

# Investors Decision making Behaviour in Insurance Investment Preference

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## Abstract

*This study focuses on understanding investors' decision-making behavior in the context of insurance investment avenues. It employs the Flinder's Decision Making Questionnaire, based on the decisional conflict model proposed by Irving Janis and Leon Mann in 1979. The questionnaire comprises 31 items that assess six dimensions of decision-making behavior: Vigilance, Hyper Vigilance, Defensive Avoidance, Procrastination or Postponement, Buck-Passing, and Rationalization. This study examines how these six dimensions influence investors' decisions regarding insurance investment preferences. The objective is to analyze the patterns of investors' decision-making behavior and their impact on investment choices in the insurance sector.*

**Keywords: Decision Making Behaviour, Insurance Investor, Investment Avenue**

## Introduction

Investment decision-making is a complex process influenced by various psychological, emotional, and cognitive factors. Understanding these factors is essential, particularly in the context of insurance investment, where risk perception and behavioral biases play a crucial role. This study employs the Flinder's Decision Making Questionnaire, a tool developed by Leon Mann, which categorizes decision-making behaviors into six distinct dimensions: Vigilance, Hyper Vigilance, Defensive Avoidance, Procrastination, Buck-Passing, and Rationalization. These dimensions are utilized to assess how they relate to investors' preferences for insurance investment avenues.

Vigilance is characterized by a state of alertness where investors carefully consider all available alternatives before making a decision. Investors exhibiting this behavior tend to be thorough and methodical, reflecting a rational approach to investment. Hyper Vigilance, on the other hand, involves a state of nervous alertness, often induced by perceived time pressure or urgency, leading to hasty decisions without adequate evaluation of alternatives.

Defensive Avoidance is a behavior where investors attempt to escape decision-making responsibilities, often due to discomfort or fear of negative outcomes. This can manifest as procrastination or postponement, where decisions are delayed until it is too late, or as Buck-Passing, where decision-making responsibilities are transferred to others. Rationalization involves validating one's choices by selectively seeking information that supports the preferred option, even when contrary evidence is available.

The model's theoretical underpinnings can be traced back to Janis and Mann's Conflict Theory of Decision Making, which posits that individuals

experience decisional conflict when faced with significant choices, especially under conditions of uncertainty or risk. The Flinder's Decision Making Questionnaire operationalizes these constructs, enabling the assessment of how different decision-making behaviors influence investment preferences.

The study's objective is to explore the relationship between these six decision-making dimensions and investors' preferences for insurance investment avenues. The insurance sector, being inherently risk-centric, requires a nuanced understanding of investor behavior, as traditional financial theories often fail to account for the psychological underpinnings that drive investment choices (Kahneman and Tversky; Barberis and Thaler).

### Expanded Context

In behavioral finance, traditional models such as the Efficient Market Hypothesis (EMH) are often criticized for assuming that investors are rational agents who always make decisions that maximize their utility. However, empirical evidence suggests that investors frequently deviate from rational behavior due to biases and heuristics (Shefrin). For instance, Overconfidence and the Disposition Effect are common biases affecting investor behavior. Overconfidence leads investors to overestimate their knowledge and predictive abilities, often resulting in suboptimal investment choices. The Disposition Effect, as highlighted by (Shefrin and Statman), refers to the tendency of investors to hold on to losing investments too long while selling winning investments too early.

In the context of insurance investments, these biases can be particularly detrimental. Investors might either over-insure due to fear of potential losses (an aspect of Defensive Avoidance) or under-insure due to procrastination or Rationalization, believing that their preferred alternative (e.g., a specific insurance product) is sufficient without adequate evaluation.

**Research Significance:** Understanding these behavioral patterns is crucial for both investors and financial advisors. For investors, recognizing their own biases can lead to more informed decision-making, potentially improving financial outcomes. For financial advisors and insurance companies, this knowledge can inform the development of products

and advisory services that better align with the psychological profiles of different investor segments.

