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NIGERIA'S NEW INSURANCE FRAMEWORK:

THE NEW REALITY AND INVESTOR OPPORTUNITIES

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INTRODUCTION

On the 5th of August 2025, President Bola Ahmed Tinubu assented to the Nigerian Insurance Industry Reform Bill, 2025, a landmark legislation designed to strengthen Nigeria's financial sector and accelerate the nation's progress towards achieving a $1 trillion economy.

The Nigerian insurance industry is on the verge of a significant transformation with the Promulgation of the Nigerian Insurance Industry Reform Act (NIIRA) 2025 ("**the Act"**). This landmark legislation replaces and consolidates the Insurance Act, 2003 (Cap I17, Laws of the Federation of Nigeria 2004) and other outdated provisions into a single, modern framework designed to strengthen regulation, enhance market confidence, and align the sector with global best practices. The Act introduces far-reaching measures such as compulsory insurance coverage across critical sectors, stricter licensing requirements for agents, increased minimum capital thresholds to ensure financial stability, and robust enforcement Measures to address unlicensed operations and delays in claims settlement.

By addressing long-standing regulatory gaps and operational inefficiencies, the reforms aim to deepen insurance penetration, protect policyholders, and foster a more competitive market. These changes are expected to not only reposition the insurance sector as a key driver of Nigeria's financial system but also contribute meaningfully to the government's ambition of building a $1 trillion economy.

This article seeks to highlight the key provisions of the Act with a view to emphasizing the significance of the Act on the insurance industry, as well as the opportunities and risks inherent in the introduction of the Act.

BACKGROUND AND RATIONALE

Nigeria's insurance industry has long struggled to fulfil its potential, hampered by outdated legislation, low public trust, and one of the lowest penetration rates on the continent. The Insurance Act of 2003, while an important milestone at the time, failed to keep pace with the realities of a changing economy, emerging risks, and the need for deeper consumer engagement as a result, the sector has remained underdeveloped, contributing less than 0.5% to GDP well below peers such as South Africa, Morocco, and Kenya. Weak consumer awareness, slow claims processes, and limited regulatory enforcement have reinforced public skepticism.

In recent years, however, industry has shown signs of growth. At the 54th Annual General Meeting of the Nigerian Insurers Association (NIA), it was disclosed that insurance companies in Nigeria recorded gross written premiums of ₦1.562 trillion (approximately $1 billion) in 2024, representing a 56% growth compared to the previous year.

However, Regulators and market stakeholders have identified capital adequacy as a central challenge. Many insurers lack the financial depth to underwrite large risks or respond effectively to macroeconomic shocks. As industry analysts note, a well-capitalized insurance sector not only boosts public confidence but also enables and contributes to economic stability. This understanding has informed the renewed legislative push to strengthen the industry's regulatory framework.

The new Insurance Act is an ambitious reform by Nigeria that modernizes market oversight, raises prudential standards, promotes competition, and expands access through digital and inclusive models. Aligned with Nigeria's march towards a $1 trillion economy goal, the Act seeks to build a more transparent and resilient insurance sector capable of mobilizing long-term capital, protecting assets, and driving sustainable economic growth.

KEY CHANGES

This section outlines the major provisions of the Act, highlighting the changes that will shape operational requirements for insurers and the significance of these changes to the industry and relevant stakeholders. The key changes in the Act are as follows:

1. **Licensing and operation of insurer**
   The Act introduces a more structured and transparent framework for licensing insurers and reinsurers. Under the new regime, no individual or entity may commence or continue the business of insurance, reinsurance, or related activities in Nigeria without first obtaining a license from the National Insurance Commission (NAICOM).

   The Act provides that Applications must be made in a prescribed form and accompanied by all supporting documents required by the Commission. Importantly, eligibility for licensing is now clearly defined. Only companies incorporated under Nigerian law as limited liability companies under the Companies and Allied Matters Act 2020 or established under another Nigerian statute can be licensed.

In addition, applicants must maintain the prescribed minimum capital, make and maintain a statutory deposit with the Central Bank of Nigeria, and meet all other requirements set by NAICOM. These additional requirements now include the submission of a business plan that identifies the specific niche market the applicant intends to serve.

