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THE INFLUENCE OF BEHAVIORAL AND DIGITAL FACTORS ON INSURANCE PLAN CHOICES: EVIDENCE FROM POLICYHOLDERS

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ABSTRACT - In today's customer-focused insurance industry, understanding what drives policyholder choices is essential. This study looks at how psychological, emotional, and digital factors affect individuals when they choose insurance plans. Using a survey of 108 policyholders, the research applies chi-square tests, ANOVA, and correlation analyses to find out how variables like risk perception, trust, social influence, and digital access shape decision-making. The key findings suggest that while traditional demographics matter somewhat, modern consumers depend more on digital platforms, peer opinions, and the simplicity of claim processes. This research provides practical insights for insurers to create user-friendly insurance products and interfaces that match customer behaviour.

Keywords: Policyholder Behaviour, Insurance Decision-Making, Behavioural Economics, Service Quality, Risk Perception, Digital Insurance Platforms, Customer Satisfaction, Financial Literacy, Peer Influence

JEL Classification Codes: G22, D91, D12, M31, C83

1. INTRODUCTION

Insurance is seen as one of the very crucial financial instruments safeguarding one from unpredictable hazards of illness, death, accident, etc. While the logical need for insurance is well recognized, the actual decision-making process of policyholders is usually far from being rational. Behavioural economics shows that consumers often tend to make emotionally charged decisions, especially when dealing with complex intangible financial products like insurance (Tversky & Kahneman, 1974; Thaler & Sunstein, 2015). Factors such as emotional security, peer influence, risk perception, or brand trust very often supersede objective cost-benefit evaluations. Digitalization itself facilitates such purchase behaviour, with users being guided by experiences, mobile access, and online reviews (Zhang et al., 2023; Lee & Kim, 2022). With this recognition, the study intends to fill the gap of knowledge between consumer psychology and insurance market practices.

1.1 PROBLEM STATEMENT

In spite of increased awareness regarding the advantages of insurance, the number of uninsured or underinsured remains high. Even in cases where insurance is purchased, there remains a substantial disconnect between expectations and actual performance of the chosen product, often due to some cognitive biases and lack of clear knowledge (Johnson & Grayson, 2016; Das & Das, 2010). These conventional explanations for buying behaviour are based on gross parameters of an individual, such as income, age, or occupation, and fail to examine deeper behavioural elements such as heuristics, emotional sensations, or social learning. A great many tandem entries in the channel are informal: a friend telling one of his perspectives, someone else sharing an online testimonial, etc., all without linkages to an advising agent. Also, the ever-increasing demand for digital solutions brings out one more concern-how tech-savvy buyers interact with insurance platforms. Hence, this study looks into behavioural forces that define consumer preferences that will enable insurers in designing solutions that are relevant to the client.

1.2 OBJECTIVES OF THE STUDY

To grasp the behavioural traits of policyholders for insurance choices constitutes the scope of this investigation. The study will (1) determine the major behavioural factors, such as trust, financial literacy, brand loyalty, and perceived value, affecting an insurance purchase decision; (2) analyze the role of cognitive biases-- loss aversion and framing effects-- in decision-making (Barberis, 2013; Keller & Lehmann, 2012); and (3) assess how the interplay between digital platforms, peer recommendations, and marketing communication messages affects customer choice and satisfaction (Chatterjee & Das, 2019; McKnight et al., 2011).

2. LITERATURE REVIEW

This study originates in a discipline that incorporates behavioural economics, consumer psychology, and digital transformation of insurance sales. Tversky and Kahneman (1974) first introduced the idea of cognitive biases and explained how people rely on heuristics such as availability, anchoring, and representativeness, mental short cuts that often lead to irrational decisions. These biases are well relevant in insurance where the consumers consider complicated, abstract products attached to a future outcome.

Extending the same, Thaler and Sunstein (2015) talked about "nudging," where in subtle forms of intervention such as default choices or light visual aids steer consumers toward better decisions for their finances. Such nudges help engagement and comprehension in the insurance sector.

Financial literacy is another important factor. Lusardi and Mitchell (2014) found strong links between financial education and participation in insurance. People with more literacy are better positioned to judge policy features so that they are less likely to be under- or over-insured.

Then, trust is crucial. Morgan and Hunt (1994), through their Commitment-Trust Theory, emphasised the importance of trust for sustaining long-term service relationships. In the area of insurance, Kumar and Gupta (2018) found that satisfaction and loyalty arise from transparency and responsiveness.

In the digital age, changes also take place in consumer trust. McKnight et al. (2011) argued that online transparency, security, and ease of use build digital trust. Mohanraj and Kowsalya (2017) put forward similar ideas with respect to stock brokers. Zhang et al. (2023) then proved how AI solutions such as chatbots and recommendations in insurance can aid in simplifying decision-making and easing burdens on the cognitive side.

