and deliberately misled the LPSO; Oakeley Vaughan directors James St. George and Michael Whitlock were said to have failed in their duties of supervision; and the chairman, Charles St. George, was criticized for poor judgment. The inquiry also found that syndicate 862 was owed £129,250 by the company's brokerage arm.

The Oakeley Vaughan Names were told little or nothing of this; Lloyd's refused to publish even a summary of their findings. Neither were they told about a follow-up inquiry into Oakeley Vaughan's affairs by Lloyd's audit department, which concluded that the agency's profits had been inflated by false accounting and that it was insolvent. A third inquiry, by Ernst and Whinney, was ended after a meeting between Edward St. George and Lloyd's Chairman Sir Peter Green.

Some details would emerge years later, thanks to litigation in the wake of Oakeley Vaughan's failure, but a cover-up continued. When the Oakeley Vaughan Group went into liquidation owing £2.5 million, a new agency named CCGH was created to run-off the remaining policies. For several years, CCGH tried to obtain documents from Oakeley Vaughan; in 1992, CCGH finally got a High Court order allowing it to see documents stored in a warehouse. That night, the warehouse mysteriously caught fire and all the computer records were destroyed.

Lloyd's seeks immunity

With Lloyd's seemingly overrun with corruption and the certainty of major scandals and problems with American Names on the horizon, the lords of the British Empire had to do something, and they did: They set up the Lloyd's Act of 1982, which gave Lloyd's the authority to set its own rules and regulations, and gave Lloyd's and its officers virtual immunity from suit.

The mechanism by which the Lloyd's Act of 1982 was organized, was the formation of yet another blue-ribbon (or,

perhaps more appropriately, blue-blood) panel, this one headed by Sir Henry Fisher, a former High Court judge who had become warden of Wolfson College, Oxford. Fisher was appointed, in 1979, to examine the feasibility of allowing Lloyd's to regulate itself. Fisher's team included Robin Broadly of the omnipresent Baring Brothers, and David Watt, of the Royal Institute of International Affairs, the British parent of the New York Council on Foreign Relations and a key agency of the British Empire. The Fisher Report, published in May 1980, provided the blueprint for the Lloyd's Act of 1982. "We have no doubt that Lloyd's would be best served by a properly conducted system of self-regulation," the report stated.

To provide the illusion of increased oversight, the report recommended that a new Lloyd's Act should replace the committee with a 27-member council, 16 of which (a majority)

How Lloyd's works

Lloyd's of London is not a single insurance company, but is rather an insurance "market" in which insurance policies are written by syndicates of investors, called Names. Clients who desire to buy insurance at Lloyd's do so through Lloyd's brokers, who deal directly with the syndicates.

When a Name joins Lloyd's, he hires a members' agent to manage his Lloyd's affairs and place him on one or more syndicates. The selection of syndicates is crucial, as some syndicates have suffered catastrophic losses, while others have made huge profits. A Name cannot join any syndicate he chooses, as many of the more profitable syndicates are open only to Lloyd's insiders and prominent subjects of the Queen. Most of the new Names were steered by their members' agents to syndicates which initially appeared profitable, but were actually hiding huge losses, which the new Names would be forced to pay.

The syndicates are run by managing agencies, many of whom also own members' agencies. Each managing agency usually runs a number of syndicates, which are identified by the name of the agency which runs it, and a unique number. Thus Outhwaite 317 is syndicate number 317, run by the Outhwaite managing agency.

Each syndicate has a "box" on Lloyd's trading floor, manned by the syndicate's underwriter, the person who determines which insurance policies the syndicate will underwrite. Brokers approach the underwriters with policies already written and priced; the underwriter will accept the risk at the premium offered, or reject it. Typically, several

would be Working Names; 8 members of the council would be External Names elected by the membership; and three would be non-members approved by the Bank of England. The 16 Working Members would, as a committee, have day-to-day control over Lloyd's. The granting of immunity from suit to Lloyd's and its officers, was said to be necessary to allow them to carry out their regulatory functions without the threat of nuisance suits by those being regulated.

A compliant Parliament debated the issue in 1981-82, and gave Lloyd's the powers outlined by Sir Henry.

The only real oversight was by the Bank of England, which was increasingly concerned that the freelance corruption at Lloyd's would jeopardize the master scheme, in much the same way that a mafia boss worries that uncontrolled skimming by his underlings could weaken his criminal enterprise. To strengthen its control, Bank of England Gov. Gordon

Richardson forced Lloyd's to appoint an outsider (that is, an Empire insider from outside Lloyd's), Ian Hay Davison, to the newly created post of chief executive, to clean up some of the freelance skimming.

The master scam did not change, however. Between 1982 and 1988, the year the hemorrhaging losses began to hit the bottom line, no direct mention of asbestos was made in any of the speeches by Lloyd's chairmen to the market's annual meetings. It was not until the June 29, 1988 speech of then-Chairman Murray Lawrence—two decades after Lord Cromer's report, eight years after the formation of the AWP, and six years after Lawrence had dumped his own losses on unsuspecting Names—that the asbestos problem was directly referenced, and then only briefly.

At the end of 1985, CEO Ian Hay Davison resigned. He had not made any friends when, in the discussions over a

syndicates will underwrite each policy, with each taking a percentage of the risk, and a corresponding percentage of the premium paid by the client being insured.

The same principle works for reinsurance, in which an insurer will buy insurance from another syndicate or company, to spread the risk.

The syndicates operate on an annual basis but have a three-year accounting cycle. Each syndicate actively underwrites insurance for one year, called the year of account, then becomes dormant for two additional years, while its accounts are settled. Premiums collected from clients during the three-year period are held in trust by the managing agency, and used to pay claims.

At the end of the three-year period, the underwriter "closes" the syndicate; he deducts the claims paid out from the premiums collected, buys reinsurance to cover the outstanding liabilities from the policies still in effect, and pays the balance to the Names in the syndicate, minus any fees due his agency or Lloyd's. If the costs of claims, reinsurance and fees is greater than the premium collected, the Names are billed for the difference.

The scam

The combination of annual syndicates and closing reinsurance provided the method by which Lloyd's insiders dumped their losses on the new Names.

Assume syndicate X has written—or inherited through reinsurance—policies which have long-tail asbestos exposure, and assume that insiders in the syndicate wish to fraudulently dump those losses on newly recruited Names. There are two ways to do it, both involving closing reinsurance.

