

sus license). Tests are conducted of the relation between the organizational structure of 2,335 property-casualty insurers and state tax and regulatory conditions in 1991. Evidence is provided that property-casualty insurers structure their cross-state expansion to mitigate both state tax and regulatory costs. *Journal of Accounting and Economics*, December 1995, 20(3): 229-253. (Reprinted with permission of North-Holland Publishing Company.)

INSURANCE MANAGEMENT

Does Corporate Governance Influence Performance? Some Evidence from U.K. Insurance Companies, by Stephen R. Diacon and Noel O'Sullivan

The role of quality of corporate governance currently is the subject of intense debate in the United Kingdom. The initial reason for such interest was a series of unexpected corporate failures in the early 1990s that served to highlight apparent weaknesses in systems of governance and accountability. The impact of governance instruments on the performance of U.K. life and general insurance companies is examined. The evidence suggests strongly that some governance instruments are more effective than others in promoting profitability and in deterring managerialism. The analysis supports suggestions by other governance researchers that too much governance may be harmful. *International Review of Law & Economics*, December 1995, 15(4): 405-424. (Reprinted with permission of ABI/Inform, copyright UMI.)

LIABILITY RULES

The Incentive Effects of Litigation Fee Shifting When Legal Standards Are Uncertain, by Clinton F. Beckner, III, and Avery Katz

In recent years, it has been argued that adopting the British rule for litigation costs, which requires the losing party to pay the winner's reasonable legal expenses, would reduce the cost of litigation in the United States. The economic literature on litigation so far has failed to support this claim. An analysis considers the effect of the British rule, not on litigation costs, but on the incentive to engage in efficient primary substantive behavior. To do this, the analysis brings together two branches of the literature that previously have been analyzed separately: (1) The relation between litigation costs and substantive behavior and (2) the effect of legal uncertainty on substantive behavior, as analyzed by Calfee and Craswell. The analysis shows that, when legal standards are administered imperfectly, the efficiency if fee shifting is a problem of the second best. In some cases, the British rule corrects the distortions created by legal error and improves incentives to take care. In other cases, however, the British rule can exacerbate the inefficiencies caused by legal error. *International Review of Law & Economics*, June 1995, 15(2): 205-224. (Reprinted with permission of ABI/Inform, copyright UMI.)

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