Chatterjee and Das (2019) stated that peer influence is becoming more pertinent in promoting insurance through the advent of social media; in such collective societies as India, peer validation generally assumes greater importance than technical appraisal, mainly for first-time buyers. Further, Chui and Kwok (2008) and Das and Das (2010) emphasized socio-cultural norms that prevail in shaping insurance decisions within such contexts.

Rising risks such as cyber threats and climate change are pushing insurers to develop modular, easily comprehended products, with PwC (2020) noting that personalization, flexibility, and clarity on pricing are now of paramount importance to younger digital native consumers.

3. METHODOLOGY

This descriptive study analyzed 108 policyholders who responded to a structured questionnaire. Through convenience sampling, a wide variety of respondents were considered in terms of age, education, and income levels. Primary data were obtained both digitally and personally, whereas secondary data considered were taken from journals, industry reports, and websites of insurance providers. For quantitative analysis, percentage distributions, descriptive statistics, chi-square tests, ANOVA, and Pearson correlation were used to test the relationships between behavioural factors and insurance choices.

4. ANALYSIS AND FINDINGS

Table 4.1 shows the Demographic Profile of the Respondents

Aspect	Key Insight
Age Distribution	71.3% of respondents were under 35 years of age
Gender	75.9% male, 24.1% female
Insurance Ownership	65.7% currently hold an insurance plan
Popular Insurance Types	Health (46.3%) and Life (36.1%) insurance dominate
Information Sources	36.1% from friends, 27.8% from online research
Primary Goal	Risk protection (55.6%)
Preferred Purchase Channels	38% through online platforms, 23.1% via employer-sponsored plans

Table 4.2 shows the Importance of Insurance Service Attributes (Descriptive Statistics)

Factor	Mean Score
Premium Cost	4.37
Coverage Benefits	4.19
Claim Process	4.16
Brand Reputation	4.12
Digital Access	4.19
Agent Recommendation	3.94

Table 4.3 Statistical Test Results on Behavioral Influences

Test & Variables	Significance (p-value)	Result
Chi-Square: Insurance Type vs Goal	0.016	Significant
Chi-Square: Insurance Type vs Risk Covered	0.001	Significant
ANOVA: Age vs Digital Access	0.000	Significant
ANOVA: Education vs Digital Access	0.037	Significant
Correlation: Claim Process vs Plan Satisfaction	0.017	Moderate Positive
Correlation: Multiple Plans vs Policy Engagement	0.003	Moderate Positive

Demographic data indicate a youthful policyholder participation of over 71% of the sample under the age of 35. This is an indication that young adults are actively engaged in insurance and financial planning decision-making. The sample was skewed towards men, and the two most common forms of insurance were health and life insurance. Surprisingly, friends and the internet were more effective word-of-mouth media than agents or advertising, and this is an indication of the increasing power of the new and informal media.

As also clear from descriptive statistics, respondents highly rate premium cost (mean = 4.37), coverage benefits (mean = 4.19), digital access (mean = 4.19), and the claims process (mean = 4.16). This reflects the need for cost-saving, transparent, and easy insurance services. Agent advice has a comparatively lower mean score (3.94), reflecting the shift of consumer trust towards digital self-service and peer recommendation.

The chi-square test shows a significant relationship between insurance type owned and primary reason and perceived risk coverage of the insured. The ANOVA findings showed that age groups and education groups significantly vary in their preferences towards digital access, i.e., younger and educated people are expected to engage through mobile apps and websites. Correlation findings show that ease of claim handling and having more than one policy has a positive effect on satisfaction and engagement.

CONCLUSION

This research supports the idea that the selection of insurance is more greatly influenced by behavioural elements such as emotional comfort, digital accessibility, and trust from peers, rather than just demographic factors. Contemporary policyholders, especially from younger age groups, seek convenience, clear information, and effective digital tools. The main priorities in choosing a plan are affordability, extensive coverage, and an uncomplicated claims process. The results highlight that the conventional model—led by agents and standardized options—is being supplanted by a self-managed, technology-oriented approach. Policyholders are increasingly making well-informed choices through online research, recommendations from friends, and mobile applications, leading to a diminished dependency on outdated systems. Statistical analyses confirm that satisfaction is influenced by factors related to service quality and ease of use, especially concerning claims processing and the digital experience. To remain competitive, insurers need to embrace a customer-focused model that utilizes behavioural insights. Suggested improvements include refining mobile app designs, providing customizable options, enhancing financial literacy, and implementing behavioural nudges like simplified selections and educational resources. This strategy not only boosts policyholder satisfaction but also fosters long-term loyalty and retention in a changing insurance landscape.

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