

The Intersection Of Behavioral Economics And Life Insurance

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Chapter# 1: Introduction

The present study suggests the intersection of behavioural economics and life insurance. The increase in the probability of mortal illness in the community, including blood pressure and diabetes, increased the dependence of people on insurance. Senthillingham (2016) reveals the rate of blood pressure is highest compared to the last forty years. He further identifies the rate of obesity is ten times higher in children today compared to the past. The statistics depict that 213 million adolescents are victims of obesity. The results presented in a survey indicate that 31 million people aged between 5 and 19 years are obese. The increased prevalence of obesity in the current generation exhibits their declining health status. Obesity is more prevalent in low and middle-income groups. The standard definition states, "obesity in adults is defined using a person's body mass index, the ratio between weight and height. A BMI of 18.5 to 24.9 is classified as a healthy weight, 25 to 29.9 is considered overweight and 30 and over obese" (Senthilingam, 2017).

Frank (2011) determines diabetes as another prominent health issue prevailing in the present generation. The increased prevalence of diabetes II among people reflects the existence of a health crisis at the global level. Obesity is one of the growing problems encountered by all regions of the world. Increased prevalence of diabetes reveals the unhealthy lifestyles of individuals, which also highlights the risks of early death. The current generation faces a high risk of developing diabetes due to unhealthy lifestyle patterns, unhealthy diets and genes. The International Diabetes Federation's 2025 Diabetes Atlas estimates that 589 million adults aged 20-79 were living with diabetes in 2024 and projects that the number will reach 853 million by 2050. These estimates replace the older 2010 figure and 2030 forecast (International Diabetes Federation, 2025). Irrespective of the increased prevalence of diabetes and other health issues, the insurance industry has experienced a consistent drop globally for the last five years. The statistics reveal that people's dependence on insurance policies declined due to macroeconomic factors. Slow economic growth has led to a decline in people's reliance on insurance policies (Deloitte, 2018).

Macroeconomic growth remained slow in 2016-17 with unexpected political developments. Global reinsurance capital reached high levels while the market remained competitive. In North American markets, the growth momentum of insurance declined in 2016 (2%) compared to the previous year's statistic (4.2%). The factors affecting the growth of insurance globally include global economic volatility and fluctuating regulatory oversight. Evolving capital requirements also increase the risks of investment. Insurance growth in America remained marginally lower in 2016-17 compared to previous

years growth. The commercial lines experienced a decline that influenced the growth of the insurance industry. North America experienced high rates of losses due to the changing attitudes of people towards insurance. Expansionary fiscal policy also influenced the growth of the insurance industry (EY, 2017). The trends of 2016-17 depict that insurance companies face challenges to survive in America due to the decline in the insurance industry's growth. Political and regulatory issues influence the purchasing attitudes of customers (Fukukawa, 2002). The changing dynamics suggest that companies take adequate steps to manage regulatory upheaval and transform operating standards and procedures for targeting wider customers. The current trends also indicate that insurance companies will explore new ways to attract customers. It depicts the need to differentiate products, services, and distribution platforms (Deloitte, 2018).

The reliance of customers on insurance policies depends on the ability of clients to make logical decisions. The main incentive for customers to buy an insurance policy is to protect themselves. Behavioural economics remains one of the significant fields that explains the reasons behind the insurance-related behaviours of individuals. Behavioural economics suggests that the decisions of customers towards insurance policies are not always rational or logical due to their inability to assess cost-benefit analysis (Poon & Hurley, 2016). The role of emotions in the purchase decision exhibits irrationality as they fail to estimate the benefits or losses. Adam Smith remains one of the oldest economists who uncovered self-interest and disclosed preferences associated with their well-being. The theory of consumer choice reveals the significance of psychology, anthropology, neurology and evolutionary biology. Traditional consumer choice theory is effective in understanding the general response of the customers towards insurance policies (Chaudhary, 2016). Life insurers assume that purchasing protection is logical and rational. However, in real-life scenarios, people rarely think rationally when they make decisions related to insurance. Behavioural economics explains the factors that individuals consider while making insurance-related decisions. It is irresistible for people to avoid purchasing an insurance policy that includes benefits for the buyer. The decision to buy an insurance policy is not different from that of buying a lottery ticket as both motivate people to pursue it in order to gain extra advantage. The concept of risk coverage and cost influence the consumer's decision to buy an insurance policy. Though buying insurance involve rationality, according to the theorists but the consumers do not make rational choices always (Poon & Hurley, 2016).

