

As Insurance, Private Capital and Asset Management Converge, Investors Jump Into Sidecars

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Key Points

- As insurers seek new capital, one increasingly popular way to obtain it is through a “sidecar,” which allows financial sponsors, sovereign wealth funds and other investors to access insurance business quickly and at scale.
- For insurers, these arrangements can provide access to alternative assets and related management expertise, which allows them to diversify their asset portfolios.
- Buyers may also want enhanced representations, covenants and indemnities with long durations to cover risks such as those involving data rights, model performance and regulatory compliance.

Global growth in insurance premiums has created a need for more capital in the sector — a need being answered by financial sponsors, sovereign wealth funds, family offices and investment managers.

These investors sometimes form new insurers or reinsurers, or take stakes in existing ones. But often their capital is injected via a sidecar structure.

Who’s Involved in a Sidecar?

In a sidecar, the insurer (the “cedent”) seeks outside capital to back a particular “block” of business that it already holds on its books, for new “flow” business that it expects to write over a future period, or some combination of the two.

This could be a life and annuity business or nonlife insurance. (Life/annuity sidecars generally focus on investment returns, while short-tail property/casualty sidecars focus more on risk diversification from the investor perspective.) Sometimes the sidecar reinsures risk that the cedent has reinsured from other insurers.

Through a competitive or bilateral process, the cedent finds investors who will capitalize a sidecar to accept the risk of identified business from the insurer. These investors may be attracted by:

- The profit that can potentially be made on the insurance business itself.
- The return that may be earned on the capital and premium float (the balance that arises due to the time lag between receiving premiums and paying out claims).
- The ability to employ a degree of financial leverage in the structure.
- The asset management income that can be earned from investing the premium float and capital, which may be retained by the investment adviser itself or shared with the investors in its funds.

How Does a Sidecar Work?

Either the investors or the cedent can set up the sidecar reinsurer, which can be a fully licensed insurance company or a type of special purpose insurance vehicle with a more limited license (*e.g.*, an account within a segregated account company, or cell within a protected cell company that is legally separate from the other accounts or cells of the insurer).

Sidecars are often established in specialist markets such as Bermuda, the Cayman Islands, Lloyd’s of London or U.S. “captive insurance” jurisdictions.

The investors inject their capital into the sidecar, often through participating preferred shares, surplus notes or common

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equity. There may be further financial leverage, such as higher-ranking equity or senior secured debt, although insurance prudential regulation frameworks often impose constraints on the degree of leverage in a structure.

The sidecar reinsurer then enters into a “reinsurance” agreement with the cedent, under which it accepts premiums and pays claims on the business ceded. The cedent still administers the business and faces its policyholders directly, and is generally required to charge the sidecar fees for that administration that is at least equal to its actual expenses.

The cedent generally also accepts a commission for profits on either an upfront or deferred basis. The scope of coverage and exclusions within these reinsurance agreements vary, defining the level of insurance risk to which the sidecar is exposed. Investors in sidecars may take an active role in the negotiation of these agreements.

Exit horizons for the sidecar investor vary significantly according to the line of business and jurisdiction. While a fixed time horizon and prenegotiated investor exit are customary in property-casualty sidecars, accounting and risk transfer rules make such exits more challenging for life and annuity business.

Regardless, if the sidecar is profitable, investors can expect a return of capital

and distribution of profits, either when the initial reinsurance transactions are unwound — at regular intervals as reserves wind down — or upon ultimate exit.

Why Are Sidecars So Popular?

Sidecars have been more popular than ever in 2025. Why?

Most fundamentally, there has been strong supply and demand:

- Insurers globally need more capital, and sidecars are a competitive form of capital that doesn’t dilute the parent company or the insurer’s common equity returns, and can in fact enhance them. Similarly, for mutuals and privately held insurers, sidecars provide a source of capital that does not disrupt or displace the existing ownership base.
 - Many investors are attracted by what are regarded as uncorrelated, attractive returns, particularly for investors who are long on other alternative asset classes.
 - Sidecars provide investors who have not typically been in the insurance industry with easier access to “balance sheet” risk than other potential investments, such as building a new insurance platform.
 - Insurers have invested in their deal sourcing and execution capacities, which benefit from additional capital, which can be used to source new opportunities.
- Investors appreciate the approach to asset-level concentration risk or other risk management that can be achieved in sidecar transactions.
 - At the same time, for private capital and diversified investment management firms, sidecars have proven to be a great way of attracting significant new assets under management, while also providing additional investment opportunities for their existing funds.
 - The often self-terminating nature of a nonlife sidecar — after, say, five to seven years — is highly attractive for limited-life private equity funds, particularly at a time when many have found it difficult to exit other investments.

What’s Next for Sidecars?

We continue to see great interest in sidecars on the part of both insurers and investors. This suggests that 2026 could be another active year. Softer premium rates in insurance markets may present challenges, but the market remains buoyant.

For more on this topic, see our September 2025 article “[The Convergence of Insurance, Private Capital and Asset Management Is Likely to Continue](#).”