

PROPERTY & CASUALTY

From Collapse to Clarity

What Tricolor and First Brands Teach Us About Credit Insurance

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While European banks have long integrated credit insurance into their credit risk and capital optimization strategies, U.S. banks have historically underutilized it. Several structural and regulatory reasons explain this divergence. First, European banks have a more favorable regulatory framework that has long recognized credit insurance as an eligible and effective credit risk mitigant. As such, European banks routinely use credit insurance to achieve capital relief and to credit-enhance potential borrowers. In contrast, U.S. banks operate under a more restrictive regulatory environment that does not similarly incentivize the use of credit insurance as a credit risk or capital mitigant. U.S. banks often rely more on loan covenants, internal credit scoring and securitization for risk transfer.

Additionally, the U.S. insurance market has fewer participants in the structured credit insurance space, and standardized trade credit insurance policies are less prevalent. Many U.S. lenders view credit insurance as complex or too narrow in coverage. There's also a cultural divide—European credit managers treat insurance as a routine component of credit operations. Meanwhile, many U.S. lenders still see it as optional, reactive and an additional expense imposed on the client.

However, the recent bankruptcies of Tricolor Holdings and First Brands Group, along with the heightened regulatory attention on bank exposure to non-depository financial institutions (NDFIs), illustrate the potential benefits of incorporating credit insurance into bank credit risk frameworks.

Background: Tricolor and First Brands Bankruptcies

Tricolor Holdings, a Dallas-based subprime auto lender and dealership, filed for Chapter 7 liquidation in September

2025. The company specialized in buy-here/pay-here car sales and in-house financing to underbanked customers.¹ Tricolor securitized the auto loans and financed its operations through large warehouse credit facilities with banks such as Fifth Third and JPMorgan.

As the business deteriorated, Tricolor allegedly double-pledged collateral, submitted incomplete or manipulated loan files and misrepresented performance data.² Lenders faced material losses with little recourse due to the nature of the fraud and lack of transparency.

First Brands Group, owner of auto parts brands like FRAM and Autolite, filed for Chapter 11 shortly thereafter. The company relied heavily on factoring and supply chain finance arrangements, effectively monetizing receivables off-balance sheet. However, competing claims arose over who held titles to key receivables. In several cases, banks discovered that invoices had been sold multiple times or pledged ambiguously, resulting in unsecured exposure. U.S. bankruptcy officials and creditors both have called for an independent investigation into First Brands citing opaque financial practices.³



How Credit Insurance Could Have Helped

Credit insurance provides protection against the non-payment of financial obligations due to default, insolvency or protracted non-payment. For banks, it is a valuable credit risk transfer mechanism that can mitigate direct lending risk or exposure to receivables, particularly in asset-based finance and trade finance.

There are two primary types:

- Trade Credit Insurance:** Covers receivables owed to suppliers or their banks, usually on a portfolio basis.
- Non-Payment/Credit Insurance for Lenders:** Tailored for financial institutions, covering loans, invoice finance and structured credit exposures.

In Tricolor's Example: Banks providing warehouse lines or participating in securitizations could have required single-obligor or portfolio-level credit insurance to cover defaults in the underlying contracts. If Tricolor defaulted or the underlying borrowers became uncollectible, carriers would cover losses up to agreed limits. Carriers typically conduct independent audits and credit scoring of the collateral pool before underwriting such policies—potentially flagging discrepancies earlier. Moreover, the scheduling of limits and reporting functions on some credit insurance policies may have allowed the lenders to catch the double-counting of collateral earlier.

In First Brands' Example: Banks financing trade receivables—either directly or indirectly through factoring, forfaiting or supply chain finance—could have used trade credit insurance to cover receivables owed by First Brands' downstream customers (e.g., auto retailers or distributors). In the event of First Brands' insolvency, carriers would cover the non-payment. Some structured trade credit insurance policies also allow for coverage of disputed invoices, within defined parameters.

Technical Considerations and Limitations

Credit insurance is not a panacea, and in these cases, the allegations of fraud would complicate recoveries under any credit insurance that may have been in place. Most (if not all) credit insurance policies exclude losses arising from fraud or misrepresentations made by the insured. Some policies draw a distinction between “fraud committed by the insured” and “fraud by the debtor.” While “fraud by the insured” tends to be an absolute bar, “fraud by the debtor” could be covered depending on policy wording. Notwithstanding, if the coverage had been structured to include “non-performance due to fraud” riders or if carriers had been involved earlier, some losses could have been mitigated. Further, banks have access to more information and thus more recourse if they are the direct purchaser of the credit insurance policy rather than relying on the loss payee status afforded on a credit insurance policy purchased by their borrower or further downstream.

