

CHUBB®



NATIONAL CENTER FOR
THE MIDDLE MARKET

MIDDLE MARKET INDICATOR: YEAR-END 2023

Technology

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

01 Growth was mixed for middle market technology companies

In the second half of 2023, these companies maintained high revenue growth, while employment growth slowed

- Strong double-digit revenue growth inched higher from a year ago but below the mid-year level, and these companies foresee growth slowing somewhat in 2024.
- Employment growth declined sharply in the second half after spiking above 14% at mid-year, and companies expect the year-end 2023 level to hold in the year ahead.

Economic confidence remains high

- Confidence in the national economy jumped higher from a year ago but held steady with the mid-year level, while global and local confidence remained consistent compared to year-end 2022.

Performance improvement edged higher in 2023

- More than three-fourths of responding companies improved their overall performance compared to year-end 2022, although that reading spiked higher by double digits at mid-year.

More middle market technology companies are adopting artificial intelligence (AI)

- With innovation in the DNA of this sector, more than two in five of these companies are actively testing or already using AI, significantly higher than the overall middle market, and their primary uses include working with data and improving efficiencies.

Technology companies rein in expansion plans

- For their top areas of future expansion – introducing a new product or service and expanding into new domestic markets – about two-thirds of middle market technology companies are still planning to grow.
- However, the 12-month outlook on several areas of potential expansion has declined for middle market technology companies from a year ago and mid-year.

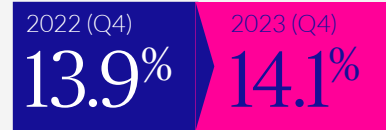
Growth was mixed compared to the overall middle market, but top expansion plans are stronger

- Revenue growth for middle market technology companies was well ahead of the middle market overall at year-end 2023, while their employment growth lagged.
- In their top areas of future expansion, introducing a new product or service and expanding into new domestic markets, these companies significantly outpaced the middle market overall.

THE DATA BEHIND THE FINDINGS

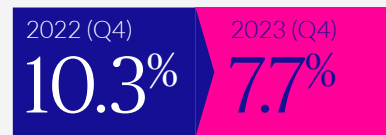
Revenue growth steady; employment growth cools

Mean revenue growth



Projection (next 12 months): **10.9%**

Mean employment growth



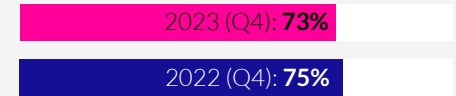
Projection (next 12 months): **8.1%**

Companies improving their performance over the past year



Confidence in the economy

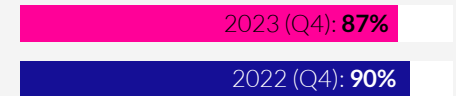
Global economy



National economy



Local economy



Trending topics

Artificial intelligence (AI)

Adoption levels

- **43%** Testing/using (+4 from Q2 2023, +9 compared to middle market overall)
- **57%** Learning/exploring/trying it out

Functions currently using AI

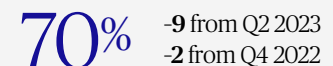
(Sum of 1st, 2nd, 3rd mentions)

- **82%** Analyzing data
- **65%** Improving efficiencies
- **65%** Collecting data
- **55%** Customer service

Expansion plans in 2024

(Extremely/very likely)

Introduce a new product/service



Expand into new domestic markets



Mixed growth compared to overall middle market

Mean revenue growth



Mean employment growth



...but their expansion outlook is better

Introduce a new product/service



Expand into new domestic markets



02 Inflation is the most prominent emerging risk for middle market technology companies

Inflation remained the top concern for these companies in 2023 and will likely persist due to rising labor costs and Middle East conflicts affecting trade routes

- Employee pay has been the top contributor to inflation for the middle market technology sector, but these pressures have eased somewhat over the past year.
- Still, more than half of these companies raised worker pay in 2023, with an average increase of 5.4%.
- To retain talented employees, nearly half of technology companies have offered incentive compensation or retention bonuses, and plan to continue that in the future.

Technology 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 two in five middle market tech companies expect to further integrate AI applications into their businesses, far more than the middle market overall.

Cyber security was the leading factor in insurance purchasing decisions

- Two in five middle market technology companies noted that they had experienced a cyber or data disruption in the past two years, with a 30% mean negative revenue impact.
- As a result, these companies are spending more of their information technology budgets on cyber security than are other sectors.

