Center of Economic Student Journal Vol. 8 No. 4, 2025

e-issn : 2621 – 8186

Constitutional Court Decision as Market Signal: An Empirical Study of Insurance Sector Stocks in Indonesia

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Abstract

This study analyses the impact of the Constitutional Court (MK) Decision No. 83/PUU-XXII/2024 on investor reactions to insurance-sector stocks in Indonesia. This decision revises Article 251 of the Commercial Code (KUHD), which previously allowed insurance companies to cancel policies even if misinformation occurred without intent. This change could affect risk perceptions and investor expectations regarding claim obligations. This event study employs two statistical tests: the Wilcoxon signed-rank test to measure abnormal returns and the Generalized Sign Test for abnormal trading volume. The results show a significant decline in Cumulative Average Abnormal Return (CAAR) across all event windows. Furthermore, Cumulative Average Abnormal Trading Volume (CAATV) also declined significantly, reflecting weakening investor interest. These findings confirm that the market views the MK decision as increasing operational and financial risks for insurance companies.

Keywords: Constitutional Court Decision, Insurance Stocks, Event Study, Abnormal Return, Abnormal Trading Volume

Introduction

Insurance is a civil contract based on the principle of good faith between the insured and the insurer, which creates rights and obligations for both parties (Muhammad, 2006). In practice, this contract involves financial risks that the insurance company covers in exchange for premiums paid by the insured. According to Rejda et al. (2022), insurance is a risk transfer mechanism that collects fortuitous losses from individuals or business entities and transfers them to the insurance company, which then manages them through a pooling system.

According to Rejda et al. (2022), the legal relationship between the insured and the insurer is contractual and subject to the general provisions of contract law and the specific rules applicable to the insurance contract. In this regard, there are legal principles that form the foundation, including utmost good faith, insurable interest, indemnity, subrogation, contribution, and proximate cause. These principles are designed to maintain a balance of rights and obligations between both parties and avoid moral hazard in contract implementation.

However, within the context of Indonesian positive law, there are still regulations that are considered to create inequality. One such provision is 251 of the Indonesian Commercial Code (KUHD), which authorizes insurance companies to cancel insurance contracts even if the information provided by the insured is false without intent (Siyo et al., 2024). This provision could weaken consumer protection by putting the insured in a vulnerable position. One case illustrating this issue is the dispute between Maribati Duha, the heir of Latima Laia, and PT Prudential Life Assurance. The dispute began when Latima Laia, a life insurance policyholder, applied for policy reinstatement in early 2022 after previously taking a premium break. After a medical examination and payment of the outstanding premiums as stipulated, the policy was declared active again in March 2022. However, following Latima's death in July 2022 and the subsequent benefit claim filed by her heirs, Prudential paid only a portion of the benefits, citing previously undisclosed health information by the insured.

Claiming to have been harmed, the heirs petitioned the Constitutional Court (MK) for a judicial review of Article 251 of the Indonesian Commercial Code (KUHD). The petitioner argued that the provision violated the principles of justice, consumer protection, and legal certainty because it allows insurance companies to cancel policies even when false information was provided without bad faith. The Constitutional Court, in an open plenary session, granted the petition in part and declared Article 251 conditionally unconstitutional, meaning it only applies if the false information was provided in bad faith. This ruling was issued in MK Decision Number 83/PUU-XXII/2024.

This ruling has dual implications for the insurance industry in Indonesia. On the one hand, it strengthens legal protections for insured parties and encourages greater transparency and accountability from insurance companies. However, limiting companies' authority to reject claims based on non-intentional errors also increases the risk of higher claim volume and higher litigation, ultimately increasing companies' operational burdens and financial risks.

