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NATIONAL CENTER FOR
THE MIDDLE MARKET

MIDDLE MARKET INDICATOR: YEAR-END 2023

An overview of the middle market and its dynamics

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.

01 Middle market companies performed well last year, but look to 2024 with cautious optimism

In the second half of 2023, middle market companies continued their robust growth, but saw slowing expansion ahead

- The survey recorded an unprecedented level of revenue growth, particularly for larger companies (\$50 million to \$100 million in revenue). However, middle market companies anticipate a one-third reduction in revenue growth in 2024.
- Employment growth remained higher than any pre-pandemic level, despite declining throughout 2023. Growth slowed for all sizes of companies in the second half, with large companies breaking their uptrend for first time since 2020. Middle market companies overall expect employment growth to cool further in the next year.

Economic confidence has remained steady over the past year

- However, confidence at all levels has been trending lower since the COVID vaccine-inspired rebound in mid-2021.

Performance improvement reached a record high for the survey

- More than three-fourths of responding companies improved their overall performance over the past year, eclipsing the mid-2023 all-time high.

More companies are adopting AI for data management and other efficiencies

- Companies actively testing or already using AI increased since mid-year, with data analysis/ collection, improving efficiencies and customer service as the leading uses.

Companies tap the brakes on expansion

- For their top areas of future expansion – introducing a new product or service and expanding into new domestic markets – well over half of middle market companies are still planning to grow.
- However, there has been a pullback in expectations for several potential types of expansion, even since mid-year.

THE DATA BEHIND THE FINDINGS

Revenue growth steady; Employment growth cools

Mean revenue growth



Projection (next 12 months): **8.1%**

Mean employment growth



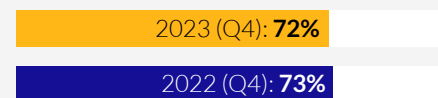
Projection (next 12 months): **8.7%**

Companies improving their performance over the past year

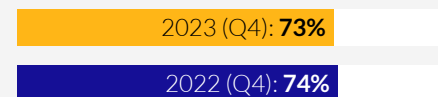


Confidence in the economy

Global economy



National economy



Local economy



Trending topics

🧠 Artificial intelligence (AI)

Adoption levels

- **34%** Testing/using (+4 from Q2 2023)
- **66%** Exploring/trying it out

Functions currently using AI

(Sum of 1st, 2nd, 3rd mentions)

- **72%** Analyzing data
- **58%** Improving efficiencies
- **56%** Collecting data
- **53%** Customer service

Expansion plans in next year

(Extremely/very likely)

Introduce a new product/service

61% -7 from Q2 2023
-3 from Q4 2022

Expand into new domestic markets

55% -7 from Q2 2023
-5 from Q4 2022

Add a new plant/facility

42% -6 from Q2 2023
-10 from Q4 2022

02 By far, inflation is the top emerging risk for middle market companies, followed by recession and talent risks

Inflation remains a prominent concern and will likely persist due to rising labor costs and Middle East conflicts affecting trade routes

- Employee pay has often been the leading contributor to inflation for the middle market in the pandemic recovery period.
- More than two-thirds of companies have raised worker pay in the past year, with an average increase of 5.5%.
- To retain talented employees, nearly half of companies have offered incentive compensation or retention bonuses and plan to continue that in the future.

Companies plan to fight inflation and other economic conditions in 2024 by raising prices

- To prepare for potential impacts of inflation, higher interest rates and a possible recession, nearly two in five companies expect to increase prices of their products and services and further integrate AI applications, such as working with data, improving efficiencies and customer service, into their businesses.

Workforce challenges persist

- In the pandemic recovery period, companies have experienced significant challenges with hiring and retaining talent, particularly with the skills they need, which has implications for how they manage workforce- and workplace-related risks.
- As companies hire more employees and ask them to work longer hours due to skilled-talent shortages, the need for Workers Compensation coverage and strategies to reduce workplace injury risks increases.
- Smaller middle market companies are much more challenged by employee recruitment, retention and turnover than larger middle market companies.

Several risks remain concerning for middle market companies

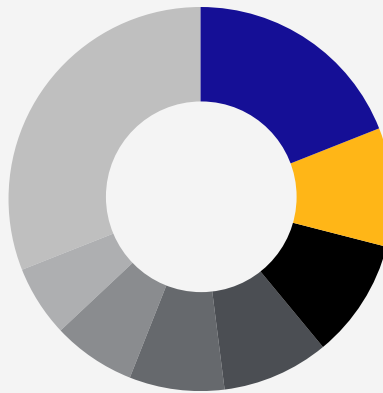
- Beyond economic and talent risks, a number of other risks registered as significant for these companies, including competitive, supply chain, regulatory/compliance, and cyber security.
- Additional risks they found concerning included banking stability, access to and cost of credit/capital, change in leadership or control, litigation, public health concerns targeting common products and processes, and catastrophic incidents.

