

The Effect Of Behavioural Biases On The Performance Of Insurance Sector In Nigeria

Ajayi, Foluso Isaac¹, Oluyide, Sopefoluwa Eunice² and Akosile, Mary Oluwayemisi³

¹Department of Finance, Ekiti State University, Ado Ekiti. Email: foluso.ajayi@eksu.edu.ng

Tel: +2347033173359

² Sheffield Business School, Sheffield Hallam University, UK. Email: s.oluyide@shu.ac.uk.

Tel: +447391160310

³Cooperative Economics and Management, Ekiti State University, Ado Ekiti. Email: mary.akosile@eksu.edu.ng. Tel: +2348066414907

Abstract: *The impact of biases on the efficiency of Nigeria's insurance market was the focus of this research. In particular, the study looked at how herding behaviour, regret aversion, overconfidence bias, and loss aversion affected insurance industry performance. Primary data was gathered via a standardised questionnaire that was distributed to workers of chosen Nigerian insurance businesses. A quantitative research design was used for this purpose. We used descriptive statistics and multiple regression analysis to sift through 168 usable responses. A combined impact of behavioural biases on insurance sector performance was shown to be statistically significant ($F = 150.656$, $p < 0.05$). Overconfidence bias, loss aversion, herding behaviour, and regret aversion accounted for 78.7 percent of the variance in the insurance sector's performance, according to the coefficient of determination ($R^2 = 0.787$). The insurance sector's performance was positively and significantly impacted by overconfidence bias ($H = 0.308$, $p < 0.05$), herding behaviour ($\beta = 0.276$, $p < 0.05$), and regret aversion ($\beta = 0.110$, $p < 0.05$). There was no significant influence of loss aversion on organisational performance ($\beta = 0.003$, $p > 0.05$). Overconfidence bias, herding behaviour, and regret aversion significantly improved performance, but loss aversion had no significant impact on performance, according to the study, which found that behavioural biases are important determinants of organisational performance in the Nigerian insurance sector. In order to enhance decision quality and organisational performance, the study suggests that insurance firms should implement behavioural decision-making training, strengthen decision processes based on evidence, incorporate behavioural risk management into corporate governance practices, and promote continuous professional development.*

Keywords: Behavioural biases, overconfidence bias, loss aversion, herding behaviour, regret aversion, organizational performance, insurance sector, Nigeria.

Introduction

Risk management solutions include insurance to protect people and organisations from financial catastrophes. This business boosts investment, financial stability, and risk transfer, making it vital to a healthy economy (Arena, 2008; Outreville, 2013). Nigeria's insurance market may support economic growth by decreasing health, business, property, and life financial risks. Despite its relevance, the company struggles with poor penetration, customer distrust, regulatory restrictions, and inadequate policy administration. Insurance uptake by people and corporations is low in many regions of Nigeria. Recent study shows that policyholders and insurance experts are impacted by behavioural biases (Owolabi et al., 2022), notwithstanding academics' claims of structural and economic hurdles to sector expansion.

Behavioural biases occur when people make judgements based on their predispositions rather than impartiality (Pompian, 2011; Shefrin, 2002). Cognitive, emotional, and social biases frequently lead to bad insurance decisions (Kahneman & Tversky, 1979). These biases affect risk assessment, policy selection, and claims processing in the insurance sector. Policyholders may make incorrect decisions due to false confidence, loss aversion, or dependence on others. Insurers may have biases in risk assessment, pricing, and investment strategies, according to Barberis (2013). Prospect Theory describes systematic cognitive distortions in which loss aversion and probability weighting affect financial judgements in predictable but irrational ways. Firm financial instability, ineffective risk management, and low insurance penetration result from these biases (Owolabi et al., 2022). Behavioural biases can hinder the insurance sector's growth, especially in developing economies where financial decision-makers are more susceptible to cognitive distortions due to a lack of institutions and information (Bikhchandani & Sharma, 2001; Chiang & Zheng, 2010).

