


[Home](#)
[Products](#)
[Ratings Online](#)
[News Releases](#)
[In This Section...](#)
[Home](#)
[About](#)
[TheStreet.com  
Ratings](#)
[Track Record](#)
[Bank and  
Thrift Failures](#)
[Brokerage](#)
[Firm Failures](#)
[HMO Failures](#)
[Life and Health](#)
[Insurer Failures](#)
[Property and](#)
[Casualty](#)
[Insurer Failures](#)
[What Our](#)
[Ratings Mean](#)
[Contact Us](#)
[Unlimited Ratings  
Subscriber Login](#)
[U.S. GAO Ratings Study Appendix II](#)
[◀ Back](#)

## Appendix II



# Raters' Timing in Reporting Financial Vulnerability

Figure II.1: Raters' Timing in Reporting Financial Vulnerability

## GAO: Rater's Speed in Reporting Financial Vulnerability

- We compared raters' timing in assigning "vulnerable" ratings prior to the first public regulatory action
- population: all life/health insurers that became impaired or insolvent 08/31/89 -- 06/30/92
- benchmark: the first date a state insurance regulator took a public action

## Raters' Timing in Reporting Financial Vulnerability

To compare raters' timing in reporting financial vulnerability, we compared when the raters assigned a "vulnerable" rating to life/health insurers that became financially impaired or insolvent. We defined financial impairment or insolvency in the same manner as state insurance regulators and NAIC. We included all life/health insurers that became financially impaired or insolvent between August 31, 1989 and June 30, 1992. We used the first date a state insurance regulator took a public action against the insurer as our benchmark.

Figure II.2: Weiss and Best: Analysis of Impaired Insurers Yields  
30 Comparison Cases

**GAO: Weiss and Best: Analysis of Impaired Insurers  
Yields 30 Comparison Cases**

|  |     |
|--|-----|
| <b>Total of insolvent or financially impaired life/health insurers</b> | 158 |
| Not rated  | -40 |
| Rated  | 118 |
| Rated only by Best   | -2  |
| Rated only by Weiss  | -69 |
| Rated by both Weiss and Best   | 47  |
| Rated "vulnerable" by both Weiss and Best on 8/31/89 <sup>a</sup>      | -17 |
| Weiss vs Best comparison cases   | 30  |

<sup>a</sup> These insurers were excluded from the comparison because Weiss did not rate life/health insurers prior to August 3, 1989. Source: GAO.

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**Weiss and Best: Analysis of Impaired Insurers Yields  
30 Comparison Cases**

We identified 158 life/health insurers that became financially impaired or insolvent between August 31, 1989 and June 30, 1992. Forty were not rated by any of the five raters. Of the remaining 118, 71 were rated only by one agency, so we could not compare raters' timing in these cases. Weiss rated 69 of these 71 insurers and warned of potential problems by assigning a "vulnerable" rating; Best rated the other 2 and also assigned a "vulnerable" rating in both cases. This left 47 insurers rated by both agencies. The other agencies -- D&P, Moody's and S&P -- rated, at most, five of the life/health insurers that became financially impaired or insolvent during this period. These five, among the six largest insurers, were included in the 47 insurers rated by both Best and Weiss. We first compare Weiss' and Best's ratings and then compare all the available ratings for the six largest insurers. (see figure II.5)

For 17 of the 47 cases rated by both Weiss and Best during our comparison period, both agencies had assigned "vulnerable" ratings to the insurers as of August 31, 1989. Because Weiss did not rate life/health insurers prior to this date, we excluded these 17 cases from the Weiss and Best timing comparisons. This left 30 cases to compare timing between Weiss and Best.

Figure II.3: Weiss and Best: Who Assigned "Vulnerable" First?

**GAO: Weiss and Best: Who Assigned "Vulnerable" First?**

| Did Both assign "vulnerable" ratings? | Weiss first | Best first | Total |
|---------------------------------------|-------------|------------|-------|
| Yes                                   | 19          | 7          | 26    |
| No - only one                         | 4           | 0          | 4     |
| Total                                 | 23          | 7          | 30    |

Source: GAO.

**Weiss and Best: Who Assigned "Vulnerable" First?**

Figure II.3 compares Weiss' and Best's timing in assigning a "vulnerable" rating for the 30 cases they rated in common during our comparison period.<sup>1</sup> Overall, Weiss was first in 23 cases, Best in 7 cases -- about a three to one ratio.<sup>2</sup> In four cases, Best never actually assigned a "vulnerable" rating. Instead, Best changed these ratings from "secure" to one of its "not assigned" categories.

<sup>1</sup> We constrained our comparisons between Weiss' and Best's ratings to the period from August 31, 1989, to June 30, 1992. Best rated several insurers prior to this time, but either discontinued rating or assigned its "not assigned" designation prior to August 31, 1989. If Best did not assign these insurers a rating during our comparison period, prior to the first public

regulatory action, they were excluded from our comparison.

