

# Patent protection through Patent Insurance in India: A research framework

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**Abstract** - In today's world of competitiveness and innovation, leading the world technologically is very important. Many economies have identified that patent protection is a very crucial strategic decision to lead in a technological industry. Patent insurance is one of the tools to support this thought. In this conceptual research paper, a trail has been to find the possibility of acceptance of patent insurance as a financial tool for securing the patents from infringements in India. Also, a conceptual framework is also framed in the form of suggestive measures to support the importance of such concept in Indian context.

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**Keywords:** --- Patent insurance, litigation, competitiveness, technology, patent protection, infringement

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## INTRODUCTION

A patent is an exclusive right granted by a country to the owner of an invention to make, use, to manufacture and to market the invention, provided it satisfies certain conditions stipulated by law. Exclusivity of rights implies that no one else can make, use, manufacture or market the inventions without the consent of patent holder. As soon as the patent gets expired, it passes into the public domain, and anybody can use it or utilise the same without the permission of original inventor. If the patent gets infringed then filing of legal suits and their proceedings are worked out. As per the countries patent legal set up, the infringer is punished and the other party gets reimbursement. To cover the loss of legal procedure time loss, patent insurance helps a lot.

In general terms, insurance is a contract that pledges payment of an amount on the happening of the event insured against. It is a contract (policy) in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. Patent insurance is a protection against infringement of patents and the costs associated with it. It provides a means through which parties with an interest in a patent can insure their minimum financial worth (Fletcher, 2008). The insurance company pools clients' risks to make payments more affordable for the insured. In US, several insurance companies are issuing highly specific policies for patents as an aftermath of early court cases holding insurance companies responsible for the losses occurred due to infringement. Many big insurance companies like Allianz, AIG, Chubb, Gerling and some syndicates of Lloyd were the initiators of this field of insurance. This concept is adopted and strategically followed by many European and American countries from many decades but there are some countries which is hesitant to accept.

This paper will discuss the possibility of acceptance of patent insurance in India. It will also discuss the obstacles and suggestive measures to be taken by the companies and government for the implementation of this concept.

## OBJECTIVES OF THE STUDY

In today's business scenario, risk management is a key focus area, and insurance is the only effective protection available for a product portfolio. This insurance can be the best shield in the hands of all those companies – big, medium, small, or start-ups – that have to fight the infringement lawsuits. Though these insurance policies have been in the international market since 1995, it is only in the recent times that more and more companies are opting for them with an increase in the number of patent lawsuits being filed. The number of patent infringement lawsuits filed annually in the U.S. increased by a whopping 111 % between 1999 and 2002. Most insurance companies offer policies that cover a part of the legal expenses as well as the damages awarded in infringement lawsuits. A need is there to provide a financial shield to the innovations done by the knowledge workers worldwide.

The basic objectives behind this paper are:

- 1.To draw a conceptual frame work of patent insurance in India
- 2.To explore the probable remedies for the obstacles faced by India in imposing patent insurance for the companies.

## RATIONALE OF THE STUDY

The rationale of the study lies behind the fact that Indian patent System is not that supportive to innovators as compared to other Patent systems worldwide. The number of patent filing is increasing but the quantum is still very

less as compared to many developed countries like China, USA, Japan, Korea, etc. Many foreign MNCs do not opt to establish their R & D centres in India as they are not comfortable with the Patent system of India. Also, very less policies of patent protection are available to the innovators as compared to many European countries. Patent insurance is one such mechanism. Although patent insurance has been around since the early 1980s, only a small percentage of patent owners and businesses are aware that such coverage exists, and only a handful have taken advantage of the protection provided by patent insurance.

## REVIEW OF LITERATURE

### *Patent litigation and its resolution in India*

Indian Patent Act 1970 is the basis for all activities related to patents in India. The third amendment of Patent Act, 1970 which happened in 2005 was the major breakthrough in it. Regarding infringements of patents, this act does not specifically define the activities which can be counted as infringement of activities. Post WTO-TRIPS agreement; however, various methods have been adopted to improve the enforcement activities. Despite of this, there are some activities which are exempted from infringement in India. These are product used by government, for the purpose of experiment, supply of patented drug to health institutions, use of patented inventions on foreign vessels, the importation of patented products, etc. The current suggestions by judicial decisions has initiated the need to have a critical mass of judicial precedents streamlining law and rules governing patent practice in India. The most effective infringement management device available to patent owners is insurance.

### *Patent insurance in India*

Patent insurance is the insurance policy provided by the insurance companies to protect or insure a patent. It provides safeguard against financial risk. It is an insurance policy which is given either to the inventor or the third party for the risk of unintentional infringement of patent. For inventor, coverage is given for the legal cost of infringement done by a third party and for third party, coverage for the legal cost of sue being filed by the inventor.