The present paper attempts to analyze consumer behavior towards insurance studied through the lens of traditional consumer choice theory and empirical evidence provided by cognitive psychology, anthropology and neurology. The consumer choice theory explains the irrationality of people in deciding about the purchase of insurance. Different fields identified help in determining the factors that influence the rational behaviours of individuals. The paper also explores how these factors impact the life insurance market and increase global sales. In the light of cognitive psychology and neurology, the research also identifies the reasons for slow growth in the insurance industry. The paper also incorporates behavioural economics to understand the incentives responsible for motivating individuals towards insurance and assessment of rationality. The science of behavioural economics explains the reasons for a shift in the community's attitude towards insurance. The comparison of rationality and irrationality highlights the factors responsible for motivating or

discouraging individuals in decision-making. As the statistics on the insurance industry reveal a decline in its business, the study uncovers the factors responsible for that decline (Narender & Sampath, 2014).

Research questions

1. Is life insurance irrational?
2. Does consumer choice of buying insurance rely on the intersection between behavioural economics and life insurance?
3. Does rationality always motivate individuals towards the purchase of insurance?
4. Does the decline in global insurance trends exhibit the irrationality of consumers?

Chapter# 2: Literature Review

The literature review involves a discussion of empirical evidence obtained from scholarly databases. It presents findings from research articles, journals, papers, and other online sources previously conducted. Available research studies on consumers buying behaviours and decisions related to insurance help in understanding the factors that support insurance markets (Ragunathan, 2016). The information retrieved from a scholarly database contributes to the understanding of the relationship between irrational behaviour and the decision to purchase life insurance. A literature review is useful in justifying the reasons for the research and demonstrates the knowledge related to the topic under discussion. A literature review is also useful in establishing a theoretical framework for the study (Mathur & Tripathi, 2014).

2.1 The Irrational Consumer And Consumer Behavior

Psychologists and economists conceptualize the phenomena of irrationality since the times of Adam Smith and Jeremy Bentham to determine the reasoning behind illogical decisions and assumptions. They considered self-interest to be the most significant factor contributing to buying decisions. The theorists represent deeper insights into the study of irrationality and maximization of utility. The choices that customers make in marketplaces uncover preferences and assessments of their well-being. However, the buying decision of consumers depends on the most preferential options under the assumption that logical decisions are true. Economic methods are inadequate to explain the logic behind the irrational buying decisions of consumers, depicting the need for psychological theory and reasoning. The most agreeable point among economics and psychologists is the preferential options.

Theory suggests that consumers make logical decisions to choose the most preferential option among alternatives. Customers' decisions rely on their preferences and the principle of utility maximization. William Jevons defines the concept of irrational behaviour as; "we can no more know nor measure gravity in its own nature than we can measure a feeling; but, just as we measure gravity by its effects in the motion of a pendulum, so we may estimate the equality or inequality of feelings by the

decisions of the human mind” (Jevons, 1879). Economists uncover the factors that influence the decision-making of consumers. They identify irrationalities as common traits that influence the decision-making of individuals. The theory determines the internal and external factors influencing the decisions of consumers. Self-interest and cost-benefit calculations are common tools used to uncover the reasons behind irrational decisions. It is not always utility that impacts the decision to buy; sometimes, emotions play a crucial role in irrational activities such as smoking, excessive driving, using credit cards and overeating (Frank, 2011).

The assessment of consumer behaviours relies not only on economics but also on the aspects of cognitive psychology and neurology. Economists rely on the consumer choice theory to determine the logic behind individuals’ buying patterns. Economic analysis of the consumer’s behaviour relies on the factors that motivate them to buy a commodity. The theory does not restrict the evaluation to the predictive indicators in terms of choice and well-being. Behavioural revelations suggest the role of continuing development of the choice theory (Poon & Hurley, 2016). McFadden (2012) attempts to uncover the role of different factors, such as cognitive psychology, anthropology and neurology, on consumer preferences and decisions to buy commodities. The behaviour of individuals relies on perceptions and emotions. Evidence suggests that the interpretation of authors varies according to the theory; however, happiness and utility are the most agreeable traits among economists (McFadden, 2013).

Jeremy Bentham remains one of the prominent theorists who defined the role of pleasure, pain, and utility in the formation of human actions. In his philosophy, ‘Introduction to the Principles of Morals and Legislation’ (1789), he discussed the concept of self-interest and its relevance to pleasure and pain. The central notion behind Bentham’s theory states that happiness is the prominent reason behind human decisions. He also determined the relationship of happiness with self-interest. The purpose of the philosopher is to express the reasons behind human actions and the incentives causing them. The concept of utilitarianism also provides sufficient reasoning behind the actions and motivations of humans. Bentham’s concepts were adopted by his successors to interpret human purchasing attitudes. Bentham conferred the idea that the action or decision of a human being is the result of self-interest and is viewed as an automatic consequence.

