

Banks can't survive climate change

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A massive banking collapse is coming — and the cause isn't speculation this time. It's climate change.

Uninsurable homes mean worthless mortgages, and worthless mortgages mean broken banks. Unless governments act now with public banking and sustainable cost accounting, society itself is at risk.

<https://www.youtube.com/watch?v=DaM3c5ybj-w?si=n-GDyNUJyXZWbqdP>

This is the audio version:

https://www.podbean.com/player-v2/?i=gezsj-196e9c8-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:

Like it or not, there is a massive banking collapse ahead of us unless urgent action is taken.

What's the reason? Climate change is the reason.

There is no way around a banking collapse worldwide unless we begin to take climate change seriously, very soon.

Why? Because banks lend on the basis of security that they demand, which is charged on properties. And vast numbers of properties are not going to be suitable for the purposes of providing that security sometime very soon in the future, because they're going to become uninsurable. And as a consequence, banking is going to collapse.

Let's just explain this.

Banks don't take risks. I know they like to pretend they do in their advertising. They try to pretend they're entrepreneurs, and they're the friends of business, and they'll go out of their way to help you to meet whatever demand you might have. But the truth is, banks hate risk. So when they lend, they try to lend with what is called security. And that means that they take a mortgage over a property to guarantee that the loan that they've made to you is going to be repaid by them having the legal right to claim ownership of a property that is currently yours, and to then sell it if, for any reason, you default on payment to them. That's how they lend.

You might call a mortgage a loan. But as far as the bank is concerned, it's a legal charge over your home, which means that they can sell that home if you don't keep up with the repayments. And it's this structure, lending on security backed up by mortgages, that makes the banking system around the world work.

And that's not just for homeowners either. It's also for businesses. They, in the vast majority of cases, are lent to by banks on the basis that there is an asset that the bank can claim, whether that be property in most cases - occasionally something else - or the personal guarantee of the owner of a business, very often also backed up by a mortgage on their home.

So this is how banking is. Let's not pretend otherwise. Over 85% of all loans in banking in the UK are backed up by a mortgage.

How does the role of insurance come into this then? Well, in theory, of course, you don't need to insure a property, which is going to be used for security. Except, well, the bank insists that you do because it wants it to be there, of course. Because if it isn't there for sale in a condition that is saleable, they've got no guarantee that they'll be able to recover their money if you don't pay them.

In other words, insurance is critical to reducing the bank's risk once more. And they therefore insist that you will insure a property if you borrow on the security of the property in question. You will be familiar with this if you have a mortgage. The bank will require evidence that you have the property insured. Very often, they'll insist you buy their insurance to prove that's the case.

But the point is that all over the world, more and more properties are becoming uninsurable. We've seen this because of flood. Because of fire. Because of earthquake. Because of excessive heating, and because of drought. All of those are creating

massive risks for the insurability of properties. And without insurance property is worthless for banking purposes.

And it's climate change that is in every one of those cases, making insurance impossible in areas where it used to be easy to obtain.

Just think about it. Fire in Los Angeles has made buying new homes in that city with a mortgage virtually impossible.

Sydney in Australia is seeing an increased number of wildfires, as are other cities in that continent.

Southern Europe, Greece, France, Spain are all seeing fires breaking out all over the place, and they are threatening the security of properties and so of insurability.

Flooding is becoming more commonplace, including in the UK, and areas that were previously unknown for flood risk are now facing real problems. In particular, central London has a massive flood risk issue if the Thames barrier is not enlarged, and very soon. And it will take a very long time for any such enlargement to take place because there is now a very serious risk that it could be overwhelmed by floodwater sometime soon.

That would wipe out Docklands. It would wipe out the centre of London. It would wipe out, according to bankers I've spoken to, the vast majority of the security available to them for the commercial property lending that they make.

And we're even seeing this problem in places we would never have imagined before in the UK.

There've been wildfires in Scotland.

There's been a wildfire in North Yorkshire this summer.

And that's putting real people's homes at risk of being uninsurable for a new threat.

We've already had flood, and many people in areas that you wouldn't imagine - the Trent Valley, for example; the Severn Valley, for example - have faced this problem. But now we have fire risk too, and so far the government hasn't reacted, although it has on flood risk.

