Debt, ethnicity and local area deprivation in London

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in partnership with StepChange

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Abstract

Drawing on Wave 13 of the UK Household Longitudinal Survey (*Understanding Society*) and anonymised client records from StepChange, this research explores household over-indebtedness in London and maps its intersections with ethnicity and area deprivation, explores the key drivers behind the disparities, and highlights what this means for policy and practice. The findings reveal stark inequalities in over-indebtedness across London. Certain boroughs and ethnic minority groups, particularly in the most deprived areas, face disproportionately higher over-indebtedness risks. The analysis highlights how demographic and socioeconomic drivers (such as income instability, employment patterns, and life events), combined with a lack of financial buffers which themselves are rooted in poverty and disadvantage, contribute to these disparities.

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Executive summary

This research draws on data from Wave 13 of the UK Household Longitudinal Survey and anonymised client records from StepChange (2023) to map the complex landscape of household over-indebtedness in London. It explores how the risk of over-indebtedness is shaped by both *area deprivation* and *ethnicity*, identifying which boroughs and ethnic groups are most affected, and analysing the underlying socioeconomic and structural drivers of these disparities. Below is a summary of the key findings and recommendations.

Area Deprivation and Over-Indebtedness in London

London's Over-Indebtedness Snapshot: London not only exhibits a higher overall rate of over-indebtedness (13%) compared to the UK overall (10%) but it also exhibits great variation: in the five most deprived London Boroughs, over-indebtedness jumps to 19%, nearly triple the rate in the five least deprived ones (6%). But the pattern isn't always straightforward: some less deprived boroughs still see above-average over-indebtedness and vice versa.

Over-indebtedness types and area deprivation: The relationship between area deprivation and over-indebtedness is sensitive to the definition used, reflecting the different pressures faced by households across London. The analysis in this paper classifies someone as highly over-indebted when they have high levels of unsecured debt and/or arrears on priority bills (e.g. rent/mortgage payments, Council tax; household bills) in conjunction with these burdens coinciding with a deterioration in living standards. A breakdown by debt type reveals that high unsecured debt is more prevalent in less deprived boroughs, likely reflecting the greater borrowing capacity/access of households in these areas, while arrears on priority bills are more common in more deprived areas.

Over-indebtedness in deprived areas is driven by more than demographics: Even after accounting for variations in socioeconomic characteristics like income, ethnic composition, employment, education and health, more deprived areas still experience disproportionately higher rates of over-indebtedness.

Debt advice, area Deprivation and over-indebtedness: StepChange's 2023 data also show a clear link between area deprivation and demand for advice: the more deprived a borough is, the more adults turn to StepChange debt advice services. However, the correlation between overall levels of over-indebtedness and debt advice demand is rather weak, most likely reflecting the distinct profile of StepChange's clients - predominantly individuals facing high unsecured debt. When over-indebtedness is defined by the prevalence of high unsecured debt in the borough the correlation strengthens further supporting this conjecture.

Key reasons for debt problems reported by StepChange's clients in London: In 2023, the cost of living was the leading reason for debt issues among StepChange clients in London, accounting for over 25% of responses. Unemployment or redundancy followed at 17%, while around 10% of clients cited reduced income, lack of control over finances, or injury/health-related issues. Fewer clients pointed to reasons like relying on credit for everyday living costs (6%), one-off expenses (4%), divorce or irregular income (3%), and under 2% mentioned factors such as caring responsibilities, pregnancy/childbirth, addiction, or the impact of COVID-19.

The reasons for over-indebtedness among StepChange's clients vary by area deprivation: In less deprived boroughs, debt is more often driven by life events – like separation/divorce, pregnancy/childbirth, or caring responsibilities – and using credit to cover living costs. In more deprived areas, it's more about irregular income, reduced income or benefit, and one-off expenses. But some pressures such as the cost of living, injury/health, and lack of control cut across the capital.

Ethnicity, Area deprivation and Over-Indebtedness

London's ethnic debt divide is striking: According to Understanding Society, over-indebtedness affects 28% of Londoners of Black African, 24% of Black Caribbean, and 22% of Pakistani or Bangladeshi ethnic backgrounds – or more than twice higher than the 8% among the White British group. Even among the Indian ethnic group, a group that has substantially lower poverty risk, the rate is double (16%).

Ethnic minority groups aren't just more at risk of over-indebtedness but also have different types of debts: They more likely to face arrears or a combination of arrears and unsecured debt while are less likely to hold unsecured debt alone. This points to deeper financial strain and structural inequalities that go beyond borrowing patterns.

The types of arrears over-indebted Londoners face vary by ethnic background. A higher percentage of over-indebted Londoners of White British background fall behind on council tax, while those of an Indian ethnic background are more likely to struggle with household bills and housing costs. Londoners of a Pakistani or Bangladeshi ethnic background mainly face arrears with their housing costs, while over-indebted Londoners of a Black Caribbean or Black African background report the highest levels of arrears on household bills, with housing and council tax arrears close behind.

How the types of unsecured debt vary by the ethnic background of over-indebted Londoners: Over-indebted Londoners of a Pakistani or Bangladeshi ethnic background are less likely to carry any type of unsecured debt, while those of a Black Caribbean or Black African ethnic background tend to have a similar likelihood of holding credit card debt to the White British group, but a lower likelihood of holding overdrafts or personal loans. Instead, they rely more on DWP loans and informal borrowing. StepChange data backs this up: most ethnic minority groups are less likely to hold any type of unsecured debt – except for higher-cost credit like overdrafts and payday loans, which are held at similar rates to over-indebted people of a White British background. Yet over-indebted Londoners from ethnic minority backgrounds tend to carry higher average debt balances for any debt type, pointing to deeper issues in access, affordability, or need. Disentangling the importance of each of these remains to be determined.

The risk of over-indebtedness rises at the intersection of ethnicity and area deprivation. In London's most deprived areas, ethnic minority groups face significantly higher over-indebtedness rates than the White British group. In less deprived areas, these differences persist, but are generally not statistically significant.

Socio-economic differences account for much of the higher over-indebtedness risk of ethnic minority groups in both more and less deprived areas, but not all: In the 20% more deprived neighbourhoods (LSOAs), Londoners from Black African background still face significantly higher over-indebtedness, even after accounting for these differences.

Boroughs with higher deprivation scores also tend to have more residents completing debt advice with StepChange, and this relationship is stronger for ethnic minority groups. This probably reflects that White British groups are proportionally less exposed to debt vulnerability in more deprived boroughs.

The reasons for over-indebtedness vary significantly across ethnic groups: StepChange's London clients report the cost of living and unemployment/redundancy as the top reason of their debt problems. This pattern holds across all ethnic groups but especially among Londoners from ethnic minority backgrounds. But differences also emerge: people from ethnic minority groups are more likely to cite irregular income, reduced income or benefits, or pressures related to pregnancy and childbirth. In contrast, clients of a White British background more often report divorce, credit reliance, or lack of financial control over finances as the key reasons for their debt problems.

Implications for policy and practice

Need of an enhanced data infrastructure: A comprehensive debt advice dataset potentially drawing from multiple debt advice providers is needed to better understand how those most in need across different areas and ethnic groups access debt advice and other support services, where gaps exists and how to best fill them.

Addressing over-indebtedness vulnerability: While over-indebtedness broadly correlates with area deprivation, the link isn't perfect, which underscores that its drivers are complex and layered. Effective policy must both prevent unaffordable debt from building up and support those already struggling, by addressing root causes like poverty and income insecurity, and by building effective and adequate safety nets and strengthening financial resilience.

Recognizing ethnic disparities in over-indebtedness: All ethnic minority groups face higher over-indebtedness risk than the White British group, with Black Caribbean and Black African groups especially at risk and especially in more deprived areas. The evidence points to an "ethnicity premium" in financial services, a finding that warrants further exploration. The Equity in Finance (EIF) campaign launched in April 2025 aims to confront these financial inequalities and drive change (https://www.rootedfinance.org.uk/news/the-parliamentary-launch-of-equity-in-finance-project/).

Mitigating the impact of short-term financial shocks: The fact that many StepChange clients, especially from ethnic minority backgrounds attribute their debt problems to short-term shocks, points to a lack of financial buffers like savings or affordable credit. Policies should aim to strengthen overall financial stability by boosting access to emergency savings, low-cost credit, and targeted debt advice services, while also addressing the adequacy of the social security system to better protect households from financial shocks.

1. Background

Debt exacerbates, and is exacerbated by, the cost-of-living crisis. Those already in debt face acute challenges when prices rise. In principle, social protection provides a safety net, but CASE research has highlighted significant gaps that opened during the 2010s[1]. Given London's stubbornly high poverty rates, stark inequalities and high living costs, problem debt is a key challenge in Greater London. StepChange a leading debt advice charity, estimates half a million Londoners are unable to pay their debts or have arrears on priority bills and that this number has increased over time. Between 2021 and 2022 the number of people who contacted the charity for support with their debts increased by 20% (from 483,247 to 580,913 people) and the number who completed full debt advice for the first time increased by 6% over the same period (from 157,905 to 167,351). Between 2022 and 2023 this increased by a further 10% (reaching 183,403)[2]. The reason most commonly cited among StepChange clients for their debt problems was the cost-of-living increase – cited by 25% of StepChange clients in 2023 (up by 7 percentage points from 2022).[3] The surge in over-indebtedness during this period was primarily driven by rising arrears on priority bills, including energy, mortgage, rent, and council tax payments.[4] Additionally, a growing number of clients reported negative budgets, where their essential expenses exceeded their income. Alarmingly, many of these individuals were employed full-time, highlighting the intensifying financial pressures faced by working households (StepChange, 2024)[5].

In previous work I conducted a comprehensive analysis of the socio-economic profiles of London's over-indebted population. This work revealed that Londoners from ethnic minority backgrounds, are disproportionately impacted by over-indebtedness, potentially driven by higher levels of poverty and financial exclusion. This paper extends Karagiannaki (2024) by undertaking a deep dive into household over-indebtedness within London looking at how this affects ethnic minority groups and varies by area deprivation.

The report is structured as follows: Section 2 describes the two data sources used in this report namely the Understanding Society and StepChange. Section 3 provides evidence on the extent of over-indebtedness within London, considering the correlations between levels and nature of over-indebtedness and area deprivation. Section 4

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1 Vizard, P and Hills, J. (2021) An assessment of social policies and social inequalities on the eve of the COVID-19 pandemic https://sticerd.lse.ac.uk/dps/case/spdo/SPDO_overview_paper.pdf

2 StepChange Debt Charity is the UK's largest specialist debt advice charity. Founded in 1993, StepChange supports people experiencing debt problems through telephone and online services, and campaigns for change to reduce the harm and stigma associated with debt. Over the last three decades, StepChange has helped 7.5 million people with debt problems. (https://www.stepchange.org/).

3 StepChange (2023) Statistics Yearbook Personal debt in the UK January – December 2023 (stepchange.org)

4 Odamtten, F. and S. Pittaway (2024) shows that during the costs-of-living-crisis an increasing number of households fell into debt on their energy bills, rents and council tax payments while outstanding consumer debt has fallen. This contrast can be partly explained by the contraction in the non-prime lending market (ClearScore (2024)) which fell significantly since 2019, leaving many low-income households excluded from formal high cost (but regulated) credit (Financial Conduct Authority (2024)).

5 StepChange (2024) In work. But still in debt, StepChange

examines how the levels, nature, and reasons for over-indebtedness differ among Londoners from various ethnic backgrounds as well as considering the intersection between ethnicity and area deprivation (as well as area ethnic concentration) in relation to over-indebtedness, investigating the potential factors driving these patterns. Section 5 concludes with final remarks and a discussion of the implications of the findings for policy and practice.

