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We could start by abandoning the term 'shadow banking'

From Mr Kamel Alzarka.

Sir, As the chairman of an alternative financier regulated by the Dubai Financial Services Authority, I welcome the regulation of the so-called “shadow banking” industry, not least because it would serve to highlight the trustworthy players (“Time to cast some light on world of shadow banking”, On Monday, June 3).

However, how would regulation of the industry work? The business operations of non-bank financial institutions vary widely, making the imposition of a standard regulation difficult. Indeed, a “catch all” approach may blunt a burgeoning sector that fulfils a vital need.

Basel III restrictions – as well as the pressure to favour domestic markets – have caused a reduction in funding from global banks, and local banks are only slowly bridging the gap.

The regulation of the industry would render certain untrustworthy lenders inoperative – a positive result, of course. But sloppy regulation – that does not properly take into account the wide variance of business processes captured by the term “shadow banking” – would slow down the operations of those legitimately plugging a liquidity gap in corporate funding.

As for improving the image of the industry, we can perhaps start by abandoning the term “shadow banking” – given that much of the industry is in fact transparent and already operates within internationally-recognised regulatory regimes.

The former UK regulator Lord Turner stated that, like cholesterol, there are good and bad varieties of alternative financiers – a comparison that highlights the need to differentiate between the two.

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