

PATENT LITIGATION INSURANCE

a study for the European Commission on
possible insurance schemes against patent litigation risks

FINAL REPORT

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CJA Consultants Ltd
European Policy Advisers
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1. Introduction and Acknowledgements

1.1 Introduction

This report is presented in a quasi-historical manner following the sequence of the study. Following assessment of the current situation regarding insurance against patent risks, the study made a detailed study of attitudes to PLI (patent litigation insurance) by companies large and small, patent professionals, insurers and brokers. It became clear that the use of PLI was less than anticipated, but that the potential demand was large. Furthermore the potential benefit to European patents, and to European industry, from its use could be considerable.

Much attention was then given to analysing the problems, and discussing and devising schemes that could overcome the difficulties which prevented wide usage, or failure, of other schemes. As the conclusions and recommendations show, one of the keys to success may have been found, but to convert the proposed scheme - in effect a framework - into a viable insurance proposal will require further study and work with the insurance industry, companies and patent experts.

1.2 Acknowledgements

1.2.1 This study on possible insurance against patent litigation risks was directed and coordinated by Christopher Jackson MA (Director of the Study, Chairman, CJA Consultants Ltd, former MEP) Amédée Turner MA QC (Legal Coordinator, director, CJA Consultants Ltd, former MEP), Mr Ernest Kay MSc, Barrister-at-Law (Insurance and Risk analysis coordinator), Juan Iturriagagoitia (Deputy Project Director), Peter Price BA (Deputy Project Director, CJA Consultants Ltd, former MEP), Peter Cottrell (Underwriting Expert), and Susan Harvey BSc (Economic Adviser).

1.2.2 National Legal and Patents experts for the study were:

Austria – Dipl.-Ing. Werner Katschinka; BENELUX - Dr Bert Oosting of Lovells;
Denmark - Dr. Soren Stenderup Jensen of Plesner Svane Gronborg ; PeterUlrik Plesner of Holm, Nielsen and Plesner; Finland - Mrs Eva Grew of Oy Jalo Ant-Wuorinen; Mr. Pekka Valkonen of Fortum Technology Patent Services; France - Mrs Anne Desaix; Germany - Dr Heinz Goddar of Boehmert & Boehmert, and Dr. Bernhard H. Geissler of Bardelhe, Pagenberg,Dost,Altenburg, Geissler, Isenbruck ; Greece - Dr Helen Papaconstantinou; Italy - Dottoressa Francesca Moscone (Società Italiana Brevetti, Rome); Portugal - Dr Nuno Pereira da Cruz of J.Pereira da Cruz;
Spain - Ms Doris Bandin of Elzaburu ; Sweden - Mr Giovanni Gozzo;
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1.2.3 National Experts for Insurance were

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2. EXECUTIVE SUMMARY

1. No member state has any substantive law specifically on patent litigation insurance, nor has the USA, although there has been inconclusive discussion about the possibility of such legislation in some countries.
2. While schemes are marketed in the EU and the USA, including Patent, trade mark and copyright cover, it appears that in no part of the world has Patent Litigation Insurance (PLI) been particularly successful, and more to the point, particularly in relation to SMEs, no insurance scheme has shown any capacity to provide adequate cover at premiums affordable by patentees in general. This is partly because of high levels of premium and low levels of indemnity. Recent attempts by insurers in several countries to widen the market for PLI have not met with great success.
3. In France the state backed 'Brevetassur' scheme fifteen years ago did not succeed. In the USA and Japan, PLI is normally limited to defence only. The tacitly assumed successful and wide use of insurance in the USA proved to be illusory. No substantial guidance was found in the limited experience there. Everywhere high costs have meant that insurance has only been of interest to the few. In the EU, it has been estimated that under one thousand PLI policies in total have been taken up, a tiny figure in relation to the aggregate total of patents.
4. Contacts were made with patent lawyers and attorneys, insurance companies, and brokers and companies interested in patents, large and small, throughout the EU; and in the USA. The Insurance industry was contacted in Japan.
5. Of the substantial number of companies, predominantly SMEs, patent lawyers and attorneys consulted, an overwhelming proportion of companies desired insurance cover, but as much as defendants to infringement actions as patentees pursuing infringers. An equally large proportion desired cover for damages as well as for litigation costs. The patent lawyers and attorneys agreed on this although views were in some other respects different from their clients.
6. Few insurance companies offer patent litigation insurance in Europe and while there is considerable experience in Europe through Lloyd's, Allianz and some other insurance companies, the volume of such insurance has not been great. It could indeed be said that each insurance experience has been unique to its own circumstances. Only one insurance company stated a preference for compulsory insurance. However all companies were aware of possible beneficial aspects of a scheme covering all patentees, especially as to the costs and administrative aspects, and none were hostile to the possibility. In only five countries do brokers have significant experience of patent litigation insurance (Germany, Austria, Belgium, Sweden and the UK).
7. A very high proportion of patent orientated companies, patent lawyers, and attorneys considered that the possibility of the European Commission taking steps to set up patent litigation insurance throughout Europe was of interest and would be beneficial.
8. They were almost unanimous in their written responses in opposing compulsion for the take-up of patent litigation insurance, but in all cases except one this was based on the general grounds that compulsion in an economic field such as this was repugnant, with a strong undertone of hostility to the extension of EU power. It is important to note that the questions as asked did not in the least associate the possibility of compulsion with reducing costs and administrative complexity and the answers undoubtedly did not link these with compulsion.
9. Re-consideration revealed a willingness to contemplate compulsion if the savings and benefits were great enough.

10. In Denmark and Finland there is no patent litigation insurance at present though there is active consideration of the possibility in Denmark. Italy and Portugal show some interest but have no experience: the Italian market in particular appears quite unprepared for this type of insurance.
11. Three EU countries appear to show little interest: France, Spain and the Netherlands, except at official level.
12. Outside the EU, Japan shows interest but has little experience except of defence. Contrary to received belief the extent of patent litigation insurance in the USA appears small in relation to the extent of litigation and is limited to defence including damages.
13. The economic effects of possible patent litigation insurance schemes are considered likely to be significant. The cost of any scheme to users will depend mainly on the level of premium, charges for risk assessment etc and whether or not the scheme is compulsory. The position of SMEs is important as they are currently falling behind larger firms in patenting inventions.
14. Insurers showed interest in and willingness to consider a European PLI scheme. However, insurers showed considerable trepidation at the risks involved since these could not be estimated without a much better statistical base than existed, and they knew of no way of obtaining the necessary figures. The final recommendation made, namely that the Commission should research these statistics, is of the greatest importance as without this information progress is unlikely to be made with insurers.
15. The Round Table discussions with companies and patent professions in member states representing over 70% of the GDP of the EU showed substantial unanimity on the desirability of an insurance scheme covering patentees and defendants for costs and for damages for infringement.
16. While there remained an underlying hostility to compulsion, it was accepted that only a compulsory scheme could achieve the volume necessary to spread risk and permit low premiums.
17. As the study revealed no widely used schemes, it was agreed with the Commission that it would not be possible to put forward possible measures in detail. However recommendations designed to aid progress are clearly made.
18. As the base of experience is so small, there are dangers in extrapolation, but it seems highly likely that the existence of a widely used European Patent Litigation scheme would, by increasing the security and strength of a patent, encourage prospective patentees to patent their inventions. The Danish government study foresaw large potential economic benefits.
19. Round Table discussions confirmed that the expected effects of widely used PLI cover are that more patents will be applied for by small companies, because they will feel more confident of defending them. More patents will be actively exercised by the patentee approaching possible infringers, and more small and medium sized companies will respond intelligently to allegations of infringement, not simply giving in to implied threats of infringement by abandoning manufacture, as is often the case at present. It is thought likely that more licenses will be negotiated with a clearer and more accurate picture of the scope of the rights licensed. As an overall result, technological progress will be aided.
20. Wider use of PLI is thought likely to increase the amount of litigation, and this must be considered desirable as leading to greater effectiveness of the patent system. However any PLI scheme must also be designed to lead to quicker and fairer settlements, including more licensing in appropriate cases. It will be necessary to structure the policy to encourage out of court settlements. The average cost of proceedings in such a case would fall; though the aggregate costs of an increased number of proceedings would

probably rise. If patents are regarded as more useful and more are taken out, then PLI will enhance the patent system's ability to advance technology in Europe.

21. It is possible alternatively that insurance will encourage more patent applications by lessening fear of the expense of litigation without actually increasing litigation. This would also be a favourable outcome.
22. The key practical conclusions of the study are that
 - It is well worth continuing the investigation of a Patent Litigation Insurance Scheme to the EU
 - PLI should be split into two parts where the first is used to cover initial investigations, at which stage most conflicts will be settled, and the second much more substantial amount becomes available only if the risk assessment by the insurer accords the patentee or defendant or both a reasonable chance of success.
 - It is likely that any scheme will have to be compulsory (at least insofar as the basic requirements and cover of any scheme are concerned) because no voluntary scheme will attract the large number of patentees required to make it viable with a low fixed premium
 - Insurers will need better statistics to assess risk and these must be provided at an early stage
23. Companies and the patent professionals showed unanimous interest in and support for a low premium PLI scheme in which a moderate sum would be available to both sides for preliminary investigations. In the great majority of cases such preliminary investigation would settle the matter at relatively low cost.
24. Risk assessments, which are both expensive and complex, would be confined to the very small proportion of patents, roughly one in one thousand, where early settlement was found impossible. Both parties would be supported at this stage provided that the risk assessments on both sides showed a 50:50 or better chance for each. Even then, in a considerably proportion of cases the process of assessing risk is likely to result in a settlement without recourse to a full trial.
25. While a very wide range of possibilities was considered, it became clear that the range of practical possibilities was narrow and involved:
 - Low premiums (say 300-600 Euros pa)
 - Compulsion
 - No initial risk assessment at the first stage
 - A restricted amount for initial investigations (say 35,000 Euros)
 - Cover for patentee and defendant
 - Substantial encouragement for early settlement.
26. On this basis the study outlines a scheme and options(see Conclusions, section 14; Recommendation, Section 18 and a table of options for the scheme, Appendix D) that could be further developed by European Commission with insurers, companies and patent attorneys, and describes other schemes from which elements could be drawn. Further work is needed, with patent professionals, companies and insurers, to develop these basic ideas into a scheme that is viable and in which all sides could have justifiable confidence. Nonetheless this study seems to have begun a change in the attitude of certain prominent insurers, initially opposed, in favour of a compulsory scheme.
27. There are considerable difficulties to be faced, notably ensuring the participation of major insurers, and getting a scheme started. No one should be in any doubt that this would be a major task. However, it appears that the elements of a practical scheme may have emerged.

3. Summary of work during the study

3.1 Current situation; selection of countries for study

3.1.1 The current situation in all EU Member States and the USA was checked with national experts in all EU Member States and the USA to confirm countries that have or have had an insurance scheme for patent litigation costs; or that were considering in some form or other possible schemes for patent litigation costs. The selection of countries for the 'varied spectrum of EU states' was then made and reviewed in consultation with the Commission at the meeting on 4 March 2002. It was decided to make more detailed study of all the large EU countries (France, Germany, Italy, Spain, UK) and the following other member states NL, DK, Portugal, Finland. In addition the USA was studied.

3.1.2 The selection was later increased by the addition of Greece, Sweden and Austria, because of the general lack of experience of such insurance. Insurance information was also sought from Japan in which, though not formally included in the study, interest had been expressed by the Commission.

3.2 Exploration of relevant aspects of national laws in all Member States and the USA.

3.2.1 Comprehensive questionnaires relating to patent litigation insurance were developed to elicit the opinions of

- Patent experts, including attorneys, agents and lawyers, and patent offices
- Insurance experts
- Large industrial companies
- SMEs, including their general organisations and specific SMEs selected by patent lawyers and Insurance brokers because of their involvement and actual litigation experience in pursuit of infringement of their patents or defence against allegations of infringement

3.2.2 The questionnaires were further developed in discussion with the Commission and simplified to include a number of YES/NO answers. They sought in particular to clarify experience of and attitudes to issues relating to costs and damages; insurance and premiums; and funding.

3.2.3 The National experts developed lists of those to be contacted, and questionnaires were sent out mainly by email. Where difficulties were experienced direct contact was made by the Legal and Insurance co-ordinators, who carried out a number of telephone interviews.

3.2.4 It was decided to approach Member States' Patent Offices in the stage immediately after the interim report, with the advantage of knowledge of the national situations.

3.2.5 As the degree of knowledge of patent litigation insurance turned out to be less than originally anticipated, a considerable number of additional telephone interviews were conducted.

3.3 Development of Stage II of the project

3.3.1 Meetings were held with the core team to discuss the findings, in the light of these the development of the project in accord with the requirements of the Commission

3.3.2 The overview of the situation country by country, giving the situation and the opinions of those consulted was prepared by Legal and Insurance co-ordinators.

3.4 Information on financial and economic aspects

3.4.1 The Danish Study on the economic impact of possible patent litigation insurance was considered with the Economist, and consideration given to the way in which the second phase of the study could produce the most useful information. An interim assessment of financial and economic considerations was made.

3.4.2 The questionnaires provided an initial appraisal, comparing countries with and without such insurance schemes, and inter alia estimating the risk, if any, that such schemes would increase the cost and length of proceedings.

3.5 Development and assessment of a range of options

3.5.1 While the comments of the European Commission on the Interim Report were awaited, the Co-ordinators developed a wide range of options that it might be possible to apply at the European level.

3.5.2 The second one day meeting with the Commission was held at this stage. The possibilities and promising interesting lines of enquiry and proposals were discussed, and the Commission's views sought. Emphasis was placed by the Commission on clarifying the widest range of options, including those that were to be ruled out.

3.5.3 The Options developed by the Coordinators took into account variations from minimum cover to maximum cover for patentees for costs; whether and how to take into account damages awarded; and whether insurance should be compulsory or not. A similar range was developed for defendants to

infringement actions, covering either costs and damages or just costs. A wide range of insurance providers in the market was consulted, and a group of the most expert providers provided a forum for further consultation.

3.5.4 Insurance experts from Europe and the USA were invited to a meeting in London under the auspices of the ABI, and asked to comment fully on all possibilities whether or not they favoured them, setting out all difficulties and advantages, and giving their own preferences. A telephone conference link to the United States enabled a key insurer from that country to contribute. Aspects of likely cost and risk were covered.

3.5.5 Particular attention was paid to ways in which a compulsory system could work for

- (a) patentees
- (b) whether and to what extent it was relevant to defendants in infringement suits
- (c) the possibility of insurers operating such a scheme commercially.

3.5.6 Based on this work, possibilities were refined in a document called 'Various possible Options' which was circulated to participants in the Round Table Discussions.

3.5.7 In the light of the responses to the initial questionnaires (which revealed not only less use, but in most countries less interest than had been expected) and the discussions with the European Commission, it was decided that for the next phase personal contacts and discussion should be maximised.

3.5.8 The approach was therefore modified and arrangements made for the Legal coordinator to visit and hold Round Table discussions in the following countries to discuss 'Various possible options':

- France (a country with less interest)
- Germany
- Greece
- Austria
- Finland
- Denmark
- Netherlands (a country with little interest)
- UK

3.5.9 The meetings were held sequentially with the results from the earlier meetings being used in the later meetings. This greatly benefited the study.

Those invited to and attending the meetings included

- SMEs and medium sized companies
- Patent lawyers
- Patent Attorneys
- Major multinationals

- Large national companies
- Certain national representative organisations (e.g. SMEs; patent lawyers, national patent offices etc)

3.5.10 Meanwhile the Risk and Insurance coordinator continued discussions with insurers and brokers to clarify further the various schemes and possibilities, together with the practical criteria for progress. An additional round table was held in London attended by most of the key insurers. At this the results of the consultations on 'Various possible options' were discussed and further consideration given to possibilities, concerns and additional information needed by insurers.

3.5.11 The Legal Coordinator and the Economic Advisor consulted, in parallel, various Patent Offices, economic ministries and other sources to produce a conspectus of the situation which was used to give depth to the final considerations.

3.5.12 The study compared countries and companies that had already utilised litigation costs insurance, with those that have not. Possible effects on technological development in the EU were studied. The risk, if any, that such schemes would increase the cost and/or length of proceedings was considered, and as far as possible, quantified in discussions with companies, patent experts, and insurers. It was also considered by the Economic Advisor. The financial and economic aspects of the problem were studied, but the lack of substantial experience even in countries with such insurance schemes rendered it impossible to make a meaningful comparison between countries with and without schemes. However given the lack of experience of IP insurance, the risk that such schemes would increase the cost and length of proceedings similarly had to be largely theoretical or based on industry opinion.

3.6 Continuation of the Economic financial appraisal

3.6.1 The Economic advisor meanwhile extended the consideration of the economic aspects, paying particular attention to the micro-economic impact for small companies and to the possible impact on the operation of the patent system, and financial impacts.

3.7 Recommendations

3.7.1 Based on the information gained, and the expertise of the Coordinators, a series of schemes relating to different options which might be employed at European level were described. These took into account earlier efforts at various forms of

insurance and those in existence in Europe, USA and Japan. The problems relating to these were considered in some detail.

3.7.2 Finally, a clear recommendation for the basis of a possible scheme was made. This was developed from among the series of options for possible action at EU level.

3.7.3 In the last stages of the study, other recommendations and options relating to action at EU level, with justifications, were prepared. Possible methods of financing including patentee and defendants' premiums, international funds and mixed systems were considered.

3.7.4 Since the basic situation was more tenuous than had been expected (in the sense that IP insurance was less used) it was agreed with the Commission at the end of the first stage, that thought would be given to further information and analysis that might be required. Recommendations relating to this were included in the report.

4. The legal situation

4.1 Substantive law in Member States and the USA.

4.1.1 The legal situation was checked with National Experts in every case. It is simple:

- None of the Member States has any law specifically on patent litigation insurance, nor does the USA.
- None of these countries has had any such law in the past.
- There has been inconclusive discussion of the possibility of such legislation in the Netherlands and Sweden; and in France and Denmark (including by their patent offices).
- There has been some discussion (unofficial) in the USA about legislation on patent litigation insurance because cover is available

4.1.2 There is of course much legislation at EU level, and differing national rules and legislation (including taxation), applying to insurance in general. None of it is particular to patent litigation insurance .

4.1.3 In further consideration of the legal situation in the context of possible schemes it became clear that in some countries detailed aspects of national insurance or taxation law are involved. It is possible that these will require a certain amount of harmonisation (or national agreement) in due course but as basic issues do not arise, full consideration of these should be delayed until the basic shape of any proposed Scheme has been settled.

4.2 Statistics – the factual situation

4.2.1 National Patent Offices have outlined the statistics that they have available. Generally it is accepted that beyond general statistics of number of filings, and numbers of patents granted and maintained, and their life, the statistical base is less good than one would wish. National Patent Offices and the EPO have periodically made efforts to get wider statistics. However, the patent office statistics will be a vital counterpart to statistics from the legal profession and industry, when the latter are more fully available. Both national and industry statistics are required to enable proper actuarial calculations to be made to decide premium levels. The cost of cover indicated elsewhere in this report is based on discussions with insurance industry, and litigation figures relied on have been based on informal discussions with patent practitioners, and checked in the Round Table discussions.

4.2.2 Although there will be a degree of doubt, generally speaking practitioners and in particular their professional associations in each country will be able to give reasonable estimates of the number of patent actions, their general cost and length, the number of cases settled during the court action, the number settled before reaching the door of the court, and the number of significant inter party investigations leading to taking a licence or to an acknowledgement that none is needed.

4.2.3 While the degree of accuracy is uncertain, subjective estimates will be possible. Furthermore a plurality of estimates in each country will give a good indication of the reliability of the figures. Round Table discussions with legal professionals indicate that with a fair degree of coordination in each Member State, the professionals will be able and willing to give the necessary information, although they themselves will play down the completeness and representativeness of their figures.

4.2.4 One necessary statistic will be the proportion of patents split between multinationals, large national companies, and SMEs. It has not been ascertained to what extent the National Patent Offices can give these figures.

4.2.5 Insurance sources indicate their own statistics are confidential. It seems likely from the Round Table discussions with patent practitioners that with coordination in each Member State it would be possible to obtain sufficient reliable information to enable the insurance companies to make their calculations. However insurance companies have no confidence in their ability to obtain these statistics.

5. Historical Overview of Patent litigation insurance (PLI)

5.1 Schemes now available

5.1.1 The range of schemes now available is considered in Section 7. If anything the market, already small in relation to the number of patents may be weakening. Poor risk experience by insurers, the impact of '9/11', lack of interest in and dissatisfaction with insurance products on offer all play their part.

5.2 Lack of success of PLI

5.2.1 Historically, the provision of IP Insurance, of which Patent Litigation Insurance is a part, has not been successful throughout the world. There have been various reasons for this of which the most important appear to be

- High level of premium (for example averaging 20-50,000 Euros annually)
- Low level of indemnity, perhaps 200,000 Euros in large countries where costs are highly variable
- Lack of awareness of the insurance
- Low level of appreciation of the importance of patents
- Inadequate understanding of the limitation of a patent grant and the need to be able to litigate to enforce
- Poor experiences in the past with conflict between insured and insurer
- Bad press reports from professional bodies such as CIPA

Restricted scope of policies including

- low indemnity
- territorial restrictions frequently exclude the USA and Canada
- need for complex and expensive evaluation of risk for insurers
- burdensome restrictions and exclusions
- poor definition of the IP covered leading to disputes with insurers

5.3 Attempts to overcome problems

5.3.1 Attempts were made some six years ago by Lloyd's of London to overcome some of these problems and new policies were devised and offered. Because of the lack of awareness and understanding by most insurance brokers and by industry itself, and the high level of premium with associated cost of risk assessment, these policies have had relatively few takers – perhaps 200 to 250 in total.

5.3.2 Over a period of some 20 years, the earlier simpler policies had only some 400 – 500 takers. Thus the total experience in the EU is estimated at only 750 policies over a period of 25 years, which is extremely small in relation to the number of patents.

5.4 French experience

5.4.1 A major attempt to gain wide availability for patent litigation insurance was made in France. A report by Arthur D Little for the French patent agency INPI¹, examined the record of, and the prospects for, patent litigation experience in France. From 1986-1994 an unsuccessful experiment "Brevetassur", was mounted with the aim of promoting innovation. This was a standardised insurance policy produced by co-operation between public authorities, industry and the insurance sector. Limited to patent applications or patents with legal effect on French soil, the policy had to be taken out within six months of filing of the patent application. It covered 85% of the litigation costs. Most insurance companies quickly stopped selling these policies and terminated those in effect.

