

January 2025

Navigating Core System Transformations: Trends, Challenges, and Lessons From P/C Insurers

Martina Conlon, Martin Higgins, and Ashley Lee



Prepared for:



Navigating Core System Transformations: Trends, Challenges, and Lessons From P/C Insurers

Martina Conlon, Martin Higgins, and Ashley Lee

Table of Contents

Executive Summary.....	3
Introduction	4
Methodology	4
Core Systems Overview	5
Current Activity	5
Transformation Drivers and Organizational Preparedness	8
Business Drivers	8
The Business Case.....	10
Project Readiness	10
Approach, Scope, Cost, and Duration	13
Approach	13
Scope.....	15
Licensing Costs.....	16
Implementation Cost and Duration	17
Outcomes and Lessons Learned	21
Business and IT Results.....	21
Top Challenges.....	22
Lessons Learned.....	24
On the Role of SIs.....	26
Conclusion and Closing Thoughts.....	28

List of Figures

Figure 1: Run/Grow/Transform by Digital, Data, and Core	5
Figure 2: Large P/C Replacement and Enhancement Plans	6
Figure 3: Midsize P/C System Replacement and Enhancement Plans	7

Figure 4: Core System Transformation Business and IT Drivers 8

Figure 5: Duration and Cost of Core System Implementation Projects..... 18

Executive Summary

Core system transformations remain a pivotal priority for property and casualty (P/C) insurers, with companies undertaking complex, multi-component implementations to help modernize their operations and enhance competitiveness. This report highlights key trends, challenges, and lessons learned from these transformative initiatives. It is based on interviews with 15 midsize and large P/C insurers that have implemented core systems in the past five years. The key findings from this report follow:

- **Modernization is the primary driver.** Eighty percent of insurers cited legacy system replacement as the main motivation for core system implementation, followed by improved speed to market (70%) and operational efficiency (65%).
- **Implementation approaches are diverse and often hybrid.** The vast majority of insurers (over 90%) opted for phased rollouts, primarily by line of business (85%). About one-third employed minimum viable product (MVP) strategies or greenfield starts. Notably, 29% adopted hybrid strategies, combining three or more approaches. Only 7% attempted a “big bang” approach, with no phasing. This reflects insurers’ efforts to balance innovation, risk, and transformation goals in core system modernization.
- **Costs and timelines often exceed expectations.** Project costs ranged from US\$5 million to over US\$100 million, with most insurers exceeding initial budgets by 25% to 30%. Timelines varied from 18 months to over seven years, with a median duration of three to four years for full-suite implementations.
- **Data migration and change management are top challenges.** Seventy-five percent of insurers struggled with data cleansing and migration, while 70% faced significant challenges in managing organizational change and overcoming legacy mindsets.
- **Long-term benefits outweigh short-term difficulties.** Despite challenges, 85% of insurers viewed their core system implementations as delivering long-term value, with notable improvements in operational efficiency, straight-through processing (STP) rates, and speed to market.

As the insurance industry continues to evolve, successful core system modernization will be imperative for insurers to remain competitive in the digital age. This report provides valuable insights and industry best practices to help guide insurers through the complex journey of core system transformation.

Introduction

Core system transformations remain a pivotal priority for P/C insurers. Across the industry, companies are undertaking complex, multi-component, multi-line core system implementations involving policy administration systems (PAS), PAS suites, or policy and billing or claims. These holistic overhauls often span extended timelines and incur substantial costs. Alternatively, some insurers adopt an MVP approach, while others initiate greenfield implementations tailored to new jurisdictions or business lines. Regardless of the approach, core system implementations are typically intricate, high-stake endeavors that can consume substantial enterprise resources and demand unwavering attention.

In a research study commissioned by PwC, Datos Insights analyzed 15 recently completed core system transformation implementations to assist insurers in planning and benchmarking their core system initiatives and comprehending industry best practices and lessons learned. This report highlights prevalent trends, strategic approaches, challenges, industry best practices, and valuable lessons garnered from these transformation initiatives. Additionally, it provides insightful metrics related to estimated project costs, durations, and resource allocations, enabling insurers to benchmark their initiatives against industry norms.

Methodology

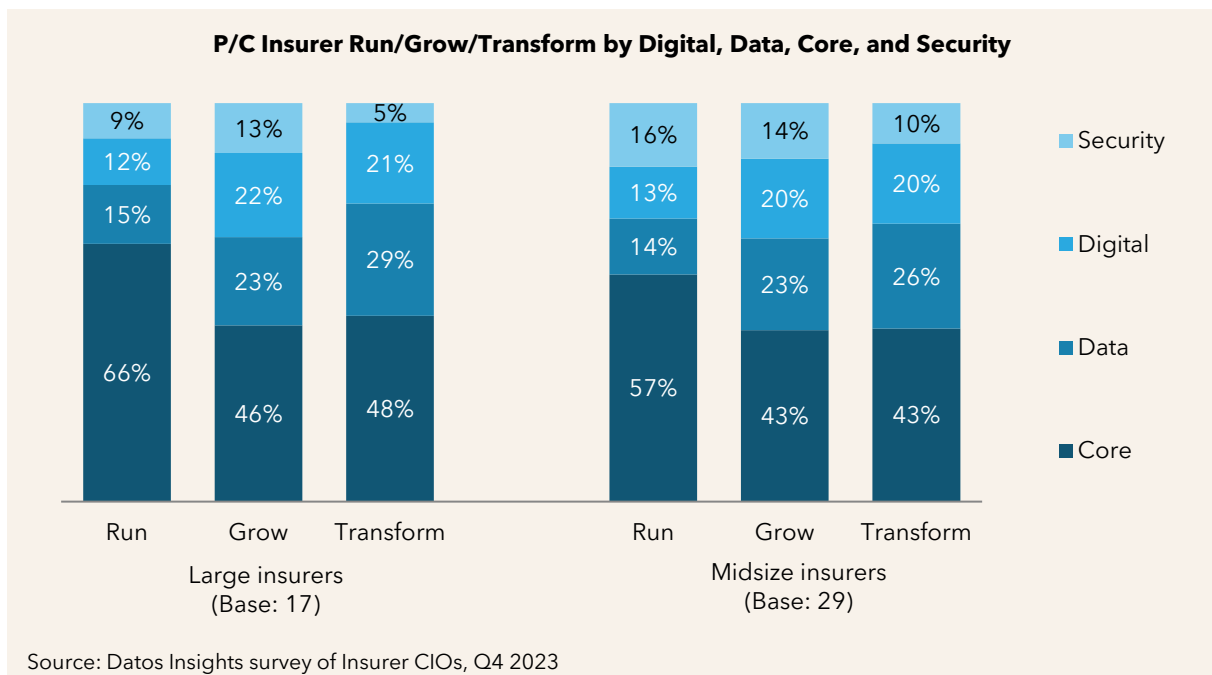
This report is based on interviews with 15 midsize and large P/C insurers that have implemented core systems (e.g., policy, policy/billing, policy/claims, policy/billing/claims) in the past five years. Insurers that participated in the study have completed at least one release in the last five years. Findings were supplemented with Datos Insights' industry knowledge and conversations with Datos Insights clients and council members.

