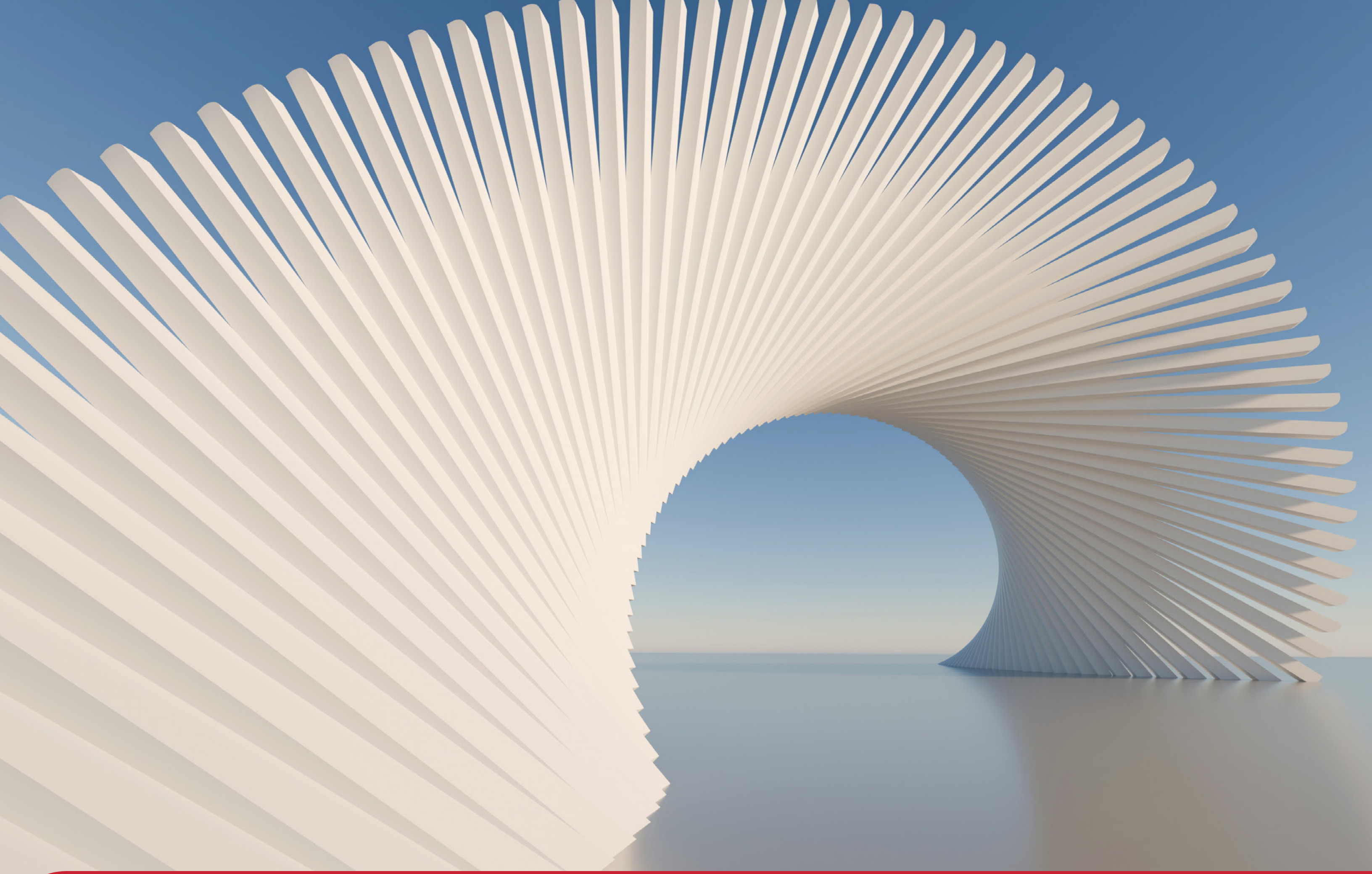

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THE MODERNIZATION PARADOX:

Why asset servicing's biggest pain points are the hardest to fix

New asset classes, rising client expectations, and rapid innovation are forcing banks to rethink how they modernize asset servicing. But the investment challenge is full of contradictions creating barriers to change. Based on findings from BBH research done in partnership with EY, we examine the modernization paradox confronting banks and the choices that will define success.

