



Insurance Premium Finance Quarterly Update: 2022 Fourth Quarter



Mergers & Acquisitions
Capital Raising
coladv.com

Welcome to the quarterly update for the Insurance Premium Finance industry. Insurance Premium Finance is a lucrative \$45 billion industry that Colonnade has dominated in the role of advisor to both buy-side and sell-side clients.

Colonnade has successfully advised and executed over two dozen transactions within the insurance premium finance space. Colonnade's wealth of industry experience allows our team to navigate transactional nuance and maximize value, delivering optimal outcomes to our clients. This report analyzes data from the fourth quarter of 2022.

The insurance premium finance industry is broadly composed of commercial lines property and casualty, personal lines property & casualty, and life insurance premium finance. Our quarterly updates focus on the commercial lines segment, although we occasionally report on news in adjacent segments, including life insurance premium finance. Our quarterly updates cover both U.S. and Canadian markets.

The Colonnade team maintains close relationships with a multitude of industry operators and provides this report to our readers to keep them up to date on relevant industry news, sourced primarily from those banks that report segment results for their insurance premium finance verticals.

OUR QUARTERLY UPDATE COVERS:

- 1 Financial Results For Select Industry Players
- 2 Recent Transactions – Both M&A and Financing
- 3 Emergent Industry Trends
- 4 Industry Outlook

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FINANCIAL RESULTS FOR SELECT INDUSTRY PLAYERS

Of the top 10 largest firms, only four are owned by public banks that report segment data for their premium finance group. On an aggregate basis, this group reported a 0.6% quarterly increase in outstandings and a 20.9% year-over-year uptick.

OUTSTANDINGS¹ Q/Q CHANGE Y/Y CHANGE

FIRST INSURANCE[®]
FUNDING
A WINTRUST COMPANY

\$5,849

2.4%

20.5%

 **US PREMIUM**
FINANCE[®]
A DIVISION OF AMERIS BANK

\$1,023

(3.7%)

28.2%

AFS  **IBEX**

\$437

(8.9%)

13.4%

Peoples 
PREMIUM FINANCE

\$159

(5.1%)

16.9%

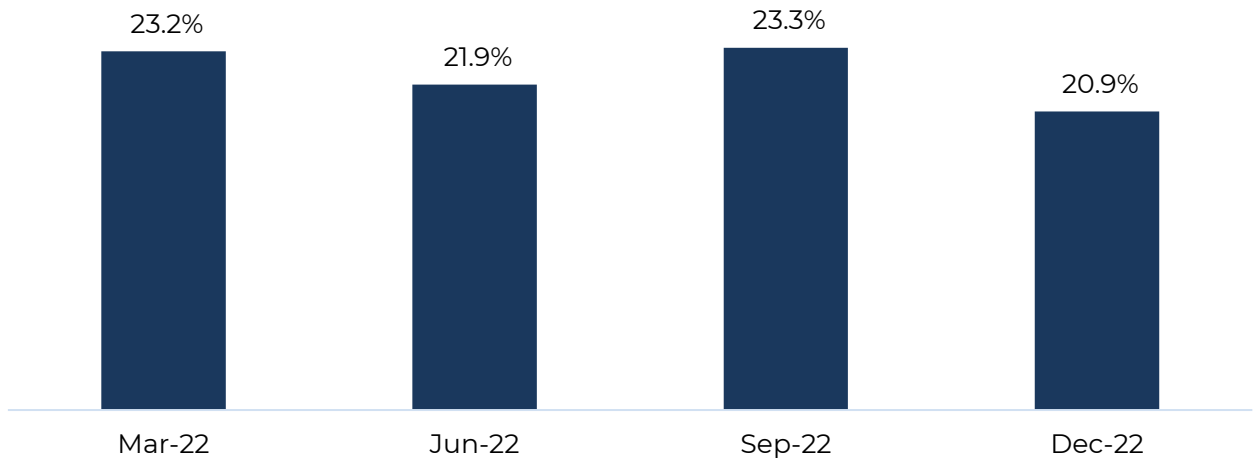
AGGREGATE REPORTED

\$7,469

0.6%

20.9%

ANNUAL GROWTH RATE OF COMPOSITE INDEX (Y/Y change)



COMMENTARY

Despite the volatile macroeconomic environment experienced throughout 2022, the insurance premium finance industry has exhibited exceptional annual growth of 20.9%. However, Federal Reserve actions in 2022 dampened fourth-quarter growth as the industry adjusted to higher funding costs.

