



Chartered
Insurance
Institute
Standards. Professionalism. Trust.

Good Practice Guide

January 2022

Intellectual property

Foreword	2
Introduction	3
What is intellectual property?	3
What are intellectual property risks?	4
How is intellectual property insured?	5
How to avoid an infringement	6
Making an insurance claim	6
Good practice	7
Conclusion	7
Appendix - Primary source material	8

This paper is in response to members' requests to provide a summary of good practice within one source document and is based upon the Chartered Insurance Institute's understanding of the regulator's rules and current stance. Whilst a summary, it is not intended to be exhaustive and should not be relied upon at the exclusion of other sources of information.

Foreword



Dr Matthew Connell

Director of Policy and Public Affairs,

Chartered Insurance Institute

People have always been good at inventing things, but what distinguishes the last 200 years of explosive economic growth from the rest of human history is our collective ability to reward entrepreneurs for turning inventions into marketable goods and services. At the heart of this is the concept of intellectual property.

Given the central role that intellectual property plays in our economy, it is not surprising that organisations now invest more in intangible assets than they do in tangible assets. According to ONS estimates, investment in intangible assets in 2018 stood at £169 billion, £18 billion more than tangible assets.

It is inconceivable that any modern approach to risk management can ignore intellectual property and building trust with corporate and SME clients increasingly means understanding how these assets work. Whether mitigating these risks through insurance or other strategies, it is essential for risk professionals to be able to advise organisations on how to build and protect intellectual property.

This Good Practice Guide sets out the basic principles for establishing and managing intellectual property rights in a global environment through a clear, step-by-step narrative. It is a fantastic introduction to a concept that drives our modern economy.

Introduction

In a competitive market, it is important for individuals and businesses to protect their ideas. While a product or service might be more recognisable as unique property, it is often the non-tangible idea behind it that has the true or greater value. Many focus on insuring their physical property, which can be repaired or restored. However, the same cannot easily be said about intellectual property.

In a recent survey by law firm Morrison & Foerster¹, the annual spend on intellectual property litigation increased year on year to reach more than \$3.3bn (£2.4bn) in 2019, almost doubling in 15 years. While it is encouraging that steps are being taken to help clients recognise the value of their intellectual property, there is still a growing protection gap to be filled.

But how do you insure an idea? This Good Practice Guide will explore the different stages of establishing intellectual property rights by looking at how to define what intellectual property is, how to protect ideas, what the related risks are, and what to do in cases of intellectual property infringement.

What is intellectual property?

The Intellectual Property Office (IPO) defines 'intellectual property' (IP) as "something that you create using your mind - for example, a story, an invention, an artistic work or a symbol"². This could be interpreted to mean the author or creator of a piece of work or idea.

Types of intellectual property include:

- **Copyright** (e.g., brand names)
- **Patents** (e.g., a property right for an inventor)
- **Designs** (e.g., how a product looks)
- **Produced materials** (e.g., writings)
- **Trade secrets** (e.g., confidential information)

However, intellectual property is not necessarily owned by its creator. It can also be bought through a contract or decided during a court case. This means that determining who owns intellectual property can be complicated. The IPO clarify ownership as follows:

The owner of intellectual property is the person or organisation who:

- created it (and it meets the requirements for copyright, a patent or a design)
- bought intellectual property rights from the creator or a previous owner
- has a brand that could be a trade mark, for example, a well-known product name

Intellectual property can:

- have more than one owner
- belong to people or businesses
- be sold or transferred

¹ <https://www.mofo.com/resources/news/190807-mofo-study-ip-litigation.html>

² <https://www.gov.uk/intellectual-property-an-overview>

What are intellectual property risks?

Intellectual property rights allow the owner to make money through franchising, licensing or royalties. This is why disputes might occur because someone else believes they are the intellectual property rights owner or that their idea was copied. As ownership can be bought, transferred or shared, it is important to document the rights of ownership and how it is shared. This is also important so that the rights owner can demonstrate the origins of an idea in cases of copyright infringement.

The unique features of a business will be their main selling point. It could be a design, feature, ingredient or offering. The value of an organisation's intellectual property could outweigh their value physical assets. If a rival organisation appears to be copying these ideas, usually at a cheaper price or capitalising on an existing idea that is hard to trace, the intellectual property rights owner may want to take legal action.

However, a 'creator' may not necessarily be the 'owner'. If a person or agency has been commissioned to create something on behalf of their employer, they will not own the intellectual property rights. But if a creator has been commissioned by someone else, then they usually own the intellectual property rights (unless their rights are waived through a contractual agreement).

Anyone that holds patents or trade marks should have intellectual property insurance. For if a competitor imitates or uses a patented idea, it could damage the reputation of the company as well as involve long and costly litigation. This goes beyond a general liability policy which usually only covers defence costs. Similarly, if a small business finds themselves at the centre of an intellectual property dispute without cover, they may end up spending all their income on legal fees.