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Top takeaways

1. Modernization is a portfolio of decisions, not a single platform choice – Banks' technology investments are focused in three categories: protecting and scaling the core, fixing client-facing or operational friction points, and building capabilities for new asset classes. Each requires a different business case, risk appetite, and execution model.

2. Transformation of "non-core" areas delivers the fastest, most visible returns, but overall modernization should include a focus on the core technology stack – Updating high-friction functions such as onboarding, account opening, KYC/AML, and reporting can be easier to undertake but should not be viewed in isolation to overall operating model transformation.

3. A more modular ecosystem requires a renewed focus on the singular client experience – As banks adopt specialist vendors, platform partnerships, and new asset-class capabilities, the result is more fragmentation. The winning models will be interoperable, data-led, and partnership-enabled.

Introduction

As the industry adapts to new risks and opportunities, banks must keep pace with technological change while increasing efficiency and scale. The need for new technologies isn't questioned, but how to do it is a roadblock for many financial institutions.

To gain more insight into this, BBH partnered with EY to get feedback from over **80 senior banking leaders across the US, Europe, and APAC,** specializing in asset servicing, operations, technology, and product.

Together, we looked at how organizations – from large universal banks to regional and private institutions – are prioritizing technology investment across the value chain. Whether evaluating your service providers' technology roadmap or benchmarking your own investment strategy, this study provides a framework for understanding where the industry is headed and where the most consequential decisions lie.

Our research revealed a fundamental paradox at the heart of asset servicing technology strategy: the areas of greatest investment need are often the areas of greatest resistance to change, while the areas of lowest strategic priority can often result in disproportionate returns.

Framing the landscape: where investment is focused

The study found demand clusters into three distinct categories of capabilities, each with very different drivers, economics, and buying behaviors.

Investment area	Examples	Primary Driver
Net-New Capabilities	ETFs, Private & Public Asset Reporting, Digital Assets	Client demand for new asset classes
Core Growth Platforms	Custody, Corporate Actions, Transfer Agency	Client relationships & fee generation
Business Critical Support Platforms	Account Opening & Onboarding, KYC/AML	Regulatory risk & operational efficiency

We found that while banks recognize the need to modernize aging core systems, investment momentum often builds faster around transformative technologies that sit adjacent to the core, such as account opening and know-your-customer (KYC). These technology changes avoid the complexity of unwinding deeply embedded legacy core systems, enabling faster delivery of customer experience benefits while enhancing regulatory compliance and risk management.

In the following sections, we take a closer look at some areas where banks are prioritizing their resources and the challenges and opportunities they face.

Net new capabilities: Technology as a lever for market entry and growth

High-growth areas such as exchange-traded funds (ETFs) and private markets pose significant opportunities for banks. Current investment is being driven by client demand for rapid access to new asset classes as their portfolios are becoming more diversified and complex. Case in point: BBH's Global ETF Investor Survey found that 96% of respondents plan to increase their exposure to ETFs in 2026. Banks are feeling the pressure to keep pace.

ETFs are the more established example, but the same dynamics are increasingly evident in private and digital assets. For digital assets, what began as exploratory interest is quickly becoming a core institutional allocation. EY-Parthenon and Coinbase's 2026 Institutional Digital Assets Survey found that **73% of 351 surveyed institutions plan to increase digital asset allocations in 2026,** with parallel growth in stablecoin usage (86%) and tokenized asset interest. As focus shifts from "access" to "application," banks are under increasing pressure to build the custody, settlement, and servicing infrastructure to keep pace.

For example, in private assets, institutions consistently cited growing client demand and the resulting need to support valuation, reporting, and transparency across both public and private holdings. This rising exposure to private assets increases portfolio complexity, creating unmet needs in commingled data aggregation and reporting.

