The Compounding Paradox: Why India Knows the Math but Misses the Millions

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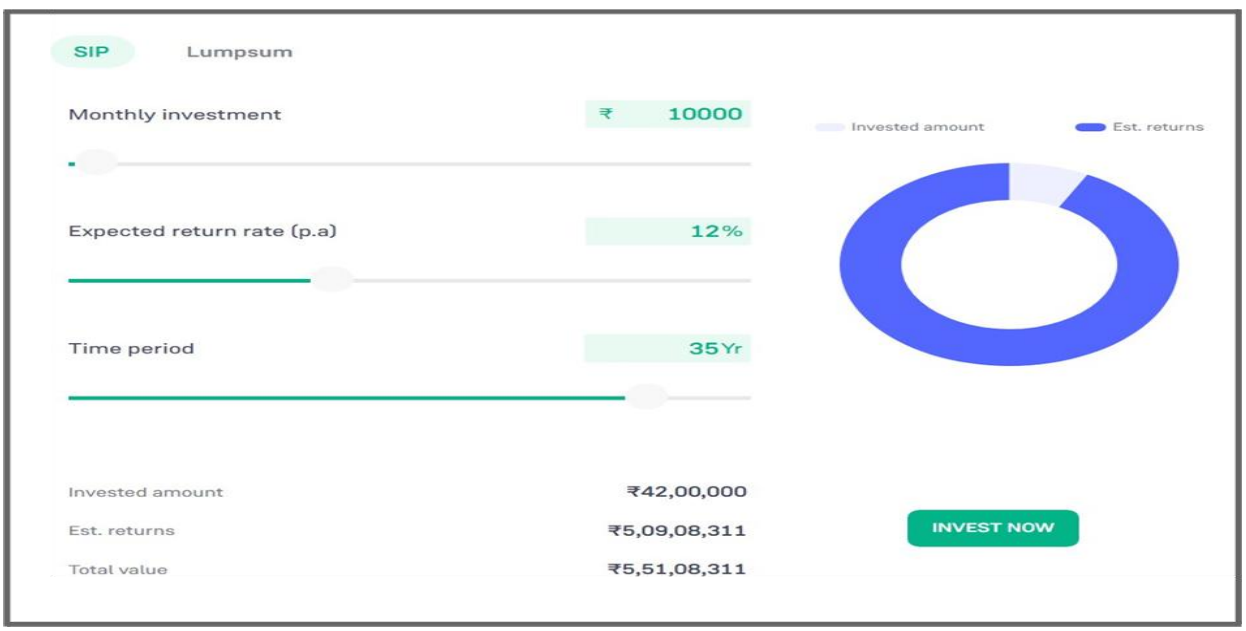
***Abstract*— Compounding is arguably the most powerful force in personal finance. India is the second largest labour market in the world with about 625 million people working or seeking work (1). However, a report by The Indian Express stated that "although 53% of households were aware of mutual funds, actual participation remained at 6.7%". This was said by the SEBI chairman Mr. Tuhin Kanta Pandey (2). Despite widespread financial awareness and literacy in India, the Assets under Management (AUM) of the mutual funds industry is still under 25% of the national Gross Domestic Product (GDP), this is well below the 80% average of other advanced economies, highlighting a vast opportunity to deepen retail investor participation in capital markets (2). This paper examines the factors that prevent financial awareness from becoming financial action in India through a lens of behavioural biases, structural limitations and regulatory gaps that quietly keep millions from building wealth. Using independent research and a primary survey of 52 respondents, the study finds that Despite 96.2% of respondents being aware of Systematic Investment Plans and 90.6% believing that starting early makes a significant difference to long term wealth, 66% have never had an active SIP, revealing that the barrier to investing in India is not awareness, but action. The paper concludes that the solution is simpler than what most assume and that unlocking it at a large scale can transform both individual wealth and India's broad economic trajectory.**

I. INTRODUCTION

Compounding: The Eighth Wonder of The World Nobody's using If you had started a SIP of just ₹10,000 per month at the age of 25, growing at 12% CAGR, you would retire with over ₹5.51 crore at the age of 60, without ever getting a raise, winning a lottery, or taking a single risky bet.