**Contribution to Literature:** This study contributes to the growing body of literature on behavioral finance by applying a structured behavioral model to the specific context of insurance investments. Previous studies, such as those by (Barberis and Huang) and (Statman), have largely focused on stock market investments. By contrast, this study addresses the relatively under explored domain of insurance investments, providing new insights into how decision-making behaviors influence preferences in this sector.

**Structure of the Paper:** The following sections provide a comprehensive literature review, detailing the various theories and empirical findings related to investment decision-making behaviors. This is followed by a detailed explanation of the research methodology, including the sampling techniques and statistical models employed. The results section presents the findings of the study, and the discussion section interprets these results in the context of existing theories and practical implications. The paper concludes with a summary of key findings, limitations of the study, and suggestions for future research.

### Review of Literature

Behavioral finance attempts to explain and deepen the understanding of the reasoning patterns of investors, including the emotional and cognitive processes involved, and the extent to which these factors influence the decision-making process. Essentially, behavioral finance seeks to elucidate the 'what', 'why', and 'how' of finance and investment from a human perspective, moving beyond the traditional finance paradigms that assume rational and logical decision-making.

(Gupta) reviles that Investors may range from confident to anxious. The Investors ranges model defined as four personalities: 1. Individualist: Careful, confident and often takes a do-it-yourself approach 2. Adventurer: Volatile, entrepreneurial and strong-willed 3. Celebrity: Follower of the latest investment and 4. Guardian: High risk averse and wealth preserver.

(Murthy and Joshi), were understand the behaviour of investors with the help of different financial behaviour theories like (i) Overconfidence, (ii) Disposition effect, (iii) Conservatism, (iv) Cognitive dissonance, (v) Rationality and (vi) Regret theory. These theories used to understand the investors' behaviour. (i) Overconfidence defines as 'an over estimation of the probabilities for a set of events by operationally', it is reflected by comparing whether the specific probability assigned is greater than the portion that is correct for all assessments assigned that given probability. (ii) Disposition Effect defines as the common behaviour of investors to hold looser stocks too long and sell the winner stock too early is called disposition effect.

(Shanmugasundaram and Jansirani), their study reviles that the technological factors have impact on investors' decision making process. Investor behaviour is characterised by over excitement and over reaction in a volatile market. The investor behaviour is analysed whether they behave rationally or irrationally towards various capital market information like bonus issue, rights issue, dividend declaration etc., and the result show that investors behave rationally towards specific capital market information.

**Objective**

To examine the impact of investors' decision-making behavior on their preference for insurance investments.

**Hypothesis (H0)**

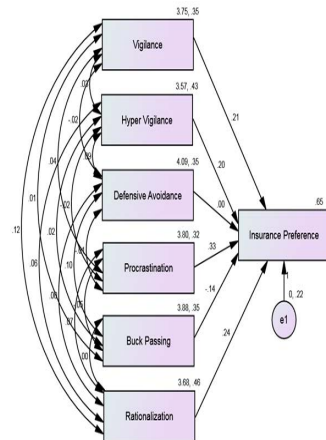
There is no positive relationship between investors' decision-making behavior and their preference for insurance investments.

**Research Methodology and Data Collection**

The study surveyed 525 investors residing in the Pondicherry Territory using a multi-stage sampling method. Respondents rated their agreement with various statements related to decision-making behavior on a Likert scale of 1 to 5, where 5 indicates 'Highly Agree' and 1 indicates 'Highly Disagree'. The questionnaire was pre-tested on a sample of 50 respondents to assess its validity and reliability.

