



### Claims-Made Step Process Illustration

As you know, Claims-Made policies all have a Retroactive Date. All Claims-Made policies have a “Step Process” in which the premium steps up for 4 years from the Retro Date (note that some carriers are shorter but we will use 4 years for our illustration). At year 5, the premium is termed as “Mature”, and there are no more automatic steps.

With most of our carriers, the largest step increases are from Year 1 to Year 2 and from Year 2 to Year 3. Each carrier uses their own Step Rate factors (based on their actuarial review). **However, we’re going to illustrate a Claims-Made premium from Year 1 to Year 5 with some common industry Claims-Made Step Factors.**

Claims-Made Year	Claims-Made Factor Percentage of Mature Premium
Year 1 – RDI	.30
Year 2	.60
Year 3	.90
Year 4	.95
Year 5 – Mature	1.00

**As you can see, the factors really increase from Years 1 to 2 and from Years 2 to 3.**

**Using these Factors, we’re going to show you what the premiums are for each year using a Mature Premium of \$10,000.**

Claims-Made Year	Claims-Made Factor Percentage of Mature Premium	Premium
Year 1 – RDI	.30	\$3,000
Year 2	.60	\$6,000
Year 3	.90	\$9,000
Year 4	.95	\$9,500
Year 5 – Mature	1.00	\$10,000

**As you can see, the Year 5 – Mature premium more than triples (about 3.333 times) from Year 1 – RDI.**