5.4.2 The French Ministry of Economy published a study in 2000 comparing the cost of IP litigation in France Germany England United States Spain and the Netherlands. Their conclusion was that infringement litigation under common law procedural rules was much more costly than in Roman law countries, in terms of time spent by lawyers in the discovery phase. In addition lawyers' fees were higher in the common law countries.

5.4.3 While past experience has left a residual antipathy within France to patent litigation insurance, at official level interest remains strong. It is felt that an insurance system would be a means of encouraging small and medium-sized businesses to patent their inventions. Currently SMEs remain reluctant to patent inventions, not least because if a law suit arose (from pursuing an infringement of their patents) they would be obliged either to give up pursuit, or accept an unfavourable settlement, because they lacked the considerable funds required to fund the expenses involved.

5.5 German experience

5.5.1 In Europe, Allianz offered 'defence only' in a very limited way in Germany, having considered and rejected the possibility of proceeding in France. Gerling offer a patent Litigation insurance in a limited way in Germany.

¹ "What IP coverage should be used by companies?" - study by Arthur D Little For INPI, published May 2002

5.6 USA experience

5.6.1 Insurers in the USA experienced much the same apathy as did those in Europe for the IP insurance schemes they offered.

5.6.2 AIG, Chubb, Lexington, National and others have offered IP insurance to US companies but the insurance was usually limited to defence only namely those instances where the manufacture or sale of a product infringed the IP rights of others.

5.6.3 The pursuit litigation aspect, where the patent rights of an insured inventor were infringed by a third party, was generally excluded, the principal exception being Intellectual Property Insurance Services Corporation in Louisville. Litigation Risk Management Corp. remain an important player offering IP insurance (again defence) and have had contacts with the French Industrial Office in Paris. A Questionnaire was circulated by LRM in February 2002 this year, the results of which are not known.

6. Attitudes of patentees, patent lawyers and attorneys to PLI as evidenced by written responses

Preliminary Note:

It should be pointed out that the figures for opinions are on occasion, particularly for the lawyers, low in relation to the total of those responding to the Questionnaire. When figures are low this indicates that a considerable number of respondents have not answered the question. This in itself of course is a matter of significance indicating either uncertainty in the minds of respondents concerning the issues being considered, or possibly lack of concern.

6.1 Patentees in their guise as defendants in patent infringement actions

6.1.1 The first point to appreciate is that patentee companies are fully aware that they may equally be defendants in patent infringement actions as easily as they may be plaintiffs. This basic fact is made clear in the responses at the outset of the Questionnaire, where in the third question (2.3) when asked what extent of insurance protection they would be interested in, 26 companies state their interest in pursuit of infringers and 28 in defence against allegations of infringement, while 10 are not interested as patentees and 8 are not interested as defendants. This is a very clear message.

6.1.2 It is inherent in patent thinking that a defendant company is considered as meritorious as a patentee because almost invariably the defendant believes either that it does not infringe the patent sued on and/or that the patent is invalid, and/or that it is unjustifiably broad in covering the defendant's operations. This is borne out by the fact that technical questions of validity and infringement which may come to Court will never be given a better or worse chance of success than 60:40 or 40:60, and in reality this margin would be admitted by legal practitioners to be even closer than this.

6.1.3 It is not until questions 7.1 and 7.2, nine pages later in the Questionnaire, that the defendants in contemplation in the Questionnaire are defined as "non-culpable", i.e. "because the company had no reason to know of the patent; or because it reasonably believed the patent to be invalid or too broadly drawn; and/or because it reasonably believed it does not infringe." In other words, the respondents to question 2.3 assumed the defendants' belief in non-culpability when answering this question before finding the point set out expressly in questions 7.1 and 7.2.

6.1.4 When asked in question 7.1A whether insurance cover for the risk of infringement is

desirable, 23 companies answered "yes" and 6 "no". When asked in question 7.2 "If the EU were to take positive steps to encourage and support insurance for patent owners in infringement litigation do you consider that there is an obligation for the EU to give comparable encouragement and support to defendants?" the answers are 17 "yes" and 14 "no".

6.1.5 In other words, the desire of companies to have insurance for defendants is based primarily on their own conceived interests and only secondarily on any conception that the requirement of fair competition imposes a duty on the Commission in this respect.

6.1.6 There is no significant difference in national attitudes on this issue, but see Section 4.13.

6.1.7 The desire of companies for insurance protection against infringement actions is also not based primarily on the belief that it will encourage technical advance or technical application (question 7.1B). In answer to this, 11 say "yes" and 16 say "no".

6.1.8 Of patent lawyers and patent attorneys (hereafter called "lawyers"), 16 state that they are interested in insurance for defendants, and 5 state that they are not (question 2.3B). Thus they are not quite so firm on the question of insurance for defendants as the companies are.

6.2 Likely future involvement with PLI

6.2.1 Twenty five companies state that they might be involved in the future with insurance for IP litigation in respect of their business activities, against 13 who do not expect to be involved (question 2.1.A).

6.2.2 It is very noticeable that lawyers take a quite different view, with 6 stating "yes" and 13 "no", the rest not answering clearly.

6.3 Desire for PLI to Cover Damages

Question 2.3D asks whether the respondents would be interested in insurance protection for damages as well as for litigation costs. Here, for the first time, companies and lawyers agree, 27 companies and 17 lawyers say "yes" and 8 companies and 3 lawyers say "no". These proportions are as overwhelming as are those relating to protection for defendants and likely future involvement in insurance in relation to patent litigation discussed above.

6.4 Desire for EU Commission Action

Question 2.7 asks for the view taken of the possibility "of the European Commission taking steps to set up a patent litigation insurance throughout Europe. Would it be of interest to or

beneficial to you or your clients?" This question is very general, not referring to a "scheme", a "system" or "regime", etc. The answer is overwhelmingly clear, 30 companies and 19 lawyers say "yes" and 7 companies and 3 lawyers say "no". Companies and lawyers support steps from the Commission to a comparable degree of intensity. Three comments are notable: "my view is generally positive provided it (the Commission) is even-handed between patentees and possible defendants;" "SMEs would be provided with the funds to enforce their rights against infringements, when now they may be put off by the costs involved;" "the value and administrative convenience depend strongly on the details of the schemes, a scheme that demands very detailed analysis of patent validity and third party rights and products but which only offers a modest contribution is of no use."

6.5 Conclusions on Intervention, desire for PLI, inclusion of Defendants, Damages, and Costs.

It appears undeniable that there is a clear desire by the companies for intervention by the Commission in the provision of patent litigation for patentees and defendants to cover costs and damages. The lawyers on the other hand do not support protection for the defendants as clearly and do not believe so strongly that they will be involved in the future in insurance for patent litigation.

6.6 Opinion in One Direction on Compulsory PLI.

6.6.1 It is quite clear that at present companies and lawyers are opposed to compulsion on the question of insurance. 32 companies and 29 lawyers are in favour of voluntary insurance (question 2.8a). Only one favours compulsion. Furthermore, in the comments to the questions where opinions are requested these are expressed very forcibly indeed with regard to this point. Typical expressions are: "opposed absolutely;" "strongly oppose." One, however, comments: "compulsory cover would be attractive as cutting down administration."

6.6.2 Apart from hostility to Commission interference in general and to an indication that insurers may obtain unfair benefits from compulsion, there is no indication of any reason against compulsion related to insurance itself, other than a hostility to the imposition of costs on small companies which can ill-afford them. This attitude is not expressly based on any weighing up of advantage versus disadvantage through added protection at added cost. In other words, the respondents are not able to quantify whether added compulsory costs would be worth the added

compulsory insurance protection. One lawyer respondent refers to a specific cost problem (cost of risk assessment). Other than this, the hostility is general towards Commission interference and insurance interests: "a honey pot;" "victory for the insurance lobby;" "keep the EU out;" "EU should leave industry alone and confine its activities to advice". Reference to imposed costs: "up to the individual;" "barrier to SME's patenting;" "added burden, disincentive to patenting;" "added unwelcome costs;" "extra burden on top of start up costs;" "the cost of risk assessment is not cost feasible."

6.6.3 It is obvious from the present responses that if there are very clear advantages in a compulsory scheme in bringing down premiums, these will have to be justified very clearly if they are necessary to enable companies to obtain the objectives, which they very clearly show their desire by their responses in sections 4.1 to 4.5 above.

6.7 Perceptions why PLI has not succeeded in the past.

6.7.1 There is certainly a recognition that patent litigation insurance has not taken root in Europe hitherto. The respondents were asked (possibly misleadingly) to compare the situation in Europe with that in the USA. However, even despite the possibly inaccurate assumption that insurance has been successful and taken up widely in the USA and parts of Europe, the explanations given by respondents to question 2.9 are interesting. The question was "What do you think are the principal reasons why the various IP insurances available in the USA and parts of Europe and elsewhere have not found wider acceptance by inventors, SME's and large corporations?" notable comments are: "lack of knowledge of what is on offer;" "large companies do not need insurance;" "SME's cannot afford it;" "cannot afford full risk assessment;" "in early days of exploitation funds are scarce;" "the cost of due diligence;" "the company is threatened with fees, rules and exclusions resulting in no interest;" "it would be far more useful to reduce costs of patenting;" "it is very expensive, the cover unclear, the insurer has to agree every step;" "the vast majority of companies never have litigation and insurance is therefore an unnecessary overhead;" "in Europe patents are respected in the chemical field;" "European costs are low and patentees are not afraid to sue;" "the risks in the USA are much higher and there is a US litigation culture and higher damages;" "SMEs are enthusiastic, patentees show extreme caution, large companies have less interest;"

“there is a general uncertainty that the insurance will be useful when the crunch comes;” “suspicion of the small print in policies;” “the cost of dealing with litigation through and with the consent of the insurers increases costs and relinquishes control;” “professional lethargy, apathy of IP lawyers;” “attitudes need to be changed to make it more acceptable;” “losing freedom of decision to external insurance attorneys;” “in the case of patent applications based on qualified research and done by qualified personnel there really is no need;” “lack of understanding of the vital importance of IPR to the inventors;” “insurance brokers do not reach private investors;” “insurance is more important for defendants than for patentees because the patentee only sues if he has a good position, but the honest defendant will not get all the costs and the premium will be too high;” “probably less than one in a thousand patents goes into litigation. The real interest will probably be more in insurance as a defendant.”

6.7.2 It is obvious from these comments that European companies and lawyers feel that they do not know enough of the realities of patent litigation insurance, and, in view of their answers referred to in sections 4.1 to 4.4 above, they presumably wish to know more, and would hope that greater knowledge would assist them to acquire patent litigation insurance.

6.7.3 If in fact the distinctions drawn between US and European conditions are not accurate, it may well be that companies and lawyers in the US would, if asked to respond, say that they have to some extent the same lack of knowledge as that felt to exist by companies and lawyers in Europe.

6.8 Bearing the Cost of Risk Assessment

One further general point remained, although in this there is no clear single view. This is the acceptance of the costs of risk assessment. Question 2.8c asks whether “You would be prepared to pay the cost of any risk assessment or IP survey needed by insurers.” Technically this only concerns companies, but both companies and lawyers answered. 15 companies and 8 lawyers said “yes”, and 21 companies and 13 lawyers said “no”. Clearly therefore the cost of risk assessment (if required) is an important issue in any consideration of the proposals which may be put forward.

6.9 Less Basic Matters of Greater Detail on Which Less Clear and Not Preponderant Opinions Were Given.

6.9.1 There are many issues on which no clear opinion is visible in the responses because many

respondents felt unable to give a view. These are outlined below.

6.9.2 The territorial extent of protection
Although 26 companies and 15 lawyers wanted worldwide protection compared to 8 against in each case, 9 companies and 12 lawyers wished to confine protection to the EU, with 17 and 5 respectively against.

6.9.3 Premium levels

Only a minority of respondents suggested premium levels, these varied from 200 to 1500 Euros for European protection and 200 to 2500 Euros for worldwide protection. In view of the minority replying these are only slightly indicative.

6.9.4 Views based on experience

In view of the very small proportion of respondents having experience of patent litigation insurance (to be expected when the proportion of litigated patents is very low) the answers to question 4 on actual experience of insurance in patent litigation have not been analysed because insufficient is known from the responses of the conditions or the outcome of the insurance cases reported. Cases identified will have to be studied individually to obtain useful information.

6.9.5 Ancillary costs which may be protected by insurance

There are listed in questions 3.4.1 to 3.4.9 and in questions 7.4.1 to 7.4.8. Responses were low but generally favoured insurance for most of these costs.

6.9.6 Insurance for community patents or European patents

The responses to these questions (questions 3.5, 3.51 and 3.52), when made, get bogged down in questions of the future of the community patent and are therefore not particularly helpful.

6.9.7 Assessing the value of insurance

The table of question 5.3 was misunderstood by many respondents. As a consequence it can only be said that of those which answered appropriately a high proportion rated the value of insurance to a patentee as “low” and a similar number rated the cost to the patentee of insurance as “high”.

6.9.8 Distinction between risks

Question 5.6 attempted to separate certain risks. However, their answers were not particularly clear. Probably the questions were in some cases too cryptic and regarded as premature for answer.

6.9.9 Question 6

Question 6 asks for yes/no responses to four questions separately for compulsory and for voluntary insurance. In view of the very clear

answers on compulsion are given to questions 2.8.a., answers 6.1.1, 6.1.2, 6.1.3 and 6.1.4 should be ignored. Questions 6.4.1, 6.4.2, 6.4.3 and 6.4.4 make it clear that support for protection for EU patentees on non-EU equivalent patents outside the EU is low compared with protection for EU patents of EU domiciled patentees. Questions 6.2, 6.3, 6.5, 6.6 and 6.7 called only for comment, but elicited little.

6.9.10 Equivalent patents outside the EU
Responses to question 6.8 show that there is an almost equal division of opinion amongst companies as to whether insurance arranged in the EU should cover patents equivalent to EU patents outside the EU. Among lawyers the clear majority favours this.

6.9.11 Families of patents
Similarly, companies divide equally on the importance of covering individual patents or families of patents (see question 6.9), though for this question companies and lawyers agreed.

6.9.12 Exclusions, self-insurance, co-insurance.
On these questions (questions 6.11, 6.12 and 6.13), it will be necessary for the companies and lawyers to be consulted once the insurance interests have made a variety of proposals with costs attached.

6.9.13 Appropriate cover for defendants
Clear indications are given in responses to questions 7.4.1 to 7.4.8 on what is appropriate cover for defendants. The right to costs and damages is very clear from the responses. The other possible items of cover less so, and the final conclusion which the companies and lawyers would arrive at will depend on more detailed proposals from insurers.

6.9.14 More Specific Alternatives now Required from the Insurers to the Customers
The many issues raised in section 4.9 above are open to many alternative solutions. They may raise considerable issues on the insurance interests' side. In some cases apparent preferences shown by the "customers" (the companies and their advisers, the lawyers) may raise problems disproportionate from the insurer's point of view, but as opinion in the answers is fairly equally divided on these issues, it should not be difficult to find solutions satisfactory to a majority of the companies. These must be re-considered after the insurers have had an opportunity to see the customers' points.

6.10 Premiums for Defendants

6.10.1 Responses call for conditions for defendants to be equivalent to those for patentees. This is indicated in responses to questions 7.1, 7.2, 7.10 and 7.11. This issue will certainly pose difficulties for insurers when making proposals. If the

Commission is to provide for equal treatment for defendants and patentees, insurance must be available for a defendant at the latest once the defendant is identified by the start of proceedings/.

6.10.2 Thus the defendant may not be identified until the specific risk is identified. On the other hand the patentee is identified from the start, and receives cover for what is an unlikely event (an infringement of his patent). Clearly the premium for the defendant, if it is to be comparable with provisions made for patentees, must be predicated on some criterion other than the odds of success in an identified infringement action. Insurers rightly point out that insurance for potential defendants cannot be compulsory as – taking it to the extreme - all companies in Europe could be potential defendants. The link, if any, to premiums paid by patentees is a matter on which further thought will be required. It is in this respect that the attitudes described above in Section 4.6 are of cardinal importance.

6.11 National Leanings

6.11.1 Although there is a distinction between patentee companies and lawyers as indicated frequently above, there is no clear distinction between respondents from different EU member states. Experience while obtaining responses showed that respondents from Italy, Austria, Finland, Denmark and Greece responded quickly and completely and with what might be called a positive attitude. Respondents from Germany and Britain, though fully committed to taking part, actually put pen to paper very often only after considerable urgings. This appeared to be not out of reluctance or lack of interest, but out of pressure of work, and this fact itself probably could be considered to differentiate national views to the extent that in Germany and Britain the issue is relatively academic in the daily concerns of those answering the Questionnaire. In the cases of France, Benelux, Spain and Portugal, although substantial numbers of lawyers and companies personally contacted by their colleagues (in the case of lawyers) and by their lawyers (in the case of companies) and were sent questionnaires, few were filled out. At any rate in the latter two countries this appears to be partly due to a more diffident attitude on the part of those requesting the filling out of the questionnaires to their brother lawyers and clients. This probably is a cultural matter. Later experience seems to confirm the relative lack of interest in Spain, Portugal and Netherlands.

6.11.2 Although no clear distinctions can be drawn on a national basis, it is worth remarking that

German and Italian companies were practically equally divided as to whether patentees should be insured (unlike other nationalities which were strongly in favour), but were very supportive of insurance for themselves as defendants (as were companies of all other nationalities). German companies were the only ones not predominantly to support insurance for damages (they were equally divided). Companies of all other nationalities were predominantly in favour of insurance for damages. Although companies of all nationalities predominantly supported the proposition that if the Commission encourages and supported insurance for patentees they were under an obligation to give comparable encouragement and support to defendants, German companies were strongest in their support for this.

6.11.3 German lawyers do not support the above opinions of German companies. In fact European lawyers as a whole are almost homogeneous in all their responses. It has already been pointed out where they depart from the companies' views (Section 4.1.8 and 4.2.2).

6.12 Patent lawyers and attorneys in the USA

6.12.1 Responses from the USA.

6.12.1.1 A certain lack of interest by lawyers and companies with no obvious involvement in any future official patent litigation insurance project in the EU, affected the volume of responses in the USA. There was undoubtedly a feeling of distance from the enterprise and a lack of interest therein, together with a perfectly justified attitude of "What's in it for me?"

6.12.1.2 However it is clear that the USA does not provide the useful example we had expected of successful and cost-effective insurance on a wide scale, which would meet the desires of the companies and lawyers in Europe answering the Questionnaire.

6.13 Public Consequences from a European-wide Insurance Facility

6.13.1 The interest and self-interest shown distinctly by the responses of companies, and less so by lawyers, (see sections 4.1, to 4.6 above) in EU-wide insurance is clear. However, it is curious that the respondents do not have a clear view of general public interest also being served by EU-wide insurance. Indeed it seems that at the present time respondents do not associate public good with the desire for insurance which they clearly evince for themselves. This has already been noted in regard to the effect on technical advance and application by companies threatened by patent infringement actions

(questions 7.1B, see section 4.1.7 above where opinion was very divided on the point). It should be noted, however, that response levels to question 7.1B were low, indicating general uncertainty on the point. It should therefore be explored further in the second stage of the project.

6.13.2 The specific question raised in the proposal as to whether an EU-wide insurance would cut the cost and length of trial was put to the respondents in two questions: one relating to insurance of patentees and the other to insurance of defendants, although the responses suggest that the distinction between the two was not clearly recognised. These two questions, 6.16 and 7.13 called for comment, not for yes/no responses. Typical answers from the companies were: "higher costs, longer time;" "less willing to settle;" "more willing to settle;" "slow and bureaucratic in Europe compared to US and Japan;" "litigation more likely and more prolonged;" "aggravating." Lawyers responded: "would increase both;" "utterly unpredictable;" "would deter defendants from fighting;" "insurance for patentees would increase costs and time;" "insurance for defendants would decrease these."

6.14 Conclusions re attitudes of Patent Lawyers: substantial interest in PLI ; concern about costs; initial hostility to compulsion

6.14.1 Substantial interest - There is very substantial interest in the concept of insurance in patent litigation for defendants as much as for patentees (sections 4.1 and 4.2 above), for damages as much as for costs (section 4.3 above). There is much support for a lead to be taken by the European Commission.

6.14.2 Concern about costs - Apart from the reaction to the issue of compulsory versus voluntary insurance (see section 6 above) there is considerable concern shown about costs, it would seem clear that if a compulsory insurance were required perhaps with an opt-out, in order to render the costs negligible, the question of voluntary versus compulsory insurance would be open to further consideration by the companies.

6.14.3 In the first stage it became evident that a compulsory insurance system which could not be seriously argued to add to the burden on SMEs and start-up companies might well, once the initial hostile reaction to compulsion is overcome, be found acceptable by the customers. This would be a question of weighing up the responses on compulsion with those relating to costs (see inter alia sections 4.7, 4.8, and 4.9.2 above, relating to questions 2.8.c, 2.9 and 5.3).

7. Attitudes of insurance companies and insurance brokers to PLI

7.1 General comment on use of patent litigation insurance.

7.1.1 Of 14 EU countries surveyed, in only seven were there insurance brokers or insurers having experience of any kind of patent litigation insurance, whether in the broader sense of IP insurance or in the more limited and more relevant context of patent insurance. These were, in order of size, USA, Japan, Germany, UK, Sweden, Austria, Belgium, Finland

7.1.2 The remainder, Denmark, Finland, Portugal, Spain, Italy, France and the Netherlands indicated that they personally had no experience of patent litigation insurance and in most countries except France, there was little or no knowledge of such an insurance, and in some cases, it seemed, little interest in such insurance.

7.1.3 Two important views emerged from brokers and insurers in most countries (though interestingly not France or Spain):

- The majority agree that there would be **interest in and benefits to be gained from a patent litigation insurance throughout Europe**
- The greater majority initially indicated that this insurance ought to be voluntary. However, this view reflected existing insurances that carry a high premium and usually cannot be obtained without some form of risk assessment for the insurers. It was felt that such a financial burden ought not to be inflicted as a compulsory insurance. It was not generally realised that certain types of compulsory insurance could carry a low premium, no risk assessment and a minimal amount of administration.
- On probing, **most of those consulted agreed that if an inexpensive compulsory insurance could be effected it ought to be seriously considered**

7.2 EU Countries with experience of operating PLI insurance - the UK Germany Sweden, Belgium, Finland.

INSURANCE COMPANIES

7.2.1 Few insurance companies offer patent litigation insurance in Europe, the main one being Lloyd's of London in the UK, others being Allianz and Gerling in Germany. Most replies (3) were from Lloyd underwriters. Allianz and Gerling also replied.

