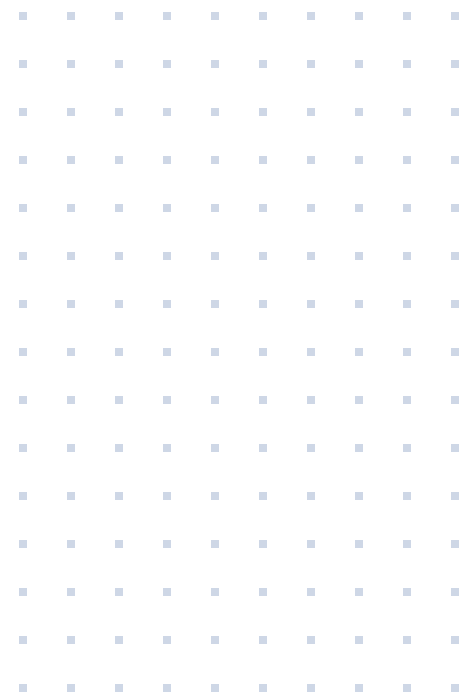


RESEARCH

NEW TECH, OLD HABITS

Why modernization stalls with health insurers



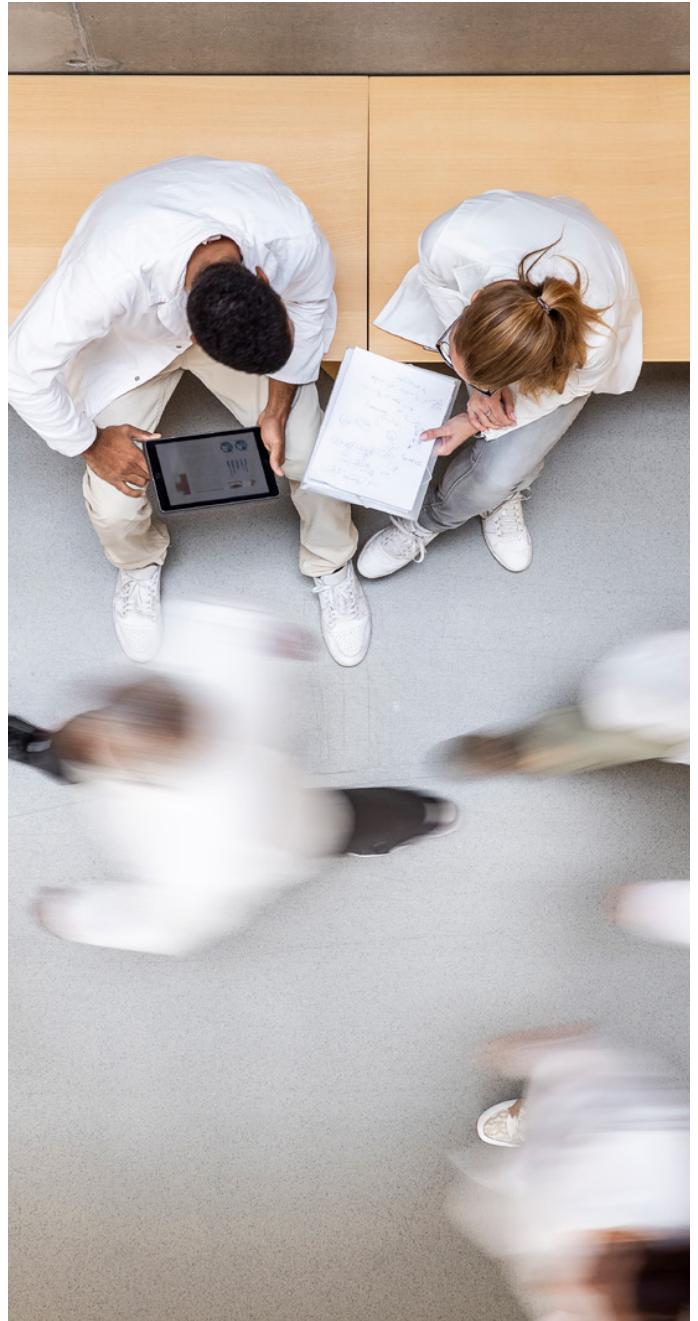
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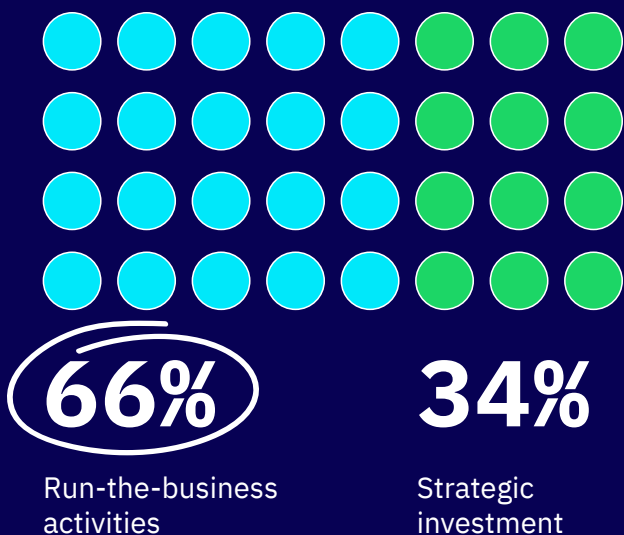
How insurers should approach modernization to deliver on their technology investments