Behavioural biases including overconfidence, loss aversion, herding, and regret aversion may impact insurers and policyholders. Risks may be discounted, loss aversion may prevent insurance, or policyholders may choose popular options without appropriate examination. Insurers may overrestrict coverage, undervalue plans, or mimic rivals without study. These biases hinder sector operations, policy adoption, and decision-making. Despite academics' efforts to increase transparency and customer service, few research have examined how behavioural biases impact insurance buying.

LITERATURE REVIEW

The work of prospect theory founders Amos Tversky and Daniel Kahneman in 1979 and behavioural finance pioneer Hersh Shefrin in 2000 were investigated in this paper. Prospect Theory, a key idea in behavioural economics, explains how individuals make choices

under uncertainty, frequently against logical expectations. Prospect Theory explains why policyholders are reluctant to buy insurance, making it relevant to this research.

Behavioural Finance Theory challenges the idea that investors make rational judgements. It argues that people make money choices based on their subjective sentiments and opinions rather than facts. The theory explains why decision-making cognitive biases produce financial market inefficiencies, especially in insurance. Behavioural finance theory helps insurance professionals and businesses understand biases. This research uses behavioural finance theory to identify and address insurance sector issues. Understanding these biases might help insurers enhance pricing, risk assessment, and customer interaction, improving industry performance.

Few studies have examined how behavioural biases affect insurance effectiveness and financial decision-making. Prospect theory research by Tversky and Kahneman (1979) illuminates how cognitive biases like regret and loss aversion impact risk evaluations. Barberis (2013) illustrates that loss aversion and uneven income and loss distribution cause individuals to make irrational financial decisions in investment and risk management settings in his complete examination of Prospect Theory's economic relevance. This concept is essential to understanding insurance market dysfunction. In Nigeria, Owolabi et al. (2022) revealed that policyholders are sceptical and behavioural biases create poor penetration. According to Bikhchandani and Sharma (2001), financial market herding distorts information and generates systemic concerns since market players lose their capacity to think for themselves and copy their peers. The collective pricing and risk assessment flaws worsen. However, these biases' cumulative impact on Nigeria's insurance market in specific locations has not been properly explored.

Previous research largely focused on institutional and structural impediments, ignoring psychological biases that affect insurance acceptance and efficacy.

Nigeria's financial markets show that behavioural biases greatly affect institutional performance. In a groundbreaking research of 300 Nigerian securities market participants, Babajide and Adetiloye (2012) demonstrated that cognitive distortions consistently affect financial sector decision-making. Participants had overconfidence, loss aversion, framing, and status quo bias.

Due to their effects on risk assessment, claims processing, and policy acceptability, these biases hurt the industry, the research found. The present research shows that cognitive biases affect institution efficacy. Berthet's (2022) comprehensive study of cognitive bias studies in the financial sector and related areas found that many biases, including overconfidence, distort professional judgement in all institutional settings, lowering decision quality and operational efficiency. Study biases included availability heuristics, regret aversion, and framing effects. These biases significantly impact underwriting, claims, and customer confidence in insurance products, according to the data. Hwang (2021) used American Life Panel data to show that loss aversion considerably decreases insurance policy uptake. Loss-averse people see premium payments as possible financial losses even without a covered incident, therefore they are less inclined to get insurance. According to Bregu's (2022) empirical findings, overconfident people understate their risk exposure, which renders insurance purchase choices, policy pricing, and the market less efficient. The enormous amount of behavioural finance research shows how biases cause market inefficiencies. Barberis (2013) shows that Prospect Theory's cognitive distortions cause financial markets' systematic and predictable deviations from rational pricing and risk evaluation. Pompian (2011) broadens this analysis to show how market participants' individual biases create institutional inefficiencies. These biases cause risk perception, pricing, and claims settlement inefficiencies, the studies show.

Pitthan and De Witte (2021) demonstrate how consumers' misjudgment of current costs and benefits, framing, and present bias reduce insurance demand in their detailed study of behavioural biases that affect insurance policy adoption. Results revealed that present bias favoured short-term financial gains over long-term security, and negative framing of insurance goods hindered policy acceptance. Everyone understands behavioural biases may botch up claims settlements. Kahneman, Knetsch, and Thaler (1986) found that claimants' equality beliefs strongly influence their faith in institutional judgements. Status quo bias forces decision-makers to cling to present policies rather than embrace more adaptable solutions, according to Samuelson and Zeckhauser (1988). Insurance companies' claims handling shows both dynamics.