Core Systems Overview

Insurance core systems typically include core policy administration, billing, claims, and rating. Core platforms may also include additional elements such as document creation and management, portals, reporting, and business intelligence. Solution providers can offer these components as full suites, as stand-alone products, or as products with prebuilt integrations to third-party ecosystem solution providers.

While down from the peak several years ago, core systems remain a top priority for P/C insurers in 2024. According to the Datos Insights 2024 IT Budgets and Projects for Property and Casualty Insurers report, P/C insurers spend roughly half of their IT budget on core applications and infrastructure. If this budget is allocated according to our “run/grow/transform” framework, core system spending constitutes the majority of the “run” budget (66% for large P/C insurers and 57% for midsize P/C insurers). Core is also one of the largest spending categories for the “grow” and “transform” budget (Figure 1).

Figure 1: Run/Grow/Transform by Digital, Data, and Core



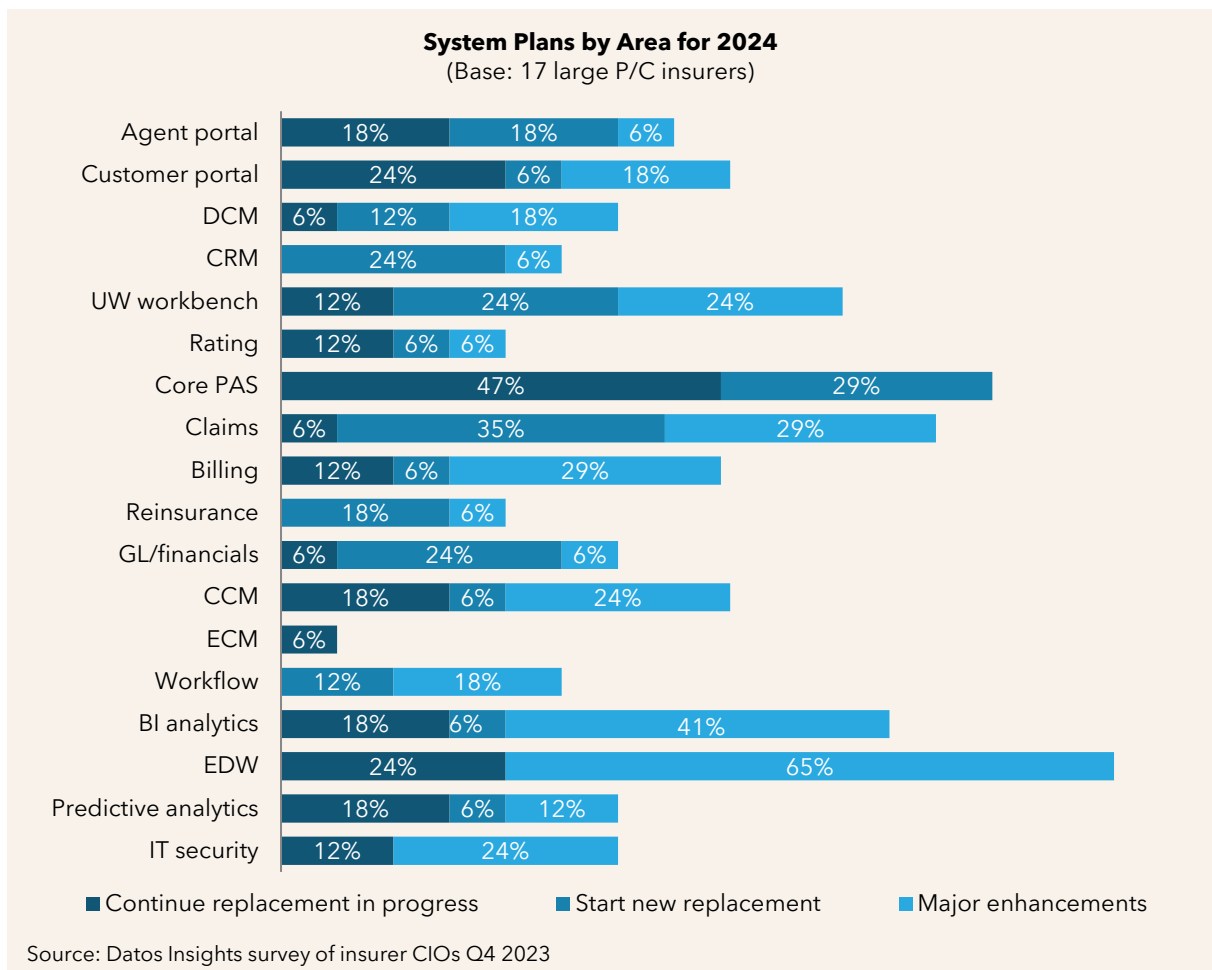
Current Activity

Core PAS activity for large and midsize P/C insurers is mostly focused on continuing transformation work already underway, with 47% of large insurers and 34% of midsize

insurers reporting plans to continue an in-progress replacement in 2024. As with policy initiatives, major enhancements in claims take priority over funding new replacement projects: Over one-third of large insurers plan to implement a new claims system in 2024.

