

Unveiling the Influence of Behavioural Biases on Life Insurance Investment Decisions: An Empirical Study

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Abstract

In the present financial landscape, Life insurance is different from other financial products because it protects you and lets you invest at the same time. It's hard to pick the best life insurance plans because there are so many different policy options, benefits, and long-term financial commitments. Most people don't get life insurance just for protection and investment purpose, but, emotional, cognitive, and psychological factors also influence their investment decisions. This study examines the impact of behavioral biases, specifically herding and framing biases, on life insurance investment decisions. The present study employs a descriptive and quantitative research design, primary data from 400 life insurance policyholders in the state of Haryana were collected and analyzed using SPSS, indicating that herding bias and framing bias significantly influenced life insurance investment decision. Framing bias stands out as the most significant bias or factor influencing investment decision. The results indicate that approximately 69.6% of the variability in these decisions can be attributed to such biases. Investors should understand about behavioral biases so that they can make better choices.

Keywords: Behavioural Biases, Life Insurance, Herding, Framing

Introduction

In today's financial world, Investment decision is a complicated process because investors have to consider risk return trade-off, time horizon, liquidity, and their financial goals while taking investment decisions. But these choices are also affected by cultural and social factors, personal experience, level of financial literacy, and how people feel about the market. In India, the influence of these biases are even more due to the interplay of traditional beliefs, family responsibilities, and evolving financial awareness. Because of these, investors often don't take rational decisions and instead they rely on social clues and their own interpretation of information and due to it, investment decisions goes beyond the limits of traditional rational models. The classical or traditional theories, i.e. Efficient Market Hypothesis, Market Portfolio Theory, and Capital Asset Pricing Models (CAPM), are based on the theme that investors behave rationally. They are rational people, have all the information they required, and always do which gives them most expected utility. But in the real world, financial markets are proving that this idea is wrong, Investors do not always behave in a rational manner, their behavior is always affected by cognitive factors, psychological biases, and emotional responses. They don't always think clearly when it belongs to finance. Tversky and Kahneman (1981) assert that individuals frequently employ cognitive shortcuts and exhibit systematic biases, resulting in suboptimal decision-making. These observations have contributed to the development of behavioral finance, a discipline that integrates psychology with financial decision-making (Ackert & Deaves, 2010).

Behavioral finance is a field of study which combines psychology and economics to understand how people make choices when they are not sure what will happen. They often use mental shortcuts or heuristics which make their decision biased and they take bad decisions due to this.

Insurance is a useful financial tool because it turns unknown and possibly large losses into known and manageable costs. Life insurance is one of the most important kinds of insurance. It keeps people and their dependents safe from the financial problems that come with dying too soon or living too long. This makes sure that people and their families always have the same amount of cash. However, investors find it difficult to pick the best life insurance plans (Kunreuther & Pauly, 2015). This situation is harder because there are a lot of different policy

choices, benefits, and long-term financial commitments. Traditional economic theories say that people also make good choices when they have all the facts. But, Behavioral research, conversely, provides an alternative perspective.

The present study aims to elucidate the behavioral factors influencing the decision to acquire life insurance. Herding bias and framing bias are the two of the most important biases which affect the choices of investors. When people follow the actions and decisions of others, even it goes against what they think or how they analyze things, it is herding bias. And framing bias... is when the way of presentation of information affects their choices, not the information itself. Both of these biases have a big effect on investors' choices. They often make decisions based on, who they trust, and what other people think instead of facts. It creates problems like under-insurance, and decision can be made by understanding the factors.

The research examines two behavioral biases as independent variables: Herding bias and framing bias, the dependent variable is the choice to buy life insurance. The current study aims to investigate the influence of biases on life insurance investment decision, particularly emphasizing on the framing bias and herding bias. Based on the objectives of the study, the present study address the following research questions:

- RQ1: Do herding bias and framing bias exist among investors in the life insurance sector?
- RQ2:How herding bias and framing bias related to life insurance investment decisions?
- RQ3: How do herding bias and framing bias influence investors’ decision-making in life insurance products?