However, the theory involved limitations, as measuring happiness or utility was not possible. The concepts presented by Bentham resonate with contemporary behavioural theory but do not fulfil the conditions of neoclassical synthesis. The theory suggests that the experience of sensation causes action depending on two factors: an increase in pleasure or a reduction in pain (McFadden, 2013). The decisions that humans make are to increase joy or to minimize suffering. To understand utility, it is important to consider the consequences of actions. Bentham, to support his theory of pleasure, determines increased pleasure and reduction in pain as two sources of happiness. He also identified the role of contemporary science behaviour and suggested that people perceive gains and losses in different manners.

His critical dimensions of the utility of experience help in understanding the role of duration, intensity

and uncertainty in human actions. Bentham's concept of reciprocity illustrating reasons behind human actions suggests, "by the self-regarding principle, the more urgent the need a man feels himself to have of the kindness and goodwill of others, the more strenuous and steady will be his exertion for the obtaining it. The stronger a man's need of the effective benevolence of others, the stronger the inducement he has for the manifesting effective benevolence as towards them" (Jeremy Bentham, 1876).

Adam Smith also remains a prominent economist who studied human behaviours and purchasing decisions. He presented the concepts of value in use and value in exchange to study the factors leading to certain actions. Gossen (1854) further determined the role of utility in human decisions. The incentive for humans is to attain maximum utility with their purchasing, while the utility diminishes with an increase in consumption (Gossen, 1854). Dupuit (1844) proposed a marginal utility curve to study the impact of consumption and its impact on human actions. The marginal utility curve for a good explains that the utility remains constant to a certain extent. Any purchase that increases that point results in a utility decline. Relative utility remains one of the significant tools determining the relationship between pleasure and purchase decision (Dupuit, 1884).

Frank Taussing (1912) explained the concept of utility as; "doubtless, too, people often buy things which, though yielding pleasure for the moment, or postponing pain, are in the end harmful. But here ... we must accept the consumer as the final judge. The fact that he is willing to give up something in order to procure an article proves once and for all that for him, it has utility – it fills a want" (McFadden, 2013). Bentham, on the contrary, presents a more realistic approach, as the purpose of consumption is to attain happiness and satisfaction. The purchases that an individual makes are for finding happiness, while the utility is a state of being involving consequences. Bentham emphasized the notion of increased pleasure and reduced pain.

Meller (2000) and Lowenstein (2003) identify that economic decision-making does not rely on single calculations. The consumer choice hypothesis is more relevant in determining the prospects of purchase decisions. The aspects of economic decision-making do not rely on the calculations. The role of emotions is significant in the buying behaviours of individuals. Trevisan (2016) explains the behaviour of consumers and the element of rationality in their buying decisions. The author highlights the factors motivating consumers to make a purchase. Behavioural economics provides organizational perspectives that are effective in engaging consumers and explaining the dynamic of choices. The application of behavioural economics helps in understanding the attitudes and decisions of individuals towards buying insurance or other products. The primary factor behind the purchase that consumers make is satisfaction. The purpose of buying things is to gain satisfaction. There exists a strong correlation between buying and level of satisfaction. Consumers are more likely to buy goods that lead to high satisfaction (Trevisan, 2016).

Relating insurance to behavioural economics Poon, Ronald, and Hurley (2016) identifies a significant connection between the two. They revealed, "Logically, life insurance is a good thing, but even scientifically targeted clients might have a raft of rational sounding reasons not to buy, such as they

don't trust advisers and insurers; insurance agents are intrusive; the process takes too long; life insurance is expensive; and the benefits are confusing" (Poon & Hurley, 2016). Consumers, when considering emotions in their purchases, may act irrationally. Literature also uncovers that attaining rationality under the influence of emotions becomes almost impossible. The other way of stating the fact is that avoiding emotions during purchase decisions leads to rational decision-making (Trevisan, 2016). The literature further suggests that these situations also influence people's purchase decisions. The scholarly database on understanding insurance-related behaviours relies on heuristic behaviours, the anchor effect, the deal effect, the framing effect and the self-control effect.

2.1.1 Heuristic Behaviours

Heuristic behaviours explain the irrational decisions of consumers that lead to the decision-making of insurance companies. The evidence suggests the role of mental strategies of simplification on consumers' purchase decisions. The consumer needs to consider available information while making a choice. Trevisan identifies the impact of different options available for the consumer. Psychology considers the heuristic as a simple, efficient rule for making judgments in different situations that an individual encounters. Heuristic behaviours allow people to solve problems when they need to make a choice. The rule of thumb permits individuals to function without discontinuing thinking about future actions. Heuristic behaviours are helpful in many real-life cases, but they also lead to cognitive biases (Cherry, 2017). The mental strategies involved in the heuristic approach simplify things, thus allowing people to analyze situations more efficiently and make logical decisions. Heuristics has a significant role in problem-solving and decision-making.

