

## The Hidden Costs of Complacency: A Strategic Imperative for State Funds and Provincial Boards

Public workers' compensation funds are at a pivotal moment. While many continue to report strong financial performance, the hidden costs of outdated systems, rising medical inflation, and shifting workforce dynamics are quietly eroding long-term sustainability. Inaction in the face of these pressures risks operational inefficiencies, financial strain, and diminished stakeholder trust. Conversely, proactive investment in modernization and customer-centric innovation can position public insurers for resilience, relevance, and long-term impact.

This guide serves as a wake-up call. It explores the most pressing headwinds and tailwinds shaping the industry, highlights emerging trends, and outlines transformation strategies that can help public funds lead with confidence, and avoid the costly consequences of complacency.



# Headwinds and Tailwinds

Public workers' compensation entities face competing forces. Namely, headwinds that challenge operational resilience and tailwinds that offer momentum for transformation. Budget constraints, legacy systems, and talent shortages are intensifying pressure on service delivery, while emerging technologies and data-driven strategies are creating new pathways for modernization.

This section outlines the most pressing market dynamics, supported by industry-based evidence markers. These insights are designed to help state funds and provincial boards benchmark their own readiness and identify strategic levers for improvement.

## Headwinds

### Talent Shortages

Public organizations face persistent budget constraints that limit their ability to offer competitive salaries, making it increasingly difficult to attract and retain skilled professionals. This challenge is compounded by a rapidly aging workforce and mounting retirement eligibility.

**Evidence Marker:** At present, nearly 30% of public sector workers are nearing retirement eligibility, and with \$1.3 trillion in unfunded pension liabilities, public organizations face a double bind of tight budgets and a shrinking talent pool.<sup>1</sup>

### Inflation

Rising provider costs and wage pressures are driving up the overall cost of claims, placing added strain on public workers' compensation budgets.

**Evidence Marker:** Ongoing medical inflation has consistently outpaced general inflation, contributing to increased claim severity and long-term financial exposure.<sup>2</sup>

### Customer Engagement

Public funds are expected to deliver personalized services despite legacy systems, limited IT budgets, and limited staff.

**Evidence Marker:** Insurance companies currently operate at a 12% to 15% turnover rate -- up from 8% to 9% a decade ago.<sup>3</sup> Voluntary turnover, often attributed to outdated legacy systems, compromises service quality. One State Compensation Insurance Fund addressed this challenge by investing in digital portals, resulting in a 25% reduction in call center volume.<sup>4</sup>



# Tailwinds

## Acceleration to the Cloud

Cloud adoption is unlocking new levels of scalability, flexibility, and cost-efficiency for public workers' compensation funds. By transitioning away from legacy infrastructure, organizations can streamline operations and reduce long-term maintenance burdens.

**Evidence Marker:** Cost optimization is now the top priority for 55% of upper midmarket firms.<sup>5</sup>

## AI-Driven Shift

AI is reshaping insurance operations across the board. From employer assessment processing in Canada to underwriting in the U.S., AI is modernizing core functions across the industry. Its influence extends across the value chain, customer service, risk assessment, claims adjudication, and fraud detection, while giving public programs a strategic edge through automation, improved decision accuracy, and faster service delivery.

**Evidence Marker:** Insurers applying AI to claims processing have reduced cycle times by an average of 20%, illustrating the broader operational efficiencies AI can unlock across the insurance value chain.<sup>6</sup>

## Connectivity Strategy

Integrating AI and machine learning with existing data systems is reshaping how public workers' compensation funds operate, from risk assessment and workforce safety to claims management and customer engagement. By leveraging connected technologies, these organizations can unlock earlier interventions, smarter decision-making, and more responsive service delivery.

**Evidence Marker:** One Canadian workers' compensation board leveraged strategic partnerships and digital innovation to achieve an 88% success rate in returning employees to work in four months. Enhancements to mobile and portal platforms streamlined access to information and improved collaboration among stakeholders, thereby accelerating recovery and reintegration efforts.<sup>7</sup>



# Current Trends and Their Impact

State funds and provincial boards operate in a uniquely complex environment, as they are tasked with delivering public value while managing legacy infrastructure, regulatory volatility, and evolving workforce expectations. The following trends reflect the dual pressures these entities face: rising operational demands and the imperative to modernize. Each trend is paired with real-world impact examples to illustrate how leading organizations are adapting.

## Evolving Workforce Dynamics

Hybrid work models and aging, pre-retirement employees increase complexity in policy management and claims.