The first method involves "reinsurance to close"

(RITC), the term for when the reinsurance is provided by a successor year of the same syndicate. Since with RITC the underwriter for the seller and the underwriter for the buyer are the same person, it is easy to roll hidden losses over to succeeding years. The underwriter understates the liabilities of the closing year of account, allowing it to buy reinsurance more cheaply than it would were the liabilities properly revealed; the result is a fraudulent profit for the closing Names, and an uncompensated risk for the successor syndicate, which will run the same scam when it closes. Since each syndicate is an annual venture, though, the insiders can quietly drop out, letting others take their places. By the time the losses rise to the surface, the insiders and their profits will be long gone, leaving the new Names to pick up the tab.

The second method involves "run-off" reinsurance, the term for buying the reinsurance from another Lloyd's syndicate or outside insurance company. Here the underwriter again understates the liabilities and books a fraudulent profit for his Names, and passes all the risk to someone else. This method was very popular with the members of Lloyd's Asbestos Working Party and other top officials.

But what happens when the cost of reinsurance is "unquantifiable," or the cost of reinsurance is prohibitively expensive? If closing reinsurance cannot be obtained, the syndicate cannot close and the year of account must be left "open." Unable to pass on their liabilities to others, the Names in an open year must pay all claims out of their own pockets, once the premiums are exhausted.

Open years, once rare, have become commonplace. According to Charles Sturge of Chatset, a firm which analyzes Lloyd's syndicates, there are some 320 syndicates with 676 open years.

successor to Sir Peter Green, he pointed out that nearly all the potential candidates had to be ruled out because they were the subject of investigation by the Inland Revenue into the improper use of offshore reinsurance operations.

As Hay Davison would later say in his book, "From the middle of 1982 it became increasingly apparent that there was something seriously wrong. A handful of powerful insiders involved in the Howden, PCW, and Brooks and Dooley affairs had taken advantage of the Lloyd's climate of arrogant secrecy to milk their backers of millions. Fraud occurs in the City from time to time. . . . These were not frauds *on* Lloyd's, they were frauds by insiders at Lloyd's on their own members.

The probity of the insiders could no longer be taken for granted.

"The cases of outright plunder were few: less than 20 Lloyd's men were ultimately to be disciplined in respect of abuse of their fiduciary duties towards the members they served. When I joined Lloyd's I had announced my determination to pick out the rotten apples. I then thought that to exclude the wrongdoers would solve the problem. But it was not as simple as that. Many of the apples were to some extent tatty, and the barrel appeared to many observers to be infected."

In 1986, after the surfacing of many of the scandals out-

A chronology of fraud

1688: Lloyd's established as a coffee house, catering to the seafaring trade.

1871: Lloyd's incorporated by Act of Parliament.

1885: First non-marine syndicate formed.

1948: Council of Lloyd's member Charles Skey travels to New York to investigate the asbestos situation.

1969: Lord Cromer, banker to the Queen, issues report calling for a massive increase in the number of Names at Lloyd's.

1973: Sturge underwriter Ralph Rokeby-Johnson warns that "asbestosis will change the wealth of nations" and bankrupt Lloyd's unless something happens to intervene.

1977: Lloyd's Deputy Chairman I.H.F. Findlay admits that Lloyd's memberships are securities under U.S. law.

1979: Oxford's Sir Henry Fisher undertakes a "study" to prove that Lloyd's should be allowed to regulate itself; the study formed the basis for the Lloyd's Act of 1982.

1979: Lloyd's officials journey to New York, where they discuss the asbestos situation with their attorneys; Citibank warns them that there is not enough money in the \$4 billion Lloyd's American Trust Fund to cover looming asbestos losses.

1980: Lloyd's forms the Asbestos Working Party to monitor the asbestos claims working their way through the U.S. courts; the AWP does not share the information it gathers with the general membership of Lloyd's.

1981-82: Members of the Asbestos Working Party and other Lloyd's insiders dump their long-tail asbestos policies on unsuspecting Names.

1982: Parliament passes the Lloyd's Act of 1982, which grants Lloyd's the power to regulate itself, and gives Lloyd's and its officers immunity from lawsuits filed by

defrauded Names. This act gave vital protection to a Lloyd's which was rocked with scandal after scandal in the 1980s, on top of its conspiracy to defraud the post-Cromer new Names.

1986: Lloyd's adds a forum selection clause to its contracts with Names, requiring that all legal disputes must be adjudicated in England, under English law.

1988: Lloyd's Chairman Murray Lawrence, who had dumped his own asbestos losses in 1982, briefly mentions asbestos in his speech to Lloyd's annual meeting; it is the first mention of asbestos in a chairman's speech.

1991: Asbestos losses hit the Names with a vengeance. Lloyd's, which reports its results three years in arrears, reveals £549 million in losses for the 1988 year of account. In subsequent years, Lloyd's would report losses of £1.8 billion for the 1989 year of account; £2.3 billion for 1990; £2 billion for 1991; and £1.2 billion for 1992. The heaviest losses fell on the outside Names, while many insiders made hefty profits.

1991: U.S. Names file racketeering (RICO) charges in federal court in New York; this case and several others would be thrown out of court due to the forum selection clause.

1992: The U.S. Securities and Exchange Commission decides not to investigate Lloyd's. However, the SEC did, in 1996, file an *amicus curia* brief in a case in California, arguing that the forum selection clause in the Lloyd's contract violates U.S. securities law and is therefore invalid; that case is under appeal.

1995: The Arizona Corporation Commission charges Lloyd's with defrauding Arizona Names; another 11 states would file similar charges against Lloyd's in 1995 and 1996.

1996: The NASAA task force capitulates to Lloyd's pressure, and negotiates a settlement which would cost the defrauded Names additional hundreds of millions of dollars. Ten states reject the NASAA agreement and vow to continue legal action against Lloyd's.

lined above, the lords convened another panel to examine the regulation of Lloyd's, this one headed by Sir Patrick Neill, vice-chancellor of Oxford and a warden of All Souls College. Neill's report, published in February 1987, recommended that the number of Bank of England-approved independent members of the council be doubled, to eight from four, and the number of Working Names be reduced by four. The effect was to eliminate the council majority held by the Working Members, and increase the oversight by the Bank of England, to keep the conspiracy under control.

The blowout begins

One of the fundamental principles of reinsurance is to spread the risk; the wider the risk is spread, the less the potential for financial catastrophe to follow a disaster. What happened at Lloyd's was just the opposite: The majority of the risk was concentrated, through reinsurance, into a relative handful of syndicates, two prime examples being the Gooda Walker and Feltrim syndicates, which just happened to have a high concentration of External Names.