Jaspersen and Aseervatham (2017) studied the impact of heuristic behaviours on insurance-related decisions. The findings identify, "Positive incidental affect and integral effect increase the use of the representativeness heuristic, while negative incidental effect has no effect. Our findings have statistical and economic significance and carry implications for insurance companies and regulators" (Jaspersen & Aseervatham, 2017). The results of the study highlight the positive role of heuristic behaviours in making a purchase decision related to the insurance policy. Heuristic thinking has a significant impact on human thinking under the influence of risk and uncertainty (Jaspersen & Aseervatham, 2017). Besides, et al. (2012) uncovered the relationship between heuristic behaviour and decision-making. The purpose of the study was to determine the impact of heuristic thinking on insurance purchase decisions.

To make purchases, individuals express satisfaction as it remains the primary motivator behind their decision-making power. Under heuristic behaviours, the optimal decision-making and choices vary with age. The results of the study depict the changes in the decisions related to the purchases of insurance with age. Heuristic behaviours were more common during the decisions related to the purchase of insurance plans and Medicare plans (Besedeš, Deck, Sarangi, & Shor, 2012).

Laury and McInnes (2001) explore the role of heuristic behaviours in decisions related to insurance

plans. Endogenous risk categorization remains one of the significant factors when making decisions related to the purchase of insurance. The heuristic approach is useful as it leads to informed decision-making. Significant differences prevail regarding individuals' insurance-related decisions. Insurance prices and the associated benefits play significant roles in making insurance-related decisions. The optimal decision-making depends on the actuarially fair choice of insurance available to the consumers.

The approach suggests that people are less likely to purchase insurance when they face a high probability of loss. The decision of an individual relies on the comparison between probabilities of benefit and loss. When an individual perceives that the probability of benefit is high, he will decide to purchase insurance. Consumers' expectation of loss under the heuristic rule of thumb explains the reasons for not purchasing insurance policies. Insurance prices play a dominant role in the decision-making process. When the prices are high, and there is a chance of losses, the consumer will change the decision to purchase an insurance policy. The rule of thumb states that "if the relative prices of insurance contracts correctly reflect the relative probability of loss, the price of each contract may be an important signal of the risk of each choice or activity" (Laury & McInnes, 2001).

Trevisan (2016) identified the impact of heuristic behaviour on the judgment of consumers. The results of the experimentation reveal that among the selected sample size, 48% of individuals who were offered saving accounts reflected purchase decisions when the interest rate was maintained at 1% to 2%. An interest rate greater than 2% eliminates the possibility of availing the option of saving accounts (Trevisan, 2016).

2.1.2 The Anchor Effect

The anchoring effect confers the idea that the economic behaviour and purchase decision of consumers relies on the concept of utility. Theory suggests that individuals use prior price knowledge to make decisions regarding purchases. The reliance of consumers on previous knowledge can be ineffective as it leads to irrational decisions. The price may fail to provide rational choice to the individual, which influences the decision-making (Trevisan, 2016). Orr and Guthrie (2006) studied the impact of the anchor effect on the purchase decision of individuals related to the insurance policy. The study reveals that "due to a phenomenon that psychologists call 'anchoring', we are often unduly influenced by the initial figure we encounter when estimating the value of an item. This initial value serves as a kind of reference point or benchmark that anchors our expectations about the item's actual value" (ORR & GUTHRIE, 2006). The study stresses the negotiation experiment for assessing the role of the anchoring effect. The effect has a significant influence on the negotiation outcomes. The study results depict that the anchoring effect has a strong correlation with the negotiation outcomes. The two factors limit the impact of anchoring on the decisions related to the purchase of a commodity (ORR & GUTHRIE, 2006).

Tversky (2016) presented the logical decision behind the purchase of an insurance policy. The price of

the commodity influences the judgment and rationality of the decision. The results of the experiment conducted by Tversky reveal that respondents were willing to accept the option of saving accounts with a credit card when the interest rate remained stable at 1% to 2%. The prospect theory also suggests that people underweight outcomes when they doubt certainty, which influences the rationality of their decisions (Kahneman & Tversky, 1979). Krieger and Felder (2013) studied the impact of decision biases on insurance outcomes. The rationality of the decision involves the well-defined preferences of the consumers. Decision biases hold a significant role in health policies and insurance plans (Krieger & Felder, 2013).

2.1.3 The Deal Effect

Literature on consumer behavior regarding insurance policy also relies on the deal effect. The approach offers a fundamental mechanism that is useful in understanding the purchase decisions and judgments of individuals. The approach is relevant to the theory of consumer choice, which was presented by Richard Thaler in 1980. The theory emphasizes the rational maximization model. It provides justification for the decision that the consumer makes when choosing between various options. The decision depends on the choice of a good predictor. Thaler mentioned that “the capacity of the human mind for formulating and solving complex problems is very small compared with the size of the problems whose solution is required for objectively rational behaviour in the real world or even for a reasonable approximation to such objective rationality” (THALER, 1980).

