

Sniffing out lawyers' inflated bills

Sleuthing for Fireman's Fund

By Richard B. Schmitt

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James Schratz is a kind of house detective for a big insurance company. His job is to spot lawyers bilking it. He's a busy man.

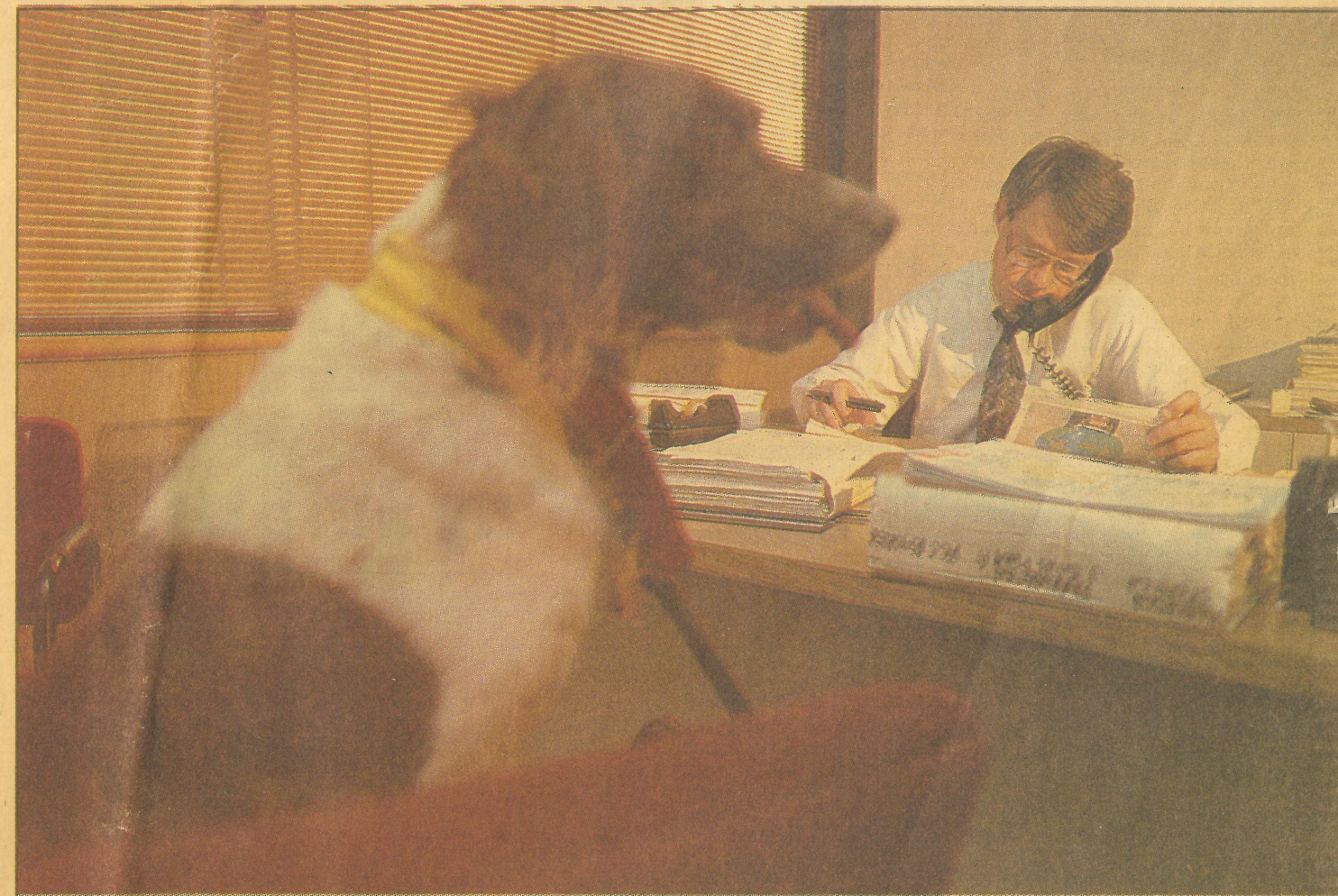
As vice president of major claims for Fireman's Fund Insurance Co., he investigates many of its most expensive legal cases. He finds attorneys who, he believes, do unnecessary work, inflate bills or even fake accidents.

As a result of his work, some California lawyers face the prospect of doing time instead of billing it. And Fireman's Fund has become a pioneer in the campaign to control legal bills. Its expenses have declined in each of the past two years. Its experience also shows how companies have broad, if largely unexercised, power to rein in runaway lawyers. "Clients are now becoming more sophisticated consumers of the law industry," says Stephen Gillers, a professor at New York University School of Law.

Not surprisingly, however, attorneys don't appreciate the attention of Schratz and similar corporate investigators. Many contend that serious billing abuse is rare. Others consider the current interest in fees insulting — and unnerving. "It sends shivers down all our spines," Lawrence J. Fox, a Philadelphia attorney, said at a recent conference in San Francisco on corporate audits of legal fees. "I don't like to be classified as a timekeeper."

The increase in disputes underscores the vague standards governing legal fees across the country. Nowhere is any lawyer obligated by law or by bar-association ethical standards to represent a client in the most cost-effective way. "Law firms bill for whatever they can get away with," contends Lawrence Schonbrun, a Berkeley attorney who has refereed billing disputes for the California state bar.

And Schratz is more than willing to believe the worst about lawyers. "I know some of the games firms have played because I've played them myself," he says. Early in his career, he says, he was fired from two law firms that he contends were engaged in



IJ photo/Frankie Frost

LAWYER'S HELPER: James Schratz's dog, Feldene, waits patiently while the Fireman's Fund vice president works

overbilling tactics. Both viewed him as an underachiever who billed too few hours, he adds, and in one instance, a partner caught him playing football in the office after hours.

After washing out in private practice, Schratz, now 44, joined the Fireman's Fund legal department in 1980. "It sounded like fun to be the business person and cut through the BS," he says. "I can tell the attorneys: 'I don't want you taking that deposition or doing those interrogatories.' Being able to make the decision was real appealing to me." He also investigates suspected frauds not involving lawyers and tracks major suits against policyholders of Fireman's, which is based in Novato and is a unit of

Allianz AG Holding of Germany.

But Schratz's real passion is the lawyers, and he maintains a laundry list of their activities. "We once (found) an attorney who billed 59 hours in a day," he told a recent seminar. He paused for effect, chortling a little. "Uh, once you get over natural law, you know, the sky is the limit."

The defining moment for Schratz came five years ago, when Fireman's Fund adjusters in San Diego started getting huge bills for defending some policyholders implicated in a real-estate investment scam. Deciding that it was costing the company more to defend the case than to settle, Schratz approached one of the lawyers for the unhap-

py investors, asked him what settlement terms he and his clients would accept, and met them.

The lawyer, a solo practitioner whose office was designated by a business card Scotch-taped to the door, was impressed. "His jaw dropped," Schratz says. But later the lawyer, Monty G. Mason II, twice upped the ante. This, coupled with the huge bills, made Schratz suspicious, and he hired an auditor to see how the defense attorneys were spending Fireman's Fund money.

The audit helped expose an alliance of some 20 attorneys, representing both plain-

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