Literature Review:

Author & Year	Objectives	Findings
Sahi et al. (2013)	To explore the beliefs, attitudes, and biases of individual investors in financial decision-making	Various beliefs and preferences exhibit among individual investors that bias their financial decisions.
Athur (2014)	To study the influence of various behavioural biases on investment decisions of individual investors.	The study found that various biases such as heard instinct, hindsight, representativeness, illusion of control significantly influences decision of individual investors while loss aversion bias is insignificant.
Mouna & Anis (2015)	To understand the role of behavioural biases & investor sentiment on portfolio returns.	The study demonstrates that familiarity and anchoring bias play a significant role in decision making process of investors.
Rehan & Umer (2017)	To understand the impact of emotional and cognitive biases in investment decision.	The findings reveal that overtrust, risk tolerance, anchoring, regret aversion, representativeness significantly influence investment decisions.
Kurniawan & Murhadi (2018)	To examine the effect of behavioral biases in life insurance purchase decisions and study of irrationality in the behavior of individual investors.	Availability and framing biases influence life insurance decisions among which availability bias is dominant.
Sum & Nordin (2018)	To examine the behavioral and psychological factors influencing decision-making under situation of uncertainty.	The study found that emotions, heuristic and framing biases influence insurance investment decision.

Baker et al. (2019)	To identify the presence of various behavioral biases among Indian investors which influence their investment decisions.	The findings indicate the various behavioral biases among Indian investors such as overconfidence and self-attribution, disposition effect, anchoring, representativeness, mental accounting, emotional biases, and herding are present and influence their decision.
Bhoj (2019)	To understand evolution of behavioural finance and identification of behavioural biases influencing investors while making investment decisions.	The result of the study demonstrates that Psychological and emotional factors influence investors while making investment decisions.
Jain et al. (2019)	To study the behavioural biases affecting Equity investors	The findings show that overconfidence bias, loss aversion bias and herding bias are most influential biases which affects Equity investors.
Seth & Kumar (2020)	To study the effect of emotional & cognitive factors on investment decision process.	Regret Aversion, hindsight and representativeness play a significant role in investment decision making process while self attribution bias is not significant.
Bagde et al. (2021)	To examine the impact of two behavioural biases i.e. mental accounting and framing bias on the investment decision-making process regards to insurance.	Mental accounting and framing biases have significant impact on investor's decisions about insurance investments.
Shunmugasundaram & Sinha (2022)	To confirm the validity of behavioral biases scale and examine their impact on life insurance investment decision.	Behavioral biases significantly influences life insurance investment decision.
Ndawula et al. (2024)	To examine the relation between behavioural biases and demand decision of life insurance policyholder.	Behavioural bias, especially prospect bias and heuristic bias significantly influence the demand decision of policyholder for life insurance products.
Ramanjaneyalu and Deshpande (2025)	To analyze the influence of mental accounting and framing bias and bias on life insurance purchase intention.	Mental accounting bias plays a significant role in both the selection and purchase intention of life insurance, whereas framing bias does not have a significant impact on purchase decisions.
Shunmugasundaram and Sinha (2025)	To understand the mediation effect of overconfidence and disposition bias between influence of behavioral biases on investment decision.	Behavioral biases have a significantly influence life insurance investment decisions and also have an indirect influence through overconfidence, and disposition effects.
Bhardwaj et al.	To analyze the influence of behavioral biases on the intention to	Loss aversion and social norms significant influence life insurance

(2025)	acquire life insurance products, taking into account demographic factors as moderating variables.	purchase intentions, whereas overconfidence have insignificant impact, with demographic factors moderating these relationships
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Objectives of the Study: The present study is designed to address the following objectives:

1. To examine the existence of herding bias and framing bias among investors in the life insurance sector.
2. To examine the relationship between herding and framing biases and life insurance investment decisions.
3. To analyze the impact of herding bias and framing bias on investors’ decision-making in life insurance products.

Hypothesis of the Study:

H01: There is no significant relationship between herding bias and life insurance investment decisions.

H11: There is a significant relationship between herding bias and life insurance investment decisions.

H02: There is no significant relationship between framing bias and life insurance investment decisions.

H12: There is a significant relationship between framing bias and life insurance investment decisions.

H03: Herding bias has no significant impact on life insurance investment decision.

H13: Herding bias has significant impact on life insurance investment decisions.

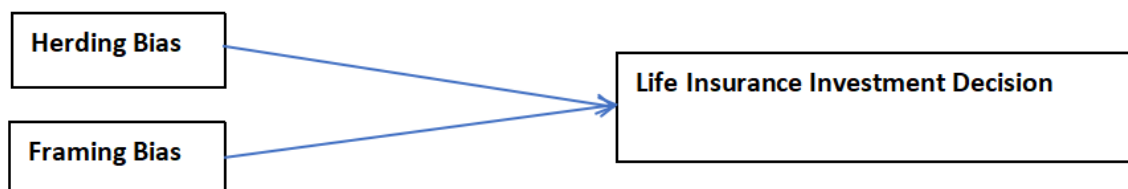
H04: Framing bias has no significant impact on life insurance investment decision.

H14: Framing bias has significant impact on life insurance investment decisions.

