Insurance

Hazed and Confused

POSITIVE (Maintain)

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HIGHLIGHTS

- **The prolonged haze brings further complications to an already burdened Insurance Sector.**
- **Most notably, it increases the volume of respiratory cases, further pressuring healthcare claims that are already impacted by logistics-related disruption.**
- **Insurers can pass on these costs in CY27 as BNM's 10% premium cap runs out – but the risk of regulatory pushback is significant, given prolonged cost pressures faced by consumers.**
- **Of lesser impact is cloud seeding, which increases the risk of flash floods and landslides – leading to higher fire and motor claims.**
- **The most vulnerable is ALLZ, due to its high exposure to regular healthcare premiums. STMB is less impacted, given its preference for credit-linked products and employee benefit-style healthcare products.**
- **Maintain POSITIVE call: Still opportunities for growth and high dividends amid a challenging backdrop.**

Sector Verdict

We like the insurance sector's high dividend payouts, and near-term growth prospects should be backed by still-strong economic figures. On a longer-term basis, we are less optimistic, especially as prolonged cost pressures dig into household spending. Expect high top-line values but more moderate bottom-line growth, due to the presence of headwinds: Most notably, claims inflation (from global logistical issues, a depreciating MYR and increased respiratory illness cases) and investment income volatility (as global bond yields should continue to rise).

Core Themes

1. ▲ **Valuations remain attractive, especially when compared to regional peers.** For some reason, the MY insurance sector sees less attention: It could be due to its complexity, constant regulatory overhang, and high degree of volatility.
2. ▲ **Sector dividends are solid, with possible upside.** Apart from LPI, sector dividend yields are in the mid-single-digit range. But we expect higher payout ratios in CY26: ALLZ will likely increase its payout, while STMB intends to raise it.
3. ▲ **Strong General GWP growth on the back of stronger macroeconomic prospects – for the short term at least.** Healthy GDP and a recovery in TIV bode well; they are promising indicators, though MAT may continue seeing weakness if logistical disruptions persist. Rising cost pressures and reduced household spending may pose an issue over a longer-term horizon.
4. ▲ **Life insurance growth momentum remains solid (for now).** Life insurance has staged a comeback. Protection items are trending, and the employee benefit and bancassurance segments are ramping up as drivers.
5. ▼ **Elevated reinsurance and claim costs.** Higher pricing pressures, geopolitical risk, and abnormal weather events are negative drivers. The motor and medical segments will likely be hit hardest, as cost inflation is most evident due to logistical disruption. The threat of the MYR falling behind could result in overseas products becoming more expensive.
6. ▼ **Medical inflation could lead to regulatory backlash.** Initiatives are constantly rolled out to target healthcare inflation, but this is a long and gradual process. A combination of logistics-related disruption and increased respiratory cases from the prolonged haze should lead to a significant elevation of claims. Insurers can pass on these costs to consumers but risk a repeat of BNM's premium hike cap, especially while consumers face significant cost pressure.
7. ▼ **Investment income volatility may persist.** If the threat of further bond hikes remains.
8. ▼ **Competition (particularly on the conventional end) remains intense.** Smaller insurers that are unable to capitalise on economies of scale will continue to have it rough. There is rising competition

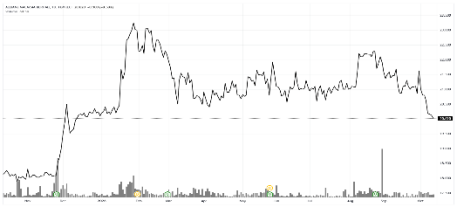
COMPANY *IN FOCUS*

Allianz

Maintain BUY | Target Price: RM22.73
Price @ 12 October 2026: RM20.02

- AGIC scales rapidly and capitalises on its market-leading position and economies of scale to grow premiums.
- ALIM's growth has recovered and is now outpacing the rest of the sector.
- ALIM's health loss ratios outperform its peers, with good co-pay programme take-up.

