Insurance Coverage in Intellectual Property Litigation

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The initial phase of technology–driven market was to protect their intangible property through intellectual property. However, the phase continued for around two decades and people realized the risk attached with intellectual property and also the cost of litigating their IP rights in the courts. Thus, there arose a need for risk management and enforcement of intellectual property. The most efficient risk management device available to intellectual property owners is insurance. Due to high cost of litigation, attorneys’ fee, damages or settlement in patent infringement litigation, the risk attached with patents is much more than any other form of intellectual property. This paper discusses the insurance as a mode of mitigating risk during patent litigation and its various modes.

Keywords: Intellectual property litigation, insurance, securitization

Forget about earthquakes. Now you can buy insurance coverage for a modern-day disaster that can cost your company million-patent infringement suits.1 In recent years, both value and recognition of the value of intellectual property have substantially increased. Therefore, corporations started locking and registering the outcomes of their R & D in the form of intellectual property. With recent intellectual property litigation explosion in India, Indian intellectual property owners are yet to realize the need to take additional measures to protect and pursue their rights in amassed IP portfolio. It seems that TVS Motors and Bajaj Auto would learn this quickly after their recent tussle over spark plugs.2 For sure, intellectual property litigation and more so, patent litigation is not everyone’s cup of tea due to involved financial resources and its direct hit on company’s market share. A typical patent litigation can disturb the equilibrium of not only small and medium size enterprises but also financially well off corporations. One of the consequence of the soaring cost of litigation is that many businesses simply can not afford the expense of bringing an infringement suit, even if attorneys; fee may be recovered in the end.

Entire world has realized the risk attached with the intellectual property and also cost of stepping their shoes into courts for adjudication of their IP rights. Modern intellectual property risks threaten not only one’s ability to preserve intellectual property values, but also one’s ability to enhance those values. Thus, there arose a need for risk management of intellectual property. The most efficient risk management device available to intellectual property owners is insurance yet not very obvious. This paper discusses insurance as a mode of mitigating risk during patent litigation and its various modes.

Need of Intellectual Property Insurance

There is a need for intellectual property insurance because of the following points:

1 Extremely high Cost and the Relative Frequency of Intellectual Property Litigation

The contemporary business world considers intellectual property as the backbone of their economic infrastructure. It enhances their ability to develop technology and penetrate market. This further makes preservation of intellectual property as lifeblood for many corporations and automatically intellectual property litigation becomes extremely costlier than normal litigation. Subject matter, involvement of highly skilled lawyers & technical persons, statutorily fixed fee for opposition, damages awarded, settlement cost, etc. further strengthens the proposition.3

The US $612.5 million legal settlement between NTP and RIM in the Blackberry saga made the news in 2006, yet there have been well over three dozen IP infringement lawsuits to date that have led to awards or settlement of over US $100 million, and awards of US $29.1 million and US $27 million have been made.

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in Germany and the United Kingdom respectively.\textsuperscript{4} The figures are enough to show the cost attached with the patent infringement and the risk associated with it.

2 It Levels the Playing Field by Protecting SME’s from Predatory Litigation, and Permitting them to Prosecute Trial Infringers

While corporate giants like Kimberly Clark and Procter & Gamble had the resources to wage long-term patent litigation for a billion dollar market in the famous ‘diaper wars,’\textsuperscript{5} the majority of companies that have developed and maintain valuable intellectual property often lack the financial resources to either defend or enforce it.\textsuperscript{3} The infringement litigation may be meant simply to drive a smaller competitor from the market by causing it to incur litigation costs which it cannot afford. Yet, as stated above preservation of intellectual property asset is the lifeblood of many of these companies. This becomes really difficult when it comes to Small and Medium Size Enterprises (SME’s). Financial constraints to SME’s make it difficult for them to defend themselves in infringement litigation,\textsuperscript{6} and quite close to impossible to enforce its own intellectual property asset.

3 To Compete in the Market as ‘the Little Guy Needs Protection from the Big Corporations’

In a free market, competition is an essential feature to ensure consumer welfare at the end. Due to market structure and other factors it is not possible for small corporations to fight with giants. Unfortunately, in a litigation prone environment small companies and individuals who take judicial recourse for patent infringement claims often do not have the necessary capital to sustain a long term court battle against a well-financed opponent.\textsuperscript{7} If the risk associated with enforcement and preservation of intellectual property assets of small corporations can be mitigated, probably, small corporations can also make a big way in competing with big corporations.

