



Insurance Premium Finance Quarterly Update: 2023 Second 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 throughout a wide range of macroeconomic environments. Colonnade's wealth of industry expertise enables our team to navigate transactional nuance and maximize value, delivering optimal outcomes for our clients. This report analyzes data from the second 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 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 units.





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 17.8% quarterly increase in outstandings and a 20.6% year-over-year uptick.

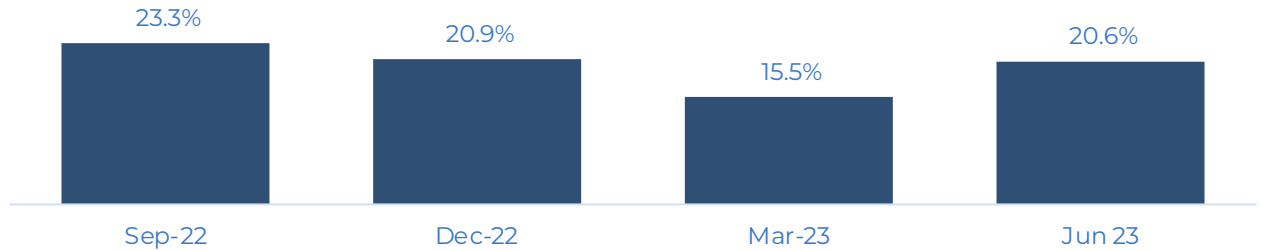
OUTSTANDINGS¹ Q/Q CHANGE Y/Y CHANGE

 A WINTRUST COMPANY	\$6,763	17.8%	22.0%
 A DIVISION OF AMERIS BANK	\$989	4.4%	4.9%
	\$666	52.2%	38.5%
	\$162	2.6%	6.6%
AGGREGATE REPORTED	\$8,580	17.8%	20.6%

¹\$ in millions

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

Aggregate YoY Outstandings Growth



COMMENTARY

Despite the volatile economic environment of the past year, the insurance premium finance industry expanded considerably, growing outstandings 20.6% year over year. Quarter over quarter, aggregate outstandings of the public premium finance companies grew by 17.8%, primarily driven by the portfolios of Pathward and WinTrust. Pathward’s premium finance outstandings increased 52% from \$438 million to \$666 million. After a seasonally slow first quarter, WinTrust added more than \$1 billion in commercial premium finance loans in the second quarter.

WinTrust and Pathward’s growth was likely enabled by the shake up of industry dynamics resulting from AFCO’s 2022 acquisition of BankDirect. Larger agents typically prefer to have multiple financing partners. Industry consolidation may cause concentration in an agency’s financing network, prompting the agency to do business with other providers, such as WinTrust or Pathward.

The growth of the tracked group of companies is particularly impressive given the rising rate environment of the past 18 months. In 2022 the Federal Reserve rapidly increased the Federal Funds Rate by 425 bps through seven rate hikes. The pace of the Fed’s rate increases decelerated this year. The Federal Reserve hiked interest rates by only 75 bps from January to June 2023. Typically, rising rates make it more difficult for lenders to originate loans as they are forced to offer their loans at higher rates to preserve interest rate margins. The significant growth in industry outstandings observed this quarter indicates industry operators were able to successfully originate at higher interest rates.

COMMENTARY

As a result of the substantial increase in the Federal Funds Rate over the last 18 months, lenders continue to struggle with yield compression. Premium finance lenders are partially insulated from this interest rate risk, as commercial premium finance portfolios typically have an average life of ~5.5 months, which allows industry operators an efficient opportunity to reset their portfolios as rates increase. In their recent Q2 2023 earnings call, WinTrust management addressed recent growth and explained how the upward repricing of their premium finance portfolio alleviates the challenges associated with elevated fundings costs:



“The second quarter is historically when we see our highest funding volume. And as we have noted in the past several quarters, we have seen a significantly harder market for insurance premiums, particularly for commercial properties. As a result, we have seen the average loan size increase. Finally, we continue to see new opportunities as a result of consolidation within the premium finance industry.”

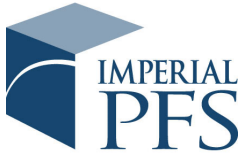
*-Richard Murphy, Vice Chair and CLO
Wintrust*

“We continue to believe that our balance sheet structure can provide margin stability as our premium finance portfolio, which comprise roughly a third of our loan portfolio should continue to reprice upward over the course of this year and that should substantially mitigate the rise in deposit pricing.”

*-David Dykstra, Vice Chairman and COO
Wintrust*

2 RECENT TRANSACTIONS

FINANCING TRANSACTIONS



- In Q2 2023, IPFS raised an aggregate \$450 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 140 basis points
 - Class B notes have a S&P rating of A, written at a spread of 185 basis points

3 OUTLOOK AND CONCLUSION

OUTLOOK

Insurance premium finance is an attractive asset class for banks and independent operators alike. The asset class has a track record of consistently delivering attractive risk-adjusted returns with low credit losses. The short average term of the underlying asset allows lenders to efficiently reposition and reprice their portfolios. In an uncertain 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 wealth of industry experience, insider-level mastery, competitive positioning, and a vast 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 THE LEADING ADVISOR TO THE INSURANCE PREMIUM FINANCE INDUSTRY

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For more information on the Insurance Premium Finance industry, please contact:



Jeff
Guylay
Managing Director
847.452.8315
jguylay@coladv.com



Gina
Cocking
Managing Director
312.953.2658
gcocking@coladv.com



Jack
Collins
Associate
312.544.8543
jcollins@coladv.com



Ross
Martin
Analyst
312.870.6212
rmartin@coladv.com



Matt
Magee
Sr. Account Executive
312.870.6204
mmagee@coladv.com



Colonnade Advisors LLC • 600 Cleveland Street • Suite 272
Clearwater, FL • 33755
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Sources: SEC filings, Finsight, Seeking Alpha, Company Earnings Calls

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