Resilience and Growth Amidst Uncertainty: Navigating Legal Reforms and Recapitalization in Nigeria's Insurance Industry

www.strenandblan.com

contact@strenandblan.com

Introduction

The insurance industry stands as a pivotal force in global economic development, offering individuals and businesses the means to navigate uncertainties and foster stability. In Nigeria, the sector has historically grappled with challenges such as low public trust, limited awareness, and complex regulatory frameworks, leading to underdevelopment and low penetration rates.[1]

However, 2024 marked a significant turnaround. The industry demonstrated remarkable resilience and growth, with Gross Premium Written (GPW) reaching ₦1.173 trillion in the third quarter, a 44.3% increase from the previous quarter and a 60.9% year-on-year rise. This growth outpaced the national GDP growth of 3.5% during the same period, underscoring the sector's robust performance.[2]

This article delves into the evolving landscape of Nigeria's insurance industry, examining its structure, key players, and growth opportunities. It also provides a comparative analysis with other African markets, evaluates recent legal and regulatory reforms, the recapitalisation drive, including the 2024 Nigerian Insurance Industry Reform Bill and explores the challenges and strategic considerations for stakeholders aiming to sustain and enhance this growth trajectory.

The Role of Insurance in the Nigerian Economy

The insurance sector is a vital component of Nigeria's economy, providing individuals, businesses, and organizations with essential risk management tools and financial safeguards.[3] Historically, the industry primarily served affluent and expatriate communities, leaving a significant portion of the population without access to insurance protection. However, as Nigeria's population and economy have expanded, the insurance industry has evolved to meet the growing and diverse needs of its citizens.

Despite these developments, insurance penetration in Nigeria remains low, with approximately 97% of the population uninsured.[4] This gap exposes many Nigerians to significant financial risks without any recovery plans. Contributing factors include limited public awareness, skepticism towards insurers, and a focus on broker-driven accounts, particularly in sectors like oil and gas.[5] To address these challenges, the Insurance Act 2003 and related legislation mandate several compulsory insurance policies, including group life insurance, employers' liability, insurance for buildings under construction, occupiers' liability, motor third-party insurance, and healthcare professional indemnity insurance. These mandates aim to enhance coverage and protect vulnerable groups.

The Nigerian insurance industry continues to adapt, offering a broader array of products such as business, health, auto, and travel insurance, making coverage more accessible and relevant to a wider segment of society. Ongoing efforts to educate the public about the benefits of insurance and to build trust in insurance providers are crucial for increasing penetration rates and ensuring that more Nigerians can safeguard their assets and livelihoods against unforeseen events.

The Legal Framework Governing the Insurance Industry in Nigeria

The insurance industry in Nigeria operates within a comprehensive legal and regulatory framework designed to ensure its stability, integrity, and alignment with national economic objectives. This framework encompasses a multitude of laws, regulations, and guidelines that collectively govern various aspects of insurance operations. While numerous statutes influence the sector, some of the most salient ones include:

A. Insurance Act 2004

The Insurance Act of 2004 was a pivotal reform that repealed the previous Insurance Decree No. 2 of 1997, introducing comprehensive regulations for the registration and operation of insurers, agents, brokers, and loss adjusters. This Act categorized insurance businesses into life and general insurance, each with specific subdivisions, and established minimum paid-up share capital requirements tailored to different insurance sectors.[6] It also mandated insurers to maintain adequate reserves for unexpired risks and outstanding claims, addressed the necessity of insurable interest in life insurance policies, and enforced compulsory insurance in areas such as motor third-party liability and insurance for buildings under construction exceeding two floors.[7] The Act empowered the National Insurance Commission (NAICOM) to oversee and regulate the industry, ensuring compliance and protecting policyholders' interests.[8] However, over time, stakeholders identified that the capital requirements set in 2004 were insufficient to meet contemporary economic challenges and emerging risks, highlighting the need for more robust reforms.

