



Insurance Premium Finance Quarterly Update: 2023 First Quarter



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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 2023 First Quarter 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.

On an aggregate basis, this group reported a 0.6% quarterly increase in outstandings and an impressive 20.9% year-over-year uptick.





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 and Other News

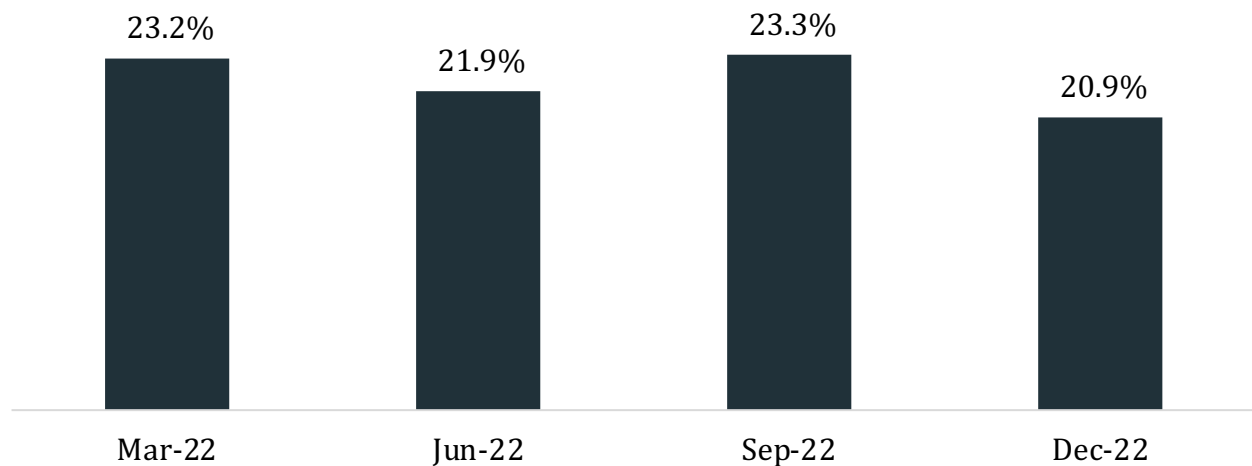


1 FINANCIAL RESULTS FROM SELECTED PUBLIC COMPANIES

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.

	Outstandings (\$mm)	Q / Q change	Y / Y change
 A WINTRUST COMPANY	\$5,849	2.4%	20.5%
 A DIVISION OF AMERIS BANK	\$1,023	(3.7%)	28.2%
	\$437	(8.9%)	13.4%
	\$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.



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

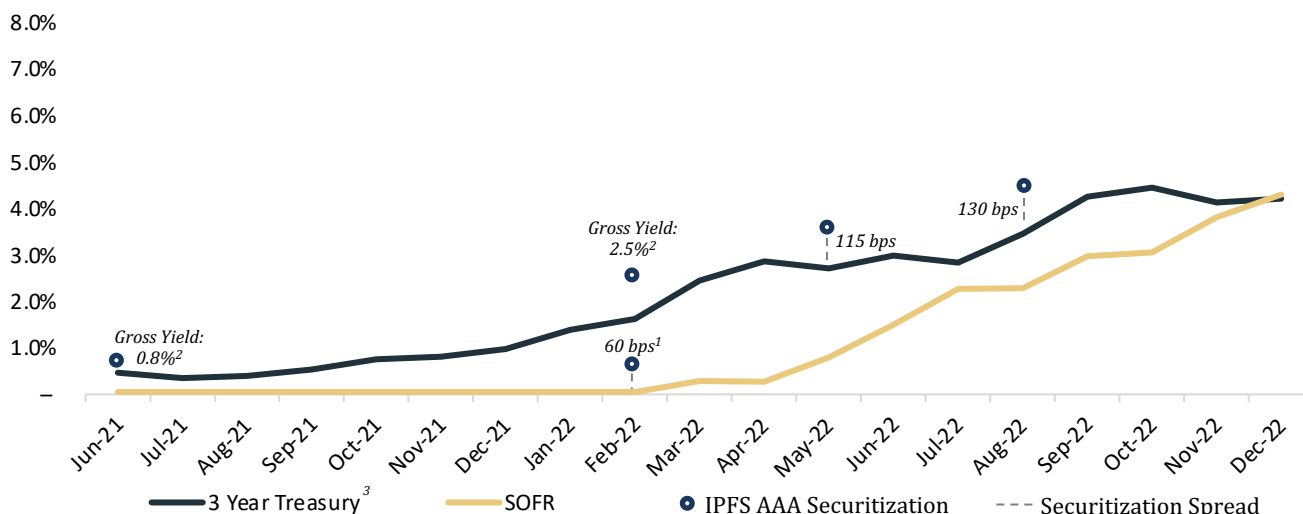


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EMERGENT INDUSTRY TRENDS

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 425 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.