Several risks remain concerning for middle market technology companies

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

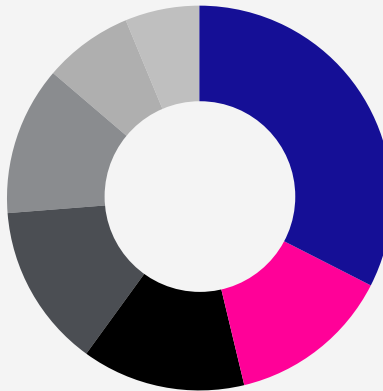
THE DATA BEHIND THE FINDINGS

Top emerging risks

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



Other: Banking stability 5%, catastrophic incidents 4%, supply chain risk 4%, change in leadership or control (CEO succession, M&A, etc.) 4%, access to credit/capital 3%, cost of credit/capital 3%, litigation 2%, increasing public health concerns targeting common products and processes 1%



How middle market companies are preparing for 2024's macroeconomic environment*

- 43%** Greater integration of AI (+9 compared to middle market overall)
- 34%** Raising prices
- 30%** Moving up significant changes (e.g., investments, expansion)
- 27%** Hiring freeze
- 25%** Buying more inventory

*Inflation, interest rates, recession

Worker pay impacts inflation

57% Have increased wages -7 from Q4 2022

5.4% Average salary/wage increase

45% Have offered incentive compensation or bonuses to retain talent

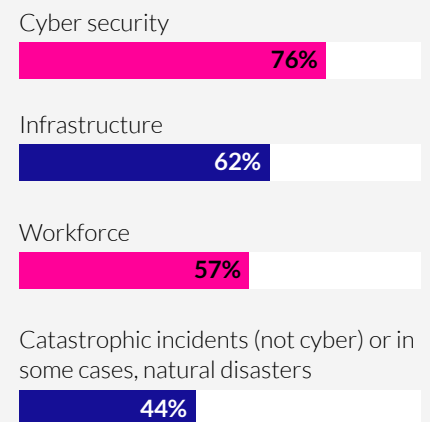
Cyber events and impacts (past two years)

40% experienced cyber/data disruption

30% mean revenue impact from these disruptions

Concerns factoring into insurance purchasing decisions

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



03 Key risk management challenges persisted throughout 2023

Inflation and talent risks remain the most challenging to manage for middle market technology companies

- Three fourths of companies will consider increasing their insurance coverage in response to higher replacement costs of their assets due to inflation.
- The current replacement values of equipment and building contents are notable areas where companies often remain underinsured, to find out only when an actual loss occurs.

Companies recognize gaps in insurance coverage

- For several types of insurance, middle market technology companies noted that their potential needs for coverage were greater than their perceptions that they were adequately covered.
- About half of companies believed they had adequate cyber insurance, while the other half acknowledged that they needed or were considering the coverage.
- For companies that experienced cyber or data disruptions, nearly a third acknowledged that they could have been covered if they had purchased available insurance.

Talent management challenges remain elevated

- More than half of middle market tech companies expect staffing challenges in the next year, a level that has held steady since year-end 2022 and higher than the middle market overall.
- Employee recruitment and retention have led these concerns.

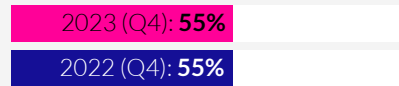
Many middle market technology companies are not well prepared for disruptions

- Half of these companies are not very prepared for catastrophic incidents and not many more are ready for other basic disruptions, including prolonged power outages and fire or water damage.
- 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.

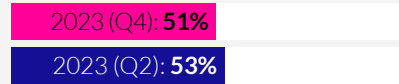
THE DATA BEHIND THE FINDINGS

Middle market technology firms find risks extremely/very challenging to manage

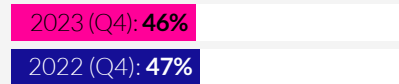
Inflation risk



Talent shortage/retention**



Supply chain risk



**New response choice in Q2 2023

Role of insurance in disruptions

Cyber/data disruption

56% Covered
32% Coverage available but not purchased

Preparedness for disruptions

(Completely/very prepared)

50% Catastrophic incidents
60% Prolonged power outage
61% Cyber attacks
64% Fire/water damage

Insurance impacts of inflation

71% of companies say the replacement value of covered assets has increased due to inflation

75% of companies say they will consider increasing coverage amounts

Insurance adequacy/needs

Multinational

39% Adequately covered

47% Need more/need/considering (29%/14%/4%)

Environmental (pollution liability)

43% Adequately covered

48% Need more/need/considering (24%/17%/7%)

Cyber

51% Adequately covered

48% Need more/need/considering (37%/10%/1%)

Workforce challenges rise

57% of middle market tech companies expect challenges managing their talent in the next year

Top areas of concern:

20% Staffing/hiring/talent acquisition/recruitment

15% Employee retention/turnover



Middle market technology 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.