



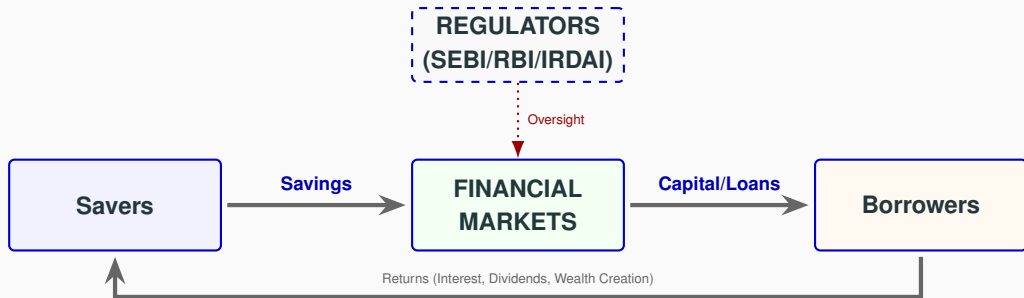
Finance

Renuka Sane

TrustBridge Rule of Law Foundation

March 7, 2026

Why finance?



- Finance helps move money through time; manage risk
- These functions are fundamental for resource allocation
- High cost of capital leads to low investment
- This impacts GDP growth

Unpacking the field of "finance"

- The study of households and firms
 - What are the instruments for saving, borrowing, managing risk available to households?
 - Where do they save? Where do they borrow from? How much? At what cost?
 - How do they deal with risk?
- The study of intermediaries
 - How well do the debt markets work: banking, bonds?
 - How efficient are our capital markets: equity, derivatives, mutual funds?
 - How well does insurance work?
 - How open are the markets to global capital?
 - What are the constraints on the intermediaries themselves?
- The study of institutions
 - How well does the regulatory apparatus work?
 - How do institutions outside of finance (such as MoF and its actions on the fiscal policy) affect finance?
- How does all of this impact investments, welfare, GDP etc?
- What parts of this are broken? In what way? What will it take to fix them?

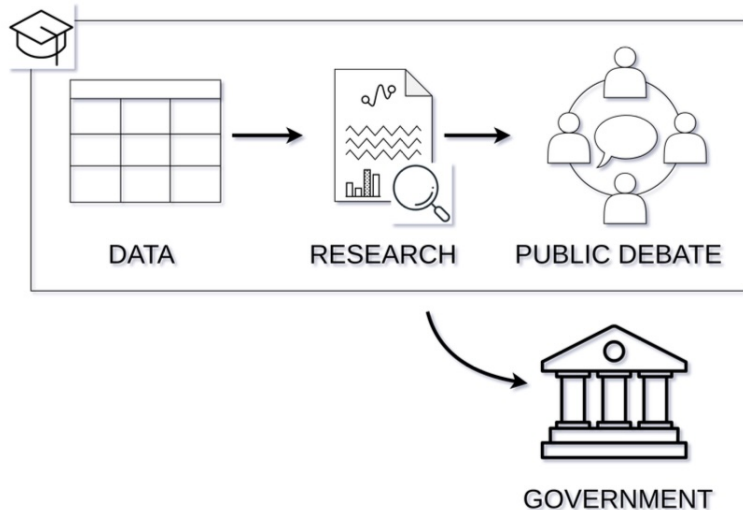
A normative position on a "good" financial system

- Debt and equity markets that are open, deep, and liquid
- Products and avenues for risk transfers
- Intermediaries have space for making choices
 - Freedom on pricing
 - Freedom on investment strategy
 - Freedom on structuring products
- Access to global capital
- Regulation that addresses market failure by focusing on:
 - Consumer protection
 - Prudential regulation
 - Systemic risk
 - Resolution

A report-card on Indian finance

Area	Grade
Equity markets	A
Bankruptcy	A
Pensions	B
Insurance	B
Banking	C
Bond markets	C
International finance	C
Consumer protection	C