2. Data and methods

This report utilizes data from two sources: (i) Understanding Society (Wave 13)[6] and (ii) the 2023 StepChange client database. Understanding Society Wave 13, conducted between 2021-2022[7], is the latest wave that includes data on household wealth, collected as part of a specialized wealth module. This module provides detailed information on household financial wealth, types of debt, overall debt value, outstanding credit card balances, and maximum borrowing limits on credit cards. From these reports, we can derive estimates of total household financial debt and other indicators of indebtedness, including total unsecured debt to income ratio; arrears on credit cards; credit utilization ratio (debt-to-credit ratio).

In addition to these measures, the survey collects information on households' subjective evaluations of their financial situation, as well as whether households have been in arrears with household bills, rent/mortgage payments, and council tax bills over the 12 months prior to their interview. Furthermore, it includes data on household outgoings for various basic items of spending (rent, mortgage, household utility bills, and food spending). Following the methodology developed in Karagiannaki (2024)[8], I combine a set of these indicators to construct a single composite measure of over-indebtedness, which captures the severity of over-indebtedness. This measure includes several indicators, such as the size of debt liabilities relative to income, the incidence of credit card arrears, the incidence of arrears on priority bills, low standards of living indicators, and subjective indicators of financial difficulties. Based on the overlap of these indicators, the population is categorized into three groups according to their levels of over-indebtedness (based on a set of objective indicators) and the degree to which they show signs of financial distress and low living standards. A description of each group is given below (for more details see Appendix A). Groups 3 is the focus of

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6 Two sources of Understanding Society. The first is the main Understanding Society dataset (ref: University of Essex, Institute for Social and Economic Research. (2023). Understanding Society: Waves 1-13, 2009-2022 and Harmonised BHPS: Waves 1-18, 1991-2009. [data collection]. 18th Edition. UK Data Service. SN: 6614, DOI: http://doi.org/10.5255/UKDA-SN-6614-19.).The second is the Understanding Society's Local Authority District dataset which is used to map borough level IMD data: Special Licence Access Understanding Society: Waves 1-13, 2009-2022 and Harmonised BHPS: Waves 1-18, 1991-2009: Special Licence Access, Local Authority District. SN: 6666, DOI: http://doi.org/10.5255/UKDA-SN-6666-16

7 Understanding Society is a detailed representative, longitudinal household survey of more than 40,000 households in the UK conducted each year by the University of Essex, since 2009.

8 Karagiannaki, E. (2024) Tackling London's Household Debts Problem, CASEreport154, London School of Economics

analysis in this paper.

- **Group 1:** Not over-indebted or in need of debt advice
- **Group 2**: Indebted but not in urgent need of debt advice: this includes people who either have high debt-to-income ratio, or credit card arrears or who are in arrears with their household bills, housing costs or council tax payments but do not show any signs of financial distress or experience food poverty.
- **Group 3**: Over-indebted and in urgent need of debt advice (the focus in this paper): this includes people who are indebted in terms of both objective indicators of over-indebtedness or in at least one objective over-indebtedness indicators (credit card arrears, high debt-to-income ratio or arrears on household bills, rents, mortgage or council tax payments) and report severe or quite severe financial difficulties or that are unable to eat healthy and nutritious food[9].

The second source utilized in this report is the 2023 StepChange database, which contains records from 180,265 clients who completed full debt advice for the first time in 2023. For this paper, we focus on a subsample of 19,998 clients based in London.

When interpreting the findings in this paper, it is important to keep in mind that the profiles of StepChange clients may differ from those of other debt advice providers. More generally, the profiles of clients from different debt agencies can vary due to factors such as specialization, referral processes, and funding. Consequently, the profile of StepChange clients may differ from those of other debt advice agencies and the overall population receiving debt advice. Notably, StepChange's client profile predominantly consists of individuals with unsecured (financial) debts.

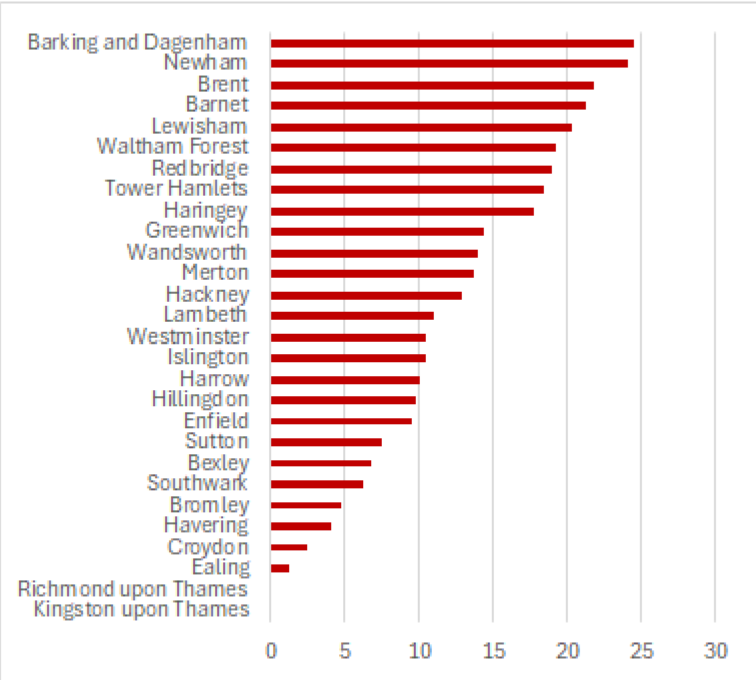
9 In Karagiannaki (2024) Group 3 was characterised as highly over-indebted (or extreme problem debt) and in urgent needs of debt advice and Group 2 as over-indebted but not in urgent debt advice needs.

3. Household Debt Disparities: A Borough-Level Analysis of Over-Indebtedness in London

A snapshot of London's household over-indebtedness

Over-indebtedness in London is significantly higher than the UK average, with 13% of adults in London being over-indebted compared to 10% across the UK.[10] However, Figure 1 also reveal stark variations across boroughs: Barking and Dagenham, along with Newham, have the highest rates at almost 25% (followed closely by Brent, Barnet, and Lewisham), while Kingston upon Thames and Richmond upon Thames have the lowest (almost zero) rates. Importantly, even in lower-rate areas, some households still face problem debt. This underscores that over-indebtedness is a pervasive phenomenon that may impact households in richer and poorer areas, though as it is discussed later in some cases in different ways.

Figure 1: Percent of the population in each London Borough who are classified as being over-indebted (boroughs with less than 30 observations are omitted)



Notes: Analysis of Understanding Society, wave 13. The sample includes all adult population with non-missing data. Estimates are weighted using Understanding Society weights. The following boroughs are omitted due to small sample size: Hounslow, City of London, Kensington and Chelsea, Hammersmith and Fulham and Camden.

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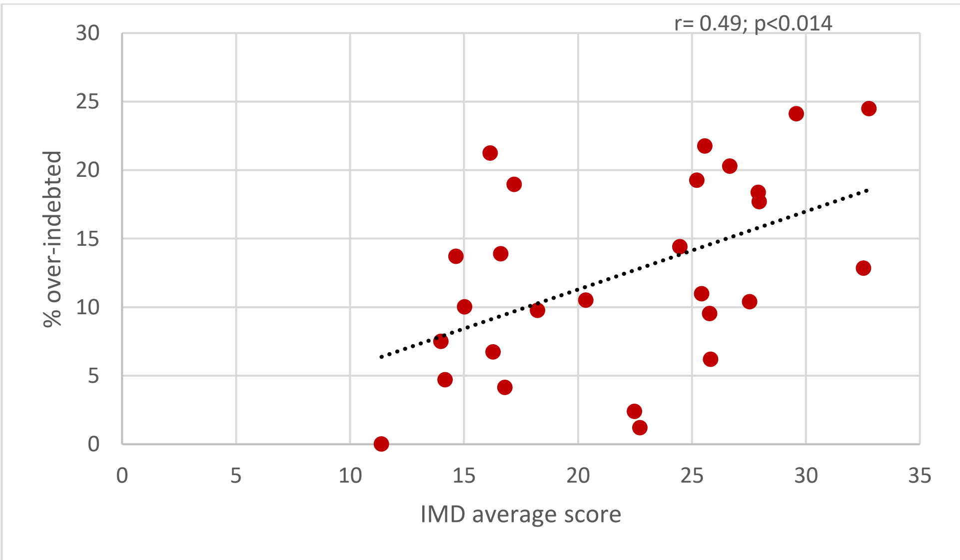
10 Karagiannaki, E., (2024) Tackling London's Household Debts Problem, CASE Report 154

Over-indebtedness and borough-level deprivation

Figure 2, which plots levels of over-indebtedness against borough-level IMD deprivation score, shows that people living in more deprived areas face a significantly higher risk of being over-indebted than those in less deprived boroughs. On average, across London, people living in the five most deprived areas have around 19% risk of being over-indebted compared to 6% among those in the five least deprived areas. However, the relationship is not as strong as one would expect (Spearman correlation of 0.49). So, one can observe that there are areas with high levels of deprivation that have below average levels of over-indebtedness (Croydon, Ealing, Enfield, Hackney, Islington, Lambeth, Southwark) and areas with low levels of deprivation with above average levels of over-indebtedness (Barnet, Redbridge)[11].

Figure 2: Percentage of the adult population in each London Borough who are over-indebted against Borough-level IMD deprivation score



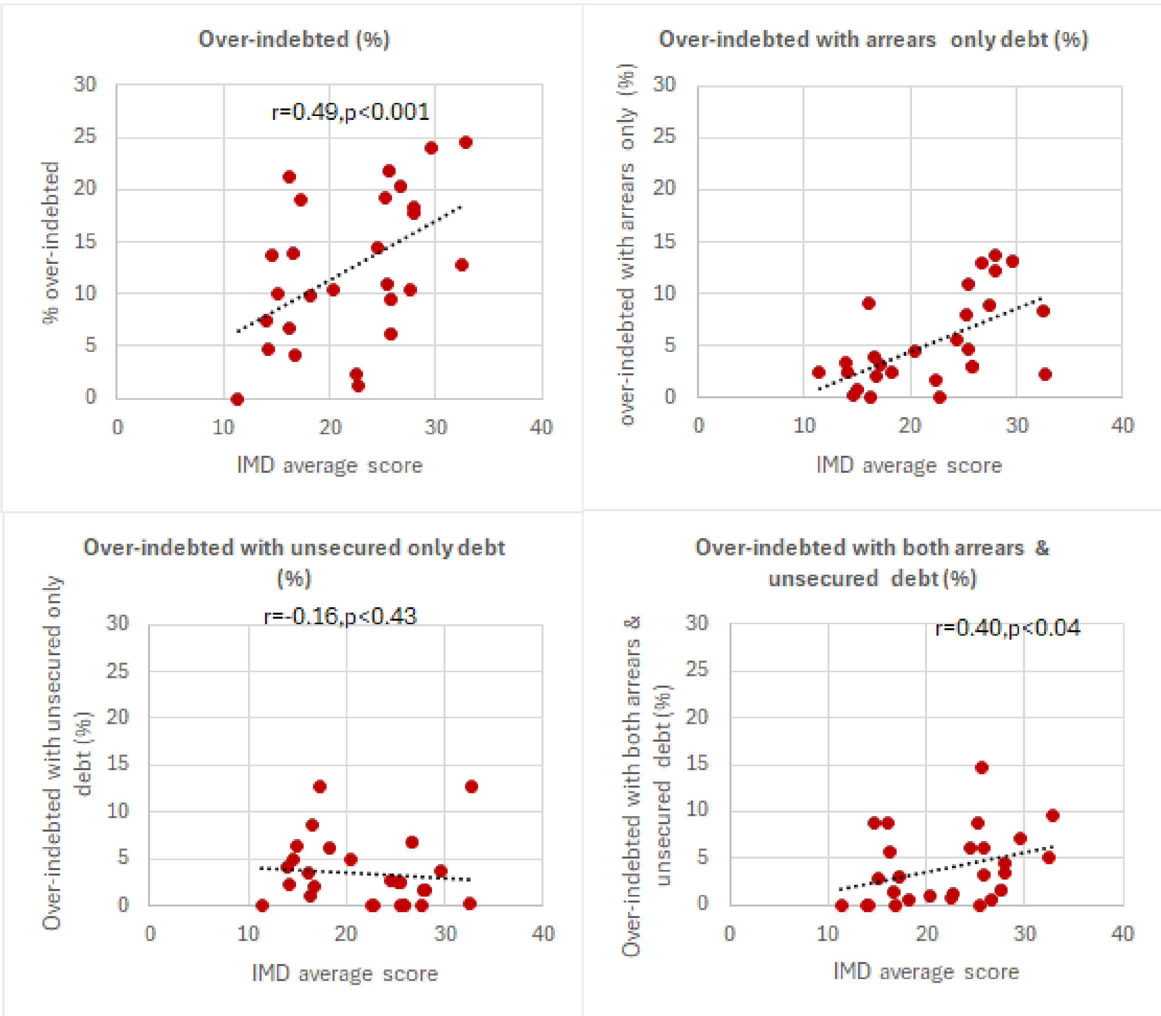
Notes: The financial debt holdings which were used in the definition of over-indebtedness exclude the debt held by people who report holding student loans. The following boroughs are omitted due to small sample size: Hounslow, City of London, Kensington and Chelsea, Hammersmith and Fulham and Camden. Source: Author's analysis of Understanding Society. IMD scores are extracted from File 10: local authority district summaries.

