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Mid-Sized Company Risk Report

Presented by QBE North America and the Association for Corporate Growth

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Association for Corporate Growth



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Executive Summary

There's a theory that middle children often get the least attention from parents, who often focus on the eldest sibling and coddle the baby of the family. Much like children in the middle, we often see data and insights focused on Fortune 500 companies or small businesses.

From Manufacturing to Technology companies, Retailers, Finance businesses and Healthcare organizations, mid-sized companies make incredible contributions to our economy. In fact, this segment, with revenues of between \$200 million and \$3 billion were among the fastest-growing sectors in the U.S.

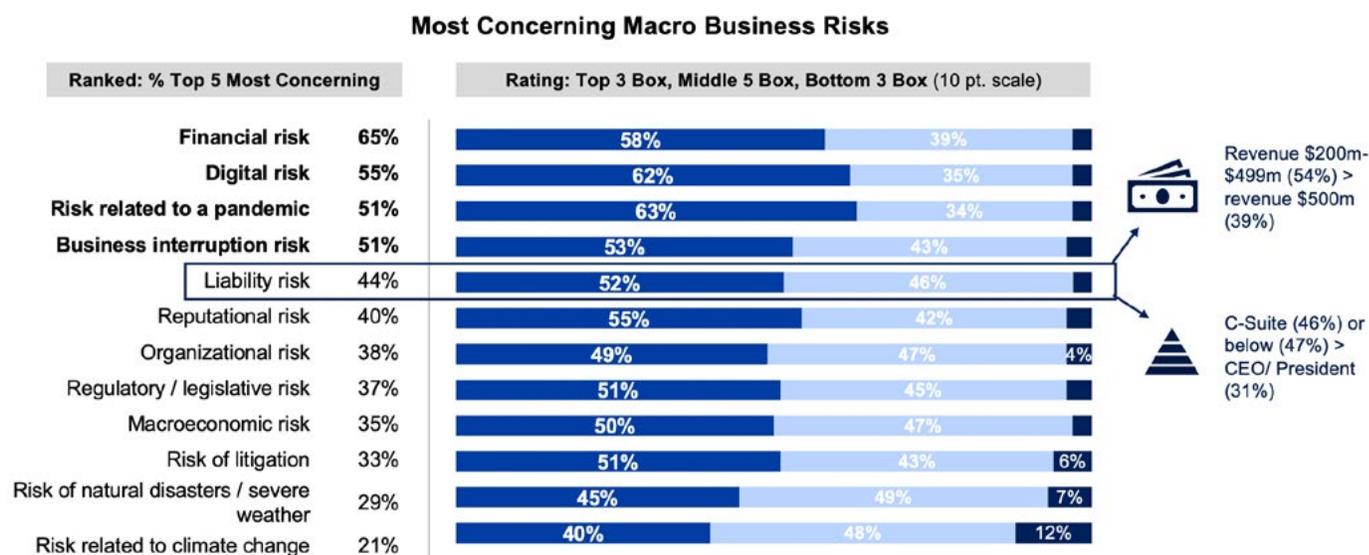
In an increasingly volatile world, mid-sized companies need to be more cognizant than ever about their risks and we thought it was important to focus on their unique concerns. Predicting, preparing and protecting against emerging risks can make the difference in a company's ability to be successful and resilient over the long term.

The Mid-Sized Company Risk Report presented by QBE North America and the Association for Corporate Growth shows over half (58%) of mid-sized businesses have unmet needs related to reducing risk exposure with coverage for digital assets and pandemics most often cited.

Despite 2020's unique business landscape, many companies also remain worried about general business risks citing concerns around financial risks, digital assets, litigation and talent and culture.

The report also captures a number of worries tied to the current environment including pandemic risks, social unrest and climate concerns.

What are your most concerning macro business risks?

