

Impact of the National Insurance Industry Reform Act 2025 on the Oil and Gas Sector

OALP Oil and Gas Practice Newsletter

INTRODUCTION

Given the high-risk nature of petroleum exploration, production, transportation and retail activities, insurance is a vital tool for managing liability, protecting assets, and ensuring operational continuity in the petroleum sector. Recently, the Nigerian Insurance Industry Reform Act, 2025 (NIIRA) was enacted, repealing the Insurance Act 2003 (Repealed Act) and establishing a comprehensive regulatory framework for Nigeria's insurance industry. While its scope covers all insurance businesses, there are several provisions which directly impact the Nigerian oil and gas industry value chain. In this Newsletter, we highlight the provisions of the NIIRA relevant to the oil and gas industry, their practical effects and implications for stakeholders.

CLASSIFICATION OF INSURANCE BUSINESS

The NIIRA, like the Repealed Act, provides that oil and gas insurance can only be offered in Nigeria with a licence from the National Insurance Commission (NAICOM). However, unlike the Repealed Act, the Act subsumes oil and gas, as well as power insurance business under the broader category of 'energy' and as a distinct class of 'non-life' insurance business¹. The implication is that insurers must obtain specific licensing to underwrite oil and gas risks, ensuring that only companies with technical and financial capacity cover petroleum sector insurance.

RESTRICTION ON FOREIGN INSURANCE

Under the Repealed Act, all domestic insurance or reinsurance businesses in respect of any life, asset, interest or other properties in Nigeria were required to be transacted with insurers registered with NAICOM.² The NIIRA echoes this requirement by prohibiting the contracting of insurance or reinsurance for assets or interests classified as domestic insurance or reinsurance business from foreign (re)insurers unless it can be shown that local capacity is insufficient.³ Importantly, the NIIRA expands the scope of what qualifies as domestic insurance or reinsurance business to expressly include oil and gas insurance and reinsurance.⁴

Like the Repealed Act,⁵ the NIIRA also recognises a formalised exemption regime for access to foreign insurance markets. To this end, the NIIRA provides that an oil and gas company may apply to NAICOM for an exemption from this requirement if there are exceptional circumstances warranting foreign insurance including where the risk in or emanating from Nigeria is of an exceptional nature.⁶

Notably, neither the NIIRA nor the Repealed Act specifies what qualifies as risk of an exceptional nature or exceptional circumstances such as to warrant exemption. However, the courts have defined the word "exceptional"⁷ to mean much greater than usual; and the phrase "exceptional circumstance"⁸ to give the impression of unusual, extraordinary or justifiable circumstances.

1. NIIRA 2025, section 3(3)(e).

2. Insurance Act 2003, section 72

3. NIIRA 2025, section 204(1). Non-compliance attracts a penalty of a sum not more than five (5) times the total premium involved.

4. NIIRA 2025, section 204(2)(h) & Insurance Act 2003, section 72(2).

5. Insurance Act 2003, section, section 72(4).

6. NIIRA 2025, section 204(5).

7. *Incorp. Trustees, LSMN v. Ekhaton (2022) 15 NWLR (Pt 1852) p. 63, para C*

8. *Anyaegbunam v A.G Anambra State (1995) 9 NWLR (Pt 417) 97*



From these definitions and within the context of oil and gas operations, risks emanating from unusually complex, hazardous, or capital-intensive projects such as ultra-deep offshore drilling operations, complex LNG facilities, or high-value integrated projects where domestic insurers may lack the requisite financial capacity to underwrite should qualify as risks of exceptional nature.