Conceptual Framework of the Study

The present study is based on ‘the prospect theory’ of behavioural finance, given by Daniel Kahneman and Amos Tversky in 1979 to explain how individuals make decisions under risk and uncertainty. Prospect Theory offers a pragmatic framework for comprehending investment decisions by integrating psychological elements such as loss aversion, framing, and herding. With regards to life insurance, it explains the reason behind individual investor’s irrational choices.

The study examine the existence of framing and herding bias among investors in life insurance sector. Behavioral biases i.e. framing bias, and herding bias act as independent variables while life insurance investment decisions act as dependent variable in this study. The findings demonstrate the relation between these variables and influence of framing bias and herding bias on investment decision with regards to life insurance products.



Research Methodology: The present study adopts a descriptive and quantitative research design to analyze or examine the relationship between behavioral biases (framing and confirmation bias) and life insurance investment decision and it also study the influence of these biases on individual investment decision with reference to life insurance products. To study these objectives, primary data is collected through a structured questionnaire. The questionnaire is designed to study the behavioral biases such as herding bias and framing bias along with demographic characteristics and investment decision behavior. The data was collected from 400 respondents who hold life insurance policies from Haryana state. The collected data is analyzed by using SPSS software. For the

identification of the presence of framing bias and herding bias among life insurance investors, descriptive statistics (mean, and standard deviations) are employed while to understand the relationship of behavioral biases (herding bias and framing bias) with life insurance investment decision, correlation technique is employed in this study. Regression analysis is adopted to know about the influence of herding bias and framing bias on investment decision with regards to life insurance products in this study.

Results and Interpretation

Table 1: Demographic Profile of Respondents

Demographic Factors	Values	Frequency	Percentage
Gender	Male	210	52.5 %
	Female	190	47.5 %
	Total	400	
Age	18-25 Years	37	9.25 %
	26-35 Years	122	30.5 %
	36-45 Years	143	35.75 %
	Above 45 Years	98	24.5 %
	Total	400	
Education	12th or below	50	12.5 %
	Graduation	105	26.25 %
	Post Graduation & Above	193	48.25 %
	Professional/Technical Degree	45	11.25 %
	Others	7	1.75 %
	Total	400	
Occupation	Self Employed	63	15.75 %
	Salaried Employed	233	58.25 %
	Professional	36	9 %
	HomeMaker	27	6.75 %
	Student	15	3.75 %
	Retired	3	0.75 %
	Others	23	5.75 %
Total	400		
Family Annual Income	Below 2,50,000	60	15 %
	250000 – 500000	59	14.75 %

	500000 – 10,00000	93	23.25 %
	Above 10,00000	188	47 %
	Total	400	

Table 1 represents the demographic profile of respondents based on a sample of 400 individual investors who hold life insurance policies. With a slightly higher proportion of male (52.5%) in comparison to females (47.5%), it indicates a fairly balanced gender representation. In terms of age, majority of respondents (35.75%) belongs to the age group of 36 to 45 years, followed by the age group of 26 to 35 years (30.5%), above 45 years (24.5%), and only (9.25%) respondents are from the age group of 18 to 25 years. It indicates that middle-aged individuals are more actively involved in life insurance investment. In reference to education, majority of respondents are highly educated, 48.25% respondents holding postgraduate and above, followed by graduation (26.25%) respondents . It reflects that investors are well-informed. In regards to occupation, majority or most of the respondents are salaried employed, 58.25%, indicating stable income source, followed by self-employed and professionals and a very small proportion of respondents such as homemakers, students, and others. In terms of family annual income, 47% respondents fall in the category of 10 lakh and above, followed by the category of 5 lakh to 10 lakh annual income(23.25%), suggesting that a high-income group with greater investment potential. Overall, the demographic characteristics indicate that sample includes educated, middle-aged, financially stable respondents, making them suitable for analyzing investment behavior with regards to life insurance products.

Table 2: Descriptive Statistics

	N	Mean	Std. Deviation
Herding Bias	400	3.2221	.92960
Framing Bias	400	3.6085	.95986

Table 2 represents the mean and standard deviation for herding bias and framing bias on the basis of collective responses from 400 life insurance holders to study the presence of herding bias and framing bias among life insurance investors. The result exhibits that framing bias and herding bias have mean value above 3, which confirms their existence among investors with reference to life insurance products. Framing bias shows the highest mean value of 3.6085 with a standard deviation of 0.95986, indicating that investors are significantly influenced by the way of presentation of information about their life insurance, followed by herding bias with a mean value of 3.2221 and standard deviation of 0.92960, suggesting that investors follow the decisions of their peer groups, friends, relatives, while investing in life insurance products. Overall, the findings reveal that herding bias and framing bias are significantly exist among investors with regard to life insurance products. Among these two biases, framing bias is the most dominant bias.