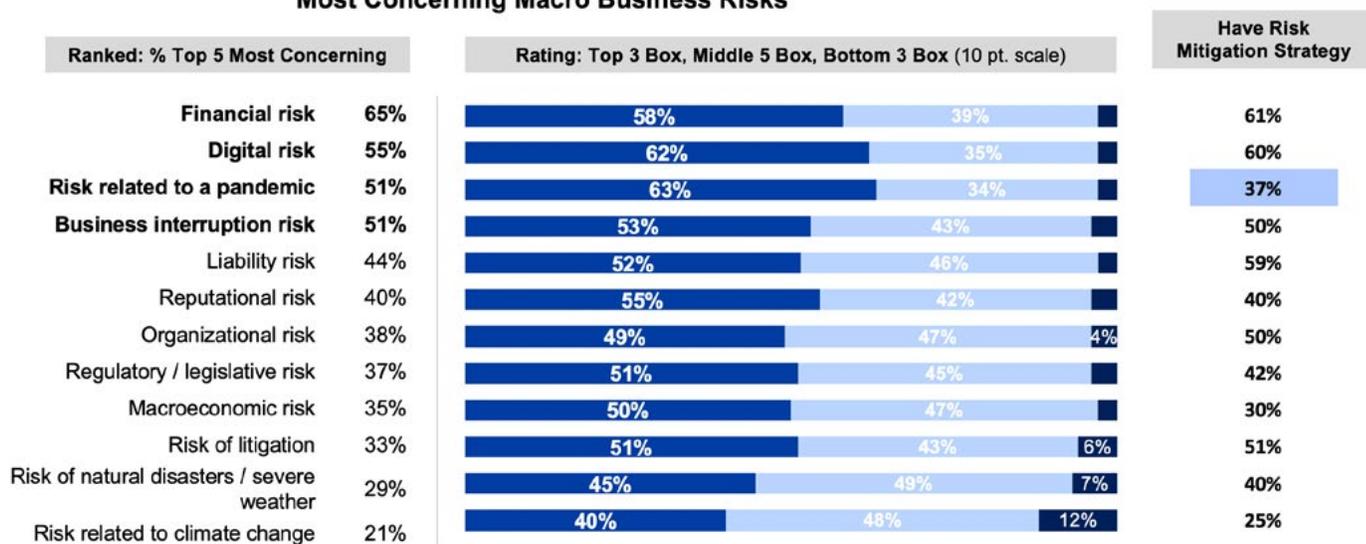


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While most mid-sized businesses have prepared for financial and digital risks, many are not prepared for risks that are driven by external or unpredictable forces. Only 37% of mid-sized businesses have a risk mitigation strategy for risks related to a pandemic, and few have mitigation strategies for macroeconomic risks such as risk of a recession (30%), risk of natural disasters/severe weather (40%), or risk related to climate change (25%). Though few have insurance for these unexpected risks, many are starting to understand the necessity for it.

Please rate your level of concern regarding the following potential risks to your business and which types of risks does your business have a risk mitigation strategy or insurance in place currently?

Most Concerning Macro Business Risks



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Among financial risks, operations performance and fraud/theft are cited as the most concerning with over one-third of all mid-sized businesses listing them as a concern, and 21% of those citing each as a top financial risk.

Which of the following specific financial risks concern you?

Which do you consider to be the most concerning risk to your business?

% Rank Macro Risk Top 5	65%
Macro Risk Ranking	1 st of 12

Financial Micro Risks

★ indicates Top 10 Micro Risk

	% Selected as Concerning to their Business ^A	% Cited as Top Risk ^B
Operational performance	35%	21% ★
Fraud / theft	34%	21% ★
Investment performance	35%	14%
Cash flow / liquidity risk	37%	12%
Increasing insurance rates	33%	9%
Increasing employee benefit costs	31%	9%
Medical cost inflation	29%	9%
Debt burden	23%	6%



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The unprecedented combination of a decline in production and rise of unemployment across the economy has many concerned about the risk of recession. This sentiment came through in the survey where a risk of recession/economic downturn was listed by far as the biggest macroeconomic concern.

Which of the following specific macroeconomic risks concern you?

Which do you consider to be the most concerning risk to your business?

% Rank Macro Risk Top 5	35%
Macro Risk Ranking	9 th of 12

Macroeconomic Micro Risks

★ Indicates Top 10 Micro Risk

	% Selected as Concerning to their Business ^A	% Cited as Top Risk ^B
Recession/economic downturn	23%	35% ★
Monetary inflation	14%	13%
Tariffs/trade restrictions	18%	10%
Exchange rate / foreign currency fluctuations	16%	10%
Monetary deflation	11%	10%
Increase in commodity prices	17%	9%
Fluctuating interest rates	16%	8%



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In today's world, risks related to pandemic are a greater concern to businesses. Among pandemic-related risks, ensuring the safety of employees is most concerning, with 32% rating it as a concern and 22% citing it as a top risk. The impact on cash flow followed as a close second with 33% rating it as a concern and 17% citing it as a top risk.

Which of the following specific risks related to a pandemic concern you?
Which do you consider to be the most concerning risk to your business?

% Rank Macro Risk Top 5	51%
Macro Risk Ranking	3 rd of 12

Pandemic Micro Risks

★ Indicates Top 10 Micro Risk

	% Selected as Concerning to their Business ^A	% Cited as Top Risk ^B
Ensuring the safety of employees	32%	22% ★
Impact on cash flow	33%	17%
Impact on supply chain	30%	14%
Lack of demand	25%	13%
Ability to interact with employees / colleagues / customers / other businesses in-person	31%	12%
Ensuring the safety of customers	31%	10%
Inability to meet demand	22%	6%
Travel restrictions	28%	5%



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When thinking about business interruption risks, infrastructure breakdown and facility shutdowns are most concerning. While not in the top 5, social unrest ranked the 6th most concerning among mid-sized businesses demonstrating 2020's unique landscape.

