Commercial Lines Insurance Premium Finance

Shifting market share in a growing commercial loan segment

As we reported in our April 2015 industry commentary, insurance premium finance is a well-established, high margin, high growth commercial lending activity that generates low credit quality costs. We estimate the commercial segment has increased to roughly $35 billion of annual originations.

Much has transpired in the insurance premium finance industry since our last report. Two large banks have divested their top five premium finance units, totaling more than $2 billion of portfolio, in both cases to consolidators. Two banks have entered the industry through acquisition and another de novo. New entrant banks continue to demonstrate their ability to expand premium finance originations rapidly utilizing their low cost balance sheets.

Banks no longer lead the industry, however, controlling just under half of all commercial lines originations and one-third of the overall market. The market has shifted since 2013, when banks controlled nearly 60% of the commercial segment. Independents now control a slight majority of originations.

New entrant banks and an increasing universe of financial sponsors remain interested in the sector and are actively seeking entry through acquisition of an established platform. While we do not anticipate any significant divestitures from the large players in the foreseeable future, absent an exogenous event, several rapidly growing mid-sized players are emerging. Continued acquisition interest across a small pool of possible targets creates scarcity value for any premium finance company of size considering coming to market, buoying valuations.

Current Market Trends

- Banks are liquid and need earning assets. The regulatory environment has calmed, and banks are seeking acquisitions of specialty finance businesses.
- Many banks are interested in insurance premium finance due to the attractiveness of the asset class and the success of BB&T, Wintrust, Texas Capital Bancshares, Ameris Bank, Meta Bank and others. Colonnade regularly receives inquiries from banks seeking an insurance premium finance platform.
- Financial sponsors are aggressively targeting specialty finance companies, particularly now that banks have returned as long-term buyers. Insurance premium finance is always of interest.
- Massive consolidation in the insurance premium finance industry has left few platform acquisition opportunities for banks seeking to enter the business.
- Few premium finance companies of size remain; fewer come to market with any regularity. Scarcity value in a transaction plays to a seller's benefit.

Large but concentrated market

Growth in commercial lines property and casualty premiums continues to drive the insurance premium finance market. Operating conditions have been favorable, despite the intense focus on growth and market share among many of the larger players. A strong U.S. economy has contributed to increased levels of P&C insurance coverage. The past two years of higher absolute levels of interest rates generally have increased the use of premium financing, too, as businesses have alternative uses for cash.

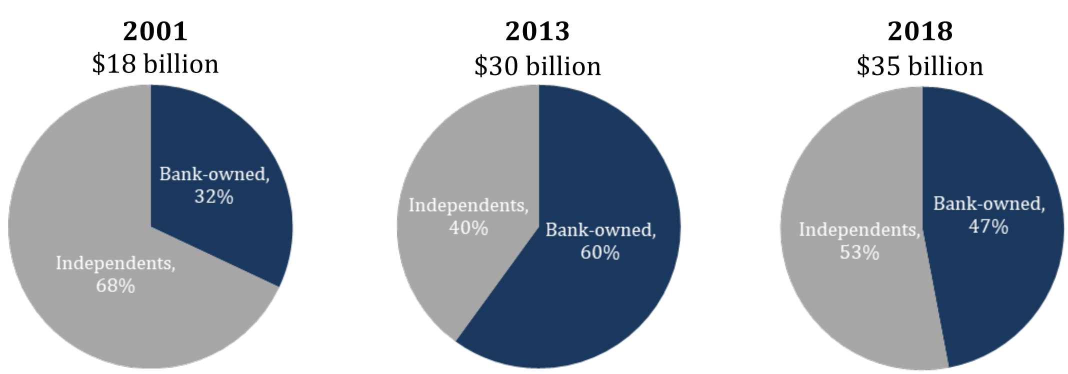
We estimate the commercial segment has increased to $35 billion of annual originations. The top five players control an estimated 50% of the overall market and 75% of all commercial lines originations; the top ten control 60% of the overall industry. The insurance premium finance industry is relatively concentrated; but the small and mid-size segments, in particular, still offer opportunities for growth. Bank-owned premium finance companies have largely shed their personal lines portfolios, due to stringent consumer-facing regulations, allowing independents to increase volumes in this high margin segment.