SHARE PRICE CHART



STMB

Maintain BUY | Target Price: RM3.44
Price @ 12 October 2026: RM2.89

- Family side's growth is gradually shifting its product mix and is entering segments in which we see much potential.
- General side continues to report huge growth figures. This should persist.
- Healthy dividend yields of >5%, with an intention to raise payout further.

SHARE PRICE CHART



While we maintain a POSITIVE call on the Insurance sector, we urge investors to be wary of increasing headwinds. The sector was already facing multiple headwinds before the prolonged haze, most notably:

1. Investment income volatility affected by rising bond yields.
2. Elevated reinsurance and claim costs, coming from rising geopolitical risk, abnormal weather events and a weakening MYR.
3. Increasing competition coming from more tech-savvy foreign insurance players.
4. Weakening household spending amid prolonged cost pressures, which could have a knock-on effect on long-term premium growth.

The haze further brings along several complications:

1. Higher claims inflation, via a larger volume of respiratory cases added on top of pre-existing logistics-related medical inflation.
2. Higher difficulty in passing on costs to consumers, given fears of regulatory backlash coming from hiking premiums for an already cost-burdened customer base.
3. Higher risk of flash floods and landslides from cloud seeding activity, which could lead to higher fire and motor claims.
4. Increased uncertainty as to whether haze episodes of this scale are a one-off… or have a chance of recurring.

MHIT problems could return to centre stage, with prolonged haze exacerbating respiratory cases. Malaysia is currently facing its worst haze episode ever, with forecasts warning that it could persist into Feb-27 (when the northeast monsoon brings steady rains). The resultant increase in respiratory (and other) medical cases will further drive MHIT providers' claims, which are already heightened by ongoing global logistical issues elevating drug and medical equipment prices.

Premium inflation amid cost-of-living pressures – a recipe for backlash? CY27 is a crucial year for repricing, as BNM's 10% cap on MHIT premium increases ends in 2026. MHIT providers have hinted (even before the haze emerged) at a big leap in premium prices in CY27 to pass on higher costs from logistics-led medical inflation.

However, Malaysian citizens have been badly affected by rising cost inflation, with no end in sight. This limits MHIT providers' ability to pass on higher claims costs via premium repricing. If the premium hike is too steep for cash-strapped customers to bear, it could lead to widespread cancellations and growing pressure from multiple parties. This increases the possibility of further BNM regulatory intervention in an attempt to preserve insurance penetration rates, especially since channel checks suggest poor MediAsas take-up. Hence, MHIT providers face the conundrum of either (1) raising premiums too steeply, risking cancellations and regulatory backlash, or (2) being content with thinner margins by increasing premiums by a more moderate degree.

To clarify, the product segment at most risk of regulatory backlash is recurring-style healthcare premiums. The employee benefit segment is not affected by BNM's 10% cap and is up for negotiation every year.

Is a haze of this severity a one-off, or recurring? The markets will fear it regardless. Malaysia is currently facing its worst haze episode ever. But at the same time, the ongoing "super" El Niño episode (expected to last until Feb-27) may play a larger part in this incident's severity.

We do not know if a haze episode of such severity is recurring. Perhaps we will see a more normalised episode next year, if El Niño does not recur. Perhaps there will be ESG-related regulation in Indonesia, allowing for better control over forest burnings in following years. However, until we get more certainty, investors will likely remain skittish, especially during next year's haze season.

