

## Comdex Ranking

The Comdex is not a rating, but a composite index based on ratings received by a company from the various ratings services. It is the average percentile ranking for all of the ratings received by a company. This objective scale can be used to easily compare the ratings of different life insurance companies.

### The Problem with Letter Ratings

Ratings provide important information about a life insurance company. They provide a reference point from which to judge the financial health of a company and a way to compare one company with another. Because the ratings services are competing with one another, they attempt to differentiate themselves and do not use a universal scale. Two services use the "A through F" scale that is commonly used in school, while the other rating services use the same "triple-A" scale used in rating bonds. Neither of these ratings scales is used consistently among the various rating companies.

There is also the problem of "crossover," where the same letter rating is used by two different rating companies and has two different meanings. For example, an "A+" from Best is the second highest rating, while an "A+" from Standard & Poor's or Fitch is the fifth highest rating. As a result, comparisons of letter ratings between the rating services are useless.

### The Solution

A more meaningful way to view these ratings is to look at the percentiles the ratings represent. This percentile reflects the average percentage of insurers that are ranked higher or lower than a given company. The Comdex provides the company's standing, on a scale of 1 to 100, in relation to other companies that have been rated by multiple ratings services. It is an objective value based solely on the mathematical distribution of all of the companies that have been rated. So, for example, if a company is ranked in the 80th percentile, 20% of the companies are ranked higher and 80% are ranked lower.

### Calculating the Comdex

The Comdex is based on the ratings issued by AM Best, Standard & Poor's, Moody's, and Fitch. The first step in calculating the Comdex is determining the percentiles for each rating service. The number of companies in each rating category is counted and compared to the total number rated. For example, the hypothetical rating service below assigns ratings in five categories, A, B, C, D, and E. It has rated a total of 50 companies, and the percentiles would be calculated as follows:

Rating	Number of Companies	Percentile
A	05	100
B	10	90
C	15	70
D	10	40
E	10	20
<b>Total</b>	<b>50</b>	

This process is repeated and a table of percentiles is constructed for each rating service. The average Comdex is then calculated for a given company who is rated by at least two rating services.