

Investigating the Relationship between Investors' Tendencies in the Insurance Industry with Emphasis on the Psychological Model

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Abstract

The aim of this research is to investigate the relationship between investors' tendencies in the insurance industry with emphasis on the psychological model. The present research is applicable in terms of purpose, and descriptive-survey in terms of nature. The statistical population consists of 140 investors and capital market activists selected by random sampling method. A questionnaire taken from the qualitative section was used to collect research data. Data analysis was carried out by SPSS and Lisrel statistical software. Based on the findings of the qualitative section, four dimensions of perceptual factors, economic factors, emotional factors, and control factors were obtained. Therefore, the results showed that after reviewing previous studies and interviewing experts, the variables and influential factors in this study include perceptual factors, economic factors, emotional factors, and control factors. Based on the results of the structural equation testing and the obtained statistics, it can be seen that the coefficients of all factors have a significant effect on the final model and the effect of all factors on the structural-process pattern of investor preferences in the insurance industry is confirmed with an emphasis on psychological factors.

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Extended Abstract

Introduction

The impact of the insurance industry on the macroeconomics in countries is undeniable. One of the grounds that must be provided for economic transformation and development and to lay the groundwork for people's activities and to entrust people's work to themselves is certainly security; judicial, social, legal, economic security, etc. There is no doubt that the insurance industry can provide the most important security, namely economic security; and therefore provide a suitable platform for people's economic activities (Rahnemae Roudpeshti et al., 2014). By paving the way for investment, reducing investment risk, and participating in investment from technical reserves, insurance increases productivity in other economic sectors, and on the other hand, the growth and development of other economic sectors also provides a reason to strengthen and develop the insurance industry. The results of research conducted in the field of financing based on the behavioral approach indicate that investors may be irrational; as a result, the cognitive bias or psychological factors of investors can affect their decisions. Therefore, stock price volatility depends not only on the intrinsic value shown by accounting information, but also on the irrational behavior of investors, which can be measured by investor preferences (Mitcell et al., 2020). People analyze many factors to invest in insurance instruments; in other words, even before earning money, investors develop different strategies in their minds for where to invest their money and ultimately choose an option that, according to their mindset, benefits them in every way (Cici, 2012). Studies of human behavioral patterns show that they contradict the underlying assumptions of the rational economic agent theory and the prevailing efficient market hypothesis. These human behavioral patterns are not the result of extreme human ignorance, but rather reflect the nature of human intelligence and its limitations and strengths. Investors strive to do the right thing, but they have limited abilities and certain natural behavioral states that they make decisions on (Bloomfield, 2017). Psychological factors can affect investor decisions and ultimately the performance of financial markets. Behavioral finance aims to empirically validate neoclassical assumptions about human behavior and, where these assumptions are confirmed to be incorrect, it discovers empirical laws that correctly describe behavior and have the same accuracy. Behavioral finance also aims to formulate and propose concepts for the operation of the economic system and its institutions, and utilizes the actual behavioral intentions derived from neoclassical assumptions in the Iranian insurance industry to determine the overall policy. Therefore, the main goal of the research is to answer the question: how investors' preferences in the insurance industry are related to the emphasis on the psychological model.

Theoretical Framework

Investor Sentiment

Market sentiment is the atmosphere of market boom or bust. When the market is in boom states, investors are willing to buy stocks even at a higher price than the actual value. In this case, investors tend to accept more risk, which indicates confidence in the market and economic conditions (Lenestour et al., 2021). Investor sentiment is a global phenomenon and the level of investor confidence can affect the overall market return and stock value. Meanwhile, other areas such as the level of company disclosure and market liquidity can affect investor sentiment (Baker et al., 2018). Shunmugasundram & Sinha (2024) investigated the effect of behavioral biases on investment decisions through the serial mediation of the effects of overconfidence and inclinations. The results of this study showed that behavioral biases affect the investment decisions of life insurance policyholders. The results also support the serial mediation model, in which behavioral biases influence life insurers' investment decisions through overconfidence and disposition effects. It also introduces overconfidence and disposition effects as serial mediators between behavioral biases and investment decisions. Wang (2023) examined behavioral biases in investment decisions. The results suggest that regular portfolio reviews and adjustments are essential to counteract biases and adapt to changing market conditions. Furthermore, proactive visualization of potential outcomes can help reduce biases by promoting a more realistic assessment of risk and reward. It also showed that behavioral biases play a central role in investment decisions. To enhance performance and investment satisfaction, investors are encouraged to understand and correct these biases.

Research Methodology

The present study is applicable in terms of purpose, and descriptive-survey in nature. The statistical population consists of 140 investors and capital market activists selected by random sampling method. A questionnaire taken from the qualitative section was used to collect research data.

Research findings

Data analysis was carried out using SPSS and Lisrel statistical software. Four dimensions of perceptual factors, economic factors, emotional factors, and control factors were obtained based on the findings of the qualitative section. Therefore, the results showed that after reviewing past studies and interviewing experts, the variables and influential factors in this study include perceptual factors, economic factors, emotional factors, and control factors. Based on the results of the structural equation testing and the obtained statistics, it can be seen that the coefficients of all factors have a significant effect on the final model, and the effect of all factors on the structural-process pattern of investor preferences in the insurance industry is confirmed with an emphasis on psychological factors.

Conclusion

The present study aimed to investigate the relationship between investor preferences in the insurance industry with an emphasis on the psychological model. The results of this study are consistent with the results of Shunmugasundram & Sinha (2024), Wang (2023), Ashrafi et al. (2022), Sunder et al. (2018), Zamani (2021), Moradi et al. (2021), Nateg Golestan & Kafash Ghochani (2020), and Asghari & Salimi Baher (2019). Wang (2023) showed that regular portfolio review and adjustments are essential to counter biases and adapt to changing market conditions. In addition, proactive visualization of potential outcomes can help reduce biases by promoting a more realistic assessment of risk and reward. It also showed that behavioral biases play a central role in investment decisions. Investors are encouraged to understand and correct these biases to enhance performance and satisfaction with investment.

Based on the results obtained, the following suggestions are made:

- In addition to its contribution to reducing individual and psychological risks and risk management, insurance can have important effects on the growth and development of the country's economy as an efficient financial intermediary. Therefore, it is suggested that considerable attention should be paid to measuring behavioral factors in this industry in order to expand the volume of the economy and economic activities in the insurance industry.

- Emotional stimuli are the strongest motivators for purchasing decisions. Emotions such as fear, shame, pride, and even altruism can be included in the behavioral assessments of insurance industry policymakers in order to improve the quality of insurance.

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Conflicts of Interest

The authors declare that they have no financial or non-financial, personal, professional, or institutional conflicts of interest relevant to this work.

Conflicts of Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data Availability Statement

The data supporting the findings of this study are available from the corresponding author upon reasonable request.

AI Use Statement

The authors declare that no generative artificial intelligence (AI) or AI-assisted technologies were used in the preparation, writing, or editing of this manuscript.

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Ethics Approval

All procedures performed in this study were conducted in accordance with the ethical standards of the responsible institutional and national research committee.