**Real-World Impact:** With nearly a third of claims adjusters expected to leave the workforce within five years, the industry is turning to automation to ease the burden of repetitive tasks. This shift enables adjusters to concentrate on more complex and higher-value aspects of claims management.<sup>8</sup>

## Economic Sensitivities

Public funds must balance dividend payouts with financial stability.

**Real-World Impact:** Because public funds are particularly vulnerable to economic fluctuations, they must adopt disciplined financial strategies to maintain resilience. By establishing reserve funds during profitable periods and aligning payouts with sustainable performance, these organizations can maintain consistent dividends without jeopardizing their ability to meet future obligations or respond to fiscal pressures.<sup>9</sup>

## Legislative and Regulatory Changes

Frequent changes in state-specific regulations demand agility in compliance.

**Real-World Impact:** Regulatory shifts such as data privacy laws and transparency mandates have forced public insurers to overhaul their compliance systems, invest in modern technologies, and rethink how they manage sensitive information. These changes demand agility and strategic foresight to avoid operational disruption and financial strain.<sup>10</sup>

## Technology

Telehealth and wearable technology offer new avenues for monitoring claims.

**Real-World Impact:** Telehealth usage surged by over 300% during the early months of the COVID-19 pandemic, with some estimates showing increases as high as 4,000% compared with pre-pandemic levels<sup>11</sup>. This rapid adoption enabled insurers and healthcare providers to maintain continuity of care while minimizing in-person visits. For claims management, this shift allowed for faster diagnostics, reduced delays in treatment, and improved tracking of recovery progress, especially in mental health and chronic condition cases. The integration of wearable technology further enhanced this model by supplying real-time health data, which insurers could use to validate claims, detect anomalies, and support early intervention strategies.

## Difference-Making Solutions

Having explored the range of forces reshaping public workers' compensation, the next step is understanding how forward-thinking organizations are responding. The following solutions illustrate how targeted investments in technology and partnerships deliver a measurable impact. Whether through cost optimization, intelligent automation, or ecosystem connectivity, these transformation efforts are helping state funds and provincial boards move beyond legacy limitations and toward scalable, future-ready operations.



### Cost Optimization

SaaS solutions reduce infrastructure costs and improve scalability. Insurers using cloud-native SaaS solutions have achieved predictable cost structures, eliminated capital expenditures on hardware, and improved scalability across claims and policy systems.<sup>12</sup>



### Enhanced Automation Capabilities

AI-driven fraud detection and Robotic Process Automation (RPA) reduce manual workloads. As an example, AI-based fraud detection has helped public insurers combat fraudulent claims more effectively. AI tools have enabled insurers to identify anomalies in claims data, reducing false positives, and improving fraud detection accuracy. The U.S. insurance industry loses an estimated \$40 billion annually to fraud, and AI is helping to mitigate this ongoing issue.



### Ecosystem Connectivity

Partnering with insurtechs expands service offerings. This modular, best-of-breed approach allows public insurers to scale implementations, reduce integration effort through pre-integrations, and access specialized vendors that might otherwise be overlooked.

# State and Provincial Fund Transformation Initiatives

Building on the momentum of difference-making solutions, public workers' compensation entities are translating strategy into action through targeted transformation initiatives. These efforts span customer experience, operational efficiency, innovation, compliance, and sustainability, each designed to modernize core functions while delivering measurable impact. From mobile claims apps that boost satisfaction to cloud-native platforms that accelerate feature deployment, these examples highlight how state funds and provincial boards are evolving to meet rising expectations, regulatory demands, and fiscal constraints with agility and purpose.



## Enhanced Customer Experience

Personalized portals and chatbots to improve satisfaction. Mobile claims apps are driving measurable improvements in satisfaction. According to J.D. Power, digital claims satisfaction rose 17 points in 2024, with mobile-first enhancements like image uploads and proactive updates leading the way.<sup>13</sup>



## Operational Efficiency

Automation tools to streamline repetitive tasks, reduce administrative overhead, and improve overall productivity. One insurance Managing General Agent (MGA) reported saving over 37,000 hours annually through automation of accounting and administrative processes, allowing staff to focus on strategic tasks and reducing manual errors.<sup>14</sup>



## Innovation and Agility

Cloud-native platforms to enable rapid deployment of new features. In 2023, insurers averaged nearly seven mobile app updates, demonstrating the agility needed to meet evolving customer expectations.<sup>15</sup>



## Security and Compliance

Role-based access controls and advanced encryption to safeguard sensitive data while meeting evolving regulatory requirements. Public insurers are increasingly investing in AI and data governance to meet evolving privacy considerations, with compliance strategies now central to risk management.<sup>16</sup>



