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HEADLINE: Lloyd's Victims Waged Five-Year Effort to Pressure Regulators

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BODY:
Influential business leaders and affluent campaign donors embarked on a five-year lobbying blitz in an effort - eventually successful - to persuade the government to intervene on their behalf in the complex Lloyd's of London case, an **Associated Press** investigation found.

Facing losses estimated at $ 200 million, the U.S. investors in Lloyd's first pleaded with Congress, the Securities and Exchange Commission, the FBI and even the American Embassy to investigate claims that the British insurance firm had committed fraud.

Rebuffed at the federal level, the investors then turned to state regulators, and set up a national campaign to file complaints at the local level.

In Tennessee and California, they hired law firms to assist regulators. In California, they gave regulators the use of a private law firm's paralegals, created a CD-ROM of legal documents and bought software so state attorneys could use the disk. "We gave them the whole thing on a platter," said Greg Smith of Saratoga, Calif., a Lloyd's opponent.

"It took three years for us to win our first battle," said **Henri Wedell,** a Memphis stockbroker and outspoken Lloyd's critic. "And it wasn't until the states got involved that we made any headway. The states have saved our **bacon.**"

The investors defend the lobbying, saying they exercised their rights as citizens to ask the government to intervene, when they were wronged.

State regulators insist they were doing their job - coming to the aid of citizens defrauded or misled by Lloyd's, and lacking other remedies.

But the states chose to pursue a case that benefited just 3,000 investors - many affluent, sophisticated business people - at a time when regulators lack the resources to police issues affecting millions of smaller, ordinary investors.

"It doesn't seem to fall in line with their aggressive history with penny stocks, financial planners or affinity fraud," said Barbara Roper, a securities industry expert for Consumer Federation of America.

The states' intervention was unusual in other ways: an investigation of a foreign entity - a first - doing business in insurance, which some argue is outside their jurisdiction.

The case arose after British-based Lloyd's had losses of $ 12.4 billion in the late 1980s and early 1990s due to huge losses from pollution and natural disaster claims. Disgruntled investors claim losses also were due to the dealings of unscrupulous market insiders.

American investors - personally liable for Lloyd's debts, as are all Lloyd's investors - had signed papers agreeing to litigate any disputes in Britain, not in U.S. courts.

"So they were either going to be completely at the mercy of Lloyd's, with no leverage, or their local regulators were going to affirmatively take up their charge," said Neal Sullivan, director of a state coordinating group called the North American Securities Administrator's Association.

Sullivan said he isn't surprised that some Lloyd's investors had a highly organized lobbying effort, but says lobbying also came from "other state agencies," such as local insurance regulators, who didn't want state securities regulators to act.

"The states would suggest to you, quite the contrary, they bucked the political heat and pressure," Sullivan said.

Regulators believe Lloyd's violated securities laws when recruiting U.S. investors. The 308-year-old British insurance institution strongly denies it committed wrongdoing.

Beginning last fall, regulators in 12 states filed lawsuits or administrative orders against Lloyd's, seeking to prevent it from drawing money from individuals to cover insurance losses. A lawsuit in California was thrown out.

Last week, Lloyd's and 34 states reached agreement to shave the debts of U.S. investors by 23 percent if they chose to join a global Lloyd's restructuring plan.

At least eight states that rejected the deal plan to continue legal action; the rest are undecided. And some Lloyd's investors say the settlement doesn't go far enough.

Many candidly discuss the lobbying effort.

"Certainly, we have tried, wherever possible, if anybody has any political connections, we certainly encouraged them to naturally use them or make contact with them, I can tell you that," said Smith, the California name.

Who are the 3,000 U.S. investors? Lloyd's and regulators refuse to release a list. But The AP found the identities of 220 by checking court records. Of those, 52 had contributed a total of $ 264,000 to federal campaigns since 1991.

Overall, the investors' generally lived in well-off neighborhoods, and their typical household income was $ 40,729, or about 26 percent above the national average, according to a comparison of investors' zip codes with U.S. Census Bureau data.

Yet not all investors were highly influential. Barbara Lyons of New York says she saw Lloyd's as a conservative place to invest money she received after her husband died in a plane crash.

"Now, I'm 74 years old and I'm reaching the end of my life, and I stand back and worry about this," Lyons said.

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