Reinsurance policies are often written on an "excess of loss" basis, wherein the reinsurer agrees to cover losses to the insured above a certain amount. A typical reinsurance schema would look like an inverted pyramid, in which the primary insurer reinsures his risk with several reinsurers, each of whom in turn reinsure their risks with several more, to as many levels as necessary to spread the risks among large numbers of insurers. The profits to any one insurer are less, but so is the risk of being ruined by a catastrophic event, such as an earthquake.

Lloyd's violated this simple rule, instead placing most excess of loss reinsurance policies with other Lloyd's syndicates, a process which became known as the London Excess of Loss Market (LMX). The result was a concentration of risk which would have devastating consequences.

As long as there were no catastrophes, the LMX market flourished; syndicates reinsured each other with abandon, taking fat commissions with each deal. During the 1980s, the LMX syndicates appeared to be quite profitable, and they seemed attractive to the new Names whom Lloyd's agents steered their way. Gooda Walker syndicate 290, for example, averaged a 14% profit from 1984 to 1988, growing from £6 million to £69 million in underwriting capacity in seven years, and Feltrim 540 almost quadrupled in size from 1983 to 1989. The Working Names, aware of the dangers, stayed away.

The beginning of the end of what became known as the "LMX spiral" became apparent to many on July 16, 1988, when the Piper Alpha North Sea oil platform caught fire; the rig was destroyed and 165 people killed. Much of the risk for the Occidental Petroleum-operated oil rig had been reinsured by Lloyd's. Piper Alpha would ultimately cost Lloyd's a net \$900 million, but generated \$15 billion in claims from 43,000 policies as the spiral unwound. Many Names found out, to their chagrin, that syndicates to which they belonged, had

reinsured other syndicates to which they belonged—often several times over—such that they were effectively trying to collect from themselves. A similar problem arose with the Names' personal stop-loss insurance, designed to protect them from catastrophic losses, and with the errors and omissions (malpractice) policies of the agents. Because of the inbred nature of the Lloyd's market, there was not enough capital to cover the claims; many Names found themselves, in effect, insuring their own losses.

When disaster struck, in the form of a rash of hurricanes, earthquakes, floods, and other storms in the late 1980s and early 1990s, Lloyd's turned to the Names for cash, blaming the storms for the losses.

Sir Peter Green, with typical Lloyd's arrogance, blamed the Names and their "lemming rush" into the market for all the problems. "There were certain people who you could try and explain it to them what was going on and at Rota committees we took enormous trouble, but they were all so stary-eyed and just waiting for the cheques to roll in. I don't think half the time they listened to what they were being told," complained Sir Peter.

Sir Peter was dissembling. Before Names could begin underwriting at Lloyd's—but often after they had signed the membership papers—they had to appear before the Rota Committee at Lloyd's headquarters. Ushered into a magnificent room, with visions of wealth and status dancing in their eyes, the Names were asked one question: Do you understand the meaning of unlimited liability? This one-question ritual hardly qualifies as "enormous trouble," although no doubt Sir Peter and his cohorts found meeting all the sheep tiring.

"Lloyd's blames the losses from the LMX spiral on hurricanes, but that's not true," said Jeffrey C. Peterson, executive director of the California-based American Names Association. According to Peterson, the driving force behind the spiral was the massive influx of underwriting capacity that the recruitment drive brought into the market in the 1980s (see **Figure 2**). The influx of capital outstripped the rise in outside insurance business, so Lloyd's used the spiral as a device to soak up the excess capacity, passing the liabilities back and forth in a frenzy of what Peterson called "incestuous trading," taking a 10-20% commission bite with each transaction, similar to the way a stockbroker steals money through churning an account.

The effect was to eat up the premium income in fees. According to Peterson, Lloyd's churned so much that only 36¢ remained for every \$1 of premium income.

After skimming off 64% of the income, Lloyd's was on thin ice, with inadequate reserves to cover the inevitable natural disasters.

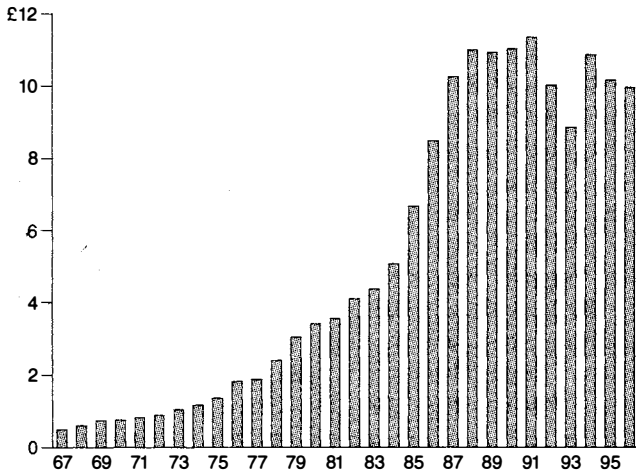
The bubble bursts

The bubble burst in July 1991, when Lloyd's announced a record overall loss of £549 million for the 1988 year of account, marking the beginning of a five-year period when

FIGURE 2

Lloyd's underwriting capacity

(billions £)



Source: Lloyd's of London, Adam Raphael.

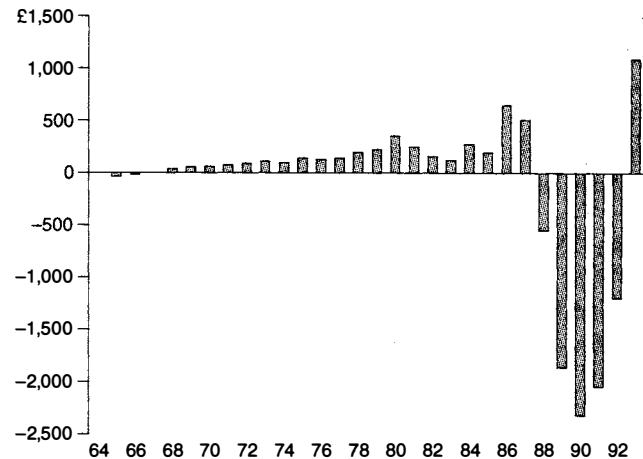
Lloyd's would lose some £8 billion (see **Figure 3** for the official figure; the actual losses are higher). In July 1992, Lloyd's announced a £1.86 billion loss for the 1989 year of account; £1 billion came from spiral losses, of which five LMX syndicates accounted for half. Although nearly 90 syndicates were writing significant LMX business in 1988 and 1989, some 95% of the losses were concentrated on just 12 syndicates in 1988, and nearly 80% of the 1989 losses fell on 14 syndicates.

