

Budget 2026 banking review panel puts regulatory coordination in focus

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The Union Budget 2026 proposal for a high-level banking reforms committee comes as the RBI strengthens its internal regulatory review process, sharpening focus on coordination across regulators



Illustration: Binay Sinha

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The proposal in the Union Budget FY27 to set up a high-level committee to review and recommend reforms for the banking sector, in line with the vision of Viksit Bharat 2047, is expected to be far-reaching in its scope. It follows a key Mint Road initiative taken last year to set up a regulatory review cell (RRC) housed in its Department of Regulation effective October 1, 2025. Its mandate is to subject regulations to a comprehensive and systematic internal review every 5-7 years.

The committee has the potential to be the equivalent of the first M Narasimham Committee of our times — if it is not restricted to the banking turf that is. The first Narasimham committee, set up by Manmohan Singh as finance minister in August 1991, had a broad mandate — nothing less than the

committee on the financial system — and its commonly held association with pureplay banking is because Narasimham was a former Reserve Bank of India (RBI) governor.

The second committee headed by him in December 1997, when P Chidambaram was finance minister, had a narrower footprint as the committee on banking sector reforms. The sequencing is important.

The financial sector has changed beyond recognition since the two Narasimham committees. Nearly all RBI regulated entities (REs) have business lines that cut across financial regulators: Securities and Exchange Board of India (Sebi), Insurance Regulatory and Development Authority (Irdai), and Pension Fund Regulatory and Development Authority (PFRDA).

R Gandhi, former deputy governor of RBI, said, “Let us wait for the terms of reference of the committee (proposed in the Budget). It is possible that while it is called a committee on banking reforms, its footprint may be wider.”

“Our multi-regulator financial architecture anchored by the RBI, Sebi, Irdai and PFRDA reflects diversity and sectoral depth, but it embeds coordination challenges that unified regulators in many developed markets have sought to eliminate,” said Ravi Bhadani, legal expert in banking and financial services.

The view is shared by Nishith Mehta, lead-risk and compliance at Trilegal: Banks will continue to be the foundation of financial stability and credit delivery. “At the same time, the structure of financial intermediation has evolved, with credit now flowing through a wider ecosystem that includes non-banking financial companies (NBFCs), capital markets and technology-enabled platforms.”

His point is that it would be useful for the committee to take a forward-looking and system-wide view even as it maintains a strong focus on strengthening the banking sector. Such an approach would help ensure that reforms improve resilience, enhance the efficiency of credit transmission, and enable the financial system as a whole to support the next phase of economic expansion.

In terms of issues there’s the larger NBFCs’ ambition to become banks – the missing aspect in their portfolio at the group level – and the as-yet unsettled matter of new bank licences. The RBI’s Internal Working Group (IWG) to “review extant ownership guidelines and corporate structure for Indian private sector banks” made a case for large corporate and industrial houses as promoters of banks. Large NBFCs — with an asset size of ₹50,000 crore and above — including those owned by corporate houses, are to be considered for conversion into banks.

Mint Road, while accepting 21 of the IWG's 31 recommendations, held the remaining recommendations as "under examination". This was read by banking licence hopefuls as a sign that the issue remains open. To be sure, the IWG itself referred to concerns over connected lending and exposure between banks, other financial and non-financial group entities, and the need for strengthening the supervisory mechanism for large conglomerates, including consolidated supervision.

Out with the old

The need to do away with the outdated in banking has been in the spotlight in recent years. The Regulatory Review Authority (RRA 2.0) drew from the best practices of global central banks: Be it consultation before policy formulation, feedback from REs, or structured meetings with banks' corner-room occupants and senior compliance officials, key stakeholders and trade bodies. Over 400 circulars were withdrawn. It was the 'open-door policy' of the RBI to foster better engagement with REs.

RRA 2.0 was a follow-through on Y V Reddy's decision as deputy RBI governor to set up its first edition in 1999 (he was later appointed governor in September 2003 and served in the position for five years). This was ahead of its times. The polestar for Reddy may well have been the 96th report of the Law Commission of India (1984), which said: "Every legislature is expected to undertake what may be called the periodical spring-cleaning of the corpus of its statute law, in order that deadwood may be removed, and citizens may be spared of the inconvenience of taking notice of laws which have ceased to bear any relevance to current conditions."