The deal effect also explains the reasons why a theory fails to predict behaviours. Prospect theory is vital in explaining the descriptive choice models leading to a decision-making position. Kahneman and Tversky support their claims by using the prospects theory. The theory suggests that the probability of risk influences rational decisions. Expected utility theory explains that the decision of a consumer depends on the outcomes of utility. Maximization of utility remains the consumer’s central concern. There is the intersection of certain and uncertain outcomes that influence the decision of the consumers. Uncertainty influences the problem of choice, affecting the judgment of consumers. Thaler further uses the opportunity cost to explain the decision of the consumers. The high opportunity cost of a commodity lowers the power of purchasing as consumers will be less willing to pay for it (THALER, 1980).

Trevisan (2016) also explains the role of the New Deal effect in explaining the decisions of consumers regarding insurance policies. The research explains the factors affecting the choice between a current account and the purchase of a credit card. Pricing influences the decisions of the consumers. The findings obtained from the study of participants’ behaviour reveal that the package offered a current account at 1 euro with a credit card at 2.50 euros. The results depict that the majority (59%) of the consumers accepted the deal. Only 41 per cent of consumers selected the option of the current account. When the deal offered only credit cards at the rate of 2.50 euros, the purchase decision of the consumers changed. The results indicate that only 17% of respondents expressed their willingness to accept the purchase of credit cards. Consumers faced alternative sets of options, such

as choosing either a current account alone or a current account with a credit card. The assessment of risk and loss helped them in judgment. The results of the experiment reveal that when the customers were getting the option of buying credit cards with the current account option, they reflected high willingness. The results also depict that individuals only expressed willingness when the prices were flexible (Trevisan, 2016).

2.1.4 The Framing Effect

According to the prospects theory, people are risk averse as they aim to avoid risks and losses. The framing effect influences the decisions of consumers regarding the purchase of insurance plans. The element of risk influences the decisions of the purchasers in different situations. Mishra, Gregson and Lalumiere (2012) explored the role of framing effects on the purchase decisions of individuals. The study uncovers the factors that affect the rationality of decisions. The framing effects suggest the need for rational decisions. The choice varies according to circumstances in prospects theory. The prospects theory suggests that people display the framing effect as the utility derived from the gains diminishes steeply. The risky behaviour involved in the prevention of the risk or loss works under the rule of thumb when utility diminishes rapidly. "According to risk-sensitivity theory, decision-makers should prefer high-risk options in situations of high need, when low-risk options are unlikely to meet those needs". The theory illustrates that risk-sensitive decisions involve need and framing. High need and high risks will motivate a person to avail of the option irrespective of the positive or negative framing. In a situation of high need involving elements of high risk, an individual will exhibit risk-accepting behaviours (Mishra, Gregson, & Lalumie, 2012).

Mishra and Fiddick (2011) explored the impact of need and risk on framing decisions. People will violate the assumptions of the prospects theory when the need to purchase a product is high. Needs are independent of the decisions of framing, remaining one of the visible factors for rational decision. The literature on the framing effect depicts that individuals are most likely to accept risks when their needs are high. The results of the study depict that framing effects remain a significant part of behavioural decision-making (Mishra & Fiddick, 2011). Framing effects are also visible in risk-sensitive decisions. The results of the study reveal that framing effects are visible in decision-making tasks involving risky choices. The risk-acceptance among participants was high in the case of negatively framed decisions. At the same time, the risk acceptance was low in the positively framed decisions. Similarly, risk acceptance is also high in cases where participants exhibit high needs compared to the scenarios displaying low needs (Mishra & Lalumiere, 2010). Wang (2002) uncovers the limitations of the prospects theory. The theory is effective in considering the framing effects and the risk preferences, but it fails to consider the role of need. According to the framing effect, the need remains one of the prominent factors in determining the behaviour of individuals (Wang, 2002).

2.1.5 Self-Control Effect

Self-control theory explains the role of one's desires in rational decision-making. If people are impatient, they are less likely to save their incomes. Immediate consumption of the people will undermine their potential to invest in insurance plans. The self-control theory suggests a strong correlation between self-control and purchase decisions. People who exhibit low self-control will eliminate the possibility of availing of an insurance policy. The time-discontinuing model depicts a low future desire to save. Tanaka and Murooka (2011) noted that "naïve agents delay immediate-cost future-reward activities when it is better to do these earlier, and do immediate-reward future-cost activities when it is better to wait" (TANAKA & MUROOKA, 2011). Rational decision-making has a positive relationship with future prospects of saving. The theory transmits the notion that people who are more concerned about future reward exhibits high self-control and are capable of discontinuing current consumption (TANAKA & MUROOKA, 2011).

