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A tighter rein

By ROBERTO CENICEROS

May 04, 2009

ORLANDO, Fla.—As the recession continues to bite, risk managers are trying to rein in their costs by asking a wide range of vendors—from medical service providers to insurers—to cut their prices.

Other ongoing risk management department budget tightening includes restricting educational and travel expenses and even some safety program reductions, according to people attending the Risk & Insurance Management Society Inc.'s annual conference in Orlando, Fla., last month.

Vendor contracts are being renegotiated particularly by companies feeling the most economic strain, with risk managers and their vendors saying they are collaborating to make changes that will help them maintain their partnerships during tough times.

Renewal premiums were the first insurance item reviewed when every department at her company was directed to reduce costs, said Kathy McElwaine, U.S. insurance manager for furniture retailer IKEA North America Services L.L.C. in Conshohocken, Pa.

IKEA reduced its premiums about 30% across all lines during its most recent renewal, Ms. McElwaine said. The retailer also increased its self-insured retention for liability coverage.

But Ms. McElwaine attributed much of the premium reduction to IKEA's insurers' willingness to reduce premiums to retain the account in the challenging economy.

"I believe our current carrier really wanted to keep the relationship going," Ms. McElwaine said. "They have been on the account since 2001. They did not want to lose us so they did the best job they could."

With an increase in retentions, though, Ms. McElwaine said IKEA decided to keep its loss prevention budget intact to reduce future claims.

Other risk managers say they are looking at all areas of their program.

Fred O. Pachón, vp of risk management and insurance for Santa Barbara, Calif.-based Select Staffing Inc., said that, because of the economy's impact on the temporary staffing industry, he is not waiting for a scheduled renewal time to send out new requests for proposal to all his vendors.

The purpose of the requests is to renegotiate previously agreed-on contract pricing. The vendors he has contacted include one providing employee drug testing services and another specializing in workers comp medical management.

"There is no question that the recession has affected our ability to do many things including traveling, also investment in safety incentives," Mr. Pachón said. "We have been forced, because of the economic times, to scale down that investment. Fortunately, the performance of (our safety) program is still very, very good."

Several vendors attending the RIMS conference said they have met with clients who are similarly seeking price concessions. All the vendors said they are trying to steer the discussions to focus on measures that reduce buyers' overall cost of risk, rather than lowering the price paid for a particular service.

"Everyone in today's environments is looking for ways to save money," said Kent Spafford, chairman and chief executive officer for One Call Medical Inc., a Parsippany, N.J.-based network provider of nationwide diagnostic imaging services.

"So the (question) we get is 'what can you do to help us save?' and one obvious answer is charge us less. But we have programs where we can show them they are not taking advantage of existing savings opportunities."

Part of the vendor strategy is to convince buyers to bundle services they previously purchased from multiple companies so that one vendor would have a larger share of an employer's business in return for a price concession, several said.

Vendors say such strategies can help their clients and help them maintain revenues because the economy is not sparing them either.

"We would rather have them take advantage of other opportunities, rather than lower our prices, because our problem is the same as everybody else's," Mr. Spafford said.

While some clients are interested in bundling services or other measures that might lower their cost of risk, others are staying clear of changes requiring immediate expenditures, no matter the longterm cost benefit, said Daniel J. Starck, president and chief executive officer at CorVel Corp., an independent provider of medical cost containment and managed care services in Irvine, Calif.

"Anybody who has to come up with money to change, whether it's vendors or solutions, that is a big sticking point," Mr. Starck said. "It's really ground decision-making to a halt."

Risk managers, meanwhile, are under greater pressure than ever to contribute to company profitability, said Steve L. Heckle, director of risk management for Chicago-based auto part recycler LKQ Corp.

"We are definitely being smarter about how we spend our money and making sure that we are absolutely focused on bottom line improvement, whether it's workers comp, safety and loss control, or premium renegotiations," Mr. Heckle said.

He trimmed his cost of attending the RIMS conference by participating in three presentations in return for a registration fee waiver, Mr. Heckle said.

Scott Beckman, vp-risk management and insurance at Advocate Health Care Network in Oak Brook, Ill., said conferences and educational programs his risk management department would have attended under normal economic circumstances have been cut from his budget.

He has not been directed to reduce his budget, Mr. Beckman said. But Advocate curtailed capital expansion projects because of the economy's impact on its investment returns.

"So I can't justify doing the ordinary course of business knowing that," Mr. Beckman said.

The economy also has risk managers concerned on a personal level. Dave Dolnick, risk manager for La Mesa, Calif., construction company The Brady Cos. said he knows three risk managers who recently have been laid off.

Fortunately, most companies likely realize that exposures tend to increase during an economic downturn, making risk management more valuable, Mr. Dolnick said.

"At least I am hoping so," Mr. Dolnick added. "Boy, am I hoping so."
