M&A MANIA INFUSING SELF-INSURANCE WITH POWER PLAYS

Private equity investment leads the way as partnerships scale their presence

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Written By Bruce Shutan

The self-insurance sector is rapidly approaching a $40 billion premium market – nearly three times what it was valued in the late 1990s, observes Dan Bolgar, CEO of Carbon Stop Loss Solutions. That makes it palatable for investors seeking a solid return on their investment. In turn, all the money pouring into this space is expected to help self-insured employers level up their efforts to contain costs and improve clinical outcomes.

He says major players include the BUCAs (Blue Cross Blue Shield UnitedHealthcare Cigna Aetna), Tokio Marine HCC, Voya, and Sun Life, while about 80% of reinsurance premium is written by the top 20 market players and roughly 50 MGUs have invested in this space.

“PE [private equity] firms and investors love a business that’s organically growing at 12% or 13% a year, and I don’t see that stopping anytime soon,” Bolgar explains. Another big driver is the massive need for efficiency in healthcare. "It's much easier for them to go after it as an independent MGU [managing general underwriter] than it is to pick up a carrier,” he says, noting how carriers that take on risk associated with massive balance sheets can become a volatile investment, whereas MGUs are fueled by fee income. MGUs are also significantly smaller and easier to invest in than a large carrier, and they can flip the investment after five to seven years of growth, he adds.

There's no doubt that M&A activity is heating up in the reinsurance space, whose total stop-loss market is currently valued at $37 billion and posting annual double-digit growth as more employers self-fund their group health plans, according to Bob Black, executive managing director for Aon, which last year acquired NFP, the owner of four stop-loss MGS.

VERTICAL INTEGRATION

The most interesting and innovative M&As in the self-insurance space centers around vertical integration that pairs cost-containment, clinical capabilities and additional products on top of an administrative platform, says Trey Marinello, managing director for Houlihan Lokey. "Companies in the lower middle market, especially cases or groups of 50 to 200 lives, tend to have pronounced profitability relative to those focused up market," he explains. "The next phase will be the introduction of risk-taking to round out a closed-loop system."

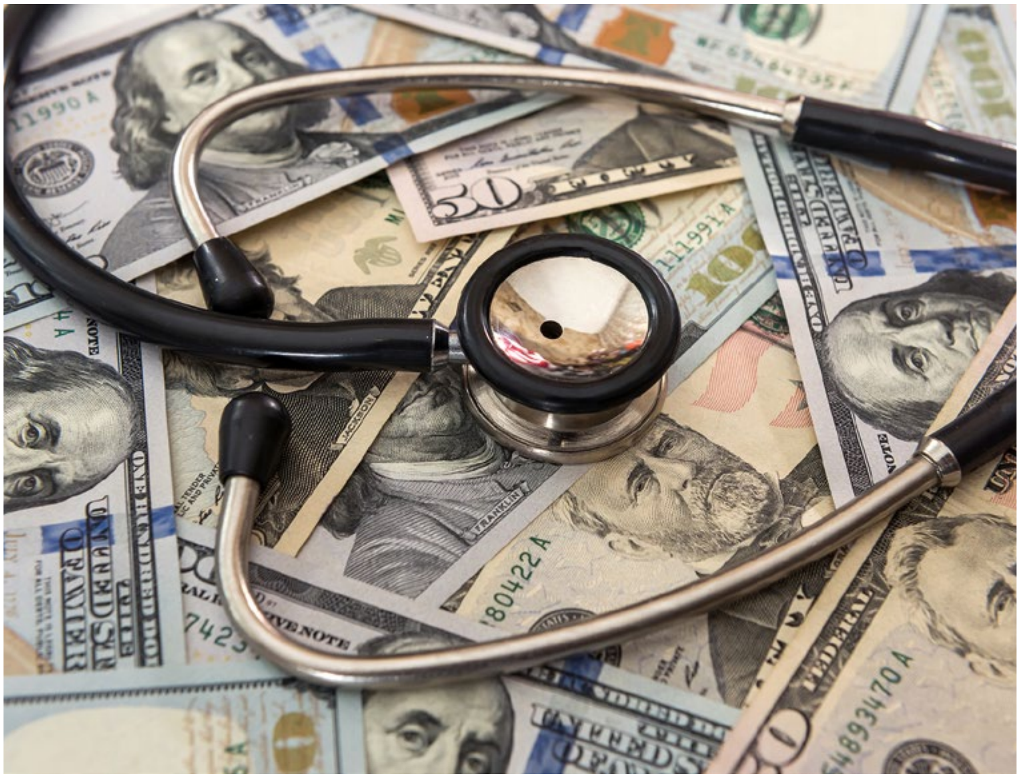
Employers are pursuing level- or self-funded strategies in partnership with forward-thinking insurance brokers and independent third-party administrators (TPAs) to help take ownership of their healthcare costs, Marinello notes. The goal is to make the company more profitable while at the same time elevating member benefits by improving the health of the member population preventively and reactively. "As time goes by, claims data informs the TPA as to how to better control costs without sacrificing benefits," he adds.

