



From Markets to Micro-Credit The Behavioral Biases Linking Indian Investment Mistakes and BNPL Mismanagement

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Abstract

The distinction between borrowing and investing is becoming more hazy in today's quickly changing financial environment, but the psychology underlying both is remarkably similar. This article explains how the increasing abuse of Buy Now Pay Later (BNPL) services is being fuelled by the same behavioural biases that cause Indian investors to make expensive market errors. Overconfidence, herd mentality, present bias, loss aversion, and mental accounting are examples of biases that systematically influence how people view risk, reward, and financial responsibility.

These biases are amplified in ways that can subtly undermine financial well-being in light of India's youthful population, growing digital finance ecosystem, and gaps in financial literacy. Digital platforms often promote impulsive decisions, short-term thinking, and a risky underestimation of long-term consequences, despite their promises of accessibility and convenience. People are increasingly motivated by emotion rather than reason, from chasing trending stocks to accruing undetected BNPL obligations.

This article encourages readers to reconsider routine financial decisions by making a strong comparison between market behaviour and the use of microcredit. It contends that the very tools intended to empower users can turn into sources of financial vulnerability in the absence of greater financial discipline and conscious awareness. In order to successfully navigate the challenges of a digital-first economy, the paper ultimately advocates for a shift toward more knowledgeable, considerate, and responsible financial behaviour.

Keywords: *Behavioral Finance, Buy Now Pay Later (BNPL), Cognitive Biases, Digital Finance, Financial Literacy, Consumer Behavior, Indian Market*

I. Introduction: One Psychology, Two Problems

We can't turn a blind eye towards growing technology. And it won't be true to say that technology has not affected finance. Rather finance sector has been influenced majorly by technology. One of such notable advancement is Buy Now Pay Later services, which allows consumers to buy now and pay later in installments. This service has definitely pushed our economy forward in terms of employment and opened doors for new avenues.

Every upside comes with strings attached. Whether you are choosing stocks, buying mutual funds, or purchasing a phone on a Buy Now Pay Later plan (BNPL), your brain is running the show. And as we all know our brain is wired with habits, shortcuts, and biases. These mental tricks help us get through the day, but they can mess with our money.

All across India, you can notice two prominent unrelated patterns are becoming gradually evident:

- Individuals making stoppable blunders in investing, and
- Young folks falling into BNPL-driven debt cycles.

On upper surface these issues appear different - one ensues in markets, the other in daily spending. But when you look closer, you will find what ties them together: behavior drives both outcomes. These behavior drives are nothing but the psychological biases, overconfidence, herd mentality, present bias, loss aversion, that push an investor to take the wrong call. These are the same forces behind BNPL misuse.

Let's dig into what really drives Indian consumers when it comes to money. This article looks at the common behaviors behind both investing and borrowing, and explains why getting a handle on these habits helps protect your wallet – whether you are putting money in the market or taking out a small loan. When you look at market and micro-credit side by side, you see full story of how people in India deal with their finances.

II. Why Behavioral Biases Matter So Much in India

According to the latest report by UNICEF, about 371 million people in India are between age group 15-29.¹ That is one of the youngest populations on the planet. So understanding how these young Indians think about money isn't just interesting – it is essential.

Most people in their 20s and early 30s are simultaneously starting their investment journey, and adopting digital credit tools like BNPL. These factors are backed by many influencers like financial

ecosystem reflecting rising income but still limited financial literacy, highly persuasive marketing, social media influence, instant access to apps, and cultural pressure to “keep up”.

Because of these factors, biases amplify rapidly. Small errors like emotional buying or ignoring long-term consequences can multiply into major financial strain.

III. Behavioral Finance in Indian Investing

To understand misuse of BNPL and investment mistakes connect, we first need to look deep at the biases that commonly affect Indian investors.

1. Overconfidence Bias

Indian investors are driven by an “I know what I’m doing” mind-set becomes robust when someone sees initial profits, even if due to luck. Many Indian investors believe they can beat the market despite having restricted knowledge. According to article published in *The Economic Times* in 2024, overconfidence is frequently seen among new comers in the market who try their luck during rising market, but eventually burn their hands.² This false sense of control leads to excessive trading, blind stock picking, taking high risks without understanding them and ignoring diversification.

2. Herd Mentality

Following the herd without independent judgment stimulate them to buy into hyped IPOs, chasing popular sector like EVs or small-caps or investing based on social media or whts app forwards. This behavior inflates price, creates a bubble and increases the exposure to unnecessary risk. According to Money control, when Paytm went public in 2021 its shares plunged by more than 27% on the day of listing, making it one of the worst major IPO debuts in India.³ This drop was largely due to overly high valuation and herd-driven buying during the hype, but after harsh correction the market adjusted to the company’s actual fundamentals.

3. Present Bias

Young generation prioritize immediate rewards rather than long term benefits like retirement schemes, fixed deposits etc. They prefer spending now, trading for quick gains or they chase for short term opportunities. For them long term wealth building feels too slow, despite it is the safest method. This bias causes them to underestimate the benefits of saving and investing for the future.

