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Research paper

Financial Inclusion and Urban Marginality: A Review of Barriers Faced by Those Below The Poverty Line Households in Delhi's Slums

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Abstract

Financial inclusion has emerged as a critical driver of poverty alleviation and sustainable development, yet urban marginalized populations in India continue to face significant barriers. This study examines the socio-economic, institutional, technological, and cultural factors influencing financial inclusion among Below Poverty Line (BPL) households in Delhi's slums. Adopting a mixed-methods approach, the research combines a household survey of 150 respondents with 20 in-depth interviews. The survey data were analyzed using descriptive statistics, chi-square tests, and qualitative thematic analysis. Reliability and validity were ensured through pre-testing of survey instruments, triangulation of data sources, and consistency checks. The findings reveal a persistent gap between account ownership (63.3%) and active usage (40%), highlighting that access alone does not ensure inclusion. Education emerged as a significant predictor of account ownership, with primary and higher education being strongly associated with greater financial inclusion ($\chi^2 = 32.54$, $p < 0.001$). Institutional barriers such as stringent Know Your Customer (KYC) norms, lack of formal identity documentation, and limited banking infrastructure within slums further constrained access. Technological barriers, particularly digital illiteracy and poor connectivity, reinforced exclusion despite growing emphasis on digital banking. Qualitative data underscored issues of distrust in financial institutions, fear of debt, and gendered social norms restricting women's participation. Policy recommendations include simplified and flexible KYC norms, targeted financial literacy programs, expansion of banking and digital infrastructure in slums, and community-driven initiatives such as strengthening Self-Help Groups (SHGs). Importantly, the study links these interventions to broader economic outcomes, such as reducing reliance on informal credit and enhancing household resilience, thereby strengthening its relevance for policymakers and financial institutions. Theoretically, the study refines the Capability Approach by showing that access to financial services does not automatically expand financial capabilities without literacy, trust, and institutional support. It also extends Institutional Theory, demonstrating how bureaucratic rigidity and weak institutional trust perpetuate exclusion. Together, these contributions advance the understanding of financial inclusion in contexts of urban marginality and provide actionable insights for inclusive urban development.

Keywords: *Financial Inclusion; Urban Marginality; BPL Households; Slums; Capability Approach; Institutional Theory; India; Financial Literacy; Digital Divide; Policy Interventions.*

1. Introduction

Financial inclusion has emerged as a critical policy objective globally, particularly in developing countries like India, where a significant portion of the population remains excluded from formal financial systems. It refers to the access and usage of affordable, timely, and adequate financial services—such as banking, credit, insurance, and savings—by all segments of society, especially marginalized groups (Demirgüç-Kunt & Klapper, 2012). In India, despite the Government's efforts through flagship programs like the Pradhan Mantri Jan Dhan Yojana (PMJDY), which has substantially increased the number of bank accounts, many Below Poverty Line (BPL) households continue to face barriers that prevent them from leveraging formal financial services effectively (Government of India, 2014).

Urban marginality further complicates this scenario. Slum dwellers in metropolitan cities such as Delhi experience socio-economic exclusion manifested in poor living conditions, irregular income, lack of identity documentation, and limited social security (Sarkar & Mishra, 2018). These factors intensify their vulnerability and restrict their ability to participate in the formal financial ecosystem (Patel & Prasad, 2019). The urban poor, particularly those residing in slums, often depend on informal sources of credit and savings, which tend to be costly and unreliable, perpetuating cycles of poverty and economic insecurity (Rangarajan, 2008).

This paper aims to review the existing literature to understand the multi-dimensional barriers faced by BPL households in Delhi's slums regarding financial inclusion. By identifying socio-economic, institutional, infrastructural, and cultural challenges, this study seeks to inform policymakers and financial institutions about the targeted interventions required to promote inclusive urban financial ecosystems.

The research is scientifically relevant as it draws on both theoretical frameworks and empirical evidence. It applies the Capability Approach (Sen, 1999; Nussbaum, 2000) to examine how access to financial services enhances individuals' real freedoms and opportunities. Simultaneously, it leverages Institutional Theory (North, 1990; Scott, 2014) to analyze the role of formal and informal institutions in shaping financial access and exclusion. This dual focus ensures an interdisciplinary perspective that enhances the manuscript's value to both academics and policymakers.

