

The uninsurable housing time bomb

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Uninsurable houses as a result of climate change will be a disaster for homeowners, banks, governments and the whole of society. Are we ready for the challenge?

https://www.youtube.com/watch?v=_x0x_SoGye&si=gHkulOay8bsv9_kq

This is the audio version:

https://www.podbean.com/player-v2/?i=grkf7-18bc1c3-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Uninsurable homes are creating a housing market time bomb in the UK, in the USA and around the world, and we need to understand that because the consequences are enormous.

The reality is that, of course, climate change is coming home to roost. That's what's behind this problem of uninsurable houses and uninsurable other properties, by the way, because this does also affect businesses.

We thought that climate change would have an impact on us through things like rising temperatures, or failing glaciers, or crop failure. But no, climate change is actually going to force change onto the world because of the failure of financial markets.

Uninsurable properties can't be insured. That will mean loans can't be repaid. This crisis could become a financial meltdown, and we need to understand this.

Climate change is giving rise to all sorts of major changes in the observed patterns of behaviour within our weather. We are getting wildfires, floods, hurricanes, and heat waves.

All of these are happening before we've even reached the point where 1.5 degree global warming change can really be said to have had a significant impact, and we're heading much higher. What's happening is that places that were once considered to be safe are now seeing unpredictable and extreme weather changes of a sort that are simply unprecedented.

At the same time, the insurance industry, and anybody else, come to that, are unable to predict what is happening because their models are out of date. And, as a result of that, major reinsurers, the people who actually stand behind the insurance companies that we deal with, are pulling out of supplying insurance for some of the riskiest markets in the world, with the consequence that things like basic household insurance are no longer available to many people.

There are areas where flood insurance is not available, fire insurance is not available, or, quite simply, no insurance of any sort is available.

This is happening in California, for example, where major wildfires are the risk.

Also in the States, Florida and Louisiana are seeing significant hurricane risks.

Texas and the Midwest are seeing increasing flood risks.

In Canada, the problem is different, well, only to the extent that the geographical location is obviously not the same as in the States, but floods and wildfires are, in particular, hitting British Columbia and Alberta.

And in Australia, there is a massive problem, as we've seen on news broadcasts for some time now, with regard to fires of all sorts.

In Europe, the problem is just as real, but flooding is perhaps the biggest risk. In Germany, and Belgium, and the Netherlands, flooding has been a real problem since 2021. We've also seen this issue in the deep valleys in the south of France, where flooding has become a major problem.

And elsewhere in Europe, the problem is of absolute bone dryness. The likelihood that we'll get fires is increasing as a result.

In the UK, we have a significant problem. According to the Environment Agency, one in six houses in the UK is now at risk of flooding. That's happened in places which initially

seem unlikely. Yorkshire and Cumbria have been hit badly, but so too have inland locations like Worcestershire, where it's so common that flooding now takes place that I suspect they can just roll out stock footage on television, because the scene looks the same as the last time, which wasn't so long ago.

And this isn't only because of deep flooding in the sense of rising sea levels. It's also because of surface water flooding. There are major problems in many urban areas in the UK because our drainage systems just aren't up to taking water away.

We've got a problem with coastal erosion as well in Norfolk, East Yorkshire and parts of the west of Wales. Whole communities are at threat from collapsing into the sea, and that's happening. It's thought that at least 21,000 homes in the UK might disappear by 2100, and that's an estimate from the UK Climate Change Committee.

In the south of England, the problem is different. The problem there is extreme dryness. The south of England is largely clay based and on clay soils, the problem of dry weather becomes shrinkage, and the result of that is subsidence. Already many parts of the UK cannot get insurance cover for subsidence claims and subsidence claims make your house literally unsaleable.

So, where we are seeing this is varied. But perhaps the most surprising of the areas where this is becoming a problem is in the London suburbs.

The flood risk map of England shows an enormous area of risk inside Yorkshire, and I mean inland Yorkshire there, around the Yorkshire coast and then heading south all down the Lincolnshire coast, the whole of the fens, where I live. And then it looks as if there are scattered areas of other risk in the rest of the UK. In particular, for example, around Romney marshes, which is that red blob in the southeast of England.

But if we just go into the south east and London in a little more detail, what we can see is that all the most desirable postcodes in London are in fact subject to significant flooding risk. Anywhere near the River Thames could flood and the Thames barrier might well not provide any protection.

The risk to the Essex marshes may not be too significant.

We might be able to dismiss the risk to Romney marshes.

But there are other centres of population there which are vulnerable.

And when we look at London, this is a massive area of concentrated population, but also of wealth and also of bank lending.

If the City of London was to be at risk, then we would see an enormous change in attitudes. And it is. The map shows it. And so we have a real financial risk implicit in this.

The government has reacted in the UK. There is something called Flood Re, which is a reinsurance company set up by the government. It was created to cover houses built before 2009, but that is, of course, one of the problems. It does not cover new build houses, and too many of these are being created on floodplains where the flooding risk is really high.

