

Financial sector reforms: Going beyond incrementalism

[thehindubusinessline.com/opinion/financial-sector-reforms-going-beyond-incrementalism/article70557569.ece](https://www.thehindubusinessline.com/opinion/financial-sector-reforms-going-beyond-incrementalism/article70557569.ece)

January 27, 2026

By CKG Nair & MS Sahoo

Updated - January 27, 2026 at 08:32 PM.

Union Budget 2026-27 is only days away. Financial sector reforms, as usual, are likely to feature prominently in the Finance Minister's Budget speech. Building on the reforms introduced by the government in recent months, it is time to move beyond incrementalism to harmonise financial sector regulatory governance.

A coherent and consistent regulatory template, supported by sound legal backing and aligned institutions, would enable the 'reform express' to gather speed and stay on course towards a mature financial system.

Recently, the Ministry of Finance initiated two major legislative reforms. One is the Securities Markets Code Bill (SMC), currently before Parliament, which consolidates three parent statutes into a Code. It seeks to address rigidities emanating from laws of different vintages, eliminate inconsistencies created by uncoordinated amendments over time, and provide a modern legislation for investor protection and capital formation suited to India's fast-growing economy.

The other is the insurance reforms through the Sabka Bima Sabka Raksha Act, 2025 (SBSR), which aims to accelerate the development of the insurance sector while strengthening policyholder protection.

The two reforms, however, adopt strikingly different legislative approaches. While the SMC replaces three statutes, the oldest dating back to 1956, the SBSR follows the conventional route of amending three separate laws, even though its principal statute traces its origins to 1938.

Divergent trend

This divergence in legislative policy within the same Ministry reflects the absence of a harmonised template and increases regulatory friction, compliance uncertainty, and institutional asymmetry across the financial sector. It is partly a consequence of fragmented ministerial and departmental responsibilities under the Allocation of Business Rules, and partly a reflection of insufficient internal collaboration in finding integrated solutions.

The experience with the Reserve Bank of India Act provides a cautionary illustration of the long-term costs of incrementalism. Enacted in 1934 as an inter-war measure, the Act made temporary provisions, as explicit in its preamble/long title. It recorded that permanent arrangements would be considered once the international monetary position became sufficiently clear and stable.

Over the decades, the Act has been amended, on average, nearly once a year, including once in 2025, with almost every page of the roughly 60-page statute now carrying more footnotes than substantive text. Yet, the Act continued to rest on its original 'temporary' foundation, as if 'the international monetary position was never considered sufficiently clear and stable to frame permanent' arrangements.

It was only in 2016 that even the word 'temporary' was removed from the Preamble, when it became necessary to graft a modern monetary policy framework. That the central bank of a large and rapidly growing economy functioned for decades on such a statute, with band-aids all over, underscores the

costs of postponing holistic legislative reform. It also explains why the RBI alone, among financial regulators, continues to require prior government approval for its regulations.

Both the SMC and the SBSR seek to correct such outcomes by strengthening safeguards governing the prescription of legal norms by regulators. Statutes typically require that regulations be made only by the governing board and be laid before each House of Parliament. The new framework goes further by mandating transparency in the regulation-making process, public consultation through the publication of draft regulations with explanatory material, disclosure of the regulator's response to public comments, and periodic review of regulations.

Importantly, the legislature has brought within the statutory framework the instruments that regulators routinely use beyond formal regulations to articulate or clarify legal norms. These instruments, termed subsidiary instructions, and defined to include circulars, master circulars, guidelines, and similar instruments, are now subject to clear limits on purpose and scope. They may only clarify ambiguities in existing regulations or lay down procedural requirements ancillary to them. They must be issued in accordance with regulations framed for that purpose, and must be laid before each House of Parliament. This marks a decisive shift from informal regulatory governance to legally accountable norm-making.

To their credit, financial regulators have *suo motu* adopted internal frameworks governing their regulation-making process. In the case of the RBI, the framework extends to directions, guidelines, notifications, orders, policies, specifications, and standards. In some instances, it requires cost-benefit analysis or regulatory impact assessment, as well as reference to international standards and best practices. Such practices, however, cannot substitute for legislative coherence across the financial sector.

Harmonisation critical

Governance harmonisation is equally critical. Recognising the central role of governing boards in regulation-making, the SMC provides for a board of 15 members for the Securities and Exchange Board of India (SEBI) comprising the Chairperson, three nominee members, and 11 other members, of whom at least five must be whole-time members (WTMs). The remaining are part-time members (PTMs) expected to bring independent judgment, professional diversity, and an external perspective to board deliberations. A balanced mix of WTMs and PTMs is essential to the quality, credibility, and legitimacy of regulatory outcomes.

Board composition, however, varies widely across regulators. The International Financial Services Centres Authority has a Chairperson, six nominee members, and two other members; the Insurance Regulatory and Development Authority has a Chairperson, five WTMs, and four PTMs; and the Pension Fund Regulatory and Development Authority comprises a Chairperson, three WTMs, and three PTMs. In practice, many PTMs across regulators have been serving officials.

By contrast, despite being a full-service central bank with multiple and complex functions, the RBI is governed by a Central Board with the Governor, four Deputy Governors, and 15 PTMs (mostly industry and regional representatives and one central government official) nominated by the central government. Notably, the number of Deputy Governors was last increased from three to four more than six decades ago, even as the scope and complexity of the RBI's functions have expanded significantly.

While in SEBI, the number of WTMs increased from none in 1992 to five today. The result is a patchwork of governance structures, some dominated by nominees, others by executives, and still others by PTMs, reflecting the absence of a coherent governance template.

The time for harmonising legislative provisions and regulatory governance templates in the financial sector was yesterday. The forthcoming Budget should articulate this objective, clearly and decisively, signalling a commitment to coordinated reforms across departments and agencies, and to replace the fragmented, outdated statutes with a harmonised financial sector code fit for a modern economy, aspiring developed status in two decades.

Nair is former Director, National Institute of Securities Markets, and Sahoo is former Chairperson, Insolvency and Bankruptcy Board of India

Published on January 27, 2026