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The Marriages of Intellectual Property & Insurance

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Abstract:

The marriages of Intellectual Property and Insurance may sound a magical word for all those companies which are playing the game of intellectual property in their business. These companies manage their intellectual property under the guidance of IP management and an IP policy in the company. These companies earn a huge amount of money in this game; but there are also chances for the companies to face the risks ahead. These expected risks can be minimized to some extent, if the companies understand the meaning and the importance of this new term “Intellectual Property Insurance”.

In order to make the companies appreciate the depth significance of the term, the paper is written and the paper emphasizes the need of IP insurance in the business, the role of IP insurance in mitigating the risks involved in the business and the framework of IP insurance policy etc.

Keywords: Intellectual Property, Insurance, Intellectual Property Insurance

Paper Outline

1. Introduction
2. Inherent and Special Risks Attached with Intellectual Property
3. IP insurance as risk management strategy
4. Managing IP Portfolio
5. Frame work of IP Insurance Policy
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7. Sources of Intellectual Property Insurance
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Introduction

A patent itself is a kind of insurance. A patent, by definition, is an exclusive right granted by the government to make, use or sell the patented products. In other words, no one other than the patent-holder can manufacture or market the patented products. This appears to be a sort of insurance. However, with more and more firms entering the knowledge-based business and fighting hard to safeguard their interests and achieve their business objectives, insuring one's intellectual assets have now become an imperative and vital strategic business decision. Most companies, including well-established ones, may not want to use their stacked-up profits to fight any IP litigations that may arise during the course of their business. SMEs, that have comparatively weaker balance sheets, dread the idea of patent litigations. This, in turn, has an impact on their organic and inorganic growth, as well as on research and development, and hence on their revenues.

Inherent and Special Risks Attached with Intellectual Property

An idea may have more commercial value than from land, gold or any other subject matter, if it is exercised strategically and the best way to make an idea valuable is to protect it as Intellectual Property (IP). Intellectual Property is the product of thought, creativity or an idea. It grants exclusive rights over creative, inventive or innovative ideas to creators, authors and inventors for a limited period of time. Intellectual Property like any other existing assets in the company; needs strong protection. The risk attached with Intellectual Property is not only damages or loss but also may be as infringement. In today's business world Intellectual Property represents their most valuable asset as an earning source like licensing, franchise etc. Since, creation of intellectual property involves a huge amount of money and so; sometimes; in order to enforce the IP rights by the owner; may involve a huge amount of money as in litigation. If a company does not protect properly its assets as intellectual property; it can not take strong actions against its infringers. That's why it is advised to all small or big companies that manufactures or are involved in manufacturing or marketing of

new products or services in the market, may manage the associated risks by obtaining IP insurance.

IP insurance as risk management strategy

IP insurance is considered as an essential part of the risk management strategy of a company. The company may obtain IP insurance to protect its assets against lawsuits complained by its competitor. The IP Insurance may share the following risks or damages in unnecessary issues in a company; as follows:

- Legal expenses to defend the IP rights of the company or an individual;
- Legal expenses to enforce the IP rights;
- Legal expenses to defend the agreements;
- Damages awarded if the defense of a company is unsuccessful;
- Expert witness, enquiry and attendance expenses;
- Legal attorney fee; &
- Legal Damages like declaratory statements, injunctions and appeals.

Further, an invisible costs tolerated by a company may be like the stress on the employees and loss of the precious time & money of the company. The company's image and business may also be affected as its customers and investors lose their confidence when a lawsuit is filed in a company. All these costs may be managed by IP insurance. The IP Insurance may also cover directors, officers, employees, company, its subsidiaries, all products, and all patents like: utility, process, and design, trade mark etc.

Managing IP Portfolio

IP portfolio of a company is a part of a company's IP management strategy. IP portfolio is the collection of many patents, may be related or unrelated to each other. When a company manufactures the new products or uses new technologies to manufacture those products, the company simultaneously creates an IP portfolio to protect its products and technology from infringement

point of view i.e. the company must not infringe any already existing patent in the respective field. IP insurance is one step ahead in the management of IP portfolio. Effective management of intellectual property involves creating, maintaining, and safeguarding its patent portfolio. Apart from strategic planning of risk management, IP insurance may also play very important role here. After investing so much time, effort and money to create the IP, the company organizes an IP management strategy that implements a system to maintain that IP. This strategy is more important than just paying the registration fees to patent office and the strategy should be taken care of time to time.