Gannon (2006) studied the role of self-control in insurance decisions. Self-control theory also depicts the need to identify the competency of the insurance company. Individuals who lack self-control are more likely to fall victim to insurance fraud. The theory exhibits the need to control desires to avoid irrational decisions (Ganon, 2006). Stromback (2017) identifies the role of self-control theory on financial decisions. The psychological characteristics of human behaviour have a significant influence on buying attitudes. Economic behaviour plays a crucial role in financial decisions and financial well-being. The savings of individuals depict the effective role of self-control and rational judgments. People exhibiting good self-control are more inclined to save money for the future compared to people having poor self-control. The financial well-being of people depends on their ability to control self (Strömbäcka, Linda, Skagerlundb, Västfjällabc, & Tinghög, 2017).

Chapter# 3: Methodology

The present research uses the exploratory study to assess the role of rational behaviours in insurance-related decisions. The study relies on empirical evidence obtained from scholarly databases uncovering consumer-buying patterns towards insurance policies. Empirical evidence is also useful in determining the factors associated with consumers' purchase decisions (Sale, Lohfeld, & Brazil, 2002). The research relies on the observations of the facts associated with the issue under discussion. The current research will assess the results obtained from the literature on economic behaviour and insurance-related decisions of individuals (Beckett, Hewer, & Howcroft, 2000). The comprehensive review of the literature on the topic under discussion allows for revealing the theories that play a vital role in determining individual behaviours. The present study is descriptive in nature as it explores the historical factors responsible for consumer rationality (Mingers, 2001). Descriptive research is vital in answering the research questions as it provides results from various scholarly databases. The approach is useful as it provides analysis of non-quantified topics. The research methodology is also effective for the present research as it allows the integration of the qualitative and quantitative

methods (Williams, 2007).

The descriptive study in the present research aims to identify the reasons behind consumer behaviours regarding insurance decisions. The descriptive study is useful in understanding the factors that encourage individuals towards insurance. It relies on a survey method that investigates the individuals regarding their decisions related to the purchase of insurance. Through survey method the study targets 150 individuals and explore their consumption attitudes, the results obtained from the survey are used to assess the factors that influence the rational decisions of the individuals. The survey involves a questionnaire technique to inquire about the respondents (Sidhardha & Sumanth, 2017). The survey technique targets the respondents chosen randomly, including both males and females. Direct questions from the participants of the survey permit the researcher to reveal the factors that influence the insurance-related decisions of the consumers (Cooper & Schindler, 2001).

The assessment of the current trends in the insurance industry in the US also reveals statistics on people's consumption patterns. The analysis of the insurance statistics helps in understanding the behavior of consumers towards saving and insurance policies. The rates of growth and decline of improving factors suggest the realistic impacts of rational decision-making and judgments on the consumption attitudes of the people (Cooper & Schindler, 2001). The main components that the questionnaire covers in the assessment of consumers' views regarding insurance involve home insurance, car insurance and life insurance. The responses helped me understand the rationality associated with the decision to choose different insurance. The category of home insurance highlights the protection offered against the risks of property, including fire, theft and natural disasters. Car insurance reveals an understanding of consumers' protection against vehicle damage. The protection involves damage waivers. Life insurance uncovers the decision-making of consumers regarding the protection of their lives (LE, 2017).

Chapter# 4: Results

The results of the study rely on the responses obtained from the participants of the survey. The demographic information reveals that the majority of the respondents (78%) were males. The survey included respondents belonging to different age groups to assess the impact of age on the purchase decisions related to insurance. The majority of the participants belonged to the age group of less than 30 years and between 31- 40 years. The survey included respondents with different educational levels to assess the role of education in rational decision-making. The results depict that the majority of respondents (46%) acquired educational degrees post-graduation, while 30% acquired graduation degrees. Among the selected sample size, most of the participants (64%) were employed, while 22% were self-employed. Students constituted only 14% of the survey.

Table Demographic Factors

Description	Frequency	Percentage
Gender	117	78
Male	33	22
Female	150	100
Total		
Age	48	32
Below 30 years	45	30
31-40	36	24
41-50	21	14
51-60	0	0
Above 60		
Education	21	14
Undergraduate	45	30
Graduate	69	46
Postgraduate	15	10
Doctor	0	0
Others	150	100
Total		
Occupation	21	14
Student	96	64
Employee	33	22
Self-employed	150	100
Total		

The results obtained from the study depict that respondents' decisions regarding monthly investments varied. The responses of the participants indicate that 40% of the participants made monthly investments of less than 10%. It also shows that the majority (52%) of participants made monthly investments between 11-20%. Only 4% of respondents engaged themselves in monthly investments of more than 20%. The responses associated with the kind of investment indicate that 22% of respondents engaged in short-term investments while 78% relied on long-term investments.