A monthly SIP of ₹10,000 at 12% CAGR over 35 years turns a total investment of ₹42 lakh into ₹5.51 crore — a 13x return driven entirely by the power of compounding. (Source: Groww SIP Calculator)

This is not winning the lottery, but instead is the astonishing power of consistent compounding! India has long maintained a culture of savings, a practice that continues to thrive in the face of modern financial shifts. India had a Gross National Savings Rate of 31% in 2023 (3), thus surpassing the world average of 23.02% (4). Seeing this, you would now think that India, should be one of the global leaders when it comes to SIPs, Mutual Funds and in general wealthy investors, but then comes the paradox. As mentioned by the SEBI chairman, Mr. Tuhin Kanta Panday, "India's Assets Under Management (AUM) of the mutual funds industry is only 20%, which is far behind the world average of 80%" (source already cited). The problem here is that of the 41 per cent of household savings invested in financial assets, the majority is held in cash, while mutual funds account for a mere 2 per cent of these savings. This suggests that Indian households are still reluctant to explore mutual funds as a viable investment option (5). Fixed Deposits (FDs) are the most preferred choice for investors to park their excess funds and on an average, Indians save 425,725.54 Rupees in FDs according to data compiled by BankBazaar. Indians love Fixed Deposits and this trend continues even today despite ups and downs of interest rates in the past. It is seen that Indian senior citizens and risk averse investors opt for FD (6). While the Systematic Investment Plan (SIP) culture rapidly grew in India, recent data shows a slowdown in retail participation. SIP Assets Under Management at its peak, stood at Rs 13.81 Lakh Crore. However, as of March 2025, it has fallen to Rs. 12.38 Lakh Crore, a reduction of Rs. 1.43 Lakh Crore. Also, the total number of outstanding SIP accounts has reduced from a record high of 10.32 crore in December 2024 to 10.16 crore at the end of February 2025 (7). The rate at which SIPs are being discontinued is alarming. This indicates reluctance among retail investors to continue investing in equities and also suggest that retail investors are still susceptible to short term market volatility abandoning long term wealth at the first sign of uncertainty.

This paper uncovers why one of the most powerful wealth building tools in existence remains largely underutilised in one of the world's largest economies, and what needs to change.

II. THE MATH

The Numbers That Should Keep You Up at Night

The mathematics behind compounding are rather simple but the results are nothing short of extraordinary. To show this, consider the story of three friends: Kabir, Arjun and Imran. All three are the same age, have decent incomes and decide to invest Rs 10000 into a Systematic Investment Plan (SIP), the only difference is that Kabir starts at 25, Imran starts at 35 and Arjun starts at 45. Assuming that their portfolios grow at a rate of 12% Compounded Annual Growth Rate (CAGR), let us see what each of them walk away with at the age of 60.

Friend	Starting Age	Years Invested	Total Invested	Final Corpus
Kabir	25	35	Rs 42,00,000	Rs 5,51,08,311
Imran	35	25	Rs 30,00,000	Rs 1,70,22,066
Arjun	45	15	Rs 18,00,000	Rs 47,59,314

All results are taken from the Groww SIP calculator

Shocking right? Compounding is the process by which returns generate their own returns, meaning the corpus does not just grow, but accelerates! Think of it as a snowball rolling downhill. It starts small, but as it rolls, it accumulates more snow. That additional snow then helps gather even more snow, accelerating growth exponentially. Early periods show modest differences between simple and compound interest. But as time passes, the gap widens dramatically. After 30 years, the difference can be crores of rupees on the same initial investment. Compounding doesn't require you to add more money. The growth happens automatically through reinvestment. This is why financial advisors emphasize starting early, time is the most valuable input in the compound interest equation. (8)

The most common excuse for not investing is the lack of financial means, but consider this: a 10000 Rupee SIP per month only requires Rs 333 per day! That is less than a coffee at Starbucks! So, sacrificing a coffee everyday can lead to a 5 Crore Rupee corpus as we see in Kabir's case!

