

CHUBB®



NATIONAL CENTER FOR  
THE MIDDLE MARKET

MIDDLE MARKET INDICATOR: YEAR-END 2022

# Financial Services

Partnering with the National Center for the Middle Market (NCMM), we surveyed 1,000 executives from middle market companies. Enclosed are the results, showcasing the general business trends and evolving risks affecting this segment.

KEY FINDINGS

# 01 Growth and outlook remain strong for middle market financial services companies

## The success of middle market companies overall translates to strong opportunities for middle market financial services firms, from banks to asset managers to insurers

- Mean revenue growth and employment growth cooled from their torrid pace of the last two surveys, but well above pre-pandemic highs.
- Double-digit growth in revenue and employment is expected to continue through 2023.
- Higher revenue and wage growth puts more business income at risk from an insured loss.

## Economic confidence returned to pre-pandemic levels

- Confidence at all levels rebounded from a year-long dip.
- Companies expressing confidence in the national economy spiked 10 points since mid-year.

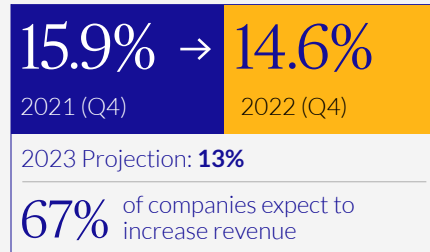
## Companies plan to take advantage of more expansion opportunities in 2023

About three-fourths of companies expect to open a new facility, expand into new international markets, bring in new equity investment, or open a new line of credit, up 10 or more points from a year ago, while expanding into new domestic markets and introducing a new product or service made less-pronounced increases to that same level.

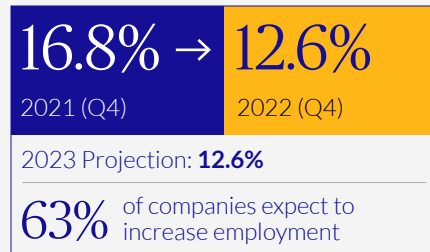
## The data behind the findings

### GROWTH CONTINUES AT SLOWER PACE

#### Mean revenue growth



#### Mean employment growth



#### Companies responding that their performance improved in 2022



### CONFIDENCE IN THE ECONOMY SPIKES HIGHER

#### Global economy



#### National economy



#### Local economy



### IN 2023, MIDDLE MARKET FINANCIAL SERVICES FIRMS EXPECT TO:

Bring in new equity investment

79%

+10 from Q4 2021

Expand into new international markets

74%

+15 from Q4 2021

Add a new plant or facility

73%

+18 from Q4 2021

Open a line of credit

72%

+10 from Q4 2021

## KEY FINDINGS

# 02 Middle market financial services companies view inflation, potential recession as top concerns

Inflation remained the biggest concern for middle market financial services companies, even though the sector overall has seen a net positive impact from it

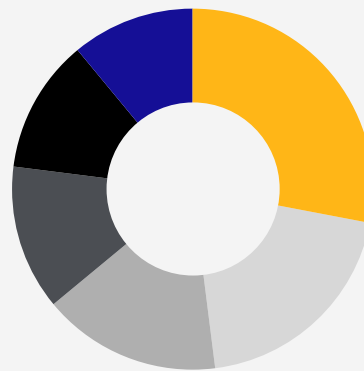
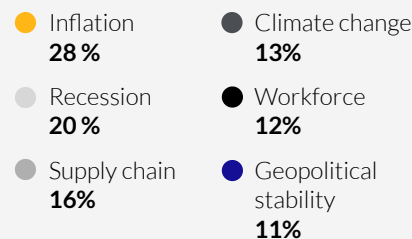
- Many of these companies benefit from higher revenue on loans or investment income related to higher interest rates.
- However, inflation drives up replacement costs of assets covered by insurance, and most companies recognize it. As a result, nearly three-fourths of companies will consider increasing coverage to compensate for inflation.

Possible recession - a new response choice for this survey - has become the second major concern for middle market financial services companies

- Nearly a third of companies expect a potential negative impact from a recession.
- In such a scenario, company response strategies would include such steps as increasing investment in digital transformation, cutting expenses, conserving cash, or delaying new products or services.