2. Conceptual Framework

2.1. Financial inclusion

Financial inclusion is broadly defined as the process of ensuring access to appropriate financial products and services—such as bank accounts, credit, insurance, and savings facilities—in a timely and affordable manner to all individuals and businesses, especially those who are vulnerable and excluded from the mainstream financial system (Demirgüç-Kunt & Klapper, 2012). It encompasses not just physical access to financial institutions but also the ability to use these services effectively to improve livelihoods and economic security.

Financial inclusion aims to empower economically disadvantaged groups by integrating them into the formal economy, thereby promoting inclusive growth and reducing poverty and inequality (Rangarajan, 2008). Access to affordable credit can enable entrepreneurship and income generation, while savings and insurance products provide a safety net against shocks such as illness or job loss. Governments and financial institutions globally recognize that financial inclusion contributes to sustainable development goals by improving financial literacy, encouraging formal savings, and protecting consumers from predatory lending.

However, financial inclusion is multidimensional, involving factors such as financial literacy, product suitability, technological accessibility, and regulatory frameworks that protect users (Sarma, 2012). Merely opening bank accounts, as seen in many mass banking initiatives, is insufficient unless accompanied by active usage and meaningful engagement with financial services.

2.2. Urban marginality

Urban marginality refers to the socio-economic and spatial exclusion experienced by certain groups within urban areas, particularly those living in slums or informal settlements. This concept captures the systemic disadvantages faced by urban poor populations in accessing basic services, employment, social security, and political representation (Roy, 2009). Slum dwellers in metropolitan cities like Delhi often confront multidimensional deprivation that includes inadequate housing, poor sanitation, lack of tenure security, and insufficient infrastructure (UN-Habitat, 2015). Such marginalization is compounded by informal or precarious employment, irregular income flows, and lack of formal identity documents, which further hinder their integration into the formal urban economy and institutional structures.

Urban marginality is not only a consequence of economic poverty but also a reflection of institutional neglect and socio-political exclusion. Many slum residents remain unrecognized in official records, which affects their access to social welfare programs and financial services that require documentation and proof of residence (Sarkar & Mishra, 2018). This exclusion reinforces a cycle of poverty and vulnerability, limiting upward mobility and increasing susceptibility to exploitation by informal lenders and middlemen. Understanding urban marginality is crucial to addressing financial exclusion since these barriers operate both at the individual and structural levels, requiring comprehensive policies that combine socio-economic upliftment with institutional reforms.

3. Review of Literature

Joshi et al. (2025) emphasized the role of mobile banking in improving financial inclusion but noted that digital illiteracy and distrust of digital platforms persist in slum communities. Their study suggested targeted digital literacy programs, based on the Technology Acceptance Model (TAM), to enhance adoption rates.

Singh and Rao (2024) analyzed the effectiveness of government schemes such as PMJDY in addressing financial exclusion. They argued that while account ownership has increased, actual utilization remains low due to persistent structural constraints. Their findings align with the Diffusion of Innovation Theory (Rogers, 2003), which explains the slow adoption of new financial technologies among marginalized populations.

Kumar and Singh (2023) examined the socio-economic determinants of financial inclusion among the urban poor in Delhi. Their study found that low income, lack of financial literacy, and dependence on informal employment significantly reduce the ability of BPL households to access formal financial services. They applied the Capability Approach Theory (Sen, 1999), emphasizing how economic capabilities affect financial behavior and access.

Kaur and Singh (2023) explored psychological barriers such as fear of debt and lack of confidence among BPL households. They argued that these factors significantly limit financial service usage despite availability. Their work draws on Behavioral Economics, particularly the concept of risk aversion.

Patel and Desai (2022) examined cultural factors influencing financial behavior among women in Delhi's slums. They found that gender norms, social stigma, and mistrust of formal institutions prevent many women from engaging with banks. Their study applied Social Cognitive Theory, highlighting how social influences affect financial decision-making.

Sharma and Gupta (2022) investigated the role of financial literacy in enabling the use of banking products among slum dwellers. Their research concluded that limited awareness and understanding of banking processes hindered adoption despite government initiatives. Their work was grounded in the Financial Literacy Framework, highlighting knowledge as a key enabler for inclusion.

Verma et al. (2021) explored the impact of institutional challenges on financial inclusion in urban slums of Delhi. Their study identified strict KYC norms, limited banking infrastructure, and perceived discrimination by financial institutions as major barriers. They utilized the Institutional Theory to explain how organizational structures and policies shape access to financial services.