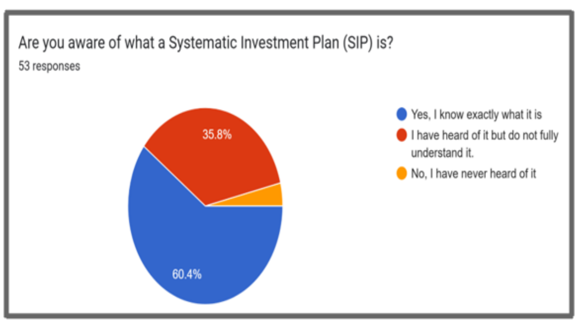
The question arises is that if the math is undeniable and the "I can't afford it" myth is busted, then why aren't more Indians doing this and instead diverting to Fixed Deposits?

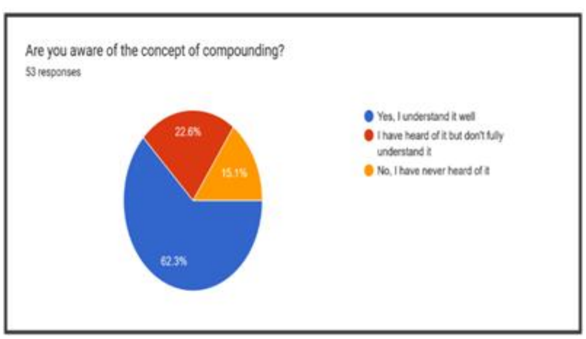
III. THE PARADOX.

We Know. We Just Don’t Do.

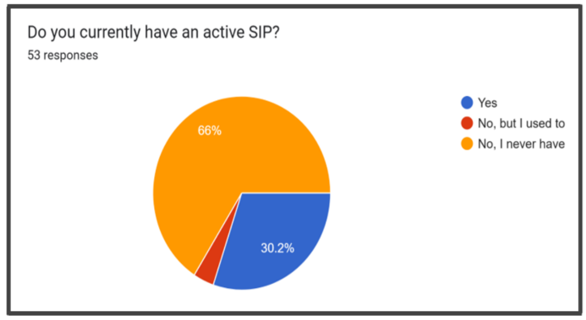
Although the numbers speak for themselves, if you were to approach an average Indian household and enquire if they have an active Systematic Investment Plan (SIP), the answer would most likely be “no”. Although 63% of Indian households, around 213 million, are aware of at least one securities market product, only 9.5%, or roughly 32.1 million households, actively participate in the markets (9). The awareness and literacy exist, however the action does not. This gap right here is the paradox that this paper seeks to understand.

To better understand this paradox beyond national statistics, a primary survey was conducted among 53 respondents across different age groups and occupations in India. The survey sought to understand the gap between financial awareness and financial action.Of the 53 respondents, 62.3% of respondents understood compounding well and an overwhelming 96.2% of respondents were aware of what a Systematic Investment Plan (SIP) is. This suggests that financial awareness is not a problem, at least not in this demographic.

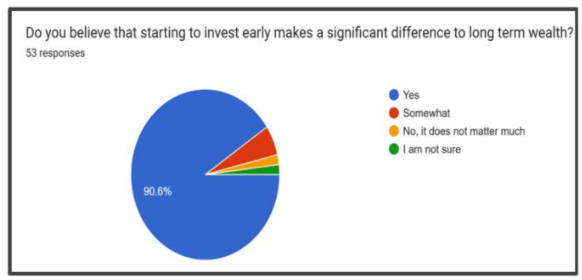


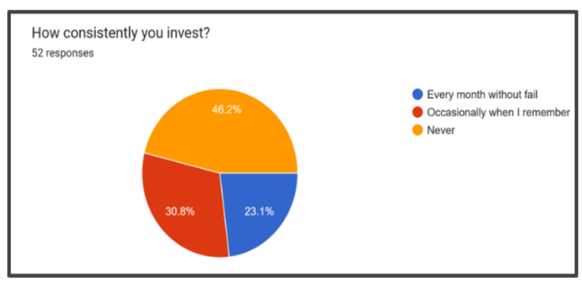


One would expect these numbers to turn into action, however they do not. Despite such widespread awareness, 66% of people do not have a SIP.