7.2.2 IP Syndicates at Lloyd's have considerable experience of such insurance, spanning more than 20

years and extending worldwide. They are currently actively offering a full IP litigation insurance on a worldwide basis. Allianz have more limited experience and are currently offering a restricted form of insurance (defence only). It is only Lloyd's of London that appear to have knowledge and practical experience of instances where patentees have been involved in patent litigation while having the insurance; however they were unwilling to disclose details because of confidentiality restrictions.

7.2.3 Only one insurance company preferred compulsory insurance, while others were opposed. Lloyds and the ABI also indicated opposition to compulsion. The comments of the German insurer in respect of this are: "compulsory insurance creates an administrative system with a cost structure. Voluntary solutions where patentees elect if they wish to incur the cost are preferable. We do not believe in the need for compulsory insurance. The EU should not play any role, market developments are preferable"

7.2.4 However despite this, the extent of insurance is believed to be very small in relation to the numbers patents granted, perhaps of the order of 750 policies.

7.2.5 Comments of the insurance companies are summarised as follows:

- Private solutions are preferred as being of most benefit to clients
- Obstacles to progress are high level of premium and the need for expensive risk assessment
- Lack of awareness and of its current coverage
- The premium should be a function of anticipated profitability. The product could be offered on the basis of pre agreed criteria and determination of these criteria would clarify what it would cost
- Extremely exciting project but the aggregation of risk and the potential for catastrophic exposure would need to be managed carefully
- Compulsory insurance is only justifiable in the interests of the Community at large. If it is felt that the Community suffers because the patent system is not credible due to difficulties in enforcing or defending rights then cover on a broad worldwide basis should be considered
- The cost and benefits and the ethical implications of the insurance should be determined.

INSURANCE BROKERS with experience.

7.2.6 The five countries where brokers have experience of patent litigation insurance are

Germany, Austria, Belgium, Sweden and the UK. Of these, it is only in the UK that brokers have extensive, practical knowledge of the various forms of patent litigation insurance currently available and with global experience of both placing and managing through claims procedures; and knowledge of instances when patentees have been involved in patent litigation while having any form of insurance for the litigation.

7.2.7 In Belgium one broker has had considerable experience of the insurance and was able to constructively comment both on the present situation and future considerations.

7.2.8 In Germany, Sweden and Austria, experience is more limited and their comments must be viewed with caution. It is interesting to observe that four brokers recommend compulsory insurance and of those who initially recommended voluntary insurance, most were of the opinion that a correctly structured, low premium, high indemnity, without risk assessment, compulsory patent litigation insurance could be accepted by the insurance industry.

7.2.9 Key Comments from the insurance brokers concerned can be summarised as follows:

- SME's would become more interested in patent litigation insurance if this was supported by the European Commission
- Existing insurance carries high level premiums and costly risk management assessment and because of this SME's seldom purchase the insurance
- Only SME's operating in a new market segment are interested in patent litigation insurance
- Obstacles to progress are primarily lack of awareness
- There should be more options for patent litigation insurance even though where available this insurance has not sold well. The solution would be to establish a large pool of premiums to cover the risks and bring the cost down. Compulsory insurance would do this
- Little knowledge of the existence of IP insurance or of actual exposure to risk
- Premiums are too high but as more insurance is taken premium will probably come down
- Unawareness of the value of patents
- General reluctance of underwriters to accept risk in areas such as biotech and software
- The idea of patent litigation insurance throughout Europe is good but insurers could face problems with such a scheme

- Do insurers have the necessary capacity for viable rates for such an extensive insurance
- Any insurance offered should be tiered according to technical area and territory covered
- One broker has been involved with patent litigation with various insurers and has experiences of litigation instances in excess of 300. He had numerous useful suggestions for the type of insurance that could be used as a compulsory insurance.

7.3 EU countries with active consideration of PLI but no present experience of such insurance.

7.3.1 Two countries where the insurance brokers fall into this category. These are Denmark and Finland. Because of their lack of experience with this insurance, their views and comments are mainly personal. Only in Denmark is the broker aware of instances when patentees have been involved in patent litigation while having any form of insurance for the litigation.

7.3.2 It would appear that in both Denmark and Finland there is some interest in the insurance. This applies particularly in Denmark.

7.3.3 Brokers from Denmark and Finland comment as follows:

- A patent litigation insurance throughout Europe would be beneficial if price structure reflected real market conditions
- Prefer a voluntary insurance scheme
- Problems are associated with difficult risk assessment, high price, lack of knowledge and understanding
- Mandatory schemes not sufficiently flexible
- Prefer cover for defendants also
- No legislation on this class of insurance

7.4 EU countries with insurance industry views but no knowledge of PLI - Italy and Portugal.

7.4.1 In Portugal there is virtually no experience of this insurance and in Italy patent litigation insurance is virtually unknown. Nonetheless brokers were interested enough to give their personal views. A comment of the Italian broker is interesting: "We need a wide and trustable insurance policy and there must be in depth work on potential user for this cover." Other comments are of interest:

- Worldwide cover needed
- No experience but interested
- The Italian market is quite unprepared for this type of insurance. Italian insurers have never offered such cover and probably there is no

interest from inventors, SME's and large corporations. But this does not mean that if a good cover is available it would have no market – it is a question of time and education

- Both opt for voluntary (but without the knowledge or experience to support their view
- Risks involved in IP not fully identified yet and even when identified possibly underestimated
- Unaware of IP insurance availability (Portugal)
- Compulsory insurance will provide coverage for risks otherwise uninsurable in commercial terms, as well as providing a way for enterprises to remain in the market.
- The inclusion of all EC countries will make the legal aspects more complicated and will make the underwriting practice of the compulsory insurance more difficult

7.5 EU countries with no recent direct knowledge and little interest - France, Spain and the Netherlands.

7.5.1 It proved to be difficult to obtain an interested response from France and the Netherlands even after telephone calls to follow up initial contacts. This is in contrast to official interest. Interestingly, Allianz investigated France for possible launch of an IP insurance but decided not to proceed, probably due to lack of interest. In Spain there is such limited interest that a useful response could not be obtained even after telephone calls to follow up the questionnaire. Interestingly this is similar to the experience with Patent Lawyers, suggesting widely held national opinions and attitudes. These 3 countries will be further investigated to confirm that the impressions obtained are truly representative.

7.6 Japan – interest, little experience except defence insurance

7.6.1 In Japan the main broker has no direct experience with IP insurance, but some knowledge principally as a result of talking with insurers and clients, and attempting to obtain global patent litigation insurance cover for Japanese companies. He was cooperative and willing to help further if needed. For example, one Japanese company actively seeking insurance has been unable to obtain the cover it needs at an acceptable price. Defence insurance is available in Japan, but not pursuit, added to which there are administrative problems in obtaining insurance abroad.

7.6.2 Patent litigation insurance in Europe would be both interesting and beneficial for Japanese companies in Europe

- There is a strong need for the product but in Japan at the moment there is only Patent Litigation Defence Costs (Legal Fees) Insurance and it does not cover damages. Attempts are being made to develop wider cover in Japan
- Voluntary insurance would seem to be preferred

7.7 The USA – some experience, particularly of defence.

7.7.1 Contrary to received belief, the extent of Patent litigation insurance in the USA in relation to the extent of litigation appears to be small, and limited to defence, including damages.

7.7.2 Nine brokers with experience were contacted by email and telephone. Indeed it was only by direct personal contact that any telephone call that any interest in the Questionnaire could be achieved. For most insurers and brokers their operation was 'US only' and they felt reluctant to comment on the European scene. The general lack of interest in co-operating with requests from Europe is similar to the experience with Patent lawyers in the USA.

7.7.3 Views and comments were (company/ broker)

- The possibility of a patent litigation insurance being established in Europe is interesting but depends upon how the insurance industry views patent risks in Europe (for EC and non-EC patents).
- If on a par with US patent risks, the likelihood that the EC can set up a healthy patent infringement insurance market is slim to nil.
- the success of setting up an insurance market bears a direct correlation to how the EC sets up the patent infringement law/changes the law.
- Should be a voluntary scheme
- There are a variety of IP insurances gaining wide use in the US but they all exclude patents. Patent infringement is covered in UK/European policies only
- Patent infringement insurance policies have not gained wide acceptance in the US. The reason is that insurers fear US patent risk. The policies the insurers are willing to offer to cover US patent risk offer very limited coverage
- Voluntary or compulsory depends on how the insurance industry views EC patent risks. If on a par with US patent risk compulsory insurance would not be practical.

7.8 Conclusions from broker and insurance company contacts

7.8.1 There would be interest in and benefit from wider use of PLI throughout Europe

7.8.2 Initially respondents did not favour compulsory insurance, but this view was modified, and is apparently open to further modification, once the possibility of low cost high uptake insurance is fed into the equation.

7.8.3 The cost of risk assessment is an important issue to be addressed.

7.8.4 Any successful move towards Patent Litigation Insurance will require serious consideration of potential clients requirements, notably in the balance between cost and benefit. It will also require the full, dedicated and committed support of insurers.

- All IP insurance companies contacted have expressed an active interest in their involvement.
- The support of insurance brokers with a knowledge of and preferably some experience in IP insurance is also of great importance.
- However, there is a lively caution about the risks involved.

8. Insurance schemes currently being used or discussed

Meetings were held with insurers to ascertain schemes in use or being considered. These schemes are described below, and were used as the basis for further discussions on the elements which should be used in schemes for wider use.

8.1 A. Scheme for both voluntary and compulsory operation.

8.1.1 This envisages a block insurance where each patentee would pay an insurance fee for each of his patent applications filed in Europe.

- The fee would be charged annually so long as the patent exists
- Cover would be automatic, there would be no risk assessment
- Infringement by third parties would be challenged using a sum of money provided by the insurers – up to a relatively low pre determined amount
- Should additional funding be required to further pursue the infringer, this would be made available by the insurers after a report from a selected scrutiny committee
- This scheme could be extended to cover the defence aspect which would cover allegations of infringement following the manufacture or sale of a product
- The scheme could also be extended to cover damages and/or financial loss suffered

8.2 B. Modification of an existing scheme.

8.2.1 Features:

- The EU patent litigation insurance would preferably be compulsory and would be in a very basic form for the pursuit of infringers, with extensions of cover available on a voluntary basis for additional premiums. Any compulsory insurance must be simple with basic flat premiums and these must coincide with payments for patent applications, for granted patents and renewal fees.
- The patent litigation insurance would be a modification of the scheme presently used by the Patent Insurance Bureau and has been proposed by the bureau. It is suggested with appropriate premiums based on expected claims of 2.5% of total insured. Appropriate premiums can be provided. The policy covers.
- The additional costs incurred in accelerating the insured patent application to grant when there is

evidence of a potential infringement of the insured patent application

- A guarantee that if a potential infringement takes place during the patent application period, the insurer will issue a Patent Enforcement Insurance policy when the patent is granted.
- Inclusion in the register kept by the Intellectual Property Policy Registry that publicises those patent and patent applications that are protected by insurance
- There would be a very low premium paid at time of application with further higher annual premiums payable on grant and up to expiry of the patent.
- Extensions could be designed to cover a defendant and also pay damages.

8.3 C. Patent litigation insurance for the pursuit of infringers.

8.3.1 Features:

- This type of insurance exists in various forms in Europe under policies underwritten by Lloyd's of London. It also exists in a very limited scope in the USA but is not widely available there. The cover available from Lloyd's could be adapted to the proposed insurance scheme throughout Europe as either voluntary or compulsory.
- The patent insurance existing is part of a broad cover for IP including also trade marks and copyright but could be selected as a patent module and further restricted to cover pursuit only. The insurance would pay legal fees in the event that patents are infringed by third parties. An annual fee would be paid. Risk assessment is usually requested by insurers to investigate validity and enforceability of the patent but this could probably be waived should the scheme be compulsory.
- The scheme could be extended to include defence in the event that manufacture, use or sale of a product infringes the patent rights of a EU patent holder covered by the EU insurance scheme.
- Cover could also be extended to include damage awards by a court.

8.4 D. Patent litigation insurance for defence against allegations of infringement.

8.4.1 Features

- This class of insurance is available in Europe from Lloyd's of London, Allianz and it is believed, Gerling, and is widely available in the USA. At present the cost of this insurance is

high and a comprehensive infringement search is invariably required by insurer. As stated above this could be available in conjunction with the pursuit policy.

- Cover could be extended to include damage awards.

8.5 E. IP Sentinel - a two stage policy

8.5.1 IP Sentinel was developed by a syndicate of Lloyd's of London. It could be adapted for use throughout Europe.

8.5.1.1 IP Sentinel consists of two insurance policies that provides a 2-step solution to the problem of infringement of a patent. Stage 1 is the evaluation of the claim and the patent by independent experts. Stage 2 will pay on behalf of the patent owner the legal cost of pursuing the infringer to obtain financial compensation.

8.5.1.2 The evaluation at stage 1 covers both legal and commercial aspects of the patent allowing the owner to make an informed judgement about pursuing the infringer. This coverage is paid by the insurer in return for the premium paid in advance by the owner of the patent.

8.5.1.3 IP Sentinel will pay legal costs for the action in the event that the evaluation is positive. Underwriters will offer this coverage in return for a share of the financial recovery. There is no up front premium charge for stage 2 coverage. If the action is not successful the patent owner will not be required to pay any costs incurred.

8.6 Other policies:

There are various insurance schemes available in the USA and in Europe but not obviously applicable to the patent litigation insurance being considered for the European Union.

9. Possible elements of European PLI schemes

9.1 Elements

9.1.1 Major points to be considered in any scheme

- Compulsory or not
- Cover for patentees infringement litigation
- Cover for Defence to infringement litigation
- Which patentees
- Which Defendants
- EU
- World
- Risk assessed or not
- Damages or not
- All costs or not
- Public Subsidy and/or administrative support
- Co-insurance extent
- Settlement costs
- Appeal costs

9.1.2 More detailed points

- Add-ons to a basic scheme
- Losses due to injunctions
- Obligations to customers and third parties
- Contributory infringements
- Damages against defendant's licensees

9.2 Key issues

- It seems widespread use would follow from low cost. Is this low cost to be obtained through compulsory insurance or by other means?
- Compulsion with high costs is unacceptable on many grounds.
- As a vital element is lowering cost this suggests that some simple model (rather like basic compulsory car insurance) onto which clients can add extras may be worth consideration.

9.3 Details of cover: some technical points

9.3.1 The options for cover which are of potential interest to companies involved with patents, as indicated in discussion with the industry, the patent profession, and checking back with the insurance companies, are as follows.

9.3.2 Cover for litigation costs of the patentee and of the defendant. In all discussions with the patent side, costs have been taken to include

- all court costs
- fees of lawyers and patent attorneys,
- fees and costs of experts,
- cost of witnesses,
- cost of technical investigations,

- translation costs
- cost of appeals

These have not been itemised or individually discussed in detail with the patent profession or the companies or the insurers because the assumption has been that all reasonable relevant costs are covered.

9.3.3 It was assumed that the same cover mentioned would apply to all actions for infringement of (or defence) in regard to the patent in question. It was said that it is unusual for patent to be fought out fully in more than two or three Member States. The provision of the same maximum patent cover for appeal was not discussed

9.3.4 The cover is in respect of a European Patent and this includes the coverage of national actions fought in Member States where there was the equivalent patent. In addition because it is common practice in some member states for the applicant resident therein to take out a National Patent there but European Patent based patents in the other member states, the cover should therefore include litigation in the patentee's own Member States when the patent there is a national one of equivalent width.

9.3.5 All patentees with European patents (whether domiciled in the EU would not) would qualify for the cover, though variants on this are that:

- Only new patents would be insured or
- All patents would be insured compulsorily, and possibly
- Patents on which action had already started would be excluded.

9.3.6 National utility models and National provisional patents based on the European Patents may also be covered

9.3.7 All Patent applications and patents arising after the start of the scheme are covered in a compulsory scheme

9.4 Cover is confined to litigation in Europe

9.5 Cover is for lawyers and Patent attorneys of the litigant's choice

9.5.1 Defendants to infringement actions relating to European patents are covered for €1,500,000 expense in each Member State where the action is fought together and for €1,500,000 damages. The latter comprehends also the costs of complying with any injunctions. The adequacy of €1,500,000 for damages was discussed both in Germany and in the UK where the highest damages are awarded, and the figure was considered adequate because in neither country do damages normally exceed €2 million.

10. Results of the company/ patent lawyer Round Table discussions on options for Patent Litigation Insurance

10.1 Introduction

10.1.1 Round Table Discussions were held with patentees of small and large companies and multinationals and I.P. legal professionals (Patent Attorneys and Patent Lawyers) in Paris, Munich, Athens, Vienna, Helsinki, Copenhagen, Amsterdam and London. The majority of those attending had been respondents to the Questionnaire of May 2002. The Legal Coordinator reported to each meeting the informal reactions and suggestions of Insurers and Brokers which arose in response to the answers by patentees and IP Legal professionals to the Questionnaires. Attendees had earlier been sent 'Initial findings', a paper reporting on the results of the questionnaire, and 'Various possible Options'. These documents are included as Appendices B and C, respectively.

10.2 The propositions in brief

10.2.1 The insurers and brokers informally suggested cover providing €35,000 each to patentees and their putative defendants to infringement actions without prior risk assessments by the Insurers. This would enable both sides to investigate the legal and technical aspects involved. The underlying assumption to this aspect of the cover is that in the very great majority of such investigations the parties will agree a licence or will recognise that there is no infringement of a valid patent to be further pursued.

10.2.2 The insurers and Brokers secondly suggested that in litigation when both sides have a reasonable chance of success they shall each be covered for, perhaps, €1.5m costs and the defendant shall in addition be covered for €1.5m damages. This cover on either side would be dependent on risk assessments by the Insurers on each side.

10.2.3 The annual premium payable from the date of the patent application onwards for each patent for its life might be between €300 and €600. The vital assumption underlying these suggestions is that virtually all European Patents would be covered in the scheme.

10.3 Failure of Previous Attempts at Widespread Insurance.

10.3.1 The Round Table Discussions were held in the context that patent litigation insurance had failed to be taken up widely, indeed taken up at all except in unusual circumstances, because the premiums were far too high for general acceptance, the

uncertainty engendered by the requirement for a risk assessment at the outset was unacceptable, and because the nature of the cover and the certainty of its scope were regarded as obscure.

10.4 Risk Assessment

10.4.1 The Round Table Discussions opened with wide and comprehensive discussions on the risks arising in patent litigation and the nature of risk assessments made therein. At all the Round Table Discussions the following points were agreed.

10.4.1.1 In seriously fought patent actions both the patentee and the defendant were meritorious and had good reason to believe that on the two issues of validity of the patent sued on and infringement they each had a reasonable chance of success. It was accepted that the chances of success should probably not sensibly be quantified by precise numerical odds because of the complexity of the legal and technical issues involved in both validity and infringement. It was agreed that it is only convincing to cite either 'good', 'bad', or '50:50' chances.

10.4.1.2 No serious patent action would be fought if the chances for one of the parties were put at 'good' and for the other put at 'bad', because settlement, except in the most uncommercial circumstances, would be arrived at. This is in sharp distinction to copyright cases, where very often the defendant is a known pirate, and in trade mark cases where it is not uncommon for the defendant to be calculating to benefit from the goodwill of the trade mark proprietors. In Paris instances of importers behaving as irresponsible defendants apparently exist. In such cases the defendant should not expect to be covered. In Munich it was suggested that there were cases where a probably fairly large company will manufacture and sell despite knowing of the existence of a patent which it believes is valid and believes that it infringes, but calculates that the fact will not be discovered by the patentee. Again the defendant should not be covered. However these two examples are extremely rare and do not affect the picture of the general commercial relationship between patentees and manufacturers in Europe.

10.4.2 The informal suggestion of the Insurers that the risk assessments should not be undertaken except in the very low proportion (perhaps 1:1000) of patents that are litigated fully, met with relieved approval, it having been asserted from the start by the patent interests that the costly initial risk assessments included in current and earlier efforts at patent litigation insurance had been the main reason for their low usage.

10.5 Settlements.

10.5.1 Patent actions are nearly always fought on the agreed basis of 50:50 chances, it being realised, anecdotally, that frequently each side has received serious and reliable advice that it has a 60:40 chance of success. This situation was universally recognised by the companies and professions at all the Round Table Discussions. In all discussions it was accepted that resolution of the difficult and complex issues of validity and infringement by means of a patent action with full argument and evidence was entirely reasonable though very expensive because of the complexities, commercial, legal and technical involved in the patent field. However in the equally weighted odds outlined above, the settlement of a dispute by a licence, the terms of which reflected the various estimates of the legal and technical issues involved is normally to be regarded as the more reasonable commercial conclusion of the issue. Nonetheless it is essential to maintain the reality of the threat of patent infringement in the patent field by countenancing such actions when the parties so desire.

10.6 Uncertainty in Patent Litigation.

10.6.1 The nature of the uncertainty of a patent action was discussed in detail at each Round Table Discussion. The procedures and circumstances of patent actions in each Member State are strikingly different, as the following examples show.

10.6.1.1 It was said in Germany that although the 12 judges are technically skilled, unwavering confidence in the reliability of their judgements could only be placed in three or four of them. In the U.K. such confidence could be claimed in, one or two of the three or four judges.

10.6.1.2 In Greece all judges try patent cases where the defendant resides and none have any knowledge of patent law or technical matters. They could be said to be the quintessential example of providing pure 50:50 odds. A party might have a technically meritorious but very complex case, yet have a lower chance of success than a simpler opposing case which had greater superficial attractions.

10.6.1.3 In Austria the result was regarded as being in the hands of the court assessor (selected from practising patent attorneys) and outcome would depend to a very great extent on that selection.

10.6.1.4 In Denmark there was a notable tendency on the part of judges to support a patent, and in the action at which most patent disputes are settled, i.e. the application for an interim injunction, validity is not a live issue. It can be said therefore that Denmark is the exception in demonstrating odds of considerably better than 50:50 for patentees.

10.6.1.5 In Holland, in the view of attendees, judges give undue weight to the conclusions of EPO examiners who in some technical fields are careless in considering fully the implications of the prior art, thus introducing uncertainty.