It's also generally recognised that psychological biases influence financial organisations' risk management choices. This finding is relevant to insurance underwriting and pricing because Coats and Bajtelsmit (2021) show how optimism bias causes people to underestimate the frequency of negative events, resulting in inadequate risk coverage and an inflated total cost of risk. Chiang and Zheng (2010) found that herd behaviour affects market pricing because institutions adapt to their rivals, making it difficult for individuals to assess risks and resulting in collective mispricing.

Cognitive distortions affect insurance companies. Cabantous (2007) shows that insurers' ambiguity aversion—a reluctance to face uncertain or vaguely defined risks—leads to conservative and conformist product strategies that impede policy innovation, while Malmendier and Tate (2005) show that financial professionals' overconfidence leads to model precision overestimation and pricing inefficiencies.

These biases interact, but most research have overlooked them, leaving us in the dark regarding how they influence Nigeria's insurance business. The research examines how biases affect Nigeria's insurance market efficiency.

METHODOLOGY

This chapter outlines the methods and procedures employed in conducting this research.

Research Design

This study adopts a descriptive survey design to assess the effect of behavioural biases on the performance of the insurance sector in Nigeria (Creswell & Creswell, 2018; Babbie, 2016).

Population of the Study

This study comprises all key stakeholders in the insurance sector, including underwriters, risk analysts, policyholders, brokers, agents, and senior managers of insurance firms in the Southwestern States (Ekiti, Oyo, Osun, Ondo, Ogun, and Lagos State) of Nigeria. This study employed a purposive sample of 1000 respondents to ensure the inclusion of key stakeholders in the insurance sector, which is appropriate for studies requiring expert or criterion-based participant selection (Etikan et al., 2016; Patton, 2015). The Insurance Sector Performance Survey (ISPSQ) targeted 250 senior managers in insurance firms to assess key performance indicators.

Method of Data Analysis

Data collected were analysed using descriptive statistics such as mean, frequency counts, simple percentage, and standard deviation to analyse research questions (Pallant, 2020; Field, 2018), while inferential statistics such as Pearson Product-Moment Correlation and Regression were used to test hypotheses at 0.05 significance levels (Cohen et al., 2003; Hair et al., 2019) with the help of SPSS 23 analytical software.

Model Specification

A multiple regression model was used to determine the effect of behavioural biases (Overconfidence Bias, Loss Aversion, Herding Behaviour, and Regret Aversion) on the performance of the insurance sector in Southwest Nigeria, following the ordinary least squares (OLS) estimation approach widely employed in behavioural finance research (Gujarati & Porter, 2009; Greene, 2018). The model is specified as follows:

$$Y = \beta_0 + \beta_1 OB + \beta_2 LA + \beta_3 HB + \beta_4 RA + \epsilon \text{-----} 1$$

Where:

PIS = Performance of the Insurance Sector (Dependent Variable)

OB = Overconfidence Bias (Independent Variable)

LA = Loss Aversion (Independent Variable)

HB = Herding Behaviour (Independent Variable)

RA = Regret Aversion (Independent Variable)

β_0 = Intercept (Constant Term)

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients of the independent variables (Measures the effect of each behavioural bias on the performance of the insurance sector)

ϵ = Error Term (Accounts for other factors not included in the model)

Results and Discussion

Demographic Distribution of Respondents

Table 1 shows the demographics of the people who took part in the research on how unconscious biases affected the efficiency of Nigeria's insurance market. Age, gender, marital status, level of education, and years of job experience are some of the factors that are taken into consideration.

The results show that the largest age group, comprising 72 respondents (42.9%), was between the ages of 41 and 50. Next came those in the 31–40 age bracket (67 responses, or 39.9%), followed by those in the 21–30 age bracket (17.3%). The majority of responders were between the ages of 31 and 50, which is associated with both high levels of economic activity and professional experience, according to the results. That the respondents are mature enough and have worked in an organization before gives credence to their claims about their knowledge of organisational performance and biases in the insurance industry.