Table Monthly Investment

	Description	Percentage
Monthly investment	Below 10%	40%
	11- 20%	52%
	21-30%	4%
	31-40	4%
	Total	100
Kind of investment	Short-term	22%
	Long-term	78%
	Total	100%

The results attained from the survey also exhibit the factors that influence the purchase decision of individuals related to the insurance policy. The responses of the respondents depict that 18% of respondents purchased insurance, as it was part of the company's policy. Among the chosen sample, 14% availed of insurance for service quality, while 35% availed of the option for return on investments. The majority of participants availed of insurance to receive returns. The results further depict that the factors that influenced buying decisions varied among participants. The majority of the respondents (24%) availed the option of insurance on the advisor's advice, and 23% availed it under the influence of family. It also reflects that 11 respondents selected the option due to personal interest, while only 6% availed it under the influence of advertisement.

Table Factors Influencing Buying Decisions

	Factors	Frequency	Percentage
Decisions for choosing insurance	Company policy	27	18
	Service quality	21	14
	Product Quality	18	12
	Return on investment	54	36
	Other's opinion	30	20
	Total	150	100

Factors influencing buying decisions	Personal choice	33	22
	On the suggestion of a friend	17	11
	Family	34	23
	Advisor	36	24
	Advertisement	9	6
	Total	21	14

The results indicate the reasons for choosing the insurance facility. The most common reason for the respondents to choose insurance was to earn investments. The statistics indicate that 36% of participants availed of insurance to earn returns on investment. The remaining 30% availed the option for tax avoidance, 24% availed the option for risk coverage of the family, and 4% selected the facility for child welfare.

Table Reasons for Choosing Insurance Policy

Factors	Frequency	Percentage
Individual risk coverage	9	6
For tax avoidance	45	30
Return on investment	54	36
Risk coverage for family	36	24
Child welfare	6	4
Total	150	100

The results also provide information about the nature of the policy and the company's preference. The results depict that the majority of respondents (65%) selected the insurance policy that offered low risk, and 23% availed the option for moderate risks and minimum return. Only 12% availed the

facility of insurance for high risk and high return. Consumer preferences also change depending on the type of company. The majority of respondents (81%) preferred the LIC for purchasing insurance policies, while 19% relied on private companies.

Table Nature of policy

	Description	Frequency	Percentage
Policy nature	Low risk	98	65
	Moderate risk, including minimum return	34	23
	High risk and high return	18	12
	Total	150	100
Preference of company	LIC	121	81
	Private companies	29	19
	Total	150	100

The results indicate that the consumers had availed of insurance for home security, car rental, and life insurance. Results indicate that the majority of the respondents (40%) currently availed of the option of home insurance, while 30% were planning to buy it. It further reveals that 50% of respondents currently availed the facility of car insurance while 30% were planning to avail it in future. The results also indicate that 50% of the respondents availed of the option of life insurance, while 30% were planning to avail of it.

Table 6 Type of insurance

Type of Insurance	Currently (%)	In the past (%)	Planning to buy (%)	None (%)
Home Insurance	40%	20%	30%	10%
Car rental insurance	50%	10%	30%	10%

Life insurance	50%	10%	30%	10%
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The results also reveal the factors that influence the purchase decision of consumers regarding insurance. The majority of the respondents (70%) made an insurance choice after considering the price, while the decision of 30% was not influenced by price. The facts also show that 60% of the respondents believed in saving, while 40% were not involved in saving.

Table 7 Factors that influence decision

Description	Yes	No															
1. Does the price of insurance influence your decision?	70%	30%															
2. Will you buy insurance when it is cheaper?	80%	20%															
3. Do you save income?	60%	40%															
The answers obtained from the questionnaire also revealed information about the factors that consumers consider while making insurance decisions. The results indicate that price remained the primary motivator for the consumers. The majority (70%) stated that their decision relies on the price of the policy, while 30% mentioned that the amount remained the deciding factor for them. <table border="1"> <thead> <tr> <th>Description</th><th>Options</th><th>Percentage</th></tr> </thead> <tbody> <tr> <td>What is decisive for you when choosing insurance?</td><td>Price of insurance Amount</td><td>70% 30%</td></tr> <tr> <td>When will you avail of insurance?</td><td>Interest rate below 2% The interest rate is two or above 2%</td><td>60% 40%</td></tr> <tr> <td>When offered 5% discount what will be your response?</td><td>I will change the decision Not change decision</td><td>70% 30%</td></tr> <tr> <td>In return on investment increases?</td><td>I will avail the option I will not avail the option</td><td>70% 30%</td></tr> </tbody> </table>			Description	Options	Percentage	What is decisive for you when choosing insurance?	Price of insurance Amount	70% 30%	When will you avail of insurance?	Interest rate below 2% The interest rate is two or above 2%	60% 40%	When offered 5% discount what will be your response?	I will change the decision Not change decision	70% 30%	In return on investment increases?	I will avail the option I will not avail the option	70% 30%
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Results further reveal that 70% of respondents were willing to avail of insurance with an offered discount of 5%. In comparison, 30% of respondents were not willing to take advantage of the option. Return on investment remained the central concern for the respondents to buy insurance as 70% availed it for earning returns while 30% of respondents did not care about the returns.