Beyond its clear association with overall over-indebtedness, area deprivation also appears to shape the specific nature of household debt, suggesting that the types of financial challenges vary with levels of deprivation. Figure 3 categorizes household problem debt based on whether it stems from high unsecured debt, arrears on household

11 MaPS (2024) analysing area deprivation and financial well-being across the UK showed that while low financial wellbeing is most prevalent in the most deprived neighbourhoods, low financial well-being exists in less deprived areas, findings that underscore the need for tailored, area-specific services on the one hand, and that support is necessary across all areas. However, as the report argues given the wide variation in financial wellbeing within the most deprived areas, services should be adaptable to individual circumstances rather than adopting a one-size-fits-all approach. https://maps.org.uk/en/publications/research/2024/deprivation-and-financial-wellbeing#The-background:-Local-area-and-health-wellbeing

bills, or both. The figure clearly shows the relationship between area deprivation and over-indebtedness varies by the type of over-indebtedness. Specifically, the graph shows over-indebtedness linked to arrears as well as arrears combined with high unsecured debt increases with area deprivation, though the latter shows a slightly weaker link. In contrast, high unsecured debt alone (defined as a debt-to-income ratio exceeding 20% or significant arrears on credit card debt) tends to decrease with area deprivation, likely reflecting the greater borrowing capacity of households in less deprived boroughs. This finding aligns with StepChange's 2017 analysis, which identified an inverse relationship between unsecured debt levels and area deprivation in London.[12] Overall, it appears that in less deprived areas, residents tend to accumulate more high unsecured debt due to their greater borrowing capacity. Conversely, households in more deprived areas either due to being poorer and/or due to facing limited access to affordable credit, accumulate more arrears.

Figure 3: Percentage of adults in each London borough who have different types of debt problems against Borough-level IMD score

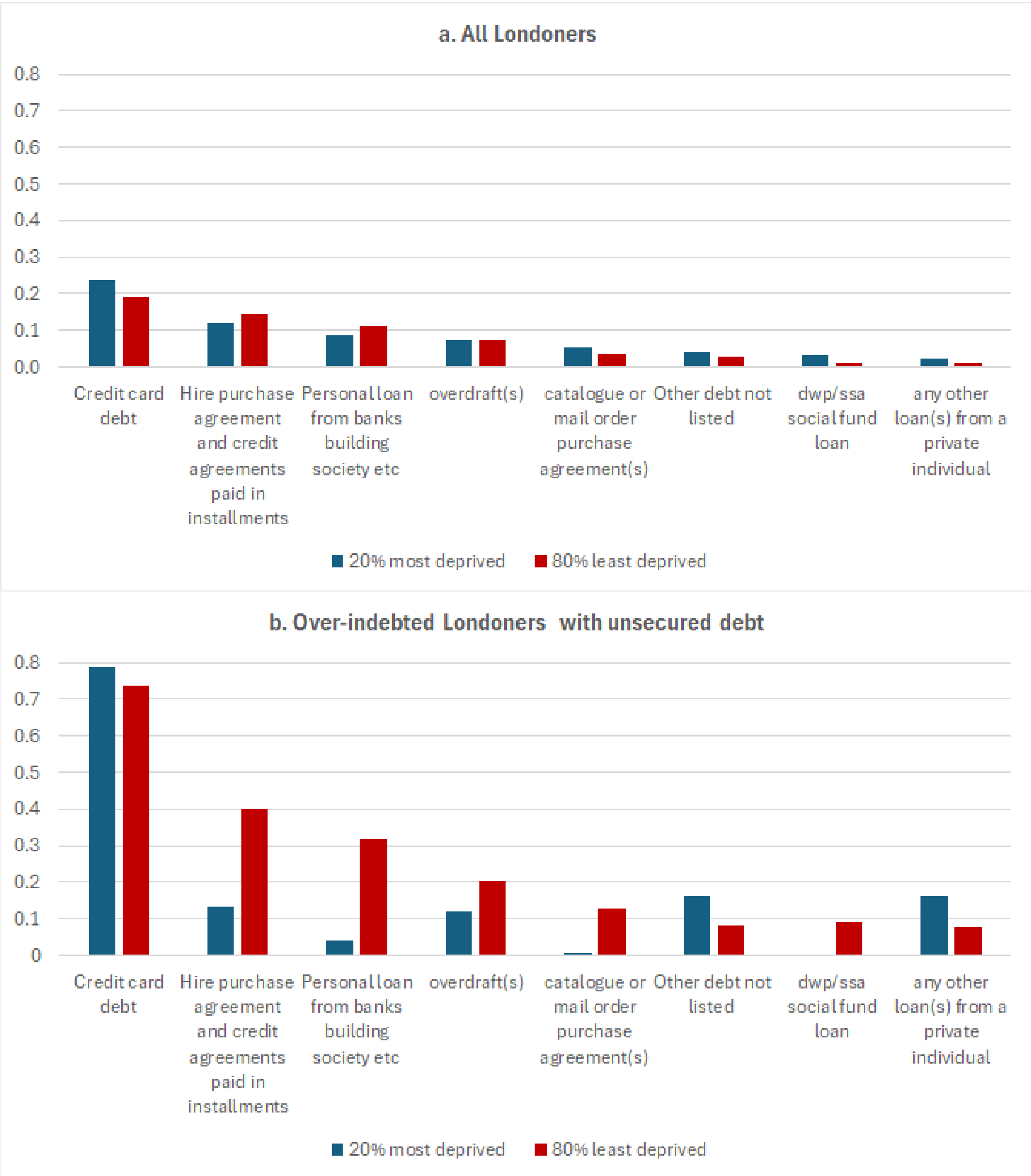


Notes: See Figure 2.

12 StepChange (2017) London in the red report: A capital in debt, StepChange https://www.stepchange.org/Portals/0/documents/Reports/london-in-the-red/london-in-the-red-report-2017.pdf

One issue of significant policy importance that has increasingly captured scholarly and policy attention is whether households in more deprived areas have limited access to affordable credit, thereby forcing them to resort to high costs credit putting further strain on the households. Although the Understanding Society does not offer a detailed credit breakdown, the patterning of the available debt types held by people in the most and least deprived areas points to the significance of this issue. For example, as shown in Figure 4 credit card debt, loans from private individuals, and other informal debt types are more common in more than in less deprived areas, where households are more likely have personal bank loans or hire purchase agreements. With available data it is difficult to examine whether there are differential costs associated with these patterns, some further insights however on this, is provided in later sections (section 4).

Figure 4: Types of unsecured debt by whether household LSOA is in the 20% most deprived quintile

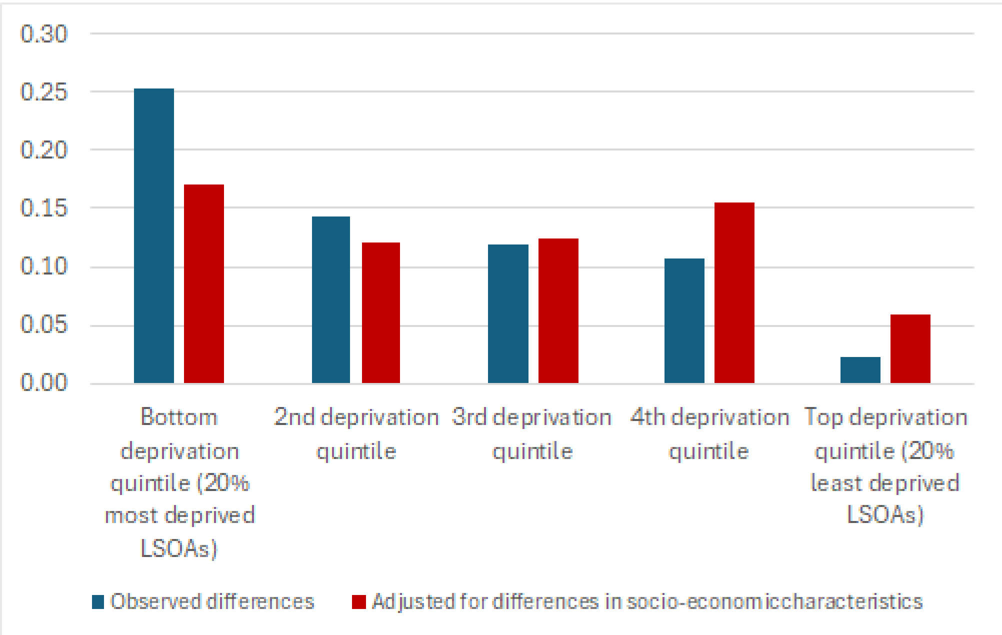


Source: Author’s analysis of Understanding Society.

Unpacking the Drivers of Over-Indebtedness

A question that arises then is to what extent the higher over-indebtedness rates in more deprived areas is accounted by the fact that the population in these areas are poorer and/or have characteristics associated with higher over-indebtedness risk. To answer this question, I estimated models of the relationship between household over-indebtedness and area deprivation controlling household income and for a range of characteristics (ethnicity, marital status, educational attainment, employment status, equivalised household income quintile, family type and the presence of people with a disability in the household). Figure 5 presents the adjusted and unadjusted over-indebtedness rates in London by neighborhood deprivation quantile. What is clear from this graph is that even after adding controls for income and other household characteristics typically linked to over-indebtedness, more deprived areas consistently exhibit higher rates of over-indebtedness than less deprived areas. However, the relationship is not monotonic: while the least deprived LSOA quintile have significantly lower over-indebtedness rates than the quantile groups - particularly the most deprived quintile, which has the highest rate - the differences across the three middle quintiles are small and not statistically significant. Moreover, the relatively high levels of over-indebtedness that remain unexplained, particularly between the least and most deprived areas, suggest that additional factors are at play.