10.6.2 It goes without saying that the relevant chances of success in an action are those of the actual outcome in the court in question, and that an abstract estimation as to the truth of the two matters 'is the patent valid' and 'is it infringed' is of no relevance. The propensity of professional advisers to 'tell the client what he wants to hear' was of course examined. The client wants above all hear the best estimate of the outcome, not an overoptimistic forecast, when the consequences of defeat are so serious. Nonetheless perfectly sincere and carefully considered opinions giving each side a 60:40 chance must be regarded as a feature of patent litigation. Hence the expressed wish of many of the lawyers and attorneys to confine themselves to a 'good', 'bad' or '50:50' chance. It is however of little importance to the insurers which side ought to win, and thus this difficult issue poses no problem when considering various criteria for insurance. The fact remains that in the very rare cases when patent infringement is fought out in the courts in Europe both sides should be supported when the odds are even.

10.6.3 Needless to say by the time a full patent action is being pursued the two parties will have exhaustively considered all the issues. In the event of insurance on the lines suggested above the Insurers on both sides will also have carried out risk assessments. The natural consequence of four such assessments among the parties was considered in the Round Table Discussions undoubtedly to encourage settlement by the parties. This was considered generally to be commercially sensible, and not to be contrary to the development of technology. It was also considered generally, though not analysed in detail, that settlement of patent actions was in the interest of industry in Europe, and no reason was found as to why settlement would be a dampener on technological innovations rather than the reverse. This may be considered reasonable if it accepted that technological development occurs more readily in favourable economic conditions. On the other hand however, the threat of a fight to the finish is an essential feature of the patent system. The Kodak v. Polaroid case was given as an example of this.

10.6.4 The fear that Insurers might bring undue pressure on the parties to settle disadvantageously was discussed at some length, but it was considered that the undertaking by the insurance companies

(given by the insurers in the informal discussions with them of the patent interests' responses to the Questionnaire) to support cases where the odds were assessed as equal was considered a satisfactory answer to this threat.

10.7 Preliminary Investigations.

10.7.1 Similarly the suggestion of a sum for costs of preliminary investigations (say €5,000) was also discussed at length and considered to be an idea of very considerable merit. In fact its value to small companies as well as to relatively large national-wide companies both as patentee and as putative defendants was highly stressed. Numerous examples were discussed of small companies which gave up manufacture when faced by a patentee citing a list of patents which it 'might' be infringing.

10.7.2 Thus the assurance of cover for the cost of investigations in which such a defendant company could assess its position, and take licences or reject suggestions of infringement on an informed technical basis, was considered of great value.

10.7.3 A small company with a patent which had made use of the cover for investigation purposes could with confidence approach a large putative infringer knowing that the patent had a good chance of being held valid and the large company being held to infringe it.

10.7.4 Furthermore SMEs which knew they could not unaided bear the costs of challenging an infringer would be more likely to make a patent application, secure in the knowledge that they could defend it. The value of the patent to them would thus be enhanced.

10.8 Frivolous and Vexatious Litigation.

10.8.1 Large companies raised the danger of small inventors threatening action on their patents when they had little chance of success (the 'mad inventor' – said sometimes to be a university professor who may not understand or accept the narrowness of the scope which his patent agent had been able to obtain for him) was a real but limited threat to large companies. This could be met by providing that the patentee pays the first €5,000 of the expenses of a preliminary investigation before qualifying to be covered for further expenses up to €35,000. This deterrent would not be needed for defendants because they only have to meet threats made to them.

10.9 The Expected Effect of Patent Litigation Insurance on technology and the use of patents

10.9.1 The Round Table Discussions made it clear that the expected effects of widely used PLI cover as described above are that:

10.9.1.1 more patents will be applied for by small companies, because they will feel more confident that they will be able to afford to make use of a patent

10.9.1.2 more patents will be actively asserted by the patentee approaching possible infringers

10.9.1.3 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

10.9.1.4 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

10.9.1.5 more licenses will be negotiated with a clearer and more accurate picture of the scope of the rights licensed

10.9.1.6 cross-licensing could also more accurately reflect the true strengths of the patents

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

10.9.1.8 as a result, technological progress will be aided

10.9.1.9 weak and diffuse aspects of technology found in many European Patents would be more readily identified, for instance in business methods patents

10.9.1.10 the inevitable increase in the number and depth of technological investigations in European industry would test the scope of more European Patents relevant to technological advance in Europe

10.9.1.11 investigations possible under the cover proposed would lessen uncertainties in technological and economic policy decisions in companies affected by the long period during which patent applications are considered in the EPO (up to seven years), and in companies affected by European Patents under opposition (again possibly seven years).

10.9.2 Effects specific to large national companies and multinational companies of the suggested insurance cover are reported below.

10.10 Would litigation insurance schemes increase the costs and length of proceedings?

10.10.1 In the absence of a clear scheme, consideration had to be somewhat theoretical, but it was agreed that PLI will probably increase the amount of litigation, and this must be considered desirable as leading to greater effectiveness of the patent system.

10.10.2 Any PLI scheme must also be designed to lead to quicker and fairer settlements, including more licensing in appropriate cases. It will be necessary to structure the policy to encourage out of court settlements. The average cost of proceedings in such a case might fall; though the aggregate costs of an increased number of proceedings would probably rise.

10.10.3 If patents are regarded as more useful and more are taken out, then PLI will enhance the patent system's ability to advance technology in Europe.

10.10.4 It is possible alternatively that insurance will encourage more patent applications by lessening fear of the expense of litigation without actually increasing litigation. This would also be a favourable outcome..

10.11 Voluntary versus Mandatory Insurance

10.11.1 It was readily accepted in all the Round Table Discussions that the responses to the Questionnaire had been 100% clear in their rejection of a compulsory scheme. All the attendees no doubt held to their and the other respondents' views in this respect. However they accepted without surprise that the type of cover put forward informally by the Insurers and Brokers required a premium flow which may only be possible by mandatory cover from the date of application for a patent. Except in Denmark, where the participants held to the view that a compulsory scheme was another tax and that many, especially large companies would be unwilling to accept this, the general view developed elsewhere was that the question of compulsion was a cultural one, that there was opposition to the concept and that this opposition was based on the principle of admitting as little compulsion into the European commercial/industrial scene as possible.

10.11.2 It was considered that the existence of compulsory insurance in other sectors, such as road traffic and health schemes were on an essentially different plane. As a cultural matter there was not much that could be said in its defence, but it was accepted that if an insurance scheme were sufficiently attractive 'one could overcome one's reluctance' towards compulsion.

10.12 Premium Levels

10.12.1 It was clearly considered that the premium level of ~~€300-€600~~ p.a. per patent tentatively put forward in the informal suggestion of the Insurers might prove reasonable from the insurers point of view. There was some questioning as to whether the premium was to be paid on each E.P. 'family' (i.e. the bundle of national patents all with the same breadth of claims cover as the European Patent application from which they derive). Any suggestion that the premium should be paid on each national patent resulting from an European Patent application was rejected as completely unreasonable as to cost.

10.12.2 Different levels of premiums for large and small companies was discussed in most Round Table Discussions. In some, such as Germany and France, the concept was rejected as unacceptable, as an insult to small companies, for instance, in the context of discussion on the possibilities of limiting cover to small and medium sized industries, it was concluded that there is no satisfactory definition of SMEs in the context of patents which could be adopted because company size can alter with time significantly, because employee level is often inappropriate in the patent context and because companies can alter their legal set up to change the category into which they may fall.

10.12.3 In other Round Table Discussions, notably Holland, Finland and the UK the issue of the fairness of different premiums for different sized companies presented no obstacle and they were happy to consider the possibility of 'reduction for quantity' when companies took out many patents. Furthermore it was universally agreed that large companies with their many patents (1,000, 25,000, 50,000) present a smaller risk per patent covered than do patentees with few patents. This was only discussed in the context of large companies with very many patents which would not get value for their premiums. Having a hundred times the number of patents as another company does not equate to a hundred times the risk. This is discussed below in the context of large companies. However, although not raised in any Round Table Discussion, it would appear that from the Insurers' point of view that a lower premium per patent for large numbers of patents held by one company is a perfectly respectable concept and one which perhaps in any case Insurers and Brokers would insist on, when indeed the risk per patent is lower.

10.13 Patentees' Premiums Inevitably Must Pay for Defendants' Cover.

10.13.1 In patent litigation cases the vast majority of cases involve an ‘honest putative infringer’, (because as pointed out earlier almost invariably the defendant believes either that he does not infringe the patent sued on and/or that the patent is invalid, and/or that it is unjustifiably broad in covering the defendant’s operations). In most cases preliminary investigations usually result in resolution of the problem. Insuring the defence would have the effect of making the whole patent system more balanced, and it was clear from respondent companies that there is great interest in defence. Inclusion of defence would be a desirable outcome if the practical difficulties can be overcome.

10.13.2 How should the cost of defence premiums be met? If the scheme used is compulsory, with any degree of public support, equity demands that the defendant should also be supported (see also 9.24 below). It was recognised in the Round Table Discussions that in general the premiums paid by patentees would provide a substantial part of the cover for defendants when these were not already covered as patentees. Many, perhaps most, defendants and potential defendants to a patent action will be patentees themselves and thus paying into the scheme from the start. There was however no suggestion that defence cover should be limited to an insured patentee.

10.13.3 A putative or actual defendant who was not a patentee, and therefore not already protected, would be entitled to take out cover - perhaps with the same premium as a patentee - if it was approached by a patentee with an allegation of possible infringement. In this case all of the defendant company’s activities would be protected.

10.13.4 On paying the premium the putative defendant would be entitled to up to €35,000 for preliminary investigations in the same way as the patentee would be. Most investigations go no further, because they show that the patent is not infringed thus leading to the case being dropped, or because, at the opposite end, they show that the licence should be taken and it is so taken.

In these ‘investigation’ instances which go no further, and indeed in full scale actions where the defendant may pay a number of premiums (before the action is concluded, the fact remains that the premiums of the patentees are bearing most of the burden. This was accepted at the Round Table Discussions are being ‘part of the package’ for patentees. It being concluded that cover for defendants was vital. Obviously the precise extent of premiums or ‘co-insurance’ remains to be

determined, and further discussion with both sides, industry and insurance, is essential,

10.13.5 The matter was given further consideration following a meeting with insurers and the positions stands as follows: the patentees’ cover includes cover for it as a defendant to an infringement action. Although not discussed at the Round Table Discussions this cover could be confined to acts related to exploitation of the patent for which the premium has been paid which may constitute infringements of third-party patents. Such a narrow position was not considered at the Round Table Discussions; it was considered that any act of the patentee giving rise to possible infringement of a third party patent was covered. In either of these cases however, the patentees in general are not paying for defendant’s cover. The latter only arises when the defendant is not a patentee, and thus has no insurance under the scheme. It is in these cases that the patentee’s premiums inevitably must pay for the defendant’s cover.

10.14 Reducing premiums and backloaded premiums

10.14.1 Reducing premiums when the geographical area was less (i.e. cover for different areas of Europe depending on which states are covered) was suggested in the Copenhagen Round Table Discussion.

10.14.2 It is common in patent accounting to back load costs to the later stages of a patent’s life. This is designed to reflect the greater proven value of patents which have a longer life. It also accords with the need of small patentees which can afford more later when they start receiving returns. It also fits the practices of large companies which weed out patents which have not proved relevant as their life proceeds. The Insurers and Brokers suggested that a higher premium after five or six years when a patent had proved itself might be sensible. This proposal had been rejected in the Round Table Discussions in Paris and Munich on the ground that although some patents have proved themselves in the global market after 5 or 6 years, and are therefore worth more, many others, the vast majority of course, have proved the opposite. However, at the London Round Table Discussions, it was strongly said that back loading of patent costs is common to the patent system..

10.15 A ‘Social Clause’.

It was suggested in the Munich Round Table Discussions that a ‘social clause’ exempting pauper patent applicants could relieve very small SME’s

from the cost of premiums while they remained unable to pay.

10.16 Differing Premium Levels by Technologies and Member States

10.16.1.1 Different levels of premiums for very high technology patents (biotechnology and computing) were rejected on many grounds, in Munich, for instance, as an insult to the engineering industry, and in the other Round Table Discussions because high technology patents do not necessarily lead to the most expensive actions or the highest damages.

10.16.1.2 Different levels of premiums for different cost and damage levels in the different Member States is inappropriate because the premium is paid on the European Patent for the family in different states.

10.17 Cover

10.17.1 It was agreed that if only the forthcoming Community Patent were covered that the scheme would be only of academic interest. It was assumed throughout that the patents covered would be the 'family' of a European Patent, in other words the national patents equivalent to an European Patent. The question was raised in Austria, Finland, Denmark and Holland as to whether in cases where a patentee applicant made a national application in his own country but obtained equivalent European Patent's in other states he was covered in his own country.

10.17.2 The practice of taking out the application in one's own state and European Patents in the others is apparently common in the countries mentioned for various procedural reasons, and it was concluded that all national patents in the same family should be covered by the one premium.

10.17.3 Where, however, as in France, that procedure led to notably different scope for the claims in the country of the patentee applicant, 'family' cover should not extend to that patent. When parallel litigation on a family of patents in a number of countries occurs such litigation at full scale is in practice normally confined to 2 or 3 Member States and up to €1.5m cover should be available in each of them as cover for costs / damages.

10.18 Utility Models.

10.18.1 National Utility Model Protection is often taken out in Germany, Austria and a few other countries, Denmark being mentioned, in order to obtain earlier and quicker protection for the invention covered by an European Patent and its

family of national patents. Such litigation should be covered in principle because the invention is the same as that of the insured European Patent application. In other words, the Utility Models should be considered part of the 'family'. At the Round Table Discussions the matter was raised in the countries mentioned, but was not pursued in detail. The same principles should apply to provisional national protection, also raised in some Round Table Discussions, which is provided for in some countries under Article 67 of the EPC. Apparently these actions are normally stayed in the national courts, but the same principles should apply.

10.19 Existing Patents

10.19.1 Existing patents and applications at the date the scheme came into effect could not be covered on a voluntary basis because only the serious risks would apply for cover, and this would sink the scheme at its outset. In fact starting the scheme with all applications made from an opening date would give the insurers the chance to build up reserves and might obviate the need for public funding of a pump priming nature.

10.20 Cover would be confined to Europe.

This was a basic assumption in all discussions, on the grounds of cost .

10.21 Choice of Lawyers.

It was pointed out in a number of Round Table Discussions that the choice of lawyers and fees was that of the insured patentee or defendant, not the insurance company.

10.22 Adequacy of Cover - Costs and Damages.

It was clear from the short discussions at each Round Table Discussion on adequacy of cover that €1.5m for costs for either side and €1.5m for damages for infringement are reasonable and realistic. In Germany the cost level was not commented on, indicating that the figure is not far out. In the UK, acknowledged to be the most expensive country in Europe, a one day trial could be €2m and the maximum eight day trial would be €3m. Bearing in mind that UK figures are very high this indicated that the suggested maximum is reasonable. As to damages, German courts rarely go above €2m, €3m being possibly contemplatable. Again, other continental countries being significantly lower, the suggested figure of €1.5m was accepted.

10.23 Adequacy of Cover – Preliminary Investigations.

10.23.1 The suggested payment of up to €35,000 for preliminary investigations by either side (which will normally not lead to a full scale action) was accepted as reasonable. The suggestion was made that on the patentee's side the patentee should pay the first €5,000 of an investigation to deter vexatious or frivolous investigations. This would not be necessary on the potential infringers' side, which is only meeting an allegation, not raising one.

10.23.2 A single investigation which would qualify for expenses of up to €35,000 would relate to a product or process under consideration. There would normally be a number of patents involved in the investigation (for instance product, process, new use, formulation, etc.) but the expenses covered would nonetheless be limited to €35,000.

10.24 Cover for Defendants.

10.24.1 It was accepted throughout that the cover for defendants was an essential component in any scheme. This had been quite clear from the responses to the Questionnaire. It was amply confirmed in the Round Table Discussions, indeed at least half the time spent was in considering the Defendant's position and the concept that both patentee and Defendant are to benefit equally, was basic to all discussions. It was said in Germany, for instance, that any scheme which did not cover damages would be only of 'marginal' interest.

10.24.2 The concept that a public body (such as the European Commission) should not support one side of a litigation against the other was given scant consideration in the responses to the Questionnaire. However this principle was expressly accepted as the proper one in the Round Table Discussions, quite separately from the insistence that cover for defendants was as important commercially as cover for patentees.

10.25 Difficulty of Obtaining the Statistics which Insurers and Brokers Require to Make Their Proposals.

10.25.1 The suggestions from the Insurers considered at the Round Table Discussions were based on the total number of patent applications per annum and the number of actions assumed to be about 1:1000. These figures appear justified by the figures raised off the top of the head in the Round Table Discussions. Thus in France there are 200 litigations a year and 50,000 European Patent applications, assuming an average life of 10 years, the ratio of actions to patents is 1:2,500. In the U.K. 10 actions are fought out and 40,000 applications made annually, amounting to a ratio of 1:4,000. In

Germany, 700 to 800 cases and 14,000 applications means a ratio of 1:500. In Austria 20 cases and 14,000 applications means a ratio of 1:7,000. All these figures were mentioned, without consulting statistics, in the Round Table Discussions.

10.25.2 The chief statistical problem is the lack of information on the number of full actions, settlements of actions at an early stage, settlements at the door of the court and, even harder, the number of investigations of a type which would never reach the court but would qualify for up to €35,000 costs for preliminary investigations. It was suggested that for the U.K. there are perhaps 400 of such investigations a year. From figures and comments given in the Round Table Discussions it appears clear that the patent profession could make more accurate and possibly quite sufficient and satisfactory informed guesses as to the numbers of full actions, settlements and investigations in each country. This would have to be a separate exercise.

10.25.3 It would also be essential to know what proportions of applications are made by multinationals, large national companies and SMEs and what are the average life of each. These figures will be available and will help insurers to assess the relative risks of SMEs and large companies from the insurer's point of view. The nature of settlements in each country can be analysed further by the patent professionals along the lines of the following remarks made in the Round Table Discussions. In the U.K. settlement often occurs during cross-examination of witnesses: in Germany during argument in court, in Austria on learning the identity of the court assessor, etc. Insurers say that confidentiality of figures is a bar to them; but much can be discovered without reliance on their experiences. In addition some of the national patent offices have considerable information of national litigation, others do not.

10.26 The Position of Large National Companies and Multinationals

10.26.1 The ghost at the table in most Round Table Discussions was the position of large companies. It was accepted that unless they fully took part no insurance scheme would be economic without the participation of all patentees. At all discussions the attendees were fully aware that all wide application schemes have failed, and in part have failed because high premiums were inevitable when only the 'likely risks' take part. The attraction of the suggested arrangement was held to be that it meets two demands. There is the classic basis of insurance that the 'many pay for the few because it may be you!'

(cover for rare major actions) and there is the life insurance type of cover where all pay for all but some benefit more than others (the cover for the €5,000 preliminary investigation which most companies would wish to take advantage of to various extents).

10.26.2 Multinationals and some large national companies say that they operate in effect their own internal insurance, but they do not say that this is an end to the matter. Obviously outside cover can be attractive.

10.26.3 It is clear that there will be a premium cost at which the €1.5m costs and €1.5m damages cover is attractive to a multinational, and for this reason the levels of premiums based upon quantity discussed below are important. All large companies taking part in the Round Table Discussions have also referred to the 'unknown patent coming out of the blue'. In addition with small patentees more able to bring actions than hitherto, the market place for the I.P. manager in general will be different.

10.26.4 Multinationals and many large national companies operate through business centres, and each of these will have a budget including an I.P. budget. This latter will cover application and maintenance costs and investigation costs. It will not normally cover large scale litigation costs, which will be specially drawn from the business centre budget with main board approval. It follows that any insurance premium will come from the I.P. budget of the business centre, but cover for large-scale actions will benefit only the general business centre budget. Thus the reference to a 'tax' represents the impact of the premiums on those responsible for the I.P. budgets of multinational or large national companies. On the other hand the cover of up to €5,000 for a preliminary investigation is of immediate impact on the I.P. budgets. Indeed for the I.P. Department the investigation cover is of the most proximate interest and it would be necessary to make provisions preventing over-use of the investigations cover by large companies.

10.26.5 One large multinational in a field not covering the consumer market (where most patent activity can be expected) stated at one of the Round Table Discussions that it has ten 'investigations' a week. Many of these should not qualify for cover and one way discussed of limiting cover to the intended purpose (apart from the proposed exclusion of the first €5,000 of expenses in any investigation by a patentee – only designed to deter small vexatious and frivolous patentees) would be to provide that the cover only arises when the putative

defendant is approached. Cover could then be given for earlier costs provided that an approach was later made. Large companies normally approach putative defendants (when the latter is also a large company) informally at the business level, not the legal level before full investigation. In the case of putative defendants which are small companies, no approach is made until the investigation is complete.

10.26.6 Considerable study must be given into how the preliminary investigation cover of up to €5,000 should be tailored to be of material value to multinationals and large national companies and those responsible for their I.P. budgets because it is they who have to manage the patent portfolio and have to weigh up the costs of this, including the premium. They must not be tempted to regard it merely as a valueless 'tax' burden. On the other hand their use of the investigations cover must be channelled into reasonable and appropriate instances. It will be necessary in discussions with large patent departments to identify the most appropriate use which large companies should be able to make of the facility.

10.26.7 Multinationals and large national companies patrol the borders of their technologies with their large-sized competitors, continually testing doubtful areas by scrutiny of their and their competitors' patent applications and patents, and it is in this context that the value of the preliminary investigation cover should probably primarily be considered.

10.26.8 There should be scope for designing cover relevant and 'interesting' to this aspect of large companies' activities which could be comprehended in the cover and yet does not render the insurance uneconomic for the Insurers. All such cover will also be attractive to small and medium sized patentee companies and to putative defendants.

10.26.9 It was properly recognised in all the Round Table Discussions that a company (usually a very large one) having a portfolio of thousands of patents and applications does not face risks a thousand or many thousand times as great as the owner of one or a few patents and applications. The reasons for this are said to be that large portfolios lead to substantial cross licensing between large competitors and that this reduces the risk of patent actions between them. In addition, though this is often denied, a large patentee company will have a considerable (often very large) number of patents covering relatively small elements of one technology, and a single action arising from that technology will involve a large number of patents. Again the risk per patent of

the occurrence of a patent action is substantially less than attaching to a single patent of a small company.