4. Loss Aversion

Loss Aversion is basic nature of human. Pain of loss is always more than the pleasure of gain. This makes people to avoid risk by holding on to losing investments too long or even sell the profit-making investments early as they want to lock the gain and avoid losses. Many times, emotional factors play vital role for this bias. Disposition Effect and Underreaction to News study done in 2005 by Grinblatt and Han elaborates the same. This study shows that investors react gradually to bad news and delay selling losers, but their reaction is quick to good news and they sell winning investment.⁴

5. Mental Accounting

Indian investors treat money from different sources for different purpose, and this build walls. Indian investors treat bonus money differently, they think of salary vs. investment funds separately. For them lottery gain is free money and that is the reason they spend it easily. With given period of time, these invisible walls between money sources result in incompetent distribution, higher risk, and weak long-term wealth building.

IV. Understanding the Rise of BNPL in India

Buy Now Pay Later (BNPL) act like a bridge between two world, markets and micro credit. There is a surge in BNPL especially among young customers and first time credit card users. BNPL took a boom in India because of its multiple alluring features like instant approval, zero-cost EMIs, no credit card requirement, fast checkouts, no paper work and attractive rewards. If you look closely, these all factors attract young generation. BNPL is a easy answer for long and traditional system of loan. Moreover, it increases the affordability as payments can be done in small installments.

According to the report published in October 2025 by NextMSC, India Buy Now Pay Later, market size estimates the value at USD 2.79 billion, with predictable growth to USD 34.31 billion by 2030 with 3601% CAGR.⁵

Usually, there are convenience-oriented benefits associated with BNPL; however, these come with risks such as higher late fees, compounding smaller payments through many different accounts, having high amounts spent being the 'norm', and inability to track what is due in the future. For today's youth, BNPL may be their first exposure to credit; this experience creates a behaviour pattern that continues with the user's spending habits.

V. How BNPL Encourages the Same Biases Seen in Investing

The method by which BNPL is used brings changes in the way that the consumer views money. The same factors influencing bias are significant to a consumer's use of BNPL. Methods for improving credit scores and low monthly payments encourage overconfidence, the herd mentality, and loss aversion. For both BNPL and investing, emotional thought instead of logical reasoning dominates the decision-making process; therefore, they take on greater risks than they think they are taking on.

1. Overconfidence in Future Repayment

There are several similarities between investors and BNPL users. Both groups tend to make miscalculations. BNPL users tend to think about using BNPL in a very casual manner. They continually provide themselves with a false sense of security, by telling themselves, "That's such a low amount, only ₹500 monthly," or "I can just pay this all off next month." These thoughts reduce their anxiety with the purchase and give them pleasure immediately. However, when these little purchases continue to pile up, and repayment is not as easy as expected, then the differences between their planned payment and the amount they owe becomes wider, making it more difficult for them to pay off their loans.

2. Present Bias and Instant Gratification

The reason BNPL has been successful is that it feeds into our need for instant gratification or, in the case of BNPL, instant euphoria, which is the feeling you get when you know you're buying something now rather than having to worry about paying for it in the future. Young people are no different; they have been delaying investing, focusing on the "now," as opposed for their future. They tend to remain focused on what they can get now, even though it creates future financial pressure.

3. Herd Mentality in Consumer Spending

The constant availability of social media trends, social media influencers who endorse products, the frequent discounts that retailers provide on websites, and the tendency to compare ourselves with others, increase the likelihood of people upgrading their possessions frequently and spending impulsively on new technology, name-brand items, and large purchases during sales when Buy Now Pay Later (BNPL) is a simple process to obtain, especially when everyone seems to be using it as well. Purchases are often made based on what others buy rather than out of personal necessity. This is very similar to how stock investors chase after and purchase the same popular stocks—based on what other people purchase, instead of thorough analysis. The behaviour described above is a clear indicator of herd mentality, in which the behaviour of the vast majority of people influences one's financial

behaviour, consequently pushing individuals away from their own ability to make sound financial decisions.

4. Loss Aversion Leads to BNPL Addiction

The avoidance of the discomfort associated with making a cash payment at the time of purchase is a considerable part of the appeal of BNPL. BNPL takes this discomfort away by splitting the total amount of the purchase into smaller payments over a certain time and then allows the consumer to pay the remaining balance at a later date. The act of making small payments is an easy way to relieve a consumer from having to think deeply about their spending and subsequently makes the act of spending almost painless. This convenience may continuously reinforce the act of spending and lead to a habitual or addictive behaviour that creates the expectation of purchasing without having to experience the financial impact at that time. Similarly, investors tend to hold onto stocks that are losing money because they are avoiding the discomfort of accepting that they made a poor investment decision and choosing to hold the stock.

5. Mental Accounting Creates a False Sense of Affordability

Mental accounting is a key factor in how individuals can be misled. For example, the way investors separate their money into many different buckets (i.e., “this is for long-term investments”, “this is my risk money”, “this is a loss that will not affect my overall calculation,” etc). BNPL users share this same type of thinking. Instead of looking at all of their expenses as one total amount, they separate the monthly EMIs into smaller individual expenses that they mentally add together or give less weight to because they perceive each one as being smaller than it actually is; e.g., “this one is really small”, “I’ll get to that later”, “it’s only 3 months”. Both BNPL users and Investors use the same cognitive processes when making decisions about money, because both of them are ignoring their overall position and are only concentrating on parts of their external financial picture.