Figure 5: Observed and adjusted differences in over-indebtedness risk within London by neighbourhood deprivation score quintile

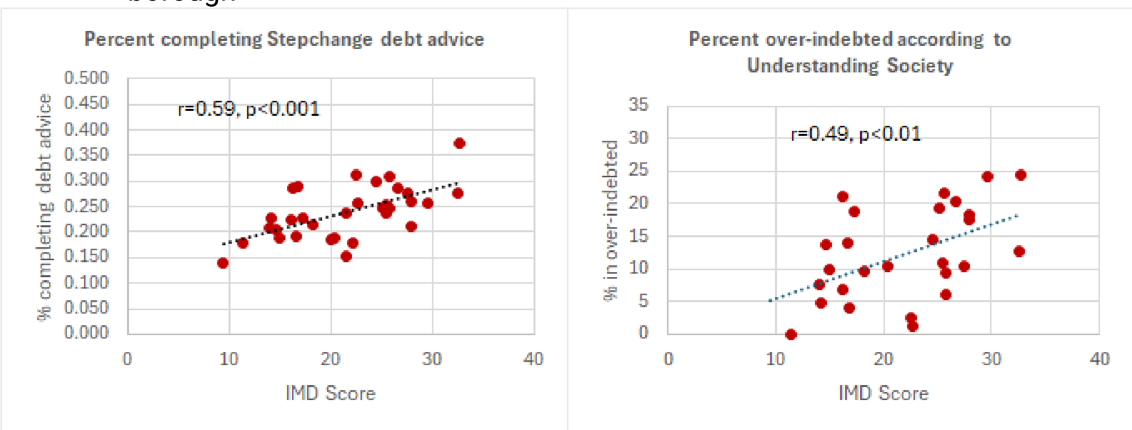


Note: The adjusted over-indebtedness rate is rate net of the effect of differences in households' socio-economic characteristics. The adjusted rates are derived from a probit model which controls for ethnicity, marital status, educational attainment, employment status, equivalised household income quintile, family type and the presence of a disabled person in the household. Source: Author's analysis of Understanding Society wave 13.

Debt Advice and Borough-level deprivation: Insights from StepChange

Turning to insights from StepChange database we observe a robust positive correlation between area deprivation and the proportion of local adults who received debt advice from StepChange (Figure 6). Although it's expected that the proportion of individuals receiving debt advice is lower than the overall rate of over-indebtedness - since the figures only represent StepChange clients rather than the total population receiving debt advice - the more striking observation is that as area deprivation increases, the relative increase in seeking debt advice is notably less pronounced than the corresponding rise in over-indebtedness. Figure 5 illustrates that the gap in the proportion of residents receiving StepChange debt advice between the most and least deprived areas is only 0.14%, while the corresponding difference in extreme debt rates is far more pronounced, increasing from under 5% in the least deprived areas to 25% in the most deprived areas. This discrepancy could be due to differences in StepChange's client profile, or it may suggest that debt advice services are not effectively reaching or engaging populations in the most deprived areas, or a combination of the two.

Figure 6: Percent of adults competing debt advice with StepChange against percent of over-indebted population by borough

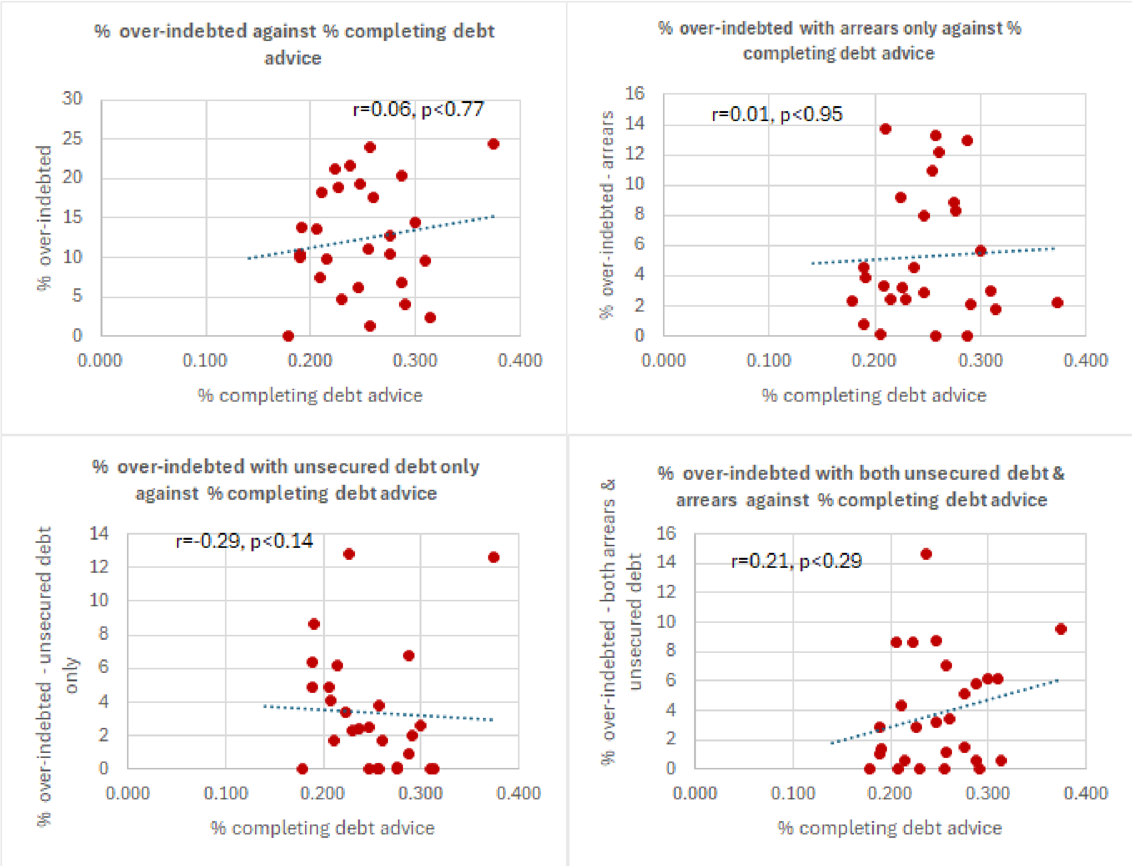


Source: Author's analysis of StepChange database.

Debt Advice and Over-Indebtedness: Borough-Level Insights from StepChange

Figure 7 examines the relationship between area over-indebtedness and seeking debt advice from StepChange by plotting the percentage of adults in each London Borough who sought debt advice from StepChange in 2023 against the over-indebtedness rate in each borough, both overall and by specific reasons for over-indebtedness. As is clear from Figure 7 the overall correlation is rather weak (Spearman correlation of 0.16), which may be due to a higher percentage of over-indebted individuals in more deprived boroughs using other advice sources and thus reflecting differences between StepChange clients and the demand for different types of debt advice in different boroughs. Partly confirming this explanation, there is a slightly stronger correlation between the percentage of the over-indebted population who have both arrears and high unsecured debt, compared to a very weak correlation when an area's over-indebtedness is driven by arrears problems alone. Given the limitations of the current data, future research should broaden its scope by incorporating information from a variety of debt advice providers. This would better assess the overall reach and effectiveness of these services and help disentangle the two effects.

Figure 7: Percent of over-indebted adults against percent completing debt advice with StepChange by London Borough



Source: Author's analysis of Understanding Society and StepChange database (2023).

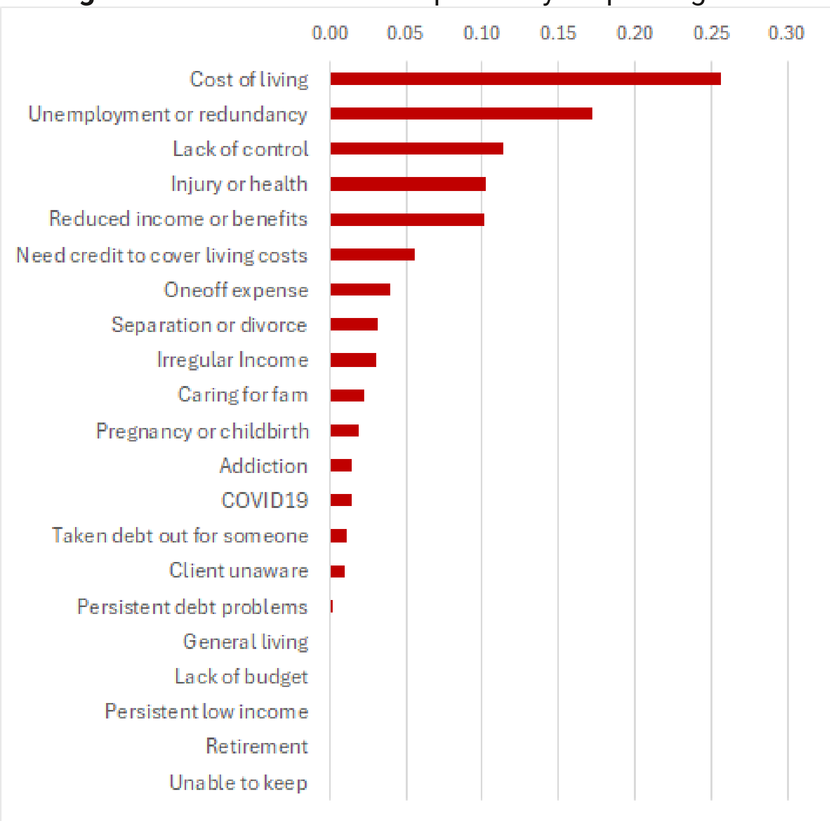
Reasons for Debt Among StepChange Clients in London: Exploring Links to Borough-Level Over-Indebtedness and Deprivation

To explore further the link between borough level deprivation and over-indebtedness, this section examines how reasons for debt vary across borough-level deprivation. StepChange clients were asked to report the main reasons behind their debt problems. Figure 8 shows the proportion of StepChange's London clients reporting different reasons as the main drivers of their debt problems (sorted from the least to the most least prevalent). The single most important reason was the "Cost of Living" reported by over a quarter of StepChange's London clients[13], followed by Unemployment or Redundancy which was reported by 17% of clients. Lack of Control over Finances, Injury or health issue and Reduced Income or Benefits were the next in importance - each

[13] Although the share of clients citing the Cost of living as their main issue fell by around 3 percentage points in 2024, it still remains the most frequently reason behind their problem debt (StepChange Statistics Yearbook, 2024).

reported by a tenth of StepChange's clients in London. The Need for Credit to Cover Living Costs and One-off expenses were reported by 6 and 4 percent of StepChange's clients respectively. Finally, all other reasons (i.e. Separation or divorce, Irregular Income, Caring for family, Pregnancy or Childbirth, Addiction and COVID19) were each reported by 1%-2% of clients. It is interesting that very few clients reported persistent debt problems and persistent low income.[14] [15] This contrasts with the high proportion reporting unemployment or redundancy, reduced income or benefits and irregular income as the main driver of their debt problems. The high proportion of StepChange's clients who report short term shocks as main drivers of their debt problems is deeply concerning and highlights a high degree of vulnerability. This vulnerability suggests that people lack sufficient financial buffers (like savings or access to affordable credit) to absorb shocks, which in turn raises the risk of accumulating debt and potentially spiralling into further financial distress. Moreover, it indicates that effective policy interventions should not only focus on reducing overall indebtedness but also on enhancing financial stability, by enabling building emergency savings, improving access to low-cost credit, or offering targeted debt advice services to help these households better manage unpredictable financial challenges.