B. Nigerian Insurance Industry Reform Bill 2024

Responding to the evolving economic landscape, technological advancements, and the imperative for enhanced consumer protection, the Nigerian insurance sector underwent significant reforms with the passage of the Nigerian Insurance Industry Reform Bill 2024. This Bill aims to modernize and consolidate Nigeria's insurance laws, introducing several key provisions:

- Increased Capital Requirements: The Act substantially raises the minimum capital thresholds for insurance companies to bolster financial stability and risk-bearing capacity. Non-life insurance businesses are now required to maintain a minimum capital of N15 billion, life insurance businesses N10 billion, and reinsurance businesses N35 billion.[9]

- Risk-Based Supervision: Shifting from a rule-based to a risk-based supervision framework, NAICOM is now authorized to assess and monitor the capital adequacy of insurers based on the specific risks they undertake, aligning with international best practices.

- Stricter Penalties for Non-Compliance: Operating an unlicensed insurance business can attract a fine of N25 million, with principal officers of offending companies facing fines of N50 million each, alongside the possibility of a two-year prison sentence. [10]

- Mandatory Deposits with the Central Bank: New insurers are required to deposit 50% of the minimum capital requirement with the Central Bank of Nigeria (CBN), while existing companies must deposit 10%. [11]

- Consolidation of Insurance Laws: The Act repeals and consolidates several existing insurance laws including the Insurance Act 2003 (Cap I17, LFN 2004), the Marine Insurance Act (Cap M3, LFN 2004), the Motor Vehicles (Third Party Insurance) Act (Cap M22, LFN 2004), the National Insurance Corporation of Nigeria Act (Cap N54, LFN 2004), and the Nigeria Reinsurance Corporation Act (Cap N131, LFN 2004), into a single, comprehensive legislative instrument.[12]

As of 13th April, 2025, the Nigerian Insurance Industry Reform Bill 2024 has been passed by both the Senate and the House of Representatives and is awaiting presidential assent. Stakeholders anticipate that President Bola Tinubu will sign the bill into law soon, as it is expected to significantly reshape the insurance sector and contribute to Nigeria's economic growth.

C. National Insurance Commission Act 1997

The National Insurance Commission Act of 1997 established NAICOM as the primary regulatory body overseeing Nigeria's insurance industry. NAICOM's responsibilities include ensuring effective administration, supervision, regulation, and control of insurance business in Nigeria; establishing standards for the conduct of insurance business; approving rates of insurance premiums and commissions; ensuring adequate protection of strategic government assets and other properties; regulating transactions between insurers and reinsurers both within Nigeria and internationally; and acting as an advisor to the Federal Government on all insurance-related matters. NAICOM also serves as a clearinghouse for complaints against insurers, reinsurers, insurance brokers, or loss adjusters, thereby safeguarding the interests of policyholders and the general public.

D. Companies and Allied Matters Act (CAMA) 2020

CAMA 2020 governs the formation, incorporation, management, and winding up of companies in Nigeria, including insurance companies. Insurance companies must be registered under CAMA and licensed by NAICOM to operate legally. Incorporation under CAMA confers a separate legal personality and perpetual succession on companies, while registration with NAICOM grants the necessary license to engage in the insurance business. The structure and funding of insurance companies vary depending on their classification, with private companies limited to 50 (fifty) members and listed companies having more diverse membership.

E. Investment and Securities Act (ISA) 2025

ISA 2025 aims to enhance Nigeria's capital market through comprehensive reforms. Pertinent provisions related to insurance include the establishment of an investor protection fund,[13] which comprises monies paid by insurers according to any contract of insurance or indemnity entered into by a dealing member or the board of trustees. The Act also mandates that registered warehouse operators insure their warehouse structures, facilities, and stored commodities, thereby promoting transparency and efficiency within the insurance sector.

F. NAICOM Circular on Minimum Paid-Up Share Capital Policy (2019)

In May 2019, NAICOM issued Circular NAICOM/DPR/CIR/25/2019, initiating a recapitalization process for the insurance industry. The revised minimum paid-up capital requirements were set at N8 billion for life insurance, N10 billion for general insurance, N18 billion for composite insurance, and N20 billion for reinsurance. However, due to industry concerns and the impact of the COVID-19 pandemic, NAICOM extended and segmented the recapitalization process. The process faced legal challenges, culminating in a court order on December 21, 2020, which halted the recapitalization exercise.[14]

This overview reflects the evolving legal landscape governing Nigeria's insurance industry, highlighting efforts to modernize and strengthen the sector in line with global best practices. It is noteworthy that once the Insurance Act kicks in, it will take precedence over this Circular once presidential assent is obtained.