As damage control, Lloyd's brought in Sir David Walker, a former head of Britain's Securities and Investment Board, deputy governor of the Bank of England, and member of the Lloyd's Council, to study the LMX spiral. Sir David and his blue-ribbon panel published their results in June 1992,

FIGURE 3

Lloyd's profits and losses

(millions £)



Source: Lloyd's of London, Adam Raphael.

concluding that there was no evidence to support allegations made by some Names groups of conspiracy, churning, fraud, and improper underwriting. The report did admit that the actions of Lloyd's agents had fallen "materially below best practice," and that there was the "unattractive appearance" that some agents had lined their own and friends' pockets at the expense of the Names. Lloyd's Chairman Coleridge was so moved by Walker's performance that he described Sir David as "so pure he makes Snow White look smutty."

The Walker report determined that the Working Names fared somewhat better than the External Names. Just how much better was presented by author Adam Raphael: In the years from 1983 to 1990, assuming a standard premium line of £400,000, a member of the Lloyd's Council would have a

TABLE 1

Lloyd's key facts

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Overall capacity (millions £)	£11,018	£10,956	£11,070	£11,382	£10,046	£8,878	£10,898	£10,194	£9,993
Individual members, active	32,433	31,329	28,770	26,539	22,259	19,537	17,529	14,804	12,798
Individual capacity (millions £)	£11,018	£10,956	£11,070	£11,382	£10,046	£8,878	£ 9,303	£ 7,834	£6,949
Corporate members	na	na	na	na	na	na	105	140	162
Corporate groups	na	na	na	na	na	na	25	53	71
Corporate capacity (millions £)	na	na	na	na	na	na	£ 1,595	£ 2,360	£3,044
Profit/loss* (millions £)	£ -549	£-1,863	£-2,319	£-2,047	£-1,193	£1,804			
Syndicates	376	401	401	354	279	288	170	170	167
Individual, % of total capacity	1%	1%	1%	1%	1%	1%	0.85%	0.77%	0.7%
Corporate, % of total capacity	na	na	na	na	na	na	0.15%	0.23%	0.3%

*Adjusted for double-counting.

profit of £72,400 from his syndicates, an underwriter £64,000, and a director of a managing or members' agents £40,800. The average loss for an External Name, by contrast, would be £11,200. An External Name in the United States, Canada, or Mexico would have fared even worse, losing an average £35,200.

The discrepancy between the profits of the insiders—and the more inside, the more the profits—and the losses of the External Names, came from Lloyd's ability to manipulate the syndicate selection process. Syndicates which were loaded with long-tail, spiral, and stop-loss policies were also loaded with External Names. For example, more than 90% of the losses on the seven worst-affected LMX spiral syndicates in 1989 had fallen on External Names.

Many of the worst-hit Names had joined the Lime Street members' agency, which had grown rapidly through aggressive recruitment, and steered its new Names into the LMX market, via the Gooda Walker and Feltrim syndicates. As attorneys for some of the Lime Street Names would later observe, "Lime Street and their associated agencies seem to have unerringly homed in on the majority of the worst performing syndicates over the last decade."

The Working Names and imperial insiders, on the other hand, were concentrated on profitable syndicates, many of which made substantial profits even during the years the market as a whole suffered horribly. According to Peterson, the firm that made the most in LMX commissions was Sedgwick, the firm headed by current Lloyd's chairman David Rowland.

Rowland has a rather self-serving view of the matter. "It became fashionable and too much capital came into the marketplace," he explained to the annual meeting of the CPCU Society in Hawaii in October 1995.

Official inquiries

While under the Lloyd's Act of 1982 the Names were prohibited from suing Lloyd's and its officers, the Lloyd's members' and managing agencies had no such statutory protection. In an attempt to keep the outraged Names from running to court, Lloyd's commissioned official inquiries of the syndicates with the largest losses.

In September 1991, the four Gooda Walker syndicates collapsed, hitting the Names with losses that could ultimately reach £1 billion, despite namesake Tony Gooda's promise that "we won't make you a fortune, but we won't lose you one either." The official inquiry concluded that the Gooda Walker underwriters failed to recognize the "aggregating potential of the spiral business," and that the common management and ownership by Gooda Walker of a members' and managing agency "may have inhibited the ability of the members' agency to take an objective view of the underwriting activities of the managed syndicates."

Another big loser was the Feltrim group of syndicates, which also specialized in LMX risks. By the time the Feltrim loss review committee, headed by Oxford's Sir Patrick Neill,

reported in September 1992, the Names on syndicate 540 had suffered losses of £73,700 for each £10,000 of premium, and the Names on the smaller non-marine syndicate 847 had lost £45,400.

The Feltrim report, as with Gooda Walker and other official inquiries, covered up the corruption of the market itself, and attempted to place the blame on the management of the individual syndicates.

"The authorities emerge from these inquiries in a poor light," observed the Association of Lloyd's Members. "They appear to have been remarkably unaware of the way in which the Room was being used as a casino, with extraordinary odds being accepted on Names' behalf; or, if they did know about it, their failure to take swift remedial action was an act of inexcusable neglect."

The counterpoint was presented by a director at Cuthbert Heath, whose marine syndicate 1084 lost nearly 150% in 1989. "I am not at all satisfied that it was incumbent upon me or my fellow directors to ask chapter and verse of a man in his mid-forties who, as I have suggested to you despite what people may think to the contrary, was a very able and experienced underwriter," he said.

Deluge of lawsuits

The first big case to hit the courts was the suit by 987 Names against Richard Outhwaite's RHM Outhwaite (Underwriting) Agencies, Ltd. and more than 80 members' agencies, which opened in English High Court in October 1991. Outhwaite settled out of court in April 1992, giving the Names \$215 million.

Other suits against the agencies in England were also successful. A suit by 3,000 Names against Gooda Walker and 70 agencies went to trial in April 1994; they won some \$800 million in awards. In October 1994, a trial started in a suit by some 1,600 Names against Feltrim and 53 members' agents, resulting in an award of some \$840 million.

Whether these awards were victories for the Names or not remains to be seen, since Lloyd's seized the monetary awards, and has yet to pay them to the suing Names.

The first U.S. suit also came in October 1991, when a group of 64 U.S. Names filed suit against Lloyd's in federal court in New York, charging Lloyd's with violating the registration and anti-fraud provisions of federal securities laws and violating the Racketeering Influenced and Corrupt Organization (RICO) federal statute.

This landmark suit was thrown out of court by a federal judge, who was upheld on appeal, on the basis that, as part of their contract with Lloyd's, the Names had agreed that any legal dispute must be adjudicated in English courts under English law. Similar suits were also thrown out of U.S. courts on the basis of this same "forum selection" clause.

