

## **The Ebix Comdex: No Substitute for Due Care**

Ebix Life, Inc. is a software provider for Life Insurance carriers. One of the company's leading products is Vital Signs, which provides financial strength information regarding most life insurance carriers in the United States. This includes financial data such as assets, income, investment yield and net worth. It also includes the financial strength ratings assigned by AM Best, Standard and Poor's, Moody's and Fitch. To summarize these ratings, Ebix uses a "Comdex" number. Because it is readily available, many agents rely exclusively on the Comdex as a measure of financial strength. That is a serious mistake.

### **Problems with Calculating The Comdex**

Ebix makes assumptions, subjective decisions and "adjustments" when it converts the letter ratings of four different ratings agencies to its own standardized numeric system. These adjustments are not disclosed by Ebix. Moreover, because AM Best rates most companies more highly than the other agencies (in terms of their percentile), and because AM Best rates virtually every active life insurance companies, the Comdex will favor companies that are not rated by many agencies. Joseph Belth, a former professor at the University of Indiana and the publisher of the widely recognized Insurance Forum, has said this "may generate unfair comparisons of companies"<sup>1</sup>.

### **Problems with Underlying Ratings**

In addition to the problems created by the calculation of the Comdex, there are additional problems with ratings themselves. The ratings agencies are paid for their ratings by the insurance companies they rate. This conflict of interest undermines the credibility of the ratings and sometimes leads to very embarrassing situations for the agencies. For example, when defending itself in a shareholder lawsuit, Moody's referred to its own claims about transparency and independence as "puffery"<sup>2</sup>. It did not take long for this to be noticed and highlighted in the financial press.

### **Problems with the Time Frame: Retrospective Focus and Delay**

Changes in carrier ratings trail the actual events that affect insurance carrier financial strengths. Thus the ratings are retrospective. On the other hand, insurance buyers are interested in the future financial strength of the company. In order to help address this problem, the agencies add modifiers to their ratings to indicate if a rating is likely to increase or decrease, such as a "watch positive" or "watch negative" notation. However, the Comdex does not pick these up. This means that emerging problems and threats to carrier strength are not reflected in the Comdex until after a long delay. In some cases it may be weeks. In other cases, it may be months. In uncertain times when change is happening quickly, these long and inconsistent delays can lead to misleading analysis.

### **Comdex: Use with Caution**

All carriers are not the same and neither are all ratings and ratings agencies. The Comdex is a useful tool, but it is not a comprehensive evaluation and cannot be used as a substitute for the actual analysis provided by the ratings agencies. Nor can it be a substitute for the in-depth knowledge insurance professionals should have regarding the financial strength, business practices and relative condition of the life insurance carriers they represent.

Notes:

1. Joseph Belth, Insurance Forum, November/December 2006, pp 156,157
2. Jonathan Weil, Bloomberg Press, March 12,2009 "Moody's Says Don't Inhale the Smoke it's Puffing"