

Why Zero-Based Transformation Is Not Just Another Cost Program

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Financial institutions (FIs) face relentless cost pressures from regulatory complexity, legacy portfolios, multiple client segments, and organizational sprawl. But attempts to rein in these costs through traditional productivity programs usually fall short. They trim at the edges but don't tackle root causes—and costs inevitably return. To tackle this dilemma, more FIs are starting to consider an old idea but with new strategic clarity and an emphasis on accelerated value identification: zero-based transformation (ZBT).

ZBT diverges from today's more common "incremental budgeting," which locks inefficiencies into place by assuming last year's budget is the right baseline. ZBT flips that logic, challenging every budget line item through an enterprise lens. Rather than asking what individual leaders would do differently in isolation, ZBT starts with the bank's strategic priorities and operating model and asks: *"What activities must remain to deliver the strategy, and what can be stopped, simplified, or redesigned?"*

The impact of this approach can be substantial. Financial institutions that have implemented ZBT have unlocked 12% to 30% savings in directly controlled overhead while improving speed and clarity in day-to-day execution.

FIs Are Perfectly Suited to Zero-Based Transformation

For FIs, the core ZBT question becomes: “*If we redesigned our spend from zero, given our enterprise priorities, what would we keep, change, or eliminate?*” ZBT reallocates resources to what matters most while removing duplication and low-value work to create value. Crucially, it surfaces demand-and-supply trade-offs across functions, aligning service levels and ownership, which often becomes the trigger to simplify the operating model itself, not just reduce costs.

FIs face several realities that make using a zero-based lens particularly effective.

- **People-heavy, judgment-heavy functions.** Risk, compliance, operations, and distribution all depend on expert work. To change costs, FIs must first map activities in detail to understand what work actually happens, where, and why.
- **High regulatory load.** Even though large swaths of work are non-optional, leaders must justify every role and activity against policy and control needs. The practical levers for cost takeout are simplification, automation, and smart centralization.
- **Legacy portfolios.** Decades of developing and offering products and services (and the related reports) often result in a long tail of low-value activities. A zero-based approach gives leaders an explicit mechanism to make “stop” decisions.
- **Enterprise service dependencies and complexity.** In FIs, business lines depend heavily on large enterprise functions (notably technology and risk) for execution. But without resetting demand, service levels, and ownership at these interfaces, across-the-board cuts are ineffective.
- **Duplication and silos.** Central teams, business lines, and geographies often perform similar work in parallel.
- **Excessive management layers.** Fixing organizational health requires removing work—not just shaving layers—then realigning spans of control and decision rights.

When applied rigorously across the enterprise, ZBT is more than a finance exercise. It becomes a strategic lens for resetting the cost base and delivering other benefits, such as encouraging entrepreneurial and agile thinking while ensuring safety and soundness. (See Exhibit 1.) The approach must be ingrained into leadership behavior, challenging activities against strategy, owning trade-offs, and preventing cost.

EXHIBIT 1

Zero-Based Transformation Delivers More Than Cost Benefits



Source: BCG analysis.

Traditional Cost Resets Are Not Sufficient

Because financial institutions are under sustained cost pressure, virtually every global systemically important bank has recently undertaken—or is actively considering—a cost reset. For many, these efforts have been recurring for years, with diminishing returns. They have already captured the obvious savings. Hiring freezes, discretionary spend cuts, vendor renegotiations, and incremental productivity programs are largely exhausted.

In this context, the traditional approach of taking “another 10%” becomes both harder and riskier, often weakening critical capabilities while leaving the underlying cost structure intact. Instead, FIs need to approach a cost reset with the utmost strategic clarity. By requiring leaders to articulate how every activity, role, and dollar invested serves the strategy, ZBT identifies the activities and investments that should continue, be simplified, redesigned, or stopped (such as legacy products with ROE below the hurdle rate and with a high cost-to-serve). If work does not serve the strategy, it should not exist.