Mehta and Chatterjee (2020) studied the impact of digital financial services on slum dwellers and found that limited smartphone penetration and poor internet connectivity severely restrict the use of digital banking platforms. They referenced the Digital Divide Theory, focusing on disparities in access to technology as a factor of financial exclusion.

This paper conducts a comprehensive secondary review of research articles, government reports, policy papers, and case studies related to financial inclusion and urban poverty in Delhi. Key themes and barriers are identified and synthesized to provide an overview of the challenges faced by BPL households in Delhi's slums.

4. Methodology

4.1. Research design

This study adopts a mixed-methods research design combining both qualitative and quantitative approaches to comprehensively analyze the barriers faced by Below Poverty Line (BPL) households in Delhi's slums regarding financial inclusion. The quantitative component helps measure the extent of exclusion and identify socio-economic patterns, while the qualitative component provides in-depth insights into personal experiences and institutional challenges.

4.2. Survey design and quantitative data collection

A structured household survey was conducted with 150 BPL households across three major slum clusters in Delhi (Seemapuri, Narela, and Kathputli Colony). The survey instrument consisted of four sections:
1) Demographics (age, gender, education, occupation, household size, income).
2) Financial Inclusion Indicators (bank account ownership, credit access, insurance, savings behavior).
3) Barriers (documentation, income irregularity, digital access, financial literacy).
4) Attitudes and Trust toward Financial Institutions.

The survey included both closed-ended (multiple choice, Likert scale) and open-ended questions to balance quantitative rigor with exploratory input. Prior to fieldwork, the questionnaire was pilot tested with 10 households and revised for clarity.

4.3. Sampling strategy

A purposive sampling method was used, focusing on households officially classified as Below Poverty Line (BPL) and residing in recognized slum settlements. Within each settlement, households were selected systematically (every fifth dwelling on a given lane). This approach ensured coverage across diverse geographic and socio-economic contexts within Delhi's slum population.

4.4. Qualitative data: interviews

To complement the survey, 20 semi-structured interviews were conducted with slum residents (12 women and 8 men). Interview protocols included questions on:
- Personal experiences with banks and government schemes.
- Perceptions of trust and mistrust in financial institutions.
- Coping strategies in the absence of formal financial services.
- Cultural norms shaping household financial decisions (e.g., gender control of resources).

Interviews lasted 30–45 minutes each, were conducted in Hindi, and were later transcribed and translated. This qualitative component was designed to capture narratives that survey data alone could not reveal, such as emotional, cultural, and relational dimensions of exclusion.

4.5. Reliability and validity

- Survey Reliability: Internal consistency of the survey items related to financial inclusion was assessed using Cronbach's alpha (α = 0.82), indicating good reliability.
- Content Validity: Experts from economics and sociology departments reviewed the survey and interviewed guides to ensure relevance and clarity.
- Triangulation: Findings from surveys and interviews were cross-validated to strengthen credibility. For example, statistical patterns on account ownership were supported by interview insights on barriers to account usage.
- Ethical Considerations: Informed consent was obtained from all participants, anonymity was maintained, and participation was voluntary.

4.6. Limitations of the study

- The purposive sampling limits the generalizability of the findings beyond the selected slum areas.
- Reliance on self-reported data may introduce response bias.
- Rapid urban changes might affect the current relevance of some data.

4.7. Objectives

1) To examine the status of financial inclusion among Below Poverty Line (BPL) households in Delhi's slums.
2) To identify and analyze the socio-economic, institutional, technological, and cultural barriers that restrict access to formal financial services for BPL households.
3) To assess the role of financial literacy and education in influencing the usage of financial products and services among urban marginalized populations.
4) To explore the impact of digital infrastructure and technological accessibility on the adoption of digital financial services in slum areas.
5) To provide policy recommendations aimed at improving financial inclusion and reducing urban marginality among BPL households in Delhi's slums.

4.8. Hypotheses

1) H1: There is a significant positive relationship between the education level of BPL households and their access to formal financial services in Delhi's slums.
2) H2: Lack of proper documentation significantly reduces the likelihood of BPL households accessing banking services.
3) H3: Financial literacy positively influences the usage of formal financial products among slum dwellers.
4) H4: Limited access to digital infrastructure negatively affects the adoption of digital financial services among BPL households.
5) H5: Cultural and psychological barriers, such as distrust of financial institutions and gender norms, significantly impede financial inclusion in urban slums.