Quarterly growth was further depressed by seasonal factors. Commercial Premium finance origination volumes typically slow in the fourth quarter. Given the short average life of a commercial premium finance portfolio (~5 months), this seasonal reduction in originations has an outsized impact on insurance premium finance loans outstanding at year-end compared to longer-duration loans.

FIRST INSURANCE® FUNDING

A WINTRUST COMPANY

Resilient growth of premium finance receivables despite a broader macroeconomic slowdown verifies the defensive nature of the industry's underlying asset class. While the Federal Reserve's hawkish monetary policy has temporarily compressed interest rates and slowed industry growth, operators maintain measured optimism about their premium finance operations. WinTrust spoke to the strength of the premium finance vertical during 2022 as well as their near-term industry expectations of steady growth during their recent Q4 2022 earnings call:

"Commercial premium finance had another solid quarter, up \$136 million... Also, commercial premium finance had a very strong 2022 with increased outstandings of close to \$1 billion year-over-year. We anticipate this momentum will continue into 2023. While we are optimistic about loan growth for this year, we would anticipate that the pace of growth may trend closer to the middle of our guidance of mid-to-high single digits for a number of reasons. While Wintrust Life Finance grew by \$1.1 billion during 2022, the rapid increases in rates during the past year have affected that pace of growth."

*-Richard Murphy, Vice Chairman and Chief
Lending Officer,
WinTrust Financial Corporation*



2 RECENT TRANSACTIONS

FINANCING TRANSACTIONS

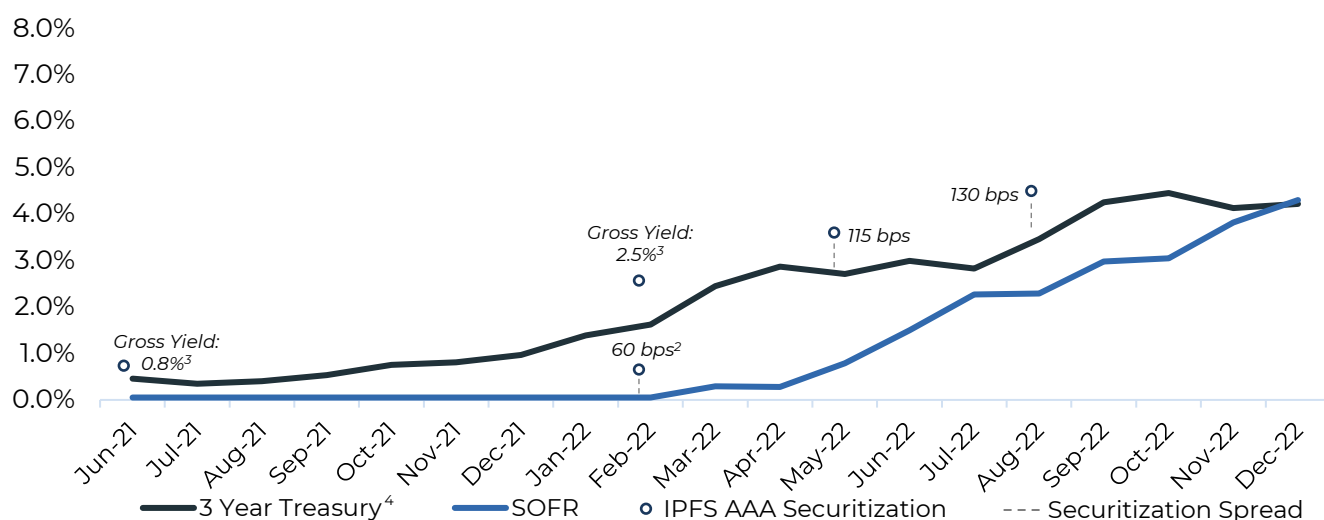


- In Q4 2022, Gracie Point International Funding raised an aggregate \$203 million of asset-backed, floating-rate notes secured by insurance premium finance loans. The four-tranche issue offered Class A, B, C, and D notes, benchmarked to the secured overnight financing rate ("SOFR")
 - Class A notes have a DBRS Morningstar rating of AA, written at a spread of 325 basis points
 - Class B notes have a DBRS Morningstar rating of AA (L), written at a spread of 400 basis points
 - Class C notes have a DBRS Morningstar rating of A (L), written at a spread of 450 basis points
 - Class D notes have a DBRS Morningstar rating of BBB (L), written at a spread of 575 basis points

3 EMERGENT INDUSTRY TRENDS

WEATHERING RISING INTEREST RATES

Due to its short average life (~5 months), the premium finance industry was well positioned for an increase in interest rates. During the back half of 2022, the Federal Reserve raised its target interest rate by 275 basis points. Aside from temporary interest rate compression as their portfolios reset, premium finance companies have largely been able to maintain their margins with only a slight decline in originations growth during the fourth quarter.



