ODUJINRIN & ADEFULU

Nigerian Insurance Reform Bill 2024: What is New?

Nigerian Insurance Reform Bill 2024

In December 2024, the Nigerian Senate passed the Nigerian Insurance Reform Bill 2024 (the "Bill") and now awaiting Presidential assent. The Bill introduces several key changes to the Nigerian Insurance framework. These changes reflect innovative contemporary developments in the insurance sector.

As part of a series, our Insurance Reform Review team (made up of members from our various practice areas) will publish weekly, details proposed by the Bill. This will then culminate in a Roundtable session with some stakeholders of the Insurance sector.

This first part shall highlight 11 of the proposed fundamental changes as it compares to the provisions under the extant Insurance Act 2003 ("the 2003 Act").

1. Classification of Insurance Business

The Bill has broadly classified insurance into life insurance business and non-life insurance business.[1] Ordinarily, this therefore means that upon coming into effect of the Bill, composite insurance will no longer exist and any company carrying on business as both life and non-life insurance business will be expected to pivot to either life or non life insurance.

2. Minimum Capital Requirements

Contrary to the provision of the 2003 Act, which merely mandates insurance companies to have a minimum paid up capital of N150,000,000, N200,000,000, N350,000,000, and N350,000,000 for life, general insurance, composite insurance and reinsurance respectively, the Bill has now increased the minimum capital to N25 billion, N15 billion and N45 billion for nonlife insurance, life insurance and reinsurance respectively.[2]

Whilst there have been several circulars issued by the National Insurance Commission ("NAICOM" or the "Commission") increasing the above share capital as stated in the 2003 Act, the legislative flavour now added to it is no doubt set to revolutionize the insurance sector.

This significant increase is expected to address current inflation and enhance global competitiveness in the insurance industry. It further ensures that insurance companies are sufficiently capitalised to underwrite risks and protect policy holders whilst enhancing financial stability.

3. Composition of the Minimum Share capital Fund

The Bill allows for the composition of the minimum share capital to consist of government bonds, treasury bills, cash and cash equivalent.

4. Investment of Insurance Funds

The Bill has expanded the investment portfolio of insurance companies.[3] This is an improvement on the provisions of the Prudential Guidelines for Insurers and Reinsurers in Nigeria.[4] Notably, the Bill provides that insurance funds and assets shall only be invested within the below parameters:

- in bonds, bills and other securities issued or guaranteed by the Federal Government of Nigeria (FGN);
- such other debentures, other debt instruments issued by corporate entities and listed on a stock

[1] *Section 3 of the Insurance Reform Bill*

[2] *Section 15 of the Bill*

[3] *Section 27 of the Bill*

[4] *Prudential Guidelines for Insurers and Reinsurers in Nigeria effective July 2015*

exchange registered under the Investment and Securities Act; ordinary shares of public limited companies listed on a securities exchange registered under the ISA;
• bank deposits and bank securities;
• investment certificates of closed-end investment fund or hybrid investment funds listed under the Investment and Securities Act 2007 (now 2025) [ISA] with good track records of earnings;
• units sold by open-end investment funds or specialist open-end investment funds registered under the ISA;
• real estate development investment; or
• specialist investment funds and such other financial instruments as the Commission may from time to time approve.

5. Stiffer Consequence for Carrying on an Unlicensed Insurance Business

The Bill has now imposed a stricter measure against any firm, corporate or individual carrying out insurance business without being licensed. The Bill provides that any one carrying on an unlicensed insurance business shall be liable to both a fine of N25,000,000 and two years imprisonment in the case of an individual, and N50,000,000 and two years imprisonment in the case of a Company or Firm.

6. Consumer Protection Measures

Under the 2023 Act, there is minimal consumer protection provisions. However, the Bill has provided for mandatory disclosures, clearer contract terms, and dispute resolution mechanisms. Part IX of the Nigeria Insurance Industry Reform Bill 2024 focuses on key aspects of insurance contracts, particularly regarding disclosure, conditions, and warranties. This section signifies a major shift from the previous Insurance Act of 2003, enhancing consumer protection.

The improvements in Part IX aim to create a more balanced relationship between insurers and policyholders by placing some responsibilities on insurers. Previously, insured parties had to disclose all material facts, risking voided policies for non-disclosure, often leading to unfair consequences.