On Oct. 5, 1994, several hundred Names belonging to the American Names Association, a California-based action group, filed a suit, *Richards v. Lloyd's*, in federal court in

The Windsors created environmentalism

Without the top-down initiative of the House of Windsor and the Club of the Isles, the hoax of modern environmentalism would have never even gotten off the ground. The launching of the World Wildlife Fund (WWF), personally, by Britain's Prince Philip, and the Netherlands' Prince Bernhard, in 1961, was a benchmark event in the process of building a mass irrationalist, anti-science, grass-roots movement, throughout the advanced sector, and now, even in the developing world. The role of the Anglo-Dutch oligarchy in this effort was exposed in a series of recent *EIR* feature stories, beginning with "The Coming Fall of the House of Windsor."

Prior to the blossoming of the drug-rock-sex counterculture in the late 1960s, which provided the irrationalist cannon fodder for the mass-based "green" movement, environmentalism was a gentleman's sport, dominated by members of the British royalty, the House of Lords, and the corporate giants of the Club of the Isles. In fact, in the mid-1960s, Prince Philip and Prince Bernhard launched the 1001 Club, a select group of 1,001 wealthy individuals, who each donated at least \$10,000, to a \$10 million kitty to bankroll WWF, and a number of its spin-off groups, such as Friends of the Earth, Greenpeace, and the Sierra Club, as well as later more hard-core eco-terrorist gangs, like Earth First!. To this day, the radical environmentalist movement receives billions of dollars in tax-exempt cash from leading British and American "philanthropies" to spread their poisonous hoax.—*Jeffrey Steinberg*

California, charging that they had been defrauded by Lloyd's, and charging Lloyd's with violations of the RICO statute. U.S. District Judge Irma Gonzalez dismissed the case in May 1995, saying that "the SEC consistently has exempted Lloyd's from the registration requirements of securities laws. . . . We are extremely reluctant to dispute the SEC's apparent judgment."

The Names were more successful in Texas, where they had a chance to present their evidence of fraud. In August 1995, U.S. District Judge John D. Rainey of Houston issued a blistering ruling in the case of *Leslie v. Lloyd's*, accusing Lloyd's of "attempting to circumvent U.S. securities laws." By entering the U.S. market, Rainey ruled, Lloyd's "elected to subject themselves to the anti-fraud and disclosure requirements of the United States securities laws." Rainey found that

"neither Lloyd's nor Sturge disclosed important information, available to Lloyd's insiders, about asbestos and pollution risks and the 'loading' of outside syndicates," and that "Leslie's accession to the forum selection clause was the product of fraud on the part of Lloyd's and Sturge." "If any reasonable outside Name had known what insiders at Lloyd's knew in the summer of 1986, that Name most certainly would have preferred to terminate or suspend his or her underwriting activity at Lloyd's," Rainey concluded.

Judge Rainey's decision was overturned by the appellate court, which ruled that the case must be heard in England.

Unable to get justice in the federal courts, the Names launched a campaign to enlist state securities regulators to protect them against Lloyd's predatory practices.

In September 1995, the Arizona Corporation Commission filed an administrative order against Lloyd's, Sturge, and Falcon agencies, charging Lloyd's with "fraud on Arizona Names," "fraud in connection with the offer and sale of securities," "asbestos fraud," "omissions of material facts," the "offer and sale of unregistered securities," "transactions by unregistered dealers and salesmen," and "aiding and abetting liability." The action ordered Lloyd's "to cease and desist from the conduct alleged and from doing any act in furtherance thereof, including, but not limited to, drawing on any letters of credit posted by the Arizona Names, pursuing any lawsuits to collect against the Arizona Names or foreclosing on any collateral pledged by the Arizona Names."

In October, the Illinois Department of Securities took similar actions. "These charges reflect the fact that Lloyd's of London knowingly and consistently ignored Illinois securities law," said Illinois Secretary of State George Ryan.

In December 1995, Colorado State Judge Robert Hyatt, at the request of Colorado Securities Commissioner Philip Feigin, issued a preliminary injunction against Lloyd's, prohibiting Lloyd's from collecting funds from Colorado Names. Hyatt ruled that "the Court specifically finds that Lloyd's is offering to sell and selling securities in the State of Colorado in violation of Section 301 of the Act"; that "Lloyd's has failed to disclose significant material facts to Colorado Names, specifically . . . the quantity and nature of asbestos- and pollution-related claims"; and that Lloyd's had made "statements [that] are materially misleading and false."

In February 1996, the California Corporations Commission asked the court to issue a temporary restraining order against Lloyd's, and sought to place a lien on the \$12.6 billion Lloyd's American Trust Fund, held at Citibank in New York. The Corporations Commission said that "Lloyd's fraudulently misrepresented and did not fully disclose the risks involved."

"The Department has taken this action to protect the interests of Californians who have been fraudulently induced into investing hundreds of millions of dollars by an operation well aware of the undisclosed and unlimited risks in such investments," said Corporation Commissioner Gary

Mendoza.

Also in February 1996, Missouri Secretary of State Rebecca Cook filed an action against Lloyd's. "This large and prestigious company clearly took advantage of Missouri investors by leading them to believe that it was on sound financial footing and that over a period of time, sustained losses could never occur," said Cook. "But the fact is, Lloyd's was using money from American investors to cover tremendous liabilities it had incurred. Millions and millions of dollars have been lost by investors in this scandal. . . . It is now time to bring Lloyd's activities to an abrupt halt before further losses are incurred and more Missourians are caught in this web of deceit." "What this action shows," Cook said, "is that no company is too big or too famous to comply with Missouri securities laws. . . . The message should be clear: We will not tolerate investment fraud in this state."

"Officials of Lloyd's were able to selectively and deliberately decide where the funds would be shifted, to isolate risks, and to virtually determine which investors would lose their money and which would retain their funds," charged Mary Hosmer, chief of enforcement for the Securities Division of the Illinois Secretary of State's Office.

"From our investigation, it was clear that Lloyd's bla-

tantly ignored our state's securities laws as its agents solicited investors throughout Missouri," added Steve Yttri, the securities division counsel who headed the investigation.

The Pennsylvania Securities Commission followed suit in March, filing an administrative order which prohibited Lloyd's from collecting funds from Pennsylvania Names. The filing referred to "the fraudulent Lloyd's scheme" and accused Lloyd's of "continuing fraud on Pennsylvania Names."