In terms of the breakdown by gender, the study found that 83.3% of the respondents were female and 16.7% were male. This means that out of all the respondents, the vast majority were female employees. While the survey did include male and female experts from the selected insurance organisations, the inference is that the female perspective is more strongly reflected in the views provided. When asked about their marital status, 112 people (66.7% of the total) said they were single, 45 said they were married (26.8% of the total), and 6 said they were divorced (6.5%). This data indicates that most of the people who filled out the survey were working as singles. Younger and middle-aged professionals make up a large share of the insurance industry's workforce, which may explain why there are so many single replies.

Among those who participated in the survey, 94 (56.0%) held a Bachelor's degree, which can be defined as a Bachelor of Science, a Bachelor of Education, or a Bachelor of Arts. After that, 29 people (17.3%) had Master's degrees (M.Sc./M.Ed./M.A.), 24 people (14.3%) had OND/HND qualifications, and 21 people (12.5%) had Ph.D.s. Over 80% of respondents had a bachelor's degree or higher, indicating that the respondents were well educated. Since educated workers are more likely to be aware of behavioural biases and how they affect organisational performance, the answers that have a high level of education are more credible.

The results reveal that the largest category in terms of job experience was 6-10 years, with 87 respondents (51.8%) falling into this category. After that, there were 49 responders (29.2% of the total) with 1-4 years of experience, 24 (14.3%) with 11-15 years, and 8 (4.8%) with 16 years or more of professional background. According to these findings, the majority of respondents had worked long enough to give credible advice on the topic of behavioural biases and how they affect insurance company performance. Employees with a wealth of practical knowledge about workplace conduct and organisational success were captured by the study, as indicated by the preponderance of respondents with 6-10 years of experience.

Respondents tended to be middle-aged women with six to ten years of experience in the workforce, who were also more likely to be single and hold a bachelor's degree. The information obtained for examining the effect of behavioural biases on the performance of the insurance sector in Nigeria is enhanced by the fact that the sample consisted of individuals with an adequate educational background and professional experience, as suggested by these characteristics.

Table 1: Demographic Distribution of Response

	Frequency	Percent
Age Distribution		
21-30Years	29	17.3%
31-40Years	67	39.93%
41-50Years	72	42.93%
Gender Distribution		
Male	28	16.7%
Female	140	83.3%
Marital Status		
Single	112	66.7%
Married	45	26.8%
Divorced	11	6.5%
Level of Education		
OND/HND	24	14.3%
B.Sc./B.Ed/B.A	94	56.0%
M.Sc./M.Ed/M.A	29	17.3%
Ph.D	21	12.5%
Work Experience		
1-5Years	49	29.2%
6-10Years	87	51.8%
11-15Years	24	14.3%
16Years and Above	8	4.8%

Source: Field Survey, 2026

Behavioural Biases on the Performance of the Insurance Sector in Nigeria

Table 2 shows the outcomes of the multiple regression analysis that was carried out to investigate how behavioural biases impacted the efficiency of Nigeria's insurance industry. The model takes into account a variety of cognitive biases, such as herding behaviour, regret aversion, overconfidence bias, and loss aversion. A very strong positive association between the behavioural biases and the performance of the insurance sector is indicated by the model summary's correlation coefficient (R) of 0.887. With a R^2 value of

0.787, we can deduce that overconfidence bias, loss aversion, herding behaviour, and regret aversion collectively account for 78.7% of the variance in insurance sector performance. Other, non-model factors account for the remaining 21.3% of the variation. Once the number of predictor variables is taken into account, the adjusted R^2 value of 0.782 provides further evidence of the model's excellent explanatory power.

A p-value of 0.000 ($F = 150.656$, $p < 0.05$) and an F-statistic of 150.656 show that the regression model is statistically significant. This indicates that the combined impact of the behavioural biases on the efficiency of Nigeria's insurance market is substantial. As shown by the regression coefficients ($\beta = 0.308$, $t = 6.235$, $p = 0.000$), the insurance sector's performance is positively and statistically significantly impacted by overconfidence bias. This means that, everything else being equal, there is a correlation between a one-unit rise in overconfidence bias and a 0.308-unit boost in performance. The results show that overconfidence bias is a powerful predictor of organisational performance and has a substantial impact on it.

