

Corporate Liability for Cyber security Failures and Data Breaches in the Legal Entity

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DECLARATIONS

Ethical Statement:

This research was conducted in accordance with the COPE Core Practices and principles of academic integrity, transparency, and responsible research.

Data Availability Statement:

Data supporting this study are available from the corresponding author upon reasonable request, where applicable.

AI Declaration:

The authors acknowledge the use of AI tools in conducting and preparing this research and remain fully responsible for its content, accuracy, and originality.

Conflict of Interest Statement:

The authors declare no conflicts of interest.

Funding Statement:

The authors received no funding for this research.



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Abstract

Data breaches now expose millions of people to fraud, identity theft, and loss of privacy. Companies hold vast amounts of personal data, yet the law remains unclear about who answers when security fails. This uncertainty affects victims, directors, investors, and regulators in developing systems. This study aims to examine the cyber security duties of companies and their directors. It also explains how liability should be shared within the corporate entity. The research follows a qualitative design using doctrinal and document analysis. It examines data protection, cyber security, and corporate laws alongside European and American models. The results show that cyber security has become a core corporate duty shared with directors through oversight. Liability shifts to individuals who ignore warnings, while recognized frameworks define reasonable care. Victims still face serious barriers to compensation. The study recommends clear statutory duties, board disclosure rules, and a direct right to compensation. Strong accountability protects data and trust.

Keywords: Corporate Liability, Cyber security Governance, Data Breaches, Board Oversight, Director Liability, Standard of Care, Victim Compensation

How to Use Cite (APA 7th Edition)

Utkirovich, R. (2026). Corporate Liability for Cyber security Failures and Data Breaches in the Legal Entity. *Uzbek Journal of Law and Digital Policy*, 4(5), 150-170. <https://doi.org/10.59022/IRSHAD-ujldp.6>

Authors Contribution:

Full.

I. INTRODUCTION

In 2017, Yahoo confirmed that a single breach had exposed all three billion of its user accounts. That disclosure shocked investors, regulators, and ordinary users across the world. It also raised a hard legal question about who should legally answer for such massive failures. Companies now hold vast amounts of personal, financial, and commercial data. A single weak password or unlatched system can expose millions of people to harm. Victims may suffer identity theft, financial loss, and lasting damage to their privacy. The company itself may face lawsuits, regulatory fines, and a sharp fall in share value. Directors and officers increasingly find their own conduct under legal scrutiny after such events. Corporate liability for cybersecurity failures has become a central issue in modern business law and corporate governance. The Yahoo case shows how courts may now judge the cyber security standard of care owed by corporate leaders (Trautman & Ormerod, 2017).

Corporate liability grew from older rules that held companies responsible for acts of their agents. Courts later applied negligence and contract principles to companies that failed to protect customer information. The rise of the internet turned data into one of the most valuable corporate assets. Governments responded with data protection laws that impose duties on organizations handling personal data. The European Union adopted the General Data Protection Regulation in 2016 with heavy financial penalties. Pakistan enacted the Prevention of Electronic Crimes Act in 2016 to address serious cyber offences. The Companies Act 2017 also sets out the general duties of company directors. Most early studies examined breaches through technical or financial lenses rather than legal ones. Few studies asked how corporate law should assign responsibility within the legal entity itself. Research on governance shows that board structure and social responsibility influence the likelihood of data breaches (Lending et al., 2018).

Scholars already agree that companies owe some duty to protect the data they collect. Regulators also accept that serious breaches can justify fines and corrective orders. The exact scope of that duty remains uncertain in many legal systems. Courts differ on whether liability rests with the company, its directors, or both. Some laws punish breaches without asking whether the company acted carefully. Other laws require proof of negligence, which victims often find difficult to establish. Pakistan still lacks a comprehensive data protection statute that clearly defines corporate responsibility. The precise problem is the absence of a clear legal standard for corporate cyber security liability. We still need to know what level of care the law expects from companies and their boards. We also need to know how victims can obtain fair compensation after a breach. Board oversight plays a decisive role in reducing cyber security risk and preventing data breaches (Liu, 2026).

Recent studies show growing attention to the legal exposure of corporate boards after cyber attacks. One stream of research tests how people judge directors when a company suffers a breach. Experimental findings reveal that a prior attack makes directors appear more responsible for later incidents. Evaluators expect boards to learn from earlier failures and strengthen their defenses. The adoption of a recognized cyber security framework can

reduce the blame placed on directors. Such frameworks signal that the board took reasonable steps to manage known risks. This finding links cyber security standards directly with legal ideas of reasonable care. It suggests that voluntary frameworks may shape how courts and juries assess board conduct. Companies may adopt formal standards partly to shield themselves from liability. The American Institute of Certified Public Accountants offers one such framework. A prior attack and the use of such a framework both shape perceived board liability (Frank et al., 2021).