Another notable introduction under the Act is the requirement for NAICOM to publish a Service Charter. This document must set out the Commission's products and services, the complete list of requirements for obtaining each one, the applicable fees, timelines for processing, and all supporting processes and documentation. By institutionalizing this Service Charter, the Act seeks to improve transparency, reduce regulatory uncertainty, and provide applicants with predictable timelines for license issuance.

Compared to the Insurance Act of 2003, the provisions of the Act are significantly more detailed and stringent. While the 2003 Act also required insurers to be registered and maintain minimum capital and statutory deposits, it lacked a clear obligation for regulators to publish procedural details or timelines. Additionally, the older framework did not explicitly require a business plan identifying a niche market, nor did it identify licensing with a structured and publicly accessible process. In practice, this often-left room for ambiguity, discretion, and delays.

By contrast, the Act sets out a transparent, capital-backed, and purpose-driven entry process into the insurance market. It ensures that only financially sound, well-structured, and strategically positioned players are licensed, thereby enhancing consumer protection and fostering a more competitive and stable insurance sector. This aligns with the broader reform objective of modernizing Nigeria's insurance industry to meet global standards and support economic growth.

The practical effect of this licensing framework is both regulatory and market-shaping. It raises the entry bar for insurers and reinsurers, ensuring that only companies with adequate financial capacity, clear market strategies, and proper incorporation under Nigerian law can operate. This is intended to weed out undercapitalized, poorly structured, or speculative operators that could undermine industry stability. The statutory deposit requirement and higher capital thresholds act as a safeguard, strengthening the ability of licensed entities to meet claim obligations and withstand economic shocks, thereby enhancing consumer trust.

By mandating the publication of a Service Charter, the Act also embeds greater transparency and accountability into the licensing process. Applicants will have certainty on requirements, fees, and timelines, reducing bureaucratic bottlenecks and curbing arbitrary decision-making. Additionally, the requirement for a niche market business plan encourages specialization and market differentiation, fostering innovation and incentivizing insurers to serve underserved market segments, ultimately driving higher market penetration.

From a policy perspective, this approach aligns with the broader reform agenda of professionalizing the insurance sector, improving its competitiveness both regionally and internationally, and increasing its contribution to Nigeria's GDP. While the higher thresholds may result in fewer but stronger players in the short term, the long-term effect could be a more resilient, innovative, and trusted insurance industry**.**

2. Single-category Licensing regime

This Provision introduces a clear specialization regime for insurers in Nigeria. From its commencement, NAICOM will only license insurers in a single category either life assurance or non-life insurance. While companies licensed for one category may own or acquire shares in companies operating in the other category, they cannot themselves operate both. The only exception applies to reinsurers, who may be issued a combined or composite life and non-life license.

To ensure a smooth transition, the Act grants existing composite insurance companies a five-year compliance window to restructure and align with the single-category licensing requirement. This measure is aimed at improving operational focus, enhancing risk management, and promoting efficiency within the sector. By limiting composite licensing to reinsurers, the reform aligns Nigeria's regulatory framework with international best practices, where specialization is seen to strengthen underwriting discipline and market stability.

The shift to end composite licensing and require structural separation of life and non-life business lines is expected to accelerate consolidation and recapitalization in Nigeria's insurance industry. Although the industry's overall net loss ratio averaged 62.8% during the review period, and the life segment posted a relatively stronger 57.4% compared to 66.7% in non-life, the picture remains uneven. Notably, 11 insurers recorded net loss ratios above 100%, meaning they paid out more in claims and expenses than they earned in premiums. This performance underscores the financial strain many underwriters face, particularly in the life segment.

These weaknesses are compounded by the sector's fragile capital base: in the past three years, only about six insurers have paid dividends, offering little attraction for investors in insurance stocks. With the Nigerian Stock Exchange's current rule allowing share prices to fall freely to zero, undercapitalized insurers face heightened vulnerability, reinforcing the urgency for fresh capital injection. In this context, the specialization requirement becomes more than a regulatory compliance measure; it acts as a catalyst for market restructuring, financial strengthening, and renewed investor confidence.

3. Capital Requirements and Financial Strengthening

Another significant provision of the Act is the increase in the minimum capital requirement for insurance companies. This introduction marks the most significant recapitalization drive in the sector's history. For non-life insurers, the minimum capital requirement has risen from ₦3 billion to the higher of ₦25 billion or a risk-based capital level set by NAICOM. Life insurers must now meet a threshold of ₦15 billion, up from ₦2 billion, while reinsurers face the steepest increase — from ₦10 billion to the higher of ₦45 billion or a risk-based capital amount as determined by NAICOM.