Chapter# 5: Analysis

The findings of the study reveal that behavioural economics is closely related to life insurance. Consumers' behaviours and emotions have a significant impact on their decisions regarding the purchase of insurance (Buzatu, 2013). The present study considers the demographic information of the consumers to uncover the impact of age, education and occupation on their insurance decisions. Consumer behavior is assessed to study its impact on insurance decisions. Irrational consumer behaviour remains a common element that affects an individual's insurance-related decisions. The results depict that the decision of the consumers changed with age as most of the respondents availing insurance belonged to the middle age group. The results indicate that young consumers are more inclined to invest in insurance (Ulbinaitė, Kucinskiene, & Moullec, 2013). The rationality of the decision is apparent as the middle-aged group is more concerned about insurance and has longer expected lives compared to older people (Kunreuther & Pauly, 2005).

The results of the research study also indicate that price remains the dominant factor in controlling consumer decisions. When participants are offered insurance at low prices, they are willing to take advantage of the option. Petra (2012) states, "Rational people should behave effectively in order of the target, which they pursue at the time of selection, which specifically means that consumers want to maximize their benefit" (Petra, 2012). Consumers' dependence on price exhibits rationality in their decision-making. The answers of the respondents to the discount option also reveal that price plays a crucial role in consumers' decisions regarding insurance (Frank, 2011).

The results reveal that the factors influencing the decisions of consumers reflect the role of rationality. Blackwell (2001) recognizes that "activities commonly include need recognition, information search, evaluation of alternatives, the building of purchase intention, and the act of purchasing, consumption and finally disposal" (Blackwell, R. et al., 2001). Insurance premiums and coverage of loss also remain prominent factors influencing consumers' decisions. Service quality remains a prominent factor influencing consumers' decisions regarding insurance purchases. Discounts and insurance offered as company policy increase the probability of consumers to avail the option (Ravichandran, Bhargavi, & Kumar, 2010). Individuals' reliance on the pricing for the decision to purchase insurance reflects their role of rational behaviour (Ulbinaitė, Kucinskiene, & Moullec, 2013).

Interest rates influence the decisions of the consumers, depicting that they are willing to avail of the

option when the interest rate is below 2%. The rationality of the consumers is visible in their decision to take interest rates into account (Trevisan, 2016). The most visible reason for the participants of the study to choose insurance was for the purpose of earning returns. With the increase in returns, consumers exhibited more willingness to use the facility. The reliance of consumers on returns indicates that they are more inclined to avoid risks. The investments that individuals make are to gain profits or returns in future (Beckett, Hewer, & Howcroft, 2000). The results reveal that the incentive for the majority of consumers behind insurance is to maximize their possibilities of earning gains in future (Virlics, 2013).

The rational decision of the consumers relies on the factors of coverage, price and the return on investment. The results obtained from the survey indicate that most consumers make decisions based on economic behaviours. The factors that influence the decisions of participants depict the role of emotions in controlling the decisions of the consumers (Avram et al., 2009). Emotions and personal choices influence the decisions of consumers regarding insurance. Savings also affect consumers' insurance-related decisions. The results depict that the majority of the respondents were engaged in monthly savings of 11-20%. The monthly investments of 11-20% indicate the role of savings. The concept of saving exhibits the rational choice of the consumers (Bechara et al., 2006). Risk and uncertainty factors influence consumers' decisions, while most consumers focus on returns on investment (Chaudhary, 2016). The decision of consumers after considering the price and discount depicts the role of the deal effect (THALER, 1980). The anchoring effect is also visible in consumers' insurance decisions as individuals use their prior knowledge of pricing to make decisions (Trevisan, 2016). The heuristic approach is visible as consumers consider various options before making a decision regarding insurance purchase (Trevisan, 2016). The decline in the global industry trend of insurance exhibits rational behaviours. The increased pricing of the insurance and low savings influence the decisions of the consumers (EY, 2017).

Chapter# 6: Conclusion

The study uncovers the relationship between behavioural economics and life insurance. Consumers' decision to invest in insurance relies on the concept of rationality. Emotions have a crucial impact on controlling the behaviours of the consumers. Economic analysis of the consumers' behaviour relies on the factors that motivate them to buy a commodity. The theory does not restrict the evaluation to the predictive indicators in terms of choice and well-being. The present research used the descriptive study to assess the behaviours of individuals towards insurance purchases. The survey method targeted 150 respondents, including both males and females. Consumers' decisions varied according to age, as consumers belonging to the middle age group were willing to purchase insurance. The rational decision of the consumers relies on the factors of coverage, price and the return on investment. Discounts and insurance offered as company policy increase the probability of consumers to avail the option.

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