10.26.10 Finally, although all patent departments insist that they weed out irrelevant patents continually, there will undoubtedly be a certain degree of 'stamp collection' mentality involved as well as the natural fear of unnecessarily releasing technology to the public. If these factors can be investigated further it would be possible to reduce premiums for quantity and there should be a point with regard to premium reduction for quantity which is manifestly justifiable to small companies and reasonably attractive to large companies and to the Insurers. Additionally the possibility of premiums starting considerably below the €300-€600 level at the start and rising higher later in life may be as attractive to the largest companies as it is to the smallest.

10.27 Viability in Early Stages of a Scheme

10.27.1 If all patent applications are insured after a starting date, the Insurers will receive a substantial and rising premium income for some years before any claims can be made on granted patents. There will be claims for investigation costs, no doubt, under the provision for cover up to €5,000 of expenses. Indeed when full consideration to the parameters of the cover for investigation expenses up to €5,000 is given, attention must be paid to the part which investigations can usefully play during the application and opposition stages of the patent. There will however be no full-scale actions in these early stages of the scheme. Thus it will be practical for the Insurers to establish their position in the market in those early years, and the funds will be available from premiums to do this.

10.27.2 It would be possible though probably not desirable to bring in mandatorily all existing European Patents at the start or all existing applications or both. It would not however be possible to allow for voluntary adherence of existing patents and/or applications because this would attract only existing high risks.

10.27.3 What will really count will be all the assessment of insurance companies as to whether they can make a profit or not and whether in today's difficult insurance market enough insurers will be found willing to take on the risk involved. It may be that some degree of public involvement will be necessary, at least at the start.

11. Report on further Insurance/Broker consultations and the final Insurance Round table

11.1 The insurance market today

11.1.1 The insurance market has passed through a period of major change as a result of the September 11th catastrophe. These changes have also affected the IP insurance sector and there have been major cut backs by many of the insurers. The attached Table 1 (Appendix A) sets out the position of IP insurance providers (insurers) in Europe and the USA during the period 2000/2001.

11.1.2 Because of the changes that have occurred recently, some major providers of insurance have ceased to provide cover – either on a short term (1 year) or longer term basis. Some insurers are either no longer active in the IP insurance market at the present time or have restricted their cover - whether in respect of financial limits or technical restrictions or placing greater emphasis on the insured company having a “clear” report on IP validity/product infringement, or a full risk assessment report. The insurers falling into this category are Abbey, Beazley, Cottrell and McGuire, Denham, AXA, Chubb, AIG, Swiss Re and Gerling.

11.1.3 Many of the larger insurers for example AIG, Chubb, Swiss Re have provided insurance primarily in the area of defence and to large corporations. Almost without exception the insurers have insisted upon an extensive due diligence (costing around 50,000 Euros), before agreeing the cover required a large self insured amount and although the indemnity level may be high (50 million Euros) the premium is also high, up to 5 million Euros. In the case of an insurance company offering pursuit cover in the USA, it is understood that there are claims outstanding of 18 million Euros – despite of due diligence and risk assessment of relevant patent portfolios. This indicates the problem associated with assessing risk for pursuit cover and explains why so few insurers in the USA will give pursuit cover.

11.1.4 Brokers too have seriously restricted their activities in the IP insurance market. For example Alexander Forbes, one of the leading IP brokers a year ago, is no longer actively seeking new clients in this area. The Table in Appendix A sets out those brokers who were active in the IP field around 1 year ago. Most are still in IP insurance business but many have restricted their activity, both financial and manpower commitment. The most active and influential IP brokers can now be regarded as
In the EU

- Aon,
- Marsh
- Miller

and in the USA

- Aon,
- LRM
- IPISC

11.1.5 Aon and Miller in particular and perhaps PIB, are brokers from whom positive and constructive views and opinions were obtained, and with whom further discussion would be useful. Among insurers SRS Underwriting Agency and Hiscox (both Lloyds syndicates) and Allianz provided positive contributions that could be of future use to the EC, and would be worth contacting further.

11.1.6 There have been a number of studies of patent litigation insurance throughout Europe over the past 3 years – in Denmark, Ireland and France – with various meetings in other European countries such as the Enforcement Round Table held by the UK patent office in London in July 2002.

11.1.7 One normally annual study in the USA, the Betterley Report, the results of which are usually published annually was not published in June 2002. It is understood that it has been delayed because of the instability of the IP insurance market – with insurers restricting both availability and extent of cover and brokers restricting the finance and manpower resources put into this particular insurance. Betterley foresee that the market may have stabilised by early to mid 2003, though this seems questionable as the downturn and “drying-up” could continue beyond autumn 2003. Even so Betterley expect to have their next report available soon after February/March 2003.

11.1.8 Although the various reports give a good indication of the type of patent litigation insurance that was available at the time of compiling the reports, because of recent developments and changes in the markets, these reports do NOT reflect fully the present position.

11.1.9 While there is evidence of continuing and increasing interest by SME's in a patent litigation insurance², because of the shrinking market and the more stringent requirements of certain insurers, most SME's are experiencing great difficulty in obtaining the insurance. Nothing is available off the peg for

² For example, in the UK some SMEs have formed themselves into a pressure group to advance the cause of patent litigation insurance.

the typical SME which requires reasonable cover with low premiums and no risk assessment on entering a scheme. Any SME which wishes to persevere must attempt to negotiate a one-off contract on the basis hitherto on offer, normally for very large companies or substantial companies with very specific high risk requirements. This would possibly lead towards sharing proceeds with the insurance company and certainly involving extension risk assessments as part of the negotiating process assessments (often 15,000 Euros) for insurance that will carry a premium of 120,000 Euros per annum. This requirement of insurers leads to delays in the provision of cover extending perhaps from 4 – 6 months from initial inquiry to premium quotation. No ordinary SME finds these terms, including the delay, acceptable in their circumstances.

11.1.10 A further problem is the reluctance of certain insurers to offer protection in the higher risk areas of biotechnology, medical technology and computer software (areas of technology that many of the SME's are working in) or if cover is provided, the premium is high following a costly IP due diligence and risk assessment usually paid for by clients before premium is quoted. These factors all work against any strong development of IP insurance programmes in the EU and the USA.

11.1.11 It thus appears that a demand exists for patent litigation insurance which is not being satisfied by the products offered by the few existing insurers. This, coupled with the national interests expressed through studies and meetings, and the wide spectrum on interest in and desire for insurance from the industry (and professions) consulted by us gives some encouragement to believe that the time may be ripe for the introduction of a patent litigation scheme that can be made available to all EU patentees – both to pursue infringers of the patentees' patent rights and possibly also to defend the patentees from allegations of 3rd party infringement when using their patents in manufacture, use or sale of their products.

11.2 An outline of the schemes

11.2.1 Several schemes aiming to provide adequate Patent Litigation insurance for small and medium sized enterprises have been proposed and are set out in this report. Scheme '0' - 'Composite' - is largely based on Scheme 1 as amended with ideas from the Round Tables and other meetings. It is the recommended basis for further work by the Commission.

11.2.2 Scheme 1, devised by Ernest Kay, an insurance and patent expert with much industrial experience, attempts to overcome the problems that have existed for SMEs. It would apply particularly to compulsory insurance in Europe.

11.2.3 Scheme 2, proposed by David Garner of PIB would require modification before it could be considered.

11.2.4 Scheme 3, 'Pursuit' already in existence, concentrates on the pursuit of infringers of a patentee's patent rights. It has the disadvantage of carrying a high premium – on average 5,000 Euros per annum per patent family and is usually available only after a patent review, the average cost of which is 3,000 Euros. However, were this scheme compulsory and taken by all patentees, the cost would reduce very appreciably and a risk assessment could be avoided.

11.2.5 Scheme 4 'DEFENCE' is used both in Europe and USA. With appropriate safeguards this could be applicable to patentees who manufacture, use or sell their products but a risk assessment would be needed.

11.2.6 Scheme 5 'Cottrell' is based on a proposal by Peter Cottrell, an underwriter at Lloyd's. This too could be modified and considered.

11.2.7 Scheme 6 was proposed by Millers (Ian Lewis). He says "I have now been at the sharp end of IP insurance dealing with inventors, established businesses, IP lawyers and patent agents for some 14 years. During this time I have felt that there is a lot of suspicion and distrust of IP insurance. I feel that this is because it has often appeared to promise much but then through the small print, delivered little. This is something that I have spent the last 6 years trying to overcome. However, whatever arrangements are created by the EC, they will need to overcome the suspicion and distrust of the insurance industry".

11.2.8 Scheme 7 has been proposed by Aon. It is a modification of Scheme 1 set out above, the main difference being the possible voluntary nature of the access to the second draw-down of 1,500,000 Euros.

11.2.8.1 Scheme 8 'Public Sector', is the outline of a further idea proposed by Ian Lewis of Millers. It envisages a high level of public sector involvement with the European Commission establishing an independent insurance manager to operate the scheme.

11.2.9 These schemes, all of which could be adapted to include damages where necessary, have been discussed with insurers and brokers. Their views and comments are quoted below.

11.3 General views and reaction of brokers and insurers

11.3.1 Allianz (Jennifer Stevens):

11.3.1.1 Having reviewed the draft schemes, Allianz remains opposed to a compulsory patent litigation insurance scheme within the EU. Specific concerns relating to a compulsory scheme are as follows. At present, Allianz will offer a quotation for its patent infringement product only with an extensive prior risk assessment. *"Because we are targeting large, multinational clients, with extensive and diverse exposures, our underwriting position demands certainty over the quality of the risk. This can only be determined through the patent search and risk assessment process. Because your mandatory scheme involves no prior risk assessment, we would not be in a position to participate."*

11.3.1.2 *"Another concern we have is the potential to be involved on both sides of litigation, through coverage of 1st party legal expenses and potential indemnity awards and defence costs associated with our third party products. Up to this point, we have made the business decision to only offer the 3rd party coverage. Allianz is not interested in developing a product which would cover 1st party litigation expenses, as this seems to be a licence for companies to initiate patent related litigation. We are not convinced that the profit associated with a share in award recoveries is large or certain enough to enter into this type of IP product."*

11.3.1.3 *In reviewing some of the details of the 1st new scheme (as proposed by Ernest Kay) there appears to be a large margin for uncertainty. For example, it is unclear whether the insured, the insurer or the independent expert evaluating the merit of pursuing a potential infringer makes the final determination to go forward with legal action. In the mean time, it is the insurer who bears the expense of the expert evaluation. The limits of an initial 35,000 Euros and 1,500,000 Euros are good in that they offer some finite limit to insurer exposure. However, it is unclear under which circumstances this increased limit is available. Who makes this determination?"*

11.3.1.4 *Your paper states that the limit would increase to the 1,500,000 Euros after a satisfactory risk assessment. Our question would be who determines whether the assessment is satisfactory and again, it is taking place after the fact which is not consistent with our underwriting guidelines. We realise that your intention is to offer the cover at rates which are affordable to SME's, but 300 to 600 Euros seems very low even for smaller businesses.*

Surely these customers have substantial R & D budgets which far exceed this small premium. The scheme by nature of the 1st and 3rd party cover appears to almost shift the entire burden of funding patent related litigation to insurance companies. Allianz could not support a scheme where the insured does not participate in the risk in some fashion either through retentions or some type of captive³ scheme. With respect especially to the first party defence cost coverage, we would expect patent applicants to contemplate some of this expenditure in their R & D budget and subsequent selling price for the products.

11.3.1.5 *With regard to the proposition that any compulsory insurance must be simple with basic, flat premiums, we understand this in terms of practicality. However, there are other types of compulsory insurance i.e. automobile financial responsibility, bankers blanket bond (compulsory for US banks by the FDIC) which are more complex by nature of what is insured and the regimes exist in spite of complexity.*

11.3.1.6 *Overall, Allianz is committed to offering our third party patent infringement product to our existing large multinational clients. We have made the strategic decision not to offer this product to our small and medium commercial customers. Nor are we considering development of a first party product at this time."*

11.3.2 Round table

11.3.2.1 The general agreement expressed at the meeting of the enforcement round table held by the UK patent office, as reported in the CIPA journal August 2002, was reported by Peter Roedling "Legal expenses assurance was explained by a deeply intellectual representative (an insurer) who agreed that policies were hopelessly biased in favour of insurers and went on to say that he was working hard on the development of policies which would give some worthwhile protection to IP holders. 11.3.2.2 The meeting seemed to agree that the continuing nature of expenses claims in IP litigation, and the uncertainties of such proceedings in general, made them an unsuitable risk for insurance purposes".

11.3.3 Sarah McCooey - SRS Underwriting Agency

11.3.3.1 She expressed reasons why so many insurers are hesitant to express enthusiasm for the compulsory scheme or those schemes that do not need intensive risk assessment. SRS is primarily interested in defence and damages for claims arising out of infringement of third party rights. Their main

³ See definition of 'captive' in 20.3

target is small to medium size enterprises that would find a 7 million Euros limit helpful. Larger companies would not be interested.

11.3.3.2 Underwriters look for companies having both business and technical expertise with quality advisors present. They also seek to understand who developed the IP and who owns the IP. Consequently a full analysis of employment contract is necessary as well as IP transfer agreements.

11.3.3.3 Patent agents and/or patent lawyers are frequently used to assess both technical and corporate culture surrounding the handling of IP. There must be evidence of IP being a priority within the company at board level with regular advice being sought. The Financial standing of the company is also investigated because a financially unsound company is more likely to ignore protocols than a sound one.

11.3.3.4 A company selling in the US and Europe is preferred as these are territories in which IP law is defined and known. Other territories can be considered but may incur extra underwriting and legal involvement. The financial consequences of damages awards must be studied. In their view the main exposure comes from the pursuit or enforcement product because of the time taken to ascertain the valid scope of a granted patent.

11.3.4 SwissRe

11.3.4.1 SwissRe's global centre of excellence for Patent Litigation Insurance is in New York. They express interest in participating in discussions on a European scheme, while emphasising the current reluctance to assume large, unquantified risks.

11.3.5 Aon

11.3.5.1 Perhaps the world's largest insurance broker, Aon, has a specialist IP team of Aon that works with risk managers, patent counsel, finance directors, chief technology officers and CEO's. The aim is to protect IP values and manage the associated exposures. It claims unrivalled experience in dealing with and developing policies and solutions for a wide spectrum of IP risks including pursuit and defence with damages and IP value coverage. Their comments relate to various areas:

11.3.5.2 Statistics – an unknown area for the vast majority of insurers as no meaningful industry statistics exist. Law firms are reluctant to reveal what their costs have been and most cases are settled out of court on a confidential basis. The insurance industry is therefore unable to establish a business plan for a patent litigation insurance based on solid statistics.

11.3.5.3 Insurer Reaction – insurers are unlikely to commit capital to a high risk area. Even if the statistics were known, the entry of such a compulsory type patent litigation insurance would dramatically change the equilibrium and therefore introduce even greater uncertainty. One solution might be to form a specialist company to underwrite the risk for this new patent litigation insurance.

11.3.5.4 Suggested Solution – the EU provides capital to establish an authorised or captive⁴ insurer. There should be provision for 2 tranches: initial underwriting capital and secondary funding in the event of adverse results. This would allow adjustment of the underwriting model.

11.3.5.5 Programme Structure – there should be primary and excess products; a small primary limit to take care of the majority of cases (Euro 25/50,000) and a large excess layer to take care of serious litigation. The cash flow requirement would be mitigated by time taken from patent application through issuance and discovery of infringement.

11.3.5.6 Primary Considerations – the insurance should be written on a mandatory basis during patent application process. After patent issue, renewals could be on a voluntary or mandatory basis and this would allow the insurer to establish a positive cash flow before exposure.

11.3.5.7 There would be a large drop off in take up if the scheme became voluntary. This would not be acceptable as it would lead to a concentration of risk in the remaining buyers. Primary coverage should be restricted to legal costs only and the insurer should have access to top class panel counsel. The policy should be designed to give infringers a strong message and if the situation is not resolved the case would be referred to an independent tribunal for consideration.

11.3.5.8 Excess Layer – a meaningful limit would be Euro 1,500,000 and coverage for this level could be voluntary. It ought to be available on an annual and known infringement basis and the policy would require reimbursement to the insurer in the event of a win. The question of champerty⁵ in respect of indemnity/pay on behalf of needs to be investigated".

9.3.4.7 Patent Insurance Bureau

11.3.5.9 PIB, who have put forward Scheme 2 above, have commented that any scheme of insurance will only prosper if the most basic principal of insurance is addressed – namely that “the losses of the few are borne by the many”.

⁴ See definition in 20.3

⁵ ‘Champerty’ – where the legal representative bears part of the costs in return for part of the reward. See definition in 20.4

11.3.5.10 *"Therefore, any voluntary scheme will only succeed if there is a broad based springboard of insured persons. To secure that springboard, some form of cover that is attractive to at least a large section of inventors should be offered at a sufficiently low cost".*

11.3.5.11 Patent Insurance Bureau suggests their Patent Applicants Policy as a solution. The working of the policy has been established for twenty years and claims experience is factual and acceptable to underwriters at Lloyd's. However, if the scheme is to have the broad base of insureds that is necessary for success, there must be some assistance from the EU so that premiums can be kept to the absolute minimum.

11.3.5.12 The Bureau recommend the mandatory scheme as it involves far less administration (as is reflected in the premium). It would then be up to the EU to make whatever contribution towards the premium, possibly as a subsidy, as they think necessary. Adoption of this scheme would obviate the complication of a mutual insurer – insureds are reluctant to contribute more if a mutual runs out of funds. Once this easily workable scheme is established, extensions could be designed to cover a defendant and also pay damages.

11.3.6 Miller

11.3.6.1 The Miller insurance group (brokers) also expressed ideas on the problems that exist.

11.3.6.2 *"Compulsory v. voluntary: from an insurers viewpoint, a compulsory scheme is by far the best way to manage a scheme. This avoids any adverse selection of risk against them, although this is traded off against the loss of the ability to try and weed out the bad or high risks. Secondly, it gives insurers a guarantee of the numbers involved thereby making actuarial calculation much easier.*

11.3.6.3 *A voluntary scheme would be seen by insurers as the worst option, because they will need to ensure that there is strong marketing in order to overcome any apathy that may exist. It is amazing how many people will accept something that appears to be included automatically, yet when they have to make a conscious decision to buy it they will hesitate and do nothing.*

11.3.6.4 *A midway point is to have a negative option scheme i.e. they have to opt out of it.*

11.3.6.5 *What to include in the cover? If the Commission wants to support SME's, will they want to make the cover available to multinationals or exclude them? Is the cover to be available to non-EU domiciled companies that file Community patents.*

11.3.6.6 *Which law will apply and will it be interpreted equally in all jurisdictions? A problem for insurers at present is that an infringement action in say the Netherlands will be much cheaper than in England. The insurer will need to calculate premiums based on the most expensive forum. Any other form of calculation would be very difficult without years of experience in actually providing the insurance to a volume market.*

11.3.6.7 *Will the provision of insurance be lawful? Even today, there are many different laws applying to the provision of insurance within the EC. In order to create a common platform for insurers it will be necessary to amend insurance laws to allow for a level of cover to be agreed. It should not matter that the assured is an individual or a company. The policy wording could be provided in the official languages used by the Community and all proceedings carried out in one of these languages only. There should be no issues over "claims made or losses occurring" wordings.*

11.3.6.8 *Who will the insurers be? A difficulty that appears not to have been addressed as yet is who is going to underwrite the scheme. Ideally it would be one single insurer but this is very unlikely. If there are a number of insurers will they be competing or working together to co-insure? If they compete there could be differences in the way claims are handled and this could have a negative effect. If they are to co-insure, who will co-ordinate this?*

11.3.6.9 *What is the scope of the policy? This is an important question. If the cover is based on the idea of a basic cover with add-ons and options to buy more cover when problems arise then this will become a victim of misunderstanding and be classed as inadequate (though this could apply to the Patent Insurance Bureau Scheme No.2). Cover should be sufficient to see all but the most expensive claims to finalisation and that this cover is in force at the time the insurance is taken. Pursuit cover only within the member states of the EC would be best. If people want a different cover it should be available to buy in addition through managers or independent brokers".*

11.3.7 Comments by Peter Roedling of Hiscox

11.3.7.1 European Insurance taxes: *"Each country has a tax regime which varies from country to country. It varies in the actual tax rate (5-25%), class of business and the basis on which it is charged. Using our theoretical 300€ premium this would represent say 20€ premium for each EU country. In the UK the rate would be 5% on the premium related to UK exposure (20€); however if the insured were French all the premium (300€)*

would be subject to their tax. I am not aware of any tax relief treaties resolving the issue and would suggest you get a European tax advisor to review these issues. Administration costs could escalate if the processing is complex and different depending on the nationality of the patentee."

11.3.7.2 European Insurance Regulation "Pursuit cover is controlled by the insurance regulations pertaining to legal expenses insurance. Any scheme needs to comply with these or have special dispensation. Some of the claims handling suggestions put forward may need to be checked for compliance with the regulations. Some territories in Europe have restrictions on the nature of the policy coverage which can be granted. Specifically I am thinking in the liability area of the French view on "claims made" coverage. This issues is complex but I cannot see this pursuit cover being viable on any other basis and as such the wording would not only need national approval but some comfort may be needed for insurers that some national courts will not reinterpret a claims made form as if it were an occurrence form."

11.4 Comments at the final review

11.4.1 If the patent litigation insurance scheme is sufficiently attractive, SME's and lawyers would accept it as a compulsory scheme.

11.4.2 A basic premium could be fixed with additional premiums charged by insurers depending upon the country and technology.

11.4.3 A captive could be established to operate the pursuit aspect and individual insurers would separately cover the defence aspect.

11.4.4 Funds should be provided to limit (cap) the exposure of insurers.

11.4.5 Funds could be available from the EU or through financial institutions – 75 – 100 million Euros suggested. Should be available during first five years. Thereafter the scheme should be self financing.

11.4.6 Insurance regulations vary from territory to territory and would affect claims handling – claims made policies are not accepted in France.

11.4.7 If voluntary, only one scheme should be offered and insurers could operate on a pooling basis. Need for 2 – 3 insurers in each territory but could be multinational spanning Europe e.g. Aon, AXA and AIG. The scheme could be operated by a managing company in conjunction with the individual insurers who would be stepped back from it. This is how PIB operate.