In this context, regulatory changes affecting claim eligibility criteria and dispute resolution procedures can directly impact the efficiency and stability of insurance companies' operations. Legal reforms that provide greater convenience for insured parties, such as eliminating liability limits or relaxing requirements to file lawsuits, may trigger a surge in claims in the short term. (Klein, 2023) asserts that policies that expand access to court dispute resolution or significantly change the scope of claims can create significant administrative and financial pressures. In his article, he also cites findings from the Insurance Research Council (IRC) showing that tort reform rollbacks have led to more lawsuits, thereby increasing the value of claims companies cover.

Klein (2012) emphasized that regulatory changes that strengthen the insured's position must be carefully considered within the economic principles of insurance regulation. Government intervention is justified in the context of market failures, such as information asymmetry or conflicts of interest between companies and insureds. However, regulations that

Excessively restricting insurance companies' freedom of movement in managing risk, for example, by relaxing claim rejection criteria, can have negative impacts, such as a disproportionate surge in claims, pressure on solvency ratios, and the emergence of moral hazard, where insureds are encouraged to take riskier actions due to a perceived overprotection.

Investors also feel the implications of this dynamic. For market participants, policies that strengthen consumers' positions, on the one hand, send a positive signal of a commitment to consumer protection and strengthened governance. However, investors are also concerned about the potential for increased operational risk and reduced efficiency, which could affect the company's short-term financial performance. This transition creates additional pressure to improve the quality of customer selection, ultimately encouraging insurance companies to strengthen more rigorous, data-driven underwriting practices. These practices include more comprehensive risk evaluations, the use of predictive models, field surveys, and technology to detect potential moral hazard early (Burns et al., 2019).

These efforts are consistent with the precautionary principles that underpin risk management in the financial industry, aiming to reduce long-term exposure to adverse claims (Kumar et al., 2024). Nevertheless, the growing complexity of underwriting and risk assessment demands substantial investment in technology infrastructure, enhanced internal controls, and professional expertise. Although these initiatives improve the accuracy and efficiency of risk management, they also drive a marked increase in operating costs. Kumar et al. (2024) further highlight that ERM implementation in insurance requires coordinated efforts across functions and robust information systems, which in turn increase operational burdens as an inherent consequence of comprehensive risk management.

Furthermore, these processes are perceived by investors as signals of strengthened corporate governance and risk management discipline. As stated by Bansal & Bansal (2014), strong governance in the insurance industry fosters integrity in company operations, including transparent and credible underwriting decision-making. This aligns with the International Association of Insurance Supervisors (2024) framework, which states that the principle of prudence in the risk selection process, as part of a risk management and corporate governance system, not only improves operational efficiency but also supports long-term financial resilience and strengthens market confidence.

Despite its merits, stronger governance does not guarantee a direct improvement in a firm's financial performance. Vincent et al. (2023) show that in Indonesia, stricter corporate governance practices can reduce profitability margins, particularly if rising costs are not accompanied by revenue growth. Consequently, investors may respond negatively to indications of declining returns, potentially triggering adverse market sentiment.

This situation underscores that strengthening governance and risk management cannot be separated from regulatory dynamics. In many cases, policy changes and legal decisions directly impact company operations and investor perceptions. Constitutional Court Decision No. 83/PUU-XXII/2024, for example, not only concerns legal aspects and consumer protection, but also.

impacts the economy and capital markets. These changes can influence investors' risk perceptions, reflected in abnormal stock price fluctuations (abnormal returns). Several studies have shown that government policies, new regulations, or court decisions can elicit statistically significant market reactions through abnormal returns (Gani et al., 2021; Handayani et al., 2020; Indriani & Mariana, 2021; Katz et al., 2015).

Although numerous studies have demonstrated that changes in policies, regulations, and court decisions can generate significant market reactions, there is limited research specifically examining the impact of judicial decisions, particularly those from the Constitutional Court, on specific industry sectors in the Indonesian capital market. Therefore, the study of Constitutional Court Decision No. 83/PUU-XXII/2024 is relevant not only from legal and consumer protection perspectives but also as a reflection of how the judicial system can influence investor risk perceptions in the financial sector, particularly in insurance. The findings of this study are expected to provide an empirical contribution to the event study literature on developing-country capital markets, while also serving as a reference for regulators and industry players in responding to policy changes originating from the judiciary. Based on the discussion above, this study aims to examine whether Constitutional Court Decision No. 83/PUU-XXII/2024 affected investor reactions, as reflected in abnormal returns and trading volumes for shares of insurance companies in Indonesia.