Figure 8: Reasons for debt reported by StepChange clients



Source: Author's analysis using the 2023 StepChange clients' database (2023).

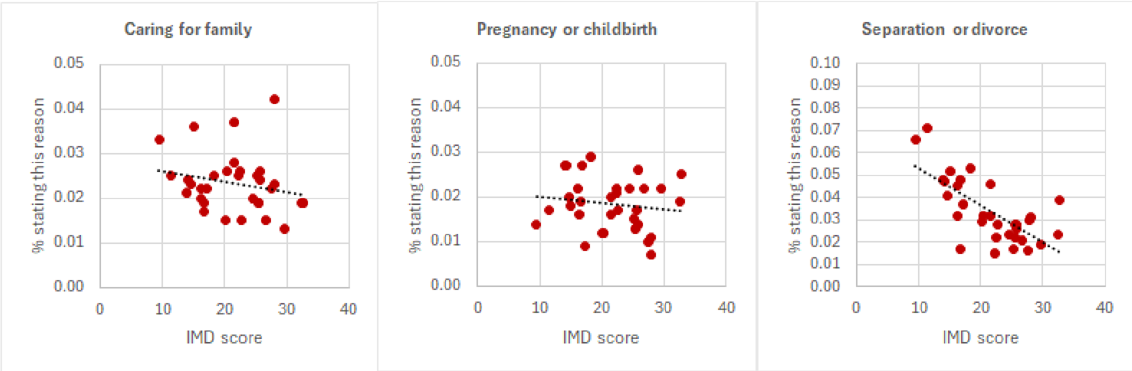
14 The low proportion of clients reporting persistent debt problem likely reflects that the sample analysed consists only of clients who have undergone debt advice with StepChange for the first time (i.e. not including those who have been re-advised).

15 StepChange's report Debt's early grip - StepChange Debt Charity provides an in-depth analysis of the factors contributing to debt issues among young people, and it also distinguishes how these debt drivers differ from those affecting the broader adult population.

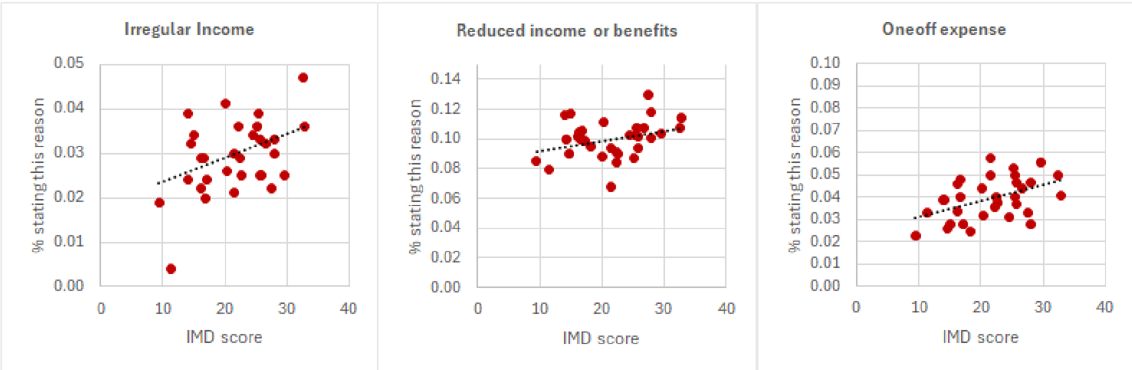
Figure 9 shows how the reasons for over-indebtedness vary by borough-level deprivation. Life events, such as caring responsibilities, pregnancy or childbirth, separation/divorce, and need of credit to cover living costs, become less common as area deprivation increases. In contrast, reasons such as reduced income or benefits, one-off expenses, and irregular income are increasing in importance as borough deprivation increases. Meanwhile, the impact of the cost of living, injury or health problems, and lack of control over finances is reported by a similar proportion of people in both high and low deprivation areas. Ultimately, these findings imply that in more deprived boroughs, debt is primarily driven by low-income constraints, whereas in more affluent areas, financial shocks related to life events play a more important role. Although the cost of living represents a macro-level shock which we would expect to affect everyone, it is striking that even in less deprived areas many lack the financial buffers to absorb rising costs. Similarly, despite the expected negative correlation between area deprivation and health outcomes, it is surprising that financial vulnerability to health-related factors is reported with similar frequency across both deprived and more affluent areas.

Figure 9: Reasons for debt against borough-level deprivation score

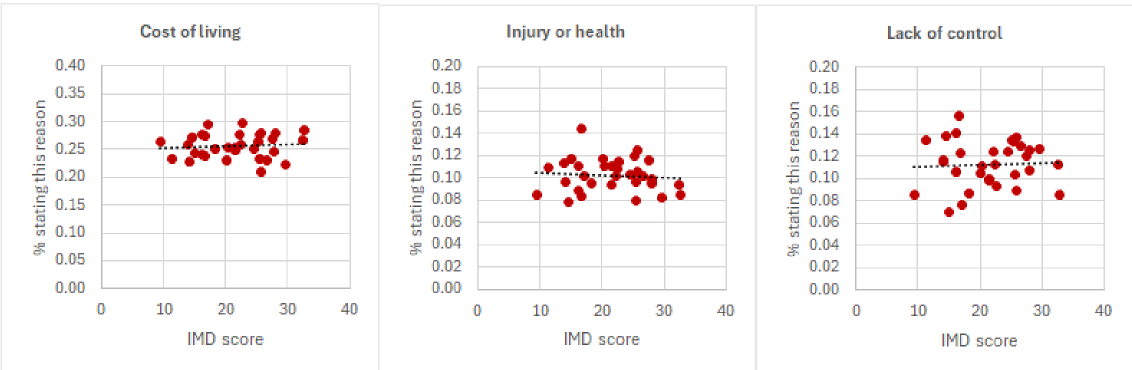
a. Reasons with negative correlation



b. Reasons with positive correlation



c. Reasons with very weak correlation



Source: Author's analysis using StepChange 2023 database.

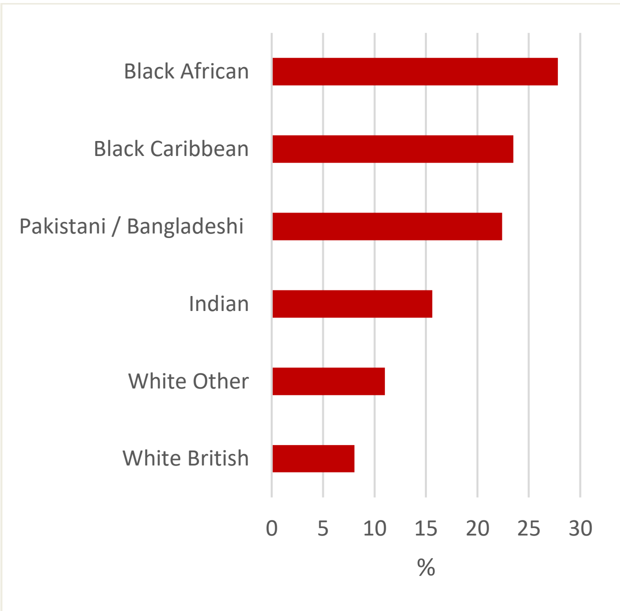
4. Debt and Disparity: Ethnicity, Area Deprivation and Over-Indebtedness

Ethnic minority groups continue to experience significant economic disparities and structural disadvantages in the UK, including in the financial system.[16, 17] This section explores how levels and types and drivers of over-indebtedness vary across ethnic groups in London, investigates the complex interplay between ethnicity, over-indebtedness, and area deprivation, and explores the role of socio-economic characteristics in driving the patterns. Evidence on these disparities remains limited, making this analysis an important step toward uncovering the structural drivers behind ethnic debt inequalities and informing more targeted, inclusive financial policy responses.

Debt Divide: Ethnic Disparities in Over-Indebtedness within London

Baseline statistics shown in Figure 10 reveal significant disparities in the risk of over-indebtedness among different ethnic groups in London. Londoners from Black African backgrounds face the highest risk at 28%, followed by those of Black Caribbean (24%), and Pakistani and Bangladeshi backgrounds (22%). Londoners from an Indian ethnic background have a lower risk at 16%, but this is still twice as high as that of White British Londoners (8%) and 5 percentage points higher the risk of Londoners from other White ethnic backgrounds (11%).

Figure 10: Ethnic differences in over-indebtedness risk in London



Source: Author's analysis of Understanding Society.

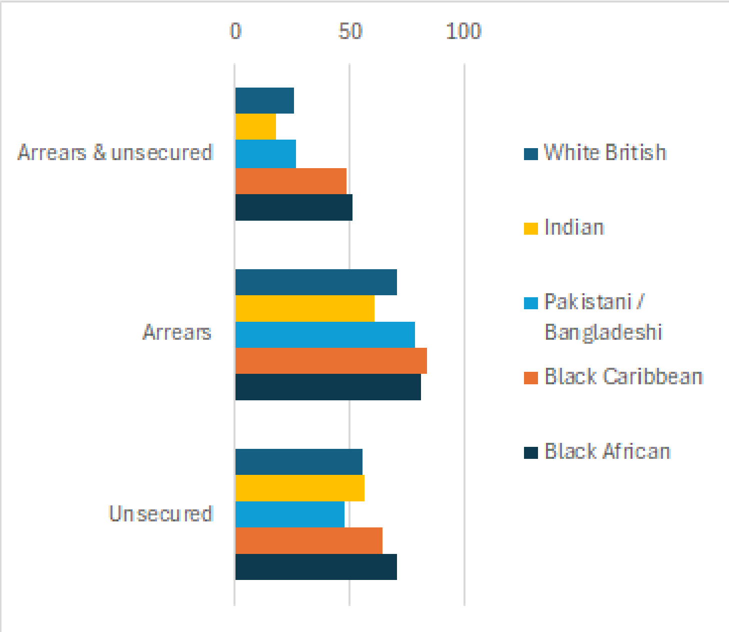
In addition to these disparities, Figure 11 highlights significant differences in the types

16 Mirza, H. S. and R. Warwick, Race and ethnic inequalities, *Oxford Open Economics*, Volume 3, Issue Supplement_1, 2024, Pages i365–i452, https://doi.org/10.1093/ooec/odad026

17 Fair4All Finance (2023) Levelling the playing field – building inclusive access to finance https://fair4allfinance.org.uk/wp-content/uploads/2024/10/Levelling-the-playing-field-Building-inclusive-access-to-finance.pdf

of debts affecting various ethnic groups. Arrears on priority bills, such as rent, mortgage payments, council tax, and household bills, disproportionately impact most ethnic minority groups compared to the White British group, (with the exception of the Indian ethnic group). Conversely, high unsecured debt is particularly prevalent among over-indebted Londoners from Black African or Black Caribbean backgrounds, and less so among those from Pakistani, Bangladeshi, and other White ethnic backgrounds. Among over-indebted White British Londoners, 70% are behind on priority bills, 55% carry high levels of unsecured debt, and 26% struggle with both types of debt. Those from Black African or Black Caribbean backgrounds are more likely than their White British counterparts to be in arrears and hold unsecured debt. In contrast, those from Pakistani and Bangladeshi backgrounds are more likely to be in arrears but less likely to have unsecured debt. Meanwhile, over-indebted Londoners from Indian backgrounds are less likely to be in arrears than White British Londoners, yet more likely to have unsecured debt.

Figure 11: Ethnic differences in the probability of being in arrears on priority bills and in the probability of high unsecured debt among over-indebted Londoners



Note: Due to the sample size, Pakistani and Bangladeshi groups are combined, and statistics for the "White Other" group are not presented. *Source*: Author's analysis of Understanding Society.