The revised framework requires insurers to ask specific questions to gather necessary information. Consumers are now expected to only "take reasonable care not to make a misrepresentation" in their responses. This change addresses the knowledge imbalance between insurers and consumers, protecting consumers from penalties due to misunderstanding.

Above all, these reforms are designed to build public confidence in insurance products.

7. Corporate Governance Standards

Whilst governance standards are not explicitly defined under the 2003 Act, the Bill mandates a more robust corporate governance practices, board composition, and accountability mechanisms.

Part V, Section 17 of the Bill establishes a corporate governance framework for insurance companies. It requires policy documents to be delivered within five working days after premium payment, or within 30 days for special and industrial risk insurance and imposes penalties for non-compliance.

Additionally, it empowers the Commission to approve new insurance products and

mandates that insurers and reinsurers maintain specific records. The Bill introduces a risk-based approach to supervision and provides guidance for insurance agents, including licensing requirements and penalties for non-compliance, enhancing transparency and promoting ethical conduct among insurers.

To further bolster the corporate governance of the insurance sector, an insurance company shall not grant a loan to a non-executive director of the Company except on a few conditions.[5]

8. Technological Integration

Prior to the Bill, little or no emphasis was placed on technology integration. The Bill has however now encouraged technology adoption by insurance companies to aid their operations.

The Bill merely requires approval from the NAICOM for the adoption of any new insurance products or significant operational changes. This ensures that technological innovations meet regulatory standards and protect consumers.

The Bill further expands licensing requirements to include brokers and loss adjusters, enhancing regulatory oversight of technology-driven entities within the insurance ecosystem.

9. Group Life Insurance

Notably, the Bill provides that every employer is expected to maintain a Group Life Assurance for each employee for a minimum of 3 times the employee's annual total emolument. Every employer who fails to maintain this insurance policy shall be liable to a fine in the sum of N250,000 for each employee without a policy.

Whilst the Pension Reform Act 2014 (PRA) also provides for Group Life Insurance for employees[6], it is noteworthy that the consequence of the breach of the provision by the employer is different.

Although the consequence under the PRA is that an employer that fails to maintain such insurance coverage shall make arrangement to effect the payment of claims arising from the death of any staff in its employment during such period.

10. Credit Life Insurance

In the wake of contemporary innovations in the insurance sector, the Bill further encouraged credit providers or lenders to demand that borrowers who seek to take more than N10,000,000 loans should provide a credit life insurance which shall be paid to the lender in the event of the death of the lender.[7] This is expected to mitigate against losses incurred by lenders and credit providers. This will undoubtedly encourage more lending and strengthen Nigeria's financial sector.

11. Establishment of the Road Safety and Accident Victims Compensation Fund

One of the most interesting introductions of the Bill is the establishment of a Fund to be known as the Road Safety and Accident Victims Compensation Fund (the "Fund"). It is expected that every insurer shall pay into the Fund 1 per cent of the net premium received in respect of

[5] *Section 211 of the Bill*
[6] *Section 4 (5) of the Pension Reform Act*
[7] *S.91 (3) of the Bill*

insurance of motor vehicles.[8]

More intriguing is that the Fund shall be paid to stakeholders, security agencies, and 65% to victims of motor accidents from uninsured motor vehicles; and to the hospital that treated them, provided the hospital bill is not more than N2,000,000.[9]

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[8] *S.99 of the Bill*
[9] *S.100 of the Bill*

Team

Olubukola Olabiyi
Partner
Corporate & Commercial Capital Markets

E: olubukola.olabiyi@odujinrinadefulu.com
T: +234 1 271 4961

Omotayo Akinrinwa
Associate
Corporate & Commercial Team

E: omotayo.akinrinwa@odujinrinadefulu.com
T: +234 706 957 7626

Tawakalt Oseni
Associate
Energy Team

E: tawakalt.oseni@odujinrinadefulu.com
T: +234 703 358 0062

Deborah Ekone
Associate
Corporate & Compliance Team

E: deborah.ekone@odujinrinadefulu.com
T: +234 703 963 2652

Contact Address

Lagos Office
No. 1 Ademola Street, Ikoyi
Lagos, Nigeria.

T: +234 127149612,
+234 708 6450 720

Abuja Office
3rd Floor, WAEC Complex
10, Zambezi Crescent Maitama
Abuja, Nigeria

T: +234 805 090 2150

Port Harcourt Office
16A, Manilla Pepple Street, D'Line,
Port Harcourt, Rivers State, Nigeria

T: +234 70 869 53468