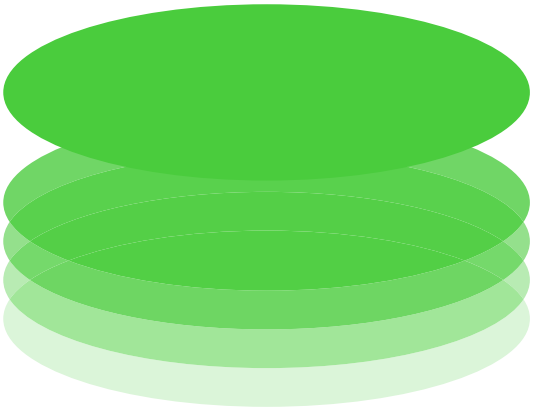
Modernizing asset finance: The build vs. buy decision for non-tech institutions

Asset finance institutions face a generational challenge: modernize legacy technology or risk obsolescence. With 91% of CTOs citing technical debt as their biggest challenge and 71% of organizations reporting that it significantly impacts their ability to innovate, technical debt has evolved from a development issue into a critical business concern.[1&2]

As asset finance firms confront the urgent need to modernize legacy systems, a critical question emerges: should institutions build proprietary technology platforms or leverage third-party solutions? This decision carries existential weight – especially for banks, captives and traditional financiers lacking in-house software engineering DNA. The answer lies not in binary choices but in strategic alignment with organizational capabilities, market positioning and the evolving nature of asset utilization models.



Why build vs. buy is a false dichotomy

Historically, financial institutions viewed technology decisions through a polarized lens – either fully custom-built systems for competitive differentiation or off-the-shelf solutions for cost efficiency. However, three paradigm shifts demand a more nuanced approach to make money work harder:

The rise of cloud native SaaS offerings:
Leading technology vendors are on the journey to be fully cloud native. This enables them to position themselves not merely as software providers but as strategic partners enabling agility. The compelling combination of faster implementation timelines, significantly lower TCO, enhanced scalability and regulatory agility makes the "buy" or hybrid option increasingly attractive for asset finance firms traditionally wary of vendor lock-in or loss of control.

Out-of-the-box SaaS offerings:
Technology vendors are now offering pre-configured SaaS platforms built exclusively for asset finance clients. These platforms are based on the vendors' extensive experience of supporting clients globally and delivering best-in-class business processes across a standard product set, each supported by a pre-defined workflow, business rules, document generation and business rules. This provides businesses with a return on investment (ROI) within three to six months and a robust platform to scale to future growth ambitions.

ROI on technology investment:
Despite global banking technology spending rising at an average rate of 9% annually – reaching $650 billion in 2023 – banks have struggled to translate this investment into clear competitive advantage or productivity gains. In fact, productivity at U.S. banks has declined by an average of 0.3% annually since 2010, even as other sectors have improved. This paradox arises largely because banks' internal technology builds often become fragmented, complex and costly to maintain. Up to 70% of banks' technology budgets are spent on mandatory maintenance and compliance ("run-the-bank" spending), leaving limited capacity for innovation or differentiation. Moreover, the total cost of ownership (TCO) of internally built applications frequently surpasses initial estimates due to hidden maintenance costs, technical debt accumulation and future infrastructure expenses. These hidden costs erode returns and complicate value articulation to investors.[3]

Critical evaluation dimensions

The build vs. buy decision is no longer a simple choice between two extremes. As technology continues to evolve, particularly in AI, organizations will need to adopt a flexible approach, balancing the benefits of standardized solutions with the need for customization to meet unique business challenges. Consider the following factors when deciding:

1. **Strategic control vs. speed to market**
   Financial services firms requiring tight integration between risk models and asset performance data (e.g., aviation financiers tracking engine health metrics) often justify build investments. However, Deloitte's analysis shows that firms prioritizing time-to-market over perfect customization achieve 2.3x faster ROI through vendor partnerships. The sweet spot? Purchasing 70–80% of required features from vendors, then building differentiation layers.

2. **Hidden costs of ownership**
   McKinsey research on large scale technology transformations highlighted that two out of three large programs regularly exceed initial budgets, miss schedule estimates and underdeliver against business objectives and benefits.

   Banks' rising technology spend hasn't delivered economies of scale or productivity gains – revenues remain tightly tied to employee numbers, limiting returns on tech investments. Also, high tech spending rarely creates lasting differentiation as vendor ecosystems quickly commoditize innovations, eroding first-mover advantages.

3. **Regulatory agility**
   Modernizing compliance infrastructure illustrates the buy advantage: cloud-based vendor solutions update faster to new regulations compared to in-house systems. Yet captives underwriting complex risks (e.g., offshore wind turbine financing) often build proprietary ESG scoring models to capture niche data.[4]

4. **Ecosystem integration depth**
   To successfully participate in circular economy partnerships, asset financiers need API-first systems that enable seamless integration with external partners. Those using modern, purchased core platforms with open APIs have significantly reduced partner onboarding times – from nine months to just six weeks. This faster integration is crucial for supporting just-in-time (JIT) inventory financing, where speed and flexibility are essential to meet dynamic supply chain demands and ensure smooth operations.

5. **Increasing cost of complexity**
   Growing demands on technology due to regulatory compliance, adoption of AI and a wave of legacy-system renewals will likely require the industry to continue increasing technology spending. But standard ROI calculations often fail to acknowledge the full costs associated with a tech business case, such as maintenance of the newly built application, increased technical debt from the complexity created and future infrastructure expenses. This total cost of ownership for a new application can often outstrip the benefits of building one.

According to the report by Accenture, "Reinventing Enterprise Operations with Gen AI," the number of companies that have fully modernized, AI-led processes has nearly doubled from 9% in 2023 to 16% in 2024. Compared to peers, these organizations achieve 2.5x higher revenue growth, 2.4x greater productivity and 3.3x greater success at scaling generative AI use cases. While the research indicates that some companies have moved to the highest level of operations maturity, nearly two thirds (64%) still struggle to change the way they operate. For example, they lag behind on building a robust data foundation: 61% report that their data assets are not ready for generative AI yet and 70% find it hard to scale projects that use proprietary data.

The pragmatic path forward to reinventing the digital core

In the age of generative AI, firms must carefully evaluate whether to build proprietary solutions or buy proven technologies to achieve strategic reinvention. The decision should align with key modernization factors, including data governance, talent strategy, collaboration and process optimization.

1. Asset finance institutions must reject absolute build vs. buy mentalities. The winning strategy combines:
2. Strategic buying when speed-to-market is critical for commodity functions (core contract management systems, compliance) using cloud-native SaaS or generative AI-ready architectures
3. Targeted building of differentiators through domain-specific features, i.e., asset utilization algorithms, risk-based pricing, ESG scoring models
4. Ecosystem orchestration through API-first architectures that future-proof integrations with the marketplace, which innovates at a much faster rate
5. A centralized data governance and domain-centric approach to data modernization; connect processes and tools across functions to ensure people have a clear understanding of how to create, handle and consume data, which should be structured in a standardized way to be accessed by AI tools across the business

As the FIS® white paper cautions, "The asset financiers who thrive will be those recognizing technology as a living ecosystem, not a static asset." By aligning platform decisions with organizational DNA and market realities, firms can modernize legacy systems without becoming software companies – focusing capital and talent where they truly create competitive advantage.

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