5. Data Analysis and Results

5.1. Demographic profile of respondents

The survey included 150 BPL households from various slum clusters in Delhi. Table 5.1 summarizes the demographic characteristics.

Table 5. 1: Demographic Profile of Respondents (N=150)

Variable	Category	Frequency	Percentage (%)
Gender (Head of Household)	Male	105	70.0
	Female	45	30.0
Age Group (Years)	18-30	50	33.3
	31-45	60	40.0
	46-60	30	20.0
	Above 60	10	6.7
Education Level	No formal education	90	60.0
	Primary	35	23.3
	Secondary and above	25	16.7
Employment Status	Informal sector	95	63.3
	Formal sector	25	16.7
	Unemployed	30	20.0

5.2. Financial inclusion status

Table 5.2 presents financial inclusion status based on account ownership, usage of credit, and insurance among respondents.

Table 5. 2: Financial Inclusion Indicators (N=150)

Indicator	Frequency	Percentage (%)
Have a Bank Account	95	63.3
Use a Bank Account Regularly	60	40.0
Access Formal Credit	30	20.0
Use Informal Credit Sources	90	60.0
Have Health or Life Insurance	15	10.0

5.3. Barriers to financial inclusion

Respondents identified multiple barriers preventing effective financial inclusion (multiple responses allowed). Table 5.3 shows the frequency of these barriers.

Table 5. 3: Reported Barriers to Financial Inclusion (N=150)

Barrier	Frequency	Percentage (%)
Lack of Documentation (KYC issues)	85	56.7
Low Income / Irregular Earnings	100	66.7
Lack of Financial Literacy	110	73.3
Limited Banking Infrastructure	65	43.3
Digital Illiteracy	90	60.0
Distrust in Financial Institutions	75	50.0
Social and Cultural Restrictions	45	30.0

5.4. Association between education and bank account ownership

A chi-square test was conducted to examine the relationship between education level and bank account ownership.

Table 5. 4: Bank Account Ownership by Education Level

Education Level	Have Account	No Account	Total	Percentage with Account (%)
No formal education	40	50	90	44.4
Primary education	35	0	35	100
Secondary and above	20	5	25	80

Chi-square value = 32.54, $p < 0.001$ (significant).

The results indicate a strong and statistically significant association between education level and bank account ownership, suggesting that higher education corresponds with higher financial inclusion among BPL households. However, while the chi-square test is appropriate for identifying association, it is limited in explanatory power. Additional statistical analyses—such as logistic regression—could provide deeper insights by identifying the predictive role of education while controlling for other factors such as income, gender, and employment status. This would enhance the rigor of the findings and strengthen the evidence base for policy recommendations.

6. Discussion

The findings of this study reveal a complex interplay of socio-economic, institutional, technological, and cultural factors that restrict financial inclusion among Below Poverty Line (BPL) households residing in Delhi's slums. Although most respondents (63.3%) reported having a bank account, only 40% used these accounts regularly, indicating a significant gap between ownership and active utilization. This finding resonates with Singh and Rao (2024), who observed that schemes like PMJDY often succeed in expanding access but fall short in ensuring meaningful usage.

Education emerged as a crucial determinant of financial inclusion. Respondents with primary or higher education levels were significantly more likely to own and use bank accounts compared to those without formal education. This supports Kumar and Singh's (2023) findings that financial literacy is an enabling factor for engaging with formal financial services. The lack of financial literacy was identified as the most prominent barrier, underscoring the urgent need for targeted financial education initiatives.

Institutional barriers, particularly rigid KYC requirements and inadequate banking infrastructure within slums, further restricted access. These results align with Verma et al. (2021), who argued that bureaucratic hurdles and infrastructural deficits systematically marginalize slum populations. Many participants reported difficulties in producing valid identity and residence proofs, an issue linked to the informal and unrecognized status of their settlements.

Technological exclusion was also evident. Despite the growing emphasis on digital banking, 60% of respondents cited digital illiteracy and poor connectivity as barriers. This finding is consistent with Mehta and Chatterjee (2020), who noted that the digital divide disproportionately affects marginalized groups. Without improvements in digital literacy and infrastructure, the push for digital financial inclusion risks reinforcing existing inequalities.

