



Insurance Premium Finance Quarterly Update: 2024 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, 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 third 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

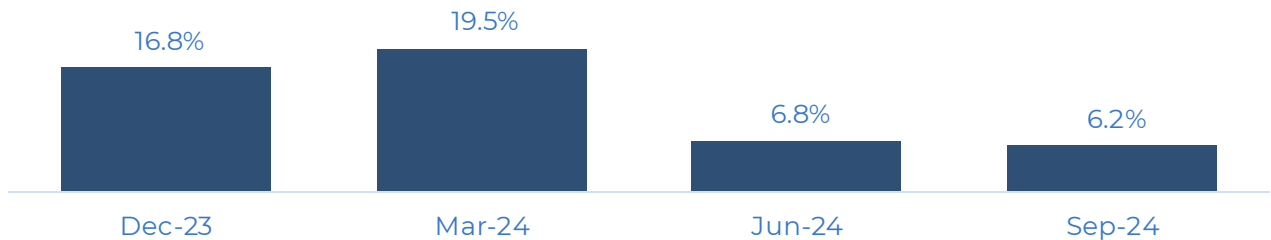
Of the top 10 largest firms, only four are owned by public banks that report segment data for their premium finance groups. On an aggregate basis, this group reported a 1.1% quarterly increase in outstandings and a 6.2% year-over-year uptick.

	P&C OUTSTANDINGS ¹	Q/Q CHANGE	Y/Y CHANGE
 A WINTRUST COMPANY	\$7,132	0.4%	6.1%
 A DIVISION OF AMERIS BANK	\$1,246	8.3%	23.7%
	\$594	(3.7%)	(25.7%)
	\$287	(2.2%)	51.6%
AGGREGATE REPORTED	\$9,259	1.1%	6.2%

¹\$ in millions

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

Aggregate YoY Outstandings Growth



COMMENTARY

Growth in the tracked premium finance portfolios continues to decline as Q3/2024 reached 6.2%, the lowest level since Colonnade began tracking in 2020. Slowing growth is partially attributable to the softening in the underlying commercial P&C market, which grew only by 5.1% year-over-year in Q3/2024. On average since 2020, the commercial P&C market grew by 8.4% year-over-year.

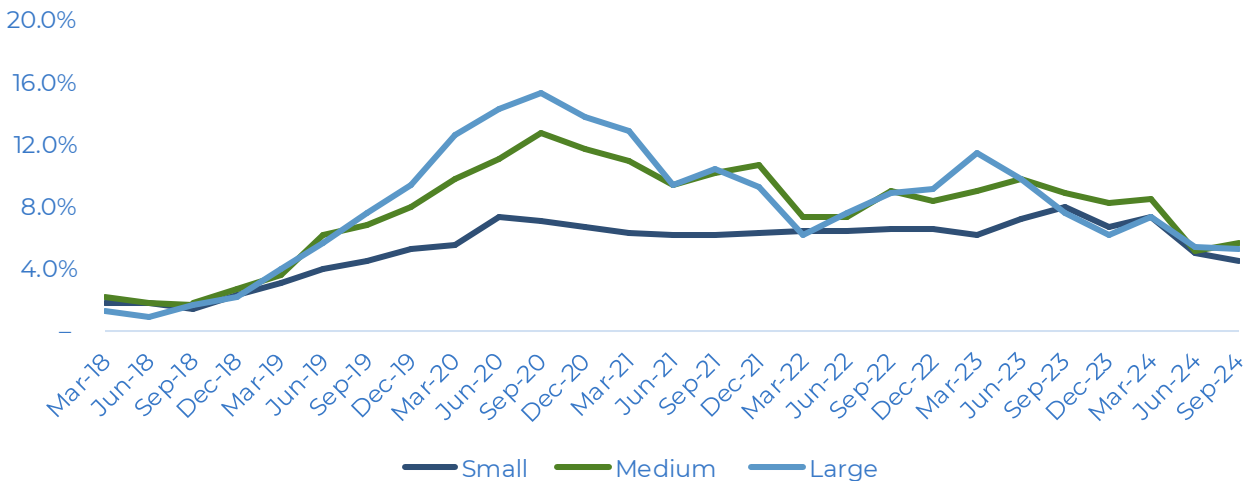
While growth in the tracked portfolios generally follows the commercial P&C market, a 25.7% decline in Pathward's portfolio brought down the overall average this quarter. Pathward's contraction returns its portfolio to its long-term growth rate of 19.2% since 2020. The Company significantly increased originations in Q2 and Q3/2023 causing the portfolio to grow by 70% across the two quarters. Starting in Q4/2023, the Company returned to its historical level of originations causing the portfolio to gradually decline over the last year in preparation for a sale.

