

# Bill Boersma – Blog



## What is the Comdex Score?

As a part of our insurance consulting and audit work, we generally review the financial strength of the current and any proposed insurance carriers. Most people are familiar with the names of at least some of the ratings agencies, especially given recent news accounts. However, we rarely talk about the ratings that individual agencies give insurance carriers. We prefer to discuss the Comdex Score. So, what is it and why do we prefer to use it?

### What Is It?

The Comdex is a composite index based on the ratings received by an insurance company from the ratings agencies and it is expressed by the average percentile ranking for all of the ratings received by an insurance carrier. It is not a rating in and of itself, but rather an objective scale to compare different companies.

### The Problem

The reason we like the Comdex Score is because the individual ratings are not easy to understand. The rating agencies do not use a universal scale and each service tries to differentiate itself from the others. A couple of the agencies use "Triple A" often used in bond ratings and a couple use the "A through F" scale which is more intuitive to some consumers, although they are not used consistently among each other. For example, an A+ rating from one service will mean something quite different than an A+ from another service.

### The Solution

The following is taken directly from the website of the company which created and offers the Comdex Score. In order to clear up this confusion, it is

necessary to take a step back from the letter ratings themselves. The actual letter rating that is assigned to a company is not as important as the number of companies that are rated higher or lower than the company. A better way to look at the ratings is to look at the percentiles the ratings represent.

The percentile gives the percentage of insurers that are ranked higher or lower than a given company. If a company is in the 80th percentile, 20% of the companies are ranked higher and 80% are ranked lower. This is the common way of reporting test results for most national student testing. When considering a large number of students, the absolute test score is not as important as the percentile, the percentage of students that scored better and the percentage of students that scored worse.

We calculate a composite index, the Comdex, which is the average percentile of a company's ratings. The Comdex is not a rating itself. It is a composite of all of the ratings that the company has received. The Comdex gives the company's standing, on a scale of 1 to 100, in relation to other companies that have been rated by the services. It is an objective value based solely on the mathematical distribution of all of the companies that have been rated.

### Calculations

The Comdex is based on the ratings issued by the following rating services:

- AM Best
- Standard & Poor's
- Moody's Investors Services
- Fitch

To calculate the Comdex, we first determine the percentiles for each rating service. We start by counting the total number of companies rated by the service. Next we count the number of companies in each rating category. For example, let's take a sample rating service and calculate the percentiles. The Super Rating Service assigns ratings in five categories, A, B, C, D, and E. It has rated a total of 50 companies as shown below. The percentiles would be calculated as follows:

Rating	Companies	Percentile
A	05	100
B	10	90
C	15	70
D	10	40
E	10	20

We repeat this process and construct a table of percentiles for each of the rating services. Using these tables we can now calculate the Comdex for a given company. We take each rating that the company has received, and look up the percentile in the table for that rating service. Then we average the percentiles to give the Comdex. A company must have at least two of the four ratings listed above for us to calculate a Comdex. Please let us know if you would like to see the Comdex Score for any insurance companies and, as always, don't hesitate to call us with any questions.

**OBJECTIVE INFORMATION  
DRIVES INFORMED DECISIONS**



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