11.4.8 Question – how will the availability of the 35,000 Euros be controlled in the event of a claim.

11.4.9 The final comments of insurers were: statistics badly needed; administration could be difficult; agreement on the insurance being compulsory provided it was pursuit only.

11.4.10 Further comments of insurers and brokers (though not by all) reflected views that:

- Public capital would be needed during the first few years to get a scheme going;
- For simplicity, a scheme should be centrally managed;
- To generate sufficient premium income, the scheme would have to be compulsory
- It could be compulsory for pursuit only, with optional defence.

12. Details of Patent Litigation Insurance Schemes which might be considered (as presented in draft Final Report)

12.1 Current schemes

12.1.1 The relatively few property insurance schemes current in Europe and the USA cover the main categories of intellectual property i.e. patents, trademarks and copyright. Certain schemes are worthy of consideration for use in Europe, and some, because of their modular structure, could be modified to be selective for patents only. Some lend themselves better than others for use in a compulsory scheme, while some might be difficult to adapt to compulsory operation because of the detail requirement for risk assessment and the associated high cost.

12.1.2 For example one scheme in current operation requires a full IP audit at a cost of approximately 40,000 euros before the pursuit cover can be obtained. There are often other limiting and restrictive conditions. One policy relating to technology transfer i.e. licence, although having a limit of 5 million euros requires a deductible of at least 20,000 euros. Most are already in use but will require some modification before they would be generally acceptable – particularly if the premiums are to be at what SME's regard as "reasonable" without expensive risk assessment.

12.2 Scheme 1 'Kay'

12.2.1 This scheme was designed for both voluntary and compulsory operation, but lends itself ideally to compulsory use. This scheme as proposed by Ernest Kay envisages a block insurance where each patentee would pay an insurance fee for each patent application filed in Europe. The fee would be charged annually so long as the patent exists and could be collected with minimum administrative cost at the time of filing the application and at times of renewal. Cover would be automatic and there would be no risk assessment at the time of issuing the insurance cover for pursuing infringers. Future infringement by third parties would be challenged using a sum of money provided by the insurers – up to a relatively low pre determined amount. Should additional funding be required to further pursue the infringer, this would be made available by the insurers after a report from a selected scrutiny committee, panel, or tribunal.

12.2.2 This scheme could be extended to cover the defence aspect which would cover allegations of

infringement following the manufacture or sale of a product.

12.2.3 The scheme could also be extended to cover damages and/or financial loss suffered.

12.2.4 Example of the Possible Mode of Operation of this Scheme 1 above as Specifically Designed for Use in Europe:

12.2.4.1 A low premium of 300 – 600 Euros would be paid annually for each patent application applied for. The premium would depend upon the technology, high risk areas such as biotechnology and software would carry the higher premium.

12.2.4.2 Moderate cover (say up to 35,000 Euros) would be provided for the patentee on commencement of litigation following infringement of patent rights

12.2.4.3 There would be no risk assessment at this preliminary stage

12.2.4.4 The premium could be collected automatically at the time of filing

12.2.4.5 In the event of full litigation, there would be a risk assessment and, if favourable, costs (and damages) of say up to 1.5 million Euros would be paid under the policy without increased payment by the patentee

12.2.4.6 Cover for existing patentees could be considered under the Scheme but this could lead to adverse selection and perhaps only those aware of possible risk of infringement would seek the insurance.

12.2.4.7 Cover would be automatically available to defendant patentees who unwittingly infringe, subject to legal advice that the chance of a court finding no infringement would be 60% or better or that the patent would be held to be invalid.

12.2.5 The above points are made solely to indicate possible operation of the Scheme. General financial considerations indicate that on the basis of 100,000 patent applications filed per annum in Europe and on the basis of an average premium of 400 Euros per application, the premium income to insurers from new patentees as plaintiffs would be 40 million Euros in the first year and up to 80 million Euros in the second year.

12.2.6 Consideration for the assessment of risk and the handling of claims would need careful study. There could be a central body comprising various members for example, patent lawyer, insurance expert, business/technical expert, financial expert and EC representative who would consider the assessment risk process and where necessary have the assessment carried out by appropriate experts with knowledge of the technical area. It would be necessary to involve brokers and insurers in the

process. The handling of claims would be initiated by the central body – could be in the form of a tribunal – with representation from legal and technical experts, insurers and brokers, the latter having the administrative responsibility for handling the claim. Much further discussion would be necessary in this entire area of risk assessment and claims handling and it would be necessary to seek the views of insurers and experienced brokers for example Aon.

12.2.7

Fee/ premium.	300-600€annually
Collection of fees	Automatic at time of filing and renewal. Available to new patents only
Basic Cover	<ul style="list-style-type: none"> Moderate cover (say up to 35,000 Euros) would be provided for the patentee on commencement of litigation following infringement of patent rights
Initial Risk assessment	<ul style="list-style-type: none"> There would be no risk assessment at this preliminary stage
Pursuit	Up to 35,000€
Further Pursuit	In the event of full litigation, there would be a risk assessment and, if favourable, costs (and damages) of say up to 1.5 million Euros would be paid under the policy without increased payment by the patentee
Defence	Yes
Cover for Damages and/or financial loss suffered	Yes
Other factors	

12.3 Scheme 2 "PIB" designed for both voluntary and compulsory operation as a modification of an existing scheme.

12.3.1 The EU patent litigation insurance would preferably be compulsory and would be in a very basic form for the pursuit of infringers only with extensions of cover available on a voluntary basis with the payment of additional premiums. Any compulsory insurance must be simple with basic flat premiums and these must coincide with payments

for patent applications, for granted patents and renewal fees.

12.3.2 The patent litigation insurance would be a modification of a scheme presently in use by the Patent Insurance Bureau. Appropriate premiums would be based on expected claims of 2.5% of total insured. The policy covers.

12.3.3 The additional costs incurred in accelerating the insured patent application to grant when there is evidence of a potential infringement of the insured patent application

12.3.4 A guarantee that if a potential infringement takes place during the patent application period, the insurer will issue a Patent Enforcement Insurance policy when the patent is granted.

12.3.5 There would be a very low premium paid at time of application with further higher annual premiums payable on grant and up to expiry of the patent. This further higher premium may not be an acceptable feature of this Scheme as the patentee is faced with unexpected expense.

12.3.6 Extensions could be designed to cover a defendant and also pay damages.

12.3.7 Example of the Possible Mode of Operation of this Scheme 2 as Designed for Use in Europe:

12.3.7.1 For EU coverage only the following annual premiums are likely to be viable: Mandatory (note A) 40 Euros: Opting out (note B) 175 Euros Voluntary (note C) 350 Euros.

12.3.7.2 Note A – the EU patent office would need to increase their fees by 40 Euros to include the PAI insurance. Patent enforcement Insurance (PEI) for granted/issued patents would then be available at a 20% discount with a 10% introductory fee to the Patent Office.

12.3.7.3 Note B – the EU Patent Office would need to increase their fee for a patent application by 175 Euros to include insurance, but against the total fee on the invoice would be a note saying “this fee can be reduced by 175 Euros if no insurance is desired and the patent applicant is willing to sacrifice the special 20% discount for Patent Enforcement Insurance once the patent is granted and is willing to be affected by the Patent Enforcement Insurance infringement exclusion of 6 months.

12.3.7.4 Note C – the Patent Office would charge their normal patent application fee and when submitting the invoice, would recommend the applicant to take patent application insurance (PAI) at the specially reduced premium of 350 Euros (normally 500 Euros) and enclose a leaflet explaining the insurance, its purpose and the need for it.

12.3.7.5 Patent Enforcement Insurance would then be available to inventors at normal terms on a voluntary basis and the Patent Office would receive a 10% introductory fee without the need to be involved in administration.

12.3.7.6 The differentiation of premium between the 3 schemes is because there is no selection against insurers if the mandatory scheme is chosen and some provision for the cost of marketing must be made for an "opting out" or "voluntary" scheme in relation to the expected take up.

12.3.8 The premiums quoted are for limited cover – applying to the EU only and not worldwide.

12.4 Scheme 3 - "Pursuit", Patent litigation insurance for the pursuit of infringers .

12.4.1 This type of insurance exists in various forms in Europe under policies underwritten by Lloyd's of London. It also exists in a very limited scope in the USA but is not widely available there. The cover available from Lloyd's could be adapted to the proposed insurance scheme throughout Europe as either voluntary or compulsory.

12.4.2 The patent insurance existing is part of a broad cover for IP including also trade marks and copyright but could be selected as a patent module and further restricted to cover pursuit only. The insurance would pay legal fees in the event that patents are infringed by third parties. An annual fee would be paid. Risk assessment at present usually a condition for obtaining cover, may be requested by insurers to investigate validity and enforceability of the patent but this, with certain limitations, could probably be waived should the scheme be compulsory.

12.4.3 The scheme could be extended to include defence in the event that manufacture, use or sale of a product infringes the patent rights of a EU patent holder covered by the EU insurance scheme.

12.4.4 Cover could also be extended to include damage awards by a court.

12.5 Scheme 4 - "Defence", Patent litigation insurance for defence against allegations of infringement.

12.5.1 This class of insurance is available in Europe from Lloyd's of London, Allianz and Gerling, and is available in the USA from various insurers including AIG. At present the cost of this insurance is high and a comprehensive infringement search is invariably required by insurer. This could be available in conjunction with the pursuit policy for

patentee defendants but a risk assessment would be required by insurers.

12.5.2 Cover could be extended to include damage awards.

12.5.3 There are various bespoke IP insurance schemes available in the USA and in Europe, for example that of Kiln 4 Thought which protects the balance sheet against loss of revenue due to core patent invalidity, infringement or government intervention, Lexington with a Trade Secret Misappropriate Policy for unauthorised acquisition or disclosure of trade secrets and Chubb with a focus on information technology and telecommunications for customers only. None of these would be used as a model for the patent litigation insurance being considered for the European Union. One however was developed by Peter Cottrell a syndicate of Lloyd's of London. It was named IP Sentinel and could perhaps be adapted for use throughout Europe.

12.6 Scheme 6 - Millers

12.6.1 The Commission to establish an independent insurance manager to operate the scheme on their behalf. All premiums will be collected by the manager (or passed to him by the EPO or whoever deals with the patent applications). He will then deal with all claims, policy issuance, queries etc.

12.6.2 In the event of a claim, the manager assesses the case and approves or declines the claim on behalf of insurers. In the event of a dispute, the matter is referred to a Review Panel or Tribunal made up of leading lawyers, patent agents and Commission representatives.

12.6.3 The insurers could either be a single insurer, a panel of insurers or possibly a captive. The captive would be managed by the manager and either some form of stop loss, excess of loss or re-insurance cover could be purchased by the manager to protect the fund. If the fund is profitable, the premiums could be reduced over time, or a profit, returned to the Commission for re-investment. The scheme could eventually be self financing and even promoted as a "not for profit" scheme, thereby reducing costs to SME's.

12.6.4 If for some reason, the insurance industry was reluctant to support such a scheme, a captive could be a very good vehicle for using public funds to "kick start" the scheme, with the funds being repaid over time. A commercial insurance company would not be in a position to do this.

12.7 Scheme 7 - Aon

12.7.1 There should be a pursuit product with primary and excess layers.

12.7.2 A primary layer for the majority of cases with limits of up to 50,000 euros.

12.7.3 A secondary layer of 1,500,000 euros as an excess layer to take care of serious litigation.

12.7.4 The primary layer would be compulsory initially with renewals being optional.

12.7.5 The secondary layer would be voluntary on an annual basis with reimbursement to the insurer in the event of a win.

12.8 Scheme 8 - IP Sentinel

12.8.1 This consists of two insurance policies that provide a 2-step solution to the problem of infringement of a patent. Stage 1 is the evaluation of the claim and the patent by independent experts. Stage 2 will pay the legal cost of pursuing the infringer to obtain financial compensation.

12.8.2 The evaluation at Stage 1 covers both legal and commercial aspects of the patent allowing the owner to make an informed judgement about pursuing the infringer. This coverage is paid by the insurer in return for the premium paid in advance by the owner of the patent (could be at the time of applying for a patent)

12.8.3 IP Sentinel will pay legal costs for the action in the event that the evaluation is positive. Underwriters will offer this coverage in return for a share of the financial recovery. There is no up front premium charge for Stage 2 coverage. If the action is not successful the patent owner will not be required to pay any costs incurred. There could be problems because of regulations in certain territories – insurers may not be permitted to recover more than their actual costs.

12.9 Illustrative table

The number of parameters that may be combined to make a PLI scheme is considerable, and without difficulty it is possible to show that the permutation of these could result in a million, if not millions, of different schemes.

Indicative table illustrating - without recommendation- possible elements which may be combined to create a large number of schemes. Items (sometimes several, if not mutually contradictory) from different rows may be combined.

PATENTEES	amounts are in Euros ; percentages indicate a percentage of actual cost				
Premium	300	600	Other	low start	
Co- insurance	none	5000	10%	20%	
Compulsory / non-compulsory	compulsory	opt-out	voluntary		
Cover - early stages	none	35000	70000	50%	80%
Cover -later stages	none	€1million	€1.5m		
Conditions	none	Professional recommendation to proceed at each stage	professional evidence that chance of success is 50: 50 or better	etc	etc
Mediation	compulsory	Voluntary	None		
DEFENDANTS					
Premium	300	600	1000		
Co- insurance	none	5000	10%	20%	
Compulsory / non-compulsory	compulsory	opt-out	voluntary		
Cover - early stages	none	35000	70000	50%	80%
Cover -later stages	none	€1million	€1.5m		
Conditions	none	Professional recommendation to proceed at each stage	professional evidence that chance of success is 50: 50 or better		
Mediation	compulsory	Voluntary	None		

13. Economic & Financial Implications

The Current Situation

13.1 Introduction

13.1.1 Knowledge production is crucial to the promotion of economic growth and the good of society. The need to regulate the production of knowledge (including the use of patents) is justified in economic terms by the fact that the market economy often does not work in this area. An improvement in regulation, such as might be achieved by one of the proposed patent insurance schemes should therefore improve both growth in GDP and benefit society.

13.1.2 In many cases the large corporations need to build up a stock of patents and spend large sums – often as much as half of their R & D budget – on asserting them. A guaranteed insurance scheme could be expected to enable companies of all sizes to maintain a lower level of liquidity to meet patent contingencies.. It would, at any rate, make expenditure on the defence of patents (or on defending challenges from other companies) more predictable and a more constant element in the company's budget, thereby reducing risk and the need to build contingency funds to deal with it. This was particularly touched upon in discussions with very large companies.

13.1.3 This study has found that patent insurance has only been tried out in the UK, Germany and Denmark and to a very small extent in Sweden, the USA and Japan; thus the economic and financial effects have so far been small and difficult to measure. It follows from this that it is not possible to make a fair economic assessment of the difference between countries that have (or use) patent litigation insurance and those that do not, simply because the base for comparison is too small. More interesting, perhaps, is the indication of demand and interest that arose through questionnaires.

13.1.4 From the micro point of view, the main effect of a PLI scheme would be to reduce uncertainty by giving companies protection. This would be particularly valuable for SMEs (see below) as it would free up financial resources to be employed in further research. However, the effect will vary enormously between different types of industry (e.g. heavy engineering compared with software) and between industries with different structures (e.g. oligopolistic compared with a fragmented industry consisting of many SMEs).

13.1.5 Conventional wisdom has it that there is an automatic link between an increase in patent activity

and a surge in R & D activity. The recent Danish study assumes this. However, recent research in the USA (iv) found that while patent-orientated innovation was on the rise, R & D investments on the whole dropped. However, it is likely that the resources released by a patent insurance scheme are as likely to be linked to increased production (because of released resources) rather than a rise in R & D unless a conscious decision is made to ring fence them.

13.2 The current situation

13.2.1 The financial and economic effects are considered to be significant, and several EU Patent Offices are considering the impact of Patent Litigation Insurance. One is considering constructing an economic model to work out the economic benefits of an insurance scheme and the type of framework that would need to be set up to initiate a programme of insurance. A study for the Danish Ministry of Economic Affairs has studied the macro benefits from such insurance and concluded that the welfare gain could be very substantial.

13.3 Micro-economic effects

13.3.1 The economic consequences of the scheme need to be assessed partly in terms of cost - benefit analysis to users. The costs of any scheme to users will depend mainly on the level of the premium, charges for risk assessment etc., and whether or not the scheme is compulsory.

13.3.2 Since the extent of patent litigation activity is not reported and collected, the aggregate of costs, on which premiums in any compulsory insurance costs might well be based, will not be easy to find and is not included in this study. Patent offices, Patent lawyers, and courts could be the source for the number of actions brought per year, the number of actions settled early and average costs.

13.3.3 The study considers the impact that widely used insurance would have on the number of actions, their length and cost. Financial support for actions might be expected to lead to an increase in actions, even though the pattern in patent actions is that most are settled out of court. The reason for this is that the economic disincentive to commencing action will be reduced, though this impact may be reduced by the conditions of the insurance which may require the permission of the insurer.

13.3.4 It might have become evident that insurance will lead to more cases, increased cost and a generally unhelpful spiral. This would reduce or negate, the advantage of encouragement to patent inventions. On the other hand, the structure of any scheme could have

a 'damping' effect on this, and the fact that most patent cases are settled out of court is significant.

13.3.5 The impact of the premiums will at some stage have to be compared with the direct benefits to companies. If the insurance does encourage patenting and thus research, the premiums can be seen as an implicit stimulus to R & D, and thus to competitiveness.

13.3.6 This examination of costs and benefits should of necessity be carried out in the wider context of those issues which encourage or discourage potential patentees from taking out patents. Earlier work by this company showed that the cost of patents is a crucial factor influencing decisions, particularly by smaller companies, regarding taking out patents. Anything that can be done by the EU to reduce this cost would be an encouragement. It is noted that a significant element of the cost of taking out a patent is the cost of translation into different EU languages.

13.4 Possible Official Funding of a EU scheme

13.4.1 The economic effect of this would be, at the first level, a transfer from the taxpayer to the companies holding the patents, the size of the effect varying according to whether the insurance was fully or partially funded.

13.4.2 Wider economic effects would theoretically depend on whether the funding was financed from new taxation or by simply reducing funding EC funding in other areas. In the first case the main effect will be a direct transfer of resources to the patentees plus a reduction in risk (although there will be a minor decrease in spending power and therefore some decrease in demand for the company's products (due to decreased spending power caused by increased taxation). In the second case there will be a direct transfer of resources from the sector where funding has been reduced to patentees, with no accompanying decrease in demand for products.

13.4.3 However at a macro level a benefit to society might flow (as suggested in the Danish study, see below) from an increase in the number of patents and a rise in European competitiveness.

13.4.4 The extent of the finance needed for a scheme could be estimated via the average cost of the insurance, the annual number of patents taken out throughout Europe and the amount by which this number is likely to increase once insurance is provided. The impact of variable levels of public funding (from 0% to 100%) and the impact of this on the viability of the scheme could also be estimated. However, this is not reasonably calculable at present, given the paucity of statistics.

13.5 Other Issues

13.5.1 Patents are a trade-off between the economic advantage of incentive to innovation and the publication of ideas, on the one hand, and the economic disadvantage of a restriction on competition (the grant of the patent right) on the other. One aim of the scheme will presumably be to increase *innovation*, and the evidence is may be that such a scheme will do this – but at what cost? The estimated cost will need to be balanced against the benefits derived from the increased innovation

13.5.2 *User Enforcement* If any scheme is compulsory therefore there could be costs involved in enforcing it. However it would be possible for a scheme to be linked with patent application and renewal, thus removing this problem.

13.5.3 A barrier to successful administration of the scheme may be the power of the insurance companies to influence whether the cases go ahead, e.g. How much power to refuse to pay for litigation?

13.5.4 The necessity or desirability of funding defendants as well as prosecutors is a substantial issue which this study is addressing. Two issues arise: first, is it commercially desirable that defendants should be covered? Second, under what circumstances is it necessary or desirable as a matter of public policy that defendants should be included?

Possible Need for Insurance against patent litigation costs

13.6 Economic and Financial implications of PLI

13.6.1 'The value of a patent from a commercial point of view, turns on the ability of the patentee to police it and defend it' (Statement by a former Chairman of the Institute of International Licensing Practitioners). To the extent that this is true, a patent insurance scheme will undoubtedly improve such ability throughout Europe – and thus be economically beneficial.

13.6.2 Micro effects – The effects on individual companies are likely to depend first on the size of the company. The EU definition of a Small or Medium Sized Company – an SME – is one with 250 or fewer employees. These companies are particularly vulnerable to patent infringement whereas the larger company can devote more resources to protecting its patents.

13.6.3 The position of SMEs is important. The Danish report shows that they are patenting 30% fewer patents per employee than large firms. This may be due to liquidity problems (the cost of a patent is at least 30,000 Euro), but there may be some fear of not being able to finance potential litigation. This effect is likely

to be different for medium sized enterprises than for small, and SME's cover a considerable range.

13.6.4 A recent study by the Danish Government⁶ has found that throughout the EU, SMEs are making very little use of patents. The reasons for this are held to be (1) because of difficulties in monitoring whether infringement is taking place and (2) because of fear of the cost of litigation to assert patent rights. William Kingston's study found that the main issue was the enforcement of patent rights; SMEs complained that the cost of patent disputes was far too high for them in terms of time as well as money. Fear of the cost of litigation was 'very big' for 13% of them and 'significant' for 36%. Case studies revealed a further problem – that large firms use their resources for litigation to intimidate SMEs, while they continue to infringe their patents.

13.6.5 Financial damage from copying of projects was 'very serious' for 21% of firms taking part, and 'bearable' for two thirds. Fear of the cost of litigation was 'very big' for 13% and 'significant' for a further 36%. If action was taken, long delays were experienced and during that time the infringer continued to make profits from sale of the copied project. Recent examples of this type of case are *Dyson v. Hoover* and *National Trust Paints v. Dulux*. The report points out that, in many markets, market power depends more on speed to market than on holding a patent. Therefore, delaying tactics by a larger firm (the intimidator) can ensure that the SME loses most of its advantage.

13.6.6 It is evident that time and energy devoted by SMEs to enforcing their patents is taken away from use of the inventive capacity and ingenuity, which are their special characteristics. Keeping SME personnel working on innovation rather than on the protection of their patents would thus improve the innovative capacity of the economy.

13.6.7 The problem is appreciably worse in the USA, where the level of infringement and intensity of litigation is much higher than in Europe. There, even the most innovative SMEs have a problem in exploiting their patents. An additional factor is that not just foreign but even non-local firms are discriminated against.