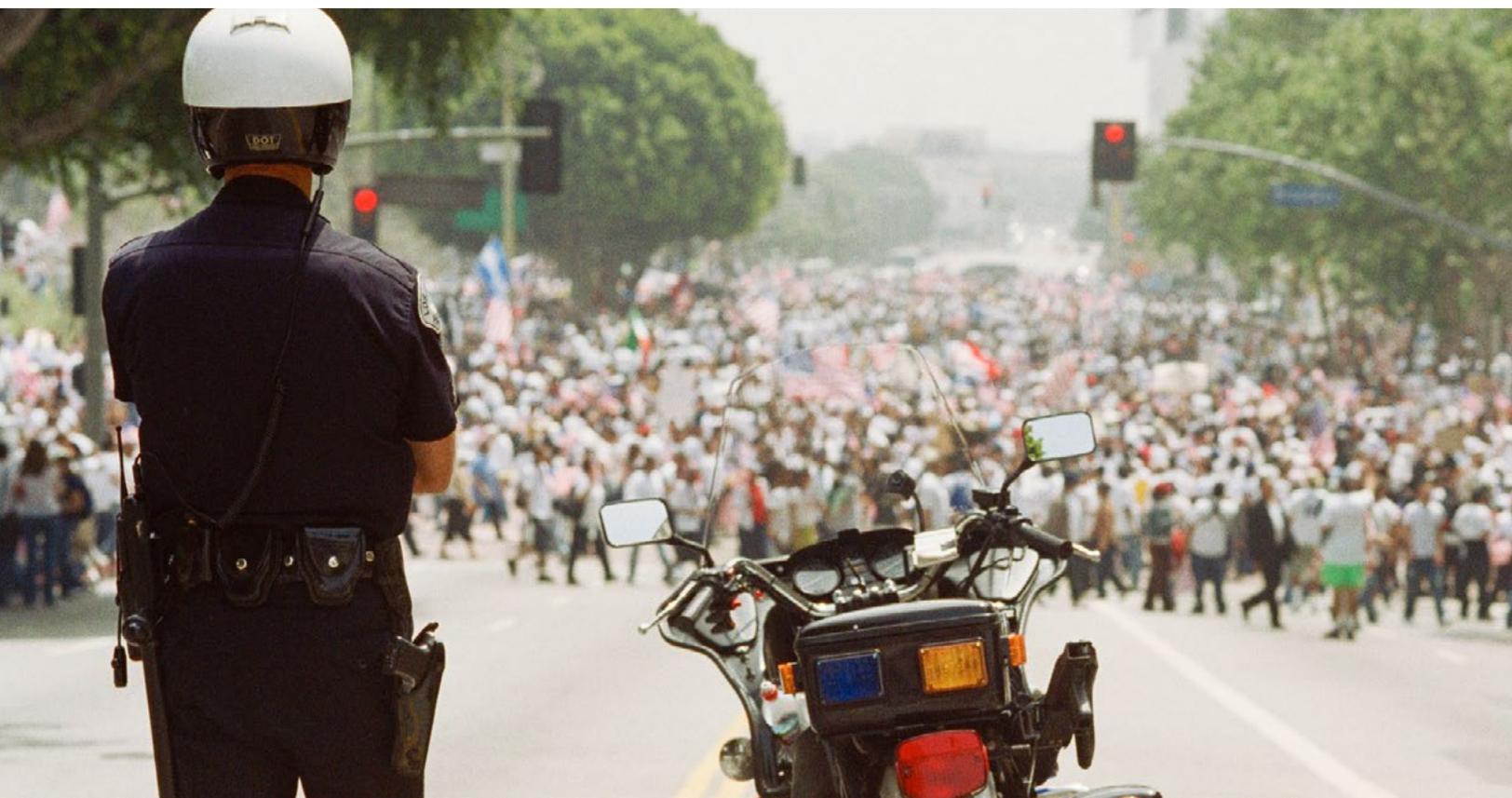
Which of the following specific business interruption risks concern you?

Which do you consider to be the most concerning risk to your business?

% Rank Macro Risk Top 5	51%
Macro Risk Ranking	4 th of 12

Business Interruption Micro Risks

	% Selected as Concerning to their Business ^A	% Cited as Top Risk ^B
Critical infrastructure breakdown	25%	15%
Facility shutdowns	25%	14%
Emerging innovations	23%	12%
Loss of critical supplier / sub-contractor	23%	9%
Fragile supply chain risks	22%	8%
Social unrest / protests	21%	8%
Inability to innovate	20%	6%
Strikes	17%	6%
Money laundering / "KYC" risks	14%	6%
Geopolitical risk	18%	5%
Terrorist attack	15%	5%
Port closures	13%	3%



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Among liability risks, product liability and worker's health/compensation are most concerning. Product liability stands out as a top risk across all risk types with 25% of mid-sized businesses citing it as a top risk, while concerns about workers' health/compensation are not far behind (21%).

Which of the following specific liability risks concern you?

Which do you consider to be the most concerning risk to your business?

% Rank Macro Risk Top 5	44%
Macro Risk Ranking	5 th of 12

Liability Micro Risks

★ Indicates Top 10 Micro Risk

	% Selected as Concerning to their Business ^A	% Cited as Top Risk ^B
Product liability	23%	25% ★
Accidents / health issues / worker's compensation	24%	21%
Professional / management liability	23%	18%
Coverage for employee leave due to illnesses, care for family members, pregnancy or maternity	23%	16%
Military re-employment rights	10%	7%
Auto liability	15%	6%
Aviation liability	12%	5%



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Reputational risk or the potential loss of financial capital, social capital and/or market share resulting from damage to a firm's reputation can be triggered by a number of circumstances. When thinking about reputational risks, businesses are most concerned about the actions of errant employees, poor quality products and poor customer service. Such risks can lead to litigation or other legal and financial troubles.

Which of the following specific reputational risks concern you?