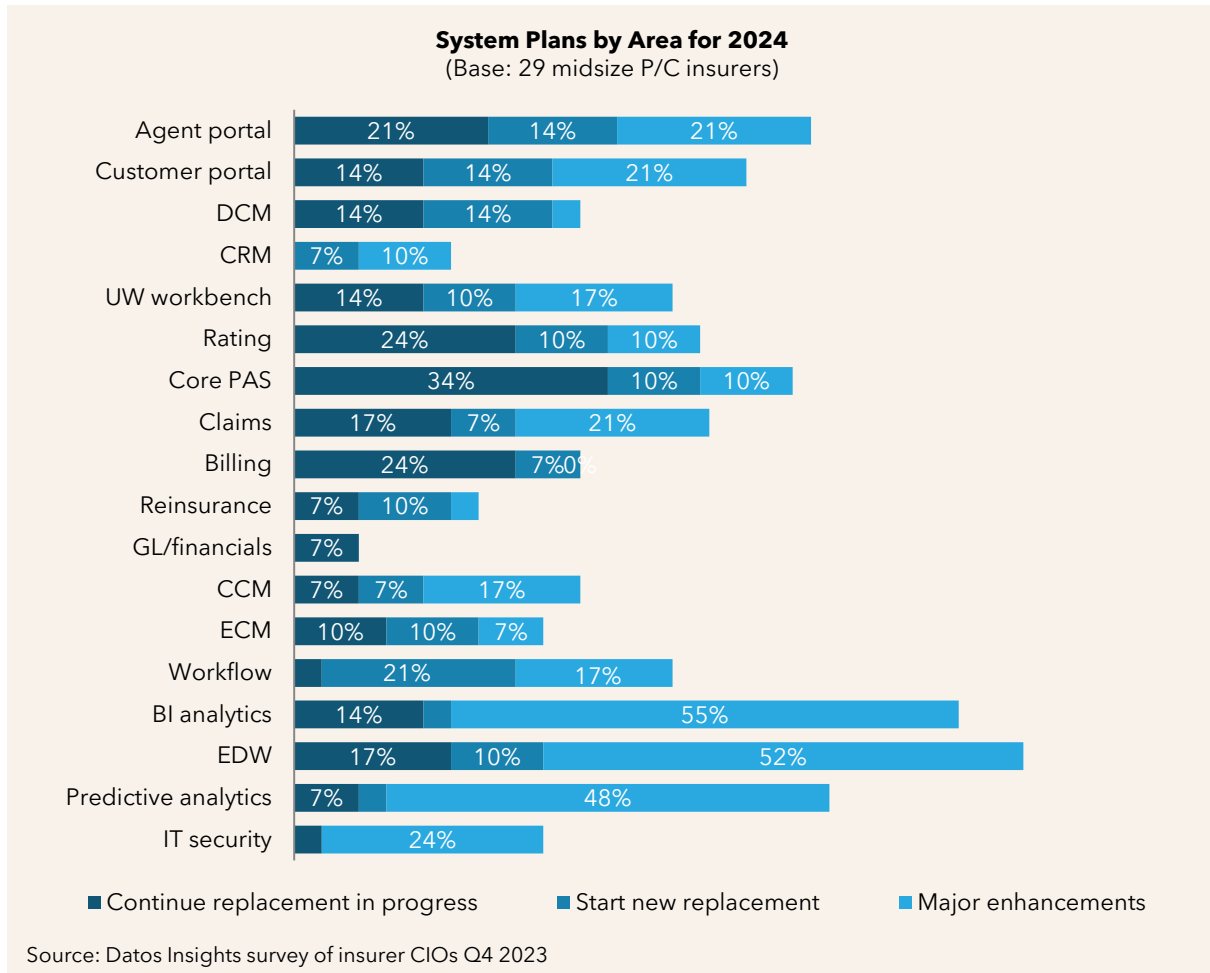
Large insurers' plans to begin new replacements, continue replacements currently in progress, or make major enhancements are shown in Figure 2.

Figure 2: Large P/C Replacement and Enhancement Plans



Midsize insurers' plans to begin new replacements, continue replacements currently in progress, or make major enhancements are shown in Figure 3.

Figure 3: Midsize P/C System Replacement and Enhancement Plans



In the charts, **DCM** refers to distribution and compensation management, the software and processes used by insurance companies to manage their distribution channels and compensate their sales force and distribution partners.

CCM, or customer communications management, refers to the software and processes used by insurance companies to create, manage, and distribute communications to their customers, agents, and other stakeholders.

ECM, or enterprise content management, refers to the strategies, methods, and tools used to capture, manage, store, preserve, and deliver content and documents.

EDW, or enterprise data warehouse, is a centralized repository that stores and manages data from various operational systems across the organization.

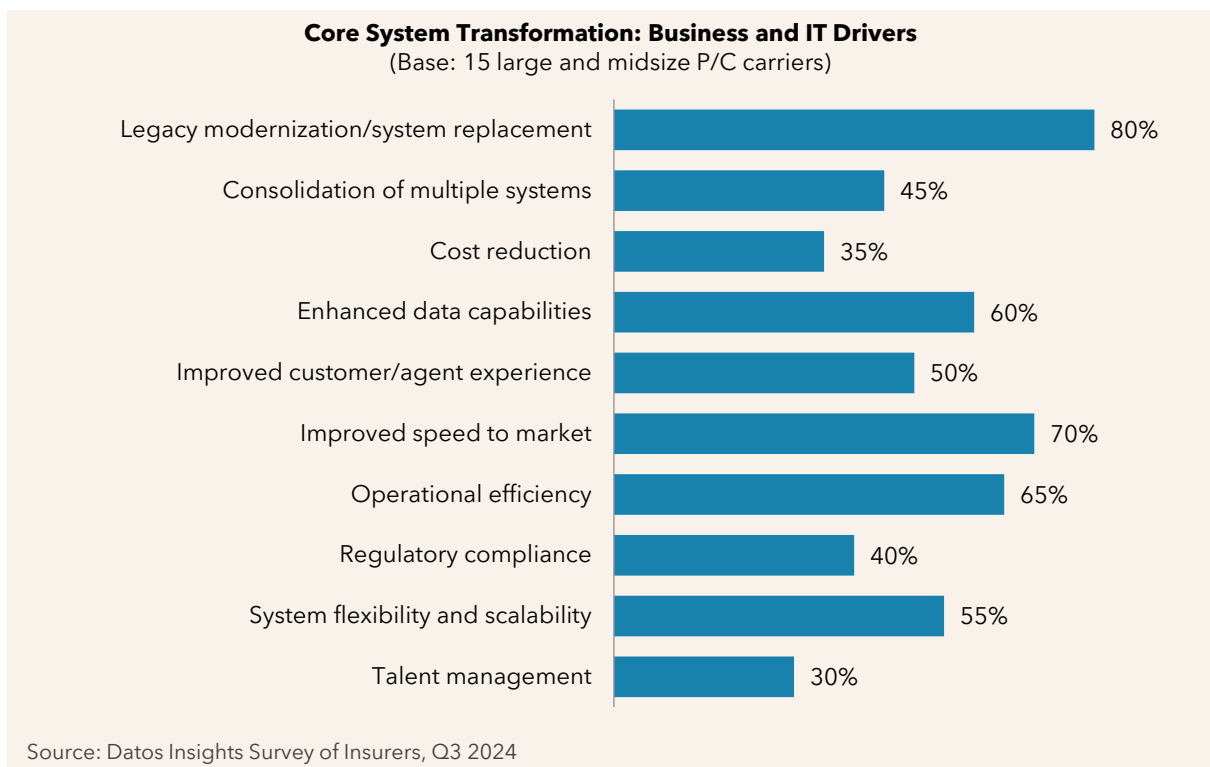
Transformation Drivers and Organizational Preparedness

There are only three ways to create value in insurance: sell more, manage risk better, or cost less to operate. Core system implementation efforts, like any other IT initiatives, are intended to create business value by supporting future business and technology needs and enabling long-term growth.

Business Drivers

Core system transformations are significant undertakings that require a major investment of time, resources, and organizational effort. Understanding the key business drivers behind these initiatives is imperative for contextualizing their importance and justifying their costs. Drivers not only shape the scope and approach of implementation projects but also serve as benchmarks for measuring their ultimate success. Datos Insights' research identified several motivations for insurers embarking on these programs of technological and operational change (Figure 4).

