The Prime Minister resignation and the performance of takaful and insurance operators in Malaysia: An event-study approach

by

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Abstract:

This research focuses on the stocks market of takaful and insurance operators in Malaysia and studies the reaction of the stock's price to the announcement of the prime minister's resignation by using the event study method with signaling theory. This research investigates the initial volatility and sector return. In this study 8 takaful firms and 14 insurance firms were analysed to measure the reaction of this market stocks price performance and whether its performance differs prior to the announcement than post the announcement. To do this data was obtained from Kuala Lumpur Stock Exchange (KLSE) and analysed by using the event study method (ESM). However, this study focused on the takaful and insurance industry to highlight the impacts of its stocks market related to the government announcement of the prime minister's resignation. The results corroborated with signaling theory due to the significant impacts of the government announcement on the stock's price. The finding of this research shows evidence of a positive ARR and CAAR which indicate higher price movements. The finding of this research important to the government, businesses and investors. However, it is important that government be stable and it must boost the investors' confidence to enhance investment decisions.

Introduction

Now, there are many problems, issues and challenges that put the stock market in question whether that the stock market is efficient or not? However, some of these problems, issues and challenges are written on in the news, some of it the market must deal with it daily and some of it the market does not know about it yet. For example, the stocks market, not only in Malaysia but in the world faces problems similar stretched valuation, the full-employment economy which increases the cost of both inflation and costs of wage, the hikes of the fed rate, intra-market correlation, which is the lowest since the 1950s, the history of the low volatility despite the recent spikes and the expectation of decreasing revenue, income and profit. Also, there are some other events that risks the stocks of a market. The market value is changing daily in response to these macroeconomic and microeconomic events similar Covid-19 and SARS outbreak. Moreover, terrorism, natural disasters, social unrest and conflict impact the market of the stocks, government, firms and countries (Slimmon, 2021). However, another series problem that affects the market of a country is the stability of the country government regarding appointee— a person to whom a job or role is assigned (Luechinger & Moser, 2014). In other words, the politics of country stability is

impacting its stock market. Thus, the focus of this research included in this paper examines the effects of political uncertainty on the investing on takaful and insurance companies in Malaysia to the announcement by the government of the resignation of the Prime Minister by analysing the change of the price of the stocks.

This research investigated the impact of political uncertainty on the takaful and insurance firms in Malaysia and study the behaviors by conducting stocks analysis on the price of takaful and insurance stocks to determine any change in the price due uncertainty of political— the prime Sri Dato' Mahiaddin bin Md Yasin who served the shortest time ever in Malaysia history appointed in the position of prime minister from March 2020, the day of the announcement of the pandemic in Malaysia, to August 2021 of a period equal 17 months. In any country, in case the political system is not certain it would affect the investor's behavior due the fear of losing wealth. Therefore, is it true for each country or that investors benefit from these events (Irshad, 2017). This research paper looks at the stock's price return in an environment with political uncertainties.

However, this research will clear and increase the awareness about the relationship between the country political uncertainties and its stocks market performance because Malaysia is a country that runs its framework of politics as a federal representative democratic constitutional monarchy that the head of state is the Yang di-Pertuan Aging and the prime minister is the head of the government where the powers are exercised by the 13 states of the government and by the federal government. Hence, the Yang di-Pertuan is a respectable person that the Malaysian population loves and respects, but he does not involve in running the country as the prime minister does. However, there are many pressures from groups which leads to issues and corruption in running the government, however, hence, democracy is considered the best than other types (Irshad, 2017). Furthermore, the top of the ranks of the economy of a country is Technocracy. Technocracy is the top because this type of government selects the best people to run related institutions. For example, there are evidences showing that this type which is a technocratic dictatorship regime its market of stocks outperformed other regime's stocks market like democratic (Irshad, 2017). In Malaysia, history shows that the market has been growing fast and rapidly (Demirgüç-Kunt & Levine, 1996). Next, whether companies benefit from these events and announcements? Do firms increase their profit by selecting their preferred appointee? However, the reaction of the market positively is consistent with the conflict of interest (Luechinger & Moser, 2014).

Literature Review

Also, this theory has become more widely held recently, it is also useful for organisational concerns (Connelly et al., 2011). To signal a firm's legitimacy to potential investors the firm's leaders create a diverse board of group leaders in an initial public offering (IPO) to send the message (Certo, 2003; Filatotchev & Bishop, 2002). This example shows the way of signal that a party may possibly undertake to illustrate the underlying quality of the firm to other parties. The fundamental of signaling theory is concerned to decrease the asymmetry of information between parties (Spence, 2002). From anthropology to zoology fields signaling theory is used to pick consequences that appear and occur.

Also, many other studies applying signaling theory after Spence's work in 1973 on the labor market sparked the use of signaling theory (Bird & Smith, 2005). Spence did apply the labor market to prototype a signaling utility about education. The firm when recruiting labor, they do not have enough information about the quality of whom they employ. Consequently, to decrease the asymmetries of information the candidate involves in many tasks before and after recruiting similar to university education to signal about the quality they have. While doing recruiting they may go through an exam, test or equivalent process to show the quality to the employers. These two examples are considered a reliable signal to show their quality, hence, only qualified will pass these examples to obtain a higher education certificate and pass the test by employer and therefore, the points of difference between candidates are the test and qualification they hold. Also, Spence's model differs from human capital theory due the emphasises of education role in increasing the productivity of workers and he did not consider education as a means in communication (Weiss, 1995).