EXPANDING SECURITIZATION SPREADS

The rising rate environment significantly increased IPFS' cost of funds and pressured the company to increase its spreads during the back half of 2022. IPFS' AAA fixed securitization interest rates increased from 0.8% in its June 2021 securitization to 4.3% in its August 2022 securitization despite historically being able to access capital at near-bank cost of funds on the securitization market. Despite the rapid expansion of interest rates in 2022, IPFS will have time to adjust to a higher cost of funds. The Company's securitizations typically have a duration of three years, so the IPFS' blended cost of funds is likely materially lower than that of its most recent securitization. As a middle-market-focused premium finance company targeting the higher-yielding, smaller ticket segment of the market, IPFS is also well-positioned to absorb elevated funding costs.

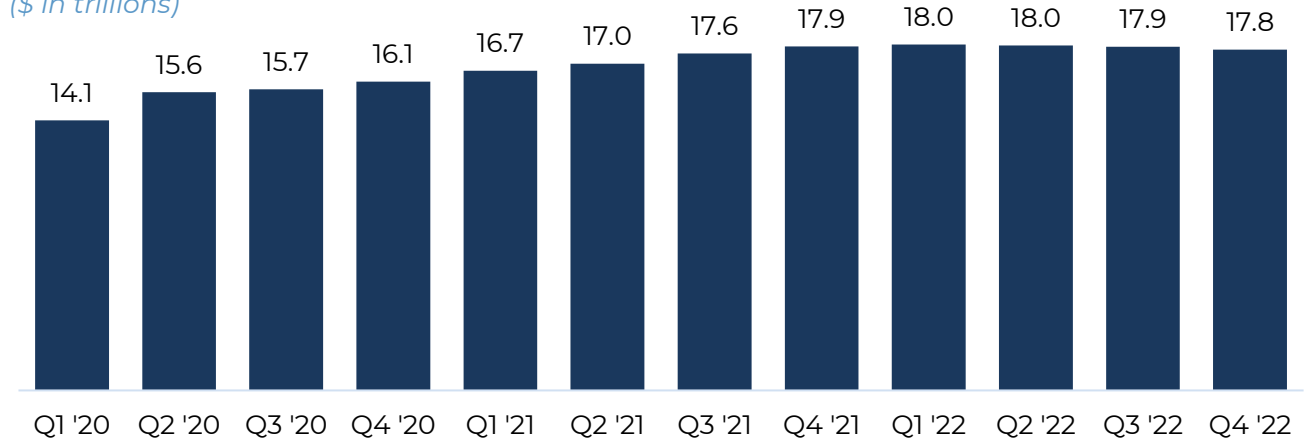
²Floating at SOFR + 60 bps

³Benchmarked to Swaps

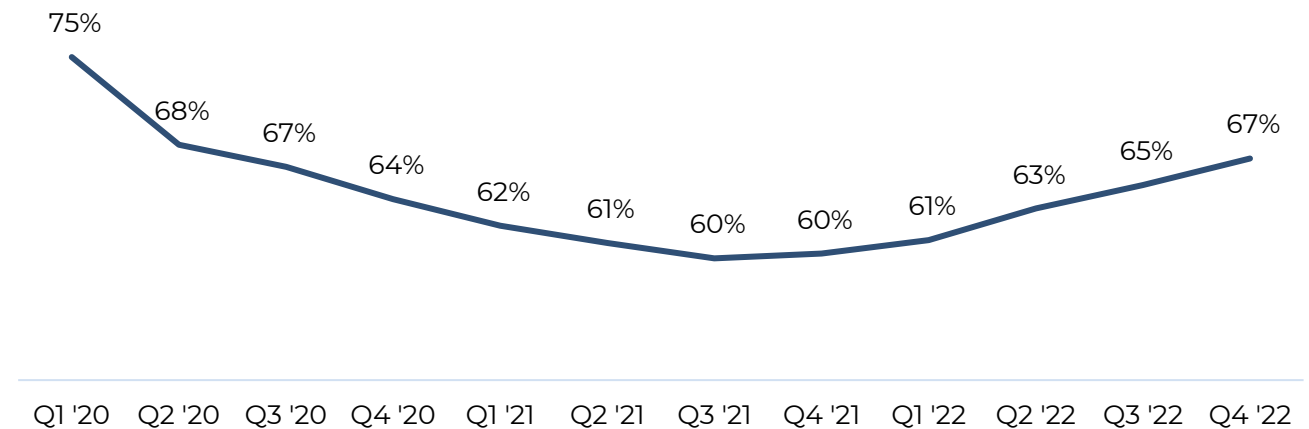
⁴Proxy for I-Curve

TOTAL COMMERCIAL BANK DEPOSITS, SEASONALLY ADJUSTED

(\$ in trillions)



LOANS AND LEASES AS A PERCENTAGE OF TOTAL DEPOSITS



COMMERCIAL BANK DEPOSIT UTILIZATION

Bank-owned premium finance companies were also subject to rising costs of funds in 2022. While bank loan-to-deposit ratios have yet to return to pre-covid levels, there is growing competition for cheap deposit capital. Banks became flush with deposits in 2020 and 2021, when pandemic-driven uncertainty and stimulus spiked average savings. However, banks began to gradually deploy this capital and deposits fell 1.5% from the end of Q1 2022 through the end of the year. Despite these recent headwinds, bank-owned premium finance companies continue to have lower costs of capital compared to privately owned industry operators, allowing them to target the lower-yielding high-ticket segment of the premium finance market.

4 OUTLOOK AND CONCLUSION

OUTLOOK

Insurance premium finance remains an attractive asset class for banks and independent operators. The asset class has a track record of consistently delivering strong risk-adjusted returns with low credit losses. The short average term also allows lenders to quickly adjust to a rising rate environment. In a challenging macroeconomic environment, borrowers are likely to leverage premium financing to better manage cash flow and liquidity, accelerating growth for premium finance lenders.

