NEW JERSEY SCHOOLS INSURANCE GROUP

CYBER LIABILITY FUND MEMORANDUM OF COVERAGE

1. **Recitals.** This Memorandum of Coverage is intended to set forth the terms of coverage for **New Jersey Schools Insurance Group** ("**NJSIG**") members that elect to participate in this cyber liability fund. Pursuant to N.J.S.A. 18A:18B-3(d), this is not a policy of insurance, but rather represents the terms and conditions of coverage for risk that has been retained by **NJSIG** on behalf of all members that elect to participate in this cyber liability fund. By participating in this cyber liability fund, these members have agreed pursuant to their executed trust and indemnity agreement and N.J.A.C. 11:15-4.2 to jointly and severally assume and discharge the liabilities of each and every other member arising from their participation in the cyber liability fund. The coverage provided pursuant to this Memorandum of Coverage is supplemental to the coverage provided pursuant to the insurance coverage provided by the Beazley Group under policy number V2EA39260601 (**Beazley Group policy**), and serves to partially fill in the member retention pursuant to endorsement ENJ017 of the **Beazley Group policy**. As such, this Memorandum of Coverage incorporates all terms and conditions of the **Beazley Group policy** by reference.

2. **Declarations.** The declarations for this cyber liability fund are set forth in the **Beazley Group policy**, which is incorporated by reference, including all limits, sublimits, per member annual aggregate and pool-wide annual aggregate. Notwithstanding the foregoing, the **Member's Deductible** per **Claim**, pursuant to the terms set forth in this Memorandum of Coverage, is as follows:

    a. Standard **Deductible**: $250,000

        i. Where the member **Deductible** is $250,000, in no event will **NJSIG** reimburse the **Member** more than $250,000 for a single **Claim**.

    b. Reduced **Deductible** for members that meet the **Cyber security controls criteria** at the time of a **Claim**:

        i. **Small or Medium Member:** $25,000

            1. Where the member **Deductible** is $25,000, in no event will **NJSIG** reimburse the **Member** more than $475,000 for a single **Claim**.

        ii. **Large Member:** $50,000

            1. Where the member **Deductible** is $50,000, in no event will **NJSIG** reimburse the **Member** more than $450,000 for a single **Claim**.

3. **Insuring Agreement.** The insuring agreement for this cyber liability fund is set forth in the **Beazley Group policy**, which is incorporated by reference. Notwithstanding the foregoing, and pursuant to endorsement ENJ017 of the **Beazley Group policy**, **NJSIG** agrees to reimburse the **Member** for **Loss** that is within the **Member's** retention under the **Beazley Group policy**, but is in excess of the **Member's Deductible** under this Memorandum of Coverage. Note, the Beazley Group policy is subject to an **Annual Aggregate Retention** that once met, means the Beazley Group policy will drop down to cover any loss in excess of the Member's Deductible.

Whether the **Member** meets the **Cyber security controls criteria** will be determined at the time of the investigation into the incident, event or related incidents or events giving rise to a **Claim** or **Loss** by **NJSIG**, in conjunction with the cyber forensic investigator retained pursuant to the **Beazley Group policy**. If the member meets the **Cyber security controls criteria**, they are eligible for a Reduced **Deductible** based on whether they are a **Small or Medium Member**, or a **Large member** based on annual revenue. If the **Member** is not eligible for a Reduced **Deductible**, the Standard **Deductible** will apply.

4. **Definitions.** The definitions are set forth in the **Beazley Group policy**, which are incorporated by reference. Any term not specifically defined below shall be defined by the **Beazley Group policy**. Any term not specifically defined below, and not defined by the **Beazley Group policy**, shall be given its generally accepted meaning in the information systems industry. Notwithstanding the foregoing, where used in this Memorandum of Coverage:

   a. **Air-gapped:** means an interface between two systems at which (a) they are not connected physically and (b) any logical connection is not automated (i.e., data is transferred through the interface only manually, under human control). An example of an air-gapped electronic data storage device is a universal serial bus flash memory storage device that is stored in a locked safe when not in use.