Moreover, an important role of the signaling theory is to differentiate between two entities for example high company profile and quality and low firm profile and quality. Also, the facts that outsiders always will have information asymmetry due the fact that only the firm knows about their true quality, therefore, investors, customers and clients are not aware of the true quality of the firm, hence, information asymmetry is present (Kirmani et al., 2000). Additionally, each firm has the ability to signal its true quality to outsiders, but it is more likely that a high-quality firm will signal its true quality. However, both low- and high-quality benefit from showing its qualities to outsiders. This gives the investors the chance to analysis and distinguishes between the firms and the Payoff dependent on the information available to outsiders.

To demonstrate these relationships which are general examples many scholars of the financial and economists developed these examples. For example, the debt of a firm and the dividends of a firm show the quality of the firm signal (Ross, 1973; Bhattacharya, 1979). In these two models, a better firm quality could be able to make such payments of interest and dividend. While low firm quality would be not able to make such payment of interest and payment of dividends in the long run term. This signal is most likely to change the behavior of outsiders, for instance the behaviour of lenders and investors and also their picture about the firm.

However, there are many signaling models that must distinguish the term quality. This term of quality has a broad variety of related systems to interpret it. In this study, the term quality indicated the ability of a firm to signal their underlying quality to outsiders to satisfy the outsider's demand and needs. For example, the quality term in Spence's refers to individuals' completion of studies. While in Ross' the signaler, the firm shows for example their financial statements to outsiders to increase their future cash. The quality also may show the reputation and prestige of the firm (Kreps & Wilson, 1982; Certo, 2003).

Research Methodology

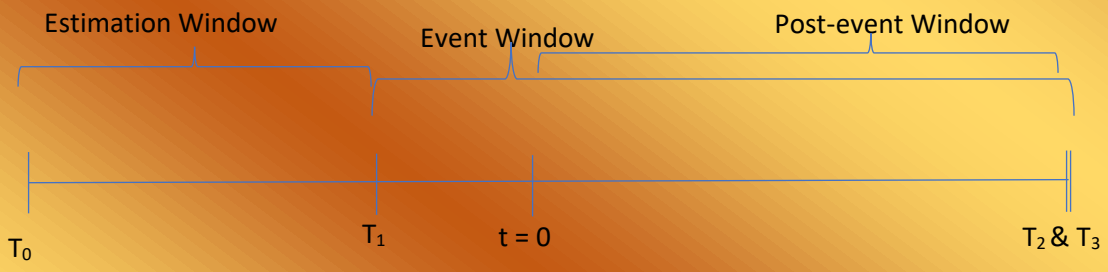

Figure 1: Events Timeline

The study involved in this research explains the effects of the prime minister's resignation on the stock price of takaful firms and insurance companies in Malaysia and studies the reaction of the takaful and insurance sector in Malaysia. To be more specific, 22 takaful and insurance operators were examined in this study and these companies were actively traded on the Malaysia market. The study chooses this sector because little research or no research focused on the Takaful/insurance industry while it is one of the important sectors. Moreover, not a lot of studies examined the political involvement in the stocks market similar the prime minister's resignation. However, this study also considered that the takaful/insurance sector is one of the most sectors affected during this time due the Covid-19 and within it the prime resignation. Therefore, to

employ “bootstrap” techniques when examining a small size sample that does not depend on the assumption related to a large sample (Barclay et al., 1988).

Moreover, the event study is a system, approach and method based on, concerned with, or verifiable by observation or experience rather than theory or pure logic of financial research that allows seeing the effects and aftermath of a specific situation, event and case related to the stock’s price and performance (Brown et al., 1985). It is expressing adverse, disapproving comments or judgments to identify the gate of an event, situation or scenario to guarantee the effectiveness of the study. In the meantime, 100 to 300 days is the range of estimation period that could be for the daily observation to observe and study the reaction and effects on stocks according to Armitage (1995). The recovery phase started from MCO 1 on the first of January till the end of March 2021 in which MCO 2 started and ended on the 4th of March 2021. And MCO 3 started on the 1st of June until the 28th of the same month year 2021. At this time the people of Malaysia reacted to this and asked to change the prime minister due the ways, systems and methods that he followed in dealing with this crisis. However, the data collected and examined of 7 months and 18 days from 2021- March 1st to 18th August-2021. These are the events included in this study which was designed to study the effects of the resign of the prime minister that take D-0 on 16th of August 2021 the day of the resignation of the prime minister following the announcement of the Malaysia government of the resignation of the prime minister. To note that this study examines the reaction of the stock’s price, how did the stock’s price of takaful and insurance market reacted to the aftermath of corporate, economic or political events similar the announcement of Malaysia government.