13.6.8 A policy which improved enforcement – such as patent insurance, or for that matter a Patent Defence Union as suggested in the report – would evidently improve the position of SMEs and therefore of the

European economy as a whole. The strengthening of the EU patent system would undoubtedly help European companies to operate more successfully in the USA.

13.6.9 The effects on larger firms would also be profound, but for different reasons (see discussion later in this section).

13.6.10 Macro effects – The following analysis assumes that the scheme has a universal take-up, because it is compulsory. If the scheme is voluntary there is likely to be very little interest – as shown by the present state of affairs – unless the premium is artificially low.

13.6.11 The scheme would help to establish a single market for several major industries e.g. Chemicals (which exported products valued at 69 billion Ecu in 1996). A statement from the Chemical industry in 1996⁷(iv) said 'The chemical industry will never enjoy a truly single market in Europe, its home market, without the establishment of an efficient, coherent and unified patent system.' It claimed that patents were often unenforceable. Thus an improvement in enforcement would not only create a single European market for the chemical and other industries and stimulate the market to grow, but would create a better jumping off place for European exports.

13.6.12 As a result of the improvement of the ability of SMEs to assert their rights, industries with a fragmented structure of small firms will expand, causing an increase in European GDP. An example is the freight distribution industry.

13.6.13 Growth in GDP will have a positive effect on economic welfare. According to a Danish report⁸ more patents lead to increased productivity (output per man hour) and later to increased economic welfare: *'The empirical studies of the significance of the organisation of the patent system to R&D, inventions (innovations) and growth also point in the same direction as the theoretical studies. Countries with well-developed patent systems also tend to have the highest level of welfare and have over time had the highest rates of growth'*. At least five empirical studies since 1995 have supported this including one (Thompson and Rush), which studied the inter-relationship between the degree of patent protection and economic growth in 55 countries.

⁷ *What is behind the Recent Surge in Patenting? Kortum and Lerner (1998)*

⁸ *Economic Consequences of Legal Expense Insurance for Patents – Ministry of Trade and Industry, Denmark*

⁶ *Economic Consequences of Legal Expense Insurance for Patents – Ministry of Trade and Industry, Denmark*

13.6.14 *Removing barriers to trade* Under the Trade Related aspects of Intellectual Property Rights (TRIPS) agreement, which was established in 1994 as part of the GATT, members of GATT extended most favoured nation treatment to the protection of Intellectual Property including patents; the latter were ensured a minimum term of 20 years. According to the statement of the 'European chemical industry on Patents' there has been a failure to establish minimum standards for patent rights and to make these effectively enforceable throughout the EU. This is a serious barrier to trade for the industry and no doubt for many others. A patent insurance scheme is highly likely to improve enforcement and thus lower barriers to trade.

13.6.15 If these are removed the economic effect will be to boost EU exports, leading to an increase in the value of the Euro against other currencies. If European export industries increase their output, the level of economic activity will increase, raising employment.

14. Conclusions: the broad picture, and options for possible measures at EU level

14.1 The 'need' for Patent Litigation Insurance

14.1.1 Patent litigation insurance is utilised for only a tiny proportion of the number of patents issued in the EU, much less than had been anticipated despite recognition of the potential value of such insurance, notably in improving the value of patents to patentees who might otherwise be unable to protect their patent or assert their patent rights.

14.1.2 Why is it then that such schemes as do exist only attract a small number of clients, and that the only schemes designed for widespread use, notably in France, have failed? It is extremely clear from the discussions with insurers, patent lawyers and companies that to be successful a European scheme would have to steer between the Scylla of inadequate cover, on the one hand, and the Charybdis of excessive costs and administrative conditions, on the other. None of the schemes currently available have succeeded in this to an extent which makes them broadly attractive to a wide market. Either costs are too high, or cover inadequate.

14.1.3 Furthermore, to be attractive to insurers a scheme would have to offer the attraction of reasonable profit at the same time as avoidance of excessive risk. Before insurers can assess their options they must have reliable statistics, on the number of patents granted, the proportion held by large holders of patents compared to the holders of one or a short list of patents; the number, the length, costs and damages, levels of actions fought in each Member State and estimates of the number of settlements. These figures are not all available at present.

14.1.4 What is the possible need for patent litigation insurance at European level? This becomes clear at two levels. First, at *official* level among EU member states, there is in some states considerable feeling that the value of patents would be increased particularly, but not only, for SMEs if a widely used and cost-effective patent litigation insurance were available. Second, this study has shown very clearly a considerable potential demand from companies and patent lawyers, and interest from insurance companies. "Perceived need" is however a function of cost, and if the cost to those taking part were too high, then the perceived need would diminish.

14.2 Financial and economic implications

14.2.1 As to the financial and economic implications of a scheme, because the base of experience in the market is so small, there are dangers in extrapolation. Without querying the theoretical benefit to society of

patents (that is, the economic benefit arising from the trade-off between protection for the patentee on the one hand and the wide sharing of his knowledge and technical secrets, on the other) it seems highly likely that the existence of a widely used European Patent Litigation scheme, would by increasing the security and strength of a patent, encourage respective patentees to patent their inventions. The Danish government study estimated the extent of benefits that would occur, and even if this is a significant overestimate the potential benefits are still large.

14.2.2 At the micro level, the potential benefits to participating companies are considerable in that those who require to pursue presumed infringers, or to defend themselves against an accusation of infringement, will have access to insured funds generally sufficient to enable them to ascertain whether the strength of their case and where appropriate sufficient to enable them to prosecute their case.

14.2.3 Again however, the cost-benefit of PLI to participating companies will depend very much on the level of premium, and as the outline of the scheme is further developed (whether or not it is compulsory) it will be most important to keep a close check on this aspect.

14.3 Practical considerations

14.3.1 Given the potential demand by industry plus the potential interest of insurers in providing patent litigation insurance on a wider scale, the study considered ways in which the difficulties could be minimised, and sought to outline schemes that could be further developed by European Commission with insurers and companies and the patent profession.

14.3.2 Perhaps the key single practical conclusion that has emerged from this study is the concept that cover from the Patent litigation Insurance should be split into two parts where the first is used to cover initial investigations, and the second much more substantial amount becomes available only if the risk assessment accords the patentee or defendant a reasonable chance of success.

14.3.3 Coupled with this is the conclusion, which goes against the initial instincts of almost all respondents to the study, that without compulsion (at least insofar as the basic requirements and cover of any scheme are concerned) no scheme will attract the large number of patentees required to make the scheme viable with a low fixed premium.

14.4 Conclusions regarding "preliminary investigations"

14.4.1 Insurance Cover for costs of up to €35,000 should be provided for a patentee or a party threatened

with an infringement suit to cover the expenses of a preliminary investigation into the law and technology of the patent, its validity and infringement. Translation of documents could also qualify. The objective of this cover, which created very considerable interest, was to enable uncertain matters to be resolved quickly, informally and cheaply, and with reasonable confidence on the part of both sides that their rights have been protected. In the great majority of cases it was felt that the parties would agree either that a licence was appropriate or alternatively that there was no infringement. Only in very rare cases would the matter go further. This cover is provided without the insurance company having performed a risk assessment.

14.4.2 The main problem discussed related to safeguards needed to prevent abuse of this cover. On the patentee's side an obvious example would be the single-minded inventor who did not understand, or would not accept, the true scope of his patent and thus tends to initiate frivolous or vexatious actions.. It was generally felt that this would be adequately dealt with by requiring the patentee to pay the first €5,000 of expense. This limitation would not be necessary for defendants who of course only respond to an accusation made by others.

14.4.3 A second problem is that this form of preliminary investigation cover could be unduly attractive to large patentee companies which may make ten or more "investigations" a week into the relationship of the patents, their large scale competitors' patents, and their and their large scale competitors' products and manufacturing processes. Clearly not all such investigations could qualify for preliminary investigations cover. Although much more detailed thought would have to be given to this aspect of the insurers concerns, a limiting condition could be to confine the cover to cases where the putative defendant had been formally warned of a possible infringement. One way or another it was felt that this form of cover could be protected from abuse and yet prove a legitimate and valid route for large companies when they have identified a serious potential conflict. At the same time when dealing with smaller companies it has sometimes been the practice of large companies with large patent portfolios to send out a list of patents to putative defendants. In this case the defendant attracts cover but the patentee sending out a long list of only possibly relevant patents could not. The merit of this in encouraging a small company to study warnings of infringement thoroughly is of real importance, because at present such companies tend to cave in at once because of the fear of costs.

14.4.4 A further merit of this cover is that it would enable small company patentees to assert their patents in appropriate cases against large companies, where at present the cost of so doing is prohibitive. In addition, for large companies, the possibility of using the cover in appropriate cases to test the border between its own technology and that of another large company should be attractive.

14.4.5 There are many aspects of the proposed preliminary investigation cover that can be elaborated to provide really useful cover for multinationals as for SMEs, but the various possible parameters to ensure real value within the limits provided by a reasonable premium, have to be established. This is further examined under the section on recommendations.

14.5 Cover for patent actions

14.5.1 In the stage beyond preliminary investigations, possible negotiations and settlement, a major patent action may ensue. Before the patentee and defendant come to that stage they will have been fully advised on all aspects of the action by their legal and technical advisers. If either side is advised that its chance are less than 50:50, settlement is almost certain. But if both are considered to have a reasonable chance of success and both have good reason to conclude that. in the case of the patentee the patent is invalid and infringed. and in the case of the defendant that the patent is invalid and or that it is un infringed. Their respective insurance companies after confirming these opinions with risk assessments of their own will give cover up to €1.5M for costs and €1.5 for damages from infringement. These figures are based in very informal estimates made on the basis of the few known statistics.

14.5.2 Cover should be provided in each Member State where the patent is sued on and where the action is fought. (It is unusual for more than two and at most three actions to be fought substantively.) Appeals should be covered in the same way and on the same conditions.

14.5.3 The above mentioned cover for costs and damages have been agreed to be adequate to cover all but the most expensive cases.

14.5.4 A further possibility discussed, particularly in the light of the high cost of premiums for large companies, especially multinationals, with very large portfolios of many thousand patents and applications, is the possibility of reduction of the premium per patent for holdings of large numbers of large number of patents. The justification for this is the perceived lower rate of actions per patent of large holdings to smaller holdings. The reasons given for this are that large companies are inclined to take out more patents

on a single aspect of technology, all of which stand or fall together in a patent action, and that large companies with large holdings tend to have extensive cross licensing agreements which reduces the chance of litigation. If this aspect is shown by further study to be of significance it would be of considerable importance when considering the attraction of an insurance scheme to large companies, which are often said to operate their own internal insurance.

14.6 Options for premiums

14.6.1 In discussion with patent professionals, without their having devoted time to consciously generated figures, certain indicative figures for litigation activity have been obtained. This study has used a working assumption that one patent in 1,000 is litigated, and this does not appear to be much out of line with the figures given informally by patent attorneys. In addition it appears that the average life of a patent is eight to ten years. Thus preliminary rough estimates of premium level can be made.

14.6.2 On this basis it has been very informally calculated that an appropriate premium would be € 300-€600 per annum for each European patent applied for or granted.

14.6.3 Consideration has been given to increased premiums for biotechnology and software patents or for cover in Member States where court costs and damages are high. As for the former, there is no clear evidence that such cases are more expensive or the damages higher. As for the latter, the cover is for the European Patent. It would be possible to lower or raise the premium according to the size of geographical area covered. However it is too soon to do more than raise these points as possible variants on a standard premium.

14.6.4 A more cogent suggestion has been that the premium could start below its average level and rise after some years of the existence of the patent to an above-average level. This "back loading" of the cost is common in the patent field because the value of a patent is often not clear until some years have passed. This could be attractive not only to smaller companies, low in funds, but also to multinationals managing a portfolio of many thousands of patents.

14.6.5 Another possibility, not further discussed in detail, is to use the IP Sentinel Model. The premium initially covers only Stage I (risk assessment), while the insurer takes a proportion of the damages recovered in exchange for a relatively low premium for Stage II. The importance for ensuring value for premium for holders of large portfolios of patents requires an estimate of the degree to which risk reduces per patent

as the quantity of patents in a portfolio rises. This is examined further in the section on recommendations.

14.7 Options for assessment of risk

14.7.1 Assuming risk assessments are carried out by the insurer before undertaking the insurance, the premium will be calculated after the assessment has been made. Needless to say such individual treatment, and such a procedure, is particularly ill-suited to patent litigation insurance because the cost of investigation is very high and the risk of litigation occurring is extremely low. On the patent side there is universal dislike of such a procedure because of its complexity and uncertainty of result. Furthermore a new assessment will be required for each prospective infringement by different products or processes. Needless to say this is entirely impractical for application to a large number of patents. Nor can it be carried out at the application stage of the patent because the possible infringer is not at that time in many cases known. In other words a risk assessment can only usefully be carried out with respect to a particular infringement.

14.7.2 The concept of risk assessment being delayed until the start of infringement action was therefore developed. This means that the premium is a standard one set without a risk assessment at the start of the insurance at the date of application for the patent. It may either be standard and remain the same throughout the insurance or it may be as referred to earlier "back loaded" in the sense that it increases during the life of the insurance. No risk assessment is carried out on any patent unless a serious patent action is commenced. The purpose of the risk assessment is to enable the insurer to decide whether or not to cover a particular action.

14.7.3 It was firmly held by all those concerned with patents in the Round Table discussions that the patentee and defendant in a patent action which comes to court in almost all cases believe that they have a reasonable chance of success, and had received reliable advice to this effect. It was considered by all those taking part in Round Table discussions that actions should be divided into those having a "good" chance, a "bad" chance, or a 50:50 chance. No action is fought where one side has a bad chance because of the very high cost. It follows that in actions which should justifiably be fought, both parties are entitled to insurance cover. The insurance representatives informally agreed to this logic and that they ought to cover all 50:50 cases. Further consideration of this important principle is given in the report on the Round Table discussions.

14.7.4 It was considered that despite both parties having equal chance of success, settlement would normally be in the better interests of both parties. Nonetheless the threat of patent action must be kept alive if the patent system is to work.

14.8 Voluntary or compulsory schemes

14.8.1 All concerned would prefer a voluntary scheme in principle or as a cultural matter arising from objection to government interference. However if the take-up would be too small to enable the premium to be kept low enough to be attractive, only a compulsory scheme is feasible. This argument is accepted. The problem that the insurance industry wrestled with hitherto is that no scheme designed for small take-up can afford the low premium which could lead to it becoming widely popular. Thus the prospect of growth is excluded and no start can be made to providing cover for a "popular" insurance.

14.9 The option of settlement

14.9.1 The parties to an action must have the option to fight it out if they both have a reasonable chance of success. The insurers should not be able to prevent a reasonable action being fought even though settlement may, within bounds, be urged on the parties. The complex nature of the patent action involving the very difficult legal and technical issues of validity and infringement are such that the odds will very rarely be set at better than 60: 40 in any action which is actually fought out. Very often both sides were honestly given the same 60:40 odds, and the unpredictability of the results even in the most sophisticated court are such that better odds will rarely be given to either side. Any side given odds of less than 50:50 will be strongly advised to settle.

14.10 Options to be considered further

14.10.1 From all the discussions held the only solution that permitted low premiums and reasonable cover involves a compulsory insurance system (or largely so) starting at about the date of application to the EPO with the uniform or back loaded premium, probably in the range of €300-€600, paid annually through the life of the patent, with cover for both patentee and defendants for costs in a range of €1.5m, and damage costs for the defendant of €1.5m Support would be given for any each party when they have a 50:50 chance of success, the risk assessments being carried out after the commencement of the action. In addition with proper conditions to prevent misuse or use in a way not contemplated by the parties a patentee or any company warned of a possible infringement action would be covered for costs and a risk assessment for up to €35,000 to cover expenses of

preliminary investigation and attempts to a settlement. In the case of the patentee the first €5,000 expenses would be borne by the patentee in order to prevent frivolous and vexatious threats.

14.10.2 The danger of insurance companies bringing undue pressure on the parties to settle was discussed at length and it was concluded that the obligation to support any reasonable case (i.e. 50:50 odds) are sufficient deterrent to this. It remains the fact that with the two parties and the two insurance companies each having their own assessments of the strength of the parties there will be, of course, some considerable and perhaps healthy bias towards settlements.

14.11 The position of large companies.

14.11.1 As discussions progressed more attention was paid to the position of multinationals and large national companies holding extensive portfolios of patents. For them the premium cost will be a significant factor and it must be appropriate for their true risk. This aspect requires further urgent consideration and therefore is covered in detail in the recommendation for action.

15. Recommendations

15.1 The Commission should continue to investigate potential schemes for PLI.

15.1.1 We believe that this study has shown sufficient grounds for the further involvement of the Commission in seeking a Patent Litigation Insurance scheme for widespread use in the EU. Provision of readily available and cost-effective patent litigation insurance is highly likely to improve the value of patents to users.

15.1.2 For small companies the lack of funds to protect their patents against infringement is a serious drawback. It is also difficult for them to mount a defence against allegations, possibly from much larger companies, that an infringement has occurred.

15.1.3 Something along the lines of the scheme 'Composite' recommended in section 11 should avoid the causes of failure of former PLI schemes. The detailed recommendation which immediately follow are all related to the 'Composite' scheme.

15.2 The scheme should be compulsory.

15.2.1 The clear initial opposition to a compulsory scheme erodes when the elements and merits of a possible scheme are explained.

15.2.2 Without a compulsory scheme the premiums would be high, the take-up low and most tellingly, insurers would not wish to be involved. Without a compulsory element any scheme would be likely to fail.

15.3 The costs of early investigations and settlements of disputes should be covered without a prior risk assessment

15.3.1 The relatively massive cost of a risk assessment has been a major factor deterring patentees from taking out insurance and the key to any viable scheme would be provision of a small amount of insurance for initial investigations.

15.3.2 The scheme should be predicated on the provision of a limited amount of cover, for instance €35,000, for the costs of a preliminary investigation for a patentee and for a defendant when it is alleged that infringement exists.

15.3.3 It will be necessary to establish clearly what conditions should be applied to ensure that this cover in many cases will lead to settlement of a dispute, and yet is protected from over use or inappropriate use rendering it an uneconomic feature of the scheme. This provision will be a cardinal part of any scheme which is to be of real benefit to the patent field.

15.3.4 The funding for preliminary investigations relating to validity and infringement, should be of

benefit and practical for with companies of different sizes and differing needs, including multinationals.

15.4 Confirm the acceptability of Insurance Cover of around €1.5m for Costs and Damages in patent actions

15.4.1 Regardless of the size of company concerned the informal proposal of payments of plaintiffs and defendants costs for each country in which a European Patent is litigated of €1.5M (normally this does not exceed two or three states) and of damages for infringement and costs of complying with injunctions up to €1.5M was accepted as realistic, and for a number of countries generous.

15.4.2 It will, however, be advisable to sample a number of large companies in different technical sectors to confirm that these figures are realistic and that they are also acceptable in relation to the premium payments involved. Some multinationals consider themselves to apply their own internal 'insurance'. It must be ascertained whether external insurance of this nature would be welcome in increasing liquidity by replacing some of their own contingency funds.

15.5 Confirm the acceptability of cover of perhaps €35,000 for Preliminary Investigations.

15.5.1 Companies welcomed the concept of the payment of perhaps €35,000 for a preliminary investigation where there is possible infringement by a competitor or where a competitor indicates that its patent may be infringed. The payment of €35,000 would be for an investigation possibly in a number of countries of possibly a number of European Patents, but each investigation would relate to one product or manufacturing process. One multinational stated that although not in the consumer sector it carried out ten investigations a week. Clearly if the insurance is to operate successfully it must be limited so that its use cannot be abused.

15.5.2 Multinationals and large companies patrol their technical frontiers with their large size competitors through preliminary or "summary" investigation, but they normally inform the other side (at least at the business level) at some stage during the investigation. More needs to be learnt by discussions with multinational large companies of the processes, practices and investigations of the different levels of investigation that are employed. This would help to clarify the essential nature of the preliminary investigation for which it would be feasible to offer cover. It would also aid determination of the type of cover that may be reasonable and attractive in the light of the accounting practices of patent departments, which not only maintain and weed out the patent

portfolio, but also initiate the preliminary investigations relating to validity and infringement. One requirement to prevent undue use of the cover would be to exclude in-house costs from this cover.

15.6 The patentee should bear an initial amount (co-insurance) of costs, say €5,000.

15.6.1 In the case of small companies, the obligation to pay the first €5,000 of costs before cover starts was regarded as satisfactory, and a deterrent to frivolous actions. It would however, not be a deterrent to a large company with many investigations.

15.7 Patentees in the scheme should also be covered as defendants.

15.7.1 There is a very clear desire of the companies and patent lawyers, that defendants should be covered for costs and damages and that as patentees have paid a premium this is easy to justify.

15.8 Any scheme involving public funding should cover non-patentee defendants as well.

15.8.1 Equity demands that if public funds are supporting one side, in circumstances where there are 'honest infringers', they should also support the other side. Discussions with the insurance industry will be required to overcome certain, but not insuperable, insurance problems

15.9 Cover for all defendants in actions brought under the scheme, whether or not they are patentees, should be considered

15.9.1 Defendants, unlike patentees, are not known until action commences. It is therefore difficult for them to obtain insurance. Because of the nature of patent actions, and the 'honest infringer' point there would be merit in making provision to cover all defendants.

15.10 National patents, provided their claims are equivalent to those of the European Patent, should be regarded as covered by the insurance.

15.10.1 In some Member States it is normal for a patentee to take out a national patent equivalent to a European Patent in other countries. This should be covered.

15.10.2 Consideration should also be given to the possibility of cover for national utility models and provisional protection for the invention covered by an insured European patent

15.11 The scheme should encourage settlement, without cutting out the possibility of action.

15.11.1 The high cost and complexity of risk assessments undertaken by insurers before they accept

a proposal is one of the main causes of the failure of PLI to be accepted generally. In consequence any risk assessment by the insurer should be postponed until a full court action is established.

15.12 Cover should be provided to parties with a 50:50 or better chance of success.

15.12.1 It is generally accepted that both parties patentee and defendant in any action which goes as far as being fought in court are equally meritorious. Each will have been advised honestly that they have a reasonable chance of success of not less than 50:50. No party will pursue an action if it has been advised that its chances are worse than 50:50. In these circumstances insurers consulted in the study have informally agreed that they should give cover to a party professionally advised as having a reasonable chance of success (50:50 or better). This provision should therefore be included as vital part in any scheme which is put forward.