Talking about the complexity of intellectual property risks, Julie Page, former President of the Chartered Insurance Institute (CII) said:

"A problem for many businesses is that their IP risk is becoming more complex as they grow their operations across an expanding network of multijurisdictional and multicultural environments. And in many cases, their legal protections are written into local laws. If you consider patent, copyright and trade mark laws, the protection around those is national in structure but the overall risk itself is global."

Concerning insurance, intellectual property can be considered as either:

First-party risks (creator or owner of intellectual property): legal costs, financial loss, loss of value;

or

Third-party risks (individual or organisation experiencing an infringement): defence costs, reputational damage.

When processing an application for cover, an insurance broker should consider the following:

- value of the intellectual property
- registration of the intellectual property
- risk assessment of an infringement occurring
- historic data (if available)
- type and level of cover required
- territorial scope of protection

How is intellectual property insured?

Intellectual property insurance can provide protection against the following:

- legal costs
- loss of earnings
- company value
- third-party claims
- reputational damage
- infringement

During the process of registering intellectual property rights³, there should also be a conversation with a lawyer about what to do if these intellectual property rights are infringed. An intellectual property infringement is not covered by a standard business insurance policy. Therefore, specialty insurance that specifically covers this risk would be required.

According to the IPO⁴, insurance products can cover one or more rights and a variety of intellectual property risks including:

- **opinion only:** legal costs if obtaining an opinion on the likelihood of successfully enforcing or defending an IP claim
- **enforcement and defence:** legal costs when taking action to stop others infringing IP rights and defending allegations of infringement. Can cover enforcement and defence either separately or together
- **damages:** payable cost if an infringement action is lost
- **validity:** legal costs of defending challenges to validity rights
- **lost revenue:** revenue lost as a result of losing IP rights
- **indemnity:** liabilities arising under guarantees given to third parties
- **cyber:** covers losses from a variety of cyber incidents, including IPR breaches

These insurance products should cover the costs incurred during a dispute. This could either be if the customer is taking someone to court or if they had infringed these rights themselves. 'Before the event' (BTE) legal expenses insurance (LEI) policies can also cover a customer's legal costs and/or the legal costs of who they are in dispute with. But this type of insurance can only provide cover before the (alleged) infringement has occurred.

Professional indemnity insurance can also protect a business if there is an accidental infringement or bad advice received during the creation of a project. Mistakes and unintentional breaches of copyright can occur if similar ideas or designs are created without prior knowledge. However, this may still require legal and compensation costs to determine whether the infringement was unintentional.

By looking at international legislation and outcomes, Julie Page discusses how current data available can be used when assessing intellectual property risks:

"The good news is that, unlike other emerging risks like cyber, IP is not so scarily complex to underwrite. Yes, the historical datasets might not be there yet, but there is legislation around the world to help us define the degree of protection that patents and copyright get, for example, helping us to assess the degree of risk. And there is also a growing body of evidential statistics on losses, starting to reveal the cost of exposure."

³ <https://www.gov.uk/government/publications/intellectual-property-for-business>

⁴ <https://www.gov.uk/guidance/intellectual-property-insurance>

How to avoid an infringement

When developing an idea, or considering registering for a trade mark or patent, it is important to check first if a similar idea already exists. It may be that a similar idea is developed coincidentally or has been influenced unintentionally. Regardless of the intentions, if an existing idea has already been registered then the infringement will likely be in favour of the original owner.

While developing an idea it is recommended to perform an IP audit that will help a client understand their intellectual property rights, as well as the existing intellectual property owned by others. This will also help an individual or organisation understand other ways they may be committing an infringement, including if they are using licensed software, own the copyright to imagery, using/selling authorised material or paying royalties correctly.

An IP audit will identify any intangible assets, who they belong to, what they are worth to the owner, their market value, how to document them and how to protect them. It can also help identify existing assets and how to exploit them further.

Making an insurance claim

If there is a suspected intellectual property infringement, such as an imitated idea or violation of rights, a discussion should take place with a lawyer. This will determine the nature of the infringement, how it impacts any previously registered intellectual property and if an assessment is required to take initial action.

The insurer should be made aware of any potential disputes, even if it does not result in a claim. This is because any costs incurred before alerting the insurer, or without their express agreement, may not be recoverable if not notified beforehand.

The IP Enterprise Court (IPEC) is intended to provide a less costly and less complex alternative to intellectual property litigation in the general Chancery Division of the High Court, particularly for small and medium sized organisations. Policies can be created which require lower levels of financial cover (indemnities) because of the clearer costs in the IPEC. This means that premiums are lower for the levels of cover which these policies provide. Premiums will increase in line with the level of risks. Some types of cover for certain risks and technology sectors will need more careful consideration by insurers, particularly where they require higher levels of cover or wider geographical cover.