Figure 4: Core System Transformation Business and IT Drivers



These are the most cited reasons for replacement:

- **Modernization/legacy system replacement:** Replacing outdated legacy systems was the most frequently cited (80%) driver for core system implementations. Insurers described the need to move away from aging, often unsupported technologies that posed cybersecurity risks and incurred high maintenance costs. This modernization effort aims to provide a more stable, secure, and efficient technological foundation for insurance operations.
- **Improved speed to market:** Enhancing the ability to rapidly develop and deploy new products quickly was cited by 70% of insurers. Insurers sought to reduce the time required to enter new markets or states, often from several months to just a few weeks in some cases. This increased agility was seen as essential for maintaining competitiveness in a rapidly evolving insurance landscape.
- **Operational efficiency:** Streamlining business processes and reducing manual work was mentioned by 60% of insurers. Companies aimed to improve STP rates, automate routine tasks, and enhance workflows. This drive for efficiency was expected to result in cost savings, reduced errors, and improved customer service.
- **Enhanced data capabilities:** Improving data management, consolidation, and analytics capabilities was a significant motivator for over half the insurers polled. They sought to leverage their data assets more effectively to enable their organizations to become more data-driven. Enhanced reporting capabilities and the ability to gain deeper insights from their data were seen as important for informed strategic planning and improved underwriting.
- **System flexibility and scalability:** The ability to adapt quickly to changing business needs and support future growth was an important consideration for over half of those interviewed. Insurers wanted systems that could easily accommodate new products, channels, or markets without requiring an overall redevelopment. This flexibility was seen as important for long-term competitiveness and operational agility.

Interestingly, cost reduction was not the primary driver for many, with only a third of insurers mentioning long-term cost reduction as a motivation for the replacement initiative. Similarly, talent management was a driver in less than a third of cases, but in those cases, it was considered a significant factor.

The Business Case

The decision to embark on a core system modernization journey represents one of the more significant investments an insurer can make, and three-quarters of insurers profiled recognize the importance of formally justifying these transformative projects. However, the approach to business case development varied significantly based on carrier size and project scope:

- **Large carriers (more than US\$1 billion in premiums):** Nearly all large carriers developed comprehensive formal business cases. These typically included detailed financial projections, expected benefits, and return on investment (ROI) calculations.
- **Midsize carriers (less than US\$1 billion in premiums):** About 60% to 70% of midsize carriers created formal business cases, with the remainder opting for less structured approaches. This group showed the most variation in approach, often driven by immediate strategic needs rather than long-term financial projections.

Interestingly, 15% to 20% of carriers across all sizes developed informal or partial business cases. These typically included high-level cost estimates and expected benefits but lacked the rigor of a full analysis. A few proceeded without explicit business cases, often viewing the implementation as a strategic imperative that didn't require detailed financial justification.

Project Readiness

The implementation of a new core system is a journey that often requires preparation and organizational alignment. Datos Insights research indicates that project readiness is an important factor in determining the success, efficiency, and overall impact of these initiatives. Insurers that invest time and resources in thorough preparation can experience smoother implementations, reduced disruptions, and better realization of their project goals.

Project readiness extends beyond selecting a vendor and allocating a budget. It often requires addressing technological and organizational aspects, typically beginning months or years before the first process is redesigned and the first product is configured. This preparatory phase is imperative to set the stage for a successful implementation.

Datos Insights interviews with insurers who have undergone core system implementations illustrate the value of this preparatory work. Insurers took varied approaches to readiness:

Some invested heavily in pre-implementation activities (one insurer mentioned instituting a one-or-more-year “Road to Readiness” program); others jumped in with less preparation.

Companies that invested in holistic readiness activities, particularly in aligning business and IT expectations and capabilities, reported smoother transitions, fewer unexpected challenges, and a greater ability to adapt to the inevitable hurdles that arise during such complex projects. However, it’s important to note that even with thorough preparation, core system implementations can be challenging. The level of readiness required is often underestimated, and many organizations find themselves facing unexpected obstacles despite their best efforts. This underscores the importance of not only thorough preparation but also building flexibility and resilience into the implementation plan.

The main business readiness activities mentioned included the following:

- **Product rationalization:** Many companies opted to rationalize their products before implementation, often aligning more closely with bureau standards.
- **Process changes:** There was often a need to redesign business processes to align with new system capabilities rather than recreating legacy processes.
- **Organizational structure:** Some companies created new departments or roles to support the transformation, such as establishing formal organizational change management functions.

On the IT side, readiness activities mentioned included the following:

- **Agile adoption:** Many businesses struggled with the transition to Agile methodologies, particularly in adopting product owner roles and adapting to faster decision-making processes. This affected both IT and business stakeholders.
- **Legacy infrastructure upgrades:** Many companies were operating with outdated systems, often decades old, which necessitated significant changes.
- **IT maturity:** There was a wide range of IT maturity levels. Some organizations had traditional, Waterfall-oriented IT departments, while others were more advanced.
- **Staffing expansion and changes:** Several companies noted they lacked the necessary internal knowledge for modern core systems, particularly in areas like architecture and quality assurance. Subject-matter expert availability was noted as an area that had to be addressed during the planning phase.

- **Cloud readiness:** Some organizations needed to transition from on-premises systems to cloud infrastructure, requiring new skills and processes.

Approach, Scope, Cost, and Duration

Datos Insights' research into recent core system implementations identifies a range of approaches and outcomes across insurers. From multi-year transformations to focused, phased rollouts, the landscape of these projects is typically diverse. This section explores implementation approaches, including greenfield initiatives, MVP strategies, and full conversions. It also examines how insurers are defining project scope, managing budgets, and dealing with timeline pressures.

Approach

Interviews reveal that insurers have used several implementation approaches for their core system projects, each with distinct impacts on project dynamics, timelines, and outcomes. These are the primary approaches observed:

- **Phased rollout:** This was the overwhelmingly dominant strategy adopted by over 90% of insurers in our study. Only one insurer opted for a big bang rollout. Phased implementations involve rolling out the core system incrementally, typically organized by line of business, geography, or a combination of both. The rationale for this approach includes more manageable project scopes, reduced risk, and opportunities for learning and adjustment between phases. It allows insurers to show early wins and maintain momentum while managing resource constraints. However, this strategy often extends overall project timelines and may require maintaining legacy systems for longer periods. The near-universal preference for phased rollouts underscores the insurer prioritization of risk management and iterative learning.
- **Phasing strategies:** Among insurers adopting a phased approach (which was the vast majority), three main strategies emerged: phasing by line of business (LOB), geography, and system component. Phasing by LOB was the most common approach, used by 85% of insurers either exclusively or in combination with other strategies. Geographic phasing, state-by-state, was used by 38% of insurers, either alone or in combination with LOB phasing. This strategy was particularly useful for managing regulatory variations. A smaller number of insurers (8%) chose to phase by company within their organizations. Thirty-one percent of insurers employed combination approaches, such as rolling out by LOB within each state or region. These varied phasing strategies reflect the complex nature of insurance operations and the need to

tailor implementation approaches to each insurer's unique organizational structure, market focus, and risk tolerance. Regardless of the specific strategy, the goal remained consistent: to break down the massive undertaking of core system replacement into more manageable, less risky segments.

About a third of insurers used a strategy that combined several distinct approaches in their implementation. These strategies typically blended elements such as greenfield starts, phased rollouts, MVP principles, and, in one case, a limited big bang approach. For example, some insurers began with a greenfield implementation for a new product or market, employed MVP principles to quickly establish core functionality, and then transitioned to a phased rollout for existing lines of business, allowing them to leverage the benefits of each strategy at different stages of their transformation journey.