## Data-Driven Decision Making

AI-powered dashboards to obtain real-time insights that enhance forecasting, resource allocation, and financial accuracy. Government agencies using mission analytics frameworks have improved resource allocation and oversight, with standardized data tools replacing fragmented legacy systems.<sup>17</sup>



## Sustainability Initiatives

Transitioning to paperless workflows to reduce waste, streamline communications, and lower administrative costs. In 2023, the insurance industry invested \$2.8 trillion in sustainable assets, with 85% of insurers embedding sustainability into their core strategies.<sup>18</sup>



# Best Practices

After decades of working with public funds and provincial boards, we have identified critical best practices and common missteps, which can make or break transformation efforts. These insights are designed to help organizations respond with agility and achieve the outcomes that modernization should deliver.

Below are key Dos and Don'ts to guide any transformation initiative.



## **Practice Transparency and Open Communication**

Builds trust and ensures all stakeholders stay aligned throughout the transformation process

## **Consider a Joint Incentive Model**

Encourages shared accountability and motivates all parties to work toward common goals

## **Ensure Regular Engagement with Weekly Reviews**

Maintains momentum, surfaces issues early, and keeps teams focused on deliverables

## **Use Balanced Scorecards**

Improves long-term planning by aligning performance metrics with strategic objectives

## **Practice Agile Methods**

Enables rapid deployment of new features and faster response to evolving needs

## **Host Joint Workshops**

Fosters cross-functional collaboration and breaks down silos between departments

## **Run Market Presence Campaigns**

Boosts policyholder engagement and reinforces the value of modernization efforts

## **Measure Partner Performance with KPIs**

Identifies underperforming vendors and ensures accountability across the ecosystem

## **Apply Phased Rollouts**

Minimizes disruption and allows for iterative learning and course correction



**DON'T**

**Assume Leadership Alignment**

Misaligned leadership priorities create confusion and conflicting direction, stalling progress

**Work in Silos**

Limits collaboration and leads to fragmented execution across teams and departments

**Overlook Stakeholder Relationships**

Damages trust and reduces stakeholder buy-in, which is critical for transformation success

**Ignore Methodologies**

Results in inconsistent execution and missed opportunities for efficiency and scalability

**Restrict Platform Access**

Prevents full user adoption and limits the agility needed to respond to change

**Ignore Upskilling**

Leaves teams unprepared to leverage new tools and processes, reducing ROI

**Depend Too Heavily on Offshore Teams**

Risks misalignment with local needs and slows responsiveness to emerging issues

**Skip Periodic Reevaluation**

Blocks course correction and continuous improvement, leading to stagnation



**Conclusion: The Cost of Waiting Is Stagnation**

Public workers' compensation funds stand at a pivotal crossroads. For boards and fund leaders, the message is clear: complacency leads to stagnation, a significant liability for public funds.

Those who act decisively will not only mitigate risk, but also redefine what operational excellence looks like in the public sector. The future belongs to funds that embrace agility, data-driven decisions, and collaborative innovation.

# Here's How to Lead the Shift

- Audit your current systems and workflows for modernization gaps.
- Prioritize transformation initiatives that align with your fund's strategic goals.
- Engage with proven partners who bring domain expertise and scalable solutions.
- Champion a culture of innovation across leadership and operations.
- Use this guide to spark internal dialogue and drive action.

Now is the time to lead, not lag, and turn insight into impact for long-term, successful funds management.

**Contact Nick Heimendinger for more information.**  
**We are here to guide you!**

**Contact Nick**

## Endnotes

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- <sup>5</sup>Ternary. (2023, October 17). *Cloud cost savings mechanisms for the public sector*. Ternary.
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- <sup>17</sup>Kelkar, M., Viechnicki, P., Conlin, S., Frey, R., & Strickland, F. (2016, September 26). *Data-driven decision making in government*. Deloitte Insights.
- <sup>18</sup>Linder, J. (2025, April 29). *Sustainability in the Insurance Industry Statistics*. Gitnux.

## About Sapiens

Sapiens International Corporation (NASDAQ and TASE: SPNS) is a global leader in intelligent insurance SaaS-based software solutions. Sapiens' robust platform, customer-driven partnerships, and rich ecosystem empower insurers to achieve operational excellence in a rapidly changing marketplace. Sapiens supports core solutions for property and casualty, workers' compensation, and life insurance, including reinsurance, financial & compliance, data & analytics, digital, and decision management.

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