It also does not cover businesses and 85% of all commercial lending in the UK by value is believed to be against properties which are at flood risk. In other words, there's a mortgage on that property. If it floods, the mortgage might fail and the bank will be in trouble. So the government's measures at the moment do not mitigate the risk in a very real way.

What are the consequences?

We're seeing rising insurance premiums. Some houses are paying up to £1,000, and maybe quite a lot more, for additional premiums to cover flood risk. There's also some areas, and I've heard this about Doncaster, for example, where quite simply you can't get cover whatever you want to do. And in other places, specific risks, flood, subsidence, or whatever, is not covered, and that basically gives rise to rejection for mortgages.

The consequence is that households are becoming trapped in their homes. People cannot sell because their house cannot have insurance cover, and without insurance cover, nobody can get a mortgage to buy it. The result is literally stunted, or blighted, prospects for the people involved; they can't move, and social mobility is fundamental to wellbeing.

There's also, of course, therefore a risk for the mortgage lenders, the people who have already lent on these properties and who now find that these assets are effectively unsalable and therefore they may not be able to recover their loans.

This is suddenly making many bank balance sheets look very vulnerable. I've been in conferences where this has been discussed by bankers, and they all seem to have the naive belief that before this problem becomes too big, they'll all be able to offload their property portfolios onto somebody else who's unaware of this problem.

To describe that as naive is absurd. This is a totally systemic risk for the banking industry that could hit it very hard and create another financial crisis.

There's a problem for the government. Not only will it face claims under its Flood Re reinsurance scheme, but there's a simple fact that it has a problem with regard to managing infrastructure, and this isn't just the infrastructure on the east coast or in the west of Wales, or wherever else there are direct flood risks. This is about intermittent risks as well.

How is the government going to stop London flooding, for example?

Once may be unfortunate.

Twice would look like carelessness?

The third time it happens, people will say it's time to up sticks and move.

How is the government going to manage this internal migration that flooding might create in the UK? As far as I know, there is quite literally no strategy for this at all. And yet it is a very real risk that the government needs to face.

And of course, we see the risk of market meltdown in some parts of the UK as people try to leave as a matter of panic, virtually.

But there will be other parts where, of course, there will be excess demand for property because it's on relatively high ground.

And there will be some odd places where both these conditions could apply. I happen to live in Ely in Cambridgeshire. Ely is an odd, big lump of clay sitting in the middle of the fens. My house is a hundred feet above sea level. That's great, except that we'll be an island if flooding happens, and so there will be no communications in and out except by rowing boat.

All of these things matter, and none of them appear to be planned for.

But when it comes down to what creates the need for decision making, banking is the area where this risk is going to hit home hardest. Quite simply, banks are facing the risk of bad debts, and bad debts petrify them, and, therefore, they'll demand action.

So, what can we do? First and foremost, all those who deny that we can do anything about climate change need to wake up and smell the coffee. We can, and we should, do things to tackle climate change.

We can, and we do need to transform our economy so that we recognise the risk that climate change creates for us.

We need to create sustainable energy sources. Whatever the far-right, say our future is in sustainable energy.

We need to phase out the use of fossil fuels. Whatever Tony Blair might say, we cannot rely on fossil fuels as the basis for our future economy.

We might well need to reduce consumption of some goods and services, particularly those that are consumed by the wealthy. For example, the time for an airline tax has arrived; there is no excuse for excess global travel for leisure.

We need to build flood defences. There is no excuse for not doing so, and we have to start now, or we won't be ready.

And we've got to stop building on floodplains.

At the same time, we've got to protect our transport systems. The example I've just given of my home that is safe with regard to flooding, but may become impossible to live in because there'll be no roads into or out of the community where I live, is a situation where thinking about transport is essential if future viability is possible.

In some parts of the country, we have to look at how we are going to manage planned relocation because nothing else may be possible.

What is the support that's going to be provided?

What's the compensation for lost homes?

Who's going to pay it?

Why? At what value?

All of these things need to be addressed, and we need to address that potential risk of an internal refugee problem, which may be as destabilising as any other refugee problem that we'll ever face, and be just as unpopular.

There might be a staggering cost of building new houses in higher areas.

Who's going to bear that?

Who's going to do it?

Who's going to coordinate it?

I don't know the answer to these questions.

And if everyone floods out of London, literally because of flooding, then there's going to be another crisis because it is the most densely populated part of the UK. And if people leave, we need to find new accommodation for them.

And in the background, there's all this risk of failing banks, and at the same time, the risk of a massive loss of productive capacity in this country, because as I mentioned, so many commercial buildings are in flood areas.

We literally face the risk of meltdown as a consequence of climate change. But it's not the temperature that's going to cause the problem. It's the water, the fires, and the drying out of our clay soils that is going to cause the problem in the UK. And around the world, variations on these themes will do exactly the same thing. As a whole, we face a

crisis that we live in places which may no longer be sustainable.

How is the world going to manage that? It's probably one of the biggest challenges that we now face, and as far as I can see, almost nobody's giving it the attention that it needs.