

New Minimum Capital Framework In Nigeria's Insurance Sector

Risk-Based Approach and the Implications for Mergers and Acquisitions

OALP Mergers and Acquisition and Private Equity Practice Newsletter

INTRODUCTION

The Nigerian Insurance Industry Reform Act 2025 (**NIIRA 2025 or the Act**) has introduced a consolidated legal framework for insurance business in Nigeria by repealing and consolidating five existing insurance laws. The Act repealed the Insurance Act, the National Insurance Corporation of Nigeria Act, the Nigeria Reinsurance Corporation Act, Motor Vehicles (Third-Party Insurance) Act, and the Marine Insurance Act. The National Insurance Commission (**NAICOM**) remains the primary regulator. In September, 2025, NAICOM issued Guidelines for minimum capital requirements for insurance and re-insurance companies (**NAICOM MCR Guidelines**) to provide guidance on the new capital requirements. This article addresses key issues about the new minimum capital requirements, the risk-based approach and its potential impact on mergers and acquisitions (**M&A**).

NEW MINIMUM CAPITAL REQUIREMENTS

The Act prescribes new minimum capital requirements for insurance companies operating in Nigeria.

RISK-BASED APPROACH TO DETERMINING MINIMUM CAPITAL REQUIREMENTS

One of the key innovations of the NIIRA 2025 is the introduction of the risk-based approach to determining the minimum capital requirement for specific insurers. The Insurance Act of 2003 and the 2019 NAICOM circular on Minimum Paid-Up Capital Policy for Insurance and Reinsurance Companies in Nigeria prescribed fixed thresholds without reflecting the diverse risk exposures or complexities of individual insurers, leaving the sector vulnerable to solvency pressures and inefficiencies.

By prescribing both risk-based and fixed capital requirements, the Act ensures that insurers maintain capital levels commensurate with the risks inherent in their operations. The implication is that certain insurers may be required to recapitalise more than the specific amounts stipulated in section 15 of NIIRA 2025 if the NAICOM determines that the size of their operations require a higher minimum capital threshold. Companies that take on higher risks are required to maintain more capital to protect themselves and their policyholders. Conversely, insurers with lower-risk operations may require less capital but must meet the minimum fixed thresholds. Under Paragraph 6 of the NAICOM MCR Guidelines, NAICOM is expected to issue a regulation on risk-based capital to prescribe the minimum risk-based capital for each category of insurance companies. NAICOM is yet to issue the regulation on risk-based capital as of the time of this publication.

| Category | Old Minimum Capital ¹ | New Minimum Capital |
|------------------------------|----------------------------------|--|
| Life Insurance | ₦8 billion | The higher of ₦10 billion or risk-based capital determined by the NAICOM |
| Non-life / General Insurance | ₦10 billion | The higher of ₦15 billion or risk-based capital determined by the NAICOM |
| Reinsurance Companies | ₦20 billion | The higher of ₦35 billion or risk-based capital determined by the NAICOM |

1. See NAICOM's circular dated 20 May 2019 titled 'Minimum Paid-Up Capital Policy for Insurance and Reinsurance Companies in Nigeria' (NAICOM/DPR/CIR/25/2019)



HOW THE RISK-BASED APPROACH WOULD BE APPLIED BY NAICOM

In determining the risk-based capital requirement, NAICOM will consider four main categories of risk. Insurance risk, which relates to the uncertainty of claims being higher than expected; **market risk**, which arises from changes in the value of investments or financial markets; **credit risk**, which is the possibility that counterparties such as reinsurers or borrowers may default; and **operational risk**, which covers losses from inadequate internal processes, systems failures, or human error. NAICOM would then apply capital charges to assets and liabilities based on these risks, to take care of potential deterioration of the economic value of assets and the uncertainty of estimating liability and remain solvent in adverse conditions.

RISK-BASED APPROACH AND IMPLICATIONS FOR INCREASED INTERNAL CORPORATE GOVERNANCE

To comply with RBC requirements, insurers may be required to conduct thorough internal assessments, including stress-testing, simulating extreme but plausible scenarios to see if their capital can absorb losses. They may need to adjust their investment portfolios, reallocate funds, or purchase additional reinsurance to reduce potential risks. The involvement of NAICOM in determining the risk-based capital requirements on a case-by-case basis, would result in more regulatory scrutiny into the operations and books of insurers. Increased regulatory scrutiny by NAICOM would underscore the importance of good corporate governance and best practices by insurance companies in terms of reporting obligations. Insurers who have in the past delayed or missed regulatory filings consistently would need to adjust their internal systems to meet up with regulatory reports under the new dispensation.