> "Improving public/private reporting is a core need. Large institutional banks handle significant volumes, yet this is still a challenge and there's room for technological improvement. The delay in this data is also tied to accounting books and records linked to actual purchases and the nature of private assets." — Former Managing Director, asset servicing bank, Americas.

For banks without established capabilities in these asset classes, technology investments are viewed as critical to respond to growing client demand. However, the technology vendors for these emerging capabilities typically do not provide end-to-end solutions, meaning banks must use their own IP to customize and integrate these modular technologies into their existing operating infrastructure.

The study showed that the growing sophistication of investment portfolios and exposure to a wider range of new asset classes will prompt further change.

Our view

New investment demand combined with new technologies has expanded the asset servicing universe far beyond traditional assets. Clients now hold private assets, tokenized assets, digital cash, and cryptocurrency alongside fixed income and equities in their portfolios, and they expect a single unified access to these underlying assets.

While the appetite for diversification is only accelerating, each new asset class investors expand into requires the bank's servicing the assets to integrate a different technology stack and often, another operating model.

That means far from simplifying the operating model, banks are building multiple new ecosystems to meet the rapidly growing client demand. Yet not only is that challenging to resource and support in-house, but it also creates client friction when clients are having to interact with multiple platforms, portals, and file formats when they really want one single experience.

While these capabilities offer a strategic on ramp to new revenue without the need for a full core platform rebuild, vendor due diligence is essential given market immaturity.

The study found that the preferred approach to take advantage of these growth opportunities for many banks is via strategic partnerships. They offer an effective and highly strategic approach to meet clients' needs and help them innovate quickly, without the burden of having to build and maintain all they need in-house.

True partnership comes in many different shapes and sizes; some include full platform solutions to launch new products, while others might involve the application of emerging technology at the micro or workflow level. This allows banks to tackle individual components of their systems based on priorities.

The Core Modernization Paradox — High Demand, High Friction

Our study found that pain points associated with core growth platforms (e.g., custody) scored highest in criticality among decision makers.

While there is strong demand to modernize these core platforms, banks remain cautious due to high integration risk, system interdependencies, and potential client and regulatory impact. These platforms are deeply embedded, mission-critical, and highly complex. And they directly underpin client relationships and fee generation.

A March 2026 EY report provides another clue to why banks are hesitant to take on core overhauls. While the world's largest banks spend $4 billion a year on technology, only 12% of that spend is dedicated to strategic change. Instead, more than half is focused on projects that provide near-term returns.

The option to delay core modernization is quickly disappearing, however. The scale and speed of industry change show no sign of slowing and the time compression to deliver on the "new" is forcing banks to re-evaluate their course.

Top findings:

- Fragmented processes and data handoffs in legacy systems create significant automation gaps and points of friction.
- Manual reconciliation and data challenges are amplified by increasing market and regulatory complexity.
- High error sensitivity and direct client impact elevate risk yet paradoxically limit appetite to change.
- Deep interdependencies across systems and workflows (especially core banking) make platform updates complex and costly for banks to undertake.

> **"The reality is that most custody operations rely on a patchwork of vendors providing specialized modules rather than a single end-to-end solution. This specialization creates a market where banks often need to work with multiple vendors to piece together their complete custody solution."** — Vice President, universal bank, Europe

We found that the approach to core modernization varies between institution types. Large universal banks tend to modernize incrementally, layering integration, data, and automation on top of existing core platforms. Regional and mid-sized banks, or firms entering new markets, have more flexibility and are more open to platform-level change.

One other factor in the different approaches is best-of-breed versus best-of-suite technology selections. The trend among larger banks is a best-of-breed approach in which they select different vendors at different times to meet specialized needs, while regional banks and smaller firms often opt for fewer vendors, choosing their technology within one provider's suite of offerings.

Our view

The role of the asset servicer continues to expand. Where these organizations were traditionally valued for their stability and scalability, clients increasingly value their adaptability and are looking to their custodians to insulate them from market and industry complexity. We find that is more easily achieved by moving away from rigid vertical integration to modular capabilities and interoperable operating models.