In determining the risk-based capital requirement for any category, the Commission will consider insurance risk, market risk, credit risk, and operational risk, applying capital charges on assets and liabilities as it deems appropriate from time to time.

The Act also defines "**capital charge**" as the proportion of capital required to absorb potential losses from adverse events, with eligible capital for new entrants including government bonds, treasury bills, and cash equivalents.

Existing insurers have 12 months to comply, or risk license cancellation and public naming by NAICOM. Industry analysts warn that the steep capital hike will pressure under-capitalized insurers particularly in the life segment into mergers, acquisitions, or market exits. Many underwriters are already financially strained, with only about six paying dividends in the past three years. Combined with the Nigerian Stock Exchange's rule allowing share prices to fall freely to zero, the reforms underscore the urgency for capital strengthening. The new regime is expected not only to raise the industry's financial resilience but also to drive structural realignment in preparation for the specialization requirement mandating separation of life and non-life operations.

Strengthening the capital base is critical to restoring capital adequacy, which has been eroded by inflation, fluctuating interest rates, currency volatility, and limited foreign exchange liquidity. A stronger capital position will enhance the capacity of Nigerian insurance companies to underwrite and retain a greater volume of business.

The introduction of risk-based capital requirements will further align capital needs with each insurer's risk profile, ensuring that capital levels adequately reflect exposure to insurance, market, credit, and operational risks. While smaller operators may face initial challenges meeting these thresholds, the reforms are widely regarded as essential for improving competitiveness and resilience. Ultimately, the objective is to strengthen financial stability and position the Nigerian insurance sector for global competitiveness.

4. Claims Settlement Timelines

To build confidence in the industry, the Act imposes strict timelines for claims settlement, with severe penalties for delays. In every case where a claim is made in writing by the insured or any other entitled party, the insurer must, except in cases of denial of liability or incomplete documentation, settle all admitted claims within 60 days of notification or within such period as prescribed by NAICOM regulations.

Insurers are required to confirm liability on special risk claims within 60 days and must also settle them within 60 days of issuing a discharge voucher. Where liability is denied or documents are incomplete, the insurer must provide written reasons within 60 days of receiving the claim.

Failure to comply attracts a penalty of ₦500,000 plus monthly compound interest at the prevailing bank rate from the date the claim ought to have been settled. The Act also establishes a Policyholder Protection Fund to safeguard customers in the event of insurer insolvency.

These provisions are designed to deliver faster and fairer claim resolutions, reducing the frustration and financial hardship that often result from prolonged settlement periods. Clear timelines for payment create certainty, enabling individuals and businesses to plan with greater confidence. The requirement for insurers to settle admitted claims within 60 days, backed by substantial penalties for delay, will compel companies to streamline internal processes, improve claims documentation handling, and invest in more efficient claims management systems.

The establishment of the Policyholder Protection Fund adds a critical safety net, ensuring that even in cases of insolvency, claimants have a pathway to recover what is due to them. This reduces perceived risk and can encourage greater uptake of insurance products. Over time, consistent enforcement of these timelines and penalties has the potential to rebuild public trust in the industry, repositioning it as transparent and customer oriented. Stronger regulatory credibility will also enhance the sector's appeal to both local and foreign investors, supporting broader financial inclusion and economic growth.

5. Mandatory insurance policies

Mandatory Insurance requirements have been extended to cover motor, health, agriculture, and construction sectors, in addition to participation in the ECOWAS Brown Card Scheme, which provides cross border protection for motorists.

CHALLENGES AHEAD

While the Act ushers in much-needed reform, several critical challenges could undermine its impact, particularly during implementation. Thus, the Act may present the following challenges:

1. Capital Threshold Pressures

The steep rise in minimum capital requirements presents a significant hurdle for smaller operators, many of whom may struggle to raise the required funds within the 12-month compliance window. This could force market exits or rapid consolidations. Experts have cautioned that recapitalization, alongside evolving tax reforms, will be among the most pressing challenges for the sector in 2025, especially for undercapitalized players.