Other recent work examines the personal liability of company directors under data protection law. Directors traditionally enjoyed protection because the company forms a separate legal person. Data protection laws now challenge that protection in several important ways. Regulators can investigate directors who ignore clear warnings about security weaknesses. Shareholders may also bring claims against boards that fail to supervise cyber risk. Courts in some countries have begun to accept such derivative claims. Insurance policies for directors and officers often exclude certain cyber losses. This gap leaves individual directors exposed to serious personal financial consequences. The literature agrees that boards must treat cyber security as a core governance duty. It disagrees on whether personal liability improves security or merely shifts blame. Some writers fear that strict personal liability may discourage capable people from serving on boards. Directors face growing liability for data breaches under modern data protection regimes (Wright & Pilavci, 2021).

The reviewed literature offers strong insight into board duties, governance, and perceived blame. Studies on Yahoo, board oversight, and director liability provide valuable analysis. Most of this work focuses on the United States, the United Kingdom, and the European Union. Very little research examines corporate cyber liability in Pakistan or other developing economies. Existing studies also treat the company and its directors as separate subjects of liability. Few explain how responsibility should be shared within the legal entity as a whole. Reliable data on breach costs and legal outcomes remains scarce in many regions. Scholars call for better data and clearer legal models for future work. This study responds by building an integrated model of corporate cyber liability. It also tests that model against Pakistan's emerging legal and regulatory landscape. A systematic review confirms that limited data availability still weakens research on cyber risk and cyber security (Cremer et al., 2022).

1. To examine the legal duties that companies and their directors owe to protect data from cyber security failures.
2. To analyze how liability for data breaches is allocated between the legal entity, its board, and its officers.
3. To propose a clear legal standard of cyber security care suited to Pakistan's emerging data protection regime.

How should the law define and allocate liability for cyber security failures and data breaches within a corporate legal entity, and what standard of care should apply to companies and their directors in Pakistan?

This study is needed because data breaches now threaten individuals, businesses, and national security. It offers a clear model that connects corporate duties, director responsibility, and victim compensation. Scholars gain fresh knowledge on cyber liability in a developing legal system. The research also bridges corporate law, data protection law, and tort principles. Judges can use its findings to define reasonable cyber security care in future civil disputes. Legislators may draw on its proposals when finalizing Pakistan's data protection legislation. Regulators such as the Securities and Exchange Commission of Pakistan can set clearer governance standards. Company boards will gain practical guidance on managing cyber risk and avoiding liability. Customers and employees benefit when companies face real consequences for careless data handling. Insurers can also price cyber risk more accurately when legal rules become clearer. Comparative work on civil liability for cyber harm shows how different legal systems hold corporations responsible (Sangina, 2024).

II. METHODS & METHODOLOGY

This study uses a qualitative design because corporate cyber liability turns on legal duties, judicial reasoning, and regulatory policy. Such a design allows close reading of statutes, court rulings, and governance rules. The Uzbek laws examined include the Law on Personal Data of 2019 and the Law on Cyber security of 2022. The Civil Code and the Law on Joint-Stock Companies and Protection of Shareholders' Rights also form part of the sample. Criminal Code provisions on offences in the field of information technology receive attention as well. Law No. ZRU-1115 of 2026 on digital governance is reviewed as an emerging reform. Foreign sources include the General Data Protection Regulation and the Network and Information Security Directive 2. Uzbek legislation is obtained from the official national legislation database lex.uz. European instruments are drawn from eur-lex.europa.eu. Search terms include corporate liability, data breach, cyber security governance, board oversight, director liability, and standard of care.

Careful steps keep the sources accurate and dependable. Academic literature comes from peer-reviewed journals indexed in the Scopus database. Studies published within the last five years receive priority in the analysis. Older works appear only where they explain foundational ideas such as oversight duties or cyber risk economics. Each author is checked for academic standing as a university professor, researcher, or legal scholar. Every article is verified through its Digital Object Identifier before use. Claims made in each source are cross-checked against primary legal texts. All Uzbek statutes and regulations are reviewed in their current amended form. Doctrinal analysis forms the main method of this research. It examines statutory duties, court decisions, and the reasoning that connects breaches with liability. Document analysis supports this method by reviewing scholarly articles, regulatory guidance, and enforcement reports. Together, these methods link corporate duties, director responsibility, security standards, and victim remedies within one structure.

The research relies only on official documents and scholarly material that are publicly available. No surveys, interviews, or questionnaires were used, so no personal or identifying data was collected. Every scholarly source used in the study carries a proper in-text refer-

ence. This practice credits original authors and protects academic integrity. The researcher has no conflict of interest and conducts the study purely for academic purposes. The scope centres on Uzbek corporate and cyber law, with European and American law as main comparators. Selected examples from Australia and the United Kingdom support the comparative analysis. The study excludes state-sponsored cyber warfare and focuses on civil and regulatory liability of companies. Certain conditions remain beyond the researcher's control. Cyber threats and security technologies change rapidly and unpredictably. Lawmakers and regulators in Uzbekistan may amend relevant rules at any time. New court decisions may also reshape the liability principles discussed in this study.