Beyond broad debt categories (i.e., arrears on priority bills versus unsecured debt), the type of arrears people face varies across ethnic groups. As shown in Figure 12 White British over-indebted Londoners are most likely to report council tax arrears (although rates of arrears on household bills and rent or mortgage payments are only slightly lower), while Indian households face higher arrears on household bills and housing costs. Pakistani and Bangladeshi groups primarily struggle with rent or mortgage arrears, whereas Black Caribbean and Black African households most often fall behind on household bills, followed closely by rent and council tax. Figure 12 also shows some distinct ethnic variations in the types of unsecured debt among over-indebted

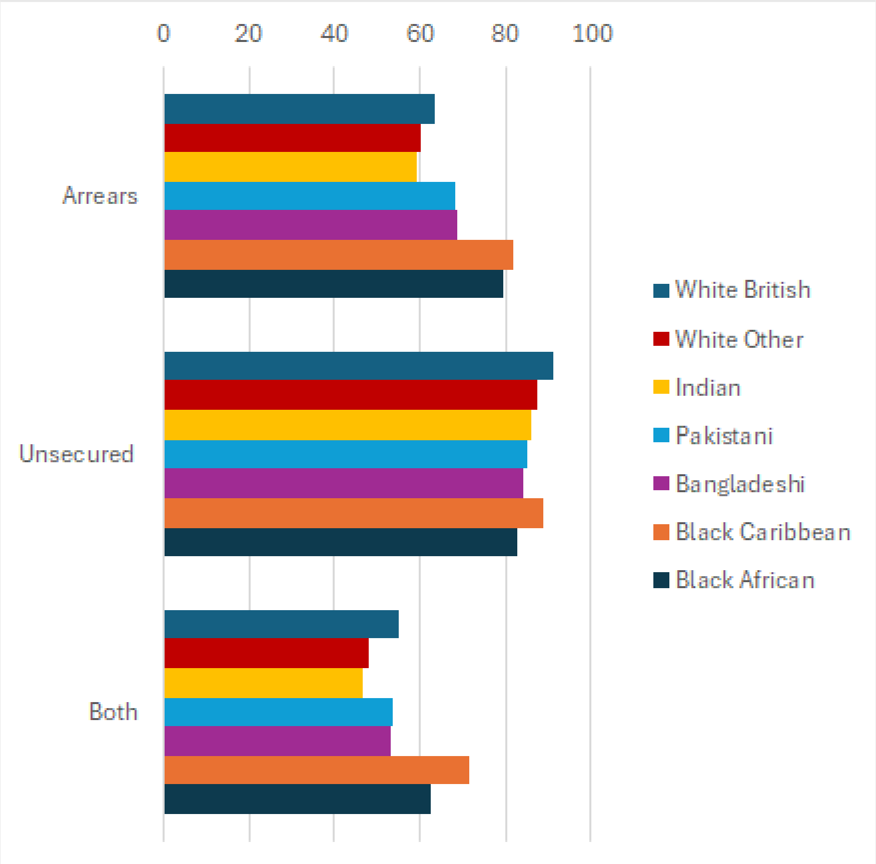
Londoners. Over-indebted Londoners from a Pakistani or a Bangladeshi background are generally less likely to carry any form of unsecured debt compared to other groups. Meanwhile, Black Caribbean and Black African individuals show similar rates of credit card debt to their White British counterparts but are less likely to hold overdrafts and personal loans; instead, they rely more on alternatives such as DWP social fund loans and loans from private individuals.

Figure 12: Percent of over-indebted population with different types of arrears and different types of unsecured debt, by ethnicity

Note: Due to the sample size, Pakistani and Bangladeshi groups are combined, and statistics for the "White Other" group are not presented. Source: Author's analysis of Understanding Society.

In line with evidence from Understanding Society, the StepChange database (Figure 13) indicates that Londoners from a Pakistani, Bangladeshi, Black African, or Black Caribbean background are more likely to be in arrears than their counterparts from White British, White Other, and Indian backgrounds. However, overall StepChange's arrears rates estimates are lower than those estimated for the over-indebted sub-sample of Understanding Society, likely reflecting that StepChange's client base is predominantly individuals with high unsecured debts. Consequently, StepChange data reflect higher levels of unsecured debt across all ethnic groups compared to Understanding Society, pointing to notable differences in the debt profiles captured by each source. While most ethnic minority groups (except the Black Caribbean group) appear slightly less likely than White British individuals to hold unsecured debt, these differences are generally small and not statistically significant. However, clear ethnic disparities emerge when looking at those carrying both unsecured debt and arrears on priority bills with Black Caribbean and Black African ethnic groups significantly more likely to face this dual debt burden. In contrast, Indian and White Other groups are less affected, while Pakistani and Bangladeshi groups show similar rates to the White British group.

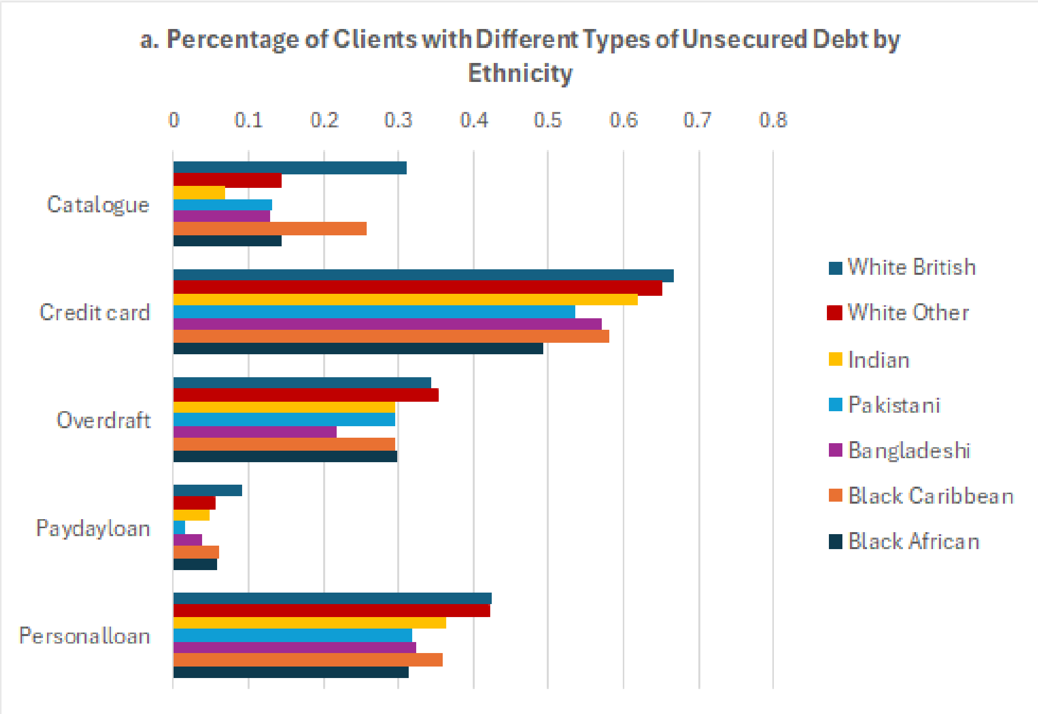
Figure 13: StepChange Clients: Arrears, Unsecured Debt, and Dual Debt Burden

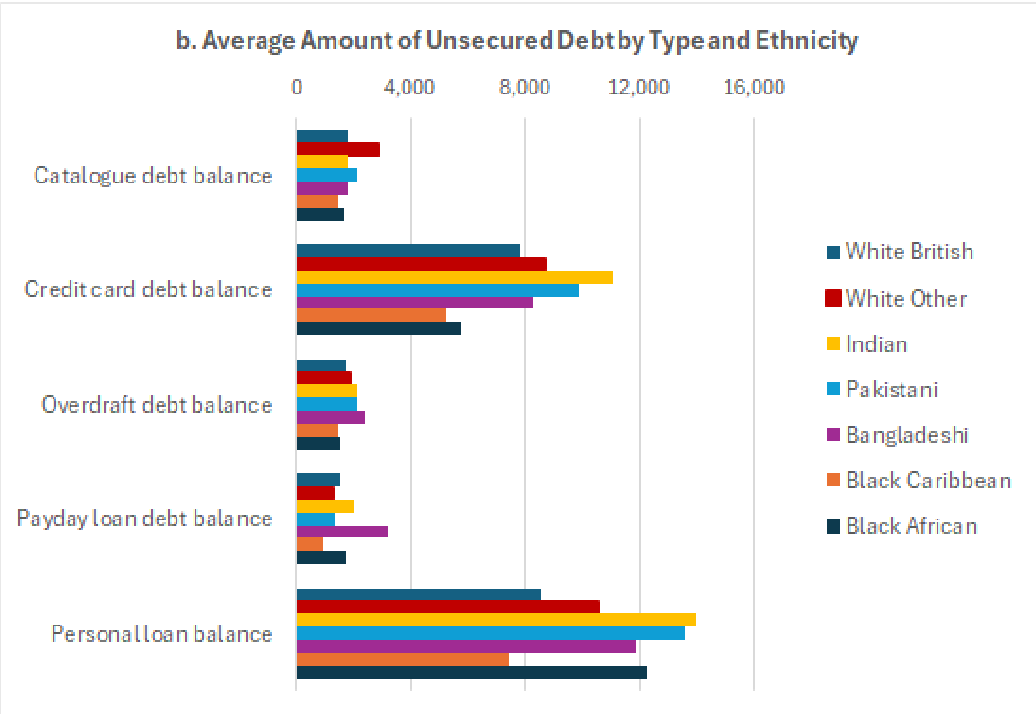


Source: Author's analysis of StepChange database.

Beyond the overall differences in unsecured debt holdings described above, Figure 14 reveal that there are notable ethnic disparities in both the types and amounts of debt among StepChange clients. Most ethnic minority groups are less likely to hold common types of unsecured debt with the exception of higher-cost credit products like overdrafts and payday loans are held at similar rates compared to the White British group. Despite lower take-up overall, these groups often carry higher average debt balances, raising important questions about whether this reflects costlier borrowing terms or greater underlying financial need.

Figure 14: Types of Unsecured Debt and Average Debt Amounts by Ethnic Group, StepChange Clients in London





Source: Author's analysis of StepChange database.

