

CHUBB®



NATIONAL CENTER FOR
THE MIDDLE MARKET

MIDDLE MARKET INDICATOR: YEAR-END 2023

Financial Services

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

01 Strong performance continues for middle market financial services companies

The overall strong economic environment translated to impressive expansion for these companies in the second half of 2023

- Strong double-digit revenue growth pushed higher from a year ago but below the nearly 17% mid-year level, and these companies expect a significant slowdown in the year ahead.
- Employment growth moved higher from a year ago after spiking above 15% at mid-year, and companies expect the current level to hold in 2024.

Economic confidence remains high

- However, confidence in the global and national economy slipped from a year ago, while holding relatively steady at the local level.

Companies noting performance improvement declined in 2023

- More than three-fourths of responding companies improved their overall performance compared to year-end 2022, although that was lower than the last two surveys.

Some middle market financial services companies have adopted artificial intelligence (AI)

- About a third of these companies are actively testing or already using AI, consistent with the overall middle market, and these efforts are focused on analyzing data, improving efficiencies, and customer service.

Companies' views toward expansion are less bullish

- The 12-month outlook on several areas of potential expansion has declined for middle market financial services companies from a year ago and especially since mid-year.

Growth far outpaced the overall middle market, and expansion plans are much stronger

- Revenue growth for these companies was well ahead of the middle market overall at year-end 2023, and employment growth was even better.
- Middle market financial services companies are much more optimistic about expansion plans across the board than the overall middle market, by an average of more than 10 points, and by as high as 20 points for expanding into new international markets and making an acquisition.

THE DATA BEHIND THE FINDINGS

Strong growth continues

Mean revenue growth



Projection (next 12 months): **11.5%**

Mean employment growth



Companies improving their performance over the past year



2023 (Q2): **84%**

Confidence in the economy

Global economy



National economy



Local economy



Trending topics

Artificial intelligence (AI)

Adoption levels

- **34%** Testing/using
- **66%** Learning/exploring/trying it out

Functions currently using AI

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

- **71%** Analyzing data
- **50%** Improving efficiencies
- **48%** Customer service
- **44%** Collecting data

Expansion plans in 2024

(Extremely/very likely)

Introduce a new product/service

69% -14 from Q2 2023
-5 from Q4 2022

Expand into new domestic markets

63% -18 from Q2 2023
-13 from Q4 2022

Bring in new equity investment

62% -13 from Q2 2023
-17 from Q4 2022

Expand into new international markets

61% **No change** from Q2 2023
-13 from Q4 2022

High growth compared to overall middle market

Mean revenue growth

15.2% +2.8 compared to middle market

Mean employment growth

13.8% +4.2 compared to middle market

...and their expansion outlook is better

Introduce a new product/service

69% +8 compared to middle market overall

Expand into new domestic markets

63% +8 compared to middle market overall

Bring in a new equity investment

62% +16 compared to middle market overall

Expand into new international markets

61% +20 compared to middle market overall

02 Inflation and recession lead the emerging risks for middle market financial services companies

Inflation has been a lingering concern for these companies, and many of their costs of doing business are showing little sign of abating anytime soon

- In response to the inflationary environment, two in five middle market financial services companies have had to pay higher salaries and wages. Combined with other competitive reasons, a total of two-thirds of companies in the sector raised worker pay in 2023, with an average increase of more than 6%.
- Additional actions these companies have taken to deal with inflation include raising their own prices or rates, evaluating the adequacy of their insurance coverage or limits, and extending contracts with key suppliers.

Cyber security was the leading factor in insurance purchasing decisions

- Middle market financial services companies that experienced cyber disruptions in the past two years took a revenue hit of more than 30% and half have not fully recovered yet.
- These impacts, along with the critical nature of financial accounts, more than two-thirds of these companies place cyber security at the top of their considerations when purchasing insurance.

Companies plan to use AI to counter challenging macroeconomic conditions in 2024

- To prepare for a potential environment of inflation, ongoing high interest rates and a possible recession, more than a third of middle market tech companies expect to further integrate AI applications into their businesses, while a third are prepared to raise prices further or buy more inventory.

THE DATA BEHIND THE FINDINGS

Top emerging risks

(sum of 1st, 2nd, 3rd responses)

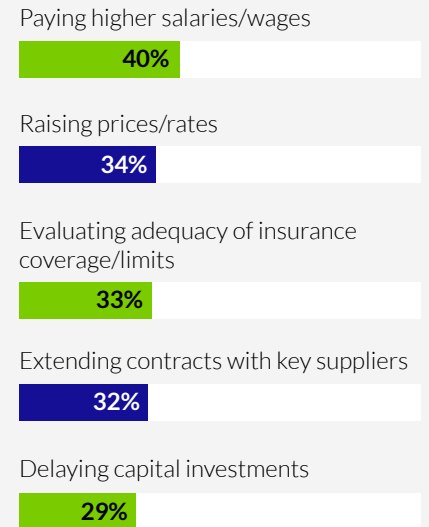


Other: Cost of credit/capital 19%, supply chain risk 18%, access to credit/capital 17%, change in leadership or control (CEO succession, M&A) 16%, increasing public health concerns targeting common products and processes 13%, catastrophic incidents 11%, litigation 8%