INSURANCE OF PETROLEUM AND GAS STATIONS AND PRODUCTS IN TRANSIT

Although the oil and gas value chain has long been subject to insurance requirements under the Repealed Act, the NIIRA introduces a more targeted obligation by expressly extending mandatory insurance to petroleum liquid and gas retail outlets and petroleum products in transit. On this basis, the NIIRA mandates players in the midstream and downstream sector, specifically: (x) owners or operators of petroleum liquid and gas refilling stations; and (y) owners of petroleum liquid and gas products in transit, to obtain the relevant insurance cover against third-party losses occasioned by accidental fire outbreak or explosion.⁹

Further, these owners or operators (as applicable) are obliged to display a copy of the certificate of insurance conspicuously at the refilling station for the former, and for the latter, in the documents covering the petroleum and gas products in transit.¹⁰ Non-compliance attracts a fine of one million naira (NGN1,000,000) or a minimum term of two (2) years imprisonment or both upon conviction.¹¹

The legislative intent for this introduction appears to be fostering of public safety and consumer protection in high-risk downstream activities, particularly given the frequency of accidents, explosions, and fire outbreaks at refilling stations and during road transportation of petroleum products.

The NIIRA further empowers NAICOM, in section 78(6), to

make regulations for the effective implementation of this provision. Accordingly, in the near future, NAICOM may make regulations stipulating clearer terms for operationalising this provision.

IMPORT COMPLIANCE OBLIGATIONS

The NIIRA, like the Repealed Act, requires insurance for petroleum products imported into Nigeria to be placed with insurers registered with NAICOM.¹² For effective implementation, this overrides any contractual provisions to the contrary as the Act requires that every law, contract or instrument shall be construed with such modifications, amendments and omissions as is necessary to ensure conformity with the intention of this provision.¹³ However, the NIIRA upwardly reviews the penalty for non-compliance. as non-compliance now attracts a fine of one million naira (NGN1,000,000) or the premium involved whichever is higher.¹⁴

The increased penalty heightens the financial implication of non-compliance, thereby compelling stricter adherence while for the domestic insurance market, it strengthens the protection of local capacity by ensuring that premiums are retained in-country.

IMPACT ON OIL AND GAS PROJECT FINANCING & DIVESTMENTS

Lastly, the NIIRA impacts the creation of security over insurance and reinsurances by oil and gas companies. The capital-intensive nature of oil and gas projects usually give rise to secured financing arrangements where security is created over the insurance and reinsurance policies covering the projects. This security is often achieved by way of assignment of the interests of the borrower under the relevant insurance policies.

To this extent, like the Repealed Act and the repealed Marine Insurance Act 1961, the NIIRA recognises that insurance contracts may be assigned, allowing an assignee to sue in the name of the policyholder where they are entitled in equity to the benefit of the policy, or for a marine policy, to sue in the assignee's name.¹⁶ Notwithstanding this general provision, the NIIRA also recognises that an assignment may be precluded in the terms of a marine policy.¹⁷ Thus, acquirers and financiers must carefully review the insurance policies of target companies or borrowers to ensure that such terms, if applicable, are varied prior to the achievement of financial close on such transactions.

9. NIIRA 2025, section 78(1), (2) and (3).

10. NIIRA 2025, section 78(4).

11. NIIRA 2025, section 78(5).

12. NIIRA 2025, section 82(1).

13. NIIRA 2025, section 82(2).

14. NIIRA 2025, section 82(4). Under the Repealed Act, the penalty for non-compliance was a fine of five hundred thousand Naira (NGN500,000) only.

15. NIIRA 2025, section 71.

16. NIIRA 2025, section 163 (1).

17. NIIRA 2025, section 163.

In addition, the NIIRA provides that there must be an express or implied agreement between an assured and an assignee before an assured can transfer its interests under a marine insurance policy.¹⁸ This provision is particularly important for acquirers, in divestment transactions.

CONCLUSION

The NIIRA marks a major shift in how insurance interacts with petroleum operations. The reforms introduced by the NIIRA embeds petroleum sector risks firmly within the country's insurance framework save in limited circumstances. Although the changes under the NIIRA may require industry players to reconsider their approaches to their insurance strategy, these reforms should strengthen risk management, increase indigenous capacity, and reinforce confidence among investors and stakeholders in the oil and gas industry.

18. NIIRA 2025, section 129.

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