

Guiding Nigeria's Insurance Future: Lessons from Kenya and the Path to Risk Based Capital

Nigeria's insurance industry is undergoing a quiet but noticeable shift. While the changes may appear gradual, they are already influencing how insurers think, operate, and make decisions. With the Nigerian Insurance Industry Reform Act (NIIRA) 2025, efficiency and effectiveness have become just as important as meeting regulatory requirements. The Act encourages insurers to rethink their entire strategy. Simply meeting capital requirements on paper is no longer enough; for the first time, insurers must consider both their capital base and the risks they carry.

For years, the rules were straightforward: meet a fixed capital threshold. That approach is now outdated. A large composite insurer and a small health insurer previously faced the same capital expectations, despite carrying very different levels of risk. Rising climate challenges, rapid technological evolution, and increasing economic volatility have exposed the limitations of this one-size-fits-all model. What the industry needs now is a framework that reflects the real risks insurers face daily.

That framework is **Risk-Based Capital (RBC)**. RBC represents a shift in mindset – not just a technical formula. It asks a fundamental question: *Does the level of risk you take match the level of capital you hold?* It shifts attention away from the size of an insurer toward its ability to withstand unexpected shocks. More importantly, it signals a transition toward a stronger, more resilient market—one that can fulfil its obligations and maintain regulatory compliance even during disruption.

NIIRA 2025 introduces a bold new capital structure. Minimum Capital Requirements (MCR) have been updated to **₦10 billion for life insurers, ₦15 billion for non-life insurers, ₦25 billion for composite insurers, and ₦35 billion for reinsurers**. This adjustment represents more than a numerical increase; it signals a strategic shift from simply meeting capital thresholds to actively understanding and managing the risks insurers assume. The emphasis has moved from capital size to capital quality, ensuring that insurers hold capital that truly supports their risk profiles.

The new framework places strong emphasis on RBC principles, which measure how well an insurer's capital can absorb the risks inherent in its operations. These risks span several areas, including underwriting volatility (such as unpredictable loss ratios and claims), market exposure to interest rate and currency movements, credit risk from counterparties such as reinsurers and brokers, and operational weaknesses in governance, controls, and processes. By aligning capital with these real-world exposures, the system encourages insurers to be more proactive and disciplined in how they manage risk.

This shift strengthens the financial stability of insurers and aligns Nigeria's regulatory environment with IAIS Core Principles and global solvency standards. NAICOM has committed to a steady but firm implementation timetable. **By July 30, 2026**, all insurers must demonstrate compliance with risk-based solvency metrics and the revised capital requirements. To ensure that only credible and liquid assets qualify as capital, NAICOM will verify asset quality, apply stricter solvency and governance criteria to new licences, and enforce compliance through asset audits, regular reporting, and penalties where necessary.

The overarching goal is clear: to build a stronger insurance sector that can withstand economic shocks, protect policyholders, and attract long-term investment. By adopting a risk-aligned capital regime, Nigeria is positioning its insurance industry for greater resilience, transparency, and sustainable growth.

The missing pieces

The NIIRA 2025 Risk-Based Capital (RBC) framework remains largely conceptual rather than fully operational. While insurers understand the need to align their capital with the risks they assume, gaps in the current regulations make it difficult to plan for compliance. Despite NAICOM's commitment to full implementation by July 30, 2026, several critical components of the framework are still outstanding:

- Risk weight tables:** NAICOM has yet to publish the risk weightings for different asset classes (such as government securities, equities, and real estate) and for various insurance lines (such as life, auto, and health). These weightings are essential for calculating capital adequacy under the RBC model.
- Stress testing protocols:** Official guidelines for scenario-based stress testing are still pending. Insurers

need clarity on testing frequency, required assumptions, reporting formats, and supervisory expectations.

- Circulars on qualifying assets:** NAICOM has stated that minimum capital must consist only of fully owned, unencumbered, and verifiable assets. However, insurers are still awaiting detailed circulars outlining prudential limits, documentation standards, and valuation methodologies. Until these are released, it remains unclear which assets will qualify.
- Reporting formats:** Templates for monthly and quarterly submissions, covering capital inflows, asset movements, and balance sheet adjustments during recapitalisation, have not yet been defined.

As a result, insurers find themselves in a period of uncertainty. Many are eager to comply, yet lack the technical instruments needed to assess their risk exposure, restructure their balance sheets, or engage confidently with investors. The absence of clear guidance has slowed capital mobilisation and strategic planning, leaving the industry in a regulatory holding pattern.