With recent patent litigation explosion in India, people are yet to realize the importance of additional measures to protect patents. It not only affects small and medium size companies but also impacts the financial health of big

corporate. The most efficient way to curb this risk is by patent insurance yet not very obvious (Kumar J., 2008). It is very popular in various western countries and is now being adopted by quite a few companies of India (Menon, 2006). An irony to this opportunity is that these insurance are considered to be very expensive as their premium is very high and they cover only the financial risk and not the reputation risk.

### *Types of patent insurance*

Patent insurance is of two types: Patent Liability Insurance and Patent Pursuance Insurance. Patent Liability Insurance is a defensive instrument, which helps the insured fight an infringement lawsuit filed by a rival company. It is also called 'Patent Infringement Defense Insurance'. In this case, the insurance company pays a part of the legal expenses incurred and/or the damages to be paid. Patent Pursuance Insurance on the other hand, is an offensive instrument, which aids the insured fight against a patent infringing company. This is also called the 'Patent Enforcement Insurance' or 'Offensive Patent Insurance'. In this case, the insurer pays a portion of the legal expenses incurred by the insured company.

### *Importance of patent insurance in India*

Insurance provides a vehicle through which parties with an interest in a patent or patents can insure their minimum financial worth. Patent insurance backs the asset as collateral to a loan, which in turn is backed by the patents. The need of patent insurance can be seen with the help of following points:

1. Extremely high cost and relative frequency of patent litigations in technology driven industries can leave many big giants under the shadow of bankruptcy and can effect their credit worthiness in the market. A patent insurance will help them to stay away from these expenses.
2. It provides protection to SMEs (Small and medium enterprises) in leveling the play field with big market players of the same field of technology and permit them to prosecute trial infringers.
3. A patent insurance will discourage probable infringers by fearing them of the financial backing.
4. It promotes research and development by ensuring the small firms about the protection against infringement.
5. It also promotes investment of a company as the insurance is granted after having proper check on creditworthiness and risk assessment of the company.
6. It also helps to retrain capital in a long-term court battle (Leslie, 1996)
7. Patent securitization is also provided by patent insurance. In case of residual value protection, the

insurance to deal with under-performance royalties is highly required (Hillery, 2004)

In India, very less insurance company, either in the public or private sector, offers any type of patent insurance for patent-holders. Insurance Regulatory and Development Authority of India (IRDA) acknowledges that no insurance company in India has even applied for a patent insurance product (Annual reports, IRDA, 2008). This is because there is a perception that patent protection in India is not as stringent as it should be. This perception is faulty. As an effect, it can also effect the dynamic efficiency of the market. In all these situations, patent insurance do have an impact over the financial health of the innovator and the parties of infringement. Hence, there is a vast scope for patent insurance in India.

#### ***Difficulties in implication of patent insurance in India***

1. Lack of awareness of insurance and low level of appreciation of patent utility.
2. Inadequate understanding of the limitation of a patent grant and the need to be able to litigate to enforce.
3. Poor experiences in the past with conflict between insured and insurer.
4. Need for complex and expensive evaluation of risk for insurers.
5. Burdensome restrictions and exclusions by patent authorities.

Conventionally the Patent Litigation insurance has not been so successful in most of the developing economies

#### ***Future prospects of patent insurance***

Patent lawsuits can be a significant risk to companies and insurance can be an acceptable, affordable risk transfer mechanism. In fact, all companies that make, use, sell, offer for sale, distribute, supply, or import products and/or services are at risk of being sued for patent infringement. More patents will be actively asserted by the patentee approaching possible infringers. Benefits of patent insurance are as follows:

1. More investigations of technical situations relevant to technical matters of current interest and to the work of technical experts in industry relating to new and existing products and processes will be made.
2. More small and medium sized companies will respond intelligently to allegations of infringement and need not merely adopt the supine attitude of giving into implied threats of infringement by abandoning their manufacture.
3. More licenses will be negotiated with a clearer and more accurate picture of the scope of the rights licensed.

4. Cross-licensing could also more accurately reflect the true strengths of the patents.

5. Presumably more technical sophistication would be introduced into industry at all levels because those concerned will be more quickly, cheaply and better informed.