Health insurers are under constant and growing pressure to modernize their technology ecosystems. Regulatory demands continue to expand, administrative costs are rising, consumer expectations for digital experiences are increasing, and new capabilities like AI promise to reshape how health plans operate.

In response, many health insurers are investing in new platforms and modern architectures built on flexible, cloud-enabled technology foundations. These environments integrate core operations, data, and digital capabilities to improve efficiency, accelerate innovation, and deliver better member and provider experiences.

Some organizations are replacing legacy systems built for a healthcare system that no longer exists, while others are layering new capabilities onto ecosystems shaped by decades of incremental change.

How payers split their IT budget



But modernization is happening under significant constraints: **Two-thirds of health plan IT spending is still devoted to run-the-business activities rather than strategic investment**, limiting how much organizations can commit to large-scale transformation.

Modernization dollars are scarce, which raises the stakes for every investment. Health insurers can't afford programs that fail to deliver value. Yet many modernization initiatives still fall short. The problem isn't just outdated technology. Replacing systems alone doesn't transform how an organization operates.

Decision-making structures slow progress and change adoption often lags implementation. When that happens, new technology ends up performing like the systems it was meant to replace.

Successful modernization requires more than new platforms. It needs:

- Alignment between business and IT on the modernization vision and priorities
- Putting the business in the driver's seat with clear ownership and governance across complex transformation programs
- Embedding change management into delivery, rather than treating it as an afterthought

WHY MODERNIZATION IS AN URGENT OPPORTUNITY

Health insurers aren't modernizing solely to reduce costs. They're transforming to protect margins, meet rising regulatory and member expectations, and build capabilities that legacy technology environments were never designed to support.

The pressures driving modernization are multifaceted. Member expectations have shifted, with consumers now expecting digital experiences comparable to those offered in retail, banking, and other industries. At the same time, health insurers must navigate increasing regulatory demands, growing administrative complexity, and continued margin pressure. Legacy infrastructure limits what can be built, how quickly new capabilities can be deployed, and how effectively organizations can integrate data, partners, and digital services to meet these evolving demands.

Several forces are accelerating the need for modernization:

- AI requires a modern data and technology foundation. Health insurers see significant potential in AI but realizing that value depends on integrated data and modern platforms. Intelligent automation cannot scale on fragmented legacy systems.
- Regulatory demands continue to accelerate. Interoperability requirements, price transparency rules, and evolving reimbursement models require agility that many legacy systems cannot support.

- The IT spending model is unsustainable. Many health plans devote a large share of their IT budgets to maintaining existing systems, leaving limited capacity for strategic investment and innovation.
- The competitive window is narrowing. Health plans that modernize effectively will be better positioned to adapt and innovate, while those that delay risk falling behind.

