

# Impact of Insurance Contract Implementation and Financial Performance on Company Value in the Insurance Sector

Impact of Insurance  
Contract  
Implementation

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477

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## ABSTRACT

Financial performance is a description of the condition of a company that is analyzed to provide information about the work achievements and as a basis for evaluation and assistance in financial decision-making for the company. This research aims to determine the influence of the application of Statement of Financial Accounting Standards (Pernyataan Standar Akuntansi Keuangan/PSAK) 117 with financial performance variables, profitability, and solvency on the value of the company in the insurance sector. This study uses a quantitative descriptive method and the data used are secondary data obtained from reports or documents with the help of Eviews 12 software as a data processing tool. The population in this study is general insurance companies listed by the Financial Services Authority during the period 2018-2023, totaling 76 companies. Through purposive sampling method, 6 companies were selected as samples for a 6-year observation period. The results of the study show that Profitability does not affect the company value, while Solvency significantly influences the company value. Profitability and solvency moderated by PSAK 117 can moderate the company value.

**Keywords:** Company Value, Financial Performance, Profitability, Solvency

## ABSTRAK

Kinerja keuangan merupakan gambaran kondisi suatu perusahaan yang dianalisis untuk memberikan informasi mengenai prestasi kerja yang dicapai dan sebagai dasar evaluasi serta bantuan dalam pengambilan keputusan keuangan bagi perusahaan. Penelitian ini bertujuan untuk mengetahui pengaruh penerapan Pernyataan Standar Akuntansi Keuangan (PSAK) 117 dengan variabel kinerja keuangan, profitabilitas, dan solvabilitas terhadap nilai perusahaan pada perusahaan asuransi. Penelitian ini menggunakan metode deskriptif kuantitatif dan data yang digunakan adalah data sekunder yang diperoleh dari laporan atau dokumen dengan bantuan software Eviews 12 sebagai alat mengolah data. Populasi dalam penelitian ini adalah perusahaan asuransi umum yang terdaftar di Otoritas Jasa Keuangan selama periode 2018-2023 yang berjumlah 76 perusahaan. Melalui metode purposive sampling, terpilih 6 perusahaan sebagai sampel untuk periode pengamatan 6 tahun. Hasil penelitian menunjukkan bahwa Profitabilitas tidak berpengaruh terhadap nilai perusahaan, Solvabilitas berpengaruh signifikan terhadap nilai perusahaan. Profitabilitas dan solvabilitas yang dimoderasi oleh PSAK 117 dapat memoderasi terhadap nilai perusahaan.

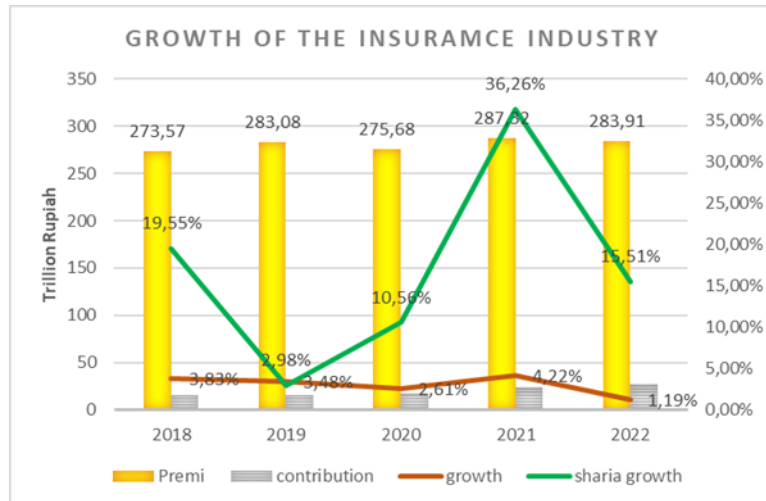
**Kata kunci:** Nilai Perusahaan, Kinerja Keuangan, Profitabilitas, Solvabilitas

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## INTRODUCTION

The insurance industry is an industry that plays an important role in the economy. By definition, the function of insurance is to restore the financial position to the state it was before the risk occurred. In today's era, insurance has a fairly important role in protecting against unexpected events, both risks that impact business entities and risks that impact individuals (Eling et al., 2021). Based on the object and field, the number of insurance companies that have business licenses to operate in Indonesia as of December 31, 2023 is 138 companies consisting of 50 life insurance companies, 76 general insurance companies, 6 reinsurance, 5 social and mandatory insurance (excluding insurance business support companies, actuaries, and insurance agents) Premiums/contributions of the insurance industry 38.98% come from life insurance, 16.03% come from general insurance, and 45% from social and mandatory insurance (OJK, 2016). Life insurance companies are dominated by joint venture companies with a market share of 69.1%. This is in contrast to the general insurance industry where 75% of the market share is dominated by local insurance. Thus, it is necessary to strengthen the implementation of international standards while still considering the characteristics of the Indonesian market.