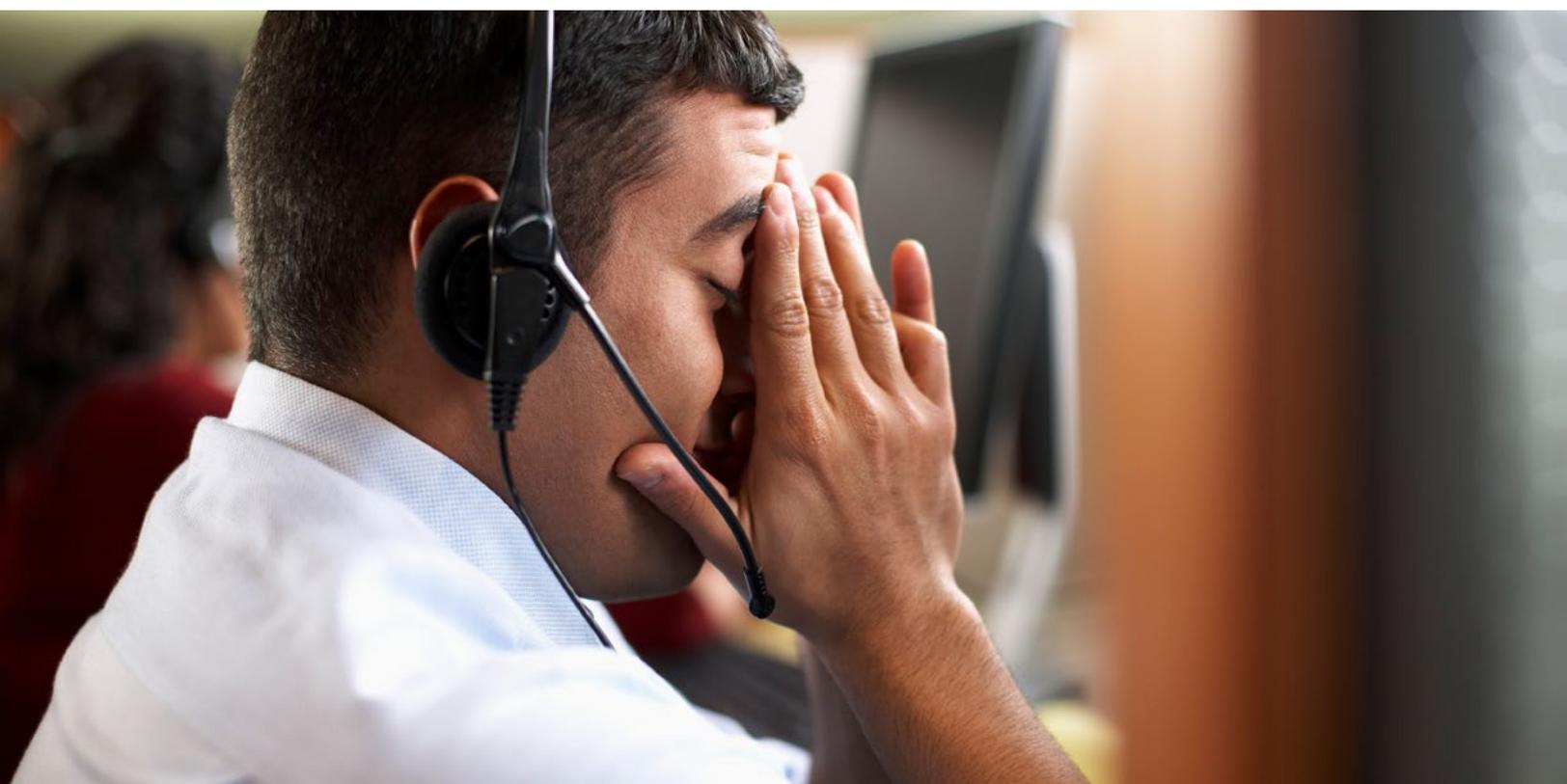
Which do you consider to be the most concerning risk to your business?

% Rank Macro Risk Top 5	40%
Macro Risk Ranking	6 th of 12

Reputational Micro Risks

★ Indicates Top 10 Micro Risk

	% Selected as Concerning to their Business ^A	% Cited as Top Risk ^B
Actions of errant employees that impact reputation	20%	25% ★
Poor product quality	19%	18%
Poor customer service	18%	13%
Insensitive / outdated company policies	17%	11%
Ineffective board / ownership oversight	15%	9%
Ineffective / poorly received marketing messages	16%	8%
Toxic workplace / culture	17%	6%
Corporate / executive scandal	16%	6%



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Among organizational risks, attracting and retaining talent is the top concern. While experts predicted remote work would climb 200% by 2028 before COVID-19, many companies were forced to make the transition overnight - far exceeding that prediction. But for virtual employment models to be effective, human resource and talent management practices need to shift to accommodate a new culture. Businesses may be reacting to those issues.

Which of the following specific organizational risks concern you?

Which do you consider to be the most concerning risk to your business?



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Non-compliance with regulatory and legislative bodies can have a significant adverse impact on a business, result in fines or even withdrawal of a company's license to operate. The top concerns around regulatory/legislative risks are changes in regulations and sufficient regulatory compliance, with 28% and 26% citing them as top risks, respectively. Both are among the top 10 across all risk types, suggesting that changes to regulations and compliance are issues that are difficult to navigate for most.

Which of the following specific regulatory/legislative risks concern you?

Which do you consider to be the most concerning risk to your business?

% Rank Macro Risk Top 5	37%
Macro Risk Ranking	8 th of 12

Regulatory / Legislative Micro Risks

★ Indicates Top 10 Micro Risk

	% Selected as Concerning to their Business ^A	% Cited as Top Risk ^B
Changes to regulations that impact your business	26%	28% ★
Sufficient compliance with regulatory laws	25%	26% ★
Tax compliance	21%	10%
Issues related to the Family and Medical Leave Act (FMLA)	16%	19%
Changes based on the results of 2020 US federal elections	16%	13%