The cost of a 24-month modernization freeze

33%

foresee significant competitive disadvantage

20%

expect severe operational disruption



WHY MODERNIZATION EFFORTS **FAIL TO DELIVER**

Upgrading legacy infrastructure is an expensive, complex, and time-consuming investment—and the health insurers who make that investment often don't see the return. When modernization falls short, the culprits are almost always:

- Disconnect between business and IT leads to **wasted resources, unmet expectations, and suboptimal outcomes**
- Unclear direction, redundant efforts, and lack of coordination results in **delays, cost overruns, and inefficiencies**
- A serious underestimation of the organizational change required—all compounded by legacy architectures that are harder to untangle than anyone anticipated



Business and IT aren't aligned, and it shows.

Only 52% of health insurers say business and IT are completely aligned on modernization priorities. In 22% of organizations, funding decisions are made unilaterally by the CIO or CTO—slowing execution before implementation even begins. What's more, 94% had at least one strategic technology program delayed or canceled for budget reasons in the last 12 months.

The business-IT alignment gap

52%

of payers report complete business-IT alignment on modernization priorities

22%

say funding decisions are made unilaterally by the CIO or CTO

New platforms, old habits.

Health insurers often make modern technology investments without changing how the organization works around them. The business may help define the case for change up front, but once implementation begins, ownership can drift toward IT, vendors, and system integrators. The result is that modernization becomes a technology deployment instead of a business-led transformation.

That risk grows with complexity. These programs often span multiple systems, integrations, teams, and partners, creating constant trade-off decisions that affect business outcomes. To keep value at the center, organizations need a clear business integrator role—someone responsible for bridging business and IT, coordinating stakeholders, and ensuring delivery decisions stay tied to the intended outcomes.

This is also a chance to modernize the operating model, not just the platform. Product- or capability-based structures are often better suited than legacy waterfall models to support ongoing iteration, ownership, and continuous improvement. Without that shift, organizations may go live on a new platform only to find themselves unable to fully evolve it afterward.

Change management is treated as an afterthought.

Modernization changes how people work. If you don't plan for that from day one, even a technically successful implementation won't deliver lasting value.

These initiatives reshape core workflows, sometimes significantly. Even relatively minor changes create resistance when they're not managed well.

Legacy teams often resist new ways of working, and frontline employees frequently experience platform transitions as unnecessary disruption—especially when no one has clearly explained what will be different about how they do their jobs.

In many cases, the issue isn't the technology itself but the human side of transformation. Nearly one-third of modernization programs fail due to poor stakeholder engagement, underscoring how critical it is to build buy-in and support adoption from the start.

Adoption must be built into delivery from the beginning. In practice, that means:

- Training people on new processes.
- Updating standard operating procedures to reflect how work flows in the new environment.
- Helping people understand what the change means for them specifically, not just what it means for the organization.

When organizations skip this foundational work, the consequences are real. One major national health plan, for example, spent roughly \$17 million per year on ServiceNow licenses but ultimately saw the implementation stall—not because of the platform itself, but because the organization failed to put the change management structures in place needed to support adoption.

Cultural inertia doesn't resolve on its own. Breaking through it takes deliberate investment and ongoing reinforcement, support, and accountability. Organizations that skip this step end up with modern systems and old behaviors—paying for transformation they never actually achieved.



GETTING THE FOUNDATION RIGHT: WHAT TO DO BEFORE YOU START

The health insurers that avoid these failure patterns share a common approach: treating modernization as a value program, not an IT project. And they get four things right before implementation begins.

☑ **A shared vision between business and IT.**

This is where many programs start to break down. Business and IT must align on what they are trying to achieve and why. If implementation begins with different expectations, misalignment compounds at every decision point. The vision also needs to be specific – vague aspirations don't hold up when trade-offs need to be made.