## The data behind the findings

### BIGGEST CONCERNS FACING MIDDLE MARKET FINANCIAL SERVICES FIRMS



### VIEWS ON POTENTIAL RECESSION

**31%** of companies expect a negative impact

#### In a recession, companies would:

Invest more heavily in digital transformation

**32%**

Conserve cash

**31%**

Cut expenses via budget reductions

**31%**

Delay introduction of new product/service

**30%**

### HOW COMPANIES HAVE BEEN IMPACTED BY INFLATION

**44%** of companies experienced a positive impact

**34%** of companies experienced a negative impact

### INSURANCE IMPACTS OF INFLATION

**80%** of companies say the replacement value of covered assets has increased due to inflation

**72%** of companies say they will consider increasing coverage amounts

KEY FINDINGS

# 03 Risk management challenges shifted in key areas

## Three in five middle market financial services companies now view several risks as challenging to manage.

- Consistent with their top concerns, inflation and recession lead these risks, joined by legal, regulatory or compliance, supply chain, and cyber security risks.
- Nearly all of the top risk management challenges have increased significantly in the past year.

Most middle market financial services companies experienced non-pandemic disruptions in the past two years, and two in five acknowledged that they could have been covered for strategic disruption if they had purchased available insurance.

Middle market financial services companies should take a proactive approach to evaluating and managing the risks they face from inflation and potential recession. Strategies include:

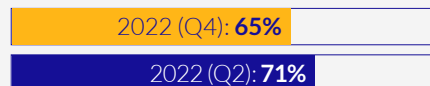
**Risk mitigation** – Identifying approaches to reduce exposures and prevent losses helps control the cost of risk. Instead of delaying projects or conserving cash in a scenario of inflation and possible recession, it may make sense to implement capital improvements, such as replacing roofs or installing water shutoff valves, and conduct employee ergonomic assessments, among other measures.

**Insurance coverage adequacy** – Having current replacement costs and strong risk mitigation approaches enables companies to fine tune the amount of risk they assume through coverage limits and deductible levels.

## The data behind the findings

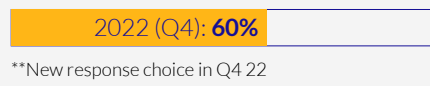
### MIDDLE MARKET FINANCIAL SERVICES FIRMS FINDING RISKS EXTREMELY/VERY CHALLENGING TO MANAGE

#### Inflation risk\*



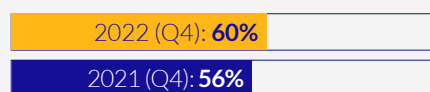
\*New response choice in Q4 22

#### Recession risk\*\*

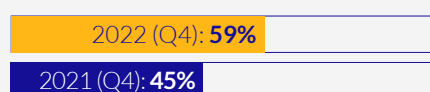


\*\*New response choice in Q4 22

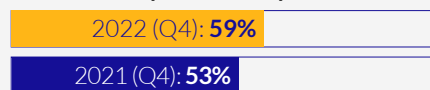
#### Legal, regulatory, compliance risk



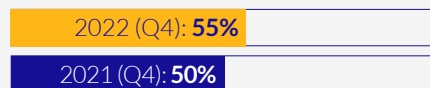
#### Supply chain risk



#### Insufficient cyber security



#### Catastrophic incidents (not cyber)

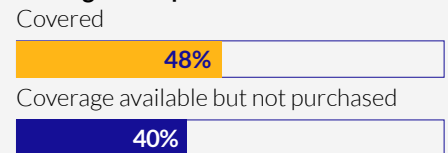


### ROLE OF INSURANCE IN DISRUPTIONS

**80%** Experienced non-pandemic business disruptions in the past two years.

Key losses covered or could have been covered:

#### Strategic disruption



#### Operational disruption



### RESOURCES TO STAY UP TO DATE ON THESE RISKS

[Insurance for financial institutions](#)

[Protect your business from cyber threats in a remote environment](#)

[Economic forces impact commercial property replacement costs](#)

[Catastrophic weather impacts on businesses](#)

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More than ever, middle market companies need expert advice on how to manage evolving risks



Chubb, along with its agent and broker partners, can provide insights on the exposures surrounding these risks, as well as specialized risk engineering services to evaluate and mitigate exposures. Additionally, Chubb can offer solutions for managing these risks through customized insurance coverages that provide essential protection.

For more information about these or other topics, visit [chubb.com](http://chubb.com).