Independents lead commercial loan volumes again

When Colonnade started tracking the industry in 2001, independents controlled the market. Only four of the largest players in 2001 were bank-owned; most others were funded in the commercial paper conduit market. Of the dozen largest players at the time, all but three have since been consolidated.

Between 2001 and 2013, a dozen banks entered the industry, and several properties traded hands during the financial crisis. By the end of 2013, the tables had turned, and banks controlled an estimated 60% of the commercial segment.

Shifting market share of commercial lines insurance premium finance originations



Following several key M&A transactions and bank divestitures over the past five years, however, banks no longer control the majority of commercial lines premium financing. Since our last report, IPFS acquired Premium Assignment Corp (PAC), a top five player, from SunTrust in late 2017, shifting nearly $3 billion of originations from bank-owned to independent. That cemented IPFS' position as the largest player in the industry, having completed roughly 30 acquisitions since inception in the 1990s. IPFS' acquisition of PAC was significant, as was its acquisition of AICCO's $1.5 billion portfolio from AIG during the financial crisis.

Wells Fargo, which entered the industry through its platform acquisition in 2007, sold Flatiron to BB&T's AFCO in mid-2016, shifting roughly $2 billion of originations. AFCO ranks number two overall and has been aggressive on larger deals over the years, having purchased the U.S. operations of Cananwill, another significant player, from Aon in 2008. Interestingly, SunTrust – which recently sold PAC – has agreed to merge with BB&T.

Rationale for bank ownership

Banks remain enamored with the characteristics of the asset class, which creates a deep market of interested bank buyers. Banks' interest also generates opportunities for financial sponsors to build significant platforms for sale to banks ultimately.

Short duration assets	• Loans typically have a nine- to ten-month term, and portfolios have an average life of five months, with principal amortizing throughout the loan
Minimal credit losses	• Premium finance companies rely on the strength of the insurance carrier backing the underlying insurance policy as collateral. Commercial lines premium finance companies typically average annual net losses on the order of 10bps-30bps
Attractive loan spreads	• Loans are generally priced as a spread over Prime • Short-term, fixed rate loans re-priced every nine or ten months
Increased fee income	• Fee income derived from premium finance activities typically can reach 15% to 20% of gross revenue or 1% to 2% of earning assets
Growth in unit volume	• An indirect origination strategy leverages a finance company's direct sales force. High efficiency and number of loans per employee
Diversification of assets and earnings	• Premium finance loans diversify banks' commercial loan categories • Loans to insured borrowers with $1 million or less in revenue could count towards CRA requirements
High ROA and ROE	• High yields and low losses coupled with a strong efficiency ratio and operating leverage generate superior returns on assets and equity, well above other bank products
Competitive advantage via banks' access to capital and low cost of funds	• Bank-owned premium finance companies maintain a competitive funding advantage relative to independent operators

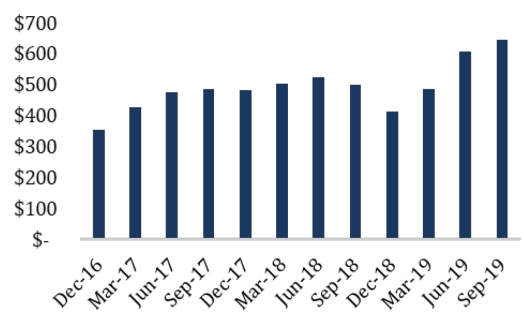
New entrants demonstrate growth

Several banks have recently entered the industry through acquisition: Ameris Bank acquired US Premium Finance in late 2016, and Meta Bank acquired AFS/IBEX in late 2014. Both banks have since successfully grown their premium finance portfolios. AFS/IBEX grew to nearly $350 million of portfolio as of last report from $77 million when the deal closed, a compound annual rate of 35%. Similarly, Ameris has increased its premium finance portfolio to in excess of $600 million from $400 million, a 15% compound annual growth rate, when it acquired the portfolio from Brand Bank in December 2016.

