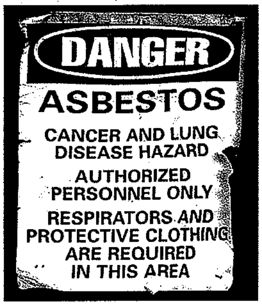
# Fund set up by Eternit for asbestos-related ailments

**By Michael Bradford**

[NIEDERURNEN, Switzerland]—A Swiss building products company has established a SFr1.25 million (€0.8 million) fund to provide aid to former employees and residents near its factories who suffer from asbestos-related illnesses in a move that is drawing fire from legal advocates for the victims.

Eternit A.G. is developing guidelines for distribution of the funds that will go to claimants, according to the degree of their financial need, a spokesman for the Niederurnen, Switzerland-based company explained. The company produced products that contained asbestos for roofs and building facades for decades, until it stopped using the material in 1994.




### *Skeptical*

The size of the Eternit fund is attracting some criticism.

"In my eyes, SFr1.25 million is ridiculous," said Massimo Aliotta, president of the Winterthur, Switzerland-based Asbestos Victims Association, a group that provides legal services to those affected by asbestos. "It's not enough at all," he said.

It's unknown how many former workers and others will need compensation from the fund out of hundreds that could apply for the payments, Mr. Aliotta pointed out.

No timetable has been developed as to when payments will begin.

Apart from former employees, people who live or once lived near Eternit's two plants, in Niederurnen and Payerne, Switzerland, are eligible for payments if they are sick because of asbestos and can demonstrate to the company that financial need has arisen because of the illness. Relatives of deceased workers and residents also may be eligible for payments.

Decisions on who gets the money will be made by Eternit and not the courts, the spokesman said. The payments are funded by the company and no insurance coverage is in place to provide the compensation, he said.

### *Coverage*

Eternit employees made ill by asbestos are already eligible for payments from the Swiss Accident Insurance Fund, SUVA, which writes obligatory accident insurance for manufacturers and other policyholders.

SUVA is making payments to 70 Eternit claimants, the spokesman noted. Eternit in turn is required to pay SUVA around 500,000 Swiss francs per year to help fund those payments, he pointed out.

Eternit established the fund shortly after a judge earlier this month completed an investigation as to whether the company should be held responsible for workers' asbestos-related illnesses.

# Selling off of U.S. operations likely to boost Converium's credit rating

**By Sarah Veysey and Gloria Gonzalez**

[ZUG, Switzerland]—The sale of Converium Holding Ltd.'s North American reinsurance operations to a unit of Berkshire Hathaway Inc. is likely to pave the way for the Swiss company to achieve its stated aim of regaining an A-range financial strength rating, and the deal is good value for Berkshire Hathaway, experts say.

Zug, Switzerland-based Converium announced last week that it would sell its United States operations, which are in runoff, to National Indemnity Co. for $95 million (€75.6 million) in cash and $200 million debt, and would not provide any indemnity or guarantee in respect of the reserves of the operations.

Converium said that the deal would reduce significantly its exposures, as National Indemnity will assume all of Converium's North American operations' reinsurance liabilities —which stood at $1.06 billion at June 30, 2006—as well as $200 million of debt issued by Converium Holdings (North America) Inc.

### *Finality*

Converium said it expected the transaction would reduce its shareholders' equity by $135 million to $1.66 billion.

"With this transaction we have successfully delivered on our promise to achieve finality regarding Converium's U.S. operations through a clean-cut sale. We can now fully concentrate on building Converium's future, with our business strategy focused on markets outside the U.S.," Inga Beale, Converium's chief executive officer said in a statement.

Converium placed its North American reinsurance operations into runoff after being downgraded by rating agencies, following large losses in 2004. That loss was largely caused by reserve increases for U.S. casualty business written between 1997 and 2001. Standard & Poor's Corp. said it had placed its BBB+ ratings on Converium on positive credit watch, after news broke of the proposed sale.

"We believe the transaction will enable Converium to achieve a clean-cut sale, without guarantees and seasoning agreements, to a reputable buyer whose new ownership does not disadvantage policy or debt holders," Marcus Rivaldi, a credit analyst for S&P in London, said.

In addition, S&P said the positive credit watch reflected its belief that the reinsurer now is more likely to reach a settlement with regulators.

The reinsurer late last year restated its accounts for the years 1998 through 2004 and for each of the quarters from March 31, 2003 to June 30, 2005, because of a need to change the accounting treatment of certain finite deals without sufficient risk transfer to be classed as reinsurance.

The reinsurer said it had received subpoenas from the U.S. Securities and Exchange Commission and other regulatory bodies requesting information about finite deals.

"When the achievement of such a settlement becomes certain," S&P said it would raise its ratings on Converium to "A- and remove the ratings from credit watch."

Moody's Investors Service also announced it had placed its Baa1 financial strength rating of Converium "on review for possible upgrade" in the wake of the reinsurer's announcement.

"Completion of this transaction will materially reduce uncertainty relating to reserve adequacy, it said.

Fitch Ratings Ltd. said it placed its BBB- rating of Converium on a positive watch and said that on completion of the deal, the rating is likely to be affirmed or upgraded by two notches.

"It removes the overhang from Converium. There was concern the liabilities would grow and that there would be further losses from the U.S. operations. Now Converium has insured against that. They're not writing in the U.S. anymore and just put it behind them and moved on," said Donald Thorpe, senior director of Fitch Ratings in Chicago."

Converium, which lost business when clients in rating-sensitive markets such as the U.S. and Australia invoked downgrade clauses which enable clients to cancel their policy should they wish, has long stated its aim of regaining an A-rating.

A.M. Best Co. said its B++ rating of Converium remained unchanged but said the deal could have a positive impact on the group's risk-adjusted capitalization.

Investment bank Keefe, Bruyette & Woods Ltd. in London commented that the deal leaves Converium better placed to return to growth in 2007.

"Converium still needs to settle its SEC investigation and outstanding litigation in the United States before S&P will upgrade it, but the biggest hurdle has been jumped," it said.

Berkshire Hathaway has extensive experience managing runoff operations, analysts say.

### *Expertise*

"Berkshire's skills will be helpful in extracting value here," said Bruce Ballentine, lead analyst on Berkshire Hathaway for Moody's in New York. "That runoff experience is a critical element. Berkshire can be patient in letting claims run their course."

The Converium deal is relatively small compared to similar runoff transactions Berkshire Hathaway has conducted, said Robert DeRose, assistant vice-president for Best.

The absence of any indemnity or guarantee on potential future liabilities from Converium does not have any strategic relevance for Berkshire Hathaway, because the firm has various subsidiaries with debts that are not guaranteed, Mr. Ballentine said.

Even if the liabilities grow, Berkshire Hathaway hopes they will take long enough to pay to overcome the losses with investment income, said Mr. Thorpe. "If adverse development exceeds investment income, then Berkshire loses," he said. Although it was not stated in the company's statement, Converium apparently sold its North American assets to Berkshire Hathaway below book value as shown by Converium's announcement that the transaction would reduce its shareholders' equity, Mr. Thorpe said.