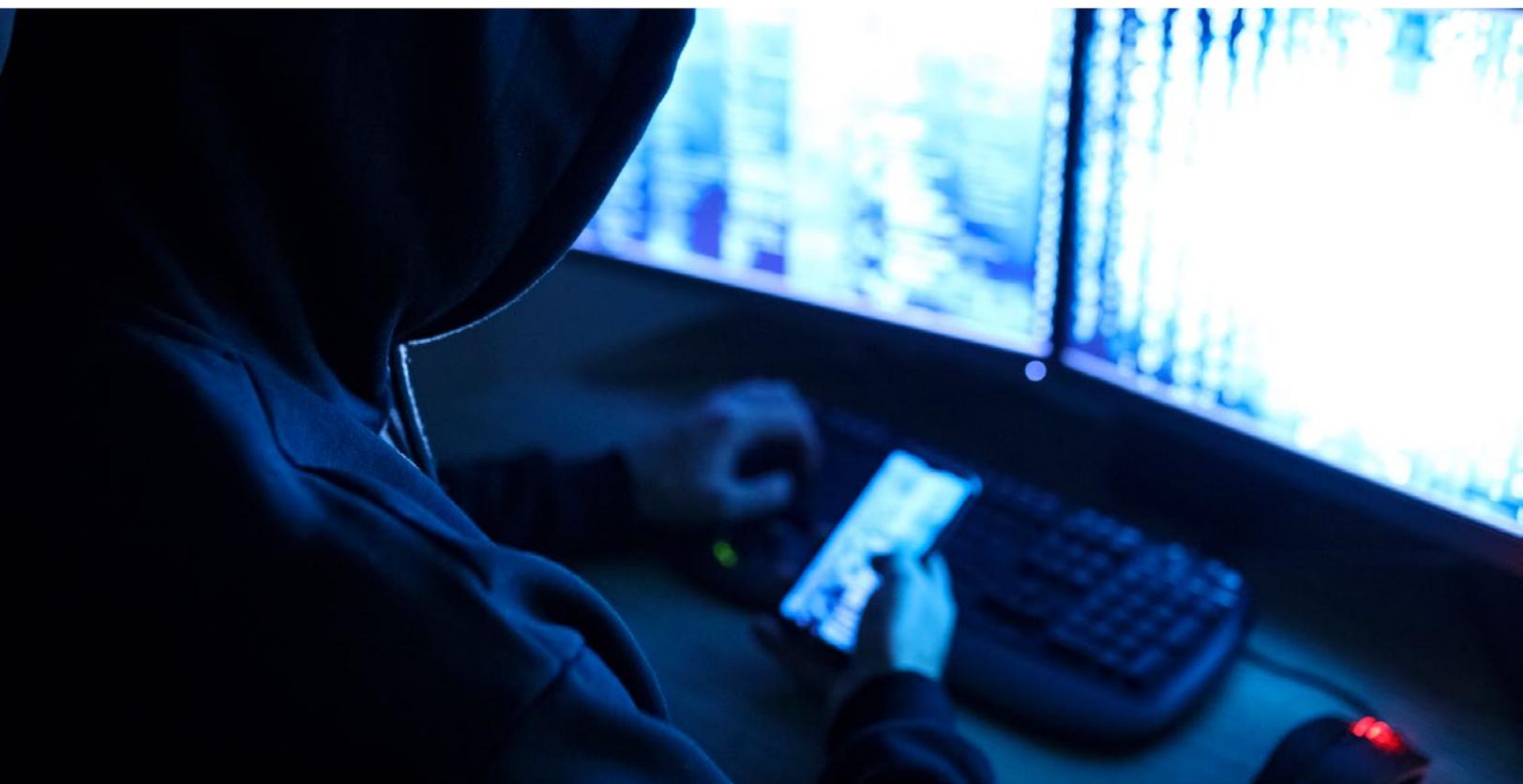
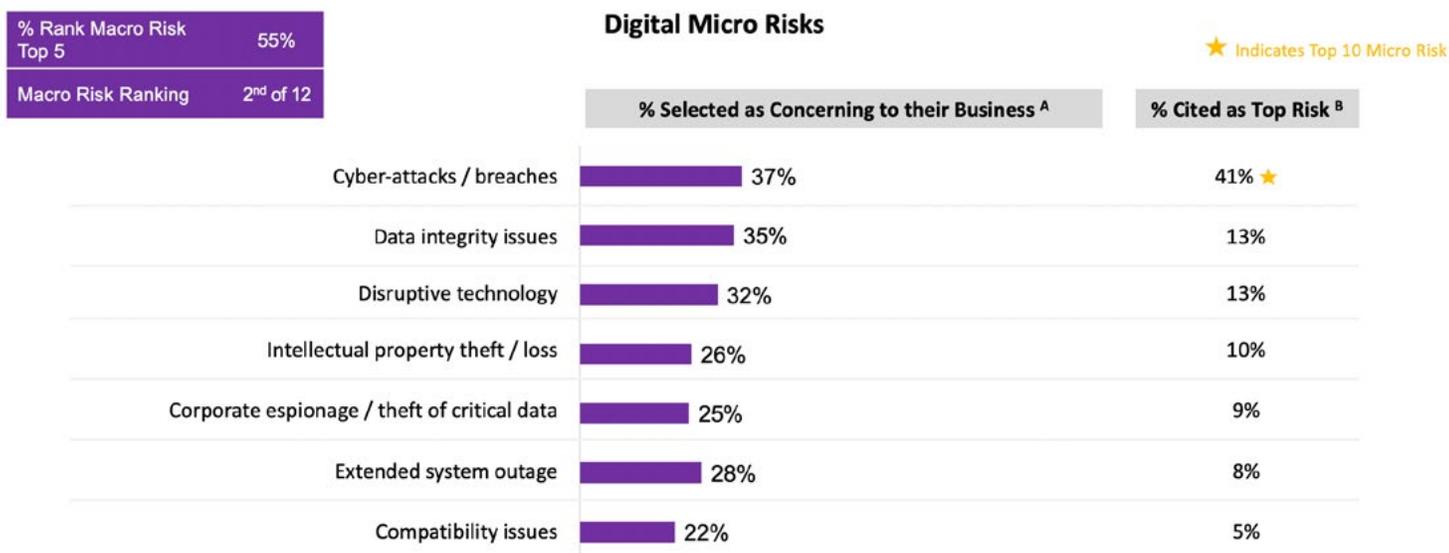


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Among digital risks, cyber attacks/breaches is considered the biggest concern. Digital integrity, disruptive technology issues and loss of intellectual property also rate high on the list. While extended system outages and compatibility are not cited as top risks, over 25% of businesses list them as concerning, illustrating the overall level of concern related to digital risks.

