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Climate risk is rewriting insurance — Is East Africa ready?

Insurance penetration remains relatively low in many markets, while the financial resilience of households, SMEs and even larger corporates can be limited when disaster strikes.

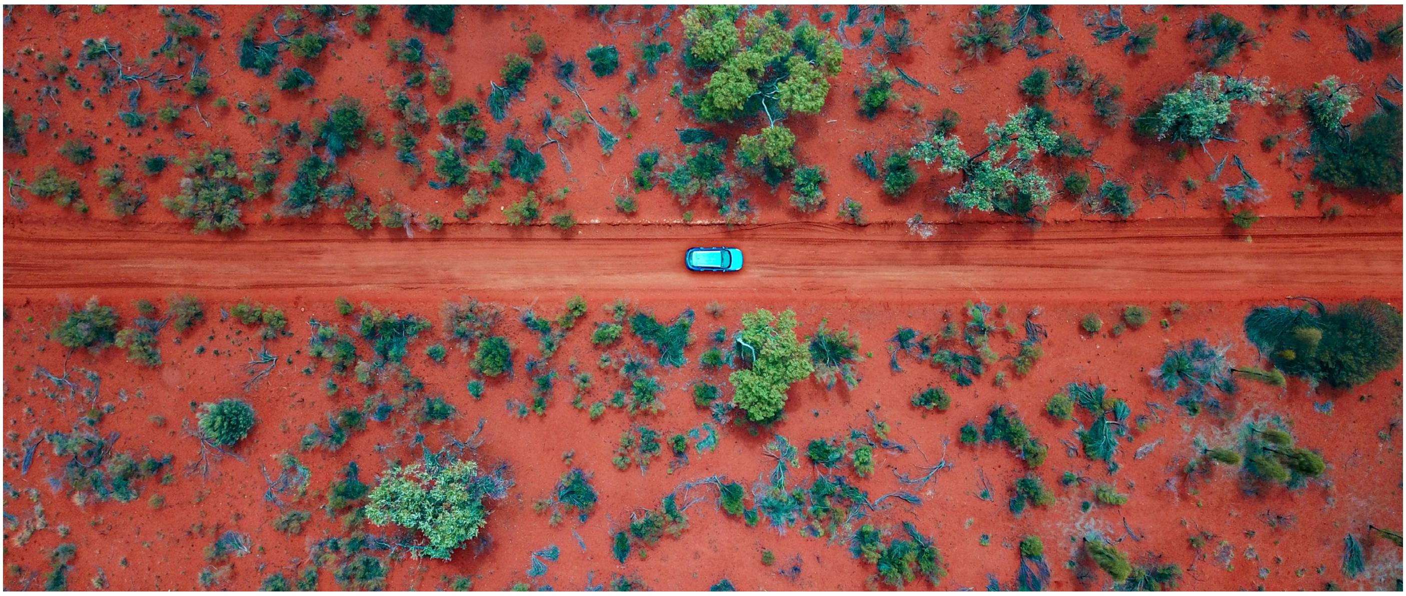
Climate change isn't just an environmental issue anymore. It is a business, financing and insurance risk.

Across East Africa, companies are already feeling the impact of more frequent and severe weather events: floods disrupting transport corridors and urban operations; drought affecting agriculture, hydropower, water supply and logistics; and storms damaging critical infrastructure.

These events do more than cause physical damage. They affect supply chains, working capital, business continuity, credit risk, and, increasingly, the availability and affordability of insurance.

As climate-related losses rise, traditional insurance models are under pressure. Companies that do not actively reduce their exposure may face higher premiums, tighter policy terms, increased deductibles, reduced coverage or, in some cases, difficulty securing insurance at all.

For East Africa, this matters. Insurance penetration remains relatively low in many markets, while the financial resilience of households, SMEs and even larger corporates can be limited when disaster strikes. A widening insurance protection gap would have significant implications for economic



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resilience, investment confidence and sustainable growth.

Insurance alone is no longer enough

For years, insurance has been treated as a financial backstop— a product purchased after risks have been identified and priced. Climate change is altering that equation.

As extreme weather becomes more severe and less predictable, insurers and reinsurers are reassessing how they underwrite physical climate risks.

Globally, reinsurers have tightened terms and increased pricing for natural catastrophe and so-called "secondary peril" risks such as floods, storms and wildfires. This trend is likely to influence African markets too, especially where local insurers rely on international reinsurance capacity.

The implication is clear: insurance cannot be the only line of defence.

Companies will increasingly need to show they understand their physical climate risks and are taking practical steps to reduce them. Adaptation is therefore becoming a strategic lever — not only for resilience but also for maintaining access to insurance and finance.

What this means for East Africa

The sectors most exposed to climate-related disruption in East Africa include many that are central to growth and development:

- **Energy and power infrastructure,** where transmission and distribution networks are exposed to storms, floods and landslides.
- **Water, sanitation and urban infrastructure,** which face pressure from both flooding and drought.
- **Agriculture and food systems,** where drought, heat stress and shifting rainfall patterns affect yields, input costs and supply stability.
- **Transport and logistics,** including roads, ports, rail and

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inland routes vulnerable to flooding and weather-related disruption.