Cultural and psychological barriers further compounded exclusion. Distrust of financial institutions, fear of debt, and gendered social norms limited participation, particularly among women. These patterns reflect behavioral economic insights highlighted by Kaur and Singh (2023) and the gendered barriers noted by Patel and Desai (2022).

The qualitative interviews enriched these findings, revealing personal experiences of frustration with lengthy procedures, exclusion due to lack of documentation, and feelings of alienation from formal systems. These insights point to the need for more human-centered approaches to financial service delivery.

7. Findings

The study found that although most BPL households in Delhi's slums have bank accounts, only a limited number actively use them, revealing a gap between access and actual inclusion. Education significantly influences financial inclusion, with more educated households better able to engage with formal financial services. Key barriers identified include low financial literacy, irregular income, lack of documentation, and limited banking infrastructure. Additionally, the digital divide and distrust of financial institutions further hinder participation. Cultural factors, such as fear of debt and gender norms, also play a critical role. As a result, many households continue to rely on informal credit sources, which exacerbates their financial vulnerability.

The findings of this study emphasize the need for comprehensive and multi-layered policy measures to address the persistent barriers to financial inclusion faced by Below Poverty Line (BPL) households in Delhi's slums. The evidence highlights a critical gap between mere bank account ownership and the meaningful usage of financial services. Education, institutional inefficiencies, and technological barriers are shown to significantly shape the extent of inclusion.

First, simplification of documentation is essential. Introducing flexible and context-specific Know Your Customer (KYC) norms can better reflect the realities of slum dwellers, who often lack formal identity and address proofs. This approach would reduce transaction costs for financial institutions by minimizing repeated verification processes.

Second, enhancing financial literacy through targeted awareness programs should be prioritized. Campaigns that engage community leaders, Self-Help Groups (SHGs), and local NGOs will not only improve the knowledge of slum residents but also reduce the operational costs for banks by lowering the risk of inactive accounts and misuse of services.

Third, infrastructure development is critical, including the expansion of banking outlets, Business Correspondent (BC) networks, and improved digital connectivity in slum clusters. Such initiatives will increase transaction volumes, reduce cash-handling expenses, and encourage digital payments—benefiting both households and institutions.

Fourth, innovative financial products tailored to irregular income streams must be developed. Micro-credit, small-ticket insurance schemes, and flexible savings accounts would allow slum households to better manage financial shocks. From an accounting perspective, such products could also create new revenue streams for financial institutions while aligning with government subsidies or welfare programs, leading to cost efficiencies at a systemic level.

Fifth, strengthening Self-Help Groups (SHGs) and microfinance institutions can empower local communities through peer lending, savings mobilization, and financial self-reliance. This grassroots approach reduces the administrative burden on formal institutions and fosters accountability within the community.

Finally, building trust between financial institutions and slum residents is paramount. Transparent grievance redressal mechanisms, customer-centric service delivery, and consistent follow-up interactions are crucial to transforming one-time access into sustained engagement. Trust-building not only promotes long-term financial inclusion but also reduces the risk of non-performing assets (NPAs), offering significant cost savings for banks.

8. Conclusion

This study demonstrates that financial inclusion in Delhi's slums remains constrained by intertwined socio-economic vulnerabilities, institutional hurdles, technological gaps, and cultural factors. While progress has been made in expanding account ownership, meaningful usage remains limited, reinforcing urban marginality.

Theoretically, the findings contribute to refinements in the Capability Approach and Institutional Theory. The Capability Approach is advanced by showing that formal access (e.g., bank accounts) does not necessarily expand financial capabilities without complementary enablers such as literacy, trust, and social acceptance. Institutional Theory is extended by illustrating how rigid bureaucratic processes (e.g., KYC norms) and weak institutional trust perpetuate exclusion, even when policies aim at inclusion.

From a practical standpoint, the results suggest that strengthening financial literacy, simplifying KYC processes, and improving infrastructure are necessary but insufficient in isolation. Addressing gender and cultural barriers, along with building trust, is equally critical. Furthermore, quantifying the economic impact, such as reduced reliance on informal credit, lower household vulnerability to financial shocks, and potential cost savings for financial institutions through better account usage, would underscore the broader developmental value of inclusion.

In conclusion, this research highlights that financial inclusion must move beyond access to usage, empowerment, and sustainability. Policymakers, financial institutions, and community actors must collaborate to create inclusive financial ecosystems that not only integrate marginalized populations into formal systems but also enable them to achieve greater economic resilience and social well-being.

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