III. RESULTS& FINDINGS

This section sets out what the study found about corporate liability for cyber security failures. The research asked how the law should define and share liability within a corporate legal entity. It also asked what standard of care should guide companies and their directors in Pakistan. Five connected findings respond to these inquiries in a clear logical order. The opening finding shows that cyber security has become a core legal duty of the company. The next one explains why directors now owe a personal duty to oversee cyber risk. Another finding reveals how liability shifts toward individuals who ignore clear warnings. Recognized security frameworks then appear as the measure of reasonable care. The final finding exposes the barriers victims face when they seek compensation after a breach. These results move from duty to responsibility, standards, and remedies. Boards must now treat data privacy as good business stewardship rather than mere compliance (Warner, 2024).

The analysis shows that protecting data is no longer a voluntary business choice for companies. Modern data protection laws now treat security as a binding legal obligation of the entity itself. Article 32 of the General Data Protection Regulation requires appropriate technical and organizational security measures. Article 83 allows fines of up to four percent of global annual turnover for serious failures. British Airways and Marriott received heavy fines from the United Kingdom regulator in 2020. Both cases involved weak security systems that exposed the records of millions of customers. Pakistan's Prevention of Electronic Crimes Act 2016 also places duties on service providers holding data. The law now expects every company to anticipate attacks rather than merely react to them. This finding answers the first objective by placing cyber security within core corporate obligations. A company that ignores basic safeguards may be found negligent under modern data protection rules (Alnasser, 2025).

The results reveal that cyber risk now falls within the oversight duties of company directors. Boards can no longer leave cyber security entirely to technical staff or outside service vendors. Delaware courts recognized a director duty of oversight in the Caremark decision of 1996. *Marchand v Barnhill* in 2019 confirmed that boards must monitor mission-critical risks in good faith. Many scholars now treat data security as one of those mission-critical risks for modern companies. Section 204 of Pakistan's Companies Act 2017 requires directors to act with due care and diligence. That general duty can extend to supervising how a

company protects sensitive personal data. Directors must ask questions, receive reports, and respond to warning signs about cyber threats. This finding answers the first objective by extending cyber security duties to individual board members. Scholars argue that redefining corporate liability can push leaders to solve the information security and privacy crisis (AllahRakha, 2024).

The study finds that liability often moves toward individuals when they ignore clear warnings. Courts and regulators look closely at what executives knew before a breach occurred. Uber's former security chief was convicted in 2022 for concealing a 2016 data breach. Regulators in the United States also charged a chief information security officer after the Solar Winds attack. These cases show that personal exposure grows when leaders hide or downplay known security risks. The entity still bears primary liability for fines and compensation to victims. Individuals face added risk when their own conduct shows bad faith or deliberate neglect. India's Digital Personal Data Protection Act 2023 allows penalties of up to two hundred fifty crore rupees. This result answers the second objective by showing how liability is shared within the legal entity. Indian scholars note that corporate liability under that Act still faces serious legal and regulatory challenges (Sakaly, 2026).

The analysis shows that recognized security frameworks increasingly define what reasonable care means in law. Courts and regulators rarely write detailed technical rules for every company. They prefer to measure conduct against widely accepted industry standards. The National Institute of Standards and Technology released version 2.0 of its Cyber security Framework in 2024. The international standard on information security management received a major update in 2022. The State Bank of Pakistan issued a technology governance and risk management framework for financial institutions. Banks that follow such frameworks can show that they took reasonable steps against attack. Firms ignoring them may struggle to defend themselves after a breach. This result answers the third objective by linking legal duty with practical security standards. Financial institutions face particularly strict scrutiny because they hold highly sensitive customer data. Financial services institutions bear clear legal responsibility when personal data leaks through weak security controls (Kristanto, 2026).

The research shows that victims of data breaches often struggle to win compensation in court. Many victims cannot prove that a specific breach caused their actual financial loss. Stolen data may circulate for years before anyone misuses it. Courts in the United States require concrete harm before a victim can sue. *TransUnion v Ramirez* in 2021 narrowed standing for people whose data was merely exposed. The United Kingdom Supreme Court rejected a mass claim for loss of control in *Lloyd v Google*. Article 82 of the General Data Protection Regulation allows compensation for non-material damage. Victims must still show some real harm linked to the breach. Pakistan offers no specific civil remedy for data breach victims outside general tort principles. This result answers the research question by exposing a serious gap in victim protection. Corporate liability regimes for cyber security risks still give victims uncertain odds of recovering damages (Khawaldeh, 2026).

IV. DISCUSSION & ANALYSES

A. Cyber security has Become a Core Legal Duty of the Corporate Entity

This finding means that the company itself now stands as the first bearer of cyber responsibility. The study asked how the law should define liability within a corporate legal entity. The answer begins with the entity, because it collects, stores, and profits from personal data. Courts and regulators treat security failures as failures of the company, not merely of its machines. This view places data protection beside other basic corporate duties such as safety and honest accounting. A company cannot escape liability by blaming hackers alone. The law asks whether the company took reasonable steps before the attack occurred. Spending on security becomes a legal necessity rather than an optional cost. Economic studies show that firms often underinvest in protection until the law forces them to act. Attackers exploit every gap. Rational investment in cyber security depends on how much loss a company expects from a breach (Gordon et al., 2014).

