

A STUDY ON THE IMPACT OF BEHAVIOURAL BIASES ON INVESTMENT DECISIONS IN UNIT LINKED INSURANCE PLANS (ULIPS)

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Background

Investors in Unit Linked Insurance Plans (ULIPs) frequently make decisions based on behavioural biases, which can significantly impact their financial outcomes. Herding behaviour can lead to illogical market movements and increased risk when investors imitate the actions of others instead of using their own judgment. This behaviour is further exacerbated by loss aversion, which influences investors' willingness to assume critical investment risks, as they frequently prioritise avoiding losses over obtaining comparable returns. In contrast, overconfidence can result in investors overestimating their level of expertise and forecast accuracy, which often results in suboptimal portfolio selections and higher turnover rates. Finally, anchoring, which is the tendency to place an inordinate amount of weight on preliminary data or prior experiences, may result in investors adhering to out-of-date performance benchmarks even when market conditions change.

Objective of the study

This study aims to investigate how Behavioural biases affect ULIP investors' decision-making.

Research Methodology

The study is based on primary data and investigates 164 investors who are or have been ULIP investors. Thus, purposive sampling was adopted. Ten Likert statements were drafted on a five-point Likert set to identify respondents' perceptions of investors' behavioural biases in making ULIP investments. MS Excel and SPSS software were used to draw significant results.

Practical Implications:

This study offers insights into how behavioural biases influence ULIP investing strategies through survey analysis and empirical analysis, finally providing recommendations for more informed investment behaviour.

Findings

The results highlight the necessity of educating investors about these biases in order to boost long-term financial stability in ULIP portfolios and improve decision-making.

Keywords: Behavioural Biases, Investors, Investment Decisions, Unit Linked Insurance Plans (ULIPs)

INTRODUCTION

Decision-making is an ongoing process in our daily existence. Decision-making is fundamental to our existence, from selecting breakfast items to making life-changing decisions. Nevertheless, our decisions are not always as logical and rational as we would like to believe. Real traders and investors frequently experience overconfidence, regret, attention deficits, and trend pursuing, all of which can result in suboptimal decisions and diminish returns. This section delineates the four behavioural fallacies and offers practical guidance on how to prevent yourself from making these errors. Behavioural fallacies can significantly influence our decisions, frequently resulting in decisions that are not in our best interests. There are numerous reasons why it is essential to comprehend the importance of these biases in decision-making. Systematic patterns of deviation from rationality in decision-making are

referred to as behavioural fallacies. Behavioural biases are systematic, predictable errors or influences that are present in all individuals when they interpret information and make decisions. By comprehending behavioural biases, one can comprehend the predictable errors that consumers make when selecting and employing financial products. This implies that certain clients may be selecting products that do not satisfy their requirements or offer the most value or price. Individuals frequently make irrational decisions as a result of these biases, which are influenced by cognitive factors such as emotions, beliefs, or social forces rather than strictly objective analysis. Recognizing these biases is essential in various fields, as they can have a substantial influence on outcomes, resulting in suboptimal decisions and outcomes. The systematic errors in judgment that result from cognitive shortcuts, emotive influences, or social pressures rather than rational analysis are

referred to as behavioural biases in decision-making. We cannot exaggerate the importance of comprehending behavioural biases in decision-making. Ultimately, we can lead more successful and fulfilling lives by recognizing these biases and learning how to mitigate their effects, thereby enhancing our decision-making skills and making better choices. This decision-making process can be facilitated by tools such as the mutual fund compounding calculator, which demonstrates the long-term potential of compounding and assists individuals in making informed investment decisions. The initial step in the process of becoming a more effective decision-maker is to comprehend and accept the importance of behavioural biases in our lives.

Overconfidence is one of the most prevalent heuristics in financial markets. Investors have a propensity to exaggerate their own capabilities, knowledge, skills, and judgments, which leads them to believe that their decisions are more precise than those of others. Having a financial plan can assist in overcoming financial behaviour biases by offering a structured and transparent approach to financial decision-making. Biases are more probable to manifest when emotions are elevated. Behavioural finance has demonstrated that the rational actors predicted by mainstream theories and the efficient markets hypothesis do not match the behaviour of actual people. Real traders and investors frequently experience overconfidence, regret, attention deficits, and trend pursuing, all of which can result in suboptimal decisions and diminish returns.

