NEW MINIMUM CAPITAL REQUIREMENT FOR NIGERIAN INSURANCE COMPANIES: WHAT YOU SHOULD KNOW

In exercise of its statutory powers and regulatory functions, the National Insurance Commission (**"NAICOM"**), recently reviewed the minimum paid-up share capital requirement for all classes of insurers (i.e. insurance and reinsurance companies, with the exception of Takaful operators and Micro-insurance companies) doing business in Nigeria.

The reviewed minimum capital requirement, shown in the table below (the "**New Minimum Capital Requirement**"), was communicated via a circular dated May 20, 2019, titled: ***Minimum Paid-up Share Capital Policy for Insurance and Reinsurance Companies in Nigeria*** and referenced: NAICOM/DPR/CIR/25/2019 (**"the Circular"**).

S/N	CLASS OF BUSINESS	EXISTING MINIMUM PAID-UP SHARE CAPITAL (FROM FEBRUARY 2007)	REVIEWED MINIMUM PAID-UP SHARE CAPITAL (FROM MAY 2019)
1.	Life Insurance Business	2 Billion Naira	8 Billion Naira
2.	General Insurance Business	3 Billion Naira	10 Billion Naira
3.	Composite Business	5 Billion Naira	18 Billion Naira
4.	Reinsurance Business	10 Billion Naira	20 Billion Naira

As stated in the Circular, the new paid-up share capital requirement takes immediate effect for new applications made to NAICOM by companies seeking to carry on insurance business in Nigeria. However, existing insurance and reinsurance companies are required to fully comply with the New Minimum Capital

Requirement by no later than June 30, 2020. The Circular further stipulates that consequent changes in the sums statutorily required to be deposited by Nigerian insurance companies with the Central Bank of Nigeria (the "**Statutory Deposit**"), are to take effect from the commencement of the Circular.

Legal framework

By the combined provisions of sections 6, 7 and 64 of the *National Insurance Commission Act, 1997* and sections 86 and 101 of the *Insurance Act, 2003*, NAICOM, as the principal regulator of the Nigerian insurance industry, is empowered to administer, supervise, regulate and control the business of insurance in the country. Specifically, with respect to the powers to review the minimum paid-up share capital of Nigerian insurance companies, section 9(4) of the Insurance Act, 2003 empowers NAICOM to increase, from time to time, the amount of minimum paid-up share capital statutorily prescribed for Nigerian insurers.

Brief analysis

Following the enactment of the Insurance Act in 2003, the first review of the capital base of insurers took place in 2005. The review followed hot on the heels of the banking industry consolidation and was kick-started by an announcement by the Federal Government through the Honourable Minister of Finance, mandating the insurance industry to increase their capital base. Further to this, a Guideline was issued by NAICOM in September 2005; establishing the existing minimum paid-up share capital requirement for various categories of insurance operations and setting a period of eighteen (18) months between September 5, 2005 and February 28, 2007 for full compliance by all insurers. The exercise eventually led to the consolidation of the entire industry. Consequently, the number of operators, post-consolidation, reduced significantly from 104 to 49 insurance companies and 4 to 2 reinsurance companies; which were stronger and better positioned to do business.

Another attempt by NAICOM at raising the capital base across the industry last year, through a risk-based capitalization scheme, communicated via a circular dated August 27, 2018 and titled: *"Tier Based Solvency Capital Policy for Insurance Companies in Nigeria"* (**"TBSC Policy"**), was subsequently withdrawn on November 23, 2018, following protests by some stakeholders and an order of the Federal High Court restraining the TBSC Policy from being enforced.

With this new Circular, many insurance companies now need to raise additional capital to comply with the New Minimum Share Capital Requirement. Further, from the commencement of the Circular, any new application to NAICOM for the registration of insurance business must be accompanied by evidence of the Statutory Deposit i.e., **an amount equivalent to 50% of the New Minimum Capital Requirement** for the particular class of insurance business[1]. Similarly, existing insurance and reinsurance companies are now required to increase their Statutory Deposit with the Central Bank of Nigeria ("CBN"), **to an amount equivalent to 10% of the New Minimum Capital Requirement** for their respective classes of insurance operations.

Consequently, in order to remain in business, existing insurers have only thirteen (13) months from the commencement date of May 20, 2019 (till June 30, 2020) to shore up their respective capital base from the existing minimum paid-up share capital to the New Minimum Capital Requirement, as set out in the Circular.

Industry Outlook

There is no doubt that the New Minimum Capital Requirement will have a significant impact on the Nigerian insurance industry. Given Nigeria's untapped vast potential in the global insurance market place, a well-capitalized industry with insurers who have deep pockets and excellent local capacity (*other than Takaful and Micro-insurance companies specially established to respectively cater to the insurance needs of Sharia-compliant and low-income segments of the market*), is desirable and will contribute to improving the Nigerian economy.

According to a report[2] by credit rating agency, Agusto & Co, the penetration rate (measured as a percentage of GDP) of the Nigerian insurance industry stood at 0.3 percent in 2018; compared with 14.7 percent in South Africa; 2.8 percent in Kenya; 1.1 percent in Ghana; 0.6 percent in Angola and 0.6 percent in Egypt. Also, the density of the Nigerian insurance sector (i.e. a measure of industry gross premium per capita) is currently at $6.2 and lags behind its African counterparts: South Africa ($762.5); Egypt ($22.8);

[1] Pursuant to Section 10(2) of the Insurance Act 2003, upon registration as an insurer, not later than sixty (60) days after registration, the CBN is required to return to the insurer, eighty percent (80%) of the deposit with interest calculated at the CBN's lending rate.

[2] "2019 Insurance Industry Report", Agusto & Co – http://agustoresearch.com/product/2019-insurance-industry-report/

Kenya ($40.5) and Angola ($30.5). We also gather from Agusto & Co's report that the asset base of the Nigerian insurance industry was at ₦1.3 trillion as at December 31, 2018, indicating a compounded annual growth rate of 17 percent over the last three years while Gross Premium Income (GPI) generated was estimated at ₦448.6 billion, reflecting a 12 percent growth year-on-year.

Whilst these data portend vast growth potential for the Nigerian insurance industry, many licensed insurers are still largely under-capitalized, thus limiting their ability to take on big ticket in-country risks, as may be seen in the oil & gas, marine and aviation sectors of the economy. Also, Nigerian insurers need more capital to facilitate the acquisition of modern digital and technology-driven infrastructure necessary to aid their efforts at deepening insurance penetration through InsurTech.

With this New Minimum Capital Requirement, a further consolidation of the Nigerian insurance sector is imminent, as some insurers may seek to merge or be acquired by bigger firms, in a bid to comply with the Circular. As insurance and reinsurance companies begin the necessary move towards shoring up their capital base (during the 13-month grace period granted to existing operators to fully comply with the Circular), it is expected that the market will gear up for new private equity and M&A deals in the coming months. With this impending recapitalization and consolidation exercise, it is hoped that the "*surviving*" Nigerian insurers will be stronger and deeper in their capacity to take on profitable high risks, so as to enable the Nigerian insurance industry function well and fit into an integrated global financial market place, as envisioned in the Nigeria's *Financial System Strategy (FSS) 2020* and the *Vision 2020* development plans.

- ***The Grey Matter Concept is an initiative of the law firm, Banwo & Ighodalo***

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