This result carries real weight for companies, customers, and regulators in Pakistan. Large data holders such as banks, telecom firms, and hospitals face rising exposure. A joint inquiry in 2024 reported that records of millions of Pakistani citizens had leaked from official databases. Such incidents show that weak security can damage public trust in entire institutions. Customers expect companies to guard their identity numbers, bank details, and medical records. Investors also watch how firms respond, because breaches can reduce share prices sharply. Pakistan approved its National Cyber Security Policy in 2021 to strengthen national resilience. The policy signals that protection of data is now a matter of public interest. Companies that ignore this shift risk legal action, regulatory penalties, and lost business. Breaches can cost millions in fines and trade. Research on the costs of cyber incidents shows that breaches create measurable losses for firms and their stakeholders (Romanosky, 2016).

Statutes and enforcement records strongly confirm this finding. The European Union imposed a fine of 1.2 billion euros on Meta in 2023 under its data protection regime. Equifax agreed in 2019 to pay up to 700 million dollars after a breach affecting 147 million people. Regulators found that the company failed to patch a known software weakness for months. Such outcomes show that the entity bears direct financial liability for poor security. The Network and Information Security Directive 2 now covers many more European sectors since 2024. It requires essential and important entities to manage cyber risk through specific measures. Pakistan's Prevention of Electronic Crimes Act 2016 also sets duties for service providers that retain traffic data. These sources point in one clear direction. Penalties keep rising steadily. Good data governance and compliance with data protection rules now shape the scope of corporate liability for breaches (Bernardo et al., 2024).

This study relies mainly on statutes, enforcement actions, and published scholarship. It does not measure how many Pakistani companies actually meet security duties in daily operations. Many breaches in Pakistan are never reported to regulators or the public. Compa-

nies often hide incidents to protect their reputation and share value. This silence makes it difficult to judge how often entities face real liability. The research also draws heavily on European and American examples, which may not fit local conditions. Pakistani firms operate with smaller budgets and fewer trained security staff. Such conditions may make strict duties harder to meet in practice. Corporate structures also vary, from family-owned businesses to listed multinational groups. Each structure shapes how responsibility moves within the entity. Informal data handling remains common in many small and medium enterprises across Pakistan. Scholars note several legal peculiarities in regulating business entities and their liability for cyber incidents (Bichia, 2022).

Earlier studies agree that companies must protect the data they control. Some scholars argue that liability should rest mainly on the entity, not on individuals. Others believe that entity liability alone fails to change the conduct of decision makers. Fines paid by a company may simply pass to shareholders and customers. This concern pushes some regulators toward personal accountability for senior managers. Technology adds another layer because automated systems now make many security decisions. Artificial intelligence tools can detect threats, but they can also create new weaknesses. Legal systems have not yet decided who answers when an automated defense fails. The European Union's Artificial Intelligence Act of 2024 begins to address such risks. Liability may become unclear when machines act without direct human instruction. Courts will need new tests for this. Scholars now propose a new legal entity framework that links artificial intelligence with corporate liability for cyber security (Tache, 2025).

This finding gives clear direction to lawmakers, regulators, and company boards. Pakistan can enact a comprehensive data protection law that names security as a corporate duty. The law should require companies to report serious breaches within a fixed time. Regulators such as the Securities and Exchange Commission of Pakistan can audit security practices of listed firms. The State Bank of Pakistan can extend its technology rules to digital lenders and payment providers. Companies can appoint security officers who report directly to senior management. Regular risk assessments and staff training should become standard practice. Clear duties will help courts decide liability with greater certainty. Customers will gain confidence when they know companies must protect their data by law. Such reforms would place Pakistan closer to international standards and attract digital investment. Such rules should apply equally to public bodies that hold citizens' personal data. Evolving threats reshape entity liability (Antczak, 2026).

B. Directors owe a Personal Duty of Oversight over Cyber Risk

This finding means that cyber risk now sits on the board agenda, not only in the server room. The study asked how liability should be shared between the company and its leaders. Directors answer part of that inquiry through their duty to oversee major risks. They need not become technical experts, but they must stay informed. They should know where sensitive data lies and how well it is protected. They must probe management closely when reports reveal weak controls. Silence or blind trust in managers no longer satisfies the duty of

care. Boards that build reporting systems show good faith in managing risk. Boards that ignore the subject expose themselves to claims from shareholders. Directors who never ask about security cannot claim ignorance later. The law expects active and informed curiosity from them. Scholars describe several drivers and challenges that shape how boards govern cyber security from the boardroom (Gale, 2022).

This result matters for directors, shareholders, and regulators in Pakistan's corporate sector. Many Pakistani boards still treat cyber security as a technical matter for information technology staff. Few boards include members with real experience in digital risk. The Listed Companies Code of Corporate Governance Regulations 2019 require boards to oversee risk management. That general duty can include cyber threats that affect company survival. Shareholders may challenge directors who fail to discuss security at board meetings. Lenders and insurers also ask about board involvement before offering finance or cover. Strong board oversight can reduce the cost of capital and improve market reputation. Weak oversight may invite regulatory inquiry after a serious breach. Pakistani banks now face growing pressure from regulators to strengthen board-level risk reporting. This pressure will only increase further. Research identifies specific board roles that make information technology governance an effective mechanism for cyber risk oversight (Caluwe et al., 2024).

