c) *Insurance Industry*

Insurance is the second largest service industry in Pakistan with an annual growth rate ranging between 15 and 20 percent. The two main classes of operating companies are Life Insurance and General Insurance. A total of 50 local and 12 foreign firms operate in Pakistan.

The insurance industry does not have a strong lobby. This has caused an accumulation of problems with the GOP. Some of these problems are due to the Insurance Act which includes regulations such as ceding 20 percent of direct business to nationalized insurance companies.

All insurance companies must offer 35 percent of their surplus business in accordance with the Pakistan Insurance Corporation Compulsory Reinsurance Regulation Act 1978. The GOP intends to abolish this policy by the year 2000 and has announced its intention to set up an Insurance Regulatory Authority to allow better monitoring of the sector and create a more competitive environment for public- and private-sector investors. This will make the sector more attractive to foreign investors.

d) *Commercial Banking Operations*

A total of 46 commercial banks operate in Pakistan, made up of foreign banks (21), private commercial banks, specialized banks, privatized banks and state-owned banks. Two state-owned banks (Habib Bank Limited and United Bank Limited) are slated for privatization by mid-1998.

Commercial banks operate under the regulatory ambit of the State Bank of Pakistan (SBP), which has prescribed a set of prudential regulations for their operation. The SBP requires the commercial banks to maintain five percent of their deposits in an obligatory cash reserve that bears no interest and 25 percent of their deposits in government securities. This Statutory Liquidity Requirement has been reduced from 25 to 20 percent and is estimated to free up about Pak Rupees 42.5 billion. Provisioning for loans in arrears is mandatory and total exposure to single clients is limited to 30 percent of the bank's capital and reserves.

As a result of reforms in the financial sector, brought about over the past few years, commercial banks now operate in a more competitive environment and have evolved to the point where they now respond more flexibly to the needs of the private sector.

Although the state-owned banks still dominate the sector, they are slowly losing ground to private banks and their share in both total deposits and total assets has declined from 75 to 60 percent over the last three years. As such, private-sector banks are expected to play a significant role in making funds available to meet the demands of the private sector since the state-owned banks are severely under-capitalized and unable to cater to these needs.

In May 1997, Pakistan's National Assembly passed three bills proposing stringent laws for the recovery of bank loans. These laws are viewed as a step forward in the current efforts of the government to restore solvency to the financial sector.