



Bank Write-Downs Put FI Insurance Under the Microscope

A cluster of late-Q4 2025 write-downs and bankruptcies tied to fraud is sharpening scrutiny across the U.S. financial institutions (FI) insurance market, raising questions about underwriting discipline, due diligence and how long carriers can maintain current pricing and capacity.

In October 2025, [Reuters reported that Zions Bancorp and Western Alliance Bancorp disclosed exposure to alleged fraud stemming from lines of credit extended to the same fund.](#) The borrower allegedly misrepresented how borrowed capital was being deployed and the quality of the underlying assets.

The recent spate of losses is less about traditional credit deterioration and more about systemic failures in oversight, particularly around extensions of credit that relied heavily on third-party representations.

These were not simply underperforming loans, but situations where misrepresentation went undetected for years and is now unwinding all at once.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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Fraud-related credit losses shaking up the FI insurance market

What rattled the market was not just the size of the losses, but the fact that multiple banks were exposed to the same fraud within a relatively short timeframe. For investors and underwriters alike, the episode raised uncomfortable questions about portfolio oversight, monitoring controls and whether red flags were missed.

Similar themes emerged in subsequent bankruptcies. **Subprime auto lender Tricolor triggered sizable losses for large institutions, with JPMorgan Chase and Fifth Third Bancorp each reporting charge-offs approaching \$170 million.** Again, the losses were tied to alleged misrepresentations around loan performance rather than macro-driven defaults.

Perhaps the most far-reaching case was the collapse of First Brands Group, which filed for bankruptcy in late September. **The filing generated an estimated \$2.3 billion in loss exposure across banks, asset managers and structured finance vehicles such as CLOs.**

More cases may still surface

A common thread across many of the fraud-driven losses is timing. Several of the entities now at the center of the litigation and bankruptcy began securing large credit facilities between 2017 and 2019.

These schemes weren't short-lived. They were able to operate for years, manipulating reporting and representations. What we're seeing now is the point where they can no longer sustain it.

For banks, that creates a delicate balancing act. Institutions are keen to avoid sparking a broader confidence crisis and have largely framed the losses as isolated events. However, from an FI insurance perspective, the concern is whether additional long-running schemes are still embedded in portfolios and have yet to come to light.



Implications for the FI insurance market

Despite the headlines, the FI insurance market remains broadly stable heading into 2026. Capacity is ample, pricing is well below historical highs and there has been no single systemic event comparable to the global financial crisis.

That stability, however, may be tested as these claims have long tails. Carriers are now seeing prior-year development and paying on older fraud claims, with some very large losses still working their way through the system.

As that development continues, insurers should respond cautiously rather than abruptly: first by trimming limits, then by edging rates higher, particularly on programs where underwriting controls appear weak. For retail brokers, this could mean tougher negotiations even in the absence of headline losses at the insured level.

One of the clearest lessons from recent cases is the heightened risk associated with extensions of credit that are not tied to directly underwritten loans. Many of these losses came from lines of credit where banks relied on representations from funds or third parties. Underwriters are now asking what went wrong, and why.

Expect closer scrutiny of internal controls, escalation protocols and how banks verify the use of funds once credit is extended. For directors and officers (D&O) and professional liability placements, underwriters are increasingly interested in governance frameworks around credit oversight, not just financial metrics.

What retail brokers should tell clients

As fraud-driven losses continue to surface, demonstrating robust governance and oversight may be the difference between maintaining capacity and facing a firmer FI insurance market in the months ahead.

Amid this scrutiny, stronger controls will not only reduce loss potential but also support better insurance outcomes. Clients should be pushed toward more granular oversight, including loan-level audits, enhanced monitoring of fund usage and tighter day-to-day controls around credit facilities.

While large institutions may be able to absorb fraud-driven losses, smaller regional and community banks face greater pressure. Banks need to scrutinize their own processes more rigorously, moving away from broad portfolio reviews and toward individual loan audits.

Learn more about Amwins' capabilities for financial institutions [here](#).

Insight provided by:

- Mary Henderson, EVP and co-leader of Amwins Professional Lines Practice