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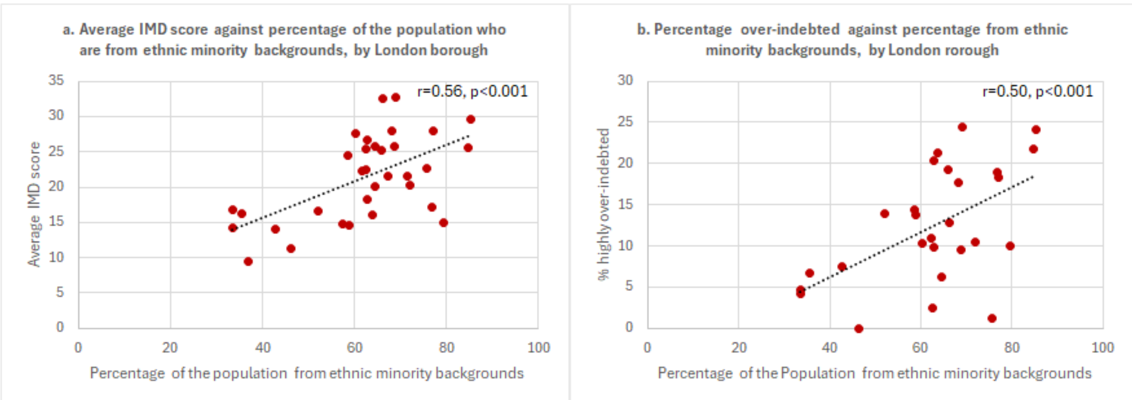
Ethnic Minority Area Concentration and Over-Indebtedness: Differences Across London Boroughs

Ethnic minority groups are concentrated in certain areas in London. Although ethnic concentration can foster robust community support networks, enhancing local social cohesion and economic dynamism at the same time it can also concentrate socio-economic challenges (such as limited access to quality services, housing, and employment opportunities) which may exacerbate inequalities. This section examines whether areas with high ethnic concentration have higher rates of over-indebtedness and whether at a given level of are deprivation over-indebtedness affects to the same extent the White British majority and ethnic minorities. Figure 15 plots the proportion of the population in London boroughs that are from an ethnic minority background against the proportion of their populations that are over-indebted (Figure 15a) and against the average IMD score (Figure 15b). It is evident from this graph that areas with higher concentration of ethnic minorities tend to be more deprived and exhibit higher levels of over-indebtedness. Further analysis (not shown here) suggests that the positive correlation between area's ethnic concentration and over-indebtedness is primarily driven by the disproportionately high rate of over-indebtedness among ethnic minorities populations.[18] In turn the stronger correlation for ethnic minority populations indicates either that these groups have lower economic resources or have characteristics associated with greater vulnerability to debt (i.e. poorer health, more unstable and precarious employment etc) or may reflect that they face additional challenges that exacerbate their vulnerability to over-indebtedness including systemic inequalities discrimination, and unequal access to financial services and products.

Figure 15: Ethnic minority concentration against a) average IMD score and b) over-Indebtedness, by London Borough



Source: Ethnic minority population estimates are derived based on population-by-ethnicity-and-local-authority-202.cvs published in [Regional ethnic diversity - GOV.UK Ethnicity facts and figures](). Over-indebtedness risk is based on Understanding Society. IMD score refers to the LAD average IMD score.

Figure 16 explores whether a similar relationship is estimated based on analysis of

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18 Kallin, H. (2020). In debt to the rent gap: Gentrification generalized and the frontier of the future. *Journal of Urban Affairs*, *43*(10), 1393–1404. https://doi.org/10.1080/07352166.2020.1760720 https://www.tandfonline.com/doi/full/10.1080/07352166.2020.1760720

StepChange database. The figure shows that boroughs with higher deprivation scores tend to have more residents completing debt advice, for both White and ethnic minority groups. However, the relationship is noticeably stronger among the ethnic minority populations, suggesting that the White ethnic group is less exposed to debt risk in more deprived boroughs (debt risk is more evenly spread).

Figure 16: Proportion of White British and ethnic minority groups seeking debt advice in each Borough against area deprivation

Source: Author's analysis of StepChange database. IMD score refers to the LAD average IMD score.

Figure 17 shows the proportion of each ethnic minority group that are over-indebted by whether they live in London's 40% most deprived areas.[19] The plot on the left-hand side shows the raw difference in the over-indebtedness rate of each ethnic minority group relative to the White British group by area's deprivation status. The data shows that Londoners from ethnic minority backgrounds who live in more deprived areas face significantly higher over-indebtedness rates compared to their counterparts from White ethnic backgrounds. Ethnic minority groups in less deprived areas also show increased over-indebtedness compared to their White counterparts, but the disparity is smaller and not statistically significant for most groups.

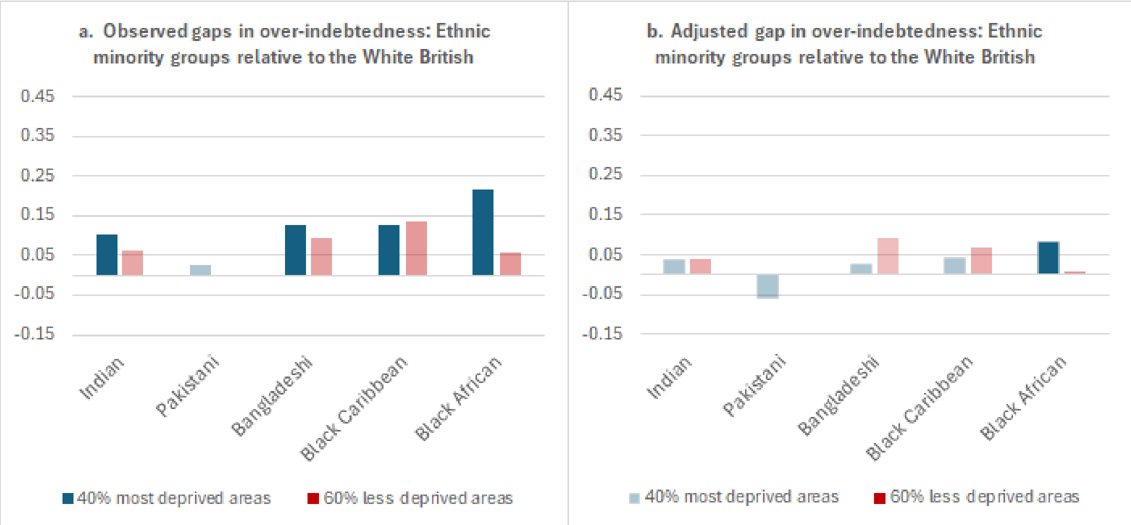
After accounting for differences in characteristics (including income, marital status, educational attainment, employment status, family type and disabled people or a person with a long-term health condition in the household), disparities in over-indebtedness between most ethnic minority groups relative to the White British group are reduced and become statistically insignificant (Figure 17b). However, one notable exception remain: individuals from a Black African background in more deprived areas continue to face a higher risk of over-indebtedness compared to their White British counterparts, even after controlling for these factors.

As discussed above there are several possible explanations for why individuals from ethnic minority backgrounds face higher over-indebtedness rates compared to the White British majority, even after accounting for these characteristics. First, economic

[19] The 40% more deprived areas were defined based on the quintiles of the Index of Multiple Deprivation (IMD) ranking for each household's 2011 Lower Layer Super Output Area (LSOA).

vulnerability due to job insecurity, can be more prevalent among certain ethnic groups. This vulnerability can make it harder to manage debt and avoid over-indebtedness. Moreover, ethnic minority groups have lower wealth accumulation and savings to buffer various economic shocks. Finally, systemic inequalities in the financial/credit market (which can manifest in forms like higher interest rates on loans, limited access to lower-cost credit), can also lead to higher levels of financial instability for certain ethnic minority groups. Moreover, cultural norms and social networks can also influence financial behaviours and access to resources. For example, some communities may rely more on informal lending practices, which can be more expensive and less regulated leading to higher levels of over-indebtedness.

Figure 17: Raw (observed) and adjusted over-indebtedness gap among Londoners of different ethnic minority backgrounds relative to Londoners of White British ethnic background by area deprivation status

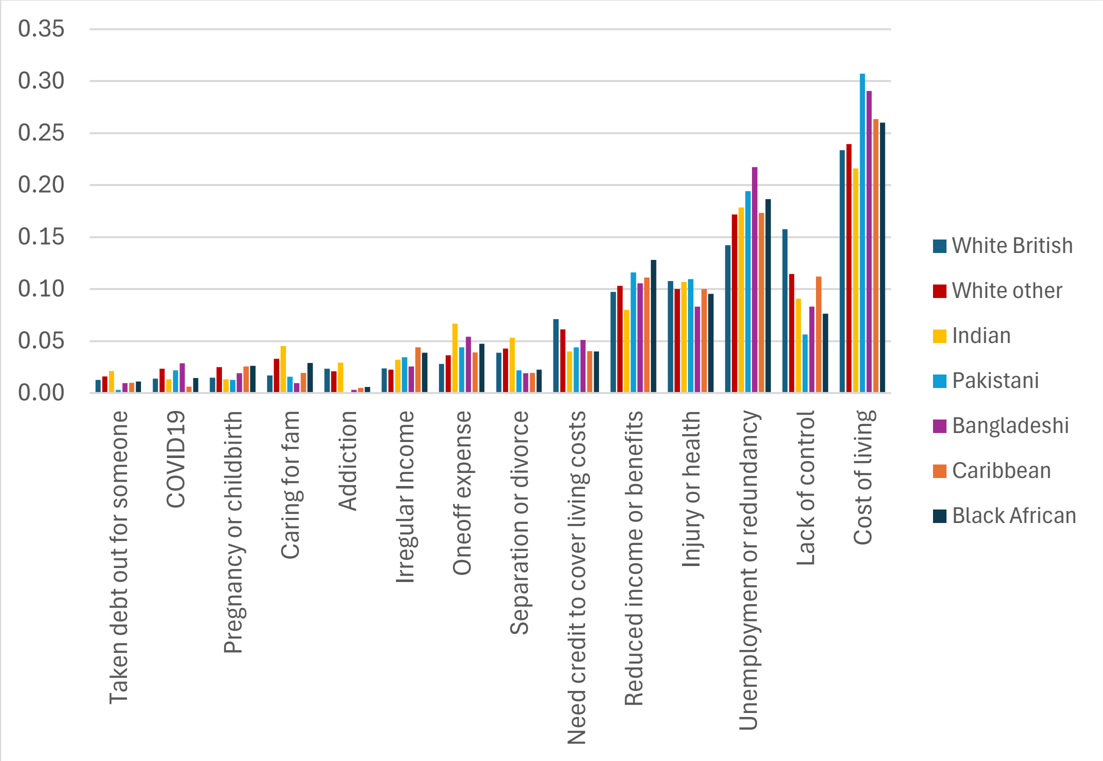


Note: The adjusted gaps in the right-hand side graph are derived from model controlling for marital status, educational attainment, employment status, family type and disabled people or a person with a long-term condition in the household. *Source*: Author's analysis of Understanding Society.

Ethnic Disparities in the Reasons Behind Problem Debt Among StepChange Clients

This section examines whether the main reasons behind problem debt differ for people from different ethnic backgrounds. As shown in Figure 18, although all ethnic groups identified the cost of living and unemployment or redundancy as the most common reason behind their debt problems, both reasons were much more likely to be reported by people from ethnic minority backgrounds than people from White ethnic backgrounds Similarly, irregular income, reductions in earnings or benefits, and financial pressures related to pregnancy or childcare are disproportionately reported by individuals from ethnic minority backgrounds compared to their White counterparts, highlighting their heightened vulnerability to economic shocks. Among Londoners from White ethnic backgrounds, factors such as Separation or Divorce, Reliance on Credit to Cover Living expenses, and a perceived Lack of Control Over Finances are more prevalent. StepChange (2024)[20] explains that "Lack of Control over finances" is a subjective concept that encompasses challenges like budgeting difficulties, mounting debt, unstable incomes, health issues, family dynamics, and broader governmental and economic pressures. All other reasons were reported by a relatively small share of clients from most ethnic groups. Notably, Health and Injury hold equal importance across all ethnic groups. As shown in Figure 19 controlling for differences in characteristics does not change these patterns.

Figure 18: Reasons for debt among StepChange's London clients from different ethnic backgrounds (data is ranked by the overall prevalence of each reason in the population - from lowest to highest)



Source: Author's analysis of StepChange's clients database, 2023.

[20] StepChange (2024) In work. But still in debt. Client insights report April 2024 https://www.stepchange.org/Portals/0/23/policy/in-work-still-in-debt/in-work-still-in-debt-stepchange-april-2024-web.pdf

Figure 19: Differences in the proportion of each ethnic minority group reporting each reason of debt relative to the White British group, StepChange clients in London

Notes: The blue bars measure raw difference relative to the White British group while the red bar measures the difference after adjusting for differences in characteristics. Asterisks denote statistical significance at 10% level. *Source*: Author's analysis of StepChange database.

