



# PROTECTING INTELLECTUAL PROPERTY THROUGH IP INSURANCE

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# Protecting Intellectual Property Through IP Insurance and Other Benefits of Insuring Your IP Portfolio

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## Background - what is IP Insurance?

IP Insurance, in its most basic form, is intended to indemnify the IPR owner against the costs of court action either if the IPR owner is sued for infringement, or needs to sue a third party infringer. There is an upper limit of indemnity, chosen by the policy holder to balance the costs of the insurance against potential costs. Although a full-blown patent infringement action in UK or in USA can cost several million pounds, most IP disputes are settled prior to getting to court, so that it may be unnecessary to insure to such a limit, whilst still transferring the majority of the risk to the insurance market. Even the lowest level of insurance, say £100,000, is sufficient to pay for an action in the UK's Intellectual Property and Enterprise Court, or to pay for the pre-trial skirmishing sufficient to clarify the issues and set the scene for a settlement.

Larger companies tend to "self-insure" to cater for the costs of litigation, but sometimes they will seek insurance for a totally new business, or where litigation costs are carried by a small business unit exclusively, or use IP insurance as a type of catastrophe (or "CAT") arrangement with the use of large excesses (eg £500,000+) to cap potential liabilities in case of a full blown IP action in court.

Although the Intellectual Property Office, and professional bodies such as CIPA and CITMA, recommend that IPR owners consider IP insurance,

and the numbers of policies are increasing, it is still only a minority of IPR owners who currently insure. Certainly, IP Insurance cannot be regarded as cheap, unlike more common vehicle or household policies sold in their millions, because each IPR is unique. Also, there are relatively few insurers prepared to cover IP risks, and even fewer brokers with any real expertise. Some insurers will only insure costs in a “defence” situation, so the knowledge of the broker is important. The insurers and syndicates that offer IP cover do not tend to deal directly with the public, they prefer to deal through expert brokers, and their regulatory authorisations do not extend to dealing directly with the public, even for commercial clients.

The London Market insurers and Lloyd's syndicates are the world's most flexible source of policies, but they would not survive unless they made a profit. The concept of insurance involves the establishment of a “pool” of collected premiums and investment returns from prior premiums, sufficient to pay a claim. As the use of IP insurance increases, the “pool” will increase, can sustain larger losses, and can reduce premium costs.

The use of IP insurance to protect businesses still appears to be low at present, as many businesses (and their legal advisors) do not know of the existence of IP insurance solutions, or unaware of how flexible these can now be. Many, when they discover the availability, come to appreciate the benefits.

## What influences premiums?

Each risk is assessed individually, to consider: the business area (some businesses are much more prone to litigation); the competitive space; the maximum amount to be covered and the excess payable; whether the IP is patents, copyright, trademarks or designs, or know-how/confidential information, and how big the IP portfolio is; the

business turnover; the geographical coverage of the insurance (for example, in USA, there is both a higher chance of litigation and litigation costs are higher than anywhere else) and whether there is any history of IP litigation or threats of litigation. In a situation where the insurer believes that there is a genuine chance of litigation, the insurer may decline to offer cover, or may only offer cover if disputes with a particular party are excluded. A genuine chance of litigation leads to the approaching certainty of an event, and clearly insurance is not intended to cover events that are close to a certainty as the premiums will not reflect the risks.

If the client wants to cover the possibility of damages being awarded against him, or wants to cover the possibility of a dispute over a licensing agreement, or protect contractual indemnities they have to offer to other parties, then these can be offered by a few insurers, usually for an additional premium due to the increase in risk.

Insurance operates to reimburse the client for fortuitous, or unexpected, events, which is why the client must honestly declare all known issues. The standard is that a fact must be disclosed if it is likely to influence the acceptance of a risk, the premium, or any other terms and conditions of a policy of insurance.

## Other special situations

Conventional insurance is taken out “before the event”, that is before the unexpected event. It will not pay for events such as infringements known to the policyholder before taking out the insurance. The analogy would be trying to insure a car after a crash. However, some insurers offer “After The Event” or “ATE” insurance, which does not cover the direct representation legal costs of the policy-holder, although it may pay for disbursements including experts giving evidence and Counsel fees, but is primarily to pay the costs of the other side should

the other side win in court. The insurer will only offer ATE insurance where the prospects of success are 60% or better, and because there is always "litigation risk", the premiums are high. It is a much better risk management strategy to insure "before the event", particularly as ATE may not be offered by any insurers.

Also, it is possible, in some situations, to obtain litigation funding to pay for a legal case. As the funder recovers his costs paid out from damages awarded, if an IP case is seeking only or primarily seeking an injunction, the funder will rarely be interested. Funding litigation in this way is potentially very useful if otherwise a case cannot be fought, and although the amount claimed by the funder is large the alternatives can be much less appealing. Again, funding is expensive, and may not be offered, so insuring "before the event" still remains the most prudent risk management strategy.

Returning to conventional IP insurance, there are advantages to the policy holder beyond simply indemnifying against legal costs. Most policy holders are SMEs, and investors like to see that IP insurance is in place. A first reason is that this means that their investment is not at risk of being swallowed up by lawyers' fees, and can go towards the development of the business as intended. Secondly, the sophisticated investor realises that the existence of IP insurance means that an independent review of the IP situation, or due diligence, has taken place and determined that there is little IP risk. Consequently, many external investors, or potential investors, can be advised that the IP portfolio is both strong, and protected, and the business can use the IP insurance cover as "leverage" to raise external finance.

Finally, the mere existence of IP insurance can act as a deterrent against infringers. Third parties may copy the businesses IP, and gamble on the basis that particularly the smaller or new business simply does not have the funds to run an IP case to trial, and therefore say "what are you going to do about it" at worst, or at best offer an extremely

unfavourable licensing arrangement. The existence of IP cover, however, can put across that the business does indeed have the capability of going to court, and change all the dynamics of such a dispute.

Whilst IP insurance is expensive compared to other forms of insurance, it can protect a businesses' most valuable assets, assist with investment, deter infringers, and in the worst case pay for the costs of going to court. As such, it can be a prudent investment.