Pathward recently closed on the sale of the premium finance division to Honor Capital, a privately held industry competitor. The acquisition presents an opportunity for medium to large participants to grow market share by capturing agency relationships previously held by Pathward. Larger insurance agencies typically prefer to have two to three financing partners at a time to ensure competitive financing terms for their entire book of business.

Among the other tracked portfolios, performance continues to be positive. USPF and Peoples continue to grow their portfolios at above-market levels, increasing outstandings to 23.7% and 51.6% respectively on a year-over-year basis.

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 last year, premium growth slowed from 8.1% to 5.1% largely due to increased carrier competition across accounts. Due to increased underwriting performance, carriers are more aggressively soliciting new business leading to a decrease in pricing.



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%. Q3/2024 marks the first time the category dropped below 5.0% growth since Q3/2019.

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 7.6%. Medium accounts are performing below their historical average at 5.6% growth in Q3/2024.

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 7.9%. After peaking at 15.3% in Q3/2020, large accounts are below their historical average at 5.3% in Q3/2024.

COMMENTARY

Despite the recent performance amongst the tracked portfolios, significant shifts in Q3/2024 set the insurance premium finance for stability.

RATE CUTS:

In Q3/2024, the Federal Reserve reduced the Federal Funds Rate by 50 basis points, marking the first time the Fed Funds rate was cut since the rate hikes in 2022 and 2023. As rate cuts take effect, insurance premium finance businesses will experience lower borrowing costs and increased origination volumes.

SOFTENING MARKET:

With increased competition between carriers at play, the average premium increase has softened from an average of 7.0% since 2018 to 5.7% in the current quarter.

CYCLICALLY STRONG QUARTER:

The fourth quarter is typically a strong quarter for the tracked premium finance portfolios as they averaged 2.0% quarter-over-quarter growth in outstandings over the last three years.

In their Q3/2024 earnings calls, Wintrust's management discusses their outlook on performance for the rest of the year.

WINTRUST

"We believe that loan growth for the fourth quarter will continue to be strong and aligned with our previous guidance of mid to high single digits for a number of reasons. Fourth quarter volume for commercial premium finance loans has historically been very strong. We believe the hard market for insurance premiums should continue into next year."

*- Richard Murphy, Vice Chairman and CLO
Wintrust*

2 RECENT TRANSACTIONS

FINANCING TRANSACTIONS



- In Q3/2024, IPFS raised an aggregate \$400 million 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.

\$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%

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



- In October, Pathward N.A. closed the sale of its premium finance division to Honor Capital
- Pathward Premium Finance will operate as AFS IBEX, a member of the Honor Capital family
- 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 CLOSES THREE PREMIUM FINANCE TRANSACTIONS IN 2024

has sold its premium finance division to

The undersigned acted as exclusive financial advisor to Pathward

COLONNADE

was sold to

COLONNADE

was sold to

COLONNADE

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

 <i>has sold its premium finance division to</i> <i>The undersigned acted as exclusive financial advisor to Pathward</i> COLONNADE	 <i>was sold to</i> COLONNADE	 <i>was sold to</i> COLONNADE	 <i>was sold to</i> COLONNADE	 <i>raised capital from</i> COPLEY EQUITY PARTNERS COLONNADE	 <i>was sold to</i> COLONNADE
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Colonnade is an independent investment bank focused on the financial services and business services sectors. Colonnade provides expert, objective advice on mergers and acquisitions, private placements, fairness opinions, valuation opinions and corporate finance issues for privately held businesses, publicly traded companies and financial sponsors. Our senior bankers bring extensive transaction experience, industry expertise, a process orientation and a sense of urgency to each engagement.

This advertisement was prepared December 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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