5. Implications for policy and practice

London's household over-indebtedness is characterised by a complex interplay among area deprivation, debt types, and ethnicity. Overall, over-indebtedness in London stands at 13% - notably higher than the UK average of 10% - with the 5 more deprived boroughs experiencing rates as high as 19%, compared to just 6% in the 5 less deprived areas (i.e. three time higher). Notwithstanding this effect, the overall correlation between area deprivation and over-indebtedness is rather moderate which indicates that local factors like employment opportunities, income stability, and access to financial services also shape the debt landscape. The nature of debt also differs by area deprivation: less deprived boroughs see higher rates of unsecured debt, while arrears on priority bills (i.e. rent and mortgage payments and council tax) dominate in more deprived areas. Data from StepChange further shows that the proportion of adults that seek debt advice increases with area deprivation, with the primary driver being the rising cost of living, alongside unemployment or redundancy and other short-term economic and non-economic shocks.

Patterns of over-indebtedness also reveal substantial inequalities across ethnic groups. Londoners from Black African backgrounds face the highest risk at 28%, followed by those of Black Caribbean (24%), and Pakistani and Bangladeshi backgrounds (22%) compared to 11% for the White British group. Also, ethnicity compounds the picture between area deprivation and over-indebtedness, as ethnic minority groups face significantly higher over-indebtedness rates than their White British counterparts in more deprived areas. Although the gaps in over-indebtedness are reduced after adjusting for socioeconomic differences, gaps remain for some groups.

Below we list some key policy and practice implications and recommendations which can inform shaping effective interventions to reduce over-indebtedness and promote financial inclusion across London's diverse boroughs.

- **Developing an enhanced data infrastructure,** potentially compiling data from multiple debt and support providers is essential. This will enable a clearer understanding of how debt advice is accessed by those most in need across different areas and ethnic groups, and where gaps exist and how these can be best addressed.

- **Addressing area deprivation and vulnerability to over-indebtedness:** The analysis reveals a clear pattern of problem debt aligning with area deprivation but also suggests that debt vulnerability is shaped by a range of factors rather than being confined solely to the most deprived areas. Echoing MaPs (2023) conclusions on financial well-being, the significant variation in over-indebtedness within areas underscores the need for tailored services that account for individual circumstances. The evidence calls for strong policies that both prevent the build-up of unmanageable debt and support those already struggling. These policies should include tackling the root causes of over-indebtedness – especially low income and income insecurity arising from either the labour market or weaknesses in the benefit system – while strengthening financial resilience.

- **Addressing ethnic disparities in over-indebtedness**: Policymakers should note that rates of over-indebtedness are higher for all ethnic minority groups than the White British group. Black Caribbean and Black African groups appear especially vulnerable to over-indebtedness, especially in areas with high area deprivation highlighting the intricate relationships between debt, area deprivation, and ethnicity. In addition, the fact that certain ethnic groups remain more exposed to over-indebtedness even when controlling for socioeconomic factors, alongside with other suggestive evidence presented in the paper potentially suggests an "ethnicity premium" within the financial services sector, which warrants further examination. A new campaign launched in April 2025 aims at addressing the financial inequality faced by people from Black and minority ethnic backgrounds.[21]

- **Mitigating the impact of short-term financial shocks**: The evidence underscores the diversity of drivers of over-indebtedness in London. But the high proportion of StepChange clients especially those from ethnic minority groups citing short-term shocks as the main driver of their debt problems is deeply concerning and indicates that many individuals lack adequate financial buffers (such as savings or affordable credit) to weather unexpected financial shocks. Consequently, policy interventions should aim to strengthen the overall financial stability of individuals by boosting emergency savings and emergency support, better access to low-cost credit, and targeted debt advice services, while also addressing the adequacy of the social security system to better protect households from financial shocks.

21 The parliamentary launch of the Equity in Finance project | Rooted Finance

Appendix

A. Measures of over-indebtedness in Understanding Society

As discussed in section 2 Understanding Society includes a range of indicators to assess household's over-indebtedness and household financial well-being. For the analysis of this paper, I used a selection of these indicators to construct a composite over-indebtedness measure to classify the over-indebted population in Understanding Society by the severity of over-indebtedness. The measure takes into account the size of the debt liabilities, the incidence of arrears and the extent to which these are combined with low standards of living indicators as well as subjective indicators of financial difficulties. The resulting measure can be used to categorise the *Understanding Society* sample according to the severity of over-indebtedness and by the level of urgency debt advice needs in terms of both the size of financial debt, its potential impact and the extent to which it is combined with low living standards.

As discussed in Karagiannaki (2024), to some extent this measure, builds on the "debt advice needs" measure which was developed by Money and Pensions Service (MaPS) using the Debt Needs Survey. Similar to the MaPS' debt advice needs measure, the measure developed here combines indicators of arrears on priority bills (i.e. arrears on rent/mortgage payments, council tax and utility bills)[22] with two indicators that intend to capture the negative impact of over-indebtedness (Table A1). The two negative impacts indicators that are included in the current measure are (1) an indicator that captures the inability of eating health and nutritious food due to lack of money (food poverty) and (2) an indicator of whether the household finding it difficult or very difficult to manage financially (see Table A1). The latter is not included in the MaPS, which instead includes a battery of other indicators (see appendix). Also, unlike the MaPS measure, the current measure utilises direct measures of over-indebtedness. This is captured by a variable which indicates whether households have high unsecured debt-to-income ratio (unsecured debt ratio is generally considered as an important predictor of problem debt and households' future financial distress (FCA, 2017; FCA, 2016)) and high credit card arrears.[23] The threshold used to define high unsecured debt is set at 25% of total household annual income and the threshold for high credit card arrears at 5% of household income.

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22 Note that the arrears indicators in *Understanding Society* do not distinguish between current and past arrears as the ones used by MaPS for the construction of its debt advice needs measure.

23 For the construction of this measure MaPS relied on a battery of indicators on debt arrears (which can be considered as a good substitute for debt-to-income ratio.

Table A1: Indicators selected for the construction of the indebtedness/debt advice needs measure

Indicators	Description
Arrears and over-indebtedness indicators	
Arrears in either household bills, council tax or rent/mortgage payments	In the last 12 months have been behind with at least one of the following payments: household bills, rent/mortgage or council tax payments
High credit card arrears	Outstanding balance still owed on credit cards after most recent payment more than 5% of household net income.
High debt to income ratio (HDTI)	Unsecured debt-to-income ratio>25%
Indicators of financial distress	
Subjective financial difficulties	Finding it quite or very difficult to manage financially these days[1]
Living standards indicators	
Food poverty	Inability to eat healthy and nutritious food[2]

Note: The exact wording of the subjective financial difficulties question is as follows: How well would you say you yourself are managing financially these days? Would you say you are …1) living comfortably 2) Doing alright 3) just about getting by 4) finding it quite difficult and finding it very difficult. The question wording for the food poverty indicator is: "During the last 12 months was there a time when you or others in your household... Were unable to eat healthy and nutritious food because of a lack of money or other resources?"

Based on how these indicators overlap with each other, I categorise the population into three distinct groups according to their levels of over-indebtedness and the degree to which they show signs of financial distress and low living standards (Table 2 present in detail the how each group is constructed).

- **Group 1**: **Not over-indebted or in need of debt advice**: Group 1 consists of four groups. Although neither of these groups face over-indebtedness problem they characterised by quite different standards of living: **Group 1a** includes people who are neither over-indebted nor show any signs of financial distress; G**roup 1b** those who are not over-indebted but face financial difficulties; **Group 1c** people who are not over-indebted but face food poverty and; **Group 1d** people who while are not over-indebted face financial difficulties and food poverty. Given our focus here is on over-indebtedness rather than low living standards these four groups are grouped together (as they do not experience over-indebtedness or problem debt).

- **Group 2: indebted but not in urgent need of debt advice:** Group 2 includes people who either have high financial debt or who are in arrears with their household bills, housing costs or council tax payments but do not show any signs of financial distress or experience food poverty. This group is classified as being over-indebted (or show some signs of over-indebtedness or problem debt) but their level of indebtedness had not reached the level of severity (at least not yet) as to be accompanied with financial difficulties or food poverty and thus are classified as not being in priority need of debt advice. The majority of this group consists of people with high level of unsecured (financial) debt (86% in the UK overall and 78% in London).
- **Group 3: over-indebted and in urgent need of debt advice:** This group includes people who are indebted in terms of both objective indicators of over-indebtedness or in at least one objective over-indebtedness indicators (credit card arrears, high DTI or arrears on household bills, rents, mortgage or council tax payments) and report severe or quite severe financial difficulties or that are unable to eat healthy and nutritious food. The analysis in section 3.2 which analyses the extent of the debt advice reach uses this group as the basis of analysis.

The last two columns of Table A2 show the percentage of the adult population in the UK and London that falls in each of these three broad groups and in each of their subgroups. It is evident that while the overall levels of over-indebtedness in London are similar to those in the UK as a whole, the severity of over-indebtedness is higher in London. In particular, Londoners are almost 3 percentage points (25%) more likely to be “highly over-indebted and in urgent need of debt advice” than other adults in the UK (13.4% compared to 10.7%) but 1.5 percentage points less likely to be “over-indebted but not in urgent need of debt advice” than other adults in the UK. Examining the subgroups within the highly over-indebted population, it becomes evident that while arrears problems are more common in London, they are not the sole factor contributing to the city's over-indebtedness. Londoners are also more likely to experience high levels of unsecured debt alongside arrears issues simultaneously (see the statistics for groups 3a and 3j).

Table A2: Groups identified/defined based on the combined over-indebtedness and debt advice needs indicator

		Credit card arrears to household net income >10% OR DTI>25%	Arrears on household bills etc	Food poverty	Subjective financial difficulties	% UK	% London
Group 1 Not over-indebted	Group 1a					62.4	59.4
	Group 1b				√	3.6	4.5
	Group 1c			√		1.6	2.2
	Group 1d			√	√	0.7	1.2
	Groups 1a-1b					**68.3**	**67.2**
Group 2 Indebted but no signs of financial distress and not currently in urgent need of debt advice	Group 2a	√				18.0	15.3
	Group 2b		√			3.0	4.2
	Groups 2a-2b					**21.0**	**19.5**
Group 3 Over-indebted with strong signs of financial distress and low living standards and in urgent need of debt advice	Group 3a	√	√			1.2	1.6
	Group 3b:	√		√		0.7	0.2
	Group 3c:	√			√	2.4	2.6
	Group 3d:		√	√		1.1	1.8
	Group 3e:		√		√	1.0	1.1
	Group 3f:	√	√	√		0.5	0.1
	Group 3g:	√	√		√	0.9	0.9
	Group 3h:	√		√	√	0.4	0.4
	Group 3i:		√	√	√	1.6	2.8
	Group 3j:	√	√	√	√	1.0	1.9
	Groups 3a-3j					**10.7**	**13.4**

B. Ethnic group classification

Table A3 Ethnic group classification

	Grouping
White British	English, Scottish, Welsh, or Northern Irish
Other White	Irish, any other White ethnic background
Indian	Asian or Asian British - Indian
Pakistani	Asian or Asian British - Pakistani
Bangladeshi	Asian or Asian British – Bangladeshi
Other Asian	Asian or Asian British - Chinese and any other Asian background
Black Caribbean	Black or Black British – Black Caribbean
Black African Black African (Black or Black British), any other Black background (Black or Black British)	Black or Black British Black African, any other Black background
Other	mixed ethnicity, gypsy and travellers, Arabs, other ethnic group

Note: Own analysis of Understanding Society.

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