Which of the following specific digital risks concern you?

Which do you consider to be the most concerning risk to your business?



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An increasingly litigious society and social inflation are adding stress and financial pressure for many businesses. Among risks related to litigation, customer lawsuits and insurance disputes are of greatest concern. However, customer lawsuits stand out with 23% citing it as a top risk.

Which of the following specific risks related to litigation concern you?
Which do you consider to be the most concerning risk to your business?

% Rank Macro Risk Top 5	33%
Macro Risk Ranking	10 th of 12

Litigation Micro Risks

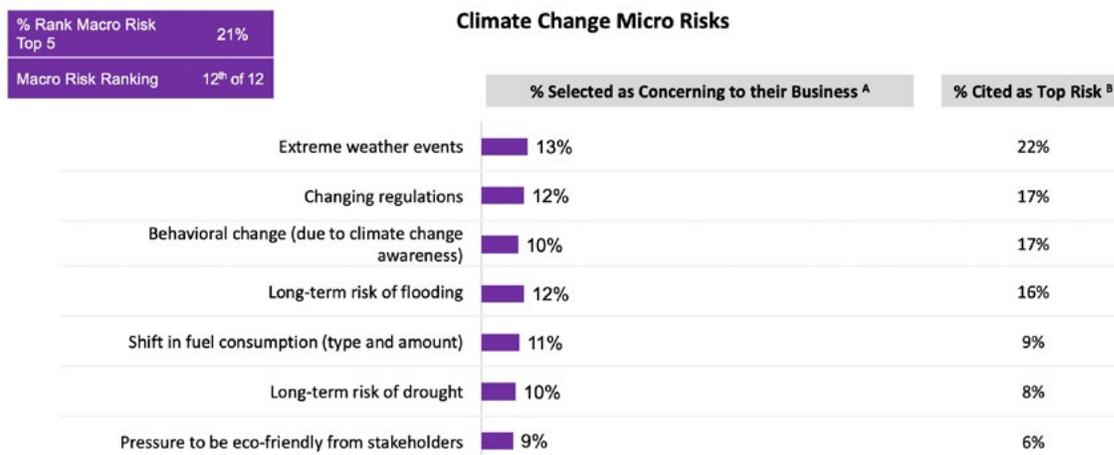
	% Selected as Concerning to their Business ^A	% Cited as Top Risk ^B
Customer lawsuits	18%	23%
Insurance disputes	16%	18%
Breach of contract	16%	16%
Trade secret disputes	13%	15%
Partnership disputes	12%	9%
Breach of fiduciary duty	14%	7%
Wage / hour violations	12%	6%



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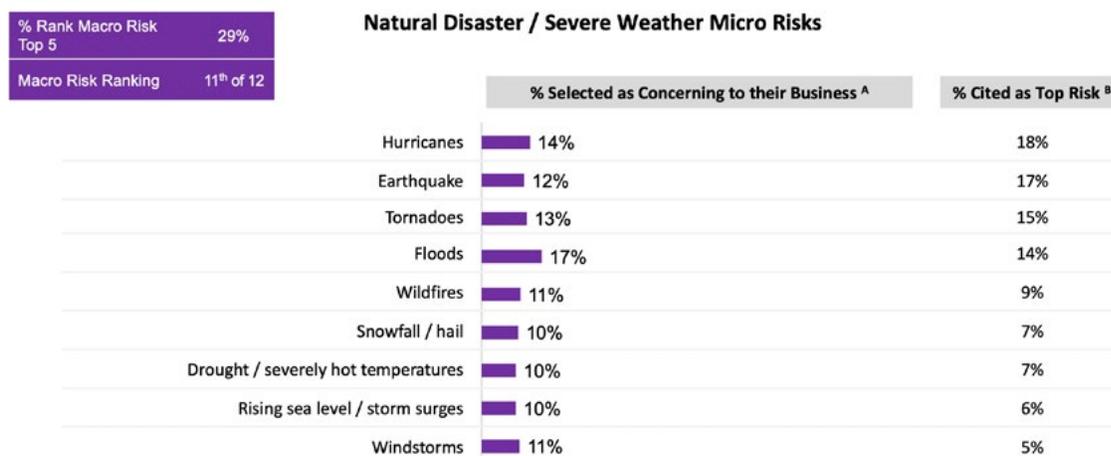
When considering risks related to climate change, extreme weather events are most concerning. These unpredictable events can interrupt business operations, cause loss of power, property damage and even endanger employees. While we can't prevent extreme weather, knowing the risk is an important step toward resilience. Mid-sized businesses also express concern over changing regulations and general behavioral change due to climate change, though it's not as prominent as extreme weather.

Which of the following specific risks related to climate change concern you?
Which do you consider to be the most concerning risk to your business?



Among risks related to natural disasters or severe weather, hurricanes, earthquakes, tornados and floods are of comparable concern, mostly due to regional splits. Not surprisingly, businesses located in the Northeast (16%) and South (16%) are significantly more concerned about hurricanes than those in the West; businesses located in the South are significantly more concerned about tornadoes (17%) than those in the Northeast and the West; businesses located in the South are significantly more concerned about rising sea levels (13%) and drought (12%) than those in the Midwest; and businesses located in the Northeast selected floods (33%) as their top “natural disaster/severe weather” risk significantly more than those in the South and West did.

Which of the following specific risks related to natural disasters/severe weather concern you?
Which do you consider to be the most concerning risk to your business?