The use of these "bolt-on" strategies demonstrates a growing sophistication in implementation planning as insurers seek to balance innovation, risk management, and the need for a holistic transformation. These strategies are further defined herein:

- Greenfield usage:** Roughly 30% of surveyed insurers opted to start with a greenfield, typically for new LOBs or market entries. This involves building a new system environment from scratch. Greenfields offer flexibility in system design and process enhancements and allow a fresh start, which helps leave behind legacy technical debt. However, they tend to have longer initial setup times but can lead to faster subsequent rollouts. However, the inevitable need to bring existing business onto the new platform meant that these insurers ultimately faced the challenges of data migration and process adaptation for their legacy business. This hybrid approach—starting with greenfield and transitioning to conversion—represents a nuanced strategy that balances innovation and pragmatism in core system modernization.
- MVP:** The use of MVP in core system implementations was significant, with about one-third of insurers in our study either explicitly mentioning, using, or attempting an MVP approach. Specifically, 30% of insurers clearly stated they employed MVP principles in their implementation, while an additional 7% attempted to use MVP but abandoned it. The MVP approach, which focuses on delivering a core set of features quickly and then iterating based on feedback, was often coupled with other strategies, such as phased rollouts or greenfield starts. Insurers adopting MVP cited benefits such as faster realization of value, opportunity for early feedback, and reduced initial complexity. However, two-thirds of insurers did not explicitly mention MVP, suggesting that while it's a significant trend, it's not yet a universal practice in core system implementations.

The adoption of MVP concepts indicates a growing shift toward more agile, iterative implementation methodologies in the insurance industry, reflecting a desire to balance the rapid delivery of essential functionality with the comprehensive nature of core system transformations.

- **Agile delivery:** Agile technology played a significant role in many core system implementations, though the approach and extent of Agile adoption varied among insurers. About three in four insurers mentioned using some form of Agile or hybrid Agile approach, and typical Agile practices were commonly cited, such as sprint-based development and iterative delivery. Several insurers (about 20%) specifically mentioned adopting Scaled Agile Framework (SAFe) to manage the complexity of large-scale implementations. This framework helped coordinate multiple teams and align IT efforts with business objectives more effectively. Not surprisingly, the use of Agile was often correlated with the implementation of MVP, with about one-third of insurers employing MVP approaches.

The adoption of Agile methodologies was frequently cited as a key success factor, particularly in managing scope changes and adapting to evolving requirements. However, it also presented challenges, especially with smaller insurers or those transitioning from traditional Waterfall approaches. Some insurers reported initial struggles with Agile adoption, noting that it required significant cultural shifts and retraining of staff.

Scope

The definition and management of scope proved to be an important factor in project success. Insurers that effectively balanced holistic transformation goals with realistic implementation constraints generally reported smoother projects and better alignment with business objectives.

Scope has multiple dimensions, including which components to include, which lines of business and states, how many integrations, and whether an agent or policy portal is included. Larger insurers tended to have broader scopes, often implementing full suites across multiple LOBs. Midsize and smaller insurers frequently adopted more focused approaches, prioritizing specific systems or LOBs.

Several insurers reported significant changes to their insurance products as part of the scope of the implementation. In many of these cases, there was a desire to adopt ISO-consistent rates, rules, and forms. All of these insurers reported delays related to ISO

adoption, as stakeholders did not know the ISO products well enough to articulate adoption and deviations in a timely manner.

On average, insurers reported integrating 30 to 40 external systems or data sources; larger insurers reported doing more, and smaller insurers reported fewer. Nearly three out of four insurers implemented new document management systems alongside their core components, and over half included new data warehouse and analytics platforms.

Many insurers' profiles approach core replacement as an opportunity for significant process reengineering, often to align with industry best practice. About half improved their automated underwriting and STP capabilities as part of the implementation.

The majority of insurers reported scope creep as a significant challenge that often led to extended timelines and budget overruns. Insurers that clearly defined and controlled scope reported higher satisfaction with project outcomes.

Licensing Costs

Licensing fees for core insurance systems are in a state of constant evolution, driven by maturing market dynamics and technological advancements. Vendors can realize significant operational efficiencies as cloud technologies continue to improve and automation becomes more sophisticated. These savings, coupled with increasing market competition, create downward pressure on Software-as-a-Service (SaaS) pricing across the industry.

SaaS-based pricing models for core insurance systems are still relatively new in the grand scheme of technology adoption. As vendors and insurers gain more experience with these models, pricing structures are becoming more refined and, in many cases, more favorable to insurers. Still, despite this general trend toward more competitive pricing, the landscape is highly variable. Numerous SaaS factors influence final costs, making each negotiation a unique opportunity for insurers to help secure advantageous terms:

- **Vendor selection:** Established vendors with broader capabilities may command higher fees, but this isn't always the case. Market competition and evolving cloud technologies help drive efficiency, which can translate to more aggressive pricing from some industry leaders.
- **Implementation scope:** The number of modules licensed (e.g., policy, billing, claims) and the complexity of the insurer's operations can affect pricing.

- **Volume commitments:** Larger books of business should theoretically lead to better pricing due to economies of scale, but this isn't always reflected in practice.
- **Contract terms:** Factors such as contract length, service-level agreements, and included features can influence the final price.
- **Market dynamics:** The competitive landscape at the time of negotiation can significantly affect pricing. Vendors may be more flexible when competing for business.
- **Timing:** The vendor's financial year-end, sales targets, and broader market conditions each play a role in pricing flexibility.
- **Competitive selections:** Formal vendor selection processes tend to result in better pricing. When insurers engage multiple vendors in a competitive bid, vendors are often more willing to offer more favorable terms and pricing to win the business.

Despite these variables, one factor is important in determining the final licensing cost: negotiation. The skill and strategy employed during the negotiation process can often affect pricing more significantly than an insurer's size or the scope of implementation. These are some of the effective negotiation strategies:

- Engaging in competitive vendor selection processes
- Timing negotiations strategically, e.g., near a vendor's fiscal year-end
- Leveraging market intelligence about recent deals and industry benchmarks
- Being prepared to walk away or delay a decision if terms aren't favorable

Insurers should approach SaaS fee discussions as an important part of their overall core system strategy, recognizing that initial quotes *always* have room for adjustment. The unique circumstances of each implementation, coupled with effective negotiation, can lead to substantial variations in pricing that may not align with simplistic assumptions about insurer size or implementation scope.