In April 1996, the Securities Division of the Virginia State Corporation Commission took action against Lloyd's, as did the Utah Department of Commerce Securities Division. "This scheme presented investors with enormous risk," said Utah Securities Division Director Mark Griffin. "Lloyd's had a duty under Utah law to disclose to investors every important fact about that risk. To the contrary, we believe that investors were not told the true facts pertaining to the risks that were known to Lloyd's at the time of these sales. If that were the case, these investors would not have made the investment, and we would not be discussing this today. . . . Lloyd's continues to try to cloak itself in its status as a huge foreign insurance market, not subject to U.S. law. If they raise money here to support their enterprise, then they have to abide by the same rules U.S. companies do: they register their investment prod-

Mother Nature doesn't cause insurance losses

After any natural disaster these days, it has become the media custom to repeat the fairy tale that insurance companies face huge losses because of Mother Nature. Not so. Mother Nature is getting a bad press.

It is the lack of man-made infrastructure building and repair, in the United States and worldwide, that is resulting in needless damage and suffering, and, secondarily, hitting the insurance companies. This anti-infrastructure policy, in turn, is promoted by the same IMF-connected London financial interests that govern Lloyd's, and other giant insurers.

Lloyd's, in particular, was traditionally involved in maritime insurance, over the centuries; and thus has been affected by the degradation of sea trade and shipping infrastructure—ports, fleets, shipping lane maintenance, navigational aids. For example, look at the Panama Canal (1913) and Suez Canal (1859-69); they were high technology when they were new a century ago, but have never been replaced, or even overhauled for modern ship traffic. Other needed canals, such as the cut across the Kra Isthmus in Thailand, have been blocked by the Inter-

national Monetary Fund.

EIR has regularly documented what was preventable and what was not, after many of the recent U.S. natural disasters, such as Florida's Hurricane Andrew in August 1992, the January 1994 Los Angeles earthquake, or the great Mississippi flood of 1993. (For a fuller report, see "Don't Blame Mother Nature for the U.S. Breakdown," by Richard Freeman et al., *EIR*, Feb. 4, 1994).

Consider the Jan. 17, 1994 California earthquake. It is estimated that perhaps \$20-25 billion of the damage could have been avoided. There exist 1) state-of-the-art technologies (retrofitting buildings, bridges, aqueducts, etc. for quake protection) that should have been applied to structures throughout Los Angeles, and weren't; and 2) emerging advanced technologies, such as seismic devices, for which research and development should be adequately backed, and applied.

Seismologist Thomas Hanks, of the U.S. Geological Survey center in Menlo Park, California, speaking right after the quake, noted: "We've had 23 years [since the previous major, Sylmar quake] to gather knowledge, pour more cement, and install more reinforcing steel. Yet more bridges came down."

It is the marginalization of the infrastructure base of the economy—from ticky-tacky housing, to lack of levees and breakwaters, that is costly to the economy, and perforce, to the insurance sector.—*Marcia Merry Baker*

ucts and disclose all material risks to investors in writing. That is the law in the U.S. and it did not happen here.”

In May, the Tennessee Commissioner of Commerce joined the parade of states charging Lloyd’s with fraud.

On May 6, an appeal was filed in the *Richards v. Lloyd’s* case in California. The U.S. Securities and Exchange Commission, finally breaking its silence, filed an *amicus curiae* brief with the appellate court, arguing that the lower court had “erred” in dismissing the case. The effect of the forum selection and choice of law clauses, the SEC stated in its *amicus*, “is to preclude investors from obtaining relief under the United States federal securities laws. . . . The fact that these investors agreed to these provisions is irrelevant, since the very objective of the antiwaiver provisions is to invalidate such agreements. These clauses are directly contrary to express statutory prohibitions in the antiwaiver provisions and should be held void. . . . This Court should not hesitate to condemn the Lloyd’s choice of forum and choice of law clauses.”

The appeal is still pending.

The Arkansas Securities Department issued a cease and desist order against Lloyd’s on May 15, for having “violated provisions of the Arkansas Securities Act.” And in June, the Ohio Division of Securities issued cease and desist orders against Sturge and Falcon. At this point, 12 states had filed actions against Lloyd’s and/or its agents.

Lloyd’s response to these suits has been to deny that the SEC and state securities regulators have any jurisdiction, and to insist that taking action against Lloyd’s would jeopardize the world’s insurance system.

The action by state regulators “appears to be a purely political attempt to indulge the interests of a small minority of Lloyd’s members in the U.S.A. who are attempting to avoid meeting their obligations,” Lloyd’s states.

“We have been doing the same business for over 300 years; the securities laws, I believe, are not applicable,” Peter Lane, Lloyd’s managing director for North America, sniffed to the *Washington Post* earlier this year.

Lloyd’s position is more than a bit undermined by the statements of Lloyd’s Deputy Chairman Ian Findlay, who

Asbestos: what to fear and what not

The truth is, that any harm from asbestos (a composite mineral, naturally occurring in several forms), as with many other useful substances, depends upon how much of it one is exposed to. According to “Asbestos: The Big Lie,” by Matthew Moriarty (*21st Century Science & Technology*, Winter 1993-94), there is no documented danger to human beings who live or work in buildings where asbestos has been used as fire-proofing, steampipe or furnace insulation, acoustical insulation, wall reinforcing, and so on. In fact, asbestos abatement puts far more asbestos dust into the air as a residue than would be there if the asbestos were left in place.

Where the danger comes, is in high exposures to workers in the asbestos industry, and among non-workers living in the vicinity of a specific form of asbestos. The popular perception that asbestos in any form, and at any exposure, causes cancer, is a falsehood legitimized by the Environmental Protection Agency (EPA), which lied, when it claimed that its 1989 ban on all asbestos was prompted by medical evidence and epidemiological statistics.

Asbestos and health

Three types of asbestos have been used extensively in commerce: *chrysotile asbestos* (white asbestos, with curly,

rope-like fibers), *amosite asbestos* (brown asbestos), and *crocidolite asbestos* (blue asbestos, conformed as bundles of straight, splintered fibers).

Health studies of workers *heavily* exposed to asbestos show that all three types can cause lung cancer, particularly if the workers also smoke; furthermore, there is significant incidence of asbestosis, a non-malignant disease typified by scarring in the lungs, and reduced respiratory function. A third disease called mesothelioma (cancer of the lining of the chest and abdominal cavities) is often seen in professional workers around the blue asbestos (crocidolite); less often seen in brown asbestos settings; and rarely seen in workers exposed only to white asbestos (chrysotile).

Most of the asbestos installed in U.S. schools is the less harmful white, chrysotile variety. Repeated measurements of the asbestos fiber levels in the air inside schoolrooms that contain asbestos-bearing materials, have shown, with rare exceptions, the levels to be less than 0.0001 fibers per cubic centimeter. These levels are often no greater than those found in the local city streets.

Moreover, studies of women living in the mining towns of Quebec, where white asbestos, chrysotile, is produced, show that while these women, who are not miners, are exposed to high levels of ambient asbestos dust originating from the nearby mines and mills, they show no excess asbestos-related disease.

