



Insurance Premium Finance Quarterly Update: 2024 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 \$50+ billion industry, in which Colonnade is the leading financial advisor to both buy-side and sell-side clients.

Colonnade has successfully advised on 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 2024.

The insurance premium finance industry is broadly comprised of commercial lines property & 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. 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 groups. On an aggregate basis, this group reported a 5.3% quarterly increase in outstandings and a 6.8% year-over-year uptick.

P&C
OUTSTANDINGS¹ Q/Q CHANGE Y/Y CHANGE

FIRST INSURANCE[®]
FUNDING
A WINTRUST COMPANY

\$7,101

2.3%

5.0%

 **US PREMIUM**
FINANCE[®]
A DIVISION OF AMERIS BANK

\$1,151

15.3%

16.4%

 **pathward**

\$617

18.0%

(7.4%)

Peoples  **PREMIUM FINANCE**

\$293

22.8%

80.7%

AGGREGATE REPORTED

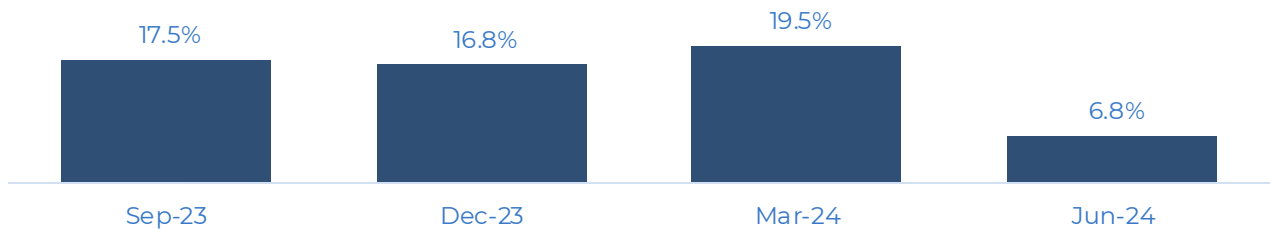
\$9,162

5.3%

6.8%

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

Aggregate YoY Outstandings Growth



COMMENTARY

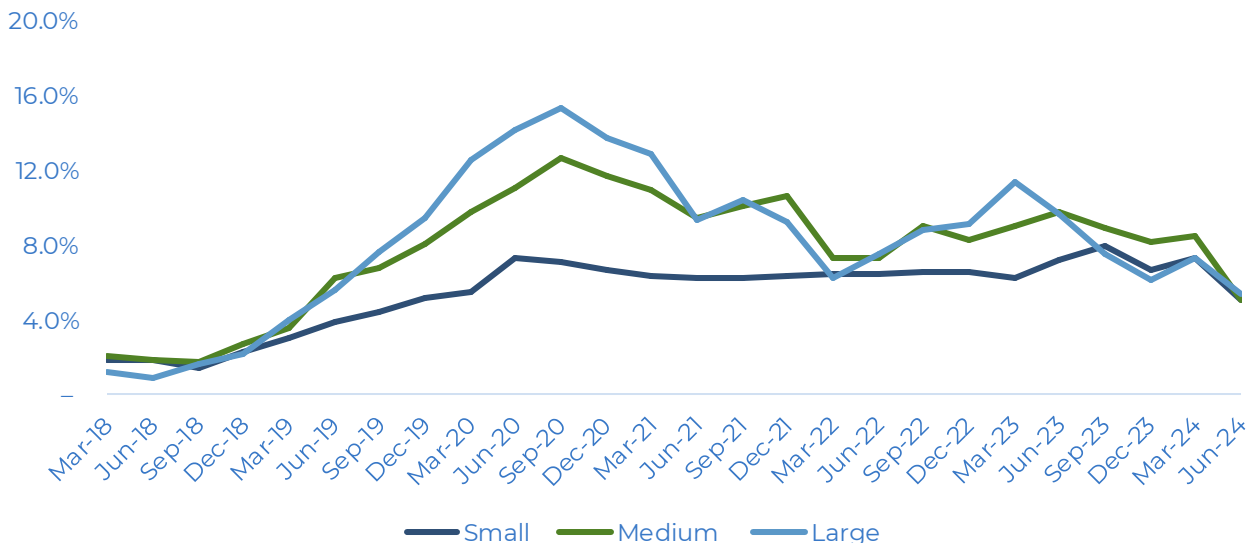
Growth in the tracked premium finance portfolios slowed to 6.8%, the lowest level since Colonnade began tracking the group in 2020. The slowing growth was caused by a softening in the underlying commercial P&C market, which only grew 5.2% in Q2/2024 compared to an average growth rate of 7.1% since 2018. First Insurance Funding, the largest portfolio in the tracked pool, reflects the softening P&C market, growing by 5.0% year-over-year.

Among the other tracked portfolios, USPF and Peoples continued to grow their portfolios at above-market levels. On a year-over-year basis, USPF grew outstandings by 16.4% up from 4.9% in the prior year period. Peoples grew the most among the tracked portfolios, driven by new sales hires made away from a competitor. Peoples' portfolio increased by 80.7% year-over-year compared to 6.6% in the prior year period.