Implementation Cost and Duration

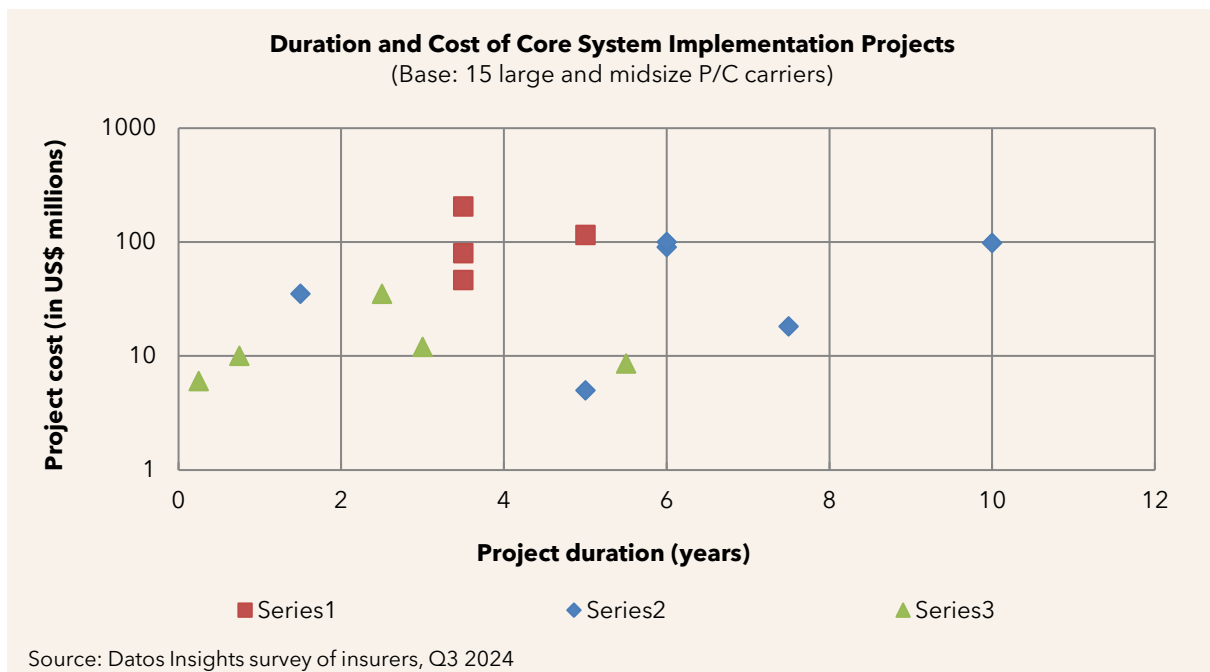
Our study indicates that core system implementations often exceed initial budget and timeline expectations, with significant variations across different insurers. Success in managing costs and timelines appears to correlate strongly with effective scope

management, realistic initial planning, and a willingness to adapt an approach based on early implementation experiences.

Reported project costs ranged from US\$5 million for smaller, focused implementations to more than US\$100 million for large, multi-year transformations. On average, 60% to 70% of costs were attributed to external resources (system integrators, vendors), while 30% to 40% were internal costs. A majority of insurers reported exceeding their initial budgets, with an average overrun of 25% to 30%.

Figure 5 shows this data. Note that the y-axis (Project Cost) is presented on a logarithmic scale to accommodate the wide range of project costs, from US\$5 million to over US\$100 million. The log scale enables easier comparison of relative cost differences across projects of varying sizes and complexities.

Figure 5: Duration and Cost of Core System Implementation Projects



The chart uses color coding to represent the scope and complexity of projects. Red points indicate high-complexity implementations, typically involving multiple LOBs, full-suite replacements (policy, billing, and claims), and many integrations. These generally represent holistic, enterprise-wide transformations for larger organizations. Blue data points represent average complexity projects, which may include full-suite replacements but with a more limited scope in terms of LOB or states. Green data points denote lower

complexity projects, which may represent policy administration only, MVP capabilities only, or a single phase of a larger implementation.

It's important to note that some projects marked as low complexity may be part of larger, more complex transformations. Still, the data available covers only a specific phase or component of the overall implementation.

As with scope and cost, project durations varied widely, from as little as three months for focused, single-LOB implementations to more than 10 years. The median duration for a full-suite implementation was three to four years. Many insurers also reported timelines extending beyond initial estimates, with an average extension of 30% to 40%.

A few key cost drivers include the number of LOBs being implemented, the number of states, and the components being replaced (e.g., policy, billing, claims, or full suite). Integration complexity, particularly with legacy systems and third-party services, often contributes substantially to project expenses. Data migration efforts, including data cleansing and conversion, frequently emerge as major cost factors, often underestimated in initial budgets.

The implementation approach—whether a big bang, phased rollout, or MVP strategy—influences the distribution and total amount of costs. Customization levels play an important role, with higher degrees of customization typically leading to increased costs and longer timelines. Resource costs, including internal staff allocation, external consultants, and system integrators, form a significant portion of the budget.

The following are additional factors related to cost management and cost overruns:

- **Underestimation of complexity:** Many insurers underestimated the complexity of core system implementations, particularly in areas of data migration, integration, and process reengineering.
- **Scope creep impact:** Scope creep was cited as the primary reason for both cost overruns and timeline extensions. Insurers that maintained stricter scope control generally reported better adherence to budgets and timelines.
- **Phased approach benefits:** Insurers adopting phased approaches often reported better cost control and more predictable timelines for later phases, leveraging lessons learned from initial implementations.

- **Unplanned costs:** Many insurers noted significant “hidden costs” in areas such as organizational change management, training, and temporary staffing to backfill key resources dedicated to the project.
- **Resource constraints:** Smaller insurers often face greater challenges in managing costs and timelines due to resource constraints, both in terms of budget and available skilled personnel.
- **Cloud impact:** Insurers implementing cloud-based solutions reported shorter initial implementation times but noted ongoing costs for upgrades and maintenance.
- **Picking the ideal vendor and system integrator (SI).** The choice of vendor and SI significantly impacted both costs and timelines. Insurers that prioritized vendor experience and cultural fit reported smoother implementations.
- **Business readiness:** Companies that invested more in upfront business readiness (e.g., process optimization, data cleansing) often experienced longer preparation phases but smoother and faster actual implementations.
- **Agile vs. Waterfall:** Insurers using Agile methodologies reported more flexibility in managing scope and timelines, but some struggled with effectively forecasting final costs and durations.

Implementation durations varied widely in our study, but the median timeline of three to four years for a full-suite implementation appears to strike a balance between several competing factors. This time frame is a desired duration for many insurers, considering organizational capacity, cost management, and value realization. Shorter implementations may struggle to manage the scope and complexity of a full transformation; longer projects tend to incur higher costs, even when the total work effort remains constant. Moreover, extended timelines can delay the realization of benefits and ROI.

It’s also important to consider that large-scale core system projects often sideline other important initiatives due to resource constraints. Some work can be deferred, but postponing critical business improvements for too long can negatively impact overall performance and competitiveness. Therefore, aiming for a three-to-five-year implementation window allows insurers to manage the transformation effectively while maintaining business agility and momentum in other areas. This timeline also aligns with the practical limits of how long an organization can sustain the intense focus and resource allocation required for such a significant change.

Outcomes and Lessons Learned

The implementation of core systems has had varied impacts across insurers, with both successes and challenges apparent in the sample group. While implementations presented significant challenges, many insurers reported that the long-term benefits outweighed the short-term difficulties. The transformations laid the foundation for improved operational efficiency, better customer service, and enhanced ability to adapt to market changes. However, the journey was often longer and more complex than initially anticipated, emphasizing the need for thorough planning, realistic expectations, and adaptable implementation strategies.