Focus on NDFIs

Tricolor's credit intermediation activities and First Brands' abuse of private credit also draw attention to the recently increased regulatory scrutiny and call reporting requirements of bank exposure to NDFIs such as leasing companies, fintech lenders, factoring companies or other non-bank lenders. By transferring a portion of the credit risk associated with NDFI lending to a highly rated carrier, banks can help reduce potential loss severity and improve the credit quality of their portfolios. Furthermore, in the context of enhanced disclosure requirements, credit insurance provides a clear and quantifiable risk management measure that banks can report to demonstrate proactive oversight of concentrated exposures. As regulators demand more granular data on NDFI lending, the strategic use of credit insurance can bolster both regulatory compliance and credit risk management.

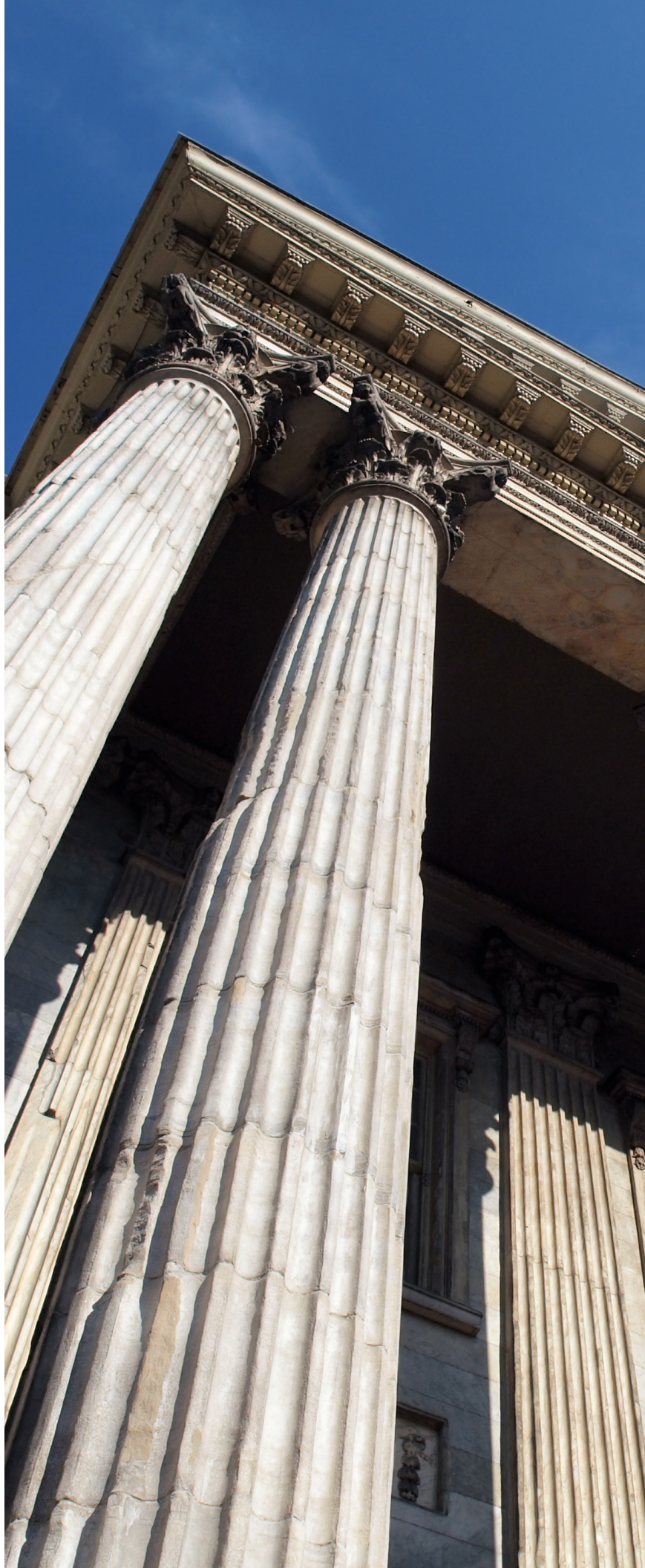
Conclusion

The Tricolor and First Brands collapses highlight how opaque financing structures, weak collateral controls and lack of independent verification can leave banks vulnerable. Had credit insurance been embedded in these lending arrangements, especially in receivables financing and warehouse lines, some losses might have been prevented (through additional carrier due diligence and underwriting) or potentially absorbed by carriers instead of the banks, depending on the applicability of any fraud exclusions. As the credit markets grow more complex and regulatory rules play catch-up, it may be time for U.S. banks to revisit the strategic value of credit insurance—not just as a protective tool, but as a key component of prudent credit risk management.

1. *Tricolor bankruptcy causes lenders to reassess risks*

2. *Lessons from First Brands and Tricolor | Neuberger Berman*

3. *US bankruptcy watchdog wants independent probe of First Brands*





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