THE DATA BEHIND THE FINDINGS

Top emerging risks



Other: Banking stability 5%, access to credit/capital 5%, cost of credit/capital 5%, change in leadership or control (CEO succession, M&A) 5%, litigation 4%, increasing public health concerns targeting common products and processes 4%, catastrophic incidents (not cyber) 3%



Wages fuel inflation

67% +6 from Q4 2022
Have increased wages

5.5%
Average salary/wage increase

45%
Have offered incentive compensation or bonuses to retain talent

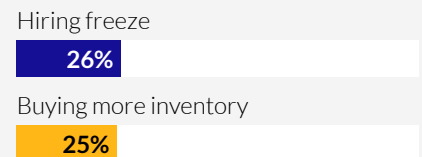
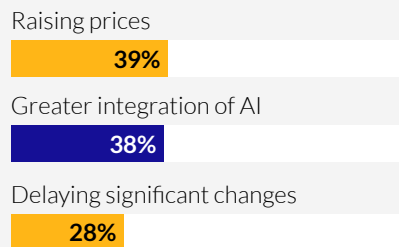
Concerns factoring into insurance purchasing decisions

(Sum of 1st, 2nd and 3rd concern rankings)

- **62%** Cyber security
- **60%** Workforce
- **55%** Infrastructure
- **48%** Catastrophic incidents (not cyber) or in some cases, natural disasters

How companies are preparing for 2024's macroeconomic environment*

*Inflation, interest rates, recession



03 Companies view several risks as less difficult to manage, yet gaps remain

Inflation remains the most challenging risk to manage for middle market companies

- However, companies have become more confident in their ability to manage many risks over the past year, including recession, supply chain and competitive risks.
- Nearly three fourths of companies will consider increasing their insurance coverage in response to higher replacement costs of their assets due to inflation.
- The value of equipment and building contents are notable areas that companies often remain underinsured for replacement values, only to find out when it's needed most—after an actual loss.

Companies recognize gaps in insurance coverage and preparedness for disruptions

- For several types of insurance, middle market companies noted that their potential needs for coverage were greater than their perceptions that they were adequately covered.
- For companies that experienced operational disruptions, nearly a third acknowledged that they could have been covered if they had purchased available insurance—and more than half of companies with \$30 million to \$50 million in revenue.
- In addition to potentially being underinsured for inflated property and equipment values, companies often underestimate the time it will take to get back up and running after an insured loss, which points to the need for adequate business interruption coverage and more thorough and realistic business continuity plans.
- Risk mitigation strategies can often help in minimizing or preventing damage from occurring. For example, water shutoff valves can prevent water damage within properties. Companies can improve their climate resiliency through a full-spectrum natural hazard risk assessment, featuring a physical locations risk analysis, mitigation and adaptation strategies, and business continuity planning services to help manage climate-related exposures and impacts.

Smaller middle market companies are less prepared for disruptions

- Only about half of these companies responded that they are completely or very prepared for disruptions such as fire/water damage, catastrophic incidents and aging infrastructure—about 10 points fewer than larger companies.

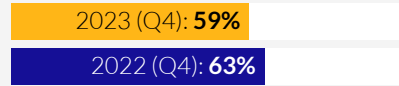
Cyber security and insurance are in clear focus for many companies

- Cyber security was the top concern factoring into companies' insurance purchasing decisions.
- Fewer than half of companies believed they had adequate cyber insurance, while more than half acknowledged that they needed or were considering the coverage.

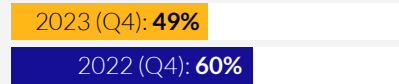
THE DATA BEHIND THE FINDINGS

Middle market firms finding risk extremely/very challenging to manage

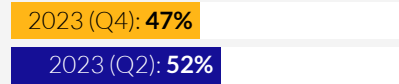
Inflation risk



Recession risk



Talent shortage/retention**



**New response choice in Q2 2023

Role of insurance in disruptions

Operational disruption***

49% Covered
 32% Coverage available but not purchased (54% for companies with \$30 million-\$50 million in revenue)

***natural disasters, port closures, strikes, facility shut-downs, etc.

Preparedness for disruptions

(Completely/very prepared)

Fire/water damage

Smaller middle market 55%
 Larger middle market 67%

Catastrophic incidents

Smaller middle market 48%
 Larger middle market 59%

Insurance impacts of inflation

74%

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

72%

+3 from Q4 2022

of companies say they will consider increasing coverage amounts

Insurance adequacy/needs

Multinational

Adequately covered



Need more/need/considering (27%/16%/4%)



Environmental (pollution liability)

Adequately covered



Need more/need/considering (30%/13%/8%)



Cyber

Adequately covered



Need more/need/considering (37%/12%/3%)



Middle market companies can rely on Chubb for expert advice on managing their unique risks

Whether you may need to close gaps in coverage from emerging risks, level up coverage for today's higher replacement values, or create plans for business continuity, Chubb and its agent and broker partners can provide specialized services to help mitigate exposures and offer customized, comprehensive insurance solutions for managing your risks.

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

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