In capital markets, investor response to new information is a crucial factor in understanding stock price dynamics. One relevant theoretical approach is the Efficient Market Hypothesis (EMH) proposed by Fama (1970), which states that an efficient market will quickly and accurately reflect all available information in stock prices. Therefore, legal information, such as Constitutional Court (MK) decisions, can be classified as public information that may be material to market valuations, especially when it directly affects a specific sector, such as the insurance industry.

This framework is reinforced by Signaling Theory (Spence, 1973), which states that new information functions not only as fact but also as a meaningful signal for market participants. In this case, Constitutional Court Decision No. 83/PUU-XXII/2024 not only has legal weight but also acts as a signal of changes in risk and the direction of legal policy. Investors tend to respond to this signal by reevaluating their expectations regarding risk exposure, claim costs, and insurance companies' risk governance.

Empirical findings support that the market responds significantly to information originating from state authorities. Gani et al. (2021) demonstrated abnormal stock returns in response to tax policy, while Handayani et al. (2020) found a significant market reaction to the enactment of the Job Creation Law. Research by Indriani & Mariana (2021) also indicated a significant difference in returns on state-owned enterprise stocks before and after the issuance of the Presidential Regulation, indicating high market sensitivity to national policies.

Internationally, Katz et al. (2015) found that United States Supreme Court decisions impacting the health insurance industry directly influenced insurance company stock prices. This indicates that the insurance industry is highly sensitive to legal events, given its business characteristics, which rely heavily on trust and contractual certainty (Outreville, 2013; Rejda et al., 2022).

The insurance industry's sensitivity to legal changes and regulatory events is increasingly crucial, given its heavy reliance on long-term trust and legal certainty (Guiso, 2021; Gultom et al., 2024; Schanz, 2019). This industry inherently offers protection against contingent risks so that any legal uncertainty can disrupt market expectations regarding claims liabilities and a company's reserve structure. Cummins & Weiss (2009) state that changes in legal interpretation of contractual obligations in insurance policies can impact a company's liabilities, underwriting models, and risk management systems. Furthermore, Cheng et al. (2010) emphasize that market reactions to legal events with contractual impacts are not merely a reflection of speculation but rather an adjustment to fundamental risk perceptions.

Although various studies have examined the impact of public policy and legal events on the stock market, few have specifically examined the influence of Constitutional Court decisions on market reactions in Indonesia's insurance industry. This indicates a significant research gap that this study aims to address. Based on the theoretical explanation and empirical findings presented, the following hypothesis is formulated:

H_1: Constitutional Court Decision No. 83/PUU-XXII/2024 affects abnormal stock returns of insurance issuers in Indonesia.

Several previous studies have shown that a significant event in the capital market can affect not only stock prices but also trading volume, an indicator of market liquidity. According to Bamber & Cheon (1995), trading volume often reacts more sensitively to information announcements than stock prices do, as volume reflects differences in investor opinion about information entering the market. This is consistent with research by Campbell & Wasley (1996), which found that corporate events can trigger significant abnormal trading volume during the event period. Furthermore, Ajinkya & Jain (1989) explain that abnormal trading volume increases when the market perceives an event as containing relevant information, resulting in increased stock trading activity. In other words, informational events will cause a shift in trading volume patterns from normal conditions.

