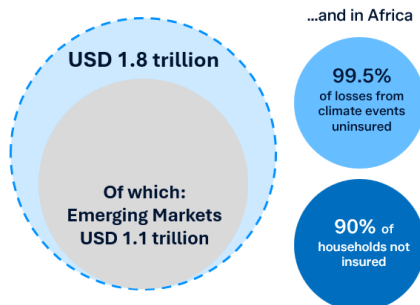


Climate risk insurance in Africa: building sustainable markets

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Climate change is a global challenge that poses material risks to societies and economies. In 2023, about half of the reported economic losses due to climate-related events were insured in high-income countries, compared with only 0.5% in Africa. This insurance gap weakens the resilience of the population, puts a strain on public budgets and slows the recovery from shocks. The financing and insurance of climate and disaster risks is therefore of enormous importance. But how can the gap be closed?

The Global Insurance Gap



Source: Rift Partners GmbH; Synergy Solutions 2025, Closing the Climate and Disaster Insurance Protection Gap

Structural obstacles

In most African countries, insurance activities are regulated, and taking out insurance usually requires a local insurance licence. Only locally licenced insurers may sell insurance products. Despite their central role, domestic insurers and reinsurers in Africa remain marginally involved in climate insurance programmes. This is largely due to structural obstacles: many local insurers have insufficient solvency capital to absorb the large losses associated with climate-related hazards such as droughts, floods and tropical cyclones, and rating agencies often "punish" companies that take on high-damage-intensity risks without adequate capital buffers. This reduces incentives to invest in technical

capacity, product and business development. Access to international risk capacity thus becomes a question of financial resilience.

Local insurers and brokers are well positioned to build customer trust and adapt products flexibly to changing needs. Unlocking this potential is not only a question of capacity building, but also of efficiency and sustainability.

However, there are exceptions. Several regional reinsurers and domestic insurers have started to participate actively in the development of climate insurance products, including parametric solutions. Advances in remote sensing, satellite data and machine learning have significantly improved the availability, granularity and timeliness of climate and hazard data. These technological developments have been supported by donor-supported programmes such as the InsuResilience Solutions Fund (ISF). International reinsurance capacity for African climate risks is widely available and often available at competitive prices. For many global reinsurers, African climate risks offer attractive diversification benefits within global portfolios. However, transaction sizes are often small and the cost of structuring and underwriting can be high, making the engagement less attractive.

Potential of the insurance sector

To overcome these obstacles, local insurers and brokers need to be empowered and encouraged to play a more active role in the markets for climate risk insurance. This could include the creation of risk-sharing mechanisms allowing for partial risk retention. There is also scope for product diversification beyond traditional parametric solutions to

more flexible hybrid models with more comprehensive protection features, such as revenue insurance. Such approaches can better meet policyholders' expectations, especially if customers have a limited understanding of how complex products work. Finally, public-private partnerships need to be rethought in order to better align public support with market development and innovation. These include:

- Involvement of local insurers and reinsurers in the early design of programmes,
- Establishing a transparent framework for subsidies and public investment that encourages private sector participation; and
- Develop clear transition strategies for publicly funded projects to develop economically viable markets.

In addition to political will, these actions are instrumental in moving from fragmented pilot programmes to systemic, sustainable solutions that fully exploit the capabilities of public and private actors. ■

