



Insurance Premium Finance Quarterly Update: 2023 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 \$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 fourth 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 0.1% quarterly increase in outstandings and a 16.8% year-over-year uptick.

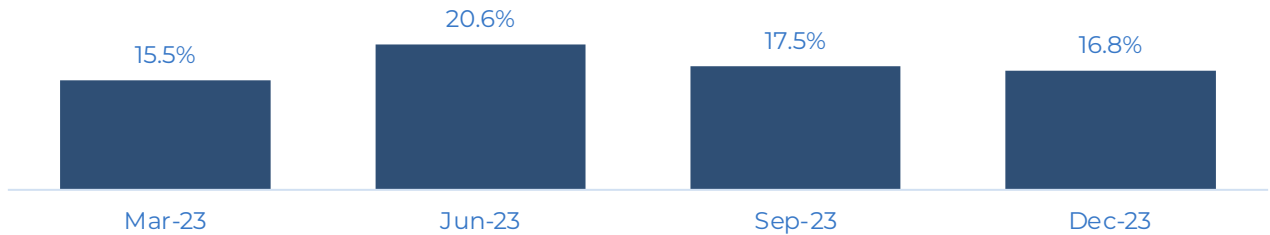
OUTSTANDINGS¹ Q/Q CHANGE Y/Y CHANGE

 A WINTRUST COMPANY	\$6,904	2.7%	18.0%
 A DIVISION OF AMERIS BANK	\$947	(6.0%)	(7.5%)
	\$671	(16.1%)	53.6%
	\$203	7.4%	27.6%
AGGREGATE REPORTED	\$8,724	0.1%	16.8%

¹\$ in millions

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

Aggregate YoY Outstandings Growth



COMMENTARY

As the Fed continued to hold rates steady through October and December 2023 insurance premium finance portfolios had time to catch up to rate increases earlier in the year. As a result, fourth quarter growth for the tracked insurance premium finance portfolios stayed nearly flat as quarter over quarter aggregate outstandings grew by only 0.1%.

The decrease in quarter over quarter growth from the prior period resulted from substantial contractions in both US Premium Finance's and Pathward's portfolios. Both portfolios decreased by \$61 million and \$129 million, respectively. 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.

Despite the significant decrease in growth for the quarter, overall, the tracked insurance premium finance companies grew their portfolios an aggregated 16.8% compared to the prior year period. Besides organic factors, growth was largely captured by the shift in market dynamics when AFCO acquired BankDirect in 2022. Typically, insurance premium finance agents favor two to three financing partners when originating loans. With BankDirect (previously #4) absorbed by AFCO (a top three player), other large participants were able to capture market share.

COMMENTARY

The rapid increase in rates during the first half of the year caused insurance premium finance portfolios to consistently lag current rates and created additional room for industry consolidation. In their recent Q4 2023 earnings call, Wintrust management explained how the challenging market environment impacted their business but are optimistic towards the changing dynamic within the industry:

WINTRUST

“Credit performance continued to be very solid in the fourth quarter from a number of perspectives. We continue to see a harder market for insurance premiums, particularly for commercial properties, resulting in higher average loan sizes in our commercial premium finance portfolio, and consolidation within the premium finance industry has provided us with a number of new opportunities.”

*- Richard Murphy, Vice Chairman and CLO
Wintrust*

2 RECENT TRANSACTIONS

FINANCING TRANSACTIONS



- In Q4 2023, Gracie Point raised \$233 million of asset-backed, floating rate notes secured by life insurance premium finance loans. The issue offered Class A, B, and C notes, benchmarked to SOFR

\$233M Securitization

- \$192M of Class A notes have a KR rating of AAA, written at a spread of 225 basis points
- \$25M of Class B notes have a KR rating of A-, written at a spread of 400 basis points
- \$16M of Class C notes have a KR rating of BBB-, written at a spread of 540 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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This advertisement was prepared February 2024. 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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