Source: OJK, processed (2023)

Figure 1. Growth of the Insurance Industry in Indonesia

Based on the Figure 1, the insurance industry has shown positive growth in recent years, which can be seen from the overall premium growth. Over the past five years, the insurance industry has recorded a Compounded Annual Growth Rate (CAGR) of 1.89%. This growth reflects the increased performance in both conventional and sharia insurance segments. Although conventional insurance remains the majority in the insurance market, with premium growth of 0.9% in the past five years, sharia insurance is starting to show significant potential. The premium contribution from sharia insurance is still relatively small compared to conventional insurance, but its annual growth rate reaches 15.7%, much higher than the conventional segment. This positive growth is inseparable from various factors, including product innovation, increased financial literacy, and regulators' efforts to create an ecosystem that supports the development of the insurance industry, both conventional and Sharia (Weedige et al., 2019; Goyal & Kumar, 2021; Widijowati, 2022). With this trend, the insurance industry is expected to continue to grow to meet the increasingly complex financial protection needs of the community.

Increasingly tight business competition encourages companies to increase company value as an indicator of business success and sustainability. Company value is the main

goal because it reflects performance and potential to attract investors. For managers, company value reflects the success of the strategy implemented in managing resources. Meanwhile, for investors, company value is the main consideration in making investment decisions because it reflects the company's prospects and stability in the future. According to Akpa et al., (2021) and Widianingrum et al. (2024), efforts to increase company value must be carried out through effective and efficient management. This is supported by Rahmadani (2024) and Oktaviani et al. (2024), company value is the main parameter that can provide attraction to new investment capital. With optimal company value, the company is not only able to survive in competition but also has the potential to create long-term growth opportunities.

Optimal company value provides competitive advantage and resilience to face future challenges. Therefore, efforts to increase company value must be a top priority in resource management, strategy implementation, and product innovation (Aftab et al., 2023; Pertiwi, 2023; Hosnaidah et al., 2023). With effective management, companies are able to create operational efficiency, improve product or service quality, and strengthen their position in the market. This strategy not only supports competitiveness but also builds trust from stakeholders, including investors, consumers, and business partners (Kahupi et al., 2021; Arinnis et al., 2022). In addition, continuous innovation encourages companies to remain relevant amidst dynamic market changes (Kolasaki, 2023; Khan 2023). Thus, the increasing value of the company is an indicator of managerial success as well as a strong foundation for future business sustainability. This emphasizes the importance of synergy between strategic vision and operational actions in maintaining the company's competitive position in the market.

Statement of Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan/PSAK*) 62 itself is a standard adopted from International Financial Reporting Standards (IFRS) 4: Insurance Contract, issued by the International Accounting Standards Board (IASB). PSAK 62 on insurance contracts that is currently in effect is a temporary standard, so a new standard is needed. Therefore, the Financial Accounting Standards Board (*Dewan Standar Akuntansi Keuangan/DSAK*) issued a new update to the Financial Accounting Standards (*Standar Akuntansi Keuangan/SAK*), namely PSAK 117 concerning insurance contracts. Where this standard will only be implemented in 2022 (early implementation) and will be effective on January 1, 2025. Research by Ananda et al. (2023), the results of the study showed significant changes in the application of accounting standards using the DER and ROE ratios. Meanwhile, the research of Wahyuni et al. (2024) and Amelia (2024), states that financial performance using the return on assets (ROA) ratio does not affect the value of the Company and the return on equity (ROE) value affects the value of the Company. This study aims to analyze the impact of PSAK 117 on the relationship between financial performance indicators (profitability, solvency) and company value in the insurance sector in Indonesia. It seeks to analyze how the adoption of this updated accounting standard moderates these relationships, contributing to a deeper understanding of financial reporting's role in company valuation.