   b. **Annual Aggregate Retention:** means as defined in the Beazley Group policy and is the annual aggregate amount which **NJSIG** is responsible to pay before the **Beazley Group Policy** covers any **loss** incurred within a policy period that is in excess of the applicable **Member deductible**

   c. **Beazley Group policy:** means Beazley Insurance Company, Inc. policy number V2EA39260601

   d. **Claim:** means as defined in the **Beazley Group policy**.

   e. **Member's Computer System**: Means any computer and connected input, output, processing, storage, or communication device, or related network, operating system, website, or application software, that is under the operational control of, and owned by, licensed to, or leased to the Member.

   f. **Cyber security controls criteria** means:

      i. Any part of the **Member's Computer System** accessed by the perpetrator at the time of the incident, event or related incidents or events giving rise to a **Claim** or **Loss** was protected by at least one layer of **Multi-factor authentication** at the time of the incident, event or related incidents or events giving rise to a **Claim** or **Loss**; and

      ii. Each part of the **Member's Computer Systems** that were accessed by the perpetrator at the time of the incident, event or related incidents or events giving rise to a **Claim** or **Loss** was protected by **Endpoint protection** at the time of the incident, event or related incidents or events giving rise to a **Claim** or **Loss**; and

      iii. Each of the **Member's** employees that unintentionally committed an act that enabled the incident, event or related incidents or events giving rise to a **Claim** or **Loss** to occur had received **Information technology security awareness and training** within one year of the date on which the incident, event or related incidents or events giving rise to a **Claim** or **Loss** occurred; and

      iv. The **Member** maintained **Weekly data backups** that were **Air-gapped** from a network connection at the time of the incident, event or related incidents or events giving rise to a **Claim** or **Loss**, and the **Member** had successfully performed a test recovery from these data backups within six months preceding the incident, event or related incidents or events giving rise to a **Claim** or **Loss**.

g. **Weekly data backups:** means a complete, secure copy of all locally maintained files, programs, and system configurations that is created no less frequently than once every seven (7) calendar days. The scope of data encompassed within this definition includes all information and systems critical to a Member's normal business operations and continuity, such that, in the event of a cybersecurity incident, unauthorized encryption, or data loss, absent the existence of such weekly data backups, the Member would likely be compelled to pay a ransom to a threat actor or incur significant expense, operational disruption, or regulatory exposure to restore or regain access to the affected data. Examples of such critical data include, but are not limited to:

   i. Student education records (as defined at 20 U.S.C. § 1232g(a)(4) and 34 C.F.R. § 99.3), including personally identifiable information;

   ii. Student records and personally identifiable information (as defined at N.J.A.C. 6A:32-2.1);

   iii. Student academic and special education records;

   iv. Student health and medical data;

   v. Employee human resources and payroll systems data (including contracts, tax forms, direct deposit details, performance evaluations, and background check results);

   vi. Employee professional development and licensing/certification records;

   vii. Digital curriculum, instructional materials, and lesson plans;

   viii. Assessment and standardized testing data;

   ix. Accounting, budgetary, and procurement records (including accounts payable/receivable ledgers, purchase orders, and vendor contracts);

   x. Grant management and funding documentation;

   xi. Email archives and parent-teacher communications;

   xii. Virtual classroom recordings and discussion boards; and

   xiii. IT system configurations and network topologies (including Active Directory settings, firewall rules, and VPN configurations).

h. **Deductible:** means **Loss** that is covered under the **Beazley Group policy** and this Memorandum of Coverage that is retained by, and must be paid for by the **Member**.

i. **Endpoint protection:** means safeguards implemented through software to protect end-user machines, including but not limited to workstations, laptops, and mobile devices, against attack (e.g., antivirus, antispyware, anti-adware, personal firewalls, host-based intrusion detection and prevention systems, etc.).

j. **Fund:** means as defined by N.J.S.A. 18A:18B-1.

k. **Information technology security awareness and training:** means a program that explains proper rules of behavior for the use of Member information systems and information and communicates information technology security policies and procedures that need to be followed. An information technology security

awareness and training program must include: education to make the **Member's** employees aware of cybersecurity threats; training to educate the **Member's** employees on the appropriate procedures to respond to cybersecurity threats; and simulated cybersecurity attack testing to ensure the **Member's** employees respond in accordance with the established procedures. The simulated cybersecurity attack testing must include an employee phishing training program in which the **Member's** employees receive fake phishing emails generated by the **Member** or a third-party to teach the **Member's** employees to be vigilant and to recognize the characteristics of actual phishing emails.