COMPOSITION OF THE MINIMUM CAPITAL

In the case of existing companies, the minimum capital may consist of the aggregate of

- the excess of admissible assets over liabilities, excluding the amount for the shares held by the company as treasury shares;
- subordinated liabilities of the company, as approved by NAICOM; and
- any other financial instrument that may be prescribed by NAICOM. In the case of a new company, the minimum capital may consist of the aggregate of one or more government bonds and treasury bills or cash and cash equivalent.

From the NAICOM MCR Guidelines, admissible assets for the purposes of calculating minimum capital requirements include:

- Tenored deposits with financial institutions;
- Government bonds and treasury bills;
- Quoted corporate bonds;
- Commercial papers;
- shares of publicly quoted companies;
- Loans to policyholders;
- Reinsurance assets;
- Premium receivables (certified as received by external auditors);
- Investment properties²; and
- Statutory deposits with the Central Bank of Nigeria (CBN).

The MCR Guidelines expressly exclude certain assets from the category of admissible assets. These include:

- i. assets which are not in the name of the insurer save where a registered irrevocable power of attorney exist showing that title to assets are held by the insurer;
- ii. tenored deposits and funds placement with fund managers not regulated by the Securities and Exchange Commission (SEC) or CBN and not insured as a Deposit Money Bank by NDIC;
- iii. tenored deposits with a related entity;

2. For investment properties to form part of admissible assets, they must be admitted at lower of cost or fair value and not be more than 25% of MCR.
3. To qualify as admissible liabilities, such subordinated liabilities must: (x) be validly issued and approved by NAICOM; (y) be issued for the purposes of complying with the MCR; (z) have a tenor of not less than 10 years; (xx) have an interest rate not more than CBN's MPR and (xx) in a liquidation scenario, be repaid only after the repayment of all other liabilities.



- iv. investment in another insurance company, licensed by the Commission, which has been admitted for MCR computation;
- v. investments in equity or debt instruments issued by the insurer's parent company, subsidiaries and co-subsidiaries of the insurer's parent company or any entity where the directors and significant Shareholders of the insurer have investment;
- vi. foreign investments that are not in line with the provisions of NIIRA 2025;
- vii. goodwill, intangible assets and deferred tax assets;
- viii. developed investment properties whose total rental income is not received by the insurer;
- ix. loans to policyholders in excess of 90% of the surrender value; and
- x. unsecured loans.

With respect to admissible liabilities, all liabilities save for subordinated liabilities are admissible by virtue of the MCR Guidelines. However, certain subordinated liabilities may be admitted as admissible liabilities if they meet some qualification requirements stipulated under paragraph 4.4 of the MCR Guidelines.³

REQUIREMENT TO DEPOSIT CAPITAL WITH THE CENTRAL BANK OF NIGERIA

A new insurance company in Nigeria is required to deposit 50% of the minimum capital requirement with the Central Bank of Nigeria (CBN) as statutory deposit. The CBN will release 80% of this statutory deposit to the new insurer within 60 days of registration and obtaining all regulatory licenses and approvals to commence insurance business in Nigeria. In the case of existing insurance companies, 10% of the minimum capital must be deposited with the CBN. The failure to make this statutory deposit is a ground for cancellation of the insurer's licence. The statutory deposit with the CBN is expressly ringfenced from any garnishee proceedings against the CBN.

TIMELINE FOR COMPLIANCE WITH NEW MINIMUM CAPITAL REQUIREMENTS

Existing insurance companies are required to comply with the new capital requirement within twelve months from the commencement of the Act, that is, 30th July 2026. The

licences of all insurers that failed to meet the new capital requirements will be cancelled by NAICOM.

LEVERAGING M & A TO RECAPITALIZE

Under paragraph 3.2 of the NAICOM MCR Guidelines, an insurer may comply with the new capital requirements by any or combination of the following:

- injection of fresh funds through private placements, rights issue, and/or offer for subscription and
- acquisitions, amalgamation and transfers. M&A therefore remains a major recapitalisation option which insurers may consider.

By combining their capital bases, merging insurers can easily exceed the new minimum capital requirements and be better positioned to meet risk-based capital requirements that may be imposed by the NAICOM based on the nature of their operations and their risk exposure. Consolidation allows companies to achieve economies of scale, reducing operational redundancies, lowering administrative costs, and increasing efficiency in underwriting, claims management, and other core business functions. A larger, merged entity is also better positioned to implement sophisticated risk management practices, as pooling resources and spreading exposures across a broader array of assets and liabilities, reduces the impact of adverse events on any single insurer. Consolidation through M&A can significantly enhance an insurer's market position. Larger, well-capitalized insurers could be more competitive, able to expand their customer base, negotiate better reinsurance terms, and withstand competition from both domestic and international players. The combined financial strength and operational capacity of merged entities also provide greater potential for expansion into markets underserved by local insurers.