How companies are preparing for 2024's macroeconomic environment*

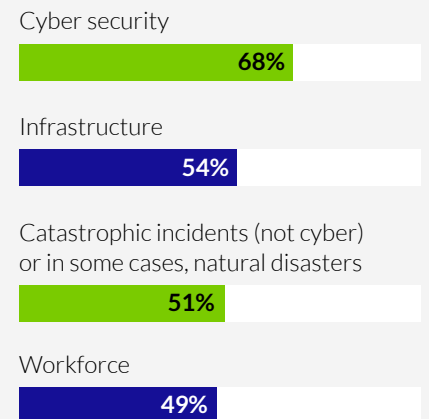
- 35% Greater integration of AI
- 32% Raising prices
- 33% Buying more inventory
- 29% Moving up significant changes (e.g., investments, expansion)
- 28% Delaying significant changes (e.g., investments, expansion)
- 25% Hiring freeze

Actions taken in response to inflation

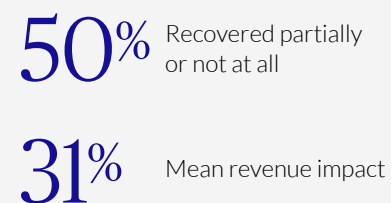


Concerns factoring into insurance purchasing decisions

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



Cyber events (past two years)



*Inflation, interest rates, recession

03 Economic risk management challenges persisted throughout 2023

Inflation and recession risks remain the most challenging to manage for middle market financial companies

- More than three-fourths of these companies note that replacement costs of covered assets have increased with inflation, but significantly fewer will consider increasing their insurance coverage in response.
- The current replacement values of equipment and building contents are notable areas where companies remain underinsured, often discovered only after an actual loss occurs.

Companies recognize gaps in insurance coverage

- For several types of insurance, middle market financial services companies noted that their potential needs for coverage were greater than their perceptions that they were adequately covered.
- Management liability risks run high in this sector and these companies recognize it, with well over half acknowledging that they need more coverage.
- As this sector seeks more international expansion than many other industries, fewer than two in five companies noted that they have adequate multinational insurance.

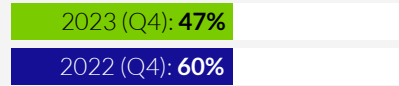
Many middle market financial services companies are not well prepared for disruptions

- About two in five of these companies are not prepared for basic disruptions, including prolonged power outages, aging infrastructure, and fire or water damage.
- Companies that experienced operational disruptions had a 33% mean revenue impact, and more companies revealed that they could have been covered for these disruptions if they had purchased available insurance than those that were properly covered.
- 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.

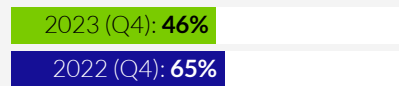
THE DATA BEHIND THE FINDINGS

Middle market financial services firms find risks extremely/very challenging to manage

Recession risk



Inflation risk



Role of insurance in disruptions

Operational disruption

36% Covered

38% Coverage available but not purchased

Preparedness for disruptions

(Completely/very prepared)

- 58% Prolonged power outage
- 58% Aging infrastructure
- 59% Cyber attacks
- 62% Fire/water damage

Insurance impacts of inflation

77% of companies say the replacement value of covered assets has increased due to inflation

64% of companies say they will consider increasing coverage amounts

Insurance adequacy/needs

Multinational

Adequately covered

39%

Need more/need/considering (42%/8%/4%)

54%

Management liability

Adequately covered

43%

Need more/need/considering (43%/9%/5%)

57%

Cyber

Adequately covered

46%

Need more/need/considering (43%/11%/1%)

55%



Middle market financial services 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).

Chubb is the marketing name used to refer to subsidiaries of Chubb Limited providing insurance and related services. For a list of these subsidiaries, please visit our website at www.chubb.com. Insurance provided by ACE American Insurance Company and its U.S. based Chubb underwriting company affiliates. All products may not be available in all states. This material contains product summaries only. Coverage is subject to the language of the policies as actually issued. Surplus lines insurance sold only through licensed surplus lines producers. Statistical data contained herein is provided by the National Center for the Middle Market unless otherwise stated. The material presented herein is advisory in nature and is offered as a resource to be used together with your professional insurance advisors in maintaining a loss prevention program. It is not intended as a substitute for legal, insurance, or other professional advice, but rather is presented for general information only. You should consult knowledgeable legal counsel or other knowledgeable experts as to any legal or technical questions you may have. Chubb, 202 Hall's Mill Road, Whitehouse Station, NJ 08889-1600.