

EXAMINING NAICOM'S CIRCULAR ON TENURE LIMIT FOR EXECUTIVE DIRECTORS AND ITS IMPLICATIONS FOR THE INSURANCE INDUSTRY



INTRODUCTION

Pursuant to the powers conferred on the National Insurance Commission (the “Commission”) by the National Insurance Commission Act 1997 (the “NAICOM Act”), and in line with the Nigerian Code of Corporate Governance 2018, (“the NCCG, 2018”) the Commission recently issued a circular dated 22nd November 2022 titled - **Tenure Limit for Executive Directors of Insurance and Reinsurance Companies (the “Circular”)**.

By the Circular, the Commission introduces tenure limits for Executive Directors (EDs) of Insurance and Reinsurance Companies in Nigeria with effect from 1st January 2023, and enjoins all Insurance and Reinsurance companies to give consideration to the provisions of the Circular in their future engagement of Chief Executive Officers (CEOs) and EDs.

TENURE OF EXECUTIVE DIRECTORS

The Circular stipulates that CEOs and other EDs of Insurance and Reinsurance Companies shall serve a maximum tenure of ten (10) years comprising of two terms of 5 (five) years each, subject to a single approval of the Commission.

Furthermore, the Circular provides that an ED who becomes a CEO in the same company shall serve a cumulative tenure not exceeding 15 (fifteen) years. In addition, the Circular provides that where an ED changes portfolio by moving to another position of ED equivalent within the same company, the period spent in the previous company as ED will count for the purpose of determining the maximum tenure of the said ED.

In respect of Insurance Companies that are a product of a merger, acquisition, takeover or any other combination, the ten-year period shall include the pre and post combination service years as a CEO or as ED.

The Circular also stipulates that there shall be a transitional period of 12 (twelve) months from the effective date of the Circular in respect of existing appointments and that all CEOs and EDs who have served for 10 (ten) years shall cease to continue in such capacity, after the transition period of 12 (twelve) months.

EFFECT OF THE CIRCULAR

The implication of the stipulations in the Circular is that effective from 1st January 2022, the tenure of CEOs and EDs of Insurance and Reinsurance companies will be limited to a maximum of 10 (ten) years, except where an ED transits into the position of a CEO in the same company in which case it shall be a cumulative period of 15 (fifteen) years.

Further to the above, all EDs who have served up to 10 years as such or CEOs who transited from ED position to the position of CEO and have served a cumulative of 15 (fifteen) years in both positions in the same company will be required to vacate their office at the expiration of 12 (twelve) months from the effective date of the Circular.

We note that neither the NCCG, 2018 nor the NAICOM Corporate Governance Guidelines For Insurance and Reinsurance Companies in Nigeria, 2021, (NAICOM Guidelines, 2021”) makes any stipulation in relation to a cap on the tenure of CEOs and EDs in general or in relation to Insurance and Reinsurance companies in particular, respectively.

Nevertheless, the NAICOM Act empowers NAICOM to regulate Insurance and Reinsurance business in Nigeria and the NCCG, 2018 emphasizes that the Board of Directors shall take into account, among other things, “... **the need for continuous refreshing of the Board**” in its determination of the tenure for the MD/CEOs and EDs.

IMPLICATIONS FOR THE NIGERIAN INSURANCE MARKET

By this Circular, NAICOM is seeking to bring Insurance and Reinsurance companies in line with global best practices. The motivation in this regard may not be far from ensuring that the business of Insurance and Reinsurance enjoys the advantage of the novelty of ideas that comes with fresh hands fielding management positions in such companies after stipulated tenure.

Thus, the Circular signals an imminent shake-up in the management and organisation of Insurance and Reinsurance companies in the country since such companies will begin to face restrictions on the tenure of its respective EDs and CEOs effective from 1st January 2023.

This implies a major impending management upheaval within the sector as EDs and CEOs who hitherto did not have to worry about tenure limits will now have to grapple with that reality in addition to the corollary issues of corporate succession and transition, while ensuring business sustainability and profitability.

Furthermore, as the restriction on the tenure relates to EDs and CEOs of the same Insurance or Reinsurance company, or Insurance or Reinsurance companies that are a product of merger, combination, or acquisition, it implies that upon exceeding the maximum tenure as ED or CEO in a particular Insurance or Reinsurance company, such ED or CEO can still take up full term position as such in another Insurance or Reinsurance company. This will lead to increased competition within the Insurance business market given the unavoidable cross-pollination of managerial patterns, skills, and strategies as between Insurance and Reinsurance Companies within the country by retiring EDs and CEOs who take up similar positions in other Insurance companies.

The Circular can be accessed [here](#)

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