Kenya's RBC experience: A guide for Nigeria

Nigeria can draw valuable lessons from Kenya, where the Insurance Regulatory Authority (IRA) adopted a Risk-Based Capital framework in 2017. Kenya took a deliberate, phased approach, introducing a tiered capital structure that separated subordinated instruments from core equity to ensure capital quality.

Kenya's model assigns specific quantitative charges to different categories of risk, including:

- Insurance risk:** 1.5% for annuities, 3.5% for regular life insurance, and 5–10% for general lines.
- Market risk:** 8% for currency mismatches and 25% for interest rate fluctuations.
- Credit risk:** Charges based on the counterparty's credit rating.
- Operational risk:** the higher of 3% of gross premiums or 30% of combined risk charges.

These components feed into a formula-based calculation used to determine total RBC requirements:

$$RBC = \sqrt{(Insurance\ risk)^2 + (Market\ risk)^2 + (Credit\ risk)^2 + (Operational\ risk)^2}$$

Early warning systems and required stress testing. Kenya took its time by building actuarial capacity, involving stakeholders, and implementing changes gradually. The result was a more secure, transparent, and inviting insurance market for investors.

Nigeria's strategic needs

To translate vision into action, Nigeria must address critical gaps and establish the infrastructure required for an effective risk-based capital (RBC) regime under NIIRA 2025. The following priorities are essential:

- Issue comprehensive RBC guidelines:** NAICOM should urgently release detailed regulations that define risk-weight tables across insurance classes and asset types, provide standardized templates for solvency calculations, and establish clear criteria for qualifying assets, including ownership limits and liquidity requirements. Such guidance will give insurers the certainty needed to efficiently restructure their balance sheets and align with the new capital framework.
- Mandate stress testing:** NAICOM should implement scenario-based stress testing to assess the resilience of insurers and the wider system under adverse conditions. This should cover macroeconomic shocks such as inflation and currency depreciation, catastrophic claims events, and periods of heightened market volatility. Regular stress testing will enable insurers to better assess capital adequacy and the robustness of their solvency buffers.
- Strengthen technical capability:** The successful implementation of RBC depends on strong analytical and actuarial capabilities across both regulators and

market participants. Nigeria should therefore invest in building NAICOM's expertise in capital analytics, risk modelling, and supervisory technology, while also supporting insurers in recruiting and developing qualified risk managers, compliance officers, and actuaries.

- Leverage technology:** NAICOM should harness technology to modernize supervision and industry practices by enabling digital policy issuance and end-to-end claims tracking, deploying cloud-based tools for automated solvency assessments, and supporting real-time risk monitoring and regulatory reporting. Accelerating the rollout of Insurtech platforms, supported by clear API integration frameworks and regulatory sandboxes, will help balance speed with practicality and ensure smoother adoption across the sector.

From change to adaptability

NIIRA 2025 is not merely another regulatory adjustment; it represents a significant shift in Nigeria's insurance landscape. It challenges the sector to move beyond a checklist approach to compliance and toward the development of a genuinely risk-aware culture—one in which capital is aligned with the risks insurers assume and their capacity to withstand adverse conditions.

However, reform without effective implementation is meaningless. Cooperation, competence, and clarity will be critical to the success of NIIRA. Kenya's experience with Risk-Based Capital (RBC) demonstrates that RBC is a discipline rather than a destination. Achieving success requires technical maturity, active stakeholder engagement, and continuous refinement. Nigeria must also ensure that capital adequacy requirements encourage, rather than constrain, market participation and innovation.

The role of financial advisors

As the industry evolves, financial advisers are well positioned to play a leading role. They should inform clients, particularly insurers, of the implications of RBC and help them prepare for stress testing, capital restructuring, and asset verification. Advisers can also promote recapitalization strategies, including mergers, private placements, and new equity issuance, while guiding balance-sheet optimization to ensure assets meet regulatory standards. In addition, they should encourage the adoption of Insurtech solutions by demonstrating how digital tools can support reporting, risk monitoring, and compliance automation. Finally, close collaboration with NAICOM and industry associations will be essential to advocate for practical regulations, phased implementation, and targeted capacity-building initiatives.

This moment presents both a regulatory challenge and a genuine opportunity to transform the insurance sector. Financial advisers are uniquely positioned to lead this transition, turning reform into resilience and translating policy requirements into tangible, measurable outcomes.

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