

Behavioral Biases and Uptake of Life Insurance Policy in Lira City.

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Abstract

This study investigated the effect of behavioral biases of policyholders on the uptake of life insurance policies in Lira City. Motivated by persistently low life insurance policy uptake despite its importance for financial security, the research focused on four behavioral biases: Framing Bias, Overconfidence, Loss Aversion, and Regret Aversion as independent variables, with the uptake of life insurance policy (measured by the amount spent on life insurance policy and the number of policies acquired) as the dependent variable. The objectives were to examine the effects of framing bias, overconfidence, loss aversion, and regret aversion on life insurance policy uptake, with the hypotheses that each bias has no significant effect on uptake. Grounded in Prospect Theory and Expected Utility Theory, the research employed a cross-sectional and correlational design. The population comprised 100 life insurance policyholders, from which a sample of 93 respondents was selected. Data were collected using structured questionnaires that were pretested for reliability, encompassing demographic information and measures of the four behavioral biases. Analysis was conducted using SPSS version 23 and Ordinary Least Squares (OLS) regression models. The findings revealed that loss aversion has a statistically significant positive effect on life insurance policy uptake ($\beta = 0.561$, $p = 0.000$), while framing bias ($B = 0.016$, $p = 0.866$), overconfidence ($B = 0.051$, $p = 0.585$), and regret aversion ($B = -0.069$, $p = 0.458$) were not significant. The study concludes that loss aversion significantly influences life insurance policy uptake decisions, whereas other biases have limited effects. It recommends that insurance companies leverage loss aversion in their marketing strategies by emphasizing the risks of being uninsured, and suggests that simplifying insurance products and enhancing financial literacy programs can further promote life insurance policy adoption, supporting national financial inclusion goals.

Keywords: Behavioral Biases, Uptake, Life Insurance Policy, Lira City.