Policy pipeline



The story of equity markets

- Early 1990s – mid 2010s: a period of genuine market-building reform
- 2016 onwards: State power against NSE and the reforms team; dispersal of the intellectual community
- Reverted into central planning, into opposition to speculative trading
 - Crackdown on F&O derivatives: tripled minimum contract size, limited weekly expiries, raised margins
 - Hike in Securities Transaction Tax on futures and options
 - Capital gains tax hikes: STCG 15% → 20%, LTCG 10% → 12.5%
 - Mutual fund scheme categorisation by decree
 - SEBI surveillance extended to social media, 70,000+ posts removed
 - Crackdown on alleged insider trading activities
- Policy pipeline vacuum on capital markets

The story of pensions

- Legacy system under the Employers Provident Fund Organisation (EPFO)
 - Poor management of provident funds
 - Quantitative restrictions on its investments
 - Bankruptcy of the pension scheme
- No fundamental reform of the EPFO
- NPS introduced for civil servants in 2004; multiple mistakes on implementation
 - No effort at educating civil servants on the scheme design
 - Limited equity investment for government employees, leading to lower returns
 - Quantitative restrictions on its investments
 - Frictions on issues of access, returns, insurance etc ignored
- Reversals to the NPS start from 2022
 - Several state governments reverted back to pensions financed through the fisc
 - Union government introduced the option of opting out of NPS
- Further watering down of the NPS in the last one year
- Policy pipeline vacuum on pensions

The story of banking and bond markets

- Multiple reports for decades have outlined problems in banking and bond markets
- These include:
 - Governance of public sector banks
 - Shallow bond markets
 - Crowding out of corporate debt because of SLR requirements
 - Political interference in credit
 - The rigidity of "priority sector lending"
- Policy pipeline relatively more active than on equity markets and pensions

Why is finance broken?

- *Measurement failure*
 - Poor measurement of households, firms, institutions, intermediaries
 - No consistent measurement of policy impact

Why is finance broken?

- *Measurement failure*
 - Poor measurement of households, firms, institutions, intermediaries
 - No consistent measurement of policy impact
- *Intellectual failure*
 - Suspicion of markets and speculation
 - Under appreciation of global capital
 - Conflating consumer protection with prudential regulation
 - Bond market captive to fiscal policy
 - Use of "safety" to continue with financial repression

Why is finance broken?

- *Measurement failure*
 - Poor measurement of households, firms, institutions, intermediaries
 - No consistent measurement of policy impact
- *Intellectual failure*
 - Suspicion of markets and speculation
 - Under appreciation of global capital
 - Conflating consumer protection with prudential regulation
 - Bond market captive to fiscal policy
 - Use of "safety" to continue with financial repression
- *Capability failure*
 - Poor regulatory processes
 - Depth and staying power of the policy pipeline
 - Limited ability to persuade

What should we focus on?

- On every issue there are "radical" ideas and "acceptable" ideas.
- Example:
 - Radical: Remove quantitative restrictions and move to a "prudent person rule"
 - Acceptable: Gradually increase the thresholds for investments in equity (and other asset classes)
- Example:
 - Radical: Abolish priority sector lending
 - Acceptable: Allow more flexibility under PSL
- Championing acceptable ideas can deliver impact and shift the Overton window – making the radical acceptable over time
- But the acceptable-first strategy carries a real risk:
 - Partial reforms often do not work until the full reform is done
 - Small win fails to materialise
 - You lose the constituency to champion the larger change

Our policy pipeline

- Goal
 - Radical becomes the policy
- The process
 - Carefully construct the radical idea
- The day-to-day
 - Consistent and systematic data collection
 - Regular report cards that reflect the true state of the economy and markets
 - Research papers diagnosing the impact of policy actions on markets
 - Persuading the community outside our silos
 - Engage on implementing what is currently acceptable

Thank you