<sup>2</sup> If we had placed Best's "B" and "B-" ratings in the "vulnerable" category, Weiss would still have been first overall. Weiss' advantage would have been decreased from about three to one to about two to one.

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Figure II.4: Weiss and Best: How Much Earlier Was "Vulnerable" Assigned?

**GAO: Weiss and Best: How Much Earlier Was "Vulnerable" Assigned?**

|                                | Number of insurers to which both assigned a "vulnerable" rating | Number of days agency assigned a "vulnerable" rating before other agency |      |
|--------------------------------|---|--|------|
|                                |   | Range  | Mean |
| Weiss first                    | 19  | 42 to 1040   | 443  |
| Best first                     | 7   | 26 to 749  | 302  |
| Mean advantage Weiss over Best |   |  | 242  |

Source:GAO

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**Weiss and Best: How Much Earlier Was "Vulnerable" Assigned?**

We also determined how much earlier a "vulnerable" rating was assigned by Weiss or Best in the 26 cases where both assigned a "vulnerable" rating during our comparison period.<sup>3</sup> As figure II.4 shows, Weiss was faster than Best an average of 443 days, about a year and 3 months, in the 19 cases where Weiss assigned a "vulnerable" rating before Best. Best was faster than Weiss an average of 302 days, about 10 months, in the 7 cases where Best assigned a "vulnerable" rating before

Weiss. Overall, Weiss assigned a "vulnerable" rating 242 days, or about 8 months, before Best.<sup>4</sup>

<sup>3</sup>As figure II.3 showed, Best never assigned "vulnerable" ratings in 4 of the 30 cases.

<sup>4</sup>This average reflects only the timing comparisons in the 26 cases where both Weiss and Best rated the impaired or insolvent insurers and assigned a "vulnerable" rating during our comparison period. We started the count August 31, 1989. In 5 of the 7 cases where Best assigned a "vulnerable" rating first, the actual assignment occurred prior to the start of our comparison period.

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Figure II.5: When Were "Vulnerable" Ratings Assigned to Large Insurers?

### GAO: When Were "Vulnerable" Ratings Assigned to Large Insurers?

| Rating agencies | Number of days rater assigned a "vulnerable" rating before(-) or after (+) first public regulatory action |                      |                  |               |                   |                |
|-----------------|---|----------------------|------------------|---------------|-------------------|----------------|
|                 | Executive Life of CA  | Executive Life of NY | Fidelity Bankers | First Capital | Monarch           | Mutual Benefit |
| Weiss           | -379  | -372                 | -308             | -617          | -162              | -40            |
| Best            | -6  | +1                   | +2               | +5            | a                 | +3             |
| S&P             | -190  | na                   | -6               | -3            | +351 <sup>b</sup> | c              |
| Moody's         | -422  | na                   | na               | na            | na                | +2             |
| D&P             | -41   | na                   | na               | na            | na                | na             |

Note: na = not rated.

<sup>a</sup> Best never assigned a "vulnerable" rating to Monarch Life. An "A" rating was changed to a "not assigned" designation 4 days after the first public regulatory action.

<sup>b</sup>S&P has assigned a "BBB" rating, it's next-to-lowest "secure" rating, to Monarch Life 184 days prior to the first public regulatory action. However, S&P did not assign its "BB" "vulnerable" rating until 351 days after the first public regulatory action.

<sup>c</sup>S&P never assigned a "vulnerable" rating to Mutual Benefit Life. It discontinued rating the insurer July 12, 1991, 1 day prior to the NEW YORK TIMES report of pending state regulatory action.

Source: GAO

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## When Were "Vulnerable" Ratings Assigned to Large Insurers?

Six large life/health insurers, with assets ranging from \$1.4 billion to \$13.5 billion, became insolvent or financially impaired between August 31, 1989 and June 30, 1992. Weiss and Best rated all six. Five out of the six also happen to have been the only life/health insurers to become financially impaired or insolvent during this time that were rated by any of the other raters. S&P rated five, Moody's rated two and D&P rated one.

As figure II.5 shows, Weiss was the first rater to assign a "vulnerable" rating in five out of the six cases. The number of days prior to the first public regulatory action that Weiss assigned a "vulnerable" rating ranged from a little over a month to a little less than 2 years. Moody's was the first to assign a "vulnerable" rating for Executive Life of California; it assigned this rating 422 days, or approximately 1 year and 2 months, prior to the first public regulatory action. Weiss assigned a "vulnerable" rating 379 days, about a year, prior to the first public regulatory action in this case. Best assigned a "vulnerable" rating before the first regulatory action in only one of the six cases and this was only six days before the regulatory action occurred. In one case, Best stopped rating the insurer and never assigned a "vulnerable" rating. In the remaining four cases, it assigned a "vulnerable" rating only after the first public regulatory action occurred.

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