☑ **A clear transformation architecture and roadmap.**

Organizations need a fact-based understanding of their current state and a defined future-state vision that reflects strategic priorities. Rather than attempting to modernize everything at once, translate the gap into a phased roadmap that sequences initiatives, delivers incremental value, and aligns investment with organizational capacity. This roadmap should clarify priorities, funding, resource needs, and key trade-offs.

☑ **Defined outcomes with clear owners.**

The vision should translate into three to five measurable metrics before work begins—such as cost per transaction, per-member-per-month costs, or reductions in IT spend. Each outcome should have a clearly assigned owner accountable for delivering and sustaining results.

☑ **Governance with clear decision authority.**

Modernization requires constant trade-offs between scope, timeline, cost, functionality, and long-term flexibility. Without clear decision-makers, those choices get pushed to committees and progress stalls. Assign a single accountable owner, define escalation paths early, and establish guiding principles for how trade-offs will be made.



WHAT CAN'T BE COMPROMISED

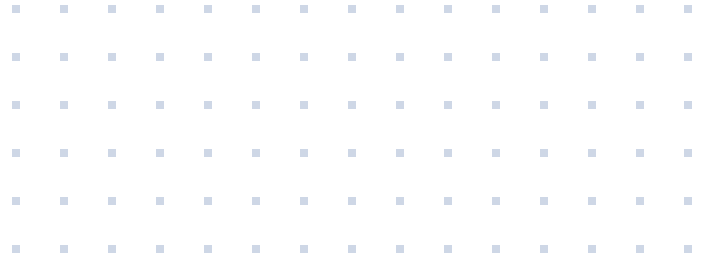
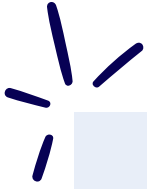
Some things can't be traded away in the interest of speed or cost savings. Before modernization begins, health insurers should draw hard lines around:

- **Member, provider, broker, and employer experience at critical moments.** Disruptions during enrollment, claims processing, billing, or service interactions quickly erode trust and satisfaction. The goal should be no negative experience during the transition.
- **Business continuity and operational availability.** Core operations—such as claims payment, payroll, and regulatory reporting—must remain stable and uninterrupted throughout the modernization process.
- **Compliance and risk posture.** Regulatory and compliance requirements should be embedded into architecture, data models, and integrations from the outset—not addressed after implementation.
- **Data integrity and financial accuracy.** Claims, risk adjustment, premium billing, and financial reporting must remain precise, traceable, and auditable during every phase of the transition.
- **Cybersecurity and PHI protection.** Modernization introduces new integration points and cloud environments, increasing the importance of protecting sensitive health and financial data.
- **Economic discipline and architectural flexibility.** Protect the business case while maintaining the flexibility to evolve the architecture over time. Avoid decisions that create new long-term constraints.
- **Clear ownership of outcomes.** If no one owns the realization of outcomes beyond delivery, value will not materialize. Accountability for results must be explicit from the start.

THE PATH FORWARD

The pressures forcing health plan modernization aren't going away. Costs, regulation, consumer expectations, and the need for AI-readiness will only intensify. The health insurers that succeed will recognize that new technology alone isn't enough—they need to change how they work alongside it, investing in governance, partnership, and change management as seriously as they invest in the platforms themselves. The question is whether your organization is willing to do both.

West Monroe's Health Insurer Modernization data was fielded via online survey by Rep Data in Q3 2025. Respondents included 100 health insurer executives in the United States.



ABOUT WEST MONROE

West Monroe is a global business and technology consulting firm passionate about creating value for our clients. We co-create solutions that accelerate results now and prepare industries to tackle what's next. We're excited by the possibilities that technology creates. We work with our clients to deliver on the possible, building on their goals, generating fresh insights and creating inspiring outcomes.

We excel at the intersection of industry, strategy, people and technology—always driving rapid impact. Our all-in approach comes from our unique employee ownership structure. Our clients' success is our success. From the beginning, our growth has come from putting people at the center. Fortune and USA Today consistently celebrate West Monroe as a top workplace, and we're recognized as a leading consultancy by Forbes and Forrester. Let's find more value for your business.

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