Several studies in the Indonesian market on government announcements also show abnormal trading volume around event dates, such as Agustina et al. (2018) on the tax amnesty announcement and Wahyuni & Sukmaningrum (2019) on the relaxation of the loan-to-value (LTV) ratio for mortgages. Based on these findings, the announcement of Constitutional Court Decision No. 83/PUU-XXII/2024 is expected to trigger reactions in the Indonesian capital market, not only through changes in stock prices but also through changes in trading activity among insurance-industry issuers. Therefore, the hypothesis of this research is formulated as follows:

H_2: Constitutional Court Decision No. 83/PUU-XXII/2024 affects the abnormal trading volume of shares of insurance issuers in Indonesia.

Method

This study employs a quantitative approach, using the event study method, to measure the impact of Constitutional Court (MK) Decision Number 83/PUU-XXII/2024 on stock market reactions in the insurance industry. An event study is a method used to assess whether an event affects a company's value, as reflected in stock price movements over a specific period. According to Mackinlay (1997), event studies can provide a systematic measurement of market reactions to new information by isolating the influence of a specific event from other market factors.

The use of this method is highly relevant to this research because the Constitutional Court decision is public, has direct implications for insurance industry operations, and can influence investor risk perceptions, ultimately reflected in abnormal stock returns. This event study employs a nonparametric method to assess the significance of cumulative abnormal returns and abnormal trading volumes. A nonparametric approach is preferred given the relatively small sample size, which typically leads to non-normally distributed data (Campbell & Wasley, 1996; Fan et al., 1994). This test was conducted using the Wilcoxon generalized signed-rank test for abnormal return analysis and the Wilcoxon signed-rank test for abnormal trading volume analysis in Stata 17.

The population in this study consisted of all insurance companies listed on the Indonesia Stock Exchange (IDX). To determine the sample, a purposive sampling technique was used with the following criteria: (1) insurance companies actively listed on the IDX at the time the Constitutional Court Decision was announced; and (2) complete daily stock price data for both the estimation and event periods. Data were collected from secondary sources on the Yahoo Finance website (https://finance.yahoo.com), including each issuer's daily stock prices and the Jakarta Stock Composite Index (JKSE) as a proxy for market returns. Among the 17 issuers in the insurance industry, 13 companies met the sampling criteria.

This study adopts the classical event study framework posited by Mackinlay (1997) to define the observation period, which consists of two main stages: (1) an estimation window, starting from the 120th day to the 11th day before the event date (t-120 to t-11). This period is used to estimate the α and β parameters of each stock in relation to market returns; and (2) an event window, spanning the 5th day before the event to the 5th day after the event (t-5 to t+5). This period captures the market's immediate reaction to the Constitutional Court ruling, while abnormal average trading volume is calculated following Campbell & Wasley (1996) with modification. The estimation window for the calculation of abnormal average trading volume starts from the 120th day to the 21st day before

the event date (t-120 to t-21) and the 21st day to 120th day after the event date (t+21 to t+120), 200 days in total.

The focus of this study is the official announcement of Constitutional Court Decision No. 83/PUU-XXII/2024, published on January 3, 2025, which serves as the event date (t_0).

Data Analysis Techniques

Cumulative Average Abnormal Return (CAAR)

The steps for analysing cumulative abnormal return data are as follows: First, calculate the Actual Return ($R_{i,t}$).

Daily stock returns are calculated using the formula:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

Where:

$R_{i,t}$: company *i*'s stock return on day t

$P_{i,t}$: closing price of company *i*'s shares on day t

$P_{i,t-1}$: closing price of company *i*'s shares on day t-1

Second, estimate the Expected Return ($E(R_{i,t})$) Expected return is calculated using the Market Model:

$$E(R_{i,t}) = \alpha_i + \beta_i R_{m,t}$$

where:

$R_{m,t}$: market return (JKSE) on day t

α_i and β_i: regression coefficients of stock *i* on market return in the estimation period

Third, calculate the Abnormal Return ($AR_{i,t}$)

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$

Fourth, calculate the Average Abnormal Return (AAR_t)

$$AAR_t = \frac{1}{N} \sum_{t=t_1}^{t_2} AAR_t$$

Fifth, calculate the Cumulative Average Abnormal Return (CAAR)

$$CAAR = \sum_{i=1}^{N} AR_{i,t}$$

Under the null hypothesis, the average cumulative abnormal return (CAR) surrounding the event date, defined as the announcement of Constitutional Court Decision No. 83/PUU-XXII/2024, is assumed to be zero. The t-statistic is used to assess whether the estimated CAR within the specified event window differs significantly from zero. This procedure formally tests whether the event induced a statistically significant market reaction.