Individuals possess an extraordinary ability to identify patterns, and they are convinced of their validity when they do. They act on a pattern they discover; however, it is frequently already factored in. The market is significantly more unpredictable than most speculators are willing to acknowledge, even if a pattern is identified. A study discovered that investors who prioritized past performance in their investment decisions were frequently the least successful in comparison to their peers. The market is dynamic, and investors are required to be dynamic as well. It is crucial for investors to comprehend the issues they are facing in order to make the necessary adjustments.

FINDINGS FROM REVIEW OF LITERATURE

Behavioural biases significantly impact investment decisions in Unit Linked Insurance Plans (ULIPs),

as they do in other financial instruments. These biases, rooted in human psychology, often lead to irrational decision-making, affecting the performance and outcomes of investments. The influence of biases such as overconfidence, loss aversion, and disposition effects can result in suboptimal investment choices, misaligned portfolios, and increased market volatility. Understanding these biases is crucial for investors and financial professionals to devise strategies that mitigate their adverse effects and enhance decision-making processes.

Key Behavioral Biases Affecting ULIPs

1. **Overconfidence Bias:** Investors often overestimate their knowledge and ability to predict market movements, leading to excessive trading and risk-taking. This bias can result in poor investment outcomes in ULIPs, as policyholders may make hasty decisions without adequate analysis (**Shunmugasundaram & Sinha, 2024**).
2. **Disposition Effect:** This bias involves the tendency to sell winning investments too early while holding onto losing ones for too long. In the context of ULIPs, this can lead to a misaligned investment strategy, where investors fail to capitalize on profitable opportunities (**Shunmugasundaram & Sinha, 2024**).
3. **Loss Aversion:** Investors' fear of losses can lead to risk-averse behaviour, causing them to avoid necessary risks that could potentially yield higher returns. This bias can hinder the growth potential of ULIPs, as investors may shy away from equity-linked options that offer higher returns (**Sathya & Gayathir, 2024**).

Mitigating Behavioral Biases

1. **Financial Literacy:** Enhancing financial literacy among investors can help mitigate the impact of behavioural biases. Educated investors are more likely to make informed decisions, reducing the influence of irrational behaviours (**Amgain, 2024**).
2. **Advisory Interventions:** Financial advisors can play a crucial role in identifying and correcting biased investment behaviours. By providing objective analysis and guidance, advisors can help investors align their strategies with their financial goals (**Sharma & Prajapati, 2024**).

While behavioural biases can negatively impact investment decisions in ULIPs, they also present opportunities for financial professionals to develop

tailored interventions and educational initiatives. By understanding and addressing these biases, investors can improve their decision-making processes, leading to more effective investment strategies and better financial outcomes.

RESEARCH METHODOLOGY

Research Objective

The primary objective of the survey was to ascertain respondents' perspectives on different dimensions of behavioural bias that affect ULIP investors' decision-making.

Research Design

The study is classified as exploratory. We aim to gain a better understanding of a problem or concept

DATA ANALYSIS

Likert statements:

Table 1.1: Opinion of the Respondents

S No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	I invest in a stock that has been performing well due to confirmation bias, disregarding all negative news or analysis	8	35	19	21	81
2	I typically fail when I make decisions based on subjective data and analysis rather than objective data and cognitive biases.	31	10	18	26	79
3	I occasionally experience regret when I invest in a stock based on its past performance, disregarding fluctuations in market conditions.	11	16	4	15	118
4	The market is totally unpredictable; we need to invest and forget.	67	39	22	23	13
5	I tend to fear losses more than I gain value.	8	23	13	27	93
6	I do not believe in long-term gains.	8	112	7	21	16
7	I rely on others to make decisions.	8	35	14	29	78
8	I usually make decisions and regret them later.	12	11	16	40	85
9	To survive in the market, investments must be diversified.	37	13	17	83	14
10	It is important to play mindfully rather than deciding emotionally.	8	23	13	34	86

The table above depicts the opinions of the respondents.

HYPOTHESIS

H₀₁: There is no significant difference in respondents' perceptions regarding the impact of behavioural biases on the investment decisions of

those investing in Unit Linked Insurance Plans (ULIPs).

To test the above-mentioned hypothesis, the mean score from the primary data collected using Likert statements was calculated, and further statistical tests were applied.

Table 1.2: Reliability Statistics

Cronbach's Alpha	N of Items
.843	10

As the above table shows, the calculated value for Cronbach's Alpha was 0.843, which indicates the questionnaire's strong internal consistency.

Table 1.3: Normality Test

	Statistics	p
Kolmogorov-Smirnov	0.14	.004
Shapiro-Wilk	0.92	<.001

As depicted in the above table, the p-value was found to be less than 0.05, which states that the data is not normality distributed, and further nonparametric tests have been applied.