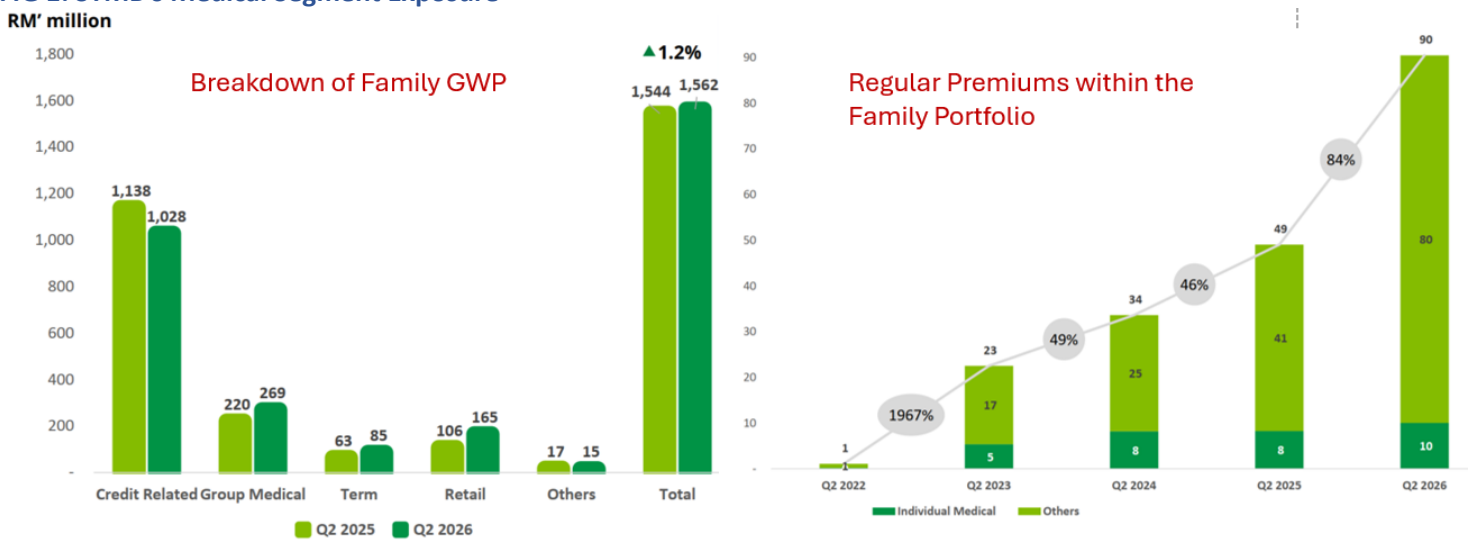
Cloud seeding increases the chance of floods and landslides. Heavy rain helps clear the haze, but it also increases the chance of catastrophic disasters. Most recently, we have seen such events in Ranau and Kundasang. Hence, the impact of haze is not solely confined to healthcare premiums – general players may take a hit as well. Realistically, the impact should be limited: Most insurers will likely avoid having too much concentration in locations of heightened catastrophic risk.

Earnings-wise, ALLZ is the most affected, while STMB is less affected. Unfortunately, we do not have data on how much exposure **ALLZ** has to the healthcare segment, nor can we properly gauge its impact on the bottom line. However, most of its healthcare premiums are regular products; hence, it is more vulnerable than its peers.

STMB has lower exposure to the healthcare premiums, due to the Family segment's preference for credit-linked products. Most of STMB's healthcare premiums are employee benefit-style products, which were not affected by BNM's 10% cap anyway. In 1HFY26, employee benefit products make up 17% of Family GWP, while regular premium products make up a low 0.6% of Family GWP. Hence, total medical products make up 12% of STMB's total GWP.

LPI, being a general player, sees negligible impact.

FIG 1: STMB's Medical Segment Exposure



Source: Companies, MBSBR

Maintain POSITIVE call. (Our comprehensive list of sector drivers is on the first page).
Top downside risks include:

1. Weaker economic growth leads to weaker premium growth.
2. Cost inflation amps up again and impacts claims adversely.
3. Geopolitical risk, natural disasters, and changing weather conditions drive up reinsurance and claim costs significantly.