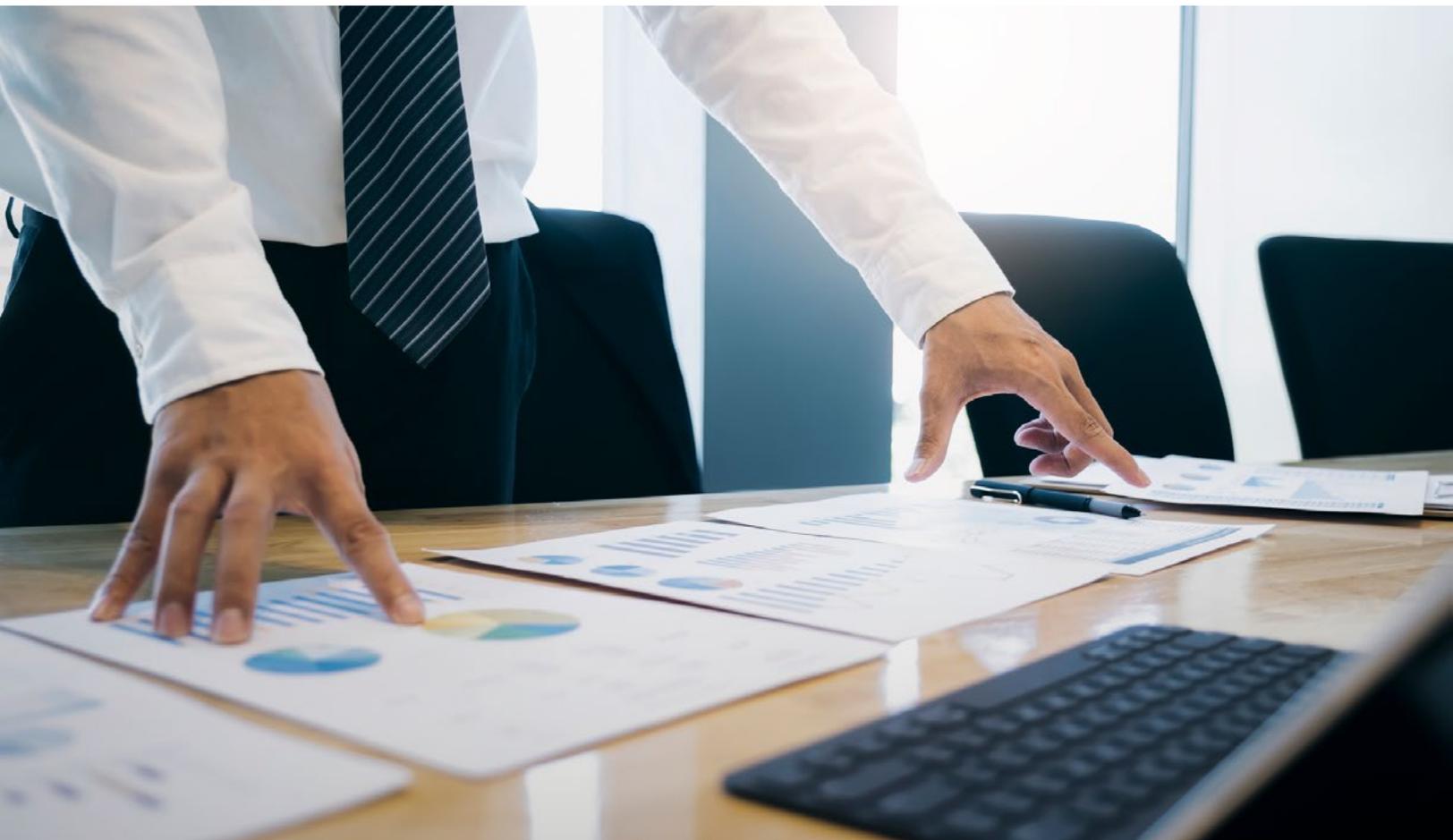
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The most concerning risk for mid-size businesses can vary by industry, however the research shows that the differences are not significant. Understandably, the finance/banking industry is more concerned with financial and reputational risks while retailers are more concerned about severe weather events.

Most Concerning Macro Business Risks by Industry

Ranked: % Top 5 Most Concerning		Most Concerned Industry			
Financial risk	65%	78% * - Finance / Banking	→		The finance / banking industry is significantly more concerned about financial risk than tech / computer services and retail / consumer goods
Digital risk	55%	57% - Tech / Computer Services			
Risk related to a pandemic	51%	57% - Finance / Banking & Manufacturing			
Business interruption risk	51%	58% - Healthcare	↗		The manufacturing industry is significantly more concerned about liability risk than tech / computer services
Liability risk	44%	49% * - Manufacturing	→		The finance / banking industry is significantly more concerned about reputational risk than healthcare
Reputational risk	40%	51% * - Finance / Banking	→		Tech / computer services is significantly more concerned about regulatory / legislative risk than manufacturing
Organizational risk	38%	45% * - Tech / Computer Services	↘		Retail / consumer goods is significantly more concerned about risk of natural disasters / severe weather than healthcare
Regulatory / legislative risk	37%	41% - Finance / Banking	→		Tech / computer services is significantly more concerned about risk related to climate change than manufacturing and finance / banking
Macroeconomic risk	35%	41% - Finance / Banking			
Risk of litigation	33%	39% - Healthcare			
Risk of natural disasters / severe weather	29%	40% * - Retail / Consumer Goods			
Risk related to climate change	21%	34% * - Tech / Computer Services			

* Significantly higher than at least one other key industry



Methodology

HawkPartners surveyed 303 decision makers at U.S. mid-sized businesses.