## **METHODS**

This research employs a descriptive method with a quantitative approach, as defined by Sugiyono (2017), where quantitative methods based on positivism aim to test hypotheses using statistical data analysis. The study uses secondary data from reports or documents, processed with Eviews 12 software. The population consists of general insurance companies registered with the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) from 2018 to 2023, totaling 76 companies. Through purposive sampling, six companies were selected as the sample for a six-year observation period. The study utilizes panel data regression, combining cross-sectional and time-series data types based on specific criteria, with the use of balanced panel data, where each cross-sectional unit has the same number of observations. The research investigates the relationship between independent variables (PSAK 117 Insurance Contracts,

Profitability, and Solvency) and the dependent variable, Company Value. Three tests—Chow Test, Hausman Test, and Langrange Multiplier Test—are employed to determine the suitability of the panel data model. Moderating variables, which influence the relationship between independent and dependent variables, are examined in this study. Specifically, PSAK 117 insurance contracts act as a moderating variable in the relationship between profitability, solvency, and company value. The Moderated Regression Analysis (MRA) test, as explained by Ghozali (2013), is used to analyze the moderating effect of PSAK 117 while maintaining the integrity of the research sample, enhancing the understanding of how these variables interact.

## RESULTS AND DISCUSSION

Descriptive statistics are conducted to provide an overview of the variables used in the study. This study uses two independent variables, namely Profitability using the Return on Assets (ROA) ratio and Solvency using the Debt to Equity Ratio (DER). In this study, the independent variables used are Financial Report Performance, the dependent variable is Company Value, and the moderating variable used is PSAK 117. Descriptive statistics are focused on the average value (mean), maximum value, minimum value, and standard deviation value.

Table 1. Descriptive Statistics

	Average	Maximum	Minimum	Std. Dev.	Observations
ROA	1.743095	6.304406	-19.828918	4.393830	36
DER	0.169973	0.446033	0.053749	0.095476	36
NP	3615.109	5789.617	2475.330	895.4508	36
PSAK 117	0.166667	1.000000	0.000000	0.377964	36

Based on Table 1, the Profitability variable ROA ratio has an average of 1.7430 with a standard deviation of 4.393830. The minimum value is -19.828918 and the maximum value is 6.304406. The Solvency variable DER ratio has an average value of 0.169973 with a standard deviation of 0.095476. The minimum value is 0.053749 and the maximum value is 0.446033. The Firm Value variable has an average of 3615.109 with a standard deviation of 895.4508. The minimum value is 2475.330 and the maximum value is 5789.617. The PSAK 117 moderation variable has an average value of 0.166667 with a standard deviation of 0.377964. The minimum value is 0.000000 and the maximum value is 1.000000.

This study uses panel data that has 3 (three) regression models, namely the Common Effect Model, Fixed Effect Model and Random Effect Model. The selection is done with Eviews 12. Furthermore, a model selection test is carried out to determine which model is suitable for use. The Chow test is used to select the best model between the Common Effect Model (CEM) and Fixed Effect Model (FEM) approaches that are most appropriate for estimating panel data. The hypothesis used in the process of determining the panel data regression model is that if the chi-square cross section value is  $<0.05$ , then the Fixed Effect Model (FEM) will be selected, and vice versa. The Hausman test is used to select the best data model between the Fixed Effect Model (FEM) and Random Effect Model (REM) approaches. The hypothesis used in the process of determining the panel data regression model is that if the Random cross section value is  $<0.05$ , then the Fixed Effect Model (FEM) will be selected, and vice versa.

Table 2. Chow Test and Hausman Test

Test	Effect Test	Statistic	d.f	Prob.
Chow	Cross-section F	5.650132	(5,25)	0.0013
	Cross-section Chi- square	27.220836	5	0.0001
Hausman	Cross-section Random Chi- square	0.000000	5	1.0000

Based on Table 2, the F statistic value is 5.650132 with a probability of 0.0013, and the Chi-square statistic value is 27.220836 with a probability of 0.0001, indicating that

the probability is  $<0.05$ . This indicates that the Fixed Effect model is more appropriate than the Common Effect model. Furthermore, the Hausman Test results show a Chi-square statistic value of 0.000000 with a probability of 1.0000, which means the probability is  $> 0.05$ . This indicates that the Random Effect model is more appropriate than the Fixed Effect model. Thus, based on the two tests, the model chosen for analysis is Random Effect, because it is considered more appropriate in describing the relationship between variables in panel data.

The Lagrange Multiplier (LM) test is a test to determine whether the Random Effect Model is better than the Common Effect Model. This Random Effect significance test was developed by Bruesch Pagan which is based on the residual value of the PLS method with a determination process if the Bruesch-Pagan cross section value is  $<0.05$  then the selected model is the Random Effect Model.