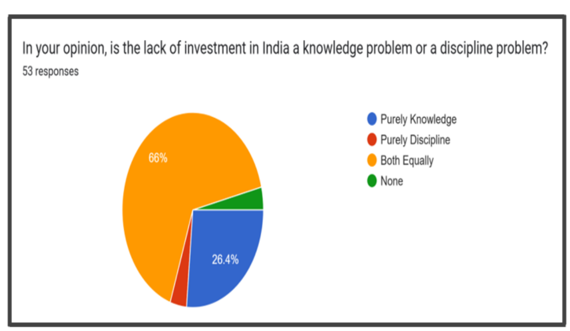


The most striking thing is that 90.6% of respondents believe that starting to invest early makes a significant difference to long term wealth, however 46.2% do not even invest. The respondents believe in compounding but just don’t practice it. This is the paradox.





When asked whether the lack of investment in India was a knowledge problem or a discipline problem, 66% of people said both equally, this highlights that awareness alone is not enough, and that the barriers run far deeper than lack of information.



IV. THE BARRIERS

The Walls Between Indians and Wealth

The paradox does not just exist without a purpose, behind every Indian who knows the power of compounding but never starts, there are some invisible barriers, some psychological, some structural and some built into the system (regulatory). This section seeks to examine the four most common barriers between the Indians and the wealth they could be building.

4.1 Present Bias: Why Today Always Beats Tomorrow

The present bias refers to the tendency of people to give stronger weight to payoffs that are closer to the present time when considering trade-offs between two future moments (10). This means that a present-biased person would prefer Rs 100 today over Rs 150 tomorrow. The concept of present bias is often used more generally to describe impatience or immediate gratification in decision-making. The present bias explains the average Indian finds it easier to justify a Swiggy order on a weekend outing over a monthly SIP contribution. The true cost of priorit1ising small term perks over long time gains is staggering. Skipping a single year of Rs 10,000 SIP does not cost 1.2 Lakh Rupees, but instead at 12% Compounded Annual Growth Rate (CAGR) compounded over 35 years, that one year of missing out costs nearly 47 Lakh Rupees! Present bias is not a financial problem, but is a psychological one and is costing millions of Indians financial freedom.

4.2 Fear And Distrust: The Scars of the Past

The fear and distrust of Indians from the stock market is not just random, it has not just come out of the blue. It has been created, with long years of pain and misery. Each time Indians trusted the market, they were shown how merciless the stock market can get. Many households lived through the Harshad Mehta securities scam of 1992 and the Global Financial Crisis of 2008. In 1992, the Sensex fell from nearly 4,500 to 2,500, wiping out the life savings of thousands of middle-class families. For those who experienced it, the stock market did not represent opportunity; it represented loss. This collective trauma has shaped household beliefs. When one generation loses money to what they perceive as "paper wealth," the next generation is taught to trust only what is tangible. The phrase "share market is gambling" reflects a learned survival response (11). This generational fear, although understandable, comes at an enormous cost, it keeps millions of Indians locked in the false safety of Fixed Deposits (FDs) and Savings accounts.