We then have to look at the new issue. And that's heat and drought, and the problems are just escalating.

The issue is uninsurable properties in ever larger numbers will mean fewer and fewer mortgages being available in the future.

But it also means that existing loans will become unserviceable in effect, because there won't be any insurance on them, and the risk in bank balance sheets will go up.

And then the problem is that when bankers realise that every bank's balance sheet has vast numbers of assets on it, which may be of no value at all, they all stop lending to each other.

That is exactly what happened in 2008. In 2008 in the USA. Banks stopped lending to each other because they had no idea what the real value of the mortgages on other banks' balance sheets was, and therefore, they stopped inter-bank lending.

The system ground to a halt. It followed here almost immediately, and we have, as I've already noted, got this problem in the UK. But it's in Germany. It's in France. It's in Greece. It's in Australia. It's in all sorts of countries around the world.

The failure we face is not particular or individual to any one area or to any one bank.

The failure that we face is systemic.

And bankers, I know from conversations I've had with some of them, have been suggesting, "Don't worry. We'll be able to dump all our risky properties onto somebody else well before the crisis hits because there are some stupid bankers out there who'll take anything."

But that's just naive. It's even stupid. The fact is that this risk of insolvency will hit simultaneously. Everybody will suddenly realise, and there will be some trigger event. The fire in Los Angeles hasn't been it so far, but it's the warning sign. It's the John the Baptist, to the coming of Christ, if you like - a bit of this patched metaphor, but one that works in this case - that says this is real and it's going to happen.

And when banks collapse, what we get is a liquidity collapse. In other words, there's no money moving in the marketplace.

And when payment systems collapse as a consequence, and they could, then supply chains fail.

And when supply chains fail, there will be no money to pay your supermarket. And you have, in all likelihood, got no more than nine meals in your whole house available to be cooked now.

You will be in crisis when this happens. Without banks, daily life will grind to a halt. No payments, no mortgages, no credit, no food supply, everything at risk.

No reward for work because somebody won't be able to pay you.

This is how close to the wind we are already sailing, when we know that the entire

underpinning of the balance sheets of every bank on which we are dependent to keep our payment system working is at risk.

Society has put itself in jeopardy, and at the moment, everybody is pretending with their heads in the sand - which might just be another of these climate risks - that everything will work out all right.

I promise you it isn't going to. There is no way on earth that banks are going to be able to pass the parcel.

The central bankers are still doing that. They're pretending that this risk doesn't exist when they're undertaking their risk analysis of these entities. But the fact is, the problem is growing exponentially. All over the world, it's growing exponentially, which means it's getting faster and faster in other words.

So, doing the type of risk analysis the banks are doing, which by and large looks backwards and by and large looks at past risk, as an indicator of future risk, is absurd. It's just getting worse. Denial is not a strategy. It's negligence. Climate risk cannot be ignored in banking.

So what must be done? We must recognise that uninsurability is now a core systemic risk in banking. And it's ceased to be peripheral. It's now at the forefront of everyone's concern. We must work out who is most at risk, and for that purpose, I suggest that we use sustainable cost accounting, my method of accounting for companies at risk of the impact of climate change, and how we appraise the consequences.

We have to plan for alternative forms of banking before the current system collapses at the same time, because governments must be ready to replace failed banks. If they haven't got that contingency in place, we're in deep trouble.

And for that reason, we have to create public banking for public need and not private profit.

I said this very loudly and clearly in 2008. I said at that time that we had made a massive error of judgment by allowing banks' payment systems on which we all rely and which are therefore core state infrastructure on which we are utterly dependent to be in private hands, when without them, the state would fail to function.

But nothing has been done since 2008 to put matters right.

We cannot survive climate change unless we change our banking system, is my point.

We need to change our models of lending.

We need to change our models of insurance.

We need to recognise that the current system is broken.

And we need to build resilient financial systems now with public backing to ensure that society itself will not collapse when our banks do.

But unless we take action, that is an almost certain outcome because they cannot survive in a world where properties are uninsurable, and more and more of them are moving into that category.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [here](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

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