TRADE CREDIT INSURANCE GLOBAL ANALYSIS 13-10-2025

First Brands bankruptcy – implications on trade credit insurance

After several years of strong results, trade credit insurance — a cornerstone of receivables finance — is entering a more complex phase. The recent bankruptcy of US auto-parts manufacturer First Brands Group (First Brands) is emerging as an important case study for how policy structures and financing arrangements interact under stress.

Igor Zaks (pictured), President of Tenzor Ltd, and BCR News Editorial Board Member, offers his preliminary reflections on how the bankruptcy of First Brands could affect trade credit insurance.

Beyond headlines about 'insurance saving the day,' the First Brands filing will test whether receivables were valid, and policies were built to respond.

Four issues matter most: receivable validity & controls, what 'non-cancellable' really means, investor protection structure, and how the market will react.

1. Underlying receivables and control frameworks

In 2022, I wrote an article for the *Supply Chain Finance Yearbook* by BCR. "Greensill crisis – some observations for the post-Greensill world", covering many aspects of what happened there (we might retitle it today as "Unlearned lessons from Greensill"). There I wrote, "Core lessons from Greensill are that the existence of an asset pool and a credit insurance policy do not mean the assets are insured". A credit insurance policy typically covers the buyer's risk of paying legally binding invoices for the insured. But first, the supplier must comply with their contractual obligations, invoice correctly, and fulfill the policy terms. While details are still lacking, it appears there are multiple issues in this area that are likely to surface in the First Brands ecosystem- such as allegations of 'fresh-air' invoicing, lack of invoice verification, disputes, etc. Insurance is not a substitute for a robust control framework, and in most cases, the insurer has no interest in verifying any of these before a claim (but will likely take a very keen interest in examining major claims). This means that in the case of a weak control framework, many claims will be denied due to the non-existence/non-compliance of underlying receivables. This is the area where fintechs claim expertise; we have yet to see (as in Greensill) if that holds for each particular player. As Warren Buffett once said, "When the tide goes out, you discover who's been swimming naked."

2. Non-cancellable limits

As with many other major claims, many insurers proactively cancelled/reduced coverage on First Brands, meaning new supplies were not covered for a while and only residual exposures remain. However, some suppliers and financial institutions appear to have non-cancellable limits that, in theory, may still be used as the situation deteriorates. This raises the question of how non-cancellable these limits are and the exact policy wording supporting them. Generally, calling a limit "non-cancellable" is misleading without context; I have yet to see a policy that prevents an insurer from denying a claim under certain circumstances related to the state of the buyer or the insured's knowledge/obligations (even if the invoice itself is valid and properly admitted). The constraints on an insurer's ability to do so vary widely — in legal wording and in practice — with specialised insurers (for whom non-cancellable cover is the main product) tending to be more flexible. However, under the stress of large exposure, such commercially driven flexibility may be re-examined.

3. Financier's cover – own policy, loss payee, co-insurance

With third-party investors benefiting from insurance, there are multiple structures. An investor may have their own policy, be co-insured/additional insured, or be designated as loss payee/assignee (sometimes with cut-through endorsements). As I noted in the article above — a significant issue for some of Greensill's investors — a loss-payee-only position means the investor may benefit from claim payment but cannot control/remedy policy performance, opening multiple issues before and after an originator's insolvency. Insurers use varied wordings and practices for each structure; these will likely be tested extensively in this case.

4. Reactions and implications for trade credit insurance

The industry's response is a game-theory exercise: losses (and future premiums/capital charges) on one side, and perceived product utility (reputation, regulatory treatment, capital relief) on the other. The all-in fights between insurers and financiers (e.g., Enron-related litigation between banks and insurers), with significant PR and regulatory implications, are often forgotten; even Greensill was idiosyncratic because its exposure was concentrated in a niche Australian carrier. We do not yet know the full exposures, issues, and names here, but we should be prepared to navigate waters that have not been tested in decades.

#First Brands *#Igor Zaks* *#receivables finance* *#Tenzor Ltd* *#trade credit insurance*

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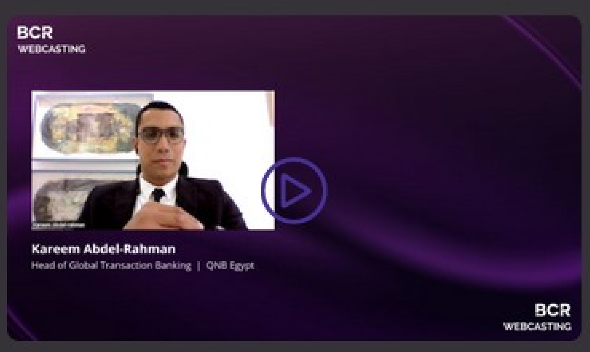

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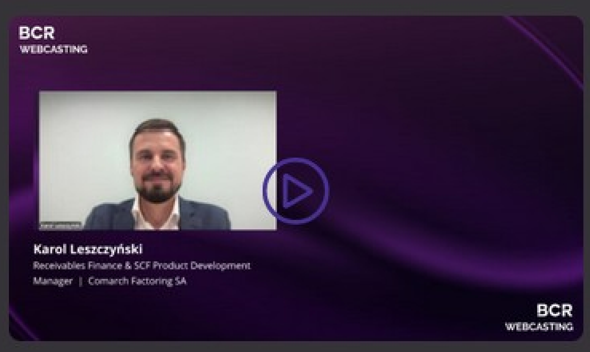

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