However, not all disputes require legal proceedings. An opinion from the IPO can also aid negotiating a settlement or deciding whether to proceed with full legal proceedings. The IPO Mediation Service⁵ can help businesses and individuals resolve disputes quickly, cheaply and effectively. It may be possible to arrange mediation over the telephone for some cases. The accredited mediators can help resolve disputes involving all rights.

Good practice

1. Check if the IP is registered and valued.

Once an idea has been created and can be monetised, it should be registered. This will help establish the date of creation and can provide evidence of the creation process in case of a dispute. This documentation should also include the value of intellectual property and how that relates to the value of the individual organisation. It is also worth recommending non-disclosure agreements with anyone a client speaks to about their idea before it is registered.

A toolkit providing business tools, training and guidance from the IPO can be found here: <https://www.gov.uk/government/publications/intellectual-property-for-business>

2. Perform a risk assessment of the IP portfolio.

By performing a risk assessment of a client's intangible assets, it will be possible to identify, analyse and respond to any risks affecting the lifecycle of registered pieces of intellectual property. It will help identify the potential of an infringement, how it will impact the owner and ways to action it. This risk assessment should also be reviewed regularly to observe if existing processes are effective and any new risks that may need to be considered.

3. Check wording of ownership and licensing agreements.

When determining the owner of intellectual property it is important to keep licensing agreements up-to-date. This is because intellectual property can be "licensed-out" to another company in return for a fee or "licensed-in" if another company's intellectual property is used to develop someone else's business or products. The person granting the licence is usually called the licensor, and the person receiving the licence is usually called the licensee. There may be more than one licensor or more than one licensee in a licence agreement. This licence grants permission to do something that would be an infringement of the rights without the licence.

4. Check for available methods to resolve dispute.

It is not always necessary to take an intellectual property dispute to court. A quicker and more cost-effective approach would be to see if a resolution can be made amicably between the concerned parties without the need for legal action. The IPO Mediation Service⁶ employs accredited mediators qualified to mediate matters relating to the full range of intellectual property (patents, trade marks, designs, copyright, trade secrets and related commercial matters). A mediation session can be booked wither to take place online or in-person. The advantages of using this service include a high success rate of resolution, confidentiality, and quicker and cheaper resolutions than lengthy and costly litigation proceedings

Conclusion

With the rapid growth of online businesses, digital products and selling of NFTs (non-fungible tokens), protecting intellectual property is more important than ever. Regarding intellectual capital, any competitive advantage should be protected as a business asset.

When someone has a unique idea, especially individuals and small businesses, they may find themselves open to imitation or even theft. As well as reputational damage this could also result in a loss of profits if someone else is offering an identical proposition at a lower cost. Staying ahead of the competition is not just about having a better idea but by protecting that idea too. Without proper insurance, many will find they do not have the funds or resources to dispute an infringement.

With the increased use of data and technology, the greater the potential of litigation. Clearer contractual terms and conditions are also needed to better define ownership of intangible ideas. Intellectual property insurance is a growing market, demanding greater underwriting claims and expertise.

Identifying unmet needs and providing better quality advice on products will be a key part of delivering a quality service to insurance customers that will help towards maintaining public trust.

Appendix - Primary source material

Chartered Institute of Patent Attorneys, IP insurance, <https://www.cipa.org.uk/ip-insurance/>

Chartered Institute of Trade Mark Attorneys, UK IPO launches new IP support scheme, 26 August 2021, <https://www.citma.org.uk/resources/uk-ipo-launches-new-ip-support-scheme-mb21.html>

Chartered Insurance Institute, Roberts, Clem, Intellectual property disputes, 19 October 2016, <http://www.cii.co.uk/lectures/2016/october/intellectual-property-disputes/>

GOV.UK, Intellectual property and your work, <https://www.gov.uk/intellectual-property-an-overview>

GOV.UK, Intellectual property insurance, 21 February 2020, <https://www.gov.uk/guidance/intellectual-property-insurance>

GOV.UK, Intellectual Property for business, 4 December 2022, <https://www.gov.uk/government/publications/intellectual-property-for-business>

GOV.UK, Intellectual property mediation, 3 November 2020, <https://www.gov.uk/guidance/intellectual-property-mediation>

GOV.UK, International IP service, 3 December 2021, <https://www.gov.uk/government/collections/international-ip-service>

Insurance Institute of London, Intellectual Property disputes; a practical guide and the role of insurance, Roberts, Clem, 19 October 2016, <https://www.iilondon.co.uk/home/cpd-programme/lectures/2016/october/intellectual-property-disputes-a-practical-guide-and-the-role-of-insurance/>

The Journal, Page, Julie, President's opinion - time to grasp the intangible, 1 November, 2021, <https://thejournal.cii.co.uk/2021/10/26/presidents-opinion-time-grasp-intangible>

Society of Insurance Broking, Janthana, Kaenprakhamroy, What type of insurance protects businesses against IP infringement?, 3 December 2020, <https://www.sib.org.uk/news-insight/news/articles/what-type-of-insurance-protects-businesses-against-ip-infringement/96684>