Court decisions and regulatory rules strongly confirm this duty. Delaware courts dismissed oversight claims against the Marriott board in 2021. The court found that directors had received regular reports on cyber risk. Solar Winds directors also escaped liability in 2022 because a reporting system existed. These rulings show that a working oversight system protects directors from personal claims. The United States Securities and Exchange Commission adopted cyber disclosure rules in 2023. Listed companies must now describe how their boards oversee cyber security risk. Australia's Federal Court found in 2022 that a financial firm failed to manage cyber risk adequately. The United Kingdom Corporate Governance Code 2024 also asks boards to declare the effectiveness of internal controls. Directors who build such systems gain strong protection against later shareholder claims. Courts rarely second-guess honest business judgment. Studies show that board-level committees play an important role in governing cyber risk and reducing liability (Rey, 2022).

This study draws mainly on court decisions from Delaware, Australia, and Europe. Pakistani courts have not yet decided a major case on director oversight of cyber risk. The research cannot show how local judges would apply the duty of care in such disputes. Board practices in Pakistan also differ widely between listed and private companies. Family-controlled firms may lack independent directors who challenge management. Board minutes are rarely public, so oversight practices remain hidden from researchers. Directors may also hold several board seats and lack time for detailed risk review. Such conditions weaken the practical force of oversight duties. The study does not measure actual board knowledge of cyber threats. Pakistani courts may look to foreign decisions when such disputes eventually arise. Local precedent remains very thin in this emerging area. Scholars

stress that board accountability remains central to the governance of cyber security and corporate liability (McGrath & O'Connor, 2021).

Earlier studies agree that boards must oversee cyber risk in some form. Writers differ on how strict that duty should become. Delaware law sets a high bar, protecting directors unless they act in bad faith. European law moves toward stronger duties for management bodies under recent directives. The Network and Information Security Directive 2 allows authorities to hold management personally liable for failures. This difference reflects distinct views on business judgment and public protection. Some scholars fear that strict duties may deter qualified people from joining boards. Others argue that only personal exposure will make directors take security seriously. Market pressure also shapes board conduct after highly publicized breaches. Pakistan's corporate law still follows the traditional business judgment approach in most respects. Future reform may move it much closer to recent European standards. Publicly announced security breaches can prompt changes in corporate governance and board structure (Cereola & Johnson, 2019).

This finding offers a practical guide for strengthening board oversight in Pakistan. Boards should place cyber security on the agenda of every regular meeting. Companies can form risk or technology committees with members who understand digital threats. Directors should receive clear reports on incidents, vulnerabilities, and response plans. The Securities and Exchange Commission of Pakistan can require disclosure of board oversight in annual reports. The Pakistan Institute of Corporate Governance can train directors on cyber risk. Insurers can reward strong oversight with lower premiums for directors and officers cover. Courts can then judge oversight claims by asking whether a reporting system existed and worked. Such steps would protect both companies and their directors from avoidable liability. Clear oversight duties would also build investor confidence in Pakistan's capital markets. Directors and shareholders would gain clearer expectations and protection. Strategic cyber security oversight has become an imperative for each board (Harel & Carmeli, 2025).

C. Liability Shifts from the Entity to Individuals when Warnings are Ignored

This finding means that personal liability depends largely on what leaders knew and how they acted. The study asked how the law should allocate liability within the legal entity. Warnings offer a clear dividing line between corporate and personal responsibility. An entity usually answers for ordinary security failures that no one could foresee. Individuals face exposure when they receive warnings and choose to do nothing. Hiding a breach from regulators or victims increases that exposure even further. The law treats such conduct as a personal choice rather than an organizational accident. This approach rewards leaders who act on internal reports and audit findings. It also discourages managers from silencing staff who raise security concerns. Courts look closely at emails, reports, and minutes to trace that knowledge. Written records often decide the final outcome. Decision makers often under invest in cyber security because of predictable errors in judging risk (Jalali & Siegel, 2019).

This result has serious meaning for executives, security officers, and employees in Pakistan. A manager who ignores repeated audit warnings may face disciplinary action or civil claims. Security officers who conceal incidents may face criminal investigation in some countries. Employees also carry responsibility when they ignore basic security rules at work. Phishing emails remain the most common entry point for attacks on companies. A single careless click can expose an entire corporate network. Companies need clear policies that assign duties to each level of staff. Pakistan established the National Cyber Crime Investigation Agency in 2024 to handle digital offences. That agency may examine individual conduct when breaches involve criminal activity. Security staff should feel safe when they report problems to their superiors. Fear of punishment often hides important warnings. Research shows that employee responsibility forms part of the wider intellectual capital that supports corporate cyber security (Renaud & Flowerday, 2019).