In the academic of accounting and finance fields, the event studies approach had been used widely in many studies of a variety of firm-specific and events of macroeconomic (Suwanna, 2012). Moreover, by using data that is daily and not monthly data, quarterly, semi-annual or yearly data would significantly enhance the system of event studies and empower the event studies approach in detecting the abnormal performance of stocks (Mackinlay, 1997). Mackinlay system and the suggestion was that the interval period is to be 20 days before the occurrence of an event and 20 days after the occurrence of the same event to detect the abnormal return of stocks performance, hence, 16th August equal 0, therefore, 20 days before and 40 days after 16th of August, the day of the event. Mackinlay said that to see and capture the effects of the announcement made, for example, the announcement of the resignation of the prime minister in

Malaysia, on the stock's price to see the price effect is after the close of the market of the same day that the announcement made in and that the interest period is before and after the event date. This arguing clarifies that to see the effect price of the announcement it should be prior to the date of announcement and following it by around 20 days after and before.

However, to see the effect of price, this paper focused on 20 days before the announcement (-20) and (+40) after the announcement made by the government. Exactly the date of the resignation 16th August and prior by 20 days and after by 40 days. The gate and window of the estimation are from 01-03-2021 to 2021-10-18. Specifically, 157-day estimation gate to the return parameters estimation. After this is the estimation of the market model using the data from t = (–134) to t = +40, however, when t is 0 is represents the event of the announcement. Also, Ordinary Least Squares (OLS). To measure the expected daily return E (R_{it}) of the takaful stock i at day t by using the Capital Asset Pricing Model (CAPM) the following formula were used:

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (1)$$

The estimated ordinary square (OLS) are the values of α_i and β_i of the period of estimation. The daily market return is R_{mt} at day t. the technique used in this study is following Mackinlay (1997) which is the event study technique that examines the event gate and window of the abnormal return of the stock within this gate and window. The difference between the actual returns and predicted returns in the market model is called the abnormal return which is as follow:

$$AR_{it} = r_{it} - E(R_{it}) \quad (2)$$

However, because this research study takaful and insurance sector firms that are listed under takaful operators and insurance operators that are licensed under Islamic Financial Services of the act of 2013 under the insure numbers of PIDM, Perbadanan Insurans Deposit Malaysia, the price of stock and intraday of each of takaful companies and insurance companies collected from its official website or related official financial websites. After calculation the abnormal return of each firm of the 22 companies for each period of the stocks then by aggregating the daily abnormal returns over the time period of each company the cumulative abnormal returns are founded. The formula of calculating the cumulative abnormal returns is as follows:

$$CAAR_{it} = \sum_{t=T_1}^{T_2} AAR_{it} \quad (3)$$

In the end, by t-statistic calculation, the significance level of the result has appeared. To see whether the average cumulative abnormal return is significantly different from zero which is the expected value, hence, the following test statistic is used:

$$Z = ACAR_t \times n^{0.5} \quad (4)$$

In the event day gate and window of each t day of the sample of N observation of the test calculation the t-statistic is used. Also, the abnormal return and the cumulative abnormal return are calculated pre the event and post the event to see whether an event had an effect on the firm value. In the conclusion of this research, the discussion of the statistical significance of both abnormal returns and cumulative abnormal returns are included.

Findings

The finding of this research is systematic of the event study approach. This approach and method use the abnormal return of a firm to analysis and determine the effects of the Prime Minister's resignation on the firm performance. The abnormal return of 22 firms, the average abnormal return (AAR), the cumulative abnormal return and the cumulative average abnormal return (CAAR) is recorded in this study. In table 1 both the AAR and CAAR of 22 firms are recognized within table 1 for both pre the announcement and post the announcement period, the event window. The event window of this study as noted is 20 days before the announcement and 40 days after the announcement to see the effects of the announcement of the Prime Minister's resignation clearly. In addition, in table 1 the T-test is also recorded which is the significant level. The result showed that before the announcement of the prime minister's resignation there was a significantly positive AAR prior to the event days by two weeks, 14 days. The t-test showed that a result of 1.915 which is considered high.

Next, there was also a significant positive of AAR confidence level above 1.9 in the days after the announcement by 40 days. Though, the takaful and insurance sector showed a significant reaction on in the stock market. Also, there are not many positive AAR due that many other factors not included but within the event window examined in this study, a one positive AAR is more than enough to show that the market reacted to the announcement of the prime minister's resignation. Besides, the significance level of 0.01 indicates that in the relation to the hypothesis test that any P-value is less than 0.01 and/or equal to 0.01 is considered statically significant. Furthermore, to observe an extreme value through chance the value of 0.01 corresponded to this probability.

The P-value test shows and indicates that the market is affected by the announcement of the prime minister's resignation. It shows the CAAR P-value test was less than 0.01 on the days prior to the announcement. Day –20 before the announcement shows a value of –0.02. Also, from

day –19 to day –7 before the announcement shows values that are less than the significant level of 0.01 which means that the hypothesis is true while its null hypothesis is from day –6 to –2. The test of the hypothesis example is given below for the period from day –6 to the event day which is equal 0.

There is sufficient evidence to show that the stocks market of takaful and insurance sectors is significant at a 1% significance level in the days from –20 to day –7 and on day –1 before the announcement. While day -6, -5, -4, -3, -2 before the announcement date and on the event date day are not statistically significant due its p-value greater than the usual significance level of 0.01, therefore, there are not significant.