Building an IP portfolio does not only mean to protect the assets of the company but may also to assist the company in attracting new investors & increase the probability of getting new collaborators in the business. Every big company must have an IP policy having the statement of principles concerning the management of IP and should be strictly followed by the staff members. This will be appropriate for a company to implement the IP policy at different stages of its development. An IP policy (a) emphasizes the importance of management and commercialization of IP; (b) provides an understanding of the strategic importance of IP assets in the scheme of all other assets of the company; & (c) gives guidance to staff about the processes involved in handling the IP. The IP policy may guide the company staff about the necessary actions to be taken time to time like: when and how to change or modify the IP; renewal of IP; how to use the IP as licensing tool & under which conditions it is to be used; how to enforce the IP; how to resolve the IP disputes; how and when to sell the IP, if it not being used by the company; what other IP protection sources may be; & how to maintain the status of IP in the respective market.

Frame work of IP Insurance Policy

There is no fixed frame work of IP policy for all interested companies and it may vary from a big company to small company and also depends upon the subject matter that is to be protected under insurance. Some companies offer a wide scope of IP coverage and some offer only legal expenses and the damages

awarded in infringement lawsuits. An insurance premium for patent insurance depends upon the subject matter that is to be protected, which may range between 2-5% of the insured amount. The premium rates may also depend on some (evaluation) factors like: the past records of the company, infringement strategy of the company, R&D work in the company etc. Some companies in USA offer the damage amount up to \$1 billion under the insurance. IP insurance policy may also cover the actions like: foreign coverage; patent or trademark applications; exclusion of present infringer(s); licensee coverage; re-issue / re-examination coverage etc. IP insurance policy does not provide the protection for the actions like: willful acts of Infringement; criminal acts; any litigation not specifically included in policy; fines, penalties, judgments, punitive, exemplary, treble, multiple, direct, indirect and/or consequential damages; nuclear liability; anti-trust or anti-competition matters and the lawsuits of whose name is insured and knew about that at the time of purchase of the IP insurance.

Intellectual Property Insurance and Finance

While the preceding section deciphered the need and importance of intellectual property insurance, little thought has been given in this section to specific business context situations. Intellectual property insurance is essentially a part of portfolio management; therefore, it should be used strategically to make best use out of it. For a start-up business, primarily based on intellectual property, raising adequate finance is a big problem because of little infrastructure with them which makes it risky for the investors in case the business entity fails in the market. Typically, finance is raised for a company in two phases: (1) initial/seed capital, (2) venture capital. Generally, Seed capital is the initial capital used to start a business, which includes procuring necessary technology license, infrastructure to invent own technology etc. It comes from the company founders' personal assets or from friends and family. The amount of money is usually relatively small because the business is still in the idea or conceptual stage. In spite of the size of the capital, it is considered as an investment 'at risk' because of the very initial stage of the business; therefore, it is obtained from the families and friends –

sources who know and trust the business owner. Investors willing to provide a start-up company with its seed capital, generally trust their ability to evaluate people more than their ability to evaluate an interested business plan. Since, the investor evaluate people more than their ability, insuring intellectual property from the perspective of attracting investment, might end up in adding extra burden on the corporation. A proper evaluation of opportunity cost of the investment made in insuring intellectual property certainly helps in making a strategically wiser decision.

In case of an entity primarily based on intellectual property which has not been developed to the production stage, it is considered that the seed capital has brought the product through a feasibility stage and initial prototype stage and what is sought is development capital to bring the product to a production stage. A venture capital substantially differs from seed capital. Investment at this stage is made with much less blind faith and much more business scrutiny. The business scrutiny mentioned herein refers to the evaluation of; (a) credible product idea; (b) expertise to execute and market the idea; (c) risks attached with the investment. As discussed earlier, intellectual property inherently contains risk with it and investors might hesitate in investing into a risky project. Past experience in the intellectual property insurance has shown that in case of patent infringement, the amount of compensation runs into millions of dollars and the work 'treble damages' might just repel the investors miles away from the investing into the corporation. At such a stage, there can't be a better way to attract venture capital by showing insurance coverage to intellectual property portfolio.

For a person who is not actively involved in the capital market or other corporate level transactions, it might be surprising to know that the market value of all publicly traded corporations now exceeds the book value of their physical and financial assets by a ratio 4 to 1. For many high-tech industries, such as software and biotechnology, this ratio is higher – almost all their market value derives from assets not reflected in their book value. But even "traditional" manufacturing and industrial firms now have market valuations that exceed three

times their book value. The answer is no more a surprising one, corporations are well aware of the potential value of their intellectual property portfolio and its ability to 'add value' to the corporation's market value, which before few year, was exclusively determined by the fixed, current and liquid assets. However, the market has become very unstable and fluctuating. For example, a patent infringement suit brought against a telecommunication corporation not only affects the parties to the suit but also other entities active in the same market. In such a situation, a prior insurance coverage helps in better dealing with the situation and the corporation would be in safer side. In case, heavy compensation is awarded by the court, insurance coverage to the intellectual property saves the corporation from unexpected loss and ultimately, the shareholders.

