ODUJINRIN & ADEFULU

Nigerian Insurance Industry Reform Act 2025: What is New? Part 5

Nigerian Insurance Industry Reform Act, 2025
Part 5: Investment of Insurance Funds and Establishment of the Road Accident Victims Compensation Fund

The Nigerian insurance landscape is undergoing significant transformation with the enactment of the Nigerian Insurance Industry Reform Act, 2025 (the "Act").
This new legislation represents a step in the right direction towards improving market penetration, attracting investments, and boosting the insurance sector's Gross Domestic Product contribution.

In the fifth and final part of our insurance reform series, we examine the provisions of the Act as it relates to investment of insurance funds and the Road Accident Victims Compensation Fund.

1. Investment of Insurance Funds
To strengthen protection of policyholders and ensure stability of the financial system, the Act expands the investment portfolio of insurance companies in Nigeria, incorporating global best practices such as the Prudent Person Principle (PPP), which emphasizes security, quality, liquidity, and profitability.

Investment of policyholders' fund under Insurance Act 2003 and 2025 Act

Insurance Act 2003[1]	**Nigerian Insurance Industry Act 2025**[2]
i. Shares of limited liability companies ii. Shares in other securities of a co-operative society registered under a law relating to co-operative societies; iii. Loans to building societies approved by the Commission; iv. Loans on real property, machinery and plant in Nigeria; v. Loans on life policies within their surrender values; vi. Cash deposit in or bills of exchange accepted by licensed banks; vii. Such investments as may be prescribed by the Commission.	i. Bonds, bills and other securities issued or guaranteed by the Federal Government of Nigeria and the Central Bank of Nigeria; ii. Bonds, debentures, redeemable preference shares and other debt instruments issued by corporate entities listed on a stock exchange registered under the Investment and Securities Act 2025 (ISA), provided that appropriate credit ratings and other criteria as determined by the Commission are met; iii. Ordinary shares of public limited companies listed on a securities exchange registered under the ISA; iv. Bank deposits and bank securities; v. Investment certificates of closed-end investment fund or hybrid investment funds listed under the ISA with good track records of earnings; vi. Units sold by open-end investment funds or specialist open-end investment funds registered under the ISA; vii. Real estate development investment; viii. Specialist investment funds and such other financial instruments as the Commission may approve.

[1] *Section 25(2)(a-g) of the Insurance Act 2003.*
[2] *Section 27(2)(a-h) of the Nigerian Insurance Industry Reform Act, 2025*

Whilst earlier guidelines issued by the Commission had allowed an expansive framework for investment of policyholders' fund,[3] the Act codifies this framework introduced by the guidelines for investment of insurance funds and assets.

It should be noted that investment of insurance funds is not restricted to the territory of Nigeria. Under the Act, insurance companies may invest insurance funds in units of any investment outside Nigeria, provided such investments meet international standards for risk based capital adequacy and are subject to transparent governance and reporting frameworks as highlighted in the parameters stipulated above.[4] While NAICOM may approve the portfolio limits for investment of insurance funds or assets outside Nigeria, the Act allows insurers to hold assets in foreign currencies to support their liabilities. Such assets shall include assets in banks in any African country or other countries whose ratings shall be determined by the Commission and shall be admissible assets for solvency calculations.[5]

In addition, section 27(5) of the Act contains a supremacy clause, which states that in matters relating to investment of insurance funds in real property, the provisions of the Act shall override any conflicting laws.

2. Establishment of the Road Accident Victims Compensation Fund

Another key innovation of the Act is the establishment of a Fund to be known as the Road Safety and Accident Victims Compensation Fund (the "Fund"). Every insurer is expected to pay into the Fund 0.5% of the underwriting profit on insurance of motor vehicles.[6] The Fund is to be managed by the Road Safety and Accident Victims Compensation Committee, which shall also be responsible for making recommendations to NAICOM on the administration and disbursement of the Fund.[7] The management of the Fund is expected to be done independently, with oversight mechanisms to ensure transparency, accountability, and equitable disbursement in alignment with global best practices.

The Federal Road Safety Commission, the Nigeria Police, and road-traffic agencies are each entitled to 10% of the Fund for the procurement of equipment.[8] Additionally, 65% of the Fund is to be paid to victims of motor accidents caused by uninsured motor vehicles, as well as to the hospital that treated them, provided the hospital expenses do not exceed N2,000,000.00 based on the severity of the accidents.[9] An insurance company that defaults in making the required payment shall be liable to a sum equal to five times the amount payable. The Commission may also suspend an insurer's authorisation to underwrite motor insurance policies in cases of persistent default.[10]

Conclusion

There is no doubt that the signing of the Nigerian Insurance Industry Reform Act, 2025 into law marks a significant turning point for the insurance sector. The sweeping reforms introduced by the Act pave the way for a more modernised industry and allow Nigeria to reposition itself as a leading insurance hub in Africa. However, for the Act to achieve its intended transformative

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[3] *Clause 3.8.3 of the Prudential Guidelines for Insurance Institutions in Nigeria 2022*
[4] *Section 27(3) of the Act.*
[5] *Section 27(4) of the Act.*
[6] *Section 99 of the Act.*
[7] *Section 100(3) of the Act.*
[8] *Section 100(4)(a-c) of the Act.*
[9] *Section 100(4)(d) of the Act.*
[10] *Section 100(5) of the Act.*

effect, it must embrace digital transformation, data driven supervision, and sustainability focused reforms. These include climate resilient strategies, Environmental Social and Governance integration, and enhanced consumer protection frameworks. All these are essential towards effective implementation of the Act. With strict regulatory enforcement, active stakeholder contribution, and effective institutional capacity, the Act can truly unlock the industry's potential as a catalyst for economic growth.

This article marks the fifth and final publication in this series examining the new provisions of the Insurance Industry Reform Act.

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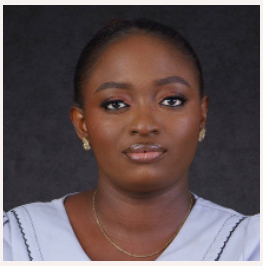

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