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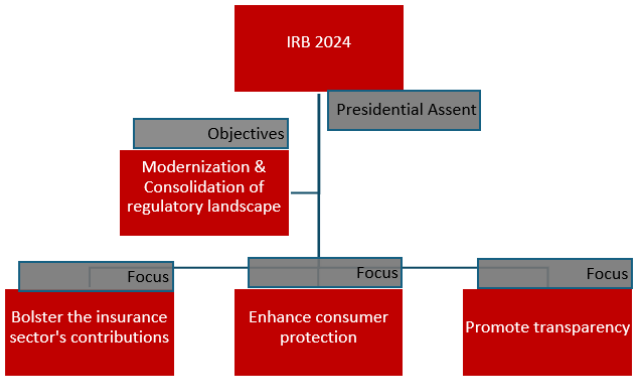
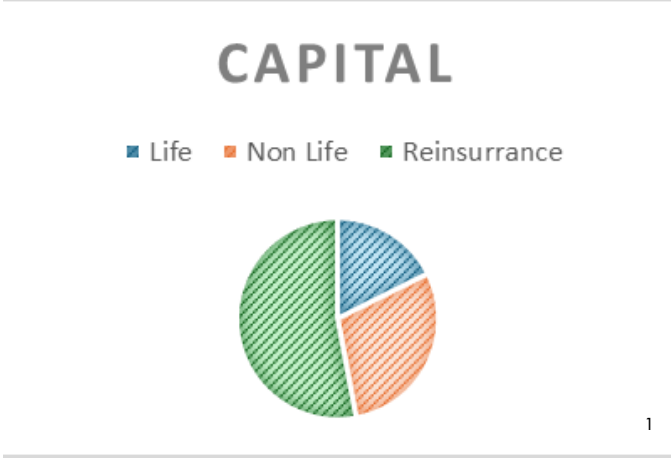
Nigerian Insurance Reform Bill 2024: What is New? Part 2

Nigerian Insurance Reform Bill 2024 Part 2: Capitalization Reforms

The Nigerian insurance industry is the subject of proposed reforms with the recent passage of the Nigerian Insurance Reform Bill 2024 (the "IRB 2024") by the Senate, awaiting Presidential assent.



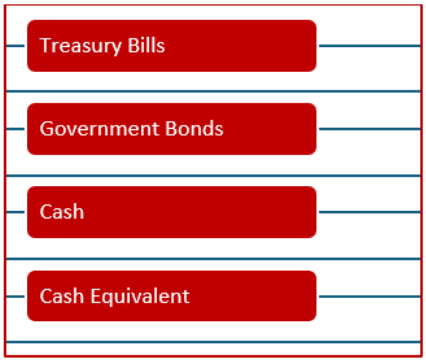
The focus of these provisions is on strengthening capital adequacy which translates into significantly higher minimum capital requirements for insurers.



Capital Composition Requirements for New and Existing Insurance Companies

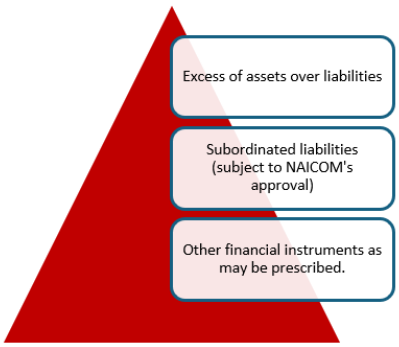
Furthermore, the composition of this minimum capital is also delineated. For newly established insurance companies, the minimum capital may consist of government bonds and treasury bills, or cash and cash equivalents.[2]

New Insurance Companies



Existing Insurance Companies

Existing insurance companies are subject to a different capital structure than newly established firms. Their minimum capital must comprise the excess of assets over liabilities (less any own shares held), subordinated liabilities subject to the Commission's approval, and any other financial instruments the Commission may prescribe[3].



[1] *Life insurance - N15 Billion; Non-Life - N25 Billion; Reinsurance - N45 Billion*
[2] *Section 15 (3)*
[3] *Section 15 (4)*

This requirement necessitates that existing insurers demonstrate a robust financial position reflected in their balance sheet, potentially supplemented by approved subordinated debt, rather than relying solely on cash or government bonds. A 12-month grace period from the Act's commencement is afforded to existing insurers to comply with these new capital requirements. This timeframe highlights the importance of immediate capital assessment and compliance planning.

Enforcement Measures

In addition, the Bill establishes clear consequences for non-compliance. Failure to meet these obligations will result in the cancellation of the insurer's registration, with the Commission mandated to publish a list of compliant insurers within 30 days of the deadline.[4] The Commission also retains the power to direct insurers to increase their minimum capital beyond the specified amounts if deemed necessary, taking into account the nature, size, complexity, and risk profile of the insurer's operations.[5] This discretionary power allows the Commission to address specific industry risks and ensure the financial health of individual insurers, even those otherwise compliant with the minimum requirements.

The Bill's increased capital requirements and new regulatory framework necessitate proactive preparation by existing insurers. A comprehensive capital assessment, conducted by qualified professionals, is crucial for assessing current and projected capital positions under various market scenarios. Insurers should promptly develop robust risk management strategies, incorporating stress testing and scenario analysis, to identify vulnerabilities and formulate mitigation plans. Expert consultation with actuaries, financial advisors, and legal professionals specializing in insurance regulation is strongly advised to navigate the complexities of the new framework and ensure compliance.

Conclusion

The Nigerian Insurance Reform Bill marks a significant step toward strengthening the industry's stability and promoting sustainable growth. The enhanced capital requirements, whilst potentially challenging in the short term, are a necessary measure to cultivate a more resilient and financially sound sector capable of meeting its obligations. Insurers must proactively adapt to these legislative changes, adopting robust risk management frameworks, strategically investing in technology for efficient operations and regulatory compliance, and engaging expert guidance to navigate the reformed regulatory landscape. While the transition may require effort and resources, the long-term benefits for policyholders and stakeholders are substantial. A stronger, more transparent, and adequately capitalized insurance sector will foster public trust, enhance consumer protection, and contribute to Nigeria's economic development.

Disclaimer

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[4] *Section 15 (6)*
[5] *Section 15 (7)*

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