As banks make technology investment decisions, it is critical to evaluate whether your profile – size, legacy stack, market ambitions – is best suited for incremental layering or a bolder platform play. New considerations are added if you are entering new markets. Keep in mind, however, that your clients do not want to interact with multiple operating models and touch points, they mainly want one single experience.

Business Critical Operational and Risk Functions

While capabilities such as onboarding and AML/KYC are rarely viewed as strategic growth engines, they carry disproportionate operational, regulatory, and client-experience risk. They are also among the most operationally painful and regulatory-burdened processes in banks across the globe.

Given these factors, it was not surprising that "operational and risk functions" generated some of the most consistent feedback in the study.

Top findings:

– Heavy manual effort and fragmented data across jurisdictions or systems create chronic inefficiency.

– Increasing regulatory scrutiny means failures have immediate regulatory and reputational consequences.

– Jurisdiction-specific requirements add complexity that generic solutions struggle to address.

Despite often being classified as "non-revenue," these capabilities continue to attract meaningful technology investment partially because the cost of not investing in them is so visible: regulatory fines, onboarding delays, and client frustration can all lead to reputational impact.

These are high-risk functions in their own right. Yet, compared with core modernization, upgrading these capabilities is typically less complex, and the impact is more immediate.

Switching costs are also lower because these capabilities can often be addressed via modular solutions that bolt onto existing core banking systems. ROI is easier to demonstrate through efficiency gains and risk reduction. In addition, the "silo-breaking" approach is far more practical than a big-bang core replacement.

For many banks, this creates a pragmatic path forward. They can improve client experience, streamline onboarding, and strengthen regulatory controls without the scale and disruption of a full core transformation.

> **"Shifting to an end-to-end custody platform is complex and a huge multi-year exercise. The chances of a bank breaking one silo, such as account opening/KYC, and going to a third-party provider is much higher than going for a big bang approach and changing the whole four to five core models."** — Vice President, universal bank, Europe

Our view

It is important to remember that non-core doesn't mean non-critical. The quality of your onboarding and compliance technology directly affects your clients' experience and risk exposure. These are often the highest-ROI, lowest-risk technology investments available and should be considered easy and early wins but should also be considered as part of a broader modernization journey.

Integration capabilities are therefore essential to preserve the flexibility for the bank and its clients to merge with third parties and swap out components over time. It's another area where strategic partnerships can play an important role as institutions can rely on a peer's tried and tested solutions in the regulatory and risk-sensitive processes.

Conclusion: Takeaways for a modernization program

Modernization should start with a clear segmentation of the technology estate: Banks should distinguish between capabilities that protect and scale the core business, those that unlock growth in new markets, and those that reduce operational and regulatory friction. Each category requires a different investment case, risk appetite and execution model.

Prioritize high-impact, lower-friction wins when sequencing core change: Areas such as onboarding, account opening, KYC/AML, and reporting can deliver highly visible, measurable improvements in client experience, efficiency and risk reduction, but should be sequenced and integrated as part of broader core transformation.

Design for interoperability, not isolated replacement: As asset classes, data sources and client needs multiply, banks should avoid creating new silos in the name of . The most effective technology strategies will be modular, data-led and built around integration. This allows banks to connect legacy platforms, specialist vendor solutions, and future capabilities without forcing clients into multiple operating models.

Use partnerships strategically: Partnerships accelerate access to new capabilities versus internal build programmes. But the goal should not simply be to outsource complexity; it should be to create a more coherent client experience, supported by clear governance, integration standards, and a robust long-term operating model and tech stack.

Make the client experience the organizing principle: The biggest risk is not only under-investing in technology but investing in ways that increase fragmentation. Whether banks pursue incremental change, platform renewal or partnership-led models, the end-state should be judged by whether it gives clients simpler access, better data, faster onboarding and greater confidence across traditional, private, and digital assets.

The road ahead: Winners will be those that sequence investment best: protecting the core, fixing friction points, supporting new asset classes, and partnering for speed and specialist capability. The ability to bring these pieces together into a cohesive operating model will be a clear source of advantage.

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