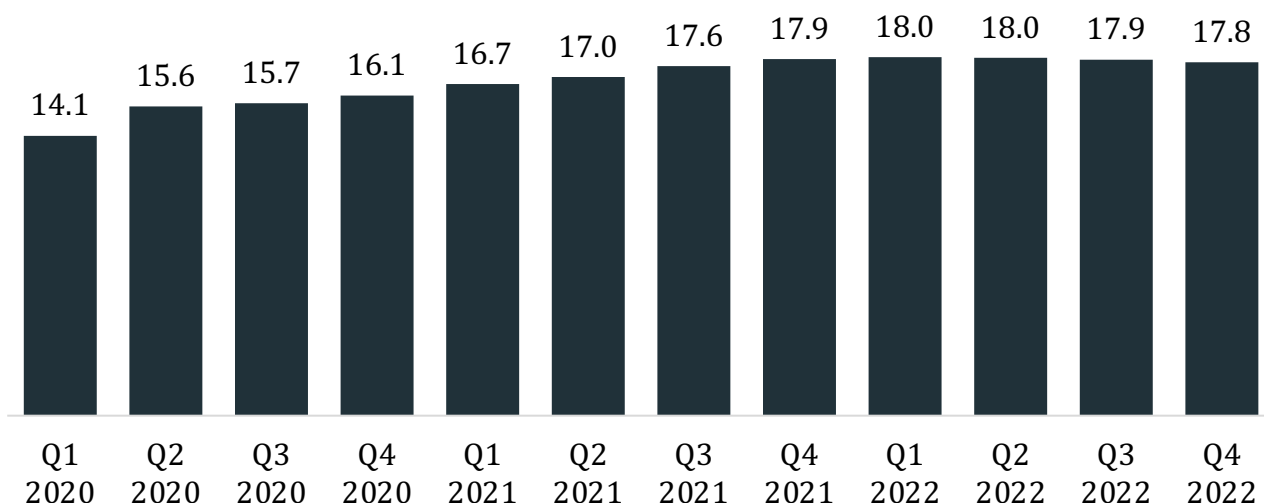
¹Floating at SOFR + 60 bps ²Benchmarked to Swaps ³Proxy for I-Curve

Expanding Securitization Spreads

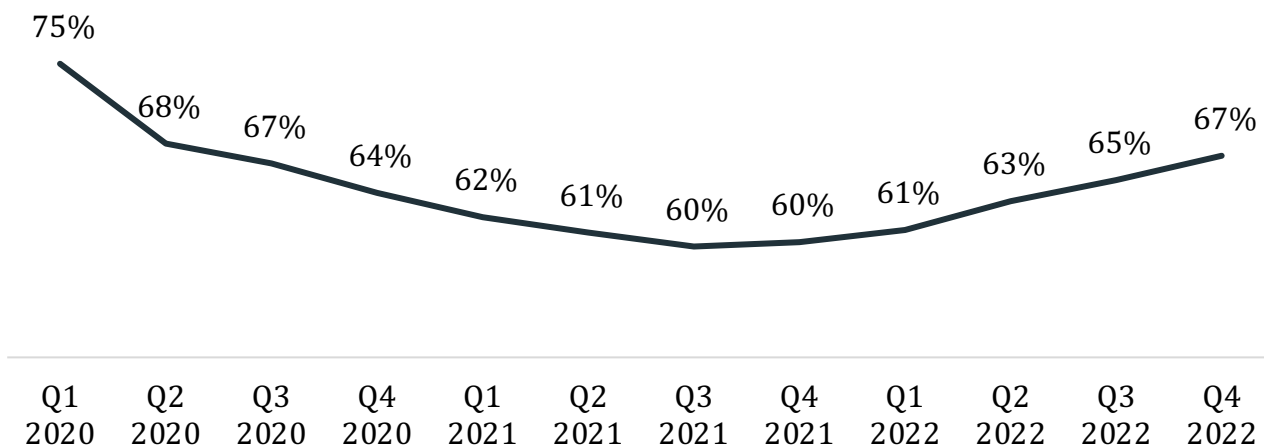
The rising rate environment significantly increased IPFS' cost of funds and pressured the company to increase its spreads during the back half of 2022. IPFS' AAA fixed securitization interest rates increased from 0.8% in its June 2021 securitization to 4.3% in its August 2022 securitization despite historically 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.

Total Commercial Bank Deposits, Seasonally Adjusted (\$ in trillions)



Commercial Banks: Total 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.

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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 on the Insurance Premium Finance industry may also be of interest. In this episode, we answer the following questions:

- What is the Insurance Premium Finance industry?
- Why are Insurance Premium Finance companies attractive to buyers?
- How has the Insurance Premium Finance industry changed over time?
- What are some of 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?
- How are insurance premium finance companies valued?