Pathward remains the only company with a shrinking portfolio among the tracked participants. In Q2/2024, Pathward's portfolio decreased 7.4% year-over-year, after growing 53.6% in 2023. Despite Pathward's portfolio declining on a year-over-year basis, Pathward grew by 18.0% quarter-over-quarter. Pathward recently signed a definitive agreement to sell its premium finance division to Honor Capital. The transaction is expected to close in September.

INSURANCE PREMIUM PERFORMANCE – PROPERTY & CASUALTY

The U.S. commercial lines P&C market, which is closely correlated to the \$50+ billion insurance premium finance industry, originated \$417 billion in premiums in 2023. Since the first quarter of 2018, the P&C industry experienced a hard market with an average growth rate of 7.1%. Since last year, premium growth slowed from 8.9% to 5.2%.



SMALL ACCOUNTS

Small Accounts consist of insureds that pay less than \$25k in commissions and fees to insurance agents and brokers. Since Q1/2018, small account premiums grew by an average of 5.4%. After peaking at 7.9% in Q3/2023, small accounts returned to their historical average growth of 5.0% in Q2/2024.

MEDIUM ACCOUNTS

Medium Accounts consist of insureds that pay between \$25k and \$100k in commissions and fees to insurance agents and brokers. Since Q1/2018, medium account premiums grew by an average of 7.7%. showing a volatile trend in growth. After peaking at 12.7% in Q3/2020, medium accounts fell below their historical average to 5.1% in Q2/2024.

LARGE ACCOUNTS

Large Accounts consist of insureds that pay greater than \$100k in commissions and fees to insurance brokers and agents. Since Q1/2018, large account premiums grew by an average of 8.0%. After peaking at 15.3% in Q3/2020, large accounts fell below their historical average to 5.4% in Q2/2024.

COMMENTARY

Due to the slowdown in premium growth, Q2/2024 did not match the growth in outstandings seen in previous years. However, three of the four tracked portfolios still achieved double-digit growth quarter-over-quarter. Companies are continuing to capitalize on shifting market dynamics and industry consolidation.

In their Q2/2024 earnings calls, both Wintrust and Pathward management discuss how they are profiting from current market dynamics.

WINTRUST

“As noted in the past, the second quarter is historically when we see our highest funding volumes.... Finally, we continue to see new opportunities as a result of consolidation and dislocation within the premium finance industry.”

- Richard Murphy, Vice Chairman and CLO
Wintrust



“New production yields on commercial finance loans and leases in the quarter was 8.58% compared to the quarterly yield on the same portfolio from last quarter of 8.19%. New production yield in the quarter was impacted by a seasonal renewal period in insurance premium finance, which tends to carry a lower yield due to the lower risk.”

- Greg Sigrist, Executive Vice Chairman and CFO
Pathward

2 RECENT TRANSACTIONS

FINANCING TRANSACTIONS



- In Q2/2024, IPFS raised an aggregate \$1 billion of asset-backed notes secured by insurance premium finance loans. A \$300 million note was issued at a fixed rate benchmarked to I-curve across two tranches. Another \$100 million note was issued at a floating rate to SOFR. The third note at \$425 million was issued at a fixed rate across two tranches. The last note at \$175 million was issued at a variable rate.

\$300MM Securitization (Fixed-Rate)

- Class A notes have an S&P rating of AAA, written at a spread of 95 basis points
- Class B notes have an S&P rating of A, written at a spread of 120 basis points

\$100MM Securitization (Variable-Rate)

- Class A notes have an S&P rating of AAA, with a variable rate based on a spread over SOFR
- Class B notes have an S&P rating of A, based on fixed rate with a current coupon of 5.1%

\$425MM Securitization (Fixed-Rate)

- Class A notes have an S&P rating of AAA, based on fixed rate with a current coupon of 5.6%
- Class B notes have an S&P rating of A, based on a fixed rate with a current coupon of 5.3%

\$175MM Securitization (Variable-Rate)

- Class A notes have an S&P rating of AAA, with a variable rate based on a spread over SOFR and a current coupon of 6.2%
- Class B notes have an S&P rating of A, with a variable rate based on a spread over SOFR and a current coupon of 6.6%

COLONNADE ANNOUNCES ANOTHER INSURANCE PREMIUM FINANCE TRANSACTION IN THE THIRD QUARTER OF 2024



- In August, Pathward N.A. signed a definitive agreement to sell its premium finance division to Honor Capital
- Pathward Premium Finance will operate as AFS IBEX, a member of the Honor Capital family
- The transaction value consists of the final net asset value, which includes a \$617 million portfolio balance, plus a \$31.2 million premium
- Colonnade represents Pathward N.A. as exclusive financial advisor
- The transaction marks another significant change to the premium finance industry, as consolidation continues. With this acquisition, Honor will become the fourth largest participant behind IPFS, AFCO, and FIRST

COLONNADE ANNOUNCES THREE PREMIUM FINANCE TRANSACTION SO FAR IN 2024



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 with rising commercial lines P&C premiums, 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

 has announced the sale of its premium finance division to  COLONNADE	 was sold to  COLONNADE	 was sold to  COLONNADE	 was sold to  COLONNADE	 raised capital from COPLEY EQUITY PARTNERS COLONNADE	 was sold to  COLONNADE
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This advertisement was prepared September 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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