Method:

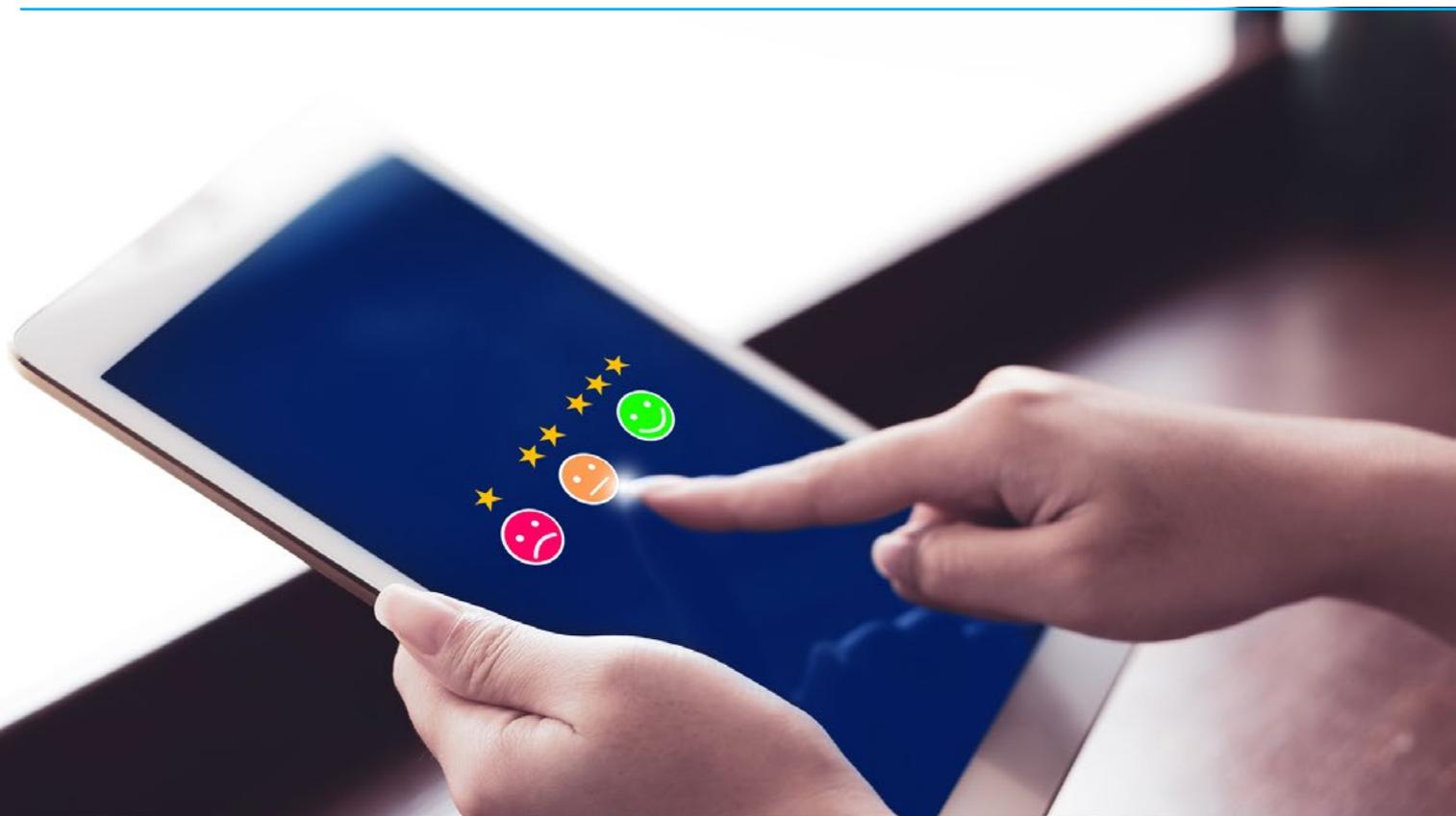
10-minute online survey conducted between June 24 - July 8, 2020.

Respondents were sourced from an online panel.

Key Screening Criteria:

- Business's annual revenue between \$200M - \$3B
- Title of Director or more senior
- Makes or has significant influence on decisions regarding managing business risk
- Work in target industry, including: construction, electronics, finance/banking, food and beverage, healthcare, hospitality, insurance, manufacturing, professional services, real estate, retail/consumer goods, technology/computer services, and wholesale/distribution
- Age 22 and older

		Completed Surveys
Business revenue	\$200-\$500M	104
	\$500M-\$1B	88
	\$1B-\$3B	111
Total		303



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HawkPartners is a full-service marketing strategy and market research firm that blends insightful customer research with distinctive marketing strategies for global leaders. We partner with Fortune 500 clients across the Americas, Europe and Asia to solve tough marketing challenges. Headquartered in Boston, the firm has offices in Chicago, New York, Philadelphia, San Francisco and Washington, DC.

About QBE North America

QBE North America is part of QBE Insurance Group Limited, one of the largest insurers and reinsurers worldwide. QBE NA reported Gross Written Premiums in 2019 of \$4.6 billion. QBE Insurance Group's results can be found at qbe.com. Headquartered in Sydney, Australia, QBE operates out of 27 countries around the globe, with a presence in every key insurance market. The North America division, headquartered in New York, conducts business through its property and casualty insurance subsidiaries. The actual terms and coverage for all lines of business are subject to the language of the policies as issued. QBE insurance companies are rated "A" (Excellent) by A.M. Best and "A+" by Standard & Poor's. Additional information can be found at qbe.com/us, or follow QBE North America on Twitter @QBENorthAmerica.

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