The forward movement with the proposed committee on banking reforms (and the RRC) is to be read with another critical initiative flagged in the Union Budget of FY24 by finance minister Nirmala Sitharaman. She referred to the need for better governance and investor protection in banking through proposed amendments to the RBI Act, 1934; the Banking Regulation Act, 1949; and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

Taken together, the two RRA editions, RRC, and the budgetary moves in FY24 and FY27 appear to convey that banking is the hinge around which the financial sector revolves. While India's is in the main a banking-driven financial sector, this may not hold in the decades to come — certainly not in 2047.

Templates

“Our financial sector has changed in the post-reform period. Banks have become financial conglomerates,” said S C Garg, former union finance secretary. “While the first Narasimham committee was on financial sector reforms, it was largely on banking, reflecting the reality of those times. But now things are different. Yes, I agree the mandate (of the proposed committee) should be wider: Financial sector reforms.”

Look at it from another perspective. While bank deposits still form a significant part of households’ financial assets and have grown in absolute terms, their share in incremental financial savings have moderated in recent years. “There’s been a significant increase in allocations of investments toward non-bank channels such as mutual funds, equity, insurance, and pension funds.” said Rohan Lakhaiyar, partner, financial services risk advisory, Grant Thornton Bharat.

This is reflective of the broadening of intermediation across a wider set of financial instruments. “Given this evolving landscape, financial stability considerations, consumer protection risks, and systemic transmission channels may not be solely banking-centric,” he added. Therefore, the formation of an inter-sectoral regulatory committee that spans banking, capital markets, insurance, and pensions would be better aligned with the current structure of household financial intermediation and more suited to framing coherent, system-wide financial sector reforms.

A good template to pursue would be the Financial Sector Legislative Reforms Commission (FSLRC). The FSLRC was set by the government in March 2011 to review and rewrite the legal-institutional architecture of the financial sector. It was for the creation of a Financial Sector Appellate Tribunal, and to merge all trading regulation under a unified financial agency. It remains to be seen how the authorities look at these suggestions more than a decade after the FSLRC.

This leads us to another aspect. Multiple self-regulatory organisations (SROs) are in place on RBI’s turf — the Fintech Association for Consumer Empowerment; the Fixed Income, Money Market, and Derivatives Association of India; Sa-dhan; MicroFinance Institutions Network; Foreign Exchange Dealers’ Association of India; Finance Industry Development Council. In the queue are the Unified Fintech Forum (which is the rebranded Digital Lenders Association of India), National Urban Cooperative Finance and Development Corporation, and an entity (unnamed) for business correspondents.

But what of coordination between SROs, more so if they were to crop up in the domains of Sebi, Irdai, and PFRDA? Is there a mirror-image of the Financial Stability and Development Council (FSDC) set up in December 2010 — the

coordinating agency for regulators — chaired by the finance minister? This comes into relief given the move in the Union Budget FY25 to set up a mechanism under the FSDC to evaluate the impact of current financial regulations and subsidiary instructions. This was also to formulate a framework to enhance their responsiveness and development of the financial sector.

As Bhadani puts it, specialised regulators bring domain expertise, supervisory proximity, and risk sensitivity; and fragmentation can increase compliance costs, create regulatory arbitrage, and slow innovation. The answer is not necessarily a single super-regulator, but a stronger, institutionalised coordination framework with clear lead regulator principles, harmonised compliance norms, and real-time data sharing.

“A system that is ‘unified in outcomes but specialised in execution’ can simultaneously improve ease of doing business and preserve financial stability by ensuring that no systemic risk falls through the cracks,” Bhadani said.

On the regulatory front

- Union Budget 2026 has proposed a far-reaching high-level committee to review and recommend banking-sector reforms
- The committee may be seen as (and has the potential to be) the equivalent of the M Narasimham Committees of our times
- Move comes in the footsteps of a key RBI initiative last year: a Regulatory Review Cell, and two Regulatory Review Authority editions
- An alternative regulatory template exists via the Financial Sector Legislative Reforms Commission (FSLRC), set up to review and rewrite the legal-institutional architecture of the Indian financial sector

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