4 IP Securitization

Though many consider that securitization of intellectual property through royalty payments constitutes only the tip of iceberg\textsuperscript{8} but in developed economies, intellectual property securitization is emerging as an effective mode of transaction. Cases like Bowie Bond of US\textsuperscript{9} and Shochiku case of Japan\textsuperscript{10} have further proved the success of intellectual property securitization. However, these cases involved copyright as subject matter, wherein stream of royalty was diverted towards Special Purpose Vehicle (SPV). The case may be different wherein patent has to be securitized because of the high risk attached with patents. For a successful patent securitization, it may be necessary to obtain residual value protection, such as, insurance to deal in case of underperformance of the royalties. Insurance is sometimes called a bond wrapper.\textsuperscript{11}

Sources of Intellectual Property Insurance

Intellectual property can be insured in the following four ways:

1. IP specific insurance
2. Comprehensive general liability insurance
3. Directors and officers insurance
4. Error and omission policy (Internet technology policy).

IP Specific Insurance

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:

(i) Defensive (Liability Coverage);
(ii) Offensive/Pursuit (Enforcement Coverage).

Defensive Policy

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 two conditions:

(a) 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.
It is interesting to note that duty to defend and duty of coverage are separate and distinct duties, although they are related. An insurance company may have a duty to defend, but not a duty of coverage.\textsuperscript{12} An insured should bear it in mind at all times that a duty to defend any portion of the case is a duty to defend the entire case.

(b) Duty to Indemnify

An insurer that issues a primary liability insurance policy ordinarily owes a duty to indemnify its policyholder when the policyholder is liable to pay damages on a claim that the insurance policy actually covers. In addition, an insurer will owe a duty to indemnify when the policyholder enters into a settlement with the insurer's permission.

Offensive Policy

Offensive policy, also known as enforcement policy is comparatively a newer phenomenon than defensive policy. Still, such type of policy is not available in Canada and Europe. The policy provides protection to the insured in respect of litigation expenses of ‘authorized litigation’\textsuperscript{13} brought by the insured against alleged infringers during the policy period.\textsuperscript{14} 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. The two important aspects of offensive policy are:

(a) Retainage

Any compensation awarded is retained by insurer on pro rata basis in proportion of their contribution made in the litigation. Along with this, insurer also retains the right to settle or abandon the litigation.

(b) Independent Prior Assessment

Independent Prior Assessment is performed by insurer at the time of application and can be considered as a part of due diligence exercise on the part of insurer. In this process, insurer examines the intellectual property portfolio of insured to determine its strength and possible attraction of infringement litigation, which also determined the premium of the policy.

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.\textsuperscript{15}

CGL is a liability policy and it obliges the insurer to pay on behalf of the insured any compensatory damages.\textsuperscript{16} 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 trademark infringement, but not patent infringement, or inducement to infringe.\textsuperscript{17} In considering the scope of coverage under a CGL policy with an advertising liability endorsement it is crucial that one recognizes that coverage is limited to damages related to advertising activities.

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.

Error and Omission Insurance Policy

Error and Omission (E&O) policies are generally written on a ‘named peril basis’.\textsuperscript{18} 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.\textsuperscript{19} However, the policies do not insure for any sort of offensive litigation.
Patent Insurance in India: Present and Future!

At the end of 2003, the Indian insurance market (in terms of premium volume) was the 19th largest in the world, only slightly bigger than that of Denmark and comparable to that of Ireland and the fifth largest in Asia.\(^{20}\) Keeping the pace, the market has expanded almost 100% in past four years.\(^{21}\) The figures undoubtedly show that India has a very vibrant and healthy insurance industry; intellectual property insurance is yet to find any place in it. Surprisingly, with the growing number of patent application and patent litigation, patent holders are not yet considering insurance as an effective mode of risk management. India does not seem to be very familiar with patent insurance, which provides protection against infringement of patents and associated costs. That is because none of the insurance companies in India sell such a product. In fact, according to C S Rao, chairman of Insurance Regulatory and Development Authority of India (IRDA), no insurance company in the country has even applied for such a product till today.\(^{22}\) A few years ago, New India Assurance Company had issued a patent infringement insurance policy to an IT company.\(^{23}\)

The cost of prosecuting a patent in India is around $4000.\(^{24}\) For a SME or individual person, this amount puts a substantial financial burden on the applicant who has already invested a huge amount of money on the R&D. Thus, they have to heavily market and commercialize the patented technology to get the money back. In the meantime, the patent holder would be in a worst situation if caught in infringement litigation. The litigation would have a detrimental effect on the rate of return as well as additional expenditure towards fighting the litigation. The year 2007 turned out to be a great one for patent litigation. This shows the traces of future upcoming trends in patent litigation and looking patent as a subject-matter of litigation. There is no doubt that as awareness of IP value grows in India, there will be commensurate increase in interest in litigation to enforce intellectual property rights.

As a part of corporate strategy, market giants might initiate litigation against SMEs’ to force them to surrender the patent or license it on their terms. On the other hand, due to financial considerations, sometimes SMEs’ are not able to initiate infringement litigation against the infringer because of its weak financial health and limited resources. In both the cases, SMEs’ are discouraged from putting their resources in innovations and therefore, it reduces dynamic efficiency of the market. In all these situations, a patent insurance would have an effect of insuring the patent holder against the future financial burden essential for the patent enforcement.

