Core Platform Implementations: Why have we accepted the status quo?

Implementing a new core system is a complex process that involves data integration, customization of workflow, and standardization across the enterprise in order to maximize efficiency. What are you doing to ensure that your next implementation goes smoothly?

Insurance executives are realizing that digital transformation is critical to achieving long-term financial objectives and remaining competitive in the ever-changing insurance marketplace. Yet, the decision to implement new technology should never be taken lightly. For many, it will be an expensive and risky endeavor that takes multiple years to complete, leaving project teams burned out.

If the idea of implementing a new solution doesn't create serious anxiety and apprehension, chances are you're one of the lucky few who haven't experienced the pain of a multi-year implementation going sideways. All it takes is a few customer references or a quick google search to find horror stories of projects that took twice as long and 10x the budget to complete –astounding numbers considering many of these projects end up in the millions, if not tens of millions of dollars by the time they are finished. Yet we aren't surprised by these numbers. We've come to expect that project costs, timelines, and deliverables will end up higher than initially discussed. Somewhere along the way, this became the norm, which begs the question…

Why have we accepted this as the status quo?

Let's first unpack what the status quo is. To do this, we need to understand two key things:

1

The Financial Investment is Monumental

If you're a provider somewhere between $10M and $1B in DWP (Direct Written Premium), and you've evaluated a core system provider, you know that the cost associated with purchasing a new solution is anywhere between $250k and $5M in annual subscription costs. Stacked on top of this, are professional service costs that range from $500k to $5M, which eventually compound themselves into a $1M to $10M investment once the project is completed. Both costs require significant consideration from a business, as they become formidable OPEX and CAPEX line items in the budget.

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2

The Relationship Between Time and Complexity is a Close One

Implementing a new core system is a complex project that involves data integrations, configuration of workflows, and the standardization of business processes. The more complex you make this exercise, either through extensive customization of a new solution or through poor project planning, the more time the project will take – the concept of diminishing returns comes into play here. Where do you draw the line? In a highly regulated industry, like insurance, the competitive advantage is baked into the nuance of business process, there-by requiring ample customization (ergo, a longer implementation) to maintain this strategic advantage. This means extra hours and a significant change management exercise for implementation teams.

As a project's cost increases, so will the complexity of execution. Simply put, software providers will tailor, customize, and develop solutions for any customer willing to pay the price for doing so. As an executive, your appetite for risk decreases as costs increase, which means an organization's desire for new and innovative process decreases as project costs climb – there is certainty in the status quo. For core platform providers, this has uniquely positioned their business as custom solution providers that can deliver purpose-built solutions to those willing to pay, and more importantly, those willing to wait.

Over the last 15 years, core system providers have scaled their business to accommodate this phenomenon. For providers operating in the Tier 1 and 2 space, where annual contract costs for a core system are roughly 1% of their DWP, the business model works. As solution providers move down market, this model begins to fall apart. Premium volume and project complexity are not correlated – the work required to implement a provider with $10M DWP isn't much different that the work required to implement a provider with $100M in DWP.

Consequently, as up-market providers continue to accept the status quo and reap the rewards of digital transformation, smaller niche providers are priced out of market.

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Change is Hard, Failing to Change is Harder

Waiting on the other side of implementations is the commitment leaders must make to successfully execute the project. As the ink on the contract dries, both businesses are staking immense amounts of resources to carry out a successful implementation, often staking their career on these decisions. It's not uncommon to hear about a Chief Information Officer (CIO) being let go because of a failed, multi-million-dollar implementation effort.

The principle of marginal costs settles in as core system implementations take shape. When you've invested significant amounts of capital and time into a project and challenges arise that can potentially impact the successful delivery of an implementation, it becomes difficult to do anything other than doubling down on your investment. Consequently, as software implementation timelines push, change orders roll in, and "new requirements" are uncovered, businesses find themselves held hostage – it's either all or nothing.

This is why the savviest software buyers are weary of vendors that say "yes" to every requirement. Instead, they're focused on a strict set of functionality requirements that will drive critical business process and welcome guidance from industry experts on how to connect the dots on the rest. This mindset enables leaders to remain agile in their approach to solving the challenges that drove them to implementing a new solution, without creating new ones along the way – like a broken budget and burnt-out employees.

As mentioned earlier, all it takes is a few customer references or a quick google search to find horror stories of projects that took twice as long and 10x the budget to complete. Projects like this can crush organizations and leave scars that stifle opportunities for future innovation. Experts have estimated that the true cost of implementations can exceed $100M for large insurers when you consider the additional costs beyond the price tag of a new solution. A startling figure, when you realize most of the cost hinges on a set of assumptions that are made prior to signatures.

A New Way…

The methods in which core systems are implemented **are broken**.
Insurance companies and vendors alike have made the following assumptions about the industry:

1

Implementation Timelines

The industry standard for implementations is 18 months (usually more). By the time the keys are handed over, the original date has been buried by scope creep and poor requirements gathering. *So, whose timeline is it really?*

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2

Cost Structure

Scope of work documents are loose, and buyers should be ready for change orders. The cost at signature is rarely the cost at go-live. Nothing is fixed bid, and the burden of responsibility shifts from vendor to buyer.

3

The Status Quo Can't be Challenged

Somewhere along the way, both parties accepted the situation for what it is. Although broken, there isn't an alternative solution because someone must have tried it by now, right?

Wrapped up in these assumptions is the antiquated approach to software that has served the industry for the last two decades. Custom, on-premise solutions have set the expectation and designed the organizational requirements for what the next wave of solutions should provide. Over the last decade, all the major vendors have shuffled their book of business from a true on-premise solution to a pseudo cloud-based version of their software, creating a false understanding of what a true cloud-based SaaS provider can deliver.

Modern technology development has revolutionized the ways that vendors can deliver solutions to their customers. While many implications stem from these innovations, two should really stand out – *ease of system updates and efficiency of implementation*. New solutions have been built with the perfect mix of scalability and configurability, meaning faster implementations at lower costs. This results in greater certainty of a project's timeline and the ability to self-service changes to the solution.

Instead of 18-to-24-month project timelines, deliverability in 6 to 9 months is possible, offering agility and reducing the risk of change. In addition, these will be fix-bid implementations, putting the financial responsibility of delivery back on the vendor. This can put an end to endless change orders, and "nickel and diming" for functionality. Instead, insurers have a partner that is equally invested in their success and providing a continuous stream of value.

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