Exposure to ambient asbestos levels has caused additional disease, in the blue asbestos mining regions of West Australia, and Cape Province, South Africa, where non-mineworker residents have died of mesothelioma.

stated on Dec. 22, 1977—nearly two decades ago: “It is now likely that the election to Membership of Lloyd’s and subsequent participation in the insurance business of Lloyd’s by a new Member would be considered to involve the sale of a ‘security’ under United States Law.”

What Lloyd’s is really afraid of, one Names group activist said, is that the U.S. Names will get their day in court. “Every time a case is heard on its merits, Lloyd’s loses,” he said.

Even Lloyd’s does not seriously dispute that it has cheated its Names, a fact admitted by a series of chief executives: In his 1987 book, Lloyd’s chief executive Ian Hay Davison cited cases of “fraud” and “outright plunder” at Lloyd’s. In November 1995, Lloyd’s chief executive Peter Middleton resigned, after reportedly making comments about the presence of “rogues and brigands” at Lloyd’s. In December 1995, Middleton’s replacement, Ron Sandler, admitted in a letter that “the short answer is clearly that there have been instances of bad faith and fraud at Lloyd’s and it has affected a number of Names.”

Even if there was fraud, Lloyd’s asserts, the Names still have to pay in full. Lloyd’s position has been to effectively assert that even if there were fraud, the Names have an obligation to policyholders to pay their claims in full. To do any less, insist the honorable men of Lloyd’s, is to be a dishonorable scoundrel. After all, we cheated you fair and square.

“It is the unswerving policy of the Society that policyholders be paid first, and that any litigation following upon the losses occasioned by those payments comes second,” Lloyd’s chairman David Coleridge pontificated in a February 1992 letter to Names, urging them to pay up.

Reconstruction and renewal

Lloyd’s ardent devotion to its policyholders would be admirable, were it true, but it is, like virtually every public position taken by Lloyd’s, a lie.

The true goal of Lloyd’s has been, and remains, to protect the British Empire and the financial power of the City of London. Lloyd’s Chairman David Rowland admitted as much on June 11, 1996, in a speech to his peers at the annual dinner of City of London bankers and merchants at Mansion House, the home of the Lord Mayor of the City. Said Rowland: “Profit, reform and reconstruction. I am proud to work in a business that has sought to face the reality of its shortcomings, to capture the excellent and discard the shoddy. But I am proudest of all because we have held our business, retained nearly £9 billion of annual premiums flowing through London.”

“The qualities which allowed Lloyd’s to do that,” a Lloyd’s press release bragged, “were the hallmark of the City of London.”

The phrase “capturing the excellent while discarding the shoddy,” accurately reflects Lloyd’s view of separating the Names from their money, a variation of the age-old process which is indeed the hallmark of the City of London.

To accomplish what it calls “separating the past from the future,” Lloyd’s plans to “create a ‘firebreak’ between the ‘old’ and ‘new’ Lloyd’s,” by taking all liabilities from 1992 and prior years of account, and placing them in a new reinsurance company called Equitas.

“It is vital that those who underwrite in the future are satisfied that the market is free from the liability for past problems,” and that “a commitment [be] made not to levy the future market for additional funds for Equitas after the reconstruction plan is implemented,” Lloyd’s insists. The plan, it claims, will leave “the ongoing market better placed to attract new capital to service clients’ growing insurance needs.”

As Lloyd’s own statements make clear, the essence of its “Reconstruction and Renewal Plan” (R&R) is to dump its losses onto Equitas, marking a successful completion of the conspiracy initiated by Lord Cromer nearly 30 years ago. Not only would Lloyd’s be able to walk away from its losses, it would also walk away from its legal troubles, if R&R is successful.

To join Equitas, Names will be required to sign a contract which constitutes “a full and final settlement of any and all claims, however they might arise, in respect of Names’ 1992 and prior business,” and carries a clause stating that the agreement “will be governed by English Law and a Name who accepts the offer will irrevocably agree to the English courts having exclusive jurisdiction to determine any disputes in relation to the agreement”—a requirement the SEC has already identified as violating U.S. securities laws.

Further, the contract stipulates that “no party to the Settlement Agreement owes any duty to disclose any matter; no party owes any duty of care in respect of any statements or representations which are made; no party will be entitled to rescind, avoid, terminate or cancel the Settlement Agreement on the grounds of any misrepresentation, misstatement or non-disclosure; no party shall have any liability to any Name for any misrepresentation, misstatement or non-disclosure; and any claim a Name may have in respect of any of the above is waived and released.”

Any Name signing the remarkably one-sided R&R agreement thus waives his rights to sue Lloyd’s for the fraud it has committed in the past, and the fraud it is now committing with Equitas.

To induce the Names to capitulate to this scheme, Lloyd’s is using a combination of intimidation and bribery, the latter mostly with the Names’ own money. Lloyd’s nastiness is displayed in a letter dated May 10, 1996, from Lloyd’s Chairman David Rowland to the Names:

“All Names should now be convinced of the harsh reality that if the settlement offer fails there will be no escape from their insurance obligations. . . . Names must pay their insurance obligations in full. Names who decide to reject the offer must appreciate that we have both the responsibility and the capability to pursue Names vigorously for the full value of

Anglophilia

Anglophile, ang' glo fil, *n.* A person who admires or sympathizes with England and English views

Anglomania, ang' glo ma ne a, *n.* An excessive or undue attachment to, respect for or imitation of, Englishmen or English institutions of customs by a foreigner

—*The Living Webster Encyclopedic Dictionary, 1975*

One of the great weaknesses of certain strata of the American population, is the susceptibility to the mental disease known as anglophilia, and its more virulent strain, anglomania. Many of the American Names were blinded by the glory of joining Lloyd's, making them ripe for the plucking.

Take the case of Elizabeth Luessenhop, a Virginia Name who admits in her book *Risky Business* that "of course, becoming a Name was not just a business proposition: It was membership in the club, a kind of recognition that only the English landed gentry can give."

"I was easy to convince," Luessenhop wrote. "My family on both sides goes back to Colonial times. Mother firmly believed the United States should never have separated from the mother country. In our home it was a given that the English set the standards of good taste and integrity for the world. Most people I knew in Boston and Philadelphia would have agreed. . . . For me, becoming a Name at Lloyd's was a part of my love affair with England. And the love affair is still there, with London and with country

weekends—and with many of the people I have come to know at Lloyd's. A few of them are real snakes, but even the snakes are at least interesting. They still do a lot of things right at Lloyd's."