- **Real estate and construction,** particularly in rapidly urbanising areas where drainage, zoning and building standards are critical.
- **Data centres and digital infrastructure,** where flooding, heat, power interruptions and water availability can affect uptime and service reliability.
- **Tourism and hospitality,** where coastal assets, biodiversity and water availability are central to the business model.

These aren't just asset risks. They can also create business interruption, supply chain disruption, reputational exposure, higher borrowing costs and more difficult insurance renewals.

For Kenya, where agriculture, logistics, real estate, energy and financial services are deeply connected to weather-sensitive infrastructure and supply chains, climate risk is no longer a peripheral sustainability issue. It is a board-level business risk.

Adaptation should become part of enterprise risk management

Companies need to move from simply assessing and disclosing climate risks to actively adapting to them. For East African businesses, this means embedding climate adaptation into enterprise risk management, capital allocation and operational planning.

Practical actions include:

Scenario-based climate risk assessments

Companies should assess how different climate scenarios could affect their assets, operations, customers, suppliers and markets. This should go

beyond historical loss experience, as past weather patterns may no longer be a reliable guide to future risk.

Business continuity and supply chain resilience planning

Businesses should identify critical dependencies — including water, electricity, transport routes, ICT systems and key suppliers — and test whether current contingency plans are adequate for more severe climate events.

Infrastructure upgrades and resilient design

Adaptation may require investment in drainage, flood barriers, elevated equipment, slope stabilisation, water storage, cooling systems, backup power and alternative logistics routes.

Use of technology and data

Satellite data, weather analytics, early warning systems, asset monitoring and geospatial mapping can help companies anticipate and manage climate risks more effectively.

Nature-based solutions

Wetland restoration, catchment protection, mangrove conservation, urban greening and watershed management can reduce flood, erosion and heat risks while delivering wider environmental and social benefits.

Insurance strategy review

Companies should review whether their insurance programmes remain fit for purpose, including limits, exclusions, deductibles, business interruption cover and contingent business interruption protection.

Early engagement with insurers

Insurers are more likely to support companies that can demonstrate robust risk management and credible adaptation measures. Early engagement can help align resilience investments with underwriting expectations.

The role of insurers is changing

Insurers are no longer only risk carriers. In a climate-stressed economy, they can become important enablers of resilience.

In Kenya and across East Africa, insurers have an opportunity to support climate adaptation through:

- **Risk advisory and analytics** that help clients understand location-specific climate exposure.
- **Parametric insurance,** where payouts are triggered by measurable events such as rainfall levels, drought indices or wind speeds.
- **Incentives for adaptation,** including better terms for clients that invest in risk reduction.
- **Public-private partnerships,** especially in agriculture, infrastructure, disaster risk financing and support for vulnerable communities.

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- **Awareness and education,** helping businesses and households understand insurance as part of broader risk management.
- **Investment in resilience,** including climate-smart agriculture, water systems, resilient infrastructure and sustainable real estate.

This shift matters. If insurers respond only by increasing premiums, narrowing coverage or withdrawing from high-risk areas, the protection gap will widen.

But if insurers work with businesses, regulators and public institutions to improve risk data and incentivise adaptation, the market can become more resilient and more inclusive.

A public-private agenda for resilience

Climate risk is systemic. No single business, insurer or public institution can solve it alone.

For East Africa, maintaining access to insurance will require coordinated action across the private sector, insurance industry, regulators, development finance institutions and governments. Priority areas include:

- Better climate and loss data.
- Improved land-use planning and zoning.
- Enforcement of resilient building standards.
- Investment in drainage, water and transport infrastructure.
- Expansion of disaster risk financing tools.
- Affordable products for SMEs, farmers and households.
- Integration of climate risk into lending, investment and procurement decisions.

This agenda isn't just about avoiding losses. It is about supporting economic stability, investor confidence and long-term competitiveness.

The strategic question for business leaders

For boards and executives, the

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question is no longer simply: “Are we insured?”

The more important questions are:

- Do we understand our exposure to physical climate risks?
- Could climate events disrupt our operations, suppliers or customers?
- Would our current insurance respond adequately?
- Are our adaptation plans sufficient to maintain insurability?
- Are we engaging early enough with insurers, lenders and regulators?
- Are we investing in resilience before losses occur?

Companies that act early will be better positioned. They can reduce losses, protect continuity, strengthen stakeholder confidence and maintain better access to insurance and finance. Those that delay may face rising costs, reduced coverage and greater operational disruption.

Conclusion

Climate change is reshaping the insurance landscape. For East Africa, this presents both a risk and an opportunity.

The risk is a widening protection gap at a time when economies need greater resilience. The opportunity is to build a more forward-looking approach to climate risk — one where businesses invest in adaptation, insurers support resilience, and public-private collaboration protects critical sectors and communities.

Insurance will remain essential. But in a changing climate, it must be supported by proactive risk reduction.

The companies that recognise this shift early will not only be better protected. They’ll be better prepared to compete in a climate-altered future.

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