2. Implementation and Enforcement Gaps

Establishing a the legal framework is one step; executing it effectively is another thing entirely. Nigeria's history of well-intentioned laws failing to deliver tangible outcomes due to weak enforcement, institutional inertia, and local resistance poses a real risk. For the provisions of the Act to have the intended impact, regulators, particularly NAICOM, must be fully equipped and empowered to follow through, including taking decisive action against non-compliant operators.

3. Licensing Compliance Risks

The prohibition on composite licenses for direct insurers could face circumvention, with some companies potentially continuing to operate both life and non-life businesses under existing licenses. Without close monitoring and strict enforcement, such loopholes could weaken the Act's integrity.

4. Macroeconomic Headwinds

Persistent economic challenges, including high inflation, currency volatility, and systemic fiscal pressures, may hinder insurers' ability to meet new capital and compliance requirements. The Chartered Insurance Institute of Nigeria has warned that the combined pressures of recapitalization and tax reform could impose heavy burdens on the industry in the near term.

5. **Low Consumer Awareness**
   Beyond regulatory and financial challenges, effective implementation will require an informed and empowered consumer base. Many policyholders remain mistrustful and unaware of their rights. Without sustained consumer education and financial literacy initiatives, reforms such as strict claims timelines or the Policyholder Protection Fund may fail to change consumer behaviors or improve uptake.

6. **Balancing Consolidation with Systemic Resilience**
   While consolidation can strengthen capital adequacy and underwriting capacity, it risks creating an over-concentrated market dominated by a few large firms. This raises the specter of contagion risk, where the failure of a single major player could destabilize the entire sector. Regulators will need to actively manage concentration risk to maintain healthy competition and systemic stability.

OPPORTUNITIES ARISING FROM THE ACT

The reforms introduced by the Act not only strengthen regulatory compliance but also create a more dynamic, competitive, and investor-friendly insurance market. By reinforcing capital adequacy, enhancing governance, and improving consumer protection, the Act lays the groundwork for significant sectoral transformation. Consequently, the following opportunities can be identified:

1. **Attracting foreign investment**
   A well-regulated and financially stable insurance industry is more appealing to foreign investors seeking reliable returns and long-term opportunities. The reforms particularly those around capital adequacy, governance, and operational transparency reduce perceived investment risk and open the door for international insurers, reinsurers, and private equity players to enter or expand in the Nigerian market. This inflow of capital can bring global expertise, advanced technology, and innovative underwriting practices that raise industry standards.