This section summarizes the key outcomes, metrics, and lessons learned from these transformative projects.

Business and IT Results

Implementation of the new core systems delivered operational efficiency and business agility for many insurers profiled.

Improved operational efficiency, a primary goal for many, saw improvements across the board. Many insurers reported reductions in policy issuance times, with several cutting their processing times nearly in half. This acceleration in core operations has not only improved customer satisfaction but has also allowed underwriters to focus on more complex, high-value tasks.

STP rates also saw improvement. Personal lines, in particular, benefited from automation, with many insurers reporting STP rate improvements of 25% or more. Commercial lines showed more modest gains due to their inherent complexity but still saw improvements in the 15% to 20% range.

Many insurers also cited business growth and scalability. Half of the insurers we spoke with highlighted their improved ability to enter new markets as a key benefit of their new core systems. The agility offered by these modern platforms has reduced the time required to launch in new states, with many reporting a reduction from 18 months to just three to six months. The improved speed-to-market capability has allowed insurers to capitalize on new opportunities more rapidly and respond more effectively to market shifts.

Improvements in employee-to-policy count ratios are further evidence of efficiency gains. With new systems automating many routine tasks, insurers have been able to handle a

growing policy volume without proportional increases in staffing. Many reported efficiency improvements in the 15% to 20% range, a significant boost to operational productivity.

While many insurers cited potential long-term cost reductions as a benefit of core system modernization, specific figures varied widely, and some experienced initial cost increases. The realized financial impacts were often mixed, with some insurers reporting efficiency gains and reduced maintenance costs, while others focused more on improved capabilities rather than direct IT cost reductions.

However, it's important to note that these benefits didn't materialize overnight. Insurers generally reported a gradual increase in transaction volume and user adoption rates following core system implementations. The timeline for reaching expected usage levels differed among insurers: Some achieved high adoption rates within the first year; others experienced a more extended ramp-up period. Factors influencing adoption rates included the implementation approach, the effectiveness of training programs, and the complexity of the transition from legacy systems.

Many insurers also experienced successes that enhanced their operations and capabilities:

- **Cloud adoption:** Insurers implementing cloud-based solutions reported greater flexibility and easier scaling.
- **Data insights:** Enhanced data capabilities led to improved underwriting and pricing decisions.
- **Digital engagement:** Improved agent and customer portals resulted in higher satisfaction rates.

Top Challenges

The road to core system modernization is rarely smooth. Insurers encountered a variety of obstacles that tested their resolve and adaptability. These challenges ranged from technical hurdles in data migration to the human elements of change management. Understanding these common pitfalls is crucial for insurers planning transformations, as it allows them to anticipate and avoid potential roadblocks. The experiences shared by our interviewees shed light on the more persistent and impactful challenges faced during these complex implementations:

- **Data migration:** Seventy-five percent (75%) of insurers cited data cleansing and migration as a major challenge. The complexity of legacy data structures,

inconsistencies in historical data, and the sheer volume of information to be transferred often led to significant delays and increased costs. Many insurers underestimated the time and resources required for effective data mapping and cleansing, leading to data quality issues post-implementation.

- **Legacy mindsets and change management:** The shift to new systems often required changes in business processes and user workflows. Seventy percent (70%) of insurers struggled here. Resistance to change, particularly from long-tenured employees accustomed to legacy systems, posed a significant hurdle. Insurers found that holistic training programs and clear communication strategies were essential but often underestimated in initial planning.
- **Integration complexity:** Integrating with legacy or third-party systems was a challenge for over half the insurers profiled. The insurance ecosystem involves numerous interconnected systems, and confirming seamless integration with both retained legacy components and new partners proved more complex than anticipated. Issues ranged from data synchronization problems to performance bottlenecks at integration points.
- **Performance:** Half of those profiled experienced performance challenges, especially in the early stages after going live. New systems, particularly those handling increased automation and data processing, sometimes struggled to meet performance expectations in the real world. This led to user frustration and, in a couple of cases, temporary reversion to legacy processes. Adequate performance testing and capacity planning emerged as important yet often underestimated aspects of implementation.
- **Scope creep:** Many insurers (approximately 60%) reported challenges with scope creep. As implementation progressed, there was often a tendency to add features or customize beyond the original plan, leading to extended timelines and budget overruns. Balancing necessary adaptations with strict scope management proved to be a delicate and ongoing challenge.
- **Resource constraints:** Over half of those profiled, mostly smaller insurers, struggled with resource allocation. The demands of the implementation often strained both IT and business resources, sometimes impacting day-to-day operations. Maintaining the right balance between project needs and ongoing business requirements was a constant challenge for many organizations.

While experiences vary across insurers, some factors emerged as critical to the success of core system implementations. These often made the difference between projects that struggled and those that thrived:

- **Executive sponsorship:** Consistent support from leadership was important. Successful implementations had visible and active executive champions who not only provided resources but also helped navigate organizational challenges. These leaders communicated the strategic importance of the project, aligned departmental goals, and made the necessary decisions swiftly when needed.
- **Change management:** Insurers that invested heavily in preparing their workforce for the changes ahead saw smoother transitions and faster adoption rates. This included early engagement with end users, tailored training programs, and ongoing support mechanisms post-implementation.
- **Scope management:** Avoiding scope creep and maintaining focus on core objectives was key. Successful projects had clear, well-defined scopes with mechanisms to evaluate and control changes. They prioritized essential functionality for initial releases, allowing for enhancements in subsequent phases.
- **Agile:** Flexibility in approach and quick adaptation to challenges proved beneficial. Insurers that adopted Agile or hybrid methodologies were better equipped to handle the inevitable surprises and changes that arose during implementation. This approach allowed for incremental delivery and faster realization of benefits. However, not every insurer was sold on the efficacy of Agile, especially as it related to scope management. Given that the majority of vendors and SIs use Agile today, Agile training for business and IT should be considered an essential part of preparedness.
- **Strong vendor relationships:** Close collaboration with system vendors and integrators was a common thread in successful implementations. Insurers that treated these relationships as long-term strategic partnerships rather than transactional engagements reported better outcomes and more effective problem-solving.