CRITICAL RISK FACTORS IN REGULATORY DRIVEN M&AS

We must note, however, that insurers must approach the M&A process with expert guidance by highly experienced professionals and seek expert legal advice. The risk profile and exposure of the merging parties in the case of a

combination, or target party in the case of an acquisition, would be a key factor to consider in any recapitalisation process driven by M&A. A comprehensive legal, financial and tax due diligence covering several aspects of the parties' business will help identify inherent legal and business risks which the merging parties face and proffer appropriate mitigants with dealing with these risks in relevant contractual documentation i.e. scheme document for the merger, prospectus or private placement memorandum or the Share Subscription Agreement as the case may be. An insurer that acquires a target with a high-risk profile could become subject to higher capital requirements by NAICOM based on the risk-based framework, because of the acquisition. In the case of a combination, two merging parties with high-risk profiles may create a combined entity that could be subject to higher capital requirements by NAICOM based on the risk-based framework.

In addition to the conduct of comprehensive due diligence, the contractual documentation prepared must be such that helps allocate appropriately the risks highlighted during the due diligence phase and mitigates them. It is this important that insurance companies appoint savvy professionals who can handhold them through the process.

Furthermore, insurance companies and investors must take into cognisance the fact that the approvals of other regulators other than NAICOM may be required for the M & A process undertaken pursuant to the recapitalisation exercise. We have highlighted some other regulators whose approvals may be required below.

Lastly, under this head, is the need for insurance companies to commence taking steps towards meeting the new minimum recapitalisation requirements early to ensure that the exercise is completed within the prescribed regulatory timelines bearing in mind the fact that:

1. insurance companies seeking to adopt M&A for their recapitalisation must scale a three-stage approval process at NAICOM –
 - 'No Objection'
 - 'Approval-In-Principle' and
 - "Final Approval";⁴
2. parties may need to approach regulators other than NAICOM for approvals; and

3. NAICOM will need to undertake a capital verification exercise following the recapitalisation, all within the prescribed regulatory timelines.

Under paragraph 9.9 of the NAICOM MCR Guidelines, all applications for NAICOM's Final Approval must be submitted on or before 30 May 2026. It is therefore important for Insurance companies intending to merge with or acquire other insurance companies to commence the process as soon as possible to meet the regulatory deadline



REGULATORY APPROVALS FOR A REGULATORY DRIVEN M&A PROCESS

In navigating M&A transactions for insurance companies, insurance companies will need comply with the provisions of the NIIRA and the MCR Guidelines which prescribe that NAICOM approval will be required to the Transaction. The MCR Guidelines provides that NAICOM approval will be multi-layered with the insurance company firstly seeking a NAICOM No Objection, subsequently, NAICOM's Approval in Principle and finally, NAICOM's final approval to the transaction. Several regulatory bodies such as the Federal Competition and Consumer Protection Commission (the **FCCPC**) and the Securities and Exchange Commission (the **SEC**) may also play critical roles alongside NAICOM. The M & A transaction will need to be reviewed by, and require FCCPC's approval where it meets the notification requirements for large mergers. The SEC's approval will also be required where a party to the M & A transaction is a public company. The Nigerian Exchange Limited (NGX) may also be involved if one of the companies involved in the transaction is listed on the exchange. This multi-regulator oversight framework ensures that M&A activities are conducted transparently, responsibly, and in alignment with the objectives of NIIRA 2025.

4. Paragraph 9.9 of the NAICOM MCR Guidelines

CONCLUSION

The NIIRA 2025 is a catalyst for reshaping Nigeria's insurance sector. By raising capital and solvency standards, the Act creates a more stable, trustworthy, and competitive insurance sector, able to service Nigeria's growing economy. The risk-based approach to determining minimum capital requirements leaves room for flexibility and more regulatory scrutiny into the health of insurance operators in Nigeria. NAICOM's effectiveness and the implementation of stronger internal control, stress testing and governance measures by insurers will be critical under the new framework. The risk-based approach also impacts on how companies in the sector would approach M&A in the future. The necessity of seeking expert legal advice and highly experienced professionals in navigating the challenges that could arise from M&A due to the risk-based approach cannot be overemphasised.

At Olaniwun Ajayi LP, we continue to guide clients through these transitions, leveraging our market-leading expertise in mergers, acquisitions, and regulatory advisory to help clients navigate this new era with confidence.

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