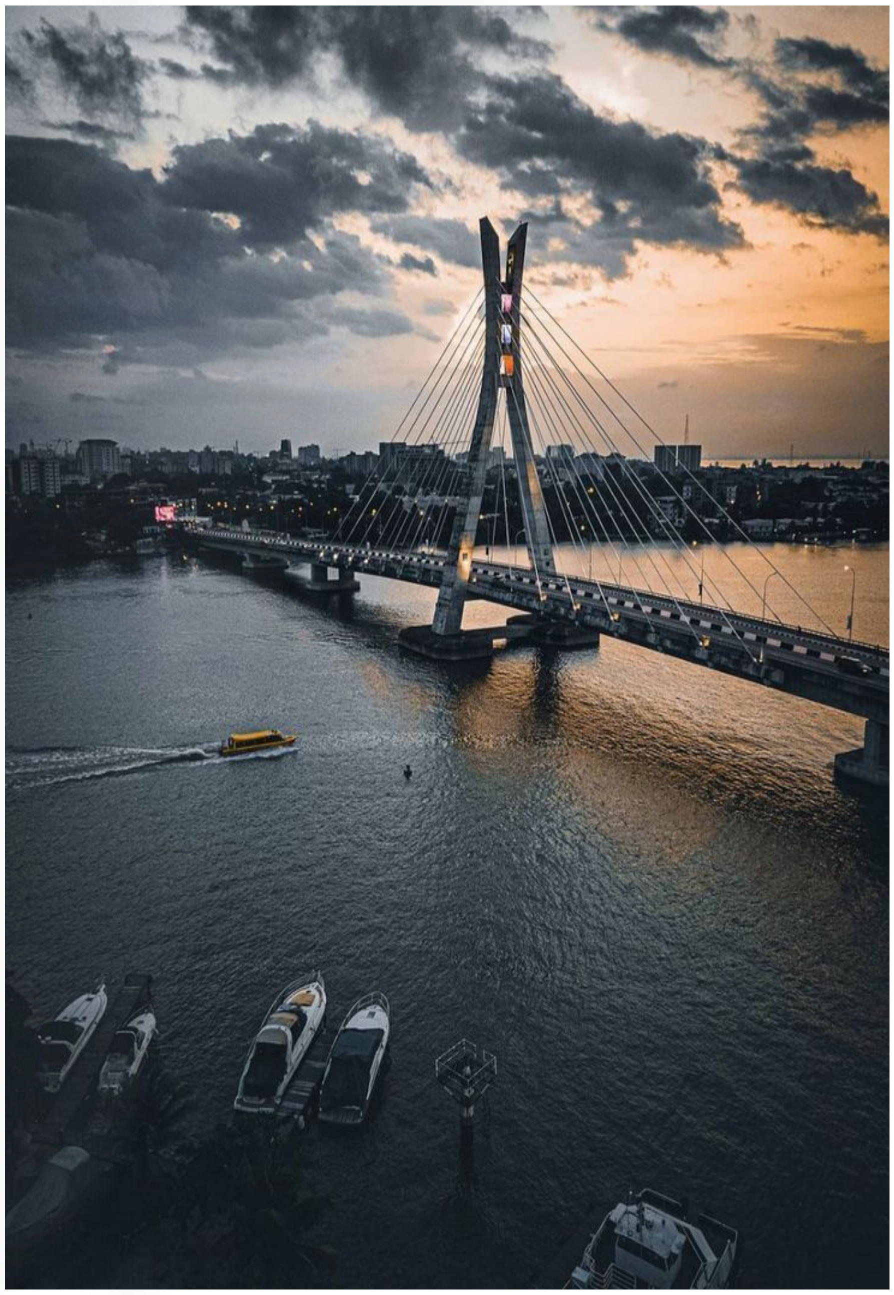
2. **Improving consumer confidence**
   The implementation of strict claims settlement timelines backed by penalties and the creation of a Policyholder Protection Fund builds the foundation for lasting consumer trust in insurance. As public skepticism fades, more individuals and businesses may embrace insurance, driving broader adoption.

3. **Market consolidation and larger insurance players**
   The higher capital requirements may drive mergers and acquisitions among smaller insurers who cannot meet the new thresholds independently. This consolidation, similar to what happened in Nigeria's banking sector in the mid-2000s could result in fewer but larger players with the financial muscle to underwrite mega-projects and compete internationally. However, regulators will need to manage potential downsides, including contagion risk (where one large player's failure could impact on the entire sector) and concentration risk (overdependence on a few big players).

4. **Increased innovation**
   With a more structured regulatory environment and higher consumer confidence, insurers will have the incentive and market stability to develop new products that cater to Nigeria's evolving needs. This could include microinsurance for low-income earners, agriculture-focused insurance for rural communities, or digital-first products leveraging mobile technology for faster enrollment and claims processing. Innovation will also extend to distribution models, with Insurtech partnerships expanding access beyond urban centers.

CONCLUSION

The enactment of the Act is more than just a regulatory update. It is a strategic move to reposition the sector as a critical driver of Nigeria's $1 trillion economy ambition. By tightening corporate governance standards, enforcing stricter capital requirements, and introducing stronger consumer protection measures such as claims settlement timelines and the Policyholder Protection Fund, the reforms aim to restore public trust and unlock the sector's growth potential. If effectively implemented, these measures could deepen market penetration, attract foreign investment, and catalyze innovation in insurance products tailored to Nigeria's evolving risk environment.



However, the journey will not be without obstacles. Smaller operators may struggle to meet higher capital thresholds, resistance to full compliance could undermine enforcement, and market consolidation could unintentionally heighten systemic risks if competition becomes too concentrated. The challenge for regulators will be to maintain a level playing field ensuring that consolidation strengthens capacity without exposing the sector to contagion risk while driving the compulsory insurance agenda that underpins broader economic inclusion.

In this pivotal moment, the Act's reforms offer a rare chance to shift Nigeria's insurance sector from a position of low penetration and public skepticism to one of credibility, resilience, and relevance. Realizing this vision will require more than new rules; it will demand a sustained alignment between policy intent, regulatory execution, and industry commitment, ensuring that the insurance sector emerges not just bigger, but stronger, as a pillar of the nation's economic transformation.

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