Enforcement records strongly confirm the shift toward individual liability. Equifax executives faced insider trading charges after selling shares before the breach became public. One former executive received a prison sentence in 2019. Target's chief executive resigned in 2014 after a breach exposed millions of payment cards. Capital One paid an 80 million dollar penalty in 2020 for weak risk management. Regulators criticized its leaders for failing to correct known control weaknesses. Australia raised maximum privacy penalties to 50 million dollars in late 2022. Those reforms followed major breaches at Optus and Medibank. Each case links personal consequences with ignored warnings or poor conduct. These examples come mainly from the United States and Australia. They show a clear trend toward holding leaders personally accountable. Pakistani regulators have not yet pursued similar cases against company executives. Firms with weaker social responsibility records show a higher chance of suffering data breaches (Rezaee, 2024).

This study focuses on high-profile cases that may not reflect ordinary corporate conduct. Most breaches never lead to personal charges or public findings of fault. Proving what an executive knew often requires internal emails and board records. Such documents rarely become public outside major litigation. The research cannot measure how often warnings are ignored inside Pakistani companies. Corporate culture also shapes whether staff feel safe reporting security problems. Hierarchical workplaces may discourage junior staff from challenging senior managers. Whistleblower protection in Pakistan remains limited for private sector employees. These conditions make personal liability harder to establish in local disputes. Many incidents also involve several actors, which makes blame harder to assign. Vendors and outside contractors often share some responsibility. Third-party software failures, such as the MOVE it attack in 2023, spread liability widely. Early studies of mandatory cyber security disclosure show how reporting duties can expose corporate and individual liability (Haapamäki, 2026).

Earlier studies agree that individuals should answer for deliberate concealment or reckless neglect. Writers differ on whether liability should extend to honest errors of judgment. Some argue that personal exposure improves security by sharpening attention at the top. Others warn that fear of blame may push leaders to hide incidents even more. This tension

explains why many laws protect good faith decisions by directors. Criminal liability remains rare and usually requires proof of intent or dishonesty. Civil liability may arise more easily through negligence or breach of fiduciary duty. Market forces also punish leaders through lost bonuses, dismissal, or damaged reputation. Lenders respond to breaches as well, raising borrowing costs for affected firms. Pakistani law has not yet settled where honest error ends and negligence begins. Courts will need careful legislative guidance. Banks price data breaches into loan terms, which links governance failures with financial liability (Li et al., 2020).

This finding gives clear guidance for companies, regulators, and lawmakers in Pakistan. Companies should create formal systems for recording and escalating security warnings. Boards should review whether managers responded to each serious warning in time. A future data protection law can impose personal penalties for deliberate concealment of breaches. Whistleblower protection should cover employees who report security failures in good faith. Regulators can require companies to name a senior officer responsible for data protection. Training can help staff recognize phishing and other common threats. Courts can separate honest mistakes from willful neglect when deciding personal liability. Such reforms would encourage openness rather than concealment after incidents. Clear rules on warnings would protect victims, companies, and careful managers alike. Companies could reward staff who detect and report weaknesses early. Such incentives would build a culture of shared security responsibility. Formal processes may create an illusion of control (Slapničar et al., 2025).

D. Recognized Cyber security frameworks define the Reasonable Standard of Care

This finding means that technical standards now shape the legal meaning of reasonable care. The study asked what standard of care should apply to companies and their directors. Recognized frameworks provide a practical answer to that inquiry. Judges cannot easily decide which firewall or encryption method a company should use. They can ask whether the company followed widely accepted industry practice. Frameworks translate complex technical choices into clear and measurable steps. A company that follows them can show that it acted reasonably before an attack. A company that ignores them may struggle to prove due care. This approach links private standards with public legal duties. Pakistani courts may adopt this approach when local disputes eventually arise. Such adoption would bring local law closer to global commercial practice. Directors also gain useful clarity. A recent meta-review supports building cyber security policy and corporate liability on sound empirical research (AllahRakha, 2023).

This result carries strong practical weight for banks, listed firms, and service providers. Companies need a clear benchmark to plan their security budgets and controls. Regulators need objective tests to judge whether a company met its duties. Insurers use frameworks to decide premiums and coverage for cyber policies. The Payment Card Industry Data Security Standard version 4.0 became fully mandatory in 2025. Banks and merchants handling card payments in Pakistan must meet its requirements. The State Bank of Pakistan also expects

banks to align with international security practices. Following such standards reduces the chance of attack and the risk of liability. Frameworks also help companies explain their security choices to courts and regulators. Companies without such benchmarks often spend money unwisely and without any clear direction. Clear benchmarks improve both technical security and legal certainty. Technology-driven risk governance now shapes financial reporting and cyber liability in American companies (Brakye, 2026).

Legislative reforms strongly confirm the legal role of security frameworks. Ohio passed a law in 2018 giving companies a defense if they follow recognized frameworks. Utah and Connecticut adopted similar safe harbor laws in 2021. These laws reduce liability for firms that maintain programmers based on recognized standards. The framework of the National Institute of Standards and Technology appears in many such statutes. International standards on information security management also qualify under these laws. Courts in negligence cases often refer to such standards when judging conduct. Expert witnesses explain whether a company met accepted practice before a breach. This pattern shows a growing bond between technical standards and legal duty. Companies in those states gain real incentives to adopt strong programmers. Reports suggest that more firms now pursue formal certification. Studies on cyber security breaches identify several core issues that shape corporate liability and reasonable security practice (Molitor et al., 2023).