**Table 3.** Langrange Multiplier Test

	<b>Breusch- Pagan</b>
Cross-section	9.145460 (0.0025)
Test Hypothesis Time	0.003386 (0.9536)
Both	9.148847 (0.0025)

Based on Table 3, the Lagrange Multiplier (LM) test show that in the Breusch-Pagan cross-section test, the test statistic value is 9.145460 with a p-value of 0.0025. This indicates a significant random effect on the cross-section dimension, because the p-value is smaller than the significance level of 0.05, so the null hypothesis (no random effect of cross-section) is rejected. Conversely, in the time hypothesis test, the test statistic value is 0.003386 with a p-value of 0.9536, which is much greater than 0.05, so the null hypothesis (no random effect of time) cannot be rejected. This indicates no significant random effect on the time dimension. Meanwhile, the results of the simultaneous test for both dimensions (cross-section and time) show a test statistic value of 9.148847 with a p-value of 0.0025, which means the null hypothesis (no random effect on both dimensions) is rejected. Based on these results, the Random Effects Model (REM) is more appropriate to use than Pooled Least Squares (PLS) because of the significant random effects on the cross-section dimension.

Moderation regression analysis test is used to determine the effect of dividend policy as a moderating variable on the influence of Solvency and Profitability on company value, using the Hierarchical Regression Analysis method. This method uses 2 (two) equations, the first equation is used to see the main effect, namely the influence of the independent variable on the dependent variable. The second equation is used to see the moderating effect on the influence of the independent variable on the dependent variable. This analysis is processed with the Eviews 12 program. Partial test or t-test is used to show how far the influence of the independent variable individually in explaining the variation of the dependent variable. To determine whether the hypothesis is accepted or rejected by comparing the t-statistic value  $> 1.65$  or  $> 1.96$  or  $> 2.58$  with a probability of  $<0.1$ ;  $<0.05$ ;  $<0.01$  then it can be said to have a significant effect.

**Table 4.** MRA Test and Partial Test (t test)

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
ROA	9.790168	17.20165	0.569141	0.5735
DER	-6657.768	1005.945	-6.618419	0.0000
PSAK 117	1280.762	459.9034	2.784850	0.0092
MODROA	-225.7859	110.2803	-2.047381	0.0495
MODDER	-3176.688	1672181	-1.899727	0.0671
C	4696.416	215.2023	21.82326	0.0000

Based on Table 4, the constant value is 4696.416, meaning that if the value of the profitability and solvency variables is 0 or other factors that influence growth have a fixed value, then the company value is 4696.416. The profitability regression coefficient (ROA) of 9.790168 means that every time profitability increases by one unit, the

company value will increase by 9.790168. The solvency regression coefficient (DER) of -6657.768 means that every solvency increases by one unit, the company's value will decrease by 6657.768. The PSAK 117 regression coefficient of 1280.762 means that every PSAK 117 increases by one unit, the company's value will increase by 1280.762. The profitability regression coefficient (ROA) moderated by PSAK 117 (Dummy) of -225.7859 means that every profitability moderated by PSAK 117 increases by one unit, the company's value will decrease by 225.7859. The solvency regression coefficient (DER) moderated by PSAK 117 (Dummy) of -3176.688 means that every solvency moderated by PSAK 117 increases by one unit, the company's value will decrease by 3176.688.

The profitability variable (ROA) obtained a t-value of 0.569141 < 1.694 and a probability value of 0.5735 > 0.05, which means that there is no significant influence between profitability and the value of the Company. The solvency variable (DER) obtained a t-value of 6.618419 > 2.58 and a probability value of 0.0000 < 0.01, which means that there is a significant influence between solvency and the value of the Company. The effect of profitability (ROA) moderated by PSAK 117 (Dummy) obtained a t-value greater than t-table of -2.047381 > 1.96 and a probability value of 0.0495 < 0.05, which means that there is a significant influence between profitability moderated by PSAK 117 on the value of the Company. The influence of solvency (DER) on the company value moderated by PSAK 117 (Dummy) obtained a calculated t value greater than the t table of -1.899727 > 1.65, a probability value of 0.0671 < 0.1, which means that there is a significant influence between solvency moderated by PSAK 117 on the company value.