Another difference between ZBT and the traditional cost reset approach is that the implications go beyond individual budgets. Strategy informs second- and third-order choices and translates into how the operating model supports execution from the outset: how demand is generated and served, which activities are truly differentiating, which capabilities should be scaled or centralized,

and where ownership and decision rights should sit. Leadership routines, decision forums, cross-functional ways of working, and demand governance cannot be bolted on at the end of the transformation program; they must be shaped upfront as part of the design and refined as the program progresses to cement the change.

For example, a bank pursuing digital-led growth must simplify its operating model to make that growth scalable—shifting demand and servicing toward digital channels, centralizing repeatable operations, eliminating parallel processes across business lines, and concentrating scarce expert capabilities in shared teams. Without addressing these questions, cost programs default to siloed cuts that do not last.

Putting ZBT into Practice

Besides taking this strategy-first approach, financial institutions embarking on a ZBT journey need to focus on cross-functional value identification. In a zero-based transformation, leaders from across the enterprise gather in “challenger workshops” to defend their spend line by line—from the size of call center teams to the number of regulatory committees—using three challenge lenses:

Strategy.

Test whether activities, service levels, and capacity directly support strategic priorities and the operating model (such as growing wealth vs. de-emphasizing capital markets).

Best practices and benchmark gaps.

Assess performance against internal and external reference points, such as cost-to-serve and time-to-market. Is the cost per account above the peer median? Do product changes take longer than competitors?

Operating effectiveness and simplification.

Identify opportunities to simplify work end-to-end, remove duplication, clarify decision rights, and improve flow (such as consolidating two monthly committees with overlapping agendas, saving leaders time so they can focus more on other priorities).

This challenge process fosters cross-functional communication and breaks down FI silos so different parts of the organization can work together to spot strategic misalignments, eliminate inefficiencies, and identify end-to-end solutions. The workshops yield clear decisions on what survives, what changes, and what stops, allowing leaders to focus on what matters most and doing it better. (See Exhibit 2.)

Bringing ZBT Together: The Playbook

Drawing on our deep global expertise with zero-based transformations and our work with large systemically relevant banks, BCG has developed a clear playbook to guide financial institutions on their ZBT journey. The playbook brings together eight core elements that translate strategic intent into practical execution. (See Exhibit 3.)

- **Crystallize the strategy.** Without clear strategic direction at the enterprise level, zero-basing risks becomes nothing more than tactical cost-cutting.
- **Validate the desired operating model.** Once aligned on strategic priorities, settle on the operating model that will deliver that strategy, including what changes now, what changes next, and quick wins to unlock savings.
- **Build transparency and ambition.** Create a single reconciled baseline that allows leaders to see clearly where resources are going.
- **Value identification through challenger workshops.** Defend every activity, role, and service. If it cannot be justified against the clarified strategy, it does not survive.
- **Redesign the organization.** Simplify layers and clarify accountabilities for what remains.
- **Reinforce new ways of working.** Reset leadership cadences, KPIs, and incentives with the strategy. Ensure that new accountabilities stick with regular reviews and a single dashboard to track delivery and budget variance.
- **Enable execution.** Validate initiatives, ownership, accountability, timelines, and dashboards. Hardwire discipline and prevent cost creep by, for example, ensuring that no new roles are created without explicit business case approval.
- **Budget from zero.** Institutionalize annual zero-basing so that costs are continuously re-justified.

A Mindset Shift with ZBT

A zero-based approach changes how a financial institution is run. It provides a disciplined way to reset the cost base while creating a clear framework to focus the organization on what truly

matters, aligning activities to strategy and making priorities and accountabilities explicit.

ZBT encourages leaders to communicate and collaborate rather than reinforce siloes. It challenges the status quo by design, forces explicit trade-offs, and drives closer cross-functional collaboration. The result is a more effective operating model, a culture of constructive challenge and teaming, and sustained capacity to reinvest. For financial institutions, the prize is large, and the time to act is now.

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