Cumulative Average Abnormal Trading Volume (CAATV)

The CAATV is calculated using a mean-adjusted abnormal trading volume approach, following Campbell & Wasley (1996), with modifications based on the

CAAR calculation to facilitate aggregate measurement across the days before, during, and after the announcement. The steps for analysing CAATV data are as follows:

First, determine the Expected Trading Volume (ETV). ETV is the expected trading volume for stock *i*, calculated as the average trading volume during the estimation window (in this study, 200 days, from -120 to -21 days before the event and 20 to 120 days after the event).

$$E(TV_i) = \frac{1}{N} \sum_{t \in Estimation\ Window} TV_{i,t}$$

Second, determine the Abnormal Trading Return to show the relative difference between the actual trading volume on day t and the normal trading volume (ETV). A positive ATV indicates increased trading activity due to the event; a negative ATV indicates lower-than-normal trading activity.

$$ATV_{i,t} = \frac{TV_{i,t} - E(TV_i)}{E(TV_i)}$$

Third, calculate the Cumulative Abnormal Trading Return to determine the sum of all ATVs within an event window.

$$CATV_i(t_1, t_2) = \sum_{t=t_1}^{t_2} ATV_{i,t}$$

Fourth, calculate the Cumulative Abnormal Average Trading Volume (CAATR). CAATR is based on the approach used in calculating CAAR. CAATR is used to assess the aggregate market reaction, measured by trading volume, across all observed samples.

$$CAATV(t_1, t_2) = \frac{1}{N} \sum_{t=1}^{N} CATV_i(t_1, t_2)$$

In the null hypothesis, it is assumed that the average cumulative abnormal
The average trading volume (CAATV) around the event date, namely the announcement of Constitutional Court Decision Number 83/PUU-XXII/2024, is zero. Therefore, the t-statistic is used to test whether the estimated CAR over a specific period differs significantly from zero. In other words, this test aims to determine whether the event elicited a significant market reaction.

Results and Discussion

Cumulative Average Abnormal Return (CAAR)

Table 1. Event Study Results: CAAR for Insurance Firms Across Multiple Event Windows (Generalized Sign Test by Wilcoxon)

FIRM	CAAR [-5,5]	CAAR [-3,3]	CAAR [-1,1]
AHAP	-3.92%	2.30%	1.91%
	(0.7587)	(0.8172)	(0.7648)
AMAG	-3.07%	-2.35%	-1.94%
	(0.6768)	(0.6833)	(0.5994)
ASBI	-18.44%*	-3.34%	-0.24%

	(0.0849)	(0.6872)	(0.9647)
ASDM	-2.11%	-2.10%	-1.01%
	(0.5100)	(0.4000)	(0.5291)
ASJT	2.10%	-0.06%	0.88%
	(0.7078)	(0.9885)	(0.7534)
ASRM	3.46%	5.02%*	2.62%
	(0.3551)	(0.0882)	(0.1642)
JMAS	-8.96%	-2.19%	1.84%
	(0.7441)	(0.9185)	(0.8938)
LIFE	-6.91%	-7.96%	-7.81%
	(0.7293)	(0.6103)	(0.4365)
LPGI	-12.06%	-11.13%	-1.75%
	(0.4089)	(0.3297)	(0.8107)
MREI	-1.42%	3.52%	-3.02%
	(0.9172)	(0.7413)	(0.6591)
MTWI	-4.72%	-1.40%	1.59%
	(0.6572)	(0.8658)	(0.7664)
TUGU	-4.07%	-1.95%	-0.84%
	(0.5217)	(0.6946)	(0.7922)
VINS	0.01%	-0.85%	2.30%
	(0.9992)	(0.9421)	(0.7588)
Ptf CARs n 1 (13 firms)	-5.20%	-2.09%	-0.58%
	(0.2364)	(0.5419)	(0.7901)
CAAR group (13 firms)	**-4.42%*****	**-1.60%*****	**-0.38%*****
	(0.0000)	(0.0000)	(0.0000)