l. IT Provider: Means an entity while under a written agreement with the Insured Entity to provide it with:

1. hosted computer application services;
2. cloud services or computing;
3. electronic data hosting, back-up, storage, and processing;
4. co-location services;
5. platform-as-a-service; or 6. software-as-a-service.

m. **Large Member:** means a **Member** that has annual revenue of greater than or equal to $100,000,000 based on the latest available Annual Comprehensive Financial Report (ACFR) submitted to the State of New Jersey, Department of Education by the **Member**.

n. **Loss:** means as defined in the **Beazley Group policy**.

o. **Member:** means the school entity identified as the named insured in the policy declaration issued by the New Jersey School Schools Insurance Group. Also known as a named insured in the **Beazley Group policy**.

p. **Multi-factor authentication:** means authentication using two or more factors to achieve authentication. Factors include: (i) something you know (e.g., password/personal identification number); (ii) something you have (e.g., cryptographic identification device, token); and/or (iii) something you are (e.g., biometric).

q. **New Jersey Schools Insurance Group (NJSIG):** means the school board insurance group, as defined by N.J.S.A. 18A:18B-1, otherwise known as an insurance pool, which was created by its constituent members on September 28, 1983.

r. **Pool-wide:** means all **Members** that elect to participate in this cyber liability fund.

s. **Retention:** means as defined in the **Beazley Group policy**.

t. **Small or Medium Member:** means a **Member** that has annual revenue of less than $100,000,000 based on the latest available Annual Comprehensive Financial Report (ACFR) submitted to the State of New Jersey, Department of Education by the **Member**.

5. **Exclusions.** The exclusions are set forth in the **Beazley Group policy**, which is incorporated by reference. Notwithstanding the foregoing, the coverage provided under this Memorandum of Coverage will not apply to any **Loss** that is not covered under the **Beazley Group policy**.

6. **Conditions.** The conditions are set forth in the **Beazley Group policy**, which is incorporated by reference. Notwithstanding the foregoing, the following additional conditions apply to the coverage provided pursuant to this Memorandum of Coverage

b. Shared Coverage.

i. **Generally.**

The **Beazley Group policy** and this Memorandum of Coverage is subject to an annual aggregate limit of liability which is provided on a shared and pool-wide basis. In the event of a **Claim** or multiple claims, it is possible that the annual aggregate limit of liability will be insufficient to fully indemnify the **Loss** as sustained by multiple members.

If the annual aggregate limit of liability is insufficient, the amount recoverable by each **Member** will be proportionally allocated as set forth below. As a result, a delay in the reporting of claims by any individual **Member** could reduce or eliminate such **Member's** recovery under the **Beazley Group policy** and this Memorandum of Coverage.

Furthermore, the annual aggregate limit of liability may even be exhausted or reduced by the prior payment of claims arising out of separate claims in the same policy term. As a result, it is possible that there may be no remaining limit available to pay a specific member's **Claim** under the **Beazley Group policy** and this Memorandum of Coverage.

ii. **Exhaustion; Proportional allocation.** If in the judgment of Beazley and **NJSIG** the total claims submitted under the **Beazley Group policy** and this Memorandum of Coverage appear that they will exceed the annual aggregate limit of liability which is provided on a shared and pool-wide basis:

1. Beazley and **NJSIG** will notify all members of the potential exhaustion.

2. All **Claim** payments will then stop until the July 1 following the expiration of the policy period.

3. If, as of July 1 following the expiration of the policy period, in the judgment of Beazley and **NJSIG** the total claims submitted under the **Beazley Group policy** and this Memorandum of Coverage no longer appear that they will exceed the annual aggregate limit of liability which is provided on a shared and pool-wide basis, Beazley and **NJSIG** will resume normal **Claim** payments.