Challenges Impeding the Growth of the Insurance Industry in Nigeria

The Nigerian insurance industry confronts several challenges that hinder its growth and development. Despite efforts by the National Insurance Commission (NAICOM) to address these issues, significant obstacles remain they include:

A. Limited Access to Modern Technology and Infrastructure: While 65%[15] of consumers express a willingness to engage with insurance products online, many Nigerian insurers continue to rely on manual processes and lack integrated digital systems. This technological gap leads to inefficiencies such as delayed claims settlements and increased opportunities for fraudulent activities. The absence of standardized regulatory guidelines for IT infrastructure for the Insurance sector further exacerbates these challenges.

B. Insurance Education Gap: A significant portion of the Nigerian populace remains uninformed about the benefits of insurance. This knowledge deficit contributes to a low insurance penetration rate, with many educated Nigerians not recognizing the value of insurance products. Cultural factors, income disparities, and a low standard of living also play roles in the underdevelopment of insurance culture. Addressing this issue requires targeted awareness campaigns and educational initiatives to highlight the importance of insurance.

A. Limited Access to Modern Technology and Infrastructure: While 65% of consumers express a willingness to engage with insurance products online, many Nigerian insurers continue to rely on manual processes and lack integrated digital systems. This technological gap leads to inefficiencies such as delayed claims settlements and increased opportunities for fraudulent activities. The absence of standardized regulatory guidelines for IT infrastructure for the Insurance sector further exacerbates these challenges.

B. Insurance Education Gap: A significant portion of the Nigerian populace remains uninformed about the benefits of insurance. This knowledge deficit contributes to a low insurance penetration rate, with many educated Nigerians not recognizing the value of insurance products. Cultural factors, income disparities, and a low standard of living also play roles in the underdevelopment of insurance culture. Addressing this issue requires targeted awareness campaigns and educational initiatives to highlight the importance of insurance.

C. Widespread Fraud and Weak Controls: The lack of comprehensive due diligence and robust risk assessment mechanisms has led to an increase in fraudulent claims. Economic hardships have further fueled such activities, undermining trust in insurance providers. Additionally, outdated regulatory frameworks, such as the Marine Insurance Act of 1961,[16] fail to address contemporary challenges, leaving gaps in fraud prevention and control.

D. Limited Product Options and Lack of Innovations: The Nigerian insurance market is characterized by a scarcity of innovative products tailored to emerging risks and consumer needs. This limitation hampers the industry's ability to attract new customers and adapt to changing market dynamics. For instance, while the life insurance market experienced a 52% quarterly growth in Q4 2023,[17] this growth is largely attributed to insurers developing innovative solutions that address regional demands. Expanding product offerings and embracing innovation are crucial for the industry's competitiveness and relevance.

Way Forward

To address these challenges and foster growth in the Nigerian insurance sector, several strategic actions are recommended:

A. The Use of Modern Digital Technology: Embracing digital transformation is essential for modernizing the insurance industry. Implementing mobile applications, digital underwriting platforms, and leveraging big data analytics can enhance customer engagement and streamline operations. Initiatives like AXA Mansard's Innovation Exchange Program, the AXA AutoGenius and Tsaron to mention a few, exemplify efforts to integrate technology into insurance services.

B. Recapitalization of the Insurance Industry: To position Nigeria's insurance industry for global competitiveness, establishing a robust financial foundation is imperative. The National Insurance Commission (NAICOM) has set a target to increase the industry's Gross Premium Income (GPI) from the current ₦1 trillion to ₦6 trillion by 2030.[18] Achieving this goal necessitates strengthening the capital base of insurance and reinsurance companies.