Significant growth in insurance premium finance loans since acquisition

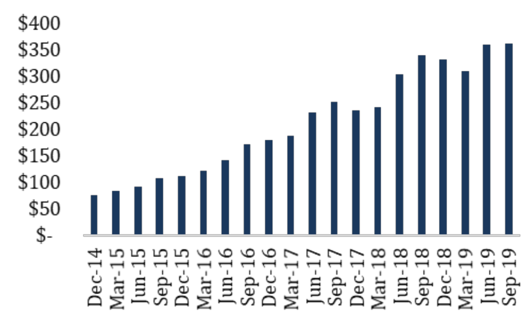
US Premium Finance

Loans outstanding *($ in millions)*



AFS/IBEX

Loans Outstanding *($ in millions)*



WebBank, controlled by Steel Partners, in early 2019 acquired National Partners, a small platform led by a seasoned team largely assembled from various industry participants that have been consolidated over the years. Triumph Bank has grown its de novo premium finance division to well over $100 million of portfolio since inception in 2016.

Leading players also target complementary financing markets

The table below illustrates the largest providers of premium financing in the United States. Each originates in excess of $1 billion annually.

	Company	Ownership
1	Imperial PFS	Private
2	AFCO Credit Corp	BB&T Corp (BBT)
3	FIRST Insurance Funding	Wintrust Financial (WTFC)
4	BankDirect Capital Finance	Texas Capital Bancshares (TCBI)
5	US Premium Finance	Ameris Bank (ABCB)
6	AFS/IBEX	Meta Bank (CASH)

AFCO and FIRST both maintain a meaningful presence in Canada, collectively originating the majority of the estimated $2.5 billion of financing volume.

Several participants also have significant exposure to the life insurance premium finance market, competing with banks such as Synovus (which acquired Global One, a $350 million portfolio, in 2016) and PacWest Bank (which launched a team in 2011 and now reports a $400 million portfolio). Wintrust has one of the largest life insurance premium finance portfolios in the U.S., recently reported at $4.6 billion, which complements its $3.4 billion commercial P&C premium finance portfolio. Combined, premium finance constitutes more than 30% of Wintrust's loan portfolio.

Mergers & acquisitions activity

Since our last report, an estimated $2.5 billion of portfolio has traded hands across a half dozen significant transactions in the U.S. commercial lines insurance premium finance industry.

Date	Buyer	Seller
Apr 2019	WebBank	**National Partners** (MLF Financial Group)
Apr 2018	HW Kaufman Group	**Stonemark Inc.**
Dec 2017	Imperial PFS	**Premium Assignment Corp** (SunTrust)
Jan 2017	Ameris Bank	**US Premium Finance** (Brand Bank)
Jun 2016	AFCO / BB&T Corp.	Flatiron (Wells Fargo)
Dec 2014	Meta Bank	**AFS/IBEX Financial Services**

*** Colonnade's clients in bold**

Outlook

The commercial lines insurance premium finance industry presents a compelling investment opportunity for commercial banks. Several large financial institutions have a long, successful history with the asset class, enjoying high yields, short duration, and low loss rates. While several bank players have exited, each for unique reasons, many new entrants are waiting in the wings.

Although consolidation over the past two decades has significantly reduced the inventory of properties available for acquisition, several independent firms are approaching critical mass and may soon be targets for commercial banks. Financial sponsors have taken note of banks' deep interest in owning insurance premium finance platforms and are increasingly seeking to acquire small to mid-size companies, capitalizing them to grow to become even more valuable acquisition targets in the near future.

Colonnade's recent insurance premium finance transactions

SunTrust
has sold
Premium Assignment Corporation
to
IPFS Corporation
Colonnade acted as financial advisor with SunTrust Robinson Humphrey to SunTrust
Colonnade Securities LLC

Stonemark Premium Finance Group
has been acquired by
Kaufman
H.W. Kaufman Group
Colonnade acted as exclusive financial advisor to Stonemark
Colonnade Securities LLC

US PremiumFinance "Beyond Great Rates & Superb Service"
has been acquired by
Ameris Bancorp
Colonnade acted as exclusive financial advisor to US Premium Finance
Colonnade Securities LLC

National Partners
has been acquired by
WebBank
Colonnade acted as financial advisor to the management team of National Partners
Colonnade Advisors LLC

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Sources: SEC filings, regulatory filings, and company presentations.

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