Furthermore, post the announcement date from day +20 to day +40 were positively significant at the significant level of 1% and all the P-values tests were large than 0.01. in other words, there are sufficient evidence to show that the stocks market of takaful and insurance sectors is significant at a 1% significance level in the days from +20 to +40 after the prime minister resignation announcement. While from the event date 0 to day +19 the t-test of P-value showed a result greater than the significant level of 1% which means that it is a null hypothesis and that is rejected on in these days only. In other words, there are sufficient evidence to show that the stocks market of the takaful and insurance sectors is significant at a 1% significance level in the days from +20 to day +40 post the announcement. While from the announcement date 0 to day +19 are not statistically significant due its p-value being greater than the usual significance level of 0.01, therefore, there are not significant.

The next tables 4.1 and 4.2, also the next graphs and figures show the reaction of the takaful and insurance market in relation to the government announcement of the prime minister's resignation.

Table 1: Pre and Post the announcement AAR, CAAR & t-test

Pre Announcement							Post Announcement					
days	AAR	ttest		CAAR	ttest		Days	AAR	ttest		CAAR	ttest
-20	-0.001	0.182		-0.02	-4.77		0	0.01	0.42		0.028	8.933
-19	-0.013	-0.691		-0.03	-10.16		1	0.01	-0.18		0.03	11.08
-18	0.004	-0.240		-0.01	-4.65		2	0.01	0.55		0.04	13.56
-17	-0.003	-1.619		-0.02	-4.83		3	0.00	0.33		0.05	14.32
-16	-0.005	-1.496		-0.02	-7.12		4	0.00	-0.88		0.04	11.84
-15	0.007	1.078		-0.01	-4.31		5	0.00	-0.49		0.04	11.31
-14	0.001	**1.915**	***	-0.01	**-3.06**	***	6	0.01	-1.07		0.05	14.76
-13	-0.005	0.155		-0.01	-4.42		7	0.00	0.76		0.05	14.98
-12	0.004	-0.616		-0.01	-2.82		8	0.00	1.34		0.05	15.19
-11	0.001	-0.363		0.00	-1.33		9	0.00	-0.68		0.05	15.12
-10	0.000	-0.218		0.00	0.00		10	0.01	0.35		0.06	17.56
-9	-0.002	0.729		0.00	-0.58		11	0.00	0.39		0.05	15.18
-8	0.003	0.711		0.00	0.00		12	-0.01	-0.89		0.04	13.56
-7	0.000	-0.248		0.00	0.38		13	0.00	-0.10		0.04	13.14
-6	0.005	-0.448		0.01	4.61		14	-0.01	-1.04		0.03	10.14
-5	0.004	0.046		0.02	5.96		15	0.00	-0.58		0.03	8.54
-4	0.008	0.277		0.02	6.91		16	0.00	0.10		0.03	9.13
-3	-0.001	0.268		0.02	5.47		17	0.00	-0.09		0.02	6.62
-2	0.005	0.332		0.01	3.25		18	0.00	-0.26		0.02	6.92
-1	-0.002	-0.011		0.01	3.01		19	0.00	-0.70		0.01	4.42
0	0.005	0.418		0.03	8.93		20	0.00	-0.08		0.00	0.61
							21	0.00	0.00		0.00	-0.89
							22	0.00	-0.27		0.00	-0.87
							23	-0.01	0.00		-0.01	-2.27
							24	0.00	-0.60		-0.01	-1.59
							25	0.00	0.10		-0.01	-2.83
							26	0.00	0.28		-0.02	-5.18
							27	-0.01	-1.61		-0.02	-7.67
							28	0.00	-1.31		-0.02	-7.16
							29	0.00	0.02		-0.03	-10.37
							30	0.00	1.15		-0.03	-8.81
							31	0.01	0.63		-0.02	-4.86
							32	0.00	0.63		-0.02	-4.77
							33	0.00	0.54		-0.01	-3.21
							34	0.00	-0.57		-0.02	-5.40
							35	0.00	0.03		-0.02	-5.36
							36	0.00	-0.07		-0.02	-4.85
							37	0.01	0.70		-0.01	-2.14
							38	0.00	0.31		-0.01	-1.83
							39	0.00	0.55		0.00	-0.39
							40	0.01	**1.93**	***	0.01	**2.81*** **

Table 2: CAAR P-value test

Pre Announcement		Post Announcement	
		Days	CAAR
Days	CAAR	0	0.03
-20	-0.02	1	0.03
-19	-0.03	2	0.04
-18	-0.01	3	0.05
-17	-0.02	4	0.04
-16	-0.02	5	0.04
-15	-0.01	6	0.05
-14	-0.01	7	0.05
-13	-0.01	8	0.05
-12	-0.01	9	0.05
-11	0.00	10	0.06
-10	0.00	11	0.05
-9	0.00	12	0.04
-8	0.00	13	0.04
-7	0.00	14	0.03
-6	0.01	15	0.03
-5	0.02	16	0.03
-4	0.02	17	0.02
-3	0.02	18	0.02
-2	0.01	19	0.01
-1	0.01	20	0.00
0	0.03	21	0.00
		22	0.00
		23	-0.01
		24	-0.01
		25	-0.01
p value > 1%		26	-0.02
		27	-0.02
		28	-0.02
		29	-0.03
		30	-0.03
		31	-0.02
		32	-0.02
		33	-0.01
		34	-0.02
		35	-0.02
		36	-0.02
		37	-0.01
		38	-0.01
		39	0.00
		40	0.01