This study examines frameworks mainly through statutes and published scholarship. It does not test whether Pakistani companies actually follow these standards in practice. Small and medium firms often lack resources to adopt complex frameworks. Certification under international standards can cost more than many local businesses can afford. The research also cannot show how Pakistani courts would treat compliance as a defense. Frameworks change often, which makes yesterday's best practice outdated quickly. A company may follow an older version and still face criticism after a breach. Compliance on paper may also differ from real protection inside the organization. Auditors sometimes check documents rather than actual technical controls. These gaps mean that framework compliance cannot guarantee freedom from liability. Pakistani regulators have not yet stated whether framework compliance offers any legal protection. That silence leaves companies unsure about the value of certification. Controls need integrated governance and compliance (Sringam & Wuttidittachotti, 2024).

Earlier studies agree that recognized standards help define reasonable security. Writers differ on whether compliance should provide a complete defense or only partial protection. Safe harbor laws in some American states offer strong protection to compliant firms. European law treats standards as useful guidance but keeps final judgment with regulators. This difference reflects distinct views on certainty and flexibility in regulation. Some scholars fear that safe harbors may reward box-ticking rather than real security. Others argue that clear defenses encourage firms to invest in recognized programmers. Private companies also act on their own to defend networks against attackers. Some firms even consider striking back at hackers, which raises serious legal concerns. Pakistani law has not yet chosen between these approaches. A balanced model could offer partial protection while keeping

strong regulatory oversight in place. Scholars describe a corporate liability paradox in private active cyber defense and international security (Broeders, 2021).

This finding offers a clear path for Pakistani regulators and companies. A future data protection law could recognize compliance with approved frameworks as proof of reasonable care. The State Bank of Pakistan can update its technology governance rules to match current international standards. The Securities and Exchange Commission of Pakistan can require listed firms to disclose which framework they follow. Simplified frameworks should support small businesses that cannot afford full certification. Regular independent audits should test real controls, not only written policies. Courts can rely on expert witnesses to explain whether a company met accepted practice. Such reforms would give companies a clear target and courts a fair test. Victims would also benefit from better security across the economy. Clear standards would reduce disputes and strengthen trust in digital services. Pakistan's growing digital economy makes such standards urgent. Transparent disclosure of cyber risk oversight builds strong investor trust (Ereddia, 2026).

E. Victims Face Serious Barriers in Proving Harm and Obtaining Compensation

This finding means that corporate liability often fails at the moment victims seek redress. The study asked how the law should allocate liability after cyber security failures. A liability system means little if victims cannot recover their losses. Many victims learn about a breach months after their data was stolen. They rarely know which company caused the leak when several firms hold their data. Proving a direct link between one breach and later fraud is extremely hard. Courts often demand clear proof of financial loss before awarding damages. Emotional distress and loss of privacy remain difficult to measure in money. These barriers leave many victims without any practical remedy. Many victims also feel powerless against large and wealthy companies with strong legal teams. They often give up long before filing any formal claim. The economics of cybercrime show how breach losses often fall on individuals rather than responsible companies (Kshetri, 2022).

This result matters for patients, bank customers, and ordinary internet users in Pakistan. Victims of data leaks may face fraud, harassment, or identity theft for years. Many cannot afford lawyers to pursue claims against large companies. Pakistan has no specific statute granting civil compensation for data breaches. Victims must rely on general tort principles or consumer protection laws. Health data breaches cause special harm because medical records reveal intimate details. The attack on Change Healthcare in 2024 affected records of over one hundred million Americans. Hospitals in Pakistan are also digitizing patient records without strong security rules. Such trends increase the risk of serious harm to vulnerable patients. Leaked health data can also lead to unfair discrimination in jobs and insurance. Such harm may last for an entire lifetime. Research on healthcare data privacy shows global difficulties under data protection law and corporate liability for breaches (Conduah et al., 2025).

Court decisions strongly confirm these barriers for victims. The Court of Justice of the European Union ruled in 2023 that non-material damage needs no minimum seriousness threshold. That ruling still requires victims to prove actual damage and a causal link. American courts continue to dismiss many claims for lack of concrete harm. Class actions sometimes succeed, but individual payments are often very small. Equifax victims received limited sums from a large settlement fund. Many claimants received far less than they first expected. Cyber insurance often protects companies rather than the people whose data was exposed. Insurers pay for legal defense, notification costs, and regulatory fines. Individual victims rarely receive any direct payment from such insurance. Their personal losses remain largely uncompensated in most cases. Settlement processes also take years to complete. Research on cyber risk insurance shows how insurance markets shape the allocation of cyber losses (Eling & Schnell, 2016).

This study relies on reported cases and published decisions from foreign courts. Pakistani courts have issued few judgments on compensation for data breach victims. The research cannot measure how many victims in Pakistan seek or receive redress. Many victims never report breaches because they do not know about them. Others fear that legal action will cost more than any possible recovery. Lack of digital literacy also prevents victims from recognizing misuse of their data. Court delays in Pakistan discourage people from pursuing small civil claims. Consumer courts offer faster procedures, but their power over data breaches remains unclear. Such conditions limit how far foreign lessons apply to local victims. Field research with victims and lawyers would give a fuller picture of real barriers. Rural citizens rarely know that their data has been exposed. Few lawyers in Pakistan specialize in data protection disputes. European rules increasingly shape such debates (Zhang, 2025).

