



## 1ST PARTY AND 3RD PARTY CYBER RISKS ARE NOT THE SAME

Companies are turning to cyber insurance to cover the high cost of a cyber breach and the possible added expense of a ransom payment.

However, cyber insurance is proving to be a higher risk for insurers than previously thought due to the increasing number of attacks, the sophistication of attacks, and ransomware. Insurers have responded by raising premiums and putting more exclusions in policies.

It is important that every purchaser of a cyber policy understand what is included and what is excluded.

One category of exclusions that many purchasers don't understand is the difference between first- and third-party risks.

Let's begin with the definitions. First-party risks are the risks that directly affect your business or organization. For instance, a cyberbreach of your company is a first-party risk as the event directly affected you.

Third-party risks are risks where your company or organization is indirectly affected. For instance, if your cloud provider or business partner gets breached and your information they hold is compromised. Since you weren't breached this is not a first-party risk.

Another type of third-party risk is if a business partner claims damages for expenses incurred by them due to your breach. In this case your company was breached and that is first-party risk. But the business partner damages are indirect or third-party risks.

In all of these cases you will incur costs. If you were the one breached, the costs will be for restoring IT systems and communicating with affected parties and law enforcement, and possibly regulators. If the breach was a ransomware attack, there is the cost of the ransom, if paid. As these are first-party risks the costs should be covered by cyber insurance up to the limits of the policy. Ransoms may be excluded by some insurers.

If the breach was a business partner or a third-party is suing you for the damages they incurred from your breach, that is third party risk. In either of these cases, you will still have expenses.

However, unless your cyber policy includes third-party risks, none of these expenses will be covered.

The lesson is read your policy carefully before signing. Know what is covered and what is not covered. Breaches and their associated costs are enough of a surprise. Avoid additional ones of being told your costs are not covered.

Want to learn more about cyber security and education, contact AIM Cyber at [info@AIMglb.com](mailto:info@AIMglb.com) or call (888) 773-1920.