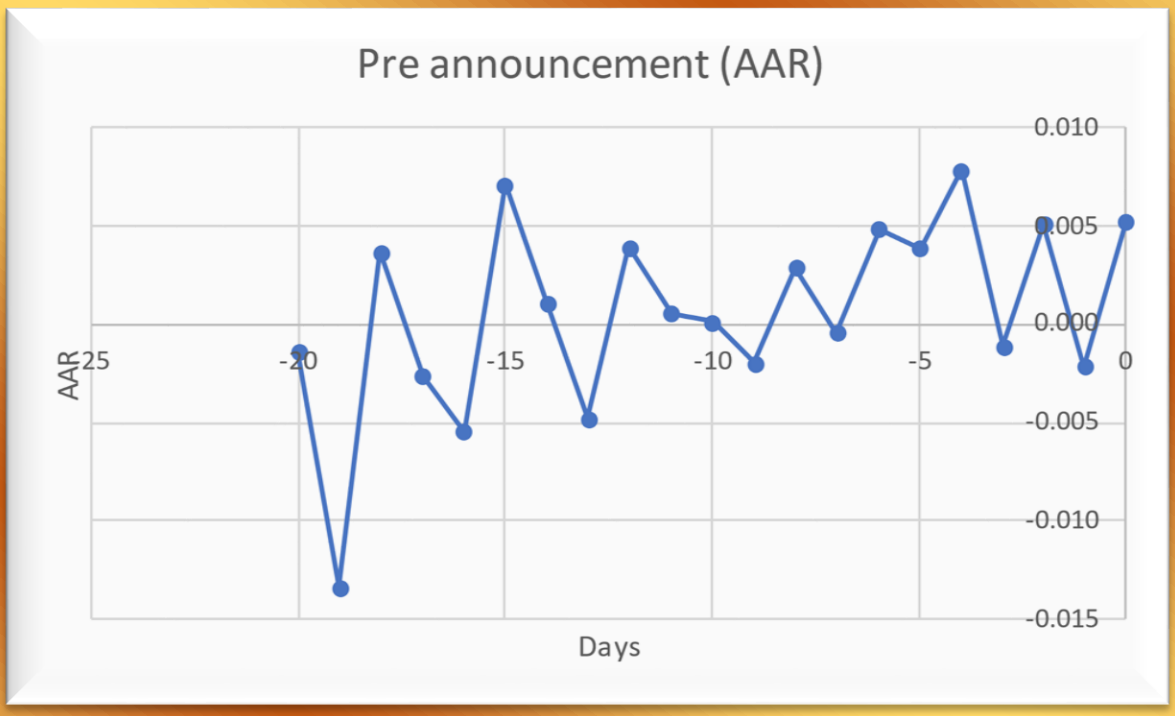

Figure 2: Pre announcement AAR

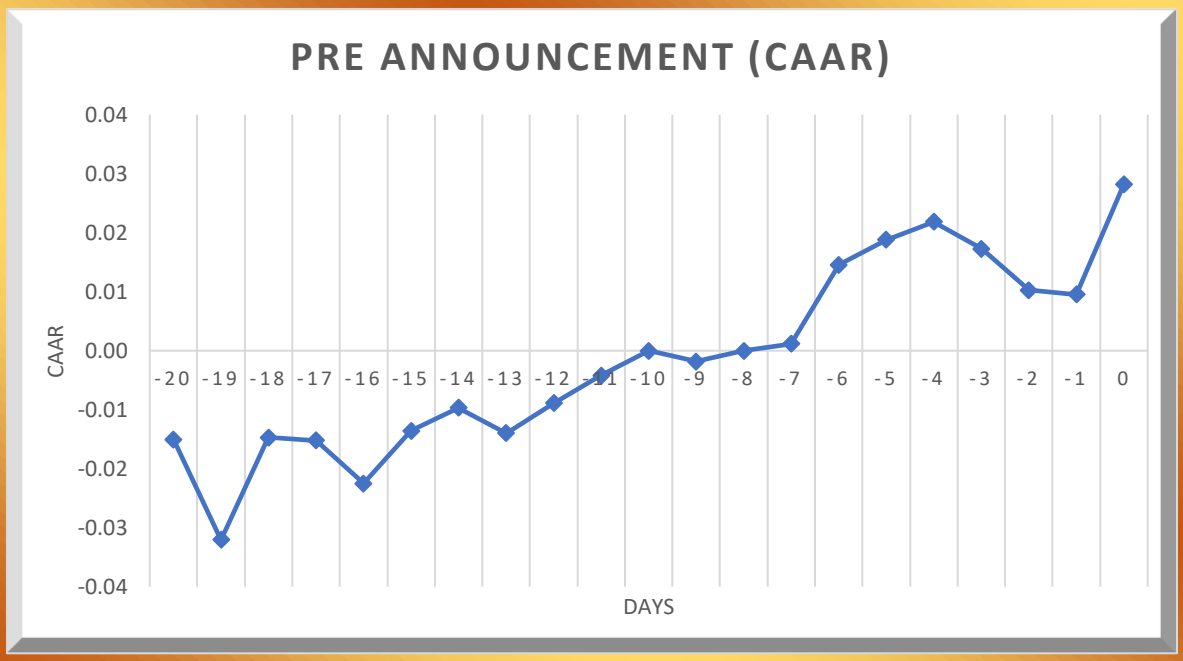

Figure 3: Pre announcement CAAR

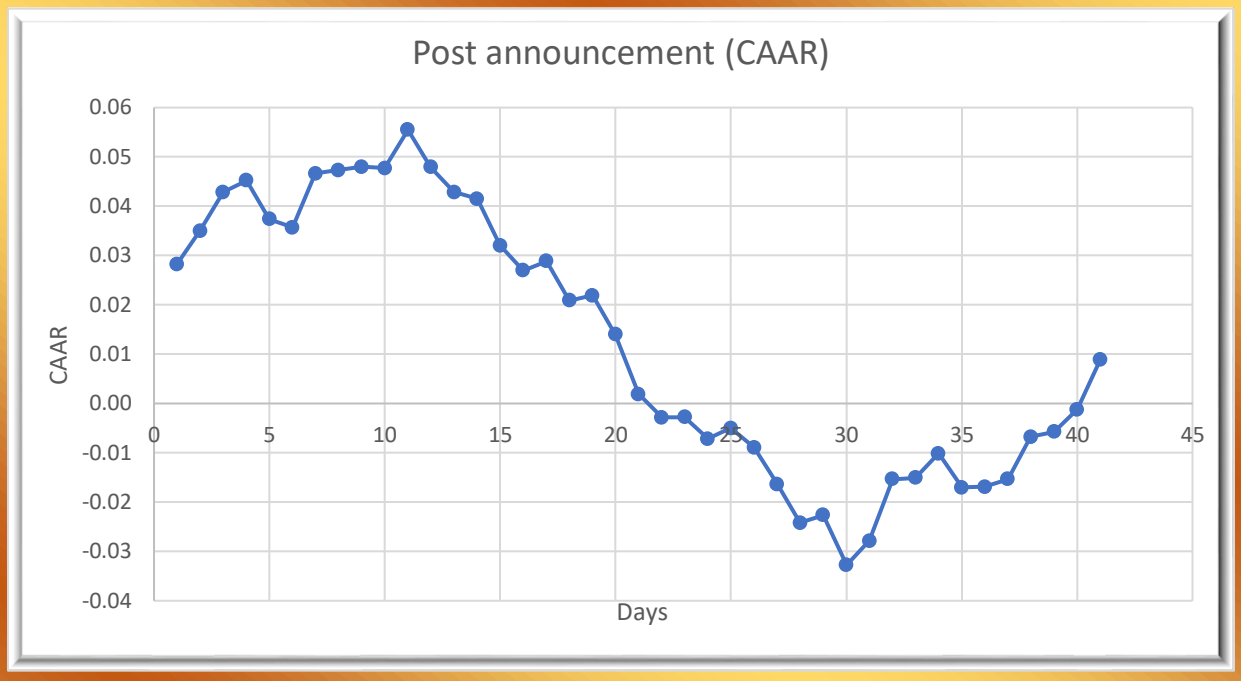

Figure 4: Post announcement CAAR

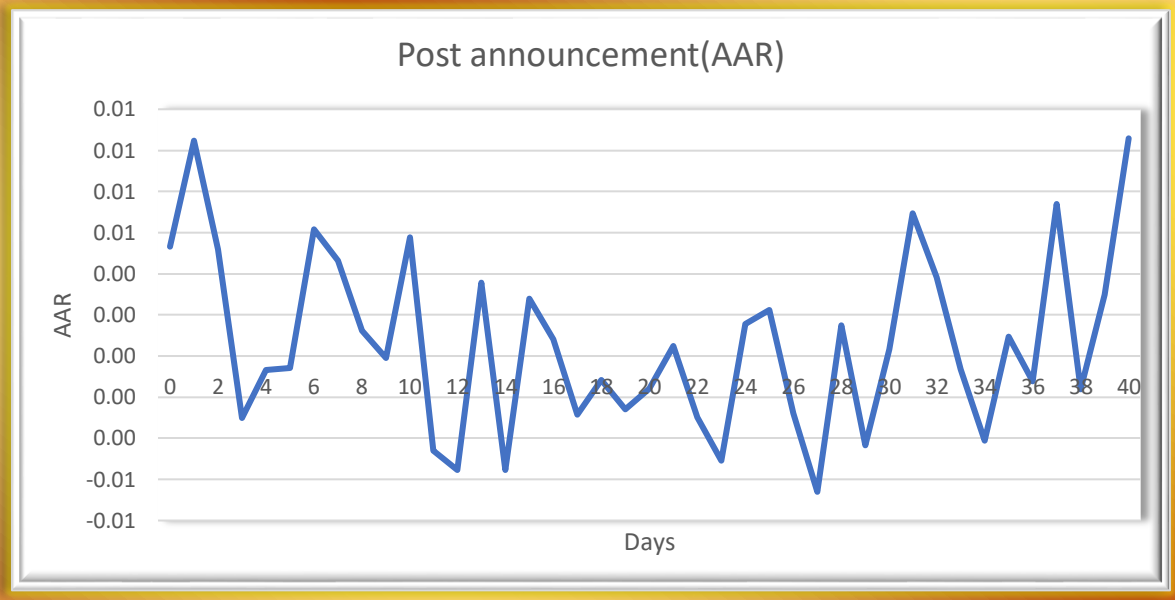

Figure 5: Post announcement AAR

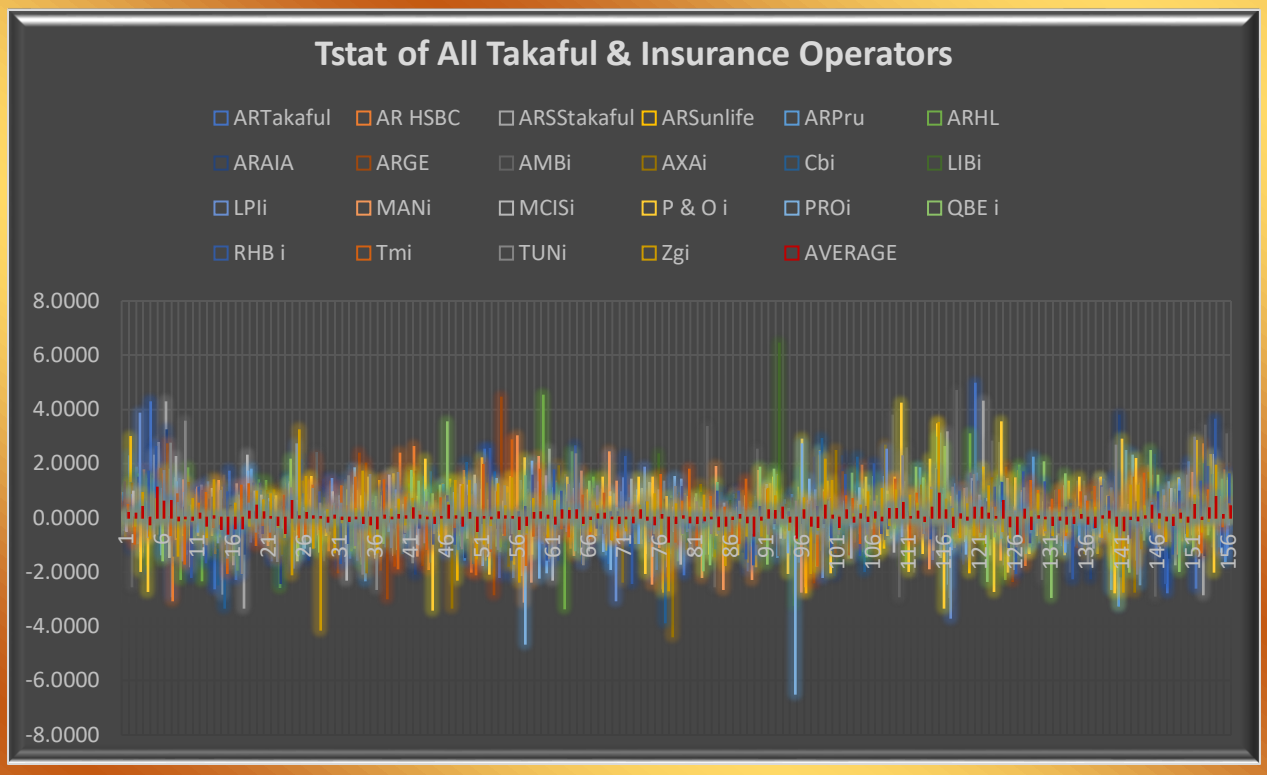

Figure 6: Tstat of All Takaful & Insurance Operators

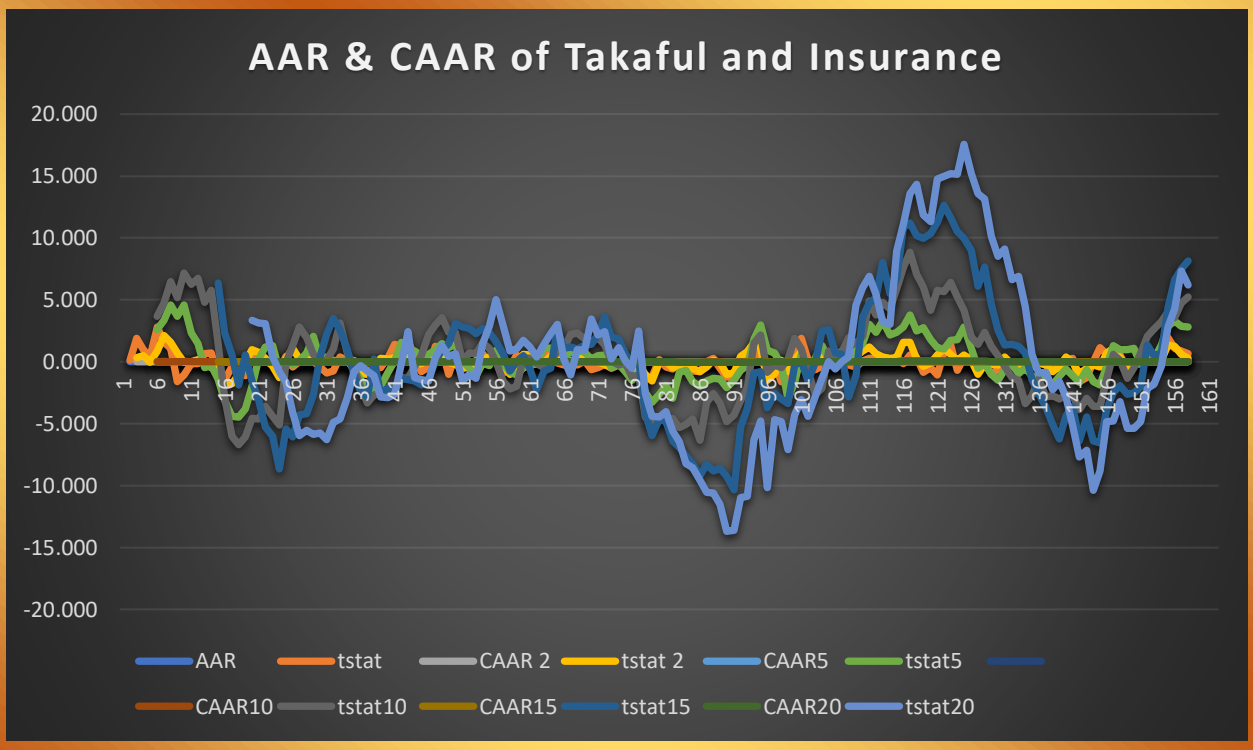

Figure 7: AAR & CAAR

To show the reaction of the stocks market of takaful and insurance firms to the prime minister's resignation deeply further insights, the event study methodology (ESM) analysed the sample in the extraordinary condition of the stocks price and returns that were included in this paper. Therefore, through the measuring of the event window cumulative average abnormal takaful and insurance returns and comparing the result of post announcement days -20 to -1 with days 1 to 20 and with 1 to 40 days after the announcement date of the prime minister resignation on the performance of the stock's price was examined. The result shows that before the announcement date of the prime minister resignation the cumulative average abnormal returns were close, near and not statistically different from zero in -6 days including the event date while the other -14 days was statistically different from zero due the pandemic and the announcement that the prime minister would resign in the following days in Malaysia, even, thus this is not the case. However, on the other hand, the days following the announcement of the prime minister resigned, the average cumulative abnormal return in the first +19 days was not statically different from zero as the citizen wanted this change but in