4. If, as of July 1 following the expiration of the policy period, in the judgment of Beazley and **NJSIG** the total claims submitted under the **Beazley Group policy** and this Memorandum of Coverage continue to appear that they will exceed the annual aggregate limit of liability which is provided on a shared and pool-wide basis, Beazley and **NJSIG** will notify the members that submitted claims that remain outstanding for the completed policy term (hereinafter referred to as "outstanding claims") of the potential exhaustion, and provide these members with: a list of all outstanding claims, the estimated amount of each **Claim,** and the estimated remaining limits available.

5. All members with outstanding claims must submit all requests for reimbursement, proofs of **Loss** and any other demands under the **Beazley Group policy** and this Memorandum of Coverage by December 31 following the expiration of the policy period. Beazley, **NJSIG** and all members with outstanding claims must designate a physical and electronic mailing address for communications related to this exhaustion protocol.

6. Beazley and **NJSIG** will then provide the members with outstanding claims a list of outstanding claims, including the estimated total amount of **Loss** by **Claim**. Beazley and **NJSIG** will also provide the members with outstanding claims with an estimate of the remaining limits available under the **Beazley Group policy** and this Memorandum of Coverage. Beazley and **NJSIG** will also provide the members with outstanding claims with a proposed distribution schedule of the amounts by member to be distributed.

7. As to members with outstanding claims, each member with a **Claim's** percentage share of the remaining total outstanding **Loss** will be calculated by dividing the **Member's** outstanding **Loss** by the total outstanding **Loss** of all members.

8. As to members with outstanding claims, each member's proposed proportional allocation of the remaining limits will be the number calculated above, multiplied by the amount of remaining limits.

9. Members with outstanding claims have thirty days from the mailing of the proposed distribution schedule to submit a written objection to Beazley and **NJSIG**. The written objection shall contain a statement explaining the basis of the objection, as well as a proposed distribution schedule that would be acceptable to the member making the objection.

10. If no objections are filed, these amounts shall become final on the thirty-first day after distribution of the proposed distribution schedule, and payment shall promptly be made by Beazley and **NJSIG** to all members with outstanding claims.

11. If any objections are filed, all members with outstanding claims, including those that filed objections, shall appear at the next scheduled meeting of the **NJSIG** Board of Trustees to present the basis for their objection. Members may be represented by the designee of their choice. If a member does not wish to appear at the meeting of the **NJSIG** Board of Trustees, they may submit a written notification consenting to a distribution schedule agreed upon by the members that attend the meeting. If a member fails to appear at the meeting of the **NJSIG** Board of Trustees, that member shall be deemed to have consented to the distribution schedule agreed upon by the members that attend the meeting.

12. If the members with outstanding claims, Beazley and **NJSIG** are able to reach an agreement regarding the amended proposed distribution schedule, this agreement shall be reduced to writing, and distributed to all members with claims.

13. Members with outstanding claims have thirty days from the distribution of the amended proposed distribution schedule to submit a written objection to Beazley and **NJSIG**.

14. If no objections are filed, these amounts shall become final on the thirty-first day after distribution of the amended proposed distribution schedule, and shall be promptly paid by Beazley and **NJSIG** to all members with outstanding claims.

15. If any objections are filed to the amended proposed distribution schedule, Beazley and **NJSIG** shall promptly file an interpleader action in the Superior Court of New Jersey, Law Division in Burlington County, and a distribution schedule will be set in that action.

c. Subrogation. If any payment is made under this Policy and there is available to NJSIG any of the **Member's** rights of recovery against any other party, then NJSIG will maintain all such rights of recovery. The **Member** will do whatever is reasonably necessary to secure such rights and will not do anything after an incident or event giving rise to a **Claim** or **Loss** to prejudice such rights. If the **Member** has waived its right to subrogate against a third party through written agreement made before an incident or event giving rise to a **Claim** or **Loss** has occurred, then NJSIG waives their rights to subrogation against such third party**.**

d. **Other insurance.** The coverage under this Memorandum of Coverage will apply in excess of any other valid and collectible insurance available to the **Member** unless such other insurance is written only as specific excess insurance over this Memorandum of Coverage. This other insurance clause does not apply to coverage provided under the **Beazley Group policy**