

Regulations for insurance sandbox to deepen innovation, financial inclusion in Nigeria

May 17th, 2023, Lagos – In a strategic move to deepen insurance penetration and financial inclusion through innovation in Nigeria, the National Insurance Commission (NAICOM) has released the insurance regulatory sandbox operational guidelines.

The guidelines are designed to determine insurance solicitation or distribution within the insurance value chain, facilitate insurance products; underwriting; policy & claims servicing, etc., before making them public.

The Insurance Regulatory Sandbox Operational Guidelines include Market Conduct Guidelines for Takaful and Retakaful Insurance Operators and Enterprise Risk Management Framework for Takaful and Retakaful Operators in Nigeria.

Takaful Insurance is generally based on the concept that the negative impact of a specific incident is distributed among a group of persons instead of making the person who experienced the loss bear its results alone. The means to achieve this is to establish a common fund to which everyone exposed to a specific risk may contribute in such a way that indemnity will be paid from that fund.

Retakaful is the Islamic alternative to conventional reinsurance and operates on Shariah principles. It is a way for a primary insurer to protect against unforeseen or extraordinary losses.

FSD Africa supported by the UK government has been providing technical support to NAICOM to enhance its ability to fulfill its development, regulation, and supervision mandate to support market development, market stability promoting innovation, and protection of policyholders in line with international standards.

The launch of the regulatory sandbox is part of the NAICOM's strategic objective to drive innovation of products and services, and ensure operators are professional in the conduct of their businesses and in line with best practices.

Commenting on the launch of the regulatory sandbox:

British Deputy High Commissioner in Lagos, Ben Llewellyn-Jones said:

"Insurance remains a critical tool in building the resilience of businesses, livelihoods, and households globally. With the persistence of climate risks / disasters and fluctuating economic realities in Nigeria, it is more important for the insurance industry to leverage innovation to develop more contextualised products and services that would mitigate the risks for Nigerians and their businesses.

"The UK government is keen to see this innovation delivered in consultation with the insurance industry and regulators to maximise the usefulness and impact of this tool."

Director, Risk and Resilience, FSD Africa, Kelvin Massingham said:

"It is vital for NAICOM to balance the need to facilitate and promote innovation with the protection of consumers and the adequate management of the risks that may arise. Support on market development focusing on regulating for innovation, will establish an environment that responds to innovation and market changes on an ongoing basis by building internal capacity, instruments and re-shaping their engagement with the private sector to foster a culture of innovation, learning and testing innovations."



Another guideline released last week by NAICOM was the Enterprise Risk Management (ERM) Framework which is intended to establish minimum Risk Management Standards for Takaful Insurance Operators (TIOs) in Nigeria.

Under this guideline, all Takaful Insurance undertaking will henceforth establish and maintain a sound ERM Framework to support the adequacy of its solvency and comply with all relevant Sharia rules and principles.

This framework is expected to be “comprehensive in nature, dealing with all reasonably foreseeable and relevant material risks of the funds making up the Takaful Undertaking, and shall be formalized through a set of policies, consistently applied, the TIO’s approach to determining the appetite for risk, its process for managing risks and its Governance related to risk.

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About FSD Africa

[FSD Africa](https://www.fsdafrica.org) is a UK aid-funded regional programme operating in more than 30 countries to make finance work for Africa’s future. It advocates and works to achieve policy and regulatory reform, capacity strengthening and improving financial infrastructure, to address systemic challenges in Africa’s financial markets.

FSD Africa’s strategy is focused on three areas: Capital Markets, Risk & Resilience (including insurance) and Digital Innovation, with a particular focus on enabling capital to flow to underinvested parts of the green economy. Since 2017, the organisation’s strategy has evolved to prioritise solutions to Africa’s most critical challenges: economic, social, and environmental. The organisation has worked to promote investment into the continent’s green economy, as well as its rates financial inclusion and gender equality. FSD Africa – previously known as Financial Sector Deepening Africa – was founded in 2012 and is based in Nairobi, Kenya.

For more information visit: <https://www.fsdafrica.org>

About the National Insurance Commission, Nigeria

The National Insurance Commission (NAICOM) was established in 1997 by the National Insurance Commission Act 1997 with responsibility for ensuring the effective administration, supervision, regulation and control of insurance business in Nigeria and protection of insurance policyholders, beneficiaries and third parties to insurance contracts.

For more information, visit: <https://naicom.gov.ng/>