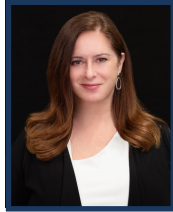
Colonnade is a leading advisor to the insurance premium finance industry

<p>SELLSIDE</p> <p>SECURITY PREMIUM FINANCE, INC.</p> <p>has been acquired by</p> <p>NATIONAL PARTNERS</p> <p>a subsidiary of</p> <p>WebBank</p> <p>COLONNADE</p>	<p>CAPITAL RAISE</p> <p>CAPITAL PREMIUM FINANCING™</p> <p>raised capital from</p> <p>COPLEY EQUITY PARTNERS</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>MEPCO Insurance Premium Financing</p> <p>was sold to</p> <p>INDEPENDENT BANK</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>MEPCO</p> <p>a subsidiary of</p> <p>INDEPENDENT BANK</p> <p>was sold to</p> <p>SEABURY CAPITAL GROUP</p> <p>COLONNADE</p>	<p>BUYSIDE</p> <p>IMPERIAL PFS</p> <p>acquired</p> <p>MEPCO</p> <p>the Premium Finance subsidiary of</p> <p>INDEPENDENT BANK</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>STONEMARK Premium Finance Group</p> <p>was sold to</p> <p><i>Kaufman</i></p> <p>COLONNADE</p>
<p>CAPITAL RAISE</p> <p>CAPITAL PREMIUM FINANCING™</p> <p>raised capital from</p> <p>Ameris Bancorp.</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>CAPITOL PAYMENT PLAN</p> <p>was sold to</p> <p>IMPERIAL PFS</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p><i>Premium Payment Plan</i></p> <p>a division of</p> <p>FIRST NIAGARA</p> <p>was sold to</p> <p>WELLS FARGO</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>UPAC</p> <p>a subsidiary of</p> <p>FIRST BANK</p> <p>was sold to</p> <p>IMPERIAL PFS</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>NATIONAL PARTNERS</p> <p>was sold to</p> <p>WebBank</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>BIC Budget Installment Corp</p> <p>a subsidiary of</p> <p>Webster Financial Corporation</p> <p>was sold to</p> <p>TEXAS CAPITAL BANK</p> <p>COLONNADE</p>
<p>SELLSIDE</p> <p>FLATIRON CAPITAL CORP</p> <p>a division of</p> <p>TD</p> <p>was sold to</p> <p>WELLS FARGO</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>PREMIUM ASSIGNMENT CORPORATION</p> <p>a subsidiary of</p> <p>SUNTRUST</p> <p>was sold to</p> <p>IMPERIAL PFS</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>TRIUMPH PREMIUM FINANCE</p> <p>a division of</p> <p>TRIUMPH</p> <p>was sold to</p> <p>Peoples Fidelity</p> <p>Working Together. Building Success.®</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>AM GRO</p> <p>a subsidiary of</p> <p>Hanover Insurance Group®</p> <p>was sold to</p> <p>IMPERIAL PFS</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>AFS IBEX</p> <p>was sold to</p> <p>MetaBank</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>CANANWILL PREMIUM FINANCING</p> <p>a subsidiary of</p> <p>AON</p> <p>was sold to</p> <p>MACQUARIE</p> <p>COLONNADE</p>
<p>SELLSIDE</p> <p>CANANWILL PREMIUM FINANCING</p> <p>a subsidiary of</p> <p>AON</p> <p>was sold to</p> <p>MACQUARIE</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>CANANWILL PREMIUM FINANCING</p> <p>a subsidiary of</p> <p>AON</p> <p>was sold to</p> <p>Allianz</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>CANANWILL PREMIUM FINANCING</p> <p>a subsidiary of</p> <p>AON</p> <p>was sold to</p> <p>B&B</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>BROADWAY PREMIUM FUNDING CORP</p> <p>a portfolio company of</p> <p>Sumitomo Corporation of America</p> <p>was sold to</p> <p>WINTRUST</p> <p>COLONNADE</p>	<p>SELLSIDE</p> <p>UPAC</p> <p>was sold to</p> <p>FIRST BANK</p> <p>COLONNADE</p>	<p>CAPITAL RAISE</p> <p>CAPITAL PREMIUM FINANCING™</p> <p>raised capital from</p> <p>TEXAS CAPITAL BANK</p> <p>COLONNADE</p>
<p>SELLSIDE</p> <p>US PREMIUM FINANCE™</p> <p>A DIVISION OF AMERIS BANK</p> <p>was sold to</p> <p>Ameris Bancorp.</p> <p>COLONNADE</p>	<p>CAPITAL RAISE</p> <p>gotoPremiumFinance</p> <p>a subsidiary of</p> <p>INPUT 1</p> <p>raised capital from</p> <p>BMO Harris Bank</p> <p>COLONNADE</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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