Table 3: Correlations between Herding Bias and Life Insurance Investment Decision

		Herding Bias	life Insurance Investment Decision
Herding Bias	Pearson Correlation	1	.687
life Insurance Investment Decision	Pearson Correlation	.687	1

* Correlation is significant at the 0.01 level (2-tailed)

The table 3 represents the correlation between herding bias and life insurance investment decision. Herding bias with $r = 0.687$, $p = 0.000$ have a strong positive correlation with life insurance investment decision, indicating that as individual follows others' actions or decisions, it influences their investment decision significantly.

Table 4: Correlations between Framing Bias and Life Insurance Investment Decision

		life Insurance Investment Decision	Framing Bias
Life Insurance Investment Decision	Pearson Correlation	1	.782
Framing Bias	Pearson Correlation	.782	1

* Correlation is significant at the 0.01 level (2-tailed)

The table 4 represents the correlation between framing bias and life insurance investment decision. Framing bias exhibits the strongest relationship ($r = 0.782$), indicating that the presentation of information about life insurance play a crucial role in shaping the investment decisions.

Table 5: Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.835a	.696	.695	.45973

a. Predictors: (Constant), Framing Bias, Herding Bias

In this study, regression analysis was employed to examine the influence of framing bias and herding bias on life insurance investment decisions. Table 5 presents the regression model summary, indicating that the independent variables i.e framing bias and herding bias, have a strong relationship with the dependent variable, i.e.life insurance investment decision, with an R value of 0.835 and an R-square value of 0.696. It indicate that approximately 69.6% of the variation in life insurance investment decisions is explained by these two behavioural biases. The adjusted R-square value of 0.695 further confirms the robustness of the model.

Table 6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	192.470	2	96.235	455.326	.000a
	Residual	83.908	397	.211		
	Total	276.378	399			

a. Predictors: (Constant), Framing Bias, Herding Bias

b. Dependent Variable: life Insurance Investment Decision

Table 6 (ANOVA) demonstrates that the F-value is 455.326 with a p-value of 0.000, indicating that the regression model is statistically significant. This implies that framing bias and herding bias jointly have a significant impact on life insurance investment decisions.

Table 7: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Interpretation
		B	Std. Error	Beta			
1	(Constant)	.781	.097		8.062	.000	

	Herding Bias	.320	.030	.357	10.582	.000	H03 Rejected
	Framing Bias	.500	.029	.577	17.108	.000	H04 Rejected

a. Dependent Variable: life Insurance Investment Decision

Table 7 shows that herding bias β 0.357 with a p-value of 0.000, indicating a positive significant impact on life insurance investment decisions, as the p-value is less than the significance level (0.05). Similarly, framing bias β is 0.577 with a p-value of 0.000, also highlighting a significant positive impact on life insurance investment decisions.

Overall, the result indicate that framing and herding bias significantly influence investment decisions with regards to life insurance products, among which framing bias is more dominant factor.

Findings of the Study: The findings of the study reveal that herding and framing bias are significantly present among life insurance investors. The findings indicate a significant positive relationship between framing bias and life insurance investment decisions, highlighting that the way of presentation of information about life insurance products significantly influences investors' choices. Herding bias is also positively associated with life insurance investment decision, which means that investors follow other's actions and decision and make the same choices. Among these two biases, framing bias more dominant bias which has high impact on investor's behaviour. Overall, the results demonstrate that life insurance investment decisions are not purely rational; they are heavily influenced by psychological and cognitive factors.

Conclusion: Investors are not always rational, they are affected by psychological factors, cognitive and emotional factors while making investment decision. Herding bias and framing bias significantly influenced life insurance investment decision. Framing bias stands out as the most significant bias or factor, demonstrating that the presentation and communication of life insurance information to investors profoundly affect their decision-making process. Herding bias also has a significant effect on investors because they tend to follow what other people do and decide, which influence their choice of life insurance products. Overall, the results show that people don't just think about money when they decide to buy life insurance; they also think about how they feel and what they know.

Suggestions and Recommendations :

1. Investors should understand about behavioral biases so that they can make better choices.
2. Insurance companies, should provide information to investors in a simple way to reduce the effect of framing bias on investment decision.
3. Financial advisors should guide investors to analyse various policy or investment options objectively and encourage them to make their own decisions to reduce the effect of herding bias.
4. Training programs and awareness campaigns can also help people to make financial decision in a better way.

Future Scope of Research: The study focused on only two behavioral biases i.e framing bias and herding bias. Future research can be done by studying other behavioral biases influencing investor's decisions about life insurance investments.

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