Sources of Intellectual Property Insurance

Intellectual property can be insured in four ways. They are:-

- a) IP Specific Insurance;
- b) Comprehensive General Liability Insurance;
- c) Directors and Officers Insurance;
- d) Error and Omission Policy (Internet Technology Policy).

Of these, IP specific insurance provides the broadest coverage and constitutes a marked competitive advantage in a litigation prone environment. The patent enforcement insurance company has an interest both in defending validity and in proving infringement because the insurer probably will not be able to collect future premiums from the patent holder for enforcement insurance for an invalid patent. IP Specific insurance can be:-

1. Defensive (Liability Coverage);
2. Offensive/Pursuit (Enforcement Coverage).

(a) IP Specific Insurance

Defensive policy shields the insured in an infringement litigation initiated during the policy period against him by any intellectual property holder. Coverage

under such policy includes patent, copyright, and trademark allegations, but may be restricted to one or more or any combination of these rights, depending on the policy. Under this coverage, insurer provides for legal fees of defending and settlement cost or damages (if any) awarded. Basically, defensive policies revolve around duty to defend: duty to defend the insured is triggered when the claimant alleges a claim that the insurance policy potentially or possibly covers. However, whether the duty to defend is limited to lawsuits or extends also to non-litigated claims and arbitrations depends on the language of the pertinent insurance policy and the applicable jurisdiction.

Offensive policy, also known as enforcement policy is comparatively a newer phenomenon than defensive policy. Still, such type of policies is not available in Canada and Europe. The policy provides protection to the insured in respect of litigation expenses of 'authorized litigation' brought by the insured against alleged infringers during the policy period. Prior acts coverage is not therefore typically available. The selection of counsel is left to the insured, subject to the insurer's approval. IP enforcement policies generally exclude pre-existing infringement, liability for judgments or damages, breach of contract by licensees (except by special license endorsement), and willful acts by the insured giving rise to infringement and criminal acts.

(b) Comprehensive General Liability Insurance Policy

Comprehensive General Liability (CGL) Insurance also known as 'commercial general liability insurance' covers advertising liability, which covers:-

1. Oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;
2. Oral or written publication of material that violates a person's right to privacy;
3. Misappropriation of advertising ideas or style of doing business; or
4. Infringement of copyright, title or slogan.

CGL is a liability policy and it obliges the insurer to pay on behalf of the insured any compensatory damages. In its standard form, the advertising liability provision insures against claims for copyright infringement. Case law establishes that the words "title or slogan" create coverage for allegations of trade-mark infringement, but not patent infringement, or inducement to infringe. In considering the scope of coverage under a CGL policy with an advertising liability endorsement it is crucial that one recognize that coverage is limited to damages related to advertising activities.

(c) Directors and Officers Insurance Policy

Directors and Officers (D&O) Insurance is another mode of providing insurance to intellectual property. Though not very widely used as insuring intellectual property, D&O insurance policies are frequently used to insure directors and officers of a corporation for their decisions regarding intellectual property. When any person in intellectual property litigation brings an action against officer or director of a corporation, they are protected under officers and directors policy, if the general conditions of policy are met.

(d) Error and Omission Insurance Policy

Error and Omission (E&O) policies are generally written on a 'named peril basis'. Though there is no specified E&O policy but generally the policy covers cause of action arising out of copyright infringement, trademark infringement, misappropriation of slogan or title, trade libel, violation of right to privacy & publicity and breach of an implied contract stemming from the alleged use of submission of an idea or other material. However, the policies do not insure insured for any sort of offensive litigation.

Conclusion

In the current litigation prone environment, insurance coverage to the intellectual property not only helps in enforcement of the intellectual property but also helps in maintaining patent quality by giving a leverage to the litigants to challenge invalid patents. It certainly also helps in commercializing the technology with an enhanced rate by taking away the threat of litigation. Therefore, intellectual property insurance protects the competitiveness in intellectual property driven market which benefits the consumer. India should also introduce a legal as well as corporate system to tackle intellectual property insurance so that large companies will be less able to restrain market competition through predatory intellectual property litigation.

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