

FAILSAFE® FIRST-PARTY PRIVACY EXPENSE AND CYBER EXTORTION EXPENSE COVERAGE



GIVE YOUR TECHNOLOGY COMPANY ADDED PROTECTION AGAINST COMMON DATA RISKS.



The Hartford's first party data privacy expense coverage and cyber extortion expense coverage pay an insured's expenses related to data privacy wrongful acts they commit and extortion threats they receive from third parties. These coverages, which are available as endorsements to our FailSafe GIGA® and FailSafe TERA® technology liability policies, can provide coverage addressing this evolving issue for technology companies that's not addressed by third party technology professional liability (E&O) coverage.

Here are some claim scenarios that demonstrate the need for this coverage, providing the types of expenses the insured can incur as a result of a "data privacy wrongful act" or an "extortion threat."

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continued



SCENARIO 1

Type of claim First-party data privacy loss – cyber extortion expenses

Policy type FailSafe GIGA or FailSafe TERA with first-party data privacy endorsement

Issue Cyber extortion threat

Type of insured Hosting/connectivity service provider

Facts A company provides customers with hosting and connectivity solutions, including Internet access, hosted environments for internal and external facing websites, hosted application services, etc. Access is restricted to authorized users through assigned user identification with user-controlled passwords.

Situation: The company receives a threat from an unknown third party that will cause an interruption of the company’s network and unauthorized access to the data stored on the company’s servers. After investigating the threat, it’s determined that the threat is credible and the company makes an extortion payment to the person or group making the threat.

Challenge: The cyber extortion threat results in the following expenses for the company:

- **\$25,000 cyber extortion expenses**

Resolution The total first-party expenses incurred by the service provider were \$25,000.

SCENARIO 2

Type of claim First-party data privacy loss – notification, data privacy regulatory, credit monitoring, and crisis management expenses

Policy type FailSafe GIGA or FailSafe TERA with first-party data privacy endorsement

Issue Breach of data privacy laws due to disabled security elements

Type of insured Computer hardware manufacturer

Facts A computer hardware firm manufactures network connectivity products and sells them online to customers. As part of the online transaction, nonpublic personal information is collected from customers and stored on the hardware firm’s servers, which contain over 20,000 individual records.

Situation: While conducting maintenance on the company’s network, the security elements are disabled to allow applicable changes required for the network. When the network is brought back online, the security elements are inadvertently left in the disabled mode. The network is left unprotected for a period of 30 days. Although there’s no evidence of a breach to the network or a compromise of the 20,000 individual records, the company has violated data privacy laws in several states and is required to notify all affected individuals of the possibility that their personal information has been exposed.

Challenge: Even though the hardware firm doesn’t receive any allegations from third parties for damages, the data privacy wrongful act results in the following expenses for the hardware firm:

- **\$300,000 in notification expenses** required to comply with applicable notification laws as a result of the data privacy law violation
- **\$700,000 in credit monitoring expenses** for individuals impacted by the breach in their nonpublic personal information
- **\$300,000 in legal expenses** in the defense of a data privacy regulatory proceeding that occurs as a result of the incident
- **\$75,000 in crisis management expenses** associated with the use of a crisis management firm to minimize the potential harm to the hardware company from the data privacy wrongful act

Resolution The total first-party expenses incurred by the hardware manufacturer were in excess of \$1.3 million.



SCENARIO 3

Type of claim First-party data privacy loss - notification, credit monitoring and cyber investigation expenses

Policy type FailSafe GIGA or FailSafe TERA with first-party data privacy endorsement

Issue Improper dissemination of nonpublic personal information

Type of insured Software developer

Facts A software developer manufactures and distributes workforce management software that allows third parties to track employee hours, overtime, vacation time and compiles information for payroll processing. The software is offered on a “Software as a Services” (SaaS) model that allows the developer to provide customers with access and use of the applications through a hosted environment, including storage of customer data on a server controlled by the developer.

Situation: Unauthorized access to this data results in the improper dissemination of nonpublic personal information for 1,000 individuals and violates data privacy laws in several states.

Challenge: Although the software developer doesn’t receive any allegations from third parties for damages, the data privacy wrongful act results in the following first-party expenses for the developer:

- **\$15,000 in notification expenses** required to comply with applicable notification laws as a result of the data privacy law violation
- **\$35,000 in credit monitoring expenses** for individuals impacted by the breach in their nonpublic personal information
- **\$7,500 in cyber investigation expenses** to hire a company to investigate the cause of the security breach

Resolution The total first-party expenses incurred by the software developer were in excess of \$50,000.

SCENARIO 4

Type of claim First-party data privacy loss - notification and credit monitoring expenses

Policy type FailSafe GIGA or FailSafe TERA with first-party data privacy endorsement

Issue Lost data tape

Type of insured Custom software developing and consulting

Facts A software consultant firm provides advice and services related to the implementation of database software applications. They also provide logistics applications used by businesses to manage their operations, including reporting tools. Additionally, the company provides data transfer services, which may include the handling and use of data tapes.

Situation: When working on a recent project, the company receives a backup copy of customer data on magnetic tape. After completing the project, it's discovered that this backup data tape:

- Included nonpublic personal information for thousands of individuals
- Cannot be accounted for

Challenge: Although the hardware firm doesn't receive any allegations from third parties for damages, the data privacy wrongful act results in the following expenses for the software consultant firm:

- **\$30,000 in notification expenses** required to comply with applicable notification laws as a result of the data privacy law violation
- **\$70,000 in credit monitoring expenses** for individuals impacted by the breach in their nonpublic personal information

Resolution The total first-party expenses incurred by the custom software developer were \$100,000.

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The scenarios summarized herein are offered only as examples. Coverage depends on the actual facts of each case and the terms, conditions, and exclusions of each individual policy. Please refer to the policy to determine all terms, conditions, exclusions and limitations of coverage. Coverage is provided by the property and casualty companies of The Hartford Financial Services Group, Inc. and may not be available to all insureds in all states. All information and representations herein are as of April 2016.

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