Regulatory changes and a new administration could serve as a catalyst for new opportunities within the healthcare market, notes Vinny Esposito, CEO at S&S Health who has a hedge fund background. "We see a ton of activity in the TPA and technology space," he says. "You got companies like Valence that have been very acquisitive over the past few years. Companies with really solid execution operations are finding homes, whether it be through private equity, a PE-backed asset or BUCA."

Esposito sees money flowing into telehealth mostly around behavioral health aspects, as well as on the captive side and TPA space. Two standout deals in his view include the merger of Virgin Pulse and HealthComp – rebranded Personify Health – and recapitalization of Allied Healthcare Products when it was acquired by Flexicare (Group) Limited. "There's a lot of big money going into everything within the supply chain for product to service components," he reports.

PE powerhouses such as Blackstone, KKR and Apollo Global Management have been actively investing in healthcare and insurance-related companies. Stop-loss now includes health plans, health systems, traditional health insurers, aggregators, reinsurers, wholesalers, venture capitalists and PE firms that have entered the market through entities that they own or brokers, Black explains.

The lines of demarcation are often blurred. For example, he says Unum sold its block to Amynta Group, which is an aggregator, and then Amynta hired Byron Way from Skyward Accident & Health to lead the firm and partner with Crum & Forster. Once they've established a stronghold, many of these entities then buy other blocks of business.



Prudential and Old Republic are new entrants into the stop-loss market over the past year, which Black says opens up quite a bit of opportunity. As companies become acquired, individuals who control portfolios from large writers like Sun, Symetra or Voya sometimes start their own entities, which he says happened with Evolution Risk Partners, an MGU formed by underwriters at a much larger organization. Some recent players in self-insurance have tried to develop almost like a health system, Black observes, citing as examples Gravie, Angle Health and Sana Benefits.

A COMMON THREAD

The common thread is an underwriting model featuring a TPA, some of whom are taking risk with an insurance entity or captive, as well as their own brokerage talking directly to employer groups or other agents to bring in business. Their objective is to control data, understand and correctly price risk and exposure, and then manage claims. "When companies develop all of that, they're thinking that they can have a better impact on the business than if they just handle one component of that whole ecosystem," he explains.

Among the noteworthy deals Bolgar has seen over the past two years: Crum & Forster's acquisition of Partners Managing General Underwriters LLC, an MGU rolled into the carrier space, as well as his own firm, Sequoia Reinsurance Services, being acquired by Carlyle Group, the world's third-largest PE firm, combined with two other MGUs and rebranded. Others include Ryan Specialty's acquisition of an MGU called AccuRisk Holdings, which had previously been acquired by another PE-backed firm, Ardonagh Group, Amynta Group's acquisition of Unum Group's medical stop-loss business and Core Specialty's acquisition of the medical stop-loss unit of American National Group.

Aside from PE, Bolgar notes that other sources of capital may pour into the self-insurance space from publicly traded companies being pushed to grow, hedge funds (albeit a bit more removed) and pension funds looking for a nice return. But there are caveats to consider. "If the market looks like it's returning to a lower interest rate environment, then we expect capital from all angles to probably come back in an even bigger way looking for a return on that growing market," he says.

Houlihan Lokey closed six transactions in 2024 across the employer-sponsored healthcare space for more than $3 billion. That momentum in the category has translated into several new assignments for 2025. Among the 2024 employer-sponsored transactions were two TPAs, two clinical businesses and two health-engagement companies. Of note, the firm represented a leading TPA called Allied Benefit Systems for the second time in a recapitalization transaction on behalf of Stone Point Capital and a new investor. The business had experienced outstanding organic growth over a 20-year period; now, the goal was to continue that growth trajectory alongside a new investor by bolting onto the TPA's platform additional cost-containment solutions, clinical capabilities, data analytics or specialty benefit management services for a more comprehensive service offering via M&A.

Another interesting emerging growth company worth keeping a close watch on is a digital mental health provider called CuraLinc. Houlihan Lokey, along with Alliant Insurance Services, advised Lightyear Capital on the platform acquisition in 2024. Since the platform investment by Michael Langer, CuraLinc has pursued an inorganic expansion strategy bolting on multiple complementary horizontal tuck-ins. The business is differentiated vs. traditional employee assistance programs in its ability to drive heightened engagement and utilization at a modest price point, thereby adding real value to members and plan sponsors as opposed to a check-the-box EAP.

Employer-sponsored healthcare has captured the attention of private-equity investors over the past five to seven years "partially because it's about healthcare lite," according to Marinello. "The reality is that many of the businesses in this category are business services sold into a healthcare end market. They can be more administrative than clinical, which sidesteps certain risks from which healthcare providers cannot so easily distance themselves. In addition, this ecosystem has a large and growing total addressable market, high-quality revenue streams and real switching costs, among other sought-after investment criteria."