4.3 The Fd Culture: India's Most Beloved Financial Mistake

Fixed Deposits (FDs) are India's default investment. They feel safe, guaranteed and familiar. Banking products are the go-to for savings for a large percentage of Indian households. About 69% of households choose banking instruments, with fixed deposits being the most popular, according to a PRICE survey of India's consumer economy (12). The current Fixed Deposit interest rates vary from 2.5% to 8.5% (13). However, the average inflation rate in India is 5 to 6 per cent (14). So, logically, the real return on FDs is barely 1-2% and during times when CPI inflation peaked to 7% in 2022 (13), then the returns are zero or even negative. Meanwhile, The Nifty 50 has delivered a CAGR of 12.92% over the last 20 years since 2004, and 11.06% over the last 10 years since 2014 (15). If we were to compare returns in 35 years from a FD and a Mutual Fund, the difference would be in crores of rupees. Indians save an average of Rs. 425,725.54 in FDs (6). This shows the sheer volume of money being utilised in less appreciating assets. By investing in FDs, Indians aren't playing it safe, but instead are missing out on massive wealth.

4.4 The Demographics: The Youngest Nation, The Oldest Habits

Investment decisions are shaped by risk tolerance, demographics and access to financial advice. The SEBI Investor Survey 2025 revealed that 79.7% of Indian households exhibit low risk tolerance, with a priority on protecting capital rather than maximizing returns. Among non-investors, the fear of losing money due to market volatility remains the strongest reasons for avoiding the securities markets (16).

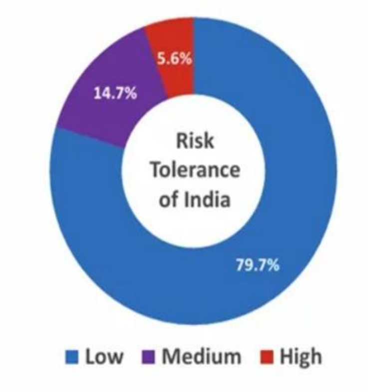


Image source: Adapted from SEBI Investor Survey 2025 (SEBI, Govt. of India)

This low tolerance is then reinforced by complex financial products with hidden charges, promises of high returns with low risk and one-size-fits-all-solutions. In the absence of clarity, avoidance feels safer why is why the survey identifies three core problems:

1. Lack of clear and accessible information
2. Difficulties in accessing and navigating investment platforms.
3. Low trust in intermediaries and market systems. (16)

Therefore, non-investors are more likely to participate when the aforementioned barriers are removed i.e. investment process is made simpler, knowledge levels improve in practical ways, and trust is built through transparency and accountability. The shift from saving to investing does not come from higher return promises, but from clarity, confidence, and credible guidance. (16)

V. THE SOLUTIONS

How India Wins

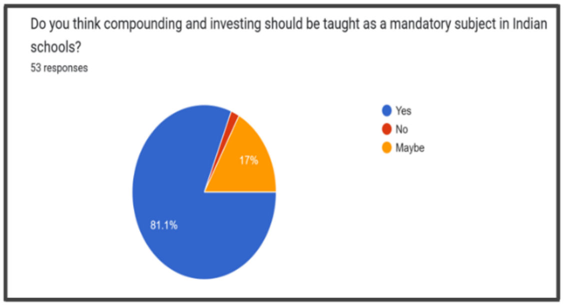
The paradox in India is not just a single problem with a quick fix, it is a vast and complex problem that's part psychological, part cultural and part demographic. We need a solution that matches the complexity of all three parts. What India needs is a three-tiered approach, one that removes barriers at the individual level, the cultural barriers which guarantee fake safety and a robust framework that allows each and every section to utilise and understand the securities market.

5.1. THE INDIVIDUAL: Start Small, Start Now

The most impactful thing one can do is very simple, start. Not next year, not when your salary increases and not when the market dips. The most important thing when it comes to a successful Systematic Investment Plan (SIP) is not how much money you put into it but is instead how much time do you give it to maximise returns. A Rs. 500 SIPS started today is worth a lot more than a Rs. 5000 SIPS started a decade later. One way to remove the present bias is to adopt the auto debit SIP on the first of every month. This will allow the money to be invested before the temptation of spending it even arises. For those who worry about market volatility, the key is to simply stay invested in the market. If a person is invested in all phases of the market for a large amount of time, say three decades then the chances of loss are minimal. The barrier here is not money, nor is it knowledge, but it is the decision to begin.