Lessons Learned

The process of implementing core systems has been a profound learning experience for insurers across the industry. These lessons, often hard-won through trial and error, offer invaluable insights for future projects:

- **Invest in preparation:** Thorough planning, especially in data readiness and business process alignment, may slow things down initially but will pay dividends throughout the project. Insurers that spent more time on upfront analysis and preparation reported smoother implementations and fewer surprises. This includes conducting holistic data quality assessments, mapping out integration points, and aligning business processes with system capabilities before beginning the implementation.
- **Balance customization:** Excessive customization led to implementation delays and upgrade challenges. While some customization is often necessary, insurers learned to effectively evaluate each customization request. Those that stayed closer to pre-configured functionality generally had smoother implementations and easier future upgrades.
- **Focus on the user experience:** Early involvement of end users in design and testing improved adoption and satisfaction rates. Successful implementations prioritized user-centric design and involved key stakeholders throughout the process. This approach not only improved the final product but also increased buy-in and enthusiasm for the new system.
- **Shift-left performance testing:** Rigorous performance testing before going live prevented major issues. Insurers that invested in holistic performance testing early, including stress testing under realistic conditions, were better prepared for the demands of production environments. This included testing integrations and end-to-end processes, not just individual system components.
- **Plan for post-implementation support:** Many insurers underestimated the resources needed for stabilization and optimization. Successful implementations included detailed plans for the critical period immediately following the go-live date, including dedicated support teams, clear escalation paths, and mechanisms for quickly addressing user feedback.
- **Embrace continual improvement:** The more successful insurers viewed their core system implementation not as a one-time event but as the beginning of a journey of continual improvement. They established mechanisms to gather user feedback, monitor system performance, and continually enhance their new platforms.
- **Cultivate internal knowledge:** While external collaborators were integral, building internal knowledge was equally important. Insurers that invested in developing their

own team's skills and knowledge were better positioned to manage and evolve their systems long-term, reducing dependency on external resources.

On the Role of SIs

The engagement of SIs in core system implementations is nearly ubiquitous in the insurance industry, and for good reason. Their knowledge can be a powerful accelerator for these complex projects. However, the more successful implementations treat SIs as strategic collaborators rather than mere vendors. By carefully selecting SIs, actively managing the relationship, and focusing on knowledge transfer and long-term sustainability, insurers can increase the value of these relationships while building capabilities for the future.

This research has uncovered several critical insights into the effective use of SIs in these transformative projects:

- **Selection:** The selection of an SI is often as pivotal as the choice of the core system itself. Insurers that carefully evaluated not just technical capabilities, but also cultural fit reported smoother implementations. However, this process is fraught with potential pitfalls. Some insurers found themselves grappling with misalignments in working styles or methodologies, underscoring the importance of thorough vetting beyond just technical expertise.
- **Experience and domain knowledge:** Experience in the insurance domain emerged as a nonnegotiable factor. SIs with a proven track record in similar implementations brought invaluable insights, often anticipating and mitigating industry-specific challenges before they became critical issues. This specialized knowledge frequently translated to more efficient implementations and better alignment with insurers' unique needs.
- **Knowledge transfer:** A recurring theme in successful implementations was the emphasis on knowledge transfer. Forward-thinking insurers insisted on structured plans to transition knowledge from the SI to their internal teams. This approach not only built internal capabilities but also mitigated the risk of long-term dependency on external knowledge. Conversely, those that neglected this aspect often found themselves tethered to their SI long after the initial implementation, incurring unforeseen costs and limitations in system adaptability.

- **Team composition:** The composition of the implementation team proved to be a delicate balance. Most successful projects struck a ratio of 60% to 70% SI resources to 30% to 40% internal staff. This mix confirmed that the project benefited from the SI's subject matter experience while maintaining a strong alignment with the insurer's business needs and cultural nuances. It also helped facilitate more effective knowledge transfer, preparing the insurer for long-term system ownership.
- **Governance:** Governance and accountability emerged as critical factors. Clear delineation of responsibilities between the insurer and SI was paramount. Projects that established robust governance structures and decision-making processes navigated challenges more effectively. In contrast, ambiguous accountability often led to finger-pointing and paralyzing indecision when issues arose.
- **Multisourcing:** Some insurers found success in multi-source engagement models. For instance, using different SIs for core development and testing allowed them to leverage specialized expertise in each area. This approach, while more complex to manage, often resulted in higher-quality outcomes and more holistic test coverage.
- **Testing:** While SIs often led testing efforts, insurers found significant value in maintaining internal quality assurance oversight. This dual approach ensured that testing covered not just technical functionality but also alignment with the insurer's specific business processes and needs.
- **Staff turnover:** A significant challenge many insurers faced was managing SI staff turnover during long-term projects. High turnover rates led to knowledge gaps and project delays. Savvy insurers addressed this by including contractual provisions to maintain key personnel and ensure proper handovers, highlighting the importance of not just technical but also relationship continuity.
- **Rowing in the same direction:** The alignment of incentives proved to be another critical factor. Insurers that tied SI compensation to project outcomes rather than just time and materials often saw better alignment with overall project goals. A few insurers found success with fixed-price contracts, though these required exceptionally clear scope definitions to avoid disputes.
- **Culture:** Cultural fit and communication styles, while often overlooked in initial evaluations, emerged as crucial success factors. Insurers that prioritized these soft factors in their SI selection process reported smoother collaborations and fewer misunderstandings throughout the project life cycle.

Conclusion and Closing Thoughts

Core system modernization remains an important priority for insurers seeking to stay competitive in an increasingly digital landscape. While the journey is often longer and more complex than initially anticipated, the long-term benefits in operational efficiency, market agility, and customer service capabilities help make these transformations worthwhile investments.

Core system implementations are complex, challenging endeavors that typically require careful planning, strong leadership, and organizational resilience. However, they also represent a unique opportunity for insurers to reimagine their operations, enhance their competitive positioning, and build a foundation for future innovation.

The key to success often lies in striking the right balance between ambitious transformation goals and the practical realities of maintaining business continuity. By learning from the experiences of others, adopting industry best practices, and remaining flexible in the face of challenges, insurers can navigate the complexities of core system modernization and emerge stronger, more agile, and better equipped to thrive in an ever-changing insurance landscape.

As the industry continues to evolve, those that successfully modernize their core systems will be well-positioned to lead in the digital age, delivering enhanced value to their customers, employees, and stakeholders.

About PwC

Our purpose—to build trust in society and solve important problems—is at the core of everything we do. It guides how we serve our clients, our people, and the world.

To help our clients build trust and deliver sustained outcomes, PwC provides professional services across Audit and Assurance, Advisory, and Tax. We bring a range of capabilities to help organizations solve faster, solve more, and realize more value. These capabilities include cloud and digital, deals, ESG, cybersecurity and privacy, governance/boards, risk, transformation, and much more.

Across our global network of nearly 328,000 professionals in 152 countries, we are committed to advancing quality in everything we do.

About Datos Insights

Datos Insights is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

Contact

Research, consulting, and events:

sales@datos-insights.com

Press inquiries:

pr@datos-insights.com

All other inquiries:

info@datos-insights.com

Global headquarters:

6 Liberty Square #2779

Boston, MA 02109

www.datos-insights.com

Author information

Martina Conlon

mconlon@datos-insights.com

Martin Higgins

mhiggins@datos-insights.com

Ashley Lee

alee@datos-insights.com

© 2025 Datos Insights or its affiliates. All rights reserved. This publication may not be reproduced or distributed in any form without Datos Insights' prior written permission. It consists of information collected by and the opinions of Datos Insights' research organization, which should not be construed as statements of fact. While we endeavor to provide the most accurate information, Datos Insights' recommendations are advisory only, and we disclaim all warranties as to the accuracy, completeness, adequacy, or fitness of such information. Datos Insights does not provide legal or investment advice, and its research should not be construed or used as such. Your access and use of this publication are further governed by Datos Insights' Terms of Use.