The big payoff for PE is equipping a platform with multiple cost-containment solutions and possibly the ability to write reinsurance or retain risk. Together, these solutions provide exceptional visibility into forward earnings, he says. Once self-insured companies are able to turn a corner controlling costs, especially when it comes to heading off chronic conditions with preventive medicine, Marinello says member sentiment improves, employer-TPA adhesion strengthens, and costs diminish as a percentage of revenue, which is the overarching goal.

With a growing need to take fiduciary responsibilities more seriously since passage of the Consolidated Appropriations Act known as the CAA and avoid litigation, HR teams need to double down on their commitment to doing right by their employees, notes Trish Watson, senior vice president for Alliant Insurance Service. She says that includes everything from network and plan designs to Rx programs, which is why welcoming new investment opportunities in the self-insured space is so critically important.

RISE OF GROUP CAPTIVES

There seems to be a lot of interest in group captives from across the industry, Black reports. “Everybody looks at Pareto and how big they are and thinks they can duplicate that,” he says. “They’re the 800-pound gorilla on the market approaching $2 billion. I don’t know if that’s ever going to happen, but when you’re able to pull together a good number of smaller risks and aggregate that to be a more credible block, it starts to make sense when you’re supporting them.”

In the captive insurance space, however, Marinello cautions that the Pareto’s of the world are few and far between. The firm, owned by two prominent PE sponsors, Warburg Pincus and Great Hill Partners, continues to grow and serve the lower middle market. “It’s a great complement to a self-insured plan and a divergent strategy from just carrying reinsurance,” he opines.

The most recent player in this category that is capturing market share is ClearPoint Health, whose CEO Jeb Dunkelberger "has done a nice job putting the necessary pieces in place to capture market share," he says. The Stone Point Capital-owned company has "all the elements necessary to be successful, and an ability to draw benefit from other investments across the parent company's portfolio is unique to the industry," he adds.

Some traditional insurance carriers are launching their own captive solution to compete against industry behemoths like Pareto and Roundstone, notes Chad Schulz, executive vice president and managing director of private equity, mergers, and acquisitions for Alliant Insurance Services.

"We've seen a growing interest in independent third-party administration," he says. "As a result, many of the BUCAs have purchased their own TPA, with UnitedHealthcare buying UMR, Aetna buying Meritain Health, and Cigna buying Allegiance. That's a way for them to have an offering that looks like an independent TPA when it's still owned by a BUCA."

Other areas of interest are also emerging. Marinello is bullish on the direct primary care (DCP) category, whose leader is the OMERS Private Equity-owned Premise Health, which Marinello says will be looking for liquidity this year. Care ATC, Marathon, Proactive MD, and Next Level Healthcare are other noteworthy players that have caught his attention.

He predicts that the pharmacy category, which is a $650 to $700 billion market in the U.S. alone, will likely draw considerable attention in the coming years. While questions persist around future state regulation of PBMs, Esposito says the space is still drawing quite a bit of capital – especially those that are going to market with a direct message and disclosing transparent fees.

Another category that's attracting considerable interest is concierge or advocacy services to help members navigate their health plan. Finally, he has noticed investment in several early and midsize companies that are "at an escape velocity point in the data and predictive analytics work where they've embraced the most level of AI."

When assessing the extent to which all this investment pouring into the self-insured space will help bolster cost-containment strategies, Schulz cites several areas where it could really help move the needle. They include independent third-party administration, direct primary care in onsite and near-site clinics, the glucagon-like peptide-1 category (better known as GLP-1), steering covered lives to high-quality providers, transparent PBMs and independent coverage health reimbursement arrangements. With regard to ICHRAs, he believes the next two to three renewal cycles will be an indication of whether they're here to stay.

SMALLER INDEPENDENT MEDICAL PRACTICES BANDING TOGETHER

A combination of inflation and labor shortages have prevented independent providers from being able to compete as aggressively in denser, more vibrant markets, explains Roger Hau, founder and CEO of PayerPrice, whose software identifies healthcare provider M&A targets.

"What we've seen is independent funders like private equity take a few smaller independent groups, combine them, consolidate back offices, reduce costs and at the same time provide a higher quality of care perhaps in an outpatient setting compared to the hospital," he says, noting that such steps are only enabled by scale. What motivates these providers is that it gives them superior negotiating power when there is strength in numbers.

Strategies to divert care from the most expensive side of inpatient to outpatient settings, while not guaranteed to deliver better patient results, drive material costs and quality improvements for patients and, ultimately, self-insured employers, according to Hau.

In helping physician practices stay independent, Hau cautions that over-consolidation of the healthcare space can lead to extreme cost overruns and some large hospital systems or providers monopolizing their markets, especially with the entry of private equity.

Since the Trump administration would like to see more competition between smaller and midsize groups, as well as larger hospital systems, he predicts that transaction activity will be markedly higher in the next three years.

"What we're going to end up seeing is a convergence of supply and demand in this market where the payers are going to feel pressure to lower cost and improve the quality of care," Hau says, "and they're going to rejigger all their fee schedules to pay those outpatient providers more probably at the expense of some of these hospital systems." ■

Bruce Shutan is a Portland, Oregon-based freelance writer who has closely covered the employee benefits industry for more than 35 years.