



# Insurance Premium Finance Quarterly Update: 2023 First Quarter



Mergers & Acquisitions  
Capital Raising  
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Welcome to the quarterly update for the Insurance Premium Finance industry. Insurance Premium Finance is a robust \$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 throughout a wide range of macroeconomic environments. Colonnade's significant industry experience allows our team to navigate transactional nuance and maximize value, delivering optimal outcomes for our clients. This report analyzes data from the first quarter of 2023.

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 vast network 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 Industry Outlook and Other News

# 1

## 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 modest 2.5% quarterly reduction in outstandings and a 15.5% year-over-year uptick.

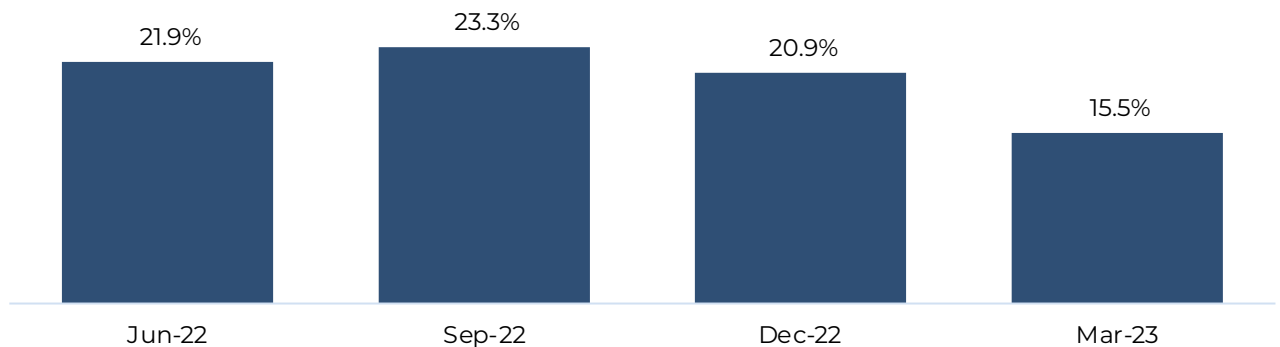
### OUTSTANDINGS<sup>1</sup> Q/Q CHANGE Y/Y CHANGE

 A WINTRUST COMPANY	\$5,739	(1.9%)	16.2%
 A DIVISION OF AMERIS BANK	\$947	(7.4%)	15.6%
	\$438	0.2%	8.4%
	\$158	(0.6%)	8.5%
<b>AGGREGATE REPORTED</b>	<b>\$7,282</b>	<b>(2.5%)</b>	<b>15.5%</b>

<sup>1</sup>\$ in millions

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

### Aggregate YoY Outstandings Growth



## COMMENTARY

Despite the tumultuous macroeconomic environment of the past twelve months, the insurance premium finance industry expanded considerably, growing outstandings 15.5% year over year as of Q1 2023. Since mid-March 2022, the Federal Reserve hiked interest rates by 500 bps, forcing industry participants to originate at higher interest rates.

As a result of higher funding costs and consequentially higher interest costs to the insured, aggregate outstandings held by the tracked group of industry operators declined 2.5% quarter over quarter. Richard Murphy, Vice Chairman and CLO of industry heavyweight Wintrust attributed the recent decline in their commercial premium finance outstandings to seasonal factors, maintaining an outlook for robust near-term growth in the company's Q1 2023 earnings call:

"The first quarter is generally the slowest quarter for core loan production and is a seasonally slow quarter for the commercial premium finance portfolio. Higher borrowing costs have forced borrowers to reconsider the economics of new projects, business expansion, equipment purchases and premium finance costs and overall business sentiment, which has dropped during the past few months..."

***...Also, while commercial premium finance loans were down by \$111 million in the first quarter, based on historic seasonality, we would anticipate that this portfolio will show solid growth in Q2."***

## COMMENTARY

Healthy year over year growth in premium finance outstandings despite a rapidly tightening monetary policy environment verifies the defensive nature of the industry’s underlying asset class. Industry operators recently emphasized the diversification benefit that their premium finance operations accrue to their overall portfolios in their recent earnings calls.



“Now I want to have a few words about commercial finance...This portfolio is diversified across different asset classes and structured to provide opportunity regardless of where we are in the economic cycle. If we're in a thriving economy, we expect to see increased originations in the equipment and insurance lines of businesses as our customers grow and expand. In the downturn, we typically see an increase in the working capital segment, as most businesses need our help bridging any gaps they may experience.”

*-Brett Pharr, CEO  
Pathward Financial*



“We continue to believe that our relatively short term and asset-sensitive balance sheet structure can provide for margin stability as our premium finance portfolios, which comprise roughly one-third of our loan portfolio should continue to reprice upwards over the course of this year, which should substantially mitigate the rise in deposit pricing.”

*-David Dykstra, Vice Chairman  
and COO  
Wintrust*

## 2 RECENT TRANSACTIONS

### FINANCING TRANSACTIONS



- In Q1 2023, IPFS raised an aggregate \$750 million of asset-backed, fixed rate notes secured by insurance premium finance loans. The two-tranche issue offered Class A and B notes, benchmarked to I-curve
  - Class A notes have a S&P rating of AAA, written at a spread of 120 basis points
  - Class B notes have a S&P rating of A, written at a spread of 175 basis points

## 3 OUTLOOK AND CONCLUSION

### OUTLOOK

Insurance premium finance remains an attractive asset class for banks and independent operators alike. 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 efficiently reposition their portfolios in 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:

- What is the Insurance Premium Finance Industry?
- 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 insurance premium finance companies to get them ready to go to market?





# COLONNADE IS A LEADING ADVISOR TO THE INSURANCE PREMIUM FINANCE INDUSTRY

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This advertisement was prepared May 2023. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

Sources: SEC filings, Finsight, Seeking Alpha, Company Earnings Calls

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