



# Insurance Premium Finance Quarterly Update: 2023 Third 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 lucrative \$50+ 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 third 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 1.6% quarterly increase in outstandings and a 17.5% year-over-year uptick.

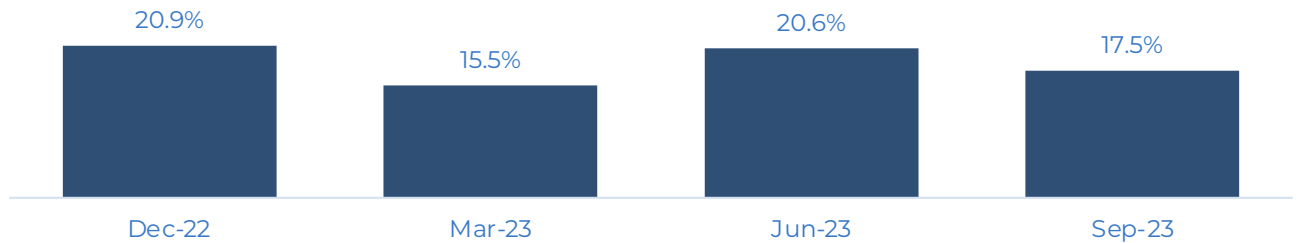
## OUTSTANDINGS<sup>1</sup> Q/Q CHANGE Y/Y CHANGE

 A WINTRUST COMPANY	\$6,723	(0.6%)	17.7%
 A DIVISION OF AMERIS BANK	\$1,007	1.9%	(5.2%)
	\$800	20.1%	66.8%
	\$189	16.6%	12.9%
<b>AGGREGATE REPORTED</b>	<b>\$8,719</b>	<b>1.6%</b>	<b>17.5%</b>

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

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

### Aggregate YoY Outstandings Growth



### COMMENTARY

The tracked insurance premium finance portfolios continued their significant growth in the third quarter. Quarter over quarter, aggregate outstandings of the public premium finance companies grew by 1.6%, despite First Insurance Funding completing a significant sale of receivables.

In the third quarter, First Insurance Funding sold a portion of its insurance premium finance portfolio to manage liquidity, reducing the Company's Q3 ending portfolio balance by \$344 million. If the loans had not been sold, aggregate year-over-year outstandings growth would have increased to 22.1% in September 2023.

Pathward and Peoples also saw significant increases in their portfolios during the quarter. Pathward's premium finance outstandings increased 20% from \$666 million to \$800 million, while Peoples' portfolio increased 13% from \$162 million to \$189 million.

## COMMENTARY

The Fed's decision to hold rates steady in June and September 2023 allowed insurance premium finance portfolios time to catch up to rate increases earlier in the year. Commercial premium finance portfolios typically have an average life of ~5.5 months, which allows industry operators to quickly reset their portfolios as rates increase. However, the rapid increase in rates during the first half of the year caused insurance premium finance portfolios to consistently lag current rates. Industry participants, including Wintrust and Pathward, took advantage of the return to more normal profit levels by selling a portion of their portfolio for liquidity management and expanding their portfolio respectively



“In addition to the liquidity management noted above, in the third quarter of 2023, the Company completed a loan sale transaction within our property and casualty insurance premium finance receivables portfolio which demonstrated that our premium finance portfolio is a strong source of additional liquidity if needed and demonstrated the flexibility to continue to manage our balance sheet effectively”

*-Wintrust 10Q*



“To commercial finance specifically we grew total loans and leases by 23%. This was driven by growth in our insurance premium finance business of 67% over the prior year. This was a direct result of us positioning the team to take advantage of opportunities and some market disruption in that particular vertical.”

*-Brett Pharr, President and CEO*

*Pathward*

## 2 RECENT TRANSACTIONS

### FINANCING TRANSACTIONS



- In Q3 2023, IPFS raised an aggregate \$700 million of asset-backed, notes secured by insurance premium finance loans. \$350 million was issued at a fixed rate benchmarked to I-curve across two tranches. The other \$350 million was at a floating rate to the secured overnight financing rate (“SOFR”)

#### **\$350M Securitization (Fixed-Rate)**

- Class A notes have an S&P rating of AAA, written at a spread of 120 basis points
- Class B notes have an S&P rating of A, written at a spread of 160 basis points

#### **\$350M Securitization (Variable-Rate)**

- Class A notes have an S&P rating of AAA, written at a spread of 115 basis points
- Class B notes have an S&P rating of A, written at a spread of 165 basis points



- In Q3 2023, Gracie Point raised \$289 million of asset-backed, floating rate notes secured by insurance premium finance loans. The issue offered Class A, B, C, and D notes, benchmarked to SOFR

#### **\$289M Securitization**

- Class A notes have a KR rating of AAA, written at a spread of 195 basis points
- Class B notes have a KR rating of AA, written at a spread of 260 basis points
- Class C notes have a KR rating of A-, written at a spread of 310 basis points
- Class D notes have a KR rating of BBB-, written at a spread of 450 basis points

## LOAN SALE

### FIRST INSURANCE<sup>®</sup> FUNDING A WINTRUST COMPANY

- In Q3 2023, First Insurance Funding sold a portion of its portion of its insurance premium finance portfolio for \$405.6 million of net proceeds. The loan sale reduced the Company's Q3 ending portfolio balance by \$344 million

## 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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This advertisement was prepared December 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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