"When I came to London in 1983 for my interview at Lloyd's, I didn't worry about whether I was doing something commercially wise," she continued. "It was almost as though I wondered whether I was worthy. On previous trips to London I had stayed at the Dorchester House, but somehow Park Lane seemed too touristy for this visit. I knew that when royalty came to London they stayed at Browns; so for the occasion of my Lloyd's interview, I stayed at Browns."

It sounds a lot like Cinderella going to the ball.

Lloyd's plays this fantasy to the hilt, holding its initiation rituals in the magnificent eighteenth-century Adam Room on the eleventh floor of Lloyd's decade-old modern skyscraper. The Adam Room, which has travelled with Lloyd's from building to building, was originally the dining foyer at Bowood, the country mansion of the Marquess of Lansdowne. The prospective Names are led into this rarefied atmosphere, one at a time, to be inspected by members of the Council of Lloyd's, and asked one crucial question: "Do you understand that by becoming a member of Lloyd's, you are accepting unlimited liability?"

In that carefully crafted setting, surrounded by the wealth and power of Lloyd's, close enough to touch it, heads filled with visions of partaking in that wealth and power themselves, few Names would refuse the offer that was to ruin them. None of them realized that this magnificent room was in reality a slaughterhouse, and that the wealth and power of the empire, was built on the blood of people like themselves.—*John Hoefle*

their outstanding liabilities. . . . The law in the United States is clear in one crucial aspect: that U.S. members cannot avoid their obligations to policyholders."

The bribery takes the form of a £3.1 billion payment to the Names to settle all past disputes, and wipe the slate clean. This package will not, with perhaps a few exceptions, actually pay money to the Names; instead, it will issue credits against the funds Lloyd's claims the Names already owe, thereby reducing the amount they have to pay to Lloyd's to participate in R&R.

Moreover, according to the American Names Association's Peterson, some £2.9 billion of that £3.1 billion is actually the Names' own money, including funds pledged to Lloyd's, reserves, retained premiums, and awards from the suits against Outhwaite, Gooda Walker, Feltrim, and others, which the defendants paid to Lloyd's rather than the victims. Were the American Names to accept that offer, Peterson said,

they would still have to pay, after all credits, an additional \$650-700 million in premiums to join Equitas.

In December 1993, Lloyd's had offered the Names £900 million to settle all litigation, but the offer failed when only 38% of the Names agreed.

To further grease the skids for its Equitas scheme, "Lloyd's has created a \$110 million fund to pay off some leaders of the various anti-Lloyd's working groups," according to the Denver-based Association of Lloyd's State Chairmen (ALSC). "We've had first-hand reports from many Names in a dozen states that Lloyd's is actually making cash offers to investor Names to withdraw from lawsuits," said ALSC spokesman John Head.

While Lloyd's insists to the Names that joining Equitas will relieve them of further liability, that claim is false: Lloyd's will be relieved of liability, but the Names will not. Just as at Lloyd's, the Names who back Equitas will be liable

to pay claims should Equitas go bankrupt, which it will.

The keystone of the Equitas scheme is the analysis by Lloyd's of the future liabilities of the 1992 and earlier years of account, liabilities Lloyd's has in the past admitted were "unquantifiable." Thanks to yeoman work, however, Lloyd's has somehow managed to quantify these unquantifiable losses, at a low enough figure to allow the desperate to imagine Equitas might work. Shrewdly, as the settlement agreement makes clear, Lloyd's assumes no responsibility that these numbers are even remotely correct.

On May 10, 1996, Lloyd's informed the Names they had until the end of August to accept the offer.

NASAA capitulates

On June 6, 1996, Colorado Securities Commissioner Philip Feigin, head of the North American Securities Administrators Association's (NASAA) Lloyd's task force, addressed a meeting of the Association of Lloyd's State Chairmen at the Plaza Hotel in New York City. At that meeting, Feigin stated that NASAA was determined to force Lloyd's to comply with U.S. securities laws, and that he saw no reason for victims of Lloyd's fraud to have to pay further funds to the institution which defrauded them.

"Lloyd's will marshal every fact they can to get R&R through," Feigin warned the Names. "One must read every word Lloyd's uses quite carefully."

Feigin also warned that Lloyd's settlement offers to the Names lack substance. "There's nothing there," he said.

"To my knowledge, neither NASAA nor any state regulator has approved of either R&R or Equitas, and it is unlikely we will ever do so," Feigin told the Names.

On June 25, Feigin and his task force journeyed to London to meet with Lloyd's, carrying with them the threat that if Lloyd's did not correct its behavior, another 20 states would file actions. Instead, it would be Feigin and his task force which capitulated.

On July 11, Lloyd's issued a press release which announced that it had reached an agreement with NASAA under which it would pay up to \$62 million to U.S. Names, in return for the states dropping all legal action. To be binding, the states would have to individually sign the agreement; pressing forward against a weak opponent, Lloyd's imperiously gave the states two days to make up their minds. Fail to sign, Lloyd's warned, and we might leave your Names out of R&R. By July 17, Lloyd's was claiming that 34 states had signed the agreement. Victory, it seemed, was at hand.

Or perhaps not. As of July 29, ten states—Arizona, Illinois, Indiana, Missouri, Tennessee, Utah, West Virginia, Arkansas, Kentucky, and New Hampshire—had rejected the NASAA agreement and announced their intention to proceed with legal action against Lloyd's.

The rejections of two of those states signal dissension in the ranks at NASAA: Arizona Securities Commissioner Dee Riddell Harris is the current president of NASAA, and Utah

Securities Commissioner Mark Griffin is NASAA's president-elect, both of whom have refused the agreement negotiated by the NASAA task force.

Lloyd's, naturally, has a different perspective. "It would be a tragedy if some U.S. Names are denied the enormous benefits of R&R due to the ill-advised action of securities administrators in their states," Lloyd's stated in a July 17 press release. "Lloyd's has gone to every length to construct a settlement that works for the benefit of Names. It is difficult to understand why a small minority of state regulators insist upon threatening the ability of their citizens to receive the hundreds of millions of dollars in financial assistance under the R&R plan."

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Readers with access to the World Wide Web might want to take a look at Lloyd's of London's site at <http://www.lloydsoflondon.co.uk>



**LaRouche
Campaign
Is On the
Internet!**

Lyndon LaRouche's Democratic presidential primary campaign has established a World Wide Web site on the Internet. The "home page" brings you recent policy statements by the candidate as well as a brief biographical resumé.

TO REACH the LaRouche page on the Internet:

<http://www.clark.net/larouche/welcome.html>

TO REACH the campaign by electronic mail:

larouche@clark.net

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