A&M | FINANCIAL SERVICES INDUSTRY GROUP

Insights for an Evolving Market

More Than an Administrator:

An Investor's Guide to TPA Value Capture in 2025

Introduction

Third Party Administrator's (TPAs) have become trusted partners in navigating the complexity of insurance. Traditionally, insurance carriers and businesses have relied on TPAs to provide key services, such as policy administration or claims management. An increase in both the volume of claims being processed and the complexity of those claims places TPAs in a position to experience significant growth opportunities.

That potential for growth is not without risk – most TPAs (and their investors) are facing challenges on how to position themselves to take advantage of these opportunities.

Key TPA Challenges in 2025

However, before TPAs and their investors can capture these opportunities, they have to overcome several key industry challenges:

Lack of Standardization: TPAs tend to offer customized services to clients in an effort to win business. That customization leads to more labor intensive efforts, which results in greater inefficiencies, higher labor costs and non-standard processes.

Legacy Technology Limitations: Many TPAs are still using systems and platforms that are 20-30 years old. The lack of investment in technology over time now puts pressure on TPAs to significantly improve their IT infrastructure.

Costly Corporate Functions : TPAs margins are often line of business specific – but they do not incorporate the support of corporate functions (e.g., Legal or Finance) until those costs are allocated at the corporate level. That can create misconceptions on BU margins, disjointed processes, and a lack of cost benchmarking relative to the revenue corporate functions support.

Data Inconsistency : At the heart of nearly all improvement opportunities, data is key. TPAs are faced with three key data challenges: 1) understanding their sources of data, 2) knowing what the right sources of data are, and 3) being able to manipulate the data for business needs. The combination of those challenges inhibits transformational growth opportunities (e.g., AI)

M&A Integration Challenges: Over the last several years, TPAs have favored growth via acquisition, particularly focusing on complimentary or new product lines. Those acquisitions have provided top-line growth, but most TPAs have taken the approach of allowing the acquired BU to continue operating the way it did pre-acquisition. This has led to redundancy in technology and operational functions, along with missed synergy opportunities to capture greater performance value.

Capturing Value in 2025

For TPAs and their investors, overcoming these challenges provides a real opportunity to capture value, both at the enterprise and BU levels. Below are five key opportunities:

1. **AI /Machine Learning:** Let's start with the topic that is on everyone's mind – AI. For investors, there are several key considerations in unlocking value capture through AI. First, AI initiatives should be bucketed into categories of efficiency gains versus transformative. Efficiency gains may see greater productivity, but may not necessarily have a direct impact on the labor needed to service the business. But TPAs need to be careful to not apply AI only within existing processes – mid-term to long-term AI use cases should focus on rethinking the entire business through white-boarding to determine enterprise AI use cases. Secondly, AI should be managed at the enterprise level, not at the business level. Enterprise management of AI initiatives tend to result in better outcomes, and the use cases are applied across BUs, resulting in greater efficiency gains and potential cost savings.

2. **Reimagining the Sales/Renewal Experience:** Historically, TPA pricing and sales has focused on consistent margins and are often driven by the lines of business. While that strategy has produced results, there is an opportunity to reimagine how Pricing, Sales, Client Management, and Renewal teams interact with one another. For example, is pricing incorporating corporate support functions (e.g., finance) in the overall pricing to determine their expected margin? Are clients being managed from the account level or at the product level? Managing clients at the business level limits opportunities for cross-selling and upselling services to the same client. Unlocking this potential provides an opportunity for TPAs to improve margins by bundling products and services together, and focuses the enterprise on account penetration.

3. **Managing IT Spend and Vendor Management:** For TPAs, IT spending presents a great opportunity for value capture. Investors should press TPAs to review their IT spend for opportunities at rationalization, and consider governance that evaluates CapEx ROI. In a similar vein, vendor management offers its own opportunities at rationalization, both within the overall portfolio and in reducing BU-specific vendor spend.

4. **Upgrading the Servicing Experience:** Whether servicing catastrophe claims or providing a dedicated contact center for a product recall, the customer experience is becoming more critical in differentiating TPAs. More importantly, rethinking the customer service experience provides an opportunity to rethink the optimal way to serve clients in a cost-effective manner. For example, high turnover, shrinkage, and average handle times have historically defined the challenges of running a call center. But digitization, automation, and standardization of processes have the ability to transform the way servicing works. What has historically been defined as a process centered around the contact center representative and workforce management can now become a process that incorporates multiple points of contact origination, carefully using technology to deflect calls into the contact center and instead focus more on solving more complex servicing challenges.

5. **Improving Cash Flow:** Revenue is only as useful as your ability to collect. Through centralization and technology, TPAs have the ability to make significant strides in improving both their working capital and overall cash flow.

While there are many additional ways to capture value, the key for TPAs and their investors is to evaluate the entire enterprise to understand the full potential for value capture, and determine which opportunities will provide near-term improvements and immediate cost savings, while balancing that with more transformative approaches to managing the business.

About A&M

Alvarez and Marsal's Financial Service Industry Group brings operating and management expertise combined with top-tier consulting and specialized industry experience to meet evolving market dynamics. We provide transaction and performance improvement advisory services for insurance companies and private equity firms investing in the industry. Core services in the insurance industry include:.

Integrated diligence: A&M conducts holistic business assessments across financial, operational, technology, human capital, tax, and commercial axioms. Our buy side diligence seeks to verify target value and promote investor confidence on the sell-side.

Integrations: A&M designs effective integration plans for programmatic acquirers to enhance operational performance and integration velocity. We create Day-1 and 100-Day plans for value capture, define transition services, and provide execution services to manage transitions.

Value creation: A&M empowers clients to maximize post-deal performance through go-to-market motions and operational improvements to capture synergies. We target initiatives that position clients to achieve a stronger market presence and sustain financial health.

Portfolio optimization: A&M assesses client's product and service mix to identify high-growth, high-margin opportunities, focusing investments that yield the highest impact. We advise on divesting or restructuring non-core assets to sharpen focus on areas with the highest value potentia.

Cost rationalization: A&M develops a fact base of expenses and capital costs. We prioritize opportunities considering impact, complexity, and interdependencies and develop an implementation roadmap with actions and milestones.

Separations and IPOs: A&M designs operating frameworks, conducts expense analyses, and implements tools to organize the transition of the separated entity. We guide companies through IPO to ensure business readiness and regulatory compliance, allowing clients to focus on maximizing shareholder value.

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