Indian Economy · GS - III

Why should cybersecurity and data protection form an integral part of due diligence in mergers and acquisitions? Examine the legal, financial and reputational risks involved.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 28/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Cyber due diligence, personal data protection, Data Fiduciary, third-party vendors, inherited liabilities, regulatory compliance, risk mitigation

Model Answer

In mergers and acquisitions (M&A), a buyer does not merely acquire a company's assets and market position; it may also acquire exposure to its existing cybersecurity weaknesses and data protection liabilities. Therefore, conventional financial and legal due diligence must be supplemented by a comprehensive assessment of data governance.

Key areas requiring scrutiny:

1. **Cybersecurity infrastructure:** Assess network security, access controls, encryption, vulnerability management and incident-response mechanisms.

2. **Data protection compliance:** Examine the target's compliance with applicable laws, including the Digital Personal Data Protection Act, 2023, wherever applicable.

3. **Historical breaches:** Investigate previous cyberattacks, unresolved incidents, regulatory notices and pending litigation.

4. **Third-party exposure:** Review vendor contracts, data-sharing arrangements and security obligations of external service providers.

5. **Data governance:** Verify consent records, lawful processing practices, retention policies and mechanisms for handling data principal requests.

Risks of inadequate due diligence:

- Financial losses through remediation costs, compensation and penalties.
- Legal exposure arising from non-compliance and contractual obligations.
- Operational disruption caused by cyber incidents.
- Reputational damage and erosion of customer confidence.

Conclusion

Cyber and data due diligence should be treated as a strategic component of M&A rather than a routine technical exercise. Risk-based audits, contractual warranties, indemnities and post-acquisition security integration can help protect the buyer's investment and strengthen corporate accountability.

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