CONCLUSION

Colonnade has been either the sell-side or buy-side M&A advisor for most transactions within the insurance premium finance space over the past 20 years. These complex transactions require an investment banking team with a depth of industry experience, insider-level mastery, competitive positioning, and a robust network of buyer relationships. If you own a premium finance company or you are contemplating an acquisition in the space, please contact us. The Colonnade team is an expert industry resource for you to leverage as you consider your next steps.

Our podcast and White Paper on the Insurance Premium Finance industry may also be of interest. In these industry overviews, we answer the following questions:

- How are insurance premium finance companies valued?
- Why are Insurance Premium Finance companies attractive to buyers?
- How has the Insurance Premium Finance industry changed over time?
- What are the key drivers of valuation for Insurance Premium Finance companies?
- How can Insurance Premium Finance companies differentiate themselves in the market?
- Is there a sweet spot in terms of loan size and yields for high-value Insurance Premium Finance businesses?
- What advice would you give to owners of premium insurance finance companies to get them ready to go to market?

MIDDLE MARKET M&A PODCAST

018: INDUSTRY SPOTLIGHT -
INSURANCE PREMIUM FINANCE



INDUSTRY REPORTS

COMMERCIAL LINES INSURANCE
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Commercial Lines
Insurance Premium
Finance



COLONNADE IS A LEADING ADVISOR TO THE INSURANCE PREMIUM FINANCE INDUSTRY

 <p>has been acquired by</p>  <p>COLONNADE SECURITIES LLC</p>	 <p>has raised capital from</p> <p>COPLEY EQUITY PARTNERS</p> <p>COLONNADE SECURITIES LLC</p>	 <p>has been acquired by</p>  <p>COLONNADE SECURITIES LLC</p>	 <p>has been acquired by</p>  <p>COLONNADE SECURITIES LLC</p>	 <p>has acquired</p>  <p>COLONNADE SECURITIES LLC</p>	 <p>has been acquired by</p>  <p>COLONNADE SECURITIES LLC</p>
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This advertisement was prepared March 2023. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

Sources: St. Louis FRED, Finsight, SEC Filings, Company Earnings Calls. Seeking Alpha Transcripts

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