15.12.2 Parties with a reasonable chance of success (50:50 or better) should have the right to go to a full action in court, but in most cases it can be assumed that settlement is a better solution for the parties. It can be assumed that the presence of insurers on one or both sides will be an influence toward settlement. It should be assumed that the agreement by the insurers to cover cases where the chances are reasonable (50:50 or better) will prevent the insurers from applying undue pressure on the parties for a settlement.

15.12.3 Settlement, or the taking of a licence, is the most normal outcome of action whether or not it reaches court. The earlier such settlement occurs, the lower the costs involved.

15.13 Consideration should be given to a mediation service connected with the scheme.

15.13.1 This might apply from the stage of preliminary investigations up to the full action stage, though it must be accepted that a party cannot be deprived of its right to go to court.

15.14 Either new patents only, or all patents could be included, but cases already started should probably be excluded from cover.

15.2.16 The advantage of including all patents is that the premium income would be large from the start; although the risks would be correspondingly larger. On the whole it seems desirable to start with new applications only, so that experience can build without too large risks. This requires further discussions with the insurers once the major features are agreed.

15.15 Fees should if possible be collected annually through the patent system.

15.15.1 It should be borne in mind, that as always with patents, the issue of cost is important. On the face of it, the most cost-effective method of gathering a compulsory premium would be through the patent offices of Member States

15.15.2 There are obvious problems here, not least that each member state has its own system, and that in the early years a fee is not currently paid annually in all countries

15.16 Premiums might be varied with size of patent portfolio.

15.16.1 A premium level of about €300 to €600 was envisaged to cover the risk of major patent actions and preliminary investigations. In the Round Table Discussions it became clear that the risk per patent depends for various reasons on the size of the portfolio. In the case of large portfolios the risk of a major action did not increase proportionately to the number of patents. The reasons for this were that more patents per technical subject matter are taken out by large companies, and thus more patents are involved in a single infringement case. In addition, more patents are taken out on lesser pretext than would be by a small patent holder party partly in order to prevent use by others of inventions even though they may not seem have commercial importance; while patents in a larger portfolio are more likely to be tied up in cross licensing arrangements, and again less likely to be litigated.

15.16.2 It is necessary to explore these and other possible similar reasons further to arrive at some measure of the degree to which sheer size of a portfolio reduces the odds of any one patent in it being the cause of a patent action. This requires further discussions with the patent departments of large companies in different technology sectors. Qualitative and quantitative results should be obtainable to enable comparison to be made between countries general statistics on the number of patents on the one hand, and on the other the number of patents and the number of patent actions in general in the EU. This requires discussions with professional patent bodies who can obtain in confidence figures from their members. These can be aggregated without breaking confidence.

15.16.3 The insurance companies can give advice on the degree to which reduction for quantity of patents should be justified on actuarial grounds.

15.17 Dialogue should be continued with insurers, patent lawyers and companies to refine the sort of product that would be acceptable to both sides and in order to minimise objections to a compulsory insurance

15.17.1 Particularly in current circumstance, insurers will be chary of taking on risks they do not well understand. The whole scheme will depend on this point being met.

15.17.2 One possibility is a captive scheme in which the Commission initially takes a more or less major part alongside commercial insurers while the risk profile becomes clear.

15.18 The implications of Public Funding should be considered further

15.18.1 It may be presumed that it would be best to avoid public funding, but some funding may be required to stimulate a scheme into existence, or even to enable it to continue.

15.18.2 Consideration should be given as to whether the scheme might be started with a 'captive' insurance company backed by several insurers and the European Commission. This was mentioned by several insurers.

15.18.3 To give initial revenue support the Commission might fund a reinsurance of higher level potential loss to an insurer: for example a premium to cover 90% of a possible loss of (say) between €X million and €Y million Euros per annum for up to five years.

OTHER GENERAL RECOMMENDATIONS

15.19 Consideration might also be given to an 'opt-out' scheme

15.19.1 It would be necessary to decide to what companies and on what grounds opt outs should be granted. An opt-out scheme would however almost certainly require public funding at the start.

15.20 In a voluntary or opt out scheme, new patents only should be covered because of the risk of bad cases dominating if existing patents are allowed to apply.

15.21 Any scheme should make maximum use of the commercial insurance market, and involve several insurers

15.21.1 It is important to take advantage of the ingenuity and experience of insurers, competition being necessary to gain cost effectiveness.

15.21.2 It should be envisaged that there would be a fixed premium and/or fixed classes of premiums and fixed sliding scales with fixed minimum cover. Beyond this individual insurers could compete by offering (for the same class of premium) additional cover; or additional cover and further aspects for an additional premium.

15.22 The basic statistics needed for underwriting PLI risks should be provided, and research on this is needed at an early stage

15.22.1 Action should be taken quickly to discover the basic statistics against which an underwriter could decide to assess the risks, possible profits, and necessary premiums in a compulsory scheme premiums. Without these statistic little progress will be made with insurers.

15.22.2 Insurers state that they are unable to obtain the statistics they need to make intelligent decisions for a widespread PLI scheme. Such statistics are an essential starting point. From our discussions we believe informal statistics may be obtained from individual practitioners or from national bodies to give a fair impression of the situation in each member states. These figure are confidential at the level of individual practitioners, but are not confidential in the aggregate

15.22.3 This table illustrates in a preliminary way the statistics that might be sought in the context of the patent litigation process:

Statistics to be discovered for a large part of the EU	Work done	Statistics to be sought	Source	Possible outcomes			
				Action dropped	Action continued		
Suspicion of infringement	Initial examinations by patent attorney	Number and outcome; aggregate costs incurred	Patent attorneys through their professional association	Action dropped	Action continued		
Preliminary investigation	Detailed Investigations by patent attorney and technical experts	Number and outcome and costs incurred	Patent attorneys through their professional association	Action dropped	Action continued		
Contact with possible infringer	Challenge made to possible infringer who takes defence action carrying out preliminary investigation	Number, outcome, and costs incurred	Patent attorneys through their professional association	Action dropped	Action continued	Licence taken	Settled
Discovery	Both sides	Number , outcome and financial costs	Patent attorneys through their professional association	Action dropped	Action continued	Licence taken	Settled
Court	Both sides	Number and outcome, costs and damages in aggregate	Patent attorneys through their professional association	Action Won	Action Lost	Licence taken	Settled
Appeal	Both sides	Number and outcome, costs and damages in aggregate	Patent attorneys through their professional association	Action Won	Action lost	Licence taken	Settled

16. Appendix A - tables of Insurer and broker coverage

TABLE A

Insurer	Patent enforcement	Defence	Damages	Territorial cover	Availability
AIG	No	yes	yes	world-wide	USA
Allianz	No	yes	yes	world-wide	Germany
AXA	No	yes		world-wide	France
Beazley(Lloyds)	Yes	yes	yes	world-wide	Major
Chubb	No	yes	yes	world-wide	USA
Creechurch	Yes	yes	yes	world-wide	Major
DP.Mann(Lloyds)		yes		world-wide	
Evanston	No	yes		world-wide	
Gerling	No	yes	yes	world-wide	Germany
Hiscox(Lloyds)	Yes	yes	yes	world-wide	Major
Indian Harbor	Yes	no	no	world-wide	USA
Kiln(Lloyds)	Yes	yes	yes	world-wide	Major
Markel(Lloyds)	Yes	yes	yes	world-wide	Major
Nutmeg	Yes	no	no	world-wide	USA
Reliance	Yes	no	no	world-wide	USA
Swiss Re		yes	yes	world-wide	

TABLE B

BROKER	Patent enforcement	Defence	Damages	Territorial cover	Availability
Abbey	Yes	yes	yes	limited	UK
A. Forbes	Yes	yes	yes	world-wide	major
Aon	Yes	yes	yes	world-wide	major
Binks	Yes	yes	yes	world-wide	Canada
CNA PRO	Yes	yes	yes	world-wide	
IPISC	Yes	yes	yes	world-wide	USA
LRM	Yes	yes	yes	world-wide	USA
Marsh	Yes	yes	yes	world-wide	major
Miller	Yes	yes	yes	world-wide	EU
PIB	Yes	no	no	world-wide	UK
Summit IPRM	Yes	yes	yes	world-wide	USA
Venture	Yes	yes	yes	world-wide	

17. Appendix B Notes on the answers to questionnaires, circulated to all respondents

EUROPEAN COMMISSION ENQUIRY INTO THE POSSIBILITY OF INSURANCE FOR PATENT LITIGATION - INITIAL FINDINGS

Dear X

First, may I thank you very much for responding earlier this summer to the Preliminary Questionnaire with your valuable and most interesting comments.

The Questionnaire was sent to certain patent owning companies and patent lawyers and attorneys in ten EU Member States (Germany, Italy, France, UK, Spain, Austria, Sweden, Finland, Denmark and Greece); and in the USA and Japan.

I thought you would like to know something of what we found, and that as a result of your reply we very much hope you can come to a round-table discussion under the aegis of

Our initial findings

17.1 Clear pointers at the half-way stage

Although the views of the patent lawyers differed considerably from those of the patentee companies, there were no national differences, and among the two thirds of respondents who stated an interest in an insurance scheme, the responses showed overwhelming agreement on a number of vital issues. The most notable are these:

17.1.1 The companies were as interested in insurance for defendants to infringement proceedings as in insurance for patentees

17.1.2 The companies were as interested in insurance for damages as for costs.

17.1.3 Practically all companies (and lawyers) regarded the possibility of the European Commission 'taking steps to set up a patent litigation insurance throughout Europe' as 'of interest or beneficial'.

17.1.4 Any scheme should be voluntary and not compulsory

17.1.5 However there was a general impression that insurance for patent litigation has hitherto been very limited in use, and has been complex, expensive and there has been unacceptable uncertainty as to whether the expected cover would in fact be received. In addition there is common concern over the expense, delay and complexity of risk assessments in individual cases. Insurers and brokers who took part separately in the preliminary enquiry make essentially the same points.

17.1.6 Incidentally, the position in the USA and Japan turns out to be not substantially different, and little or no useful guidance can be expected from experiences there.

17.2 Insurers and brokers

17.2.1 As a consequence we have held talks with insurers and brokers to see how the failure in the past to provide widespread cheap and simple insurance can be overcome.

17.2.2 The insurers and brokers also strongly believe that defendants should be covered and that insurance should include cover for damages.

17.2.3 Needless to say all parties agree that defendants should only be covered in cases where they honestly have reasonable grounds (on the basis of a legal opinion) to believe either that they do not infringe or that the patent is invalid or drawn too widely.

17.2.4 Insurers and brokers have now addressed the problem of expense, complexity and burden of individual risk assessment in the light of the above preliminary reactions of patent companies and lawyers

17.2.4.1 Insurers' and brokers' preliminary conclusions appear to be that if a **very large proportion or all patentees** in Europe were automatically covered both as plaintiffs and defendants in patent infringement proceedings for costs and damages, the premium for these would be low.

17.2.4.2 As an indication of the sums involved they rough estimate a premium of about €300 pa from the date of application onwards during the life of the patent. Such an insurance might, for instance, provide *without any prior risk assessment*, a sum of up to, for example, €5,000 upon institution of proceedings to cover preliminary investigations by both sides and attempts at negotiating a settlement.

17.2.4.3 If the proceedings went further, costs and damages up to €1.5m could be provided following a favourable risk assessment. *The premium would not be affected by the risk assessment*. All these estimates are based on statistical information which the insurers consider to be seriously inadequate, and one of the issues being taken up is the provision of better national and European statistics.

17.2.4.4 To obtain sufficiently wide use of the insurance while maintaining a low premium the European Commission could consider ways to provide automatic cover, perhaps by making provision for premiums to be paid with application, grant and renewal fees, with the availability of opt-out provisions.

17.3 The practical way forward

17.3.1 As mentioned above in point 4 of the agreed opinions, there was almost unanimous opposition to a mandatory scheme. However the comments suggest that the opposition arose from a generalised dislike of official interference in the economic and market sectors of the European economy.

17.3.2 A vital question therefore that must still be considered is whether, in view of the widespread interest in low cost simple insurance for patent litigation, industry and lawyers would entertain a scheme along the lines set out above, which depends for its success on the participation of all or most patentees (perhaps with opt-outs). Ways of achieving this must be found because the question is as vital for the insurers and brokers as for patent companies and lawyers, because they are naturally strongly predisposed against a mandatory scheme. We shall pay great attention to this in the next stage of the study.

17.4 Recommending possible solutions to the European Commission

17.4.1 In the next stage of the study we shall be examining possible means of providing a common patent industry and insurance industry solution.

17.4.2 We are now developing a range of options and will contact you for your views on them.

17.4.3 We propose to hold a series of national round-table discussions of those who have responded to the preliminary Questionnaire with international insurance companies and brokers. I plan to attend these discussions. We very much hope that you will be able to attend your national round-table discussion, and details will be sent to you shortly.

If you wish to communicate with me directly, my email address is: **amedee.turner@btinternet.com**

Yours sincerely,
Amédée Turner QC
Legal Coordinator
Penthouse 7
63/104 Bickenhall St.
London W1U 6B

18. Appendix C "Various possible options" - the paper discussed in EU countries

The following possible features of patent litigation insurance could form part of a scheme, and were circulated to those taking part in the Round Tables. Naturally not all were accepted by all insurers who took part in earlier discussions, and some aspects may be incompatible with others.

18.1 COVER

18.1.1 It is accepted that patentees should be insured as plaintiffs and as defendants in patent insurance litigation. In the case of defendants cover arises when a defendant has received independent legal advice that he would not infringe the patent in question or that the patent involved is invalid. This is to prevent irresponsible manufacture action by a possible defendant.

18.1.2 It is accepted that litigation costs, costs of investigating issues of infringement, and of validity and damages for infringement should be covered. Compensation for the cost of complying with an injunction are a further possible cover. Cost of compensating licensees are a further possibility.

18.2 RISK ASSESSMENT

18.2.1 It is accepted that a risk assessment at the inception of insurance for a particular patent is not practicable or desirable. This is the point which primarily distinguishes current ideas from all preceding patent litigation insurance. Hitherto this prevented widespread insurance because of the cost, complexity and expense of time and trouble of a risk assessment. At the start of the policy, before the policy was agreed.

18.2.2 A risk assessment will only be necessary in the small minority of cases which go beyond the initial stages of litigation. At this later stage, when litigation is a reality, the prospective parties will themselves have investigated infringement and validity and come to their own conclusions.

18.2.3 It is recognised that in the rare cases where the parties actually pursue their dispute to full litigation, having each assessed the validity and infringement issues, both will have been advised that they have a reasonable chance of success (odds of say 60:40. Odds less favourable than these for one of the parties will normally lead to settlement). In the circumstances where both parties have been given reasonable odds of success they will both qualify for cover. This is in contra distinction to most non patent litigation when normally only one side will be considered appropriate for cover, and arises because the outcome of patent litigation which actually gets to court is so hard to forecast.

18.3 PREMIUMS

18.3.1 The level of premiums depends entirely on the level of take up of insurance. In many other insurance instances, the degree of risk in a particular case dictates in part the level of the premium charged, though of course the proportion of the number of insurance policies to the numbers of those where a claim is made is also an essential element of the premium estimate. However in a scheme intended to give cheap cover to all or practically all patentees, it is accepted that the premium would be low, and will remain the same throughout the life of the policy, and would be uniform for all patentees (except for the possible qualifications of this set out in para. 3 and 4 below). A uniform low premium is of course inevitable if there is to be no initial risk assessment. This vital feature is only economically practicable if the proportion of patents sued on is very low. It is generally thought to be 1 in a 1,000.

18.3.2 A mandatory scheme is highly unpopular with both patentees and insurers, and it is clear that a non-mandatory scheme (for example with an opt-out rather with an opt-in) will only succeed if the premium is very low. On the assumption that 1 in a 1,000 patent is litigated, a premium of 300 to 600 Euros per annum from the date of application should provide cover up to 35,000 Euros for preliminary investigation for each side prior to a risk assessment by the insurer, and then cover perhaps up to 1.5 million Euros for costs and damages in the action itself after a risk assessment has been made by the insurers.

18.3.3 The insurers are however very uncertain about the statistics concerning patent litigation: as to the actual average life of a patent, and, with regard to each European Member State, as the number of infringements investigated, the number of actions commenced, the number of actions fought through and the length of actions.

The insurers need to know much more on these points. Means of obtaining the statistics require full consideration.

18.3.4 Although the premium is foreseen to be uniform for all patentees, it may be desirable to have a number of uniform premium levels dependent on the technology involved (e.g. biotechnology and computers compared to engineering) and dependent on the cost of trials and the level of damages awarded in different Member States (NB: the venue is determined by the domicile of the defendant).

18.4 EFFECT OF INSURANCE ON LITIGATION

18.4.1 It is assumed that insurance will increase the amount of litigation, and this must be considered desirable as leading to greater effectiveness of the patent system. But unless insurance also leads to quicker and fairer settlements and more licensing in appropriate cases, it can hardly be said that insurance will enhance the patent system's ability to advance technology in Europe. It is possible alternatively that insurance will encourage more patent applications by lessening fear of the expense of litigation without actually increasing litigation. This would also be a favourable outcome. It will be necessary to structure the policy to encourage out of court settlements.

18.4.2 If statistics change significantly because of the existence of insurance, this will affect premiums. The degree of this affect must be considered.

18.5 SIZE OF COMPANY

18.5.1 The European Commission has particularly in mind the desirability of strengthening technical advance by SMEs, but it is not possible or appropriate to confine an insurance system to SMEs, inter alia, because of the impossibility of defining over a period of time in the life of a company whether it is a SME. There are attractions in an insurance scheme for large companies but these will be of a different significance from its attractiveness to SMEs. The implications of this need consideration to ensure that a scheme is attractive in all cases. Opting out by large companies will have to be avoided.

18.5.2 A serious issue arises in cases when a large company warns another company of a long list of patents without specifying which are considered relevant. The context of insurance to this practice needs consideration.

18.6 OTHER POINTS

18.6.1 Consideration must be given to the situation when a patentee challenges a number of alleged infringers at the same time perhaps in different countries.

18.6.2 It is not possible to admit existing patentees at the start of a scheme because only the bad risks will apply. It may be necessary also to provide cushioning for the insurer at the early stages of a scheme before premiums have built up.

19. Appendix D – possible options relating to the recommended scheme

19.1.1 This table shows some of the elements that may be used to generate alternative options for consideration by the European Commission. The basic elements of the scheme are shown in BOLD. It must be emphasised that these elements require considerable further discussion with interested parties to refine them.

Indicative table of elements for a possible European Insurance against Patent Litigation Costs			
Common elements			
1. Compulsion	An element of compulsion by law is essential		
2. Premium	Perhaps 300-600€per annum		
3. Co- insurance	Perhaps first 5000€of cost born by insured		
4. Cover – early stages	Perhaps 35000€for investigations etc		
5. Risk assessment	Only for later stages		
6. Cover –later stages- for costs and damages	Perhaps 1.5m€dependent on positive risk assessment		
7. Geographical Cover	EU only		
8. Cover for defendants	Some support for defendants provided against scheme members IF the scheme has public support and compulsion		
<i>Further Elements that may be permuted (i.e. different elements taken from different lines)</i>			
9. Nature of compulsion	Compulsory for all new patents	Compulsory for all patents	Opt out available, new patents only
10. Relation to number of patents	No reduction	Reduced premium for families of patents	
11. Technology considerations	Fixed premium	Premium increased for certain technologies	
12. Geographical cover	Fixed premium	Premium increases with countries covered	
13. Time consideration	Fixed premium	Premium increases with time	
14. Mediation	Compulsory	Not compulsory	
15. Defendants cover	Cover for all eligible defendants at low premium when defending against scheme member	Cover only for other scheme members	Cover only provided IF the scheme is compulsory
16. Defendant Eligibility	Only with evidence of positive legal advice: more than 50% chance of success		
17. Defendant co- insurance	No, but defendant pays a premium	Yes, defendant pays proportion of costs	
18. Defendant Cover – early stages	35000€	None	
19. Mediation	Compulsory	Not compulsory	
20. Defendant Cover –later stages	1.5m€subject to assessment	None	

20. Appendix E – notes on other information, and definitions

20.1 Other APPENDICES giving the questionnaires and numerical analysis of answers were included only in the electronic version of the Interim Report.

20.2 The Commission has been supplied with copies of promotional literature from insurers offering patent litigation schemes.

20.3 Captive insurance

20.3.1 As the following formal definitions show, a 'captive' insurer is generally owned by those it insures, or by those having a special interest in those insured, and is directed towards a special purpose. Those insured by it may all be members of one company or group of companies, or alternatively they may be a disparate collection of companies or institutions grouped together (possibly solely) for the purpose of owning the insurer.

20.3.2 The perceived advantages of a captive insurer include:

- Cost savings compared with ordinary commercial insurance
- Obtaining insurance where it might otherwise be difficult to do so
- Obtaining better cover than might be obtainable otherwise

20.3.3 Thus if the commercial insurance industry is unable to meet the special requirements of a European Insurance scheme against patent litigation costs, there might be an argument for the Commission supporting a captive insurer dedicated to this particular scheme.

20.3.4 Definition: "Pure captive insurance company" means any company that: (1) is a subsidiary of an industrial insured which is one hundred percent owned by or is a statutory subsidiary of the industrial insured; and (2) is licensed for the primary purpose of providing insurance or reinsurance covering the risks of its parent and affiliated companies.

20.3.5 Definition: "Group captive insurance company" means an insurance company licensed for the primary purpose of providing insurance or reinsurance covering the risks of the industrial insureds that comprise the industrial insured group. "Industrial insured group" means any group of unaffiliated industrial insureds that are engaged in similar or related businesses or activities and that collectively: (1) own, control or hold with power to vote all of the outstanding voting shares of stock of a group captive insurance company incorporated as a stock insurer; or (2) represent one hundred percent of the voting members of a group captive insurance company organised as a mutual insurer.

20.4 Champerty

20.4.1 CHAMPERTY - A bargain between a plaintiff or defendant on the one hand and a legal representative 'champertor' on the other to divide the land or other matter sued for between them if they prevail at law, the champertor undertaking to carry on the suit at his own expense. For example "I will sue on your behalf if you pay me 60% of anything I win for you." While elements of champerty remain violations of law or attorney ethics, prohibitions have been greatly relaxed in modern times and generally now prohibit only the attorney formally covering all costs of an action.