Table 1.4: Descriptive Statistics

	n	Mean	Std. Deviation	Std. Error Mean
Mean Score	164	3.57	0.85	0.07

The descriptive statistics of the data revealed a mean score of 3.57, which entails that the respondents were on the agreement side, and the standard deviation (0.85) states that the variation in the responses was very low.

Application of One Sample Wilcoxon-Test

Table 1.5: Summary of Ranks

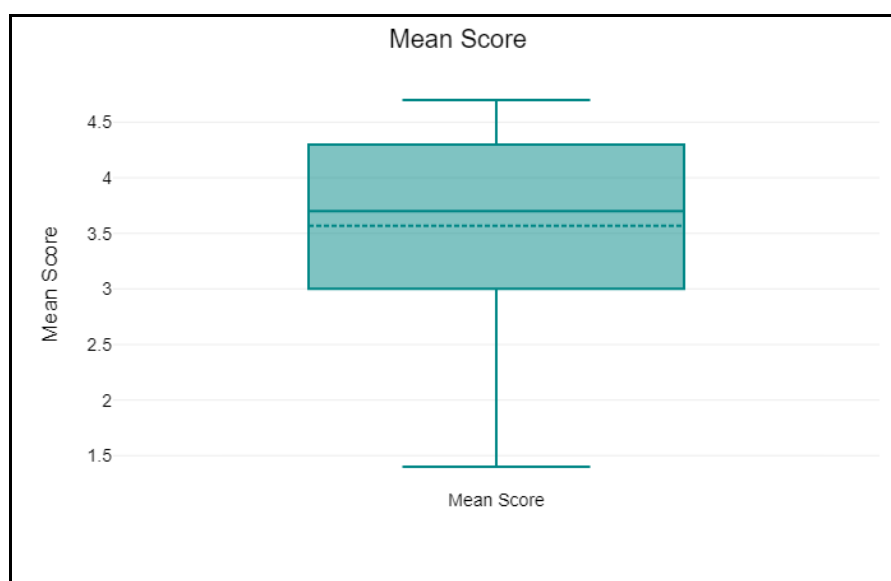
	n	Mean Rank	Sum of Ranks
Negative Ranks	21	34.14	717
Positive Ranks	142	89.08	12649
Ties	1		
Total	164		

Table 1.6: Results of One Sample Wilcoxon-Test

	W	z	p
Mean Score	717	-9.89	.000

As depicted in the above table, the p-value was found to be less than 0.05; the researcher thus concludes that the sample has been drawn from the population having a mean equal to the test value of 2.5

1.5.3 Decision

**Figure 1.1: Descriptive statistics of Mean Score**

As depicted in the above table, Quartile 1 and Quartile 3 values were 3 and 4.3, respectively, which states that 75% of the respondents have a mean score more than 3. The researcher thus accepts the null hypothesis and concludes *that there is no significant difference in respondents' perceptions regarding the impact of behavioural biases on the investment decisions of those investing in Unit Linked Insurance Plans (ULIPs).*

FINDINGS

Behavioural biases may adversely affect investment decisions, resulting in suboptimal decisions. Nevertheless, investors can surmount these biases and make more informed decisions by comprehending them and implementing psychological strategies. Investors may circumvent behavioural biases by diversifying their portfolios, employing data-driven decision-making, practising mindfulness, establishing distinct investment objectives, and developing a long-term perspective.

SUGGESTIONS TO OVERCOME BEHAVIOURAL BIAS:

It is imperative to comprehend the psychological factors that influence our decisions in order to address behavioural fallacies in investment. Here are a few strategies that can assist investors in overcoming their behavioural biases:

1. Having a long-term vision: Investors should think about long-term goals instead of short-term changes in the market. Investors can escape making hasty choices based on short-term market trends if they look at the big picture.
2. Make clear goals: Before investing, investors should write down their financial goals and how much risk they are willing to take. This can help them keep their eyes on their goals and not let their feelings get in the way of their choices.
3. Spreading out or diversifying their investments: This can help buyers lower the chance of losing money because of one bad stock. By not putting too much faith in the performance of a single stock, investors can also escape the anchoring bias.
4. Making choices based on data: When investors make decisions about investments, they need to rely on objective data and analysis. Looking at all the information they can find can help them avoid confirmation bias and story bias.
5. Being more aware of their personal thoughts and feelings. Deep breathing and mindfulness techniques like meditation can help investors do this. This can help them stay focused on long-term goals and not make hasty choices based on their feelings.

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