6. As a result, technological progress will be aided.

The concept of Patent Insurance is not very new. From Manusmriti, Arthashastra and Dharmashastra to framing of Insurance and Regulatory Development Authority of India (IRDAI) 1999, there had been an array of new concepts and discussions about it. In India, not much leverage is given to this concept but in many American and European countries, patent insurance is being used to safeguard the rights of the insurer and the innovation (Sinha, 2012). Kumar and Parnami, 2008 also emphasized on introduction of legal as well as corporate system for handling patent litigation. They emphasized on insurance coverage to the intellectual property helps in maintaining patent quality by giving leverage to the litigants to challenge invalid patents. Some authors also pointed that it is very costly to file patents in India. The estimation is in Lakhs and certainly to go for insurance premium will add on thousands to it (Ali and Mohandas, 2017). Hence, people are not very much interested in it. They also emphasized on introduction of legal as well as corporate system for handling patent litigation. Few more researches and their findings are mentioned below in Table 1.

***Table 1 : Research findings by various authors worldwide***

S.N o.	Author	Title	Publication	Findings
1	Robert J. Clark (2006)	Insurance For Defendants Against Pursuing Patent Infringement	Extracted from <a href="http://www.hahnlaw.com/wp-content/uploads/2015/02/501.pdf">http://www.hahnlaw.com/wp-content/uploads/2015/02/501.pdf</a>	Because of the complexity of most patent insurance policies, companies should

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				work with patent counsel to determine the type of coverage appropriate for the company's particular needs.			price		whole industry will lead to a downfall
2	Anonymous (2015)	Patent infringement	Extracted from www.wikipedia.org (October,2015)	A patent infringement case in US costs around \$1-3 million as legal fees for each party. In one case, it may run to \$30 million or more.	4	Amit Singh (2008)	Patent infringement: How to minimize the risk	Technical notes, Journal of Intellectual Property Rights, Vol.13, pp. 351-353.	Patent insurance is an expensive affair, so a company should avoid patent litigations by adopting FTO search and other means before venturing.
3	Peter J. Pitts (2007)	Cheaper drugs would come at a steep	Chicago sun-times, Jan. 13,2007. Extracted from www.findarticles.com	By decreasing the price of innovation, the	5	Radhika Menon (2006)	Copyright, trademark, patent infringement cover on the rise	Business line, September 12, 2006. Extracted from www.thehindubusinessline.com	Patent insurance need support from government of India which is still lagging behind.
					6	Robert W.	Insuring	Risk management,	Patent insurance



	Fletcher (2008)	ideas	Vol.55 (10), pp.44-46	There is a win-win situation for both issuer and the inventor
7	Jayant Kumar (2008)	Insurance coverage in Intellectual property litigation	Journal of intellectual property rights. Vol. 13, pp. 234-238	Having the insurer with a duty to defend the acquiring of patent infringement, the small enterprises can put their case in a better way. They need patent insurance to do that.
8	Rahul Sinha (2014)	Patent insurance: A roadmap	Journal of Intellectual Property Rights. Vol.19, pp. 387-394	Mandatory patent insurance mechanism shall be adopted for enhancing

				g patent protection in India
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All researchers as mentioned in Table 1 agreeing to the fact that patent insurance is the need of hour and all the Indian companies should go for it to save their innovations from getting infringed. Authors are also of the view that that the initiative has to be taken by the government and allied institution to motivate corporate especially SMEs to go for protective measures for their patent filing and to get complete benefit of their respective innovations. Coming section will discuss about the existing patent filing procedure and the proposed patent filing procedure in which patent insurance will be an integral part of it the patent filing in India.

### RESEARCH FRAMEWORK

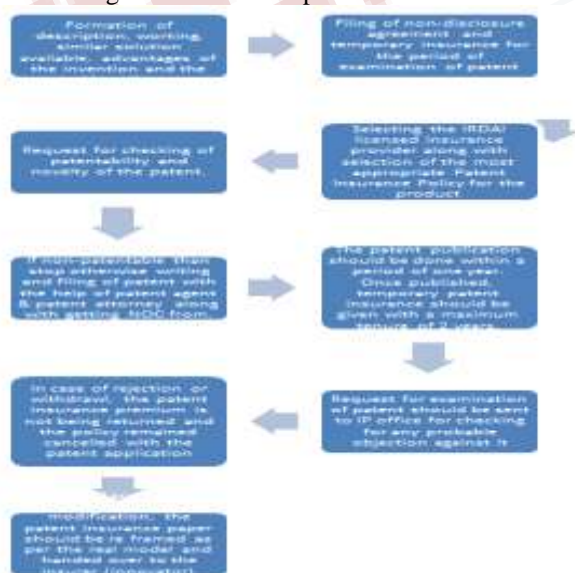
As per Patentindia.com, the procedure of filing patents as per Intellectual Property Organization, India is as follows:

1. Writing down of the innovation in detail including description, working, similar solution available, advantages of the invention and the working diagram.
2. The filing of non – disclosure agreement.
3. Checking of patentability and novelty of the patent by patent office. This takes almost 7 days of time with a fees from Rs. 12,000 to Rs. 20,000 (optional)
4. After the confirmation of the novelty of business, the writing and filing of patent with the help of patent agent or patent attorney. This application can be of two types: Provisional Patent and Complete Patent Application.
  - a. Provisional Patent Application is for early stage patent filing. It secures patent filing date. The cost of filing is low.
  - b. Complete patent application can be done directly or before the expiry of 12 months of provisional patent application
5. Publication of application which takes 18 months normally but can be speeded up on request by filling Form and extra fees.
6. A request for the examination at IPO is to be made. It is known as (Request for Examination) RFE. It will be then given to Controller of examination of Patents and then given to patent examiners for proper examination.
7. After getting the first response from examiner about any probable objection on patent application, analysis is

done by the patent professional and if required creating of defense against it.

#### 8. Grant of patent.

As per the framework mentioned in Figure 1, Government of India, IRDAI and IPO need to work hand in hand to support the corporates to grow in all perspective. There has to be certain relaxation for the startups that are getting grants from Ministry of MSME to promote patent filing along with patent insurance in India. The procedure will be an add on the existing system of patent filing. To start with the new framework, as per Figure the first step is related to the doing the paper work which includes formation of description, checking for similar solution and clearly defining the working diagram. The next step is to file the non-disclosure agreement along with Form 28 duly filled to IPO. To continue with the pre-work, the patent applicant should also identify the prospective insurance provider authorized by IRDAI. The applicant should also shortlist the Insurance policy to opt for. In the fourth step, a request for checking of patentability and novelty should be done at patent office. Once, it is being done successfully and being published, the patent should stand insured with insurance provider on the produce of NOC by IPO. It is also required to be noted that the detailed model of patent will not be disclosed to the insurance company. Only the certificate of publication will be produced. At this movement, the insurance is provided to secure the patent from infringement. It will be a temporary arrangement for a period of maximum 2 years. In case of failure to grant because of non-disclosure or false claim, the insurance policy stands withdrawn with non-waiving of the insurance premium.



**Figure 1: Research framework for the Grant of Patent for Corporates with Patent Insurance in India**

At the end of 18 months, if there is any objection which is not being defended by the applicant successfully, the patent stand cancelled along with insurance with no refund. If it is being successfully granted or defended, the patent will be reinsured on the basis of the valuation report given by the patent office and 2-3% of value of patent will be set as the amount of patent premium. This framework will secure the patent from the time of filing patent application till it is being granted to the patentee and the life-term of the patent

#### **Suggestive measures**

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. Some suggestive measures to avoid patent infringement and to enhance the scope of patent insurance are:

- 1.Strategies like in-licensing (purchase of patent), cross licensing, inventing around (substantial changes made in the existing product or process to avoid infringement), patent pool (patents of same technology companies are combined mutually to benefit each other), etc. should be adopted to avoid infringement.
- 2.The asset-backed patent insurance should be structured to reimburse the lender for loan failure caused by the legal risk of the patents being invalidated. And it would also cover the commercial risk that the underlying patents would become valueless through obsolescence or regulatory action.
- 3.In addition to everything stated above, every company must perform infringement analysis to ensure that their products do not infringe on anyone's patents. On the other hand, they must also establish market vigilance procedures to ensure that their competitors are not infringing on their patents.
- 4.From government's point of view, a uniform patent insurance policy should be framed by the regulatory of Indian financial system. Specific instructions shall be given to banks and Non-Banking Financial Corporations

(NBFCs) for active and rigorous implementation of patent insurance policies specially for SMEs.

5. Special training sessions shall be conducted for the insurance companies and their agencies related to the promotion of patent insurance.

6. The government should impose patent insurance as a mandatory element for filing a patent which can in future with cooperation of insurance companies turn voluntary. It is essential for promoting the innovative culture in India

### CONCLUSION

Patent insurance is a boon in developed economies for IP holders. However, in the Indian market patent insurance is virtually non-existent. The scope is therefore immense. As insurance companies are now more capable of predicting the frequency and complexity of patent litigation and settlement and consequent royalty flows, they are the most appropriate providers of the securitization of patents. Hence to begin with, Government of India may consider establishing forum/panel of legal experts and engineers in conjunction with IRDA for the purpose of examining potential of Patent insurance in India. Along with that they should also take constructive steps in framing of most conducive but mandatory patent policy for the patents in India. This policy will not only help SMEs to grow but also keeps a check on the infringers of all technology based Indian companies as well as foreign MNCs.

The end result is a win-win situation where the insurance industry is rewarded for assuming risk in a new-found area of expertise while owners of patents are able to collateralize their largest asset to use as a financial tool.

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