

## Thinking ahead



# Patent need for a better solution

Patent infringement risks are becoming more widespread, encouraging companies to explore their insurance options. The trouble, says **Luke Foord-Kelcey**, is that the existing solutions are prohibitively expensive or provide only limited cover.

In many industry sectors, intellectual property (IP) can form a large part of a business's assets. While cover for copyright and trademark infringement liability is increasingly available, clients are focusing on the shady world of patent disputes, driven by three striking trends.

The first is the prevalence of 'patent trolls', particularly in North America. These buy up patents at a low value with no intention of using the technology, and aggressively enforce those patents against alleged infringers.

For example, a troll may own a patent for a certain shape of numeric keypad and accuse every large handset and calculator manufacturer of infringing its patent by using a similar keypad on its products. The initial demand may be an outrageous figure, in the hope of triggering a quick settlement, even where the case has little merit. Another business model in the US is for a lawyer to approach a patent holder and offer to target alleged infringers on a no-win/no-fee basis.

A second factor is that large companies use their patent portfolios against one another to gain leverage in unrelated commercial disputes. For example, TV manufacturing giant A is in a global dispute with TV giant B, over licensing terms for a certain technology. For leverage in the negotiations, Giant A presents claims in courts around the world alleging that Giant B is infringing its patents. The estimated legal costs could make Giant B more amenable to negotiation.

The third issue is caused by the rapid globalisation of industry. There is no worldwide patent office, so a patent holder must register a patent in each country where he seeks to exploit it. When a patent office examines the patent it cannot trawl through all pending or granted patents, so being granted a patent in a territory is no guarantee that you will not infringe an earlier patent.

Patent Infringement Liability insurance products offer cover for damages, defence expenses, or both but the factors driving companies to seek cover also make it difficult to buy. Most of the insurers will not

However, there are simpler options. For example, venture capital or private equity concerns are often interested in first-party Patent Invalidation or lower-limit patent infringement liability policies, typically for a specific technology or a small number of patents. This is available with much lower retentions, with limits up to \$15-20 million, although the work required to underwrite a patent can be costly for the insurer and off-putting for the purchaser. Some insurers have even tried to charge for due diligence.

However, on the lower-limit policies, we are partnering with select insurers to

**“Insurers are concerned that disputes between industry peers might be part of a negotiating tactic rather than a real case.”**

sell cover to US-domiciled companies or cover US risks, where the worst exposure lies.

Insurers who do offer cover require a high self-insured retention, up to \$20-50 million for a large portfolio of patents. Above this, the capacity is still expensive, because it is a difficult risk to underwrite. There is not much public information because disputes are typically settled behind closed doors. Moreover, insurers are concerned that disputes between industry peers may be part of a negotiating tactic rather than a legitimate patent case.

standardise wording and lessen due diligence in return for a higher volume of risks giving the insurer a more diversified exposure. On the larger, multinational portfolio risks, we will shortly be launching a new risk-finance based product, including cover for the US. **RS**

**i** [Luke\\_Foord-Kelcey@jltgroup.com](mailto:Luke_Foord-Kelcey@jltgroup.com)

**Luke Foord-Kelcey** is a Partner at Jardine Lloyd Thompson. A qualified solicitor, Luke has advised on some of the world's largest IP risk transfer arrangements.