In pursuit of this objective, the Nigerian National Assembly has passed the Nigerian Insurance Industry Reform Bill, aiming to overhaul the industry's regulatory framework and enhance its competitiveness. The bill introduces significant changes, including the establishment of minimum capital requirements for various insurance sectors. These adjustments are designed to ensure that insurance companies have sufficient financial resources to underwrite risks effectively and meet policyholder obligations.

To meet these enhanced capital requirements, insurers can utilize various methods, including leveraging existing paid-up share capital, infusing fresh capital through share issuance, reinvesting profits to bolster capital, contributing assets such as properties, treasury bills, shares, or bonds (which must be converted to cash within three months of the recapitalization deadline), and utilizing additional funds received over the nominal value of shares issued.

The implementation of these measures is expected to inject approximately ₦600 billion into the industry, enhancing underwriting capacity and fostering a more competitive market environment. This recapitalization is anticipated to drive innovation, improve risk retention, and attract both domestic and international investors, thereby contributing to the overall growth and development of Nigeria's insurance sector.

C. Review and Update of Insurance Laws: Updating the legal framework governing the insurance industry is crucial for addressing contemporary challenges. The Nigerian Insurance Industry Reform Bill 2024 is a commendable step toward modernizing the nation's insurance sector. By consolidating and updating several outdated laws, However, while this reform is laudable, it is important to recognize that other sector-specific insurance laws remain outdated and require urgent review. For instance, the Motor Vehicles (Third Party Insurance) Act of 1945 still prescribes fines in colonial pounds sterling, rendering its enforcement ineffective in today's Nigerian economic context. To ensure a cohesive and effective regulatory environment, it is crucial that these outdated laws are revisited and amended to reflect current realities.

D. Enhance Public Understanding of Insurance: Improving public awareness about insurance products and their benefits is essential for increasing penetration rates. Educational campaigns and collaborations among insurers, brokers, and regulators can dispel misconceptions and promote the value of insurance.

e) Implement Robust Anti-Fraud Systems: Establishing comprehensive anti-fraud measures is critical for maintaining trust in the insurance sector. This includes updating legal frameworks, enhancing internal controls, and collaborating with agencies like the Economic and Financial Crimes Commission (EFCC), SEC (Securities and exchange Commission), FCCPC (Federal Competition and Consumer Protection Commission), to detect and prevent fraudulent activities.

F. Collaboration and Expansion of Product Offering: Encouraging collaborations among insurers can lead to the development of diverse and innovative products that cater to a broader range of customer needs. Such partnerships can enhance market reach and competitiveness. The collaboration between Prudential Plc and Zenith Life Insurance, resulting in Prudential Zenith Life Insurance (PZL), serves as a successful example of such an initiative.[19]

By implementing these strategies, the Nigerian insurance industry can overcome existing challenges and achieve sustainable growth, ultimately contributing to the nation's economic development.

Conclusion

Nigeria's insurance industry is on the cusp of significant transformation, propelled by the enactment of the Nigerian Insurance Industry Reform Bill 2024. This comprehensive legislation introduces pivotal reforms, notably substantial increases in minimum capital requirements for insurance entities. These measures aim to fortify the industry's financial foundation, enhance its capacity to underwrite substantial risks, and reduce dependence on foreign insurers. The anticipated recapitalization is expected to inject substantial capital into the sector, thereby expanding underwriting capabilities and fostering a more robust and competitive insurance market.

Despite these advancements, the industry continues to face enduring challenges, including limited access to modern technology, infrastructural deficiencies, and a pervasive lack of insurance awareness among the populace. Addressing these issues necessitates strategic initiatives such as the adoption of digital technologies, implementation of comprehensive public education campaigns, and the establishment of stringent anti-fraud mechanisms. While the 2024 Reform Bill lays a solid groundwork for progress, sustained efforts to modernize infrastructure, enhance public trust and understanding, and refine regulatory frameworks are essential to fully realize the sector's potential and its contribution to Nigeria's economic development and financial resilience.