VI. This opens up to vital question - Why These Biases Are Authoritative in Digital Finance

Human always pick simple things over complex and that what digital payment gave them. No more digging of your wallet or swiping the card – just a tap or quick QR code or BNPL. Lucrative cashback deals, everyday prompts about on-going offers work a finishing touch. Digital finance really changes our perception about money. The features of digital finance play into our habits and it often adds to our previous financial missteps instead of easing them. It will be wrong to label digital finance as

“evil.” But it certainly suggests that without mindfulness, financial knowledge, and design safeguards, people are more likely to make irrational or emotionally driven decisions.

Behavioural biases impact individuals regardless of the setting and create irrational behaviours; however, the impact of behavioural bias differs based on a particular area's economic environment, societal norms and values, level of technology adoption and financial literacy. In India, financial innovations have developed faster than the corresponding levels of financial comprehension/familiarity within the Indian population, thereby increasing the strength of these behavioural biases. On closer examination, investment apps, mobile wallets, and online brokerages' platforms that were intended to increase individual control over their finances frequently lead to increased behavioural bias for Indian Consumers. Understanding this environment provides a better understanding of why Indian Investors continue to make poor investment choices, and why BNPL Consumers often fail to make timely repayments.

Much of these challenges can be tracked back to the growing force of digital promptness. Earlier investment decisions required tedious filling forms, contacting brokers, or visiting banks but now the things have changed. Similar reflection is noticeable in consumption decisions. Purchasing a smartphone on a BNPL plan or subscribing to a streaming service or even buying luxurious items does not give an impression of a loan; it feels as effortless as tapping a button. When things become too easy, people tend to act on impulse rather than stopping to think, which makes biases stronger.

Many Indian investors believe that constant activity on digital investment platforms represents an actual investment strategy because of their immediate availability. Because of all the excitement surrounding constantly updated prices, many feel compelled to pursue short-term profits without factoring in the unpredictability of markets. This behaviour has been paralleled by the rise of "buy now, pay later" products. The fact that people can now have the things they desire just through making several small payments has led many consumers to act decisively and immediately. Due to the excitement, convenience, and pleasure of owning something, many people do not think twice about their instant gratification before taking action. As a result, many consumers fail to take into account how these multiple overlapping installments will affect their finances in the long run.

The amazing impact of Digital Finance extends much further than just Digital Finance itself. Other Cultural Elements also play a part. The Emerging Middle Class in India consistently experiences Social Comparison Pressure. As individuals casually compare themselves to one another, over time, that Casual Comparison develops into the need to represent or display their level of Success, Consumption, and Comfort through more Tangible Items/Appearance regardless of how their own personal Financial

Status will allow them to continue to do so. The Exposure that Individuals have to their Peers (through Social Media), along with the Influence of Influencers and Lifestyle Advertising, places subtle Pressure on them to engage in the Latest Trend (whether it be a New Stock, Gadget or Premium Experience). The Desire to Keep Up with One Another Ultimately Causes Individuals to Exhibit Emotional Responses (i.e., Investing in Stocks at or just before Price Runs Up Due to Other Investors Gaining from it, or Using BNPL to Buy the Product as a Status Symbol).

Indian education system has made significant progress in recent past. But still in certain field people keep education as second option. For many young Indians, money management is learned informally, through observation rather than structured guidance. Parents often emphasise safety and caution, but the modern financial ecosystem simultaneously promotes risk-taking and instant consumption. This creates a disparity in the mind of young individual and hence give birth to conflicting signals. Some approach investing with unnecessary fear, leading them to sell at losses during market downturns. Others approach credit with misplaced confidence, believing that short-term cash adjustments can always be managed later. Either way, behavioral biases tend to hold in settings where financial practices and products evolve far more quickly than the systems meant to build understanding and awareness. In the absence of awareness decisions are often guided by habit, emotion, or social cues rather than informed judgment.

VII. Conclusion

Human tendencies give definite shape to two major factors in financial world, markets and micro credit. Human doesn't differentiate between set of emotions, instincts and applies same set of emotions, instincts whether he is buying stock or taking advantage of BNPL. Digital finance has become so deeply woven in our everyday life that many people are struggling to adapt to it in a healthy way. Financial literacy has not kept the pace with growing financial tools. This impact the decision-making skill of an individual and he lacks to understand the risk, long term consequences of digital financial world.

If we carefully merge behavioral roots with BNPL, there is substantial scope of improvement. There should be one goal to approach BNPL or digital market with clarity. By developing strong understanding of financial basics on instant benefit, over confidence, herd mentality, loss aversion they will be able to maintain control on money. And this will lead to better financial literacy with mindful

use of digital platform in robust way. It is time to think wisely, so that we can transform potential trap into a canny financial instrument.

Footnotes

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