Testing the coefficient of determination ( $R^2$ ) is a number that shows the degree of ability of the independent variable in the function concerned. The value of  $R^2$  is between zero and one ( $0 < R < 1$ ). If the value is close to one, then the model is good.

**Table 5.** Test Coefficient of Determination ( $R^2$ )

Statistic	Value
R-squared	0.650517
Adjusted R- squared	0.592270
S.E of regression	369.0603
F-statistic	11.16823
Prob (F- statistic)	0.000004
Mean dependent var	1687.079
S.D dependet var	577.9776
Sum squared resid	40861661
Durbin-Wats on stat	0.919398

Based on Table 5, it is known that 65.05% of the variation in the dependent variable can be explained by the model (R-square 0.6505), while the rest is explained by other factors. The adjusted R-squared of 0.5923 shows the results that have been adjusted for the number of variables. The model is statistically significant (F-statistic 11.17; Prob 0.000004). However, the Durbin-Watson value of 0.9194 indicates positive autocorrelation in the residuals. The standard error of 369.06 indicates the average prediction error, while the mean and standard deviation of the dependent variable are 1687.08 and 577.98, respectively. The regression model is quite good at explaining the relationship between variables with an R-squared of 65.05% and is statistically significant. However, the presence of positive autocorrelation (Durbin-Watson 0.92) indicates the need for model improvement to ensure the validity of the analysis results.

Profitability (ROA) has no effect on Company Value. This is evidenced by a probability value of 0.5735 > 0.05 and a t-statistic value of 0.569141 > 1.694, so profitability does not have a significant effect on company value. These results support previous research conducted by Reschiwati et al. (2020) and Silvia (2022), which examined the effect of profitability on company value which resulted in the result that profitability did not have a positive effect on company value. This is because investors

may assume that the company uses its profits for operating activities and will not always distribute profits in the form of dividends to investors. Solvency (DER) has an effect on Company Value. This is evidenced by a probability value of  $0.0000 < 0.01$  and a t-statistic value of  $-6.618419 > 2.58$ , so solvency has a significant effect on company value. These results support previous research conducted by Komala et al. (2021) and Rohendi & Sudradjat (2021), who studied the effect of solvency on company value, produced results that solvency has a negative effect on company value. This can be interpreted that solvency affects company value. This shows that companies that have low solvency will make large profits.

PSAK 117 can moderate the effect of profitability on company value. This is evidenced by the probability value of  $0.0495 < 0.05$  and the t-statistic value of  $-2.047381 > 1.96$ , so it can be interpreted that PSAK 117 can moderate the effect of profitability on company value. These results indicate that compliance with accounting standards set by PSAK 117 will play an important role in reducing the risk of decline in financial statements by moderating the effect of profitability on company value. PSAK 117 can moderate the effect of solvency on company value. This is evidenced by the probability value of  $0.0671 < 0.1$  and the t-statistic value of  $-1.899727 > 1.65$ , so it can be interpreted that PSAK 117 can moderate the effect of solvency on company value. These results indicate that PSAK 117 can reduce the impact of solvency on the possibility of a decrease in the value of the Company.

## **CONCLUSION**

The study examines the impact of PSAK 117, Return on Assets (ROA), and Debt to Equity Ratio (DER) on company value, focusing on the coefficient of determination. Independent variables account for 59.2% of the variation in company value, while the remaining 40.8% is influenced by other factors. Key findings reveal that profitability (measured by ROA) does not significantly affect company value. In contrast, solvency (measured by DER) has a significant influence on company value, underscoring its importance in assessing a firm's financial stability and its impact on valuation. PSAK 117 plays a moderating role in these relationships. Specifically, it strengthens the effect of both profitability and solvency on company value. This indicates that PSAK 117, a standard related to financial reporting, enhances the clarity or reliability of the financial metrics' impact on valuation. The results emphasize the critical role of solvency in determining company value and suggest that while profitability alone may not directly influence value, its impact can be better understood or amplified through PSAK 117. By extension, the moderating role of PSAK 117 highlights its importance in ensuring accurate interpretation of financial data and its effects on decision-making related to company valuation. This study provides insight into how financial reporting standards can shape the understanding of key financial indicators in corporate valuation. Suggestions for further research are to take different company samples and a larger number of samples so as to produce more supportive information. The variable indicators used for further research can be replaced with other variables outside the variables that have been used in this study such as fundamental variables Price to Book Value (PBV), Price to Earning Ratio (PER), Earning Per Share (EPS).

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*Impact of Insurance  
Contract  
Implementation*

**486**

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