**Conclusion**

Risk is inherent in intellectual property because the boundaries that define the intangible rights are little blur, if not vague, and are typically made more specific and clear only by a legal challenge. Intellectual property insurance ensures not only one’s ability to protect intellectual property values, but also one’s ability to enhance those values. This is of particular relevance to Indian pharmaceutical industry, which seems in a deep desperation and desolation due to threat from multinationals, can sustain and stand in the market if they can put insurance as armor for their intellectual property. Needless to state that intellectual property litigation involves important corporate assets which may put cutting edge technology of the corporation at a stake. In such a situation, risk transfer devices like insurance can not be overlooked. Having an insurer with a duty to defend the accusation of intellectual property infringement will allow the small competitor to litigate the case on its merits; disallowing big market players from using the cost of litigation as bargaining leverage to force a settlement on terms favorable to the party that can litigate the matter without worrying about the cash flow.

**References**

2. Bajaj Auto charged TVS Motors of using its patented digital twin spark technology. TVS Motors has also filed a revocation petition challenging the grant of patent to Bajaj for its DTSi technology before the Patent Office in Chennai arguing that application of twin spark plug is a known technology in use all over the world for several decades and therefore, it is a known prior art. TVS Motors also threatened to file suit against Bajaj Auto for damages worth Rs 250 crore in a libel action. Recently, Bajaj took its patent war against rival TVS Motor to the Supreme Court and sought a restrain on manufacturing and selling of two-wheeler ‘TVS Flame’. Bajaj Auto has sought vacation of the Madras High Court order allowing TVS Motor to go ahead with its manufacture and sale of TVS Flame, [http://spicyipindia.blogspot.com/2008/01/bajaj-tvs-patent-dispute-india-plugging.html](http://spicyipindia.blogspot.com/2008/01/bajaj-tvs-patent-dispute-india-plugging.html) (25 January 2008).
3. The most recent economic survey by the American Intellectual Property Law Association shows that the average cost to litigate a patent infringement lawsuit is in
excess of $1 million. While somewhat inflated due to fees developed by large scale patent infringement cases, legal fees associated with preserving intellectual property rights represent a significant financial risk to companies in the $1-500 million revenue range, Wanglin Ronald C, A primer on intellectual property insurance, http://www.boltonco.com/boltonco/hotTopics/intellectualPropInsurance.asp (10 January 2008).


Kimberly-Clark v Proctor & Gamble, Ivey Case, Study No. 9A92M003, the case highlights Kimberly-Clark's perspective on the fierce competitive battle with Procter & Gamble (P&G) in the diaper industry and their ability to invest in long run litigation. The litigation ended over a number of years and costed huge to both the companies, http://www.casplace.org/cases/cases_show.htm?doc_id=82018.

Sometimes, big corporations as a matter of their corporate and intellectual property strategy, initiate sham litigation against their small competitor to drive them out of the market. Thus, it is not easy for a small corporation to even defend and stand in the market.


In 1997, David Bowie, a singer, successfully issued $55 million in bonds, securitized by transferring his royalty stream earned by twenty-five albums recorded by him. The Bowie bonds were ‘guaranteed’ (another word for ‘insured’) by Bowie’s music publisher, EMI. This was the first successful attempt of securitizing intellectual property which attracted attention of the whole world, Adler Sam, Bowie Bonds were ‘guaranteed’ (another word for ‘insured’), Entertainment Law Journal, 12 (6) (1997) 6.

In this case, Shochiku Co Ltd, a film company, granted TV Tokyo Corp the ground-based broadcasting right for 34 films that had yet to be aired from among a total of 48 of the popular serial films ‘It’s Tough Being a Man.’ The SPC, having obtained this content copyright from Shochiku, raised funds from the Industrial Bank of Japan, by offering the royalties for the ground-based broadcasting right from TV Tokyo as backing, Watanabe Hiroyuki, Intellectual property as securitized asset, http://www.21coe-winscls.org/rcip/organization/Assets2.pdf (20 January 2008).


Authorization is supplied by the insurer on the basis of a favorable opinion by an independent IP counsel selected and paid by the insured.

During the policy period means that infringement complained must occur during the policy period. Insured cannot claim insurance by way of initiating litigation during the policy period for infringement occurred prior to policy period.


Named Peril Basis Policy doesnot cover whole business of insured, rather only covers the perils specifically mentioned in insurance application form. Any peril not listed in the application is not covered in the policy by any implication.


However, the figure should be analysed while keeping in mind the fact that this was despite India being the second most populous country in the world as well as the 12th largest economy. Yet, there are strong arguments in favour of sustained rapid insurance business growth in the coming years, including India’s robust economic growth prospects and the nation’s high savings rates.


Did you say patent insurance, http://ipinsource.com/blog/2006/02/12-week?


This includes official fee to be paid to Indian Patent Office and the fee charged by a law firm or patent agent. However, the fee varies on the basis of the law firm and patent specification & claims.