**** p-value < .01, ** p-value <.05, * p-value <.1 p-values in parentheses*

Source: Data processed (2025)

The data analysis in this study employed an event study using the generalized signed-rank test (Wilcoxon) to examine the market reaction to Constitutional Court Decision No. 83/PUU-XXII/2024, announced on January 3, 2025. Three event windows, [-5,5], [-3,3], and [-1,1], were utilized to capture the market response before, during, and after the announcement, using a sample of 13 insurance companies listed on the Indonesia Stock Exchange.

The per-share CAAR analysis indicates that most individual stocks did not show a significant reaction to the Constitutional Court decision, although there were some marginal exceptions. For example, ASBI shares in the [-5,5] window experienced a CAAR decrease of 18.44% ($p = 0.0849$), indicating significance at the 10% level ($p < 0.1$). ASRM shares showed a marginal positive reaction of 5.02% in the [-3, 3] window with a p-value of 0.0882. However, most other stocks, such as AHAP, AMAG, JMAS, and LIFE, showed insignificant CAAR fluctuations, with p-values above 0.1. This indicates that individual stock reactions to this legal ruling are heterogeneous and inconsistent, likely due to differences in each company's risk exposure to claims liabilities and their underwriting characteristics.

A more comprehensive analysis was conducted at the portfolio level, specifically the CAAR of a 13-stock portfolio. The results showed that the portfolio CAAR for the [-5, 5] window was -4.42% ($p < 0.01$), indicating a statistically significant decrease. Although the CAAR decreased to - 1.60% in the [-3, 3] window and to -0.38% in the [-1, 1] window, both remained significant ($p < 0.01$). These findings indicate that the market response to the Constitutional Court's ruling is more pronounced when analysed across sectoral portfolios than when assessed individually. This is consistent with the event study literature, which suggests that the effects of an event can be diffuse and more pronounced at the portfolio level, while the effects on individual stocks can be masked by company-specific volatility or other external factors (Kothari et al., 2006; Mackinlay, 1997).

The differences in results across event windows also provide important information. The wider window ([-5,5]) captures the cumulative market reaction, encompassing information both before and after the announcement, resulting in a larger CAAR effect. Conversely, the narrower window ([-1,1]) displays a more limited effect, indicating that some information was already reflected in stock prices before or immediately after the event date. This difference reinforces the view that the market reacts not only at the time of the official announcement but also in the days leading up to and following it, consistent with the efficient market hypothesis (EMH), which states that stock prices quickly adjust to new information (Fama, 1970).

Based on the portfolio CAAR results, hypothesis H1, which states that Constitutional Court Decision No. 83/PUU-XXII/2024 affects abnormal stock returns of insurance issuers in Indonesia, is supported. Significant CAAR values across all three event windows indicate that the event had a material impact on the market. Although individual stock reactions varied, the collective response across sector portfolios clearly reflected heightened risk perceptions following the Constitutional Court decision. This finding confirms the relevance of using sector portfolios in event study research, particularly when legal events impact a specific industry broadly.

From an economic perspective, the significant negative result in portfolio CAAR indicates that the market perceives Constitutional Court Decision No. 83/PUU-XXII/2024 as increasing risk for insurance companies, particularly regarding the likelihood of higher claims liabilities and potential additional litigation. This aligns with international literature showing that legal events affecting insurance companies' contractual obligations can trigger significant stock price reactions, as investors factor in fundamental risk and increased financial exposure (Cummins & Weiss, 2009; Katz et al., 2015).