Endnote

1. Rosemary Iwunze, “Challenges, prospects of increasing access to insurance” (Vanguard, 24 February 2024) <Challenges, prospects of increasing access to insurance - Vanguard News> accessed 9th April 2025.
2. Nike Poopola “Nigeria’s insurance industry records N1.17tn premium, N564.1bn claims in Q3, 2024- NAICOM — Daily Economy News” accessed on 13th April 2024.
3. Muhsinah Sharafdeen, ‘Legal Uncertainty in Nigerian Insurance Law: The Dilemma of Ministerial Silence Post 60 days’ Research Gate https://www.researchgate.net/publication/390052625_Legal_Uncertainty_in_Nigerian_Insurance_Law_The_Dilemma_of_Ministerial_Silence_Post-60_Days (accessed 9th April, 2025).
4. NOI Polls, ‘Only 19 in 100 Nigerians have Health Insurance, a new poll reveals’ <https://www.noi-polls.com/post/only-19-nigerians-have-health-insurance-new-poll-reveals#:~:text=This%20 corroborates%20 Dataphyte's%20 publication%20of,insurance%20is%20huge%20 out%2 Dof%2D> (accessed on 10th April 2025)
5. Gabriel Ukpeh, ‘African Insurance trend’ PWC nigeria-insurance-survey.pdf (accessed 9th April 2025)
6. Section 9 of the Insurance Act, 2004
7. Section 20 of the Insurance Act, 2004
8. Section 9(4) of the Insurance Act, 2004
9. Section 15 of the Nigerian Insurance Industry Reform Bill, 2024.
10. Section 10 of the Nigerian Insurance Industry Reform Bill,2024.
11. Section 16 of the Nigerian Insurance Industry Reform Bill, 2024
12. Section 288 and Explanatory Memorandum of the Nigerian Insurance Industry Reform Bill, 2024.
13. Part XIV of the ISA 205.
14. https://www.mondaq.com/guides/results/29/1156/all/nigeria-insurance “ NIGERIA INSURANCE COMPARATIVE GUIDE” accessed on 12th April 2025.

Endnote

15. Data from recent surveys indicate that 65% of consumers are now more willing to interact with insurance products that are available online, highlighting the shift toward a more tech-savvy clientele: "Notavia Consulting: Insurance Market Research in Nigeria (22 November 2024) https://novatiaconsulting.com/insurance-market-research-in-nigeria/ accessed 10 April 2025.
16. The Marine Insurance Act of 1961 is a verbatim reproduction of the UK's 1906 Act, which has since been reviewed: Sunday Chuks, 'Shaping the Future of Insurance through Growth and Innovation' (ThisDay Newspapers) https://www.thisdaylive.com/index.php/2024/11/22/shaping-the-future-of-insurance-through-growth-and-innovation/ accessed 10 April 2025".
17. Sunday Chuks (ibid).
18. ThisDay: Insurance Industry: Hitch Free Recapitalisation Exercise <https://www.thisdaylive.com/index.php/2024/09/25/insurance-industry-hitch-free-recapitalisation-exercise/> accessed 10 April 2025.
19. Sunday Chuks, 'Shaping the Future of Insurance through Growth and Innovation' (ThisDay Newspapers) https://www.thisdaylive.com/index.php/2024/11/22/shaping-the-future-of-insurance-through-growth-and-innovation/ accessed 10 April 2025.

About Stren & Blan Partners

Stren & Blan Partners is an innovative and dynamic Law Firm with a compelling blend of experienced lawyers and energetic talents. We are focused on providing solutions to our client's business problems and adding value to their businesses and commercial endeavours. This underpins our ethos as everything we do flows from these underlying principles.

Stren & Blan Partners is a full-service commercial Law Firm that provides legal services to diverse local and multinational corporations. We have developed a clear vision for anticipating our client's business needs and surpassing their expectations, and we do this with an uncompromising commitment to Client service and legal excellence.

Authors

Noble Obasi
Team Lead

NobleObasi@strenandblan.com

Ibitola Akanbi
Associate

IbitolaAkanbi@strenandblan.com

Ifechukwu Ewulum
Associate

IfechukwuEwulum@strenandblan.com

www.strenandblan.com
contact@strenandblan.com
@strenandblan

+234 (0)702 558 0053
3 Theophilus Orji Street, Off Fola Osibo
Road, Lekki Phase 1, Lagos, Nigeria