5.2. CULTURE: Breaking India's Most Expensive Tradition

It is hard for an individual to try out new things when the culture surrounding the individual works against it. For generations Indians have passed down a singular financial truth, save your money, put it in a Fixed Deposit (FD) and avoid the share market because it's just a glorified gamble. Changing this narrative is absolutely essential. The most powerful way in which we can rewrite this is by normalising it, making investing a dinner table conversation just like education. This has already started happening with the growth of personal financial creators on YouTube, Instagram and podcasts who actively encourage and educate the youth about financial awareness and investing. Some examples of this can be Finance With Sharan
(17) and Nikhil Kamath (18). This helps make SIPs and compounding relatable and understandable to millions of young Indians. Schools and colleges must also formalise financial literacy as a core subject. After all, this is actually what will help the children the most in their future. In the survey conducted by us, it was found that 81.1% agreed to this idea. When a child learns the power of compounding alongside mathematics, this breaks the cultural barrier. The goal should be to make investing a necessary thing.



5.3. accessibility: Bringing Compounding to Every Indian

The financial inclusion guarantee of the Indian constitution has generated many benefits for the country. However, there are also several barriers to accessing and managing financial resources such as inaccessibility of basic banking services, lack of capital, and savings related to lack of access to formal credit. However, there are also barriers to improving financial inclusion for the poor that could be addressed through changes in social norms and policy as well as changes in technology (19). For the total inclusion of Indians into the securities market the government should expand bank service, making sure that banks increase their reach in rural and underserved areas. The investing process has been described as "too complicated" by people and hence there should be a simplification of investment processes such as reducing documentation and streamline account opening procedures The government should strengthen initiatives like the Pradhan Mantri Jan-Dhan Yojana to universal access to bank accounts and credits. To simplify the Know Your Customer (KYC), the government should adopt biometric IDs and enable direct bank transfers. The government should actively invest in educating rural households, women, and marginalised groups about savings, credit and digital tools (20).

VI. CONCLUSION

The Clock Is Already Ticking

India is not lacking in financial awareness; it is lacking in financial action. And this gap, which is the paradox, is costing millions of Indians wealth they wouldn't have even dreamed of before.

The math has made one thing undeniably clear: Compounding is not about how much money you put in, but is about how much time you stay in for. Kabir did not retire with Rs. 5.51 Crore because he was richer than Imran or Arjun, the reason why Kabir earned more was because he started earlier and remained consistent. In compounding, time is directly proportional to money.

The survey also made one thing equally clear: 96.2% of respondents knew what a Systematic Investment Plan (SIP) was, 90.6% of respondents believed that starting investing early made a significant difference in the long run. They knew exactly where the gold was buried, they just never picked up the shovel.

The barriers are real, present bias, cultural fear and accessibility gaps have kept millions of Indians from the wealth they are truly capable of building. But as this paper has shown, the solutions are also equally real and far simpler than what people think.

You don't need a complex financial degree, you don't need a large amount of capital, you do not need to perfectly time the market, you just need Rs. 333 per day and discipline to never stop.

The clock had started the day you were born; the question is: when will you?

APPENDIX

Authors Declaration on Research Integrity

This research paper has been written entirely by the author through independent research, publicly available sources, and primary survey data collected and analysed personally. No artificial intelligence tool has been used in the drafting, writing, or formulation of any part of this paper.

The author acknowledges that some of the external sources cited may have been generated or assisted by AI, as is increasingly common in digital publishing. However, all content within this paper, including the analysis, arguments, interpretations, and conclusions, reflects the author's own original thinking and understanding.

This paper was run through an AI detection tool upon completion. The result indicated a 10% likelihood of AI generated content, which the author attributes to the academic and formal writing style adopted throughout, as well as potential influence from cited external sources. The author maintains full conceptual clarity of every argument presented and stands by the complete originality of this work. – Shaurya Kumar Taparia, March 2026

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