the days +20 to +40 that data of cumulative average abnormal return showed a significantly negative abnormal return within stocks of takaful and insurance of Malaysia. This result indicates that the announcement of the government of the prime minister's resignation is impacted the market of takaful and insurance stocks of Malaysia.

This study showed that around a day prior and a day after the announcement that a positive rate was observed of abnormal return. Also, the figures showed that were a tendency of increasing t-test values of both AAR and CAAR after the announcement period which indicates the significance of them at a 1% rate level within the event window. This study concluded that the market of takaful and insurance is significant to the announcement of the prime minister's resignation from the analysis of both AAR and CAAR. Therefore, this study also concluded that the stock's price moved significantly higher than before the announcement date. Moreover, both of the market models of AAR and CAAR were showed that they are both statistically significant. Furthermore, the results of this study verify, validate and corroborate the signaling theory that the announcement by the government has a significant impact on the performance of the stocks price. Hence, the positive of AAR and CAAR could be attributed to the incentive by the government stimulus packages posted also the confidence of the investors that resulted increasing in on the stock market.

Conclusion

The Event Study method with signaling theory were used to analysis the impact of the prime minister's resignation announcement on the takaful and insurance stocks market performance and to see the signal of this announcement on the market. Specifically, 8 takaful companies and 14 insurance firms were selected to analysis this sector and measure the reaction of the stock's price to this announcement. The results of this research concluded that the confidence level of the investors is changed by this announcement of the prime minister's resignation and that the level of confidence has differed from prior to the announcement. Furthermore, this study explains the effects of the prime minister's resignation, the announcement by the government, on the takaful and insurance sector. However, the finding of this study recorded a positive abnormal return that happened in a day after the announcement was made which indicates the political stability has an impact on the market price and market participants. This research result is important to the government, businesses and investors to enhance the political system, improve businesses and increase the confidence level of the investors. In addition, a stable government political system has many approaches, methods and ways to facilitate, aid and support the investors. Hence, there is a negative relationship between country political instability and stocks market price. Therefore, the government must, not should, reduce the number of events that would raise the instability within the political situation. Moreover, the more the industry is developed and had a great output will lead to an increase in its stocks price.

Next. one huge problem in the way of industrial production is energy crises. Therefore, to increase the political stability government should look to similar issues like energy crises and try to resolve them before it happens due that these issues affect industrial production and, therefore, impacts the stocks price. Hence, the better the production the better the performance of the stocks and the better the country's political system is.

Finally, further research should be conducted to enhance the outcome by adding more elements to the political instability construction index. However, the event study method provides the government, businesses and investors with the big picture of the way the market reacts to new announcements and news. Therefore, in this field and similar filed to the takaful and insurance, this method on event study could be a good system to understand the reaction of the stocks market performance to new announcements whether positive or negative announcements that appear from events similar political events, war, natural disasters, terrorist attacks, financial crisis, and mega

sports events. Moreover, future research can study the impact of new information announcements on the takaful and insurance stock's price performance similar company expanding, mergers, changes in the capital structure and acquisitions.

In conclusion, this research examined the impact of the Malaysian government announcement of the prime minister's resignation on the stocks price performance of the takaful and insurance sector in Malaysia. Future studies can consider the effects of the new prime minister appointed, energy issues and factors that affect country political stability. Furthermore, a more detailed analysis could include factors similar foreign direct investment (FDI), legal system, and energy crises. Therefore, this will make a contribution to the academic and also benefit the government facing similar issues, managers and investors.

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