Furthermore, these results highlight the importance of risk management and corporate governance. The significant impact on portfolio CAAR indicates that insurance companies need to review their underwriting practices, client selection, and claims reserves to anticipate changes in risk exposure resulting from legal rulings. Investors, in turn, assess insurance-sector portfolios collectively, rather than individual stocks, to gauge the impact of regulatory risk on market value.

Cumulative Average Abnormal Trading Volume (CAATV)

Table 2. Wilcoxon Signed-Rank Test Results for Cumulative Average Abnormal Trading Volume (CAATV)

Sign	Obs	Sum ranks	Expected
Positive	22	253	5148
Negative	121	10043	5148
Zero	0	0	0
All	143	10296	10296

Unadjusted variance	246246.00
Adjustment for ties	-357.50
Adjustment for zeros	0.00
Adjusted variance	245888.50

H0: caatv	=	0
z	=	-9.872
Prob > | z |	=	0.0000
Exact prob	=	0.0000

Source: Data processed (2025)

This study tests the hypothesis H_2 that the announcement of Constitutional Court Decision No. 83/PUU-XXII/2024 affected abnormal trading volume in shares of insurance issuers in Indonesia. The test was conducted using the nonparametric Wilcoxon signed-rank test, which is appropriate when the data are not normally distributed or the sample size is relatively small (Campbell & Wasley, 1996; Fan et al., 1994).

The test results show 22 observations with positive CAATV and 121 with negative CAATV, with rank sums of 253 and 10,043, respectively. No observations were found with a value of zero. This indicates that most issuers experienced a decrease in cumulative trading activity compared with normal conditions before the event.

The test statistic yielded a z-value of -9.872 with p = 0.0000. Therefore, hypothesis H_2 was accepted. These results provide empirical evidence that Constitutional Court Decision No. 83/PUU-XXII/2024 had a significant impact on the stock trading activity of insurance issuers in Indonesia.

The predominance of negative results indicates that market reaction tended to weaken, as evidenced by a decrease in stock trading liquidity in the period surrounding the event. It implies that investors responded to the decision with increased caution, resulting in reduced transaction volume in the insurance industry.

Conclusion

This study reveals that Constitutional Court Decision No. 83/PUU-XXII/2024 had significant consequences for capital market dynamics, particularly in the insurance industry. The identified negative reactions indicate that investors viewed this decision as a trigger for increased business risk, thus affecting perceptions of the stability and profitability prospects of insurance companies. This phenomenon confirms that legal regulations can be a key determinant of risk assessment and investment decisions, beyond economic factors and financial performance alone.

These findings also demonstrate the significant role of legal events in directing collective investor behaviour in the insurance industry. The market response detected at the sectoral level indicates that market participants treated the Constitutional Court decision as an important signal affecting all insurance companies listed on the stock exchange. This underscores the importance for insurance companies of strengthening risk management, increasing information transparency, and adjusting business strategies to mitigate the uncertainty created by policy changes.

From an academic perspective, this research contributes to the event study literature by adding empirical evidence that judicial decisions can influence capital market performance in specific sectors. This type of study enhances understanding of the interrelationships between the legal system, governance, and market reactions. It can serve as a reference for regulators and stakeholders in formulating policies that balance consumer protection and insurance industry stability.

However, these findings have limitations: the sample includes only 13 insurance companies, the event window is relatively short, and the potential for confounding and heterogeneity in individual responses has not been fully addressed. Furthermore, other relevant variables, such as company fundamentals, governance factors, ownership structure, macroeconomic conditions, and market sentiment, have not been included, which creates the risk of omitted variable bias. Therefore, future research is recommended to expand the sample, use a longer event window, and regress abnormal returns and abnormal trading volume on these firm-level and macro variables to more comprehensively explain the heterogeneity of market reactions.

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