**Analysis and Interpretation**

**Figure 1 Path Regression Analysis of Investors Decision Making Behaviour in Insurance Investment Preference**



**Table 1 Regression Weights in Investors Decision making Behaviour of Insurance Investment Preference**

Regression Weights	Estimate	S.E.	C.R.	P
Insurance Investment Preference <---Vigilance	0.210	0.097	2.161	0.031
Insurance Investment Preference <---Hyper Vigilance	0.204	0.087	2.351	0.019
Insurance Investment Preference <---Defensive Avoidance	-0.003	0.099	-.033	0.973
Insurance Investment Preference <---Procrastination	0.328	0.100	3.287	0.001
Insurance Investment Preference <---Buck Passing	-0.137	0.098	-1.388	0.165
Insurance Investment Preference <---Rationalization	0.235	0.086	2.731	0.006

The path diagram illustrates that the independent dimensions of investors' decision-making behavior—Vigilance, Hyper Vigilance, Procrastination, and Rationalization—are significantly related to insurance investment preference at a 5% significance level ( $\alpha = 0.05$ ).

When comparing the estimated values, Procrastination has the strongest influence on insurance investment preference (Estimate = 0.328), followed by Rationalization (Estimate = 0.235), Vigilance (Estimate = 0.210), and Hyper Vigilance (Estimate = 0.204). Defensive Avoidance and Buck Passing did not significantly influence insurance investment preference.

**Table 2 Covariance for Investors Decision making Behaviour Dimensions**

Co-variances	Estimate	S.E.	C.R.	P
Vigilance <--> Rationalization	0.119	0.048	2.453	0.014
Hyper Vigilance <--> Rationalization	0.063	0.052	1.217	0.224
Defensive Avoidance <--> Rationalization	0.003	0.047	0.069	0.945
Procrastination <--> Rationalization	0.069	0.045	1.534	0.125
Buck Passing <--> Rationalization	0.002	0.046	0.035	0.972
Vigilance <--> Buck Passing	0.010	0.040	0.238	0.812
Hyper Vigilance <--> Buck Passing	0.015	0.045	0.344	0.731
Defensive Avoidance <--> Buck Passing	0.105	0.042	2.472	0.013
Procrastination <--> Buck Passing	-0.051	0.039	-1.296	0.195
Vigilance <--> Procrastination	0.043	0.039	1.089	0.276
Hyper Vigilance <--> Procrastination	-0.019	0.043	-0.432	0.666
Defensive Avoidance <--> Procrastination	-0.008	0.039	0.205	0.837
Hyper Vigilance <--> Defensive Avoidance	0.093	0.047	2.002	0.045
Vigilance <--> Defensive Avoidance	-0.016	0.041	-0.401	0.688
Vigilance <--> Hyper Vigilance	0.025	0.045	0.558	0.577

The probability of obtaining a critical ratio range of 0.035 to 2.472 suggests that the covariance between some dimensions is significantly different at the 0.005 level (two-tailed). The covariance

relationships between Vigilance <--> Rationalization (Estimate = 0.119), Hyper Vigilance <--> Defensive Avoidance (Estimate = 0.093), and Defensive Avoidance <--> Buck Passing (Estimate = 0.105) indicate a significant correlation, suggesting a strong directional relationship between these dimensions.

**Conclusion**

The study concludes that the Procrastination dimension is the most influential factor in determining insurance investment preference. This indicates that investors often delay making decisions and perceive their choices as unimportant. They may procrastinate until it is too late to act effectively, and even after making a decision, they delay implementing it.

The second most influential dimension is Rationalization, which suggests that investors tend to validate every decision they make and seek information that supports their preferred choice. This behavior reflects a need for reassurance and confirmation of their investment decisions.

Following these, the dimensions of Vigilance and Hyper Vigilance play a significant role in influencing investors' decision-making behavior. Vigilance refers to a careful, alert, unbiased, and thorough evaluation of alternatives. Investors engage in rational decision-making by considering all possible options before investing. Vigilant decision-making emphasizes the importance of meticulous information processing throughout the decision-making process. It involves taking the time to calmly assess goals, gather relevant information, review this information thoroughly, and then make a decision based on the data collected.

Overall, the study highlights that procrastination, rationalization, and vigilant decision-making significantly shape investor behavior in the context of insurance investment preferences.

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