A positive coefficient ($\beta = 0.003$) indicates loss aversion, however it is not statistically significant ($t = 0.037$, $p = 0.970$). The study finds no significant effect of loss aversion on insurance sector performance since the p-value is bigger than the 0.05 level of significance. This indicates that the selected insurance firms' organisational performance is unaffected by employees' tendency to avoid losses. According to statistical analysis, herding tendency has a favourable and significant impact on the insurance sector's performance ($\beta = 0.276$, $t = 4.611$, $p = 0.000$). This proves that when herding behaviour increases, organisational performance also increases. The findings provide credence to the idea that herding behaviour plays a key role in predicting performance and helps to explain why the insurance industry's results can vary so much. Likewise, the insurance sector's performance is positively and statistically significantly impacted by regret aversion ($\beta = 0.110$, $t = 2.046$, $p = 0.042$). The study concludes that regret aversion significantly effects organisational performance since the p-value is less than 0.05. Despite being less influential than herding behaviour and overconfidence bias, it is nevertheless a major factor in performance. If all behavioural bias variables were set to zero, the predicted performance score for the insurance industry would be 1.233, as shown by the constant value of 1.233. Results show that regret aversion, herding behaviour, and overconfidence bias all positively impact insurance industry performance in Nigeria, but loss aversion has no such effect. Overconfidence bias, herding behaviour, and regret aversion are the predictors that have the most impact on organisational success. Behavioural biases are significant performance drivers in the Nigerian insurance market, according to the model's high explanatory power.

Table 2: Behavioural Biases on the Performance of Insurance Sector

Variables	Coeff.	St. Error	t-value	p-value
Overconfidence Bias	0.308	0.049	6.235	0.000
Loss Aversion	0.003	0.092	0.037	0.970
Herding Behaviour	0.276	0.060	4.611	0.000
Regret Aversion	0.110	0.054	2.046	0.042
Constant	1.233	0.114	10.788	0.000
R	0.887			
R Square	0.787			
Adj. R Square	0.782			
F Stat.	150.656(0.000)			

Dependent variable: Performance of the Insurance Sector

Conclusions

- The study found that the insurance sector in Nigeria is greatly affected by behavioural biases. Collectively, behavioural biases significantly explain variability in organisational performance, as indicated by the statistically significant regression model ($F = 150.656$, $p < 0.05$).
- Overconfidence bias positively and significantly affects insurance industry performance, according to the findings. This indicates that when backed by sufficient knowledge and experience, managers and employees who show assurance in their decision-making processes can favourably impact organisational performance.
- The paper goes on to say that regret aversion and herding behaviour have a big impact on how well the insurance industry does. Organisational outcomes are shaped by these behavioural biases, which impact decision-making, collaboration, and response to uncertainty on the part of both employees and managers.

- iv. The study found no substantial impact of loss aversion on the performance of Nigeria's insurance system. This suggests that among the insurance firms surveyed, the inclination to minimise losses is not a sole factor in the ups and downs of organisational performance.

Policy Recommendations

- i. Management and staff at insurance firms should participate in ongoing training on cognitive bias and behavioural decision-making. To get the most out of behavioural biases and the least amount of bad judgement, these programs should make people more self-aware, sharpen their critical thinking skills, and promote decision-making based on facts.
- ii. Prior to making important strategic and operational decisions, management should set up formal decision-making processes that stress the need of using objective data, conducting risk assessments, and consulting with experts. As a result, herd mentality and overconfidence can be better directed toward achieving organisational goals and less toward making illogical choices.
- iii. Organisational leadership and insurance regulatory bodies should institute policies that encourage CPD, ethical decision-making, and teamwork in the course of education. Reducing the negative repercussions of regret aversion and boosting organisational performance can be achieved by creating an environment where employees can freely examine options and learn from previous actions.
- iv. Insurance companies should include behavioural risk management into their HR and C-suite strategies because biases in employee behaviour account for a significant amount of organisational performance. Organisational practices should incorporate regular behavioural evaluations, performance reviews, mentoring programs, and psychological support mechanisms to improve the quality of employee decisions and sustain organisational performance over the long term.

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