Earlier studies agree that victims face difficulty proving harm after data breaches. Writers differ on whether the law should presume harm once data is exposed. Some argue that loss of control over personal data is itself a compensable injury. Others fear that presumed harm would flood courts with weak claims. European law moves toward easier recovery for non-material damage. American law remains stricter because of standing rules in federal courts. Arab legal systems often rely on general civil code rules on fault and damage. French law offers broad liability for harm caused by fault under its civil code. These differences show that victims' chances depend heavily on where they live. Pakistan's legal system draws on both common law traditions and Islamic principles of compensation. Both sources support broader recovery. A study across Arab, French, and common law systems reveals varied approaches to corporate liability for data breaches (Al Shuriedeh, 2026).

This finding offers clear steps to improve justice for breach victims in Pakistan. A future data protection law should grant a direct right to compensation for victims. The law should allow recovery for distress and loss of privacy, not only financial loss. Courts could presume some harm once sensitive data has been exposed through clear negligence. Representative actions could let consumer groups sue on behalf of many victims. Companies should notify affected people quickly so they can protect themselves. Regulators could create compensa-

tion funds financed by fines on careless companies. Consumer courts should receive clear power to hear data breach claims. Legal aid can help poor victims bring claims against large firms. Such reforms would turn corporate liability into real protection for ordinary citizens. Such steps would also push companies to invest more in prevention. European and Japanese approaches offer useful models for fairly compensating data breach victims (Milillo, 2025).

F. Implication

This study questions the traditional view that the separate legal personality of a company shields its leaders from cyber liability. It shows that duty, oversight, warnings, and recognized standards together decide who answers for a breach. This finding weakens the narrow business judgment approach, which protects directors unless they act in bad faith. It also supports scholars who treat cyber security as a core governance duty. Stronger accountability may improve security, yet it may also discourage capable people from joining boards. Pakistan could enact its long-awaited data protection law with clear duties, breach notification, and a direct right to compensation. The Securities and Exchange Commission of Pakistan could require listed firms to disclose board oversight of cyber risk. The State Bank of Pakistan could update its technology governance rules to match the 2024 framework of the National Institute of Standards and Technology. Courts could treat compliance with recognized frameworks as proof of reasonable care. Customers, employees, investors, insurers, and careful directors stand to gain the most. Weak reporting culture, scarce local precedent, and the recent leaks of citizens' records still create risks. The study rests on doctrine and foreign cases, so field data from Pakistani companies would strengthen its claims.

V. CONCLUSION

When hackers break into a company, the damage rarely stops at its servers. Customers lose privacy, investors lose value, and public trust in digital services weakens. This study explored who should carry legal responsibility when corporate cyber security fails. The issue matters because companies now hold more personal data than ever before. A single breach can expose millions of people to fraud and identity theft. Attackers now target hospitals, banks, and telecoms. Lawmakers worldwide are responding with stricter duties and heavier penalties. The European Union's Network and Information Security Directive 2 now reaches deep into corporate management. American regulators began requiring public disclosure of cyber governance in 2023. Developing economies such as Pakistan and Uzbekistan face the same threats with fewer legal tools. Their digital growth depends on rules that make companies protect what they collect. Corporate cyber liability has become a test of whether law can keep pace with technology.

The findings show that cyber security is now a core legal duty of the corporate entity. Fines against Meta, Equifax, and British Airways confirm that the company bears primary financial responsibility. Directors share that responsibility through their duty to oversee serious risks. Delaware rulings on Marriott and Solar Winds show that working reporting sys-

tems protect careful boards. Courts rarely punish directors who act honestly and attentively. Liability moves toward individuals when leaders ignore warnings or hide breaches. Recognised frameworks then give courts a practical measure of reasonable care. Safe harbour laws in Ohio, Utah, and Connecticut reward firms that follow such standards. Victims still struggle to prove harm and win compensation after a breach. These findings connect in one chain running from duty to oversight, accountability, standards, and remedy. Each link depends on the others to deliver real protection. Weakness at any point leaves victims exposed and companies uncertain about their obligations.

These findings offer a clear path for lawmakers, regulators, and company boards. Legislatures can define cyber security as an explicit corporate duty with fixed breach notification periods. Regulators can require listed firms to disclose how their boards supervise cyber risk. Courts can accept compliance with recognized frameworks as proof of reasonable care. A direct statutory right to compensation would help victims recover for distress and loss of privacy. Whistleblower protection would encourage staff to report security weaknesses early. Boards can form technology committees and receive regular reports on threats. Insurers could reward strong governance with lower premiums. Such steps would protect customers, employees, investors, and honest directors alike. Several issues still need deeper inquiry. Field studies could examine how local courts treat breach claims in practice. Researchers could test whether personal liability truly improves corporate security. Artificial intelligence, cloud services, and supply chain attacks will also raise fresh puzzles about responsibility.

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