Top Picks: Allianz (BUY, TP: RM22.73) and **STMB (BUY, TP: RM3.44).**

PEER COMPARISON

Insurer	Call	Share P*	Target P	Upside	Mkt Cap	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
		(RM)	(RM)	(%)	(RM b)	FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27
LPI	NEUTRAL	12.76	11.72	-8.2	5.1	13.8	12.1	1.6	1.7	13.2	13.8	15.8	11.9
ALLZ	BUY	20.02	22.73	13.5	6.9	7.6	7.3	1.0	0.9	13.7	13.1	4.2	4.4
STMB	BUY	2.89	3.44	19.0	2.5	6.6	6.3	1.2	1.0	17.3	17.7	6.1	6.3
Simple avg						**9.3**	**8.6**	**1.3**	**1.2**	**14.8**	**14.9**	**8.7**	**7.5**
Weighted avg						**9.6**	**8.8**	**1.2**	**1.2**	**14.2**	**14.1**	**8.6**	**7.4**

**Closing prices from 12 Oct 2026.*

Source: MBSBR

FIG 2: Valuation Methodologies

Company	Valuation	Details
LPI	P/BV	**FY26F P/BV of 1.58x.** ***GGM Assumptions:*** *FY26F ROE of* ***13.8%,*** *LTG of* ***4.0%*** *&* *COE of* ***10.2%.***
Allianz	SOTP	**AGIC: FY26F P/BV of 1.3x.** **ALIM: FY26F P/CE of 0.5x.**
STMB	P/BV	**FY26F P/BV of 1.25x.** ***GGM Assumptions****: FY26F ROE of* ***17.7%,*** *LTG of* ***4.0%*** *&* *COE of* ***15.0%.***

Source: Companies, MBSBR

FIG 3: Call, Target Price and Earnings Changes

	Call	Target Price (RM)	Earnings Revision			Adjustment Justification
			FY26	FY27	FY28	
LPI	Neutral	11.72 ~~14.54~~ ▼				**As LPI is a fully general player and has virtually zero exposure to the healthcare segment, no impact on earnings.** **We cut LPI's FY27 P/BV from 1.96x to 1.58x.** The downgrade is due to the increasing likelihood of sharp global rate hikes, which could lead to a severe depreciation in the MYR (leading to higher claims costs) and weaker investment income. Although GDP remains strong for now, we aren't so confident about the longer-term outlook: Cost pressures continue to mount, weakening household spending – and, in time, premium growth.
ALLZ	Buy	22.73 ~~26.77~~ ▼	-5%	-2%		**Earnings cut to account for higher claims costs from the healthcare segment. Of the three insurers under our coverage, ALLZ has the most exposure to regular healthcare premiums.** **As for our SOTP valuation:** **We cut AGIC's FY27 P/BV from 1.5x to 1.3x.** The downgrade is due to the increasing likelihood of sharp global rate hikes, which could lead to a severe depreciation in the MYR (leading to higher claims costs, especially given ALLZ's high motor segment exposure) and weaker investment income. Although GDP remains strong for now, we aren't so confident about the longer-term outlook: Cost pressures continue to mount, weakening household spending – and, in time, premium growth. **We cut ALIM's FY27 P/CE from 0.6x to 0.5x.** The downgrade is due to higher medical claims pressures coming from a combination of global logistical disruptions and higher incidence of haze-related respiratory cases. Higher cost pressures faced by their consumer base increase the likelihood of regulatory backlash, should industry premium hikes be too severe.
STMB	Buy	3.44 ~~4.51~~ ▼	-2%	-2%		**Earnings cut to account for higher claims costs from the healthcare segment. STMB has limited exposure to regular healthcare premiums but is more exposed to the employee benefits segment.** **We cut STMB's FY27 P/BV from 1.63x to 1.25x.** The downgrade is mostly Family-related. A large source of overhang comes from its ongoing restructuring of its Family portfolio, where it is growing lower-ROE, longer-tailed regular premiums to diversify away from its high credit-linked product exposure. STMB's exposure to the healthcare segment is relatively limited, but it is still subject to similar regulatory and investment-related risks faced by peers.

Source: Companies, MBSBR

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BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology