

AXIS

Strategies for Mitigating Intellectual Property Risk



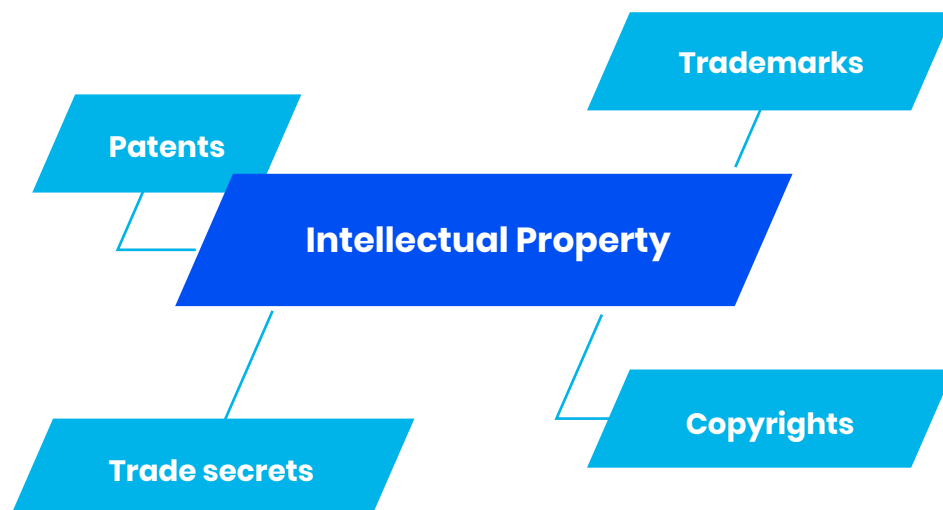
Introduction

In today's global economy, intangible assets such as Intellectual Property (IP) hold significant value for businesses that develop and utilize their own IP and license the IP of others. The following discusses various forms of IP risk and outlines effective strategies to mitigate them while highlighting the importance of safeguarding IP assets.

Understanding IP Risk

Intellectual Property includes a diverse range of assets, including patents that protect inventions, trademarks that secure brand identity, and copyrights protecting creativity. While these assets are intangible, they are vulnerable to an array of risks that exist whether the IP is formally registered or not.

Broadly speaking, IP risk refers to the potential threats and vulnerabilities to intangible assets such as patents, trademarks, copyrights, and trade secrets. It includes infringement, and theft, as well as the direct and indirect consequences thereof and these risks manifest from various legal theories recognized at law. Below is a discussion of ten common IP-related risks including strategies to mitigate the impact of each.



1. Contractual Liability Risks

Contractual liability risk refers to the legal obligations or liabilities that parties assume when they enter into a contract. They include the duties that arise from the terms and conditions agreed upon and the legal remedies available to the harmed party. Disputes can arise if a breach of contract occurs in which one party fails to perform, violates, or does not fulfill their contractual obligations as specified in the agreement. Contractual liabilities are relatively easy types of risk to identify as they are specifically listed in the contract; though ironically, they are often the least understood by the contracting parties.

Common liabilities established in contracts that govern IP can include clarification around ownership of background IP and its improvements, obligations around patent filings and maintenance thereto, duties to safeguard trade secrets, representations and warranties, rights pertaining to infringement and patent enforcement as well as indemnification obligations and hold harmless agreements, among others.

Employers can face vicarious legal liability from provisions contained in the employment contract a new employee had with their former employer, such as non-compete agreements, non-disclosure agreements, and obligations surrounding the use and ownership of trade secrets.

Errors and Omissions policies covering technology and media risks, as well as IP Insurance policies, can cover breach of contract risks, provided the policyholder acted in good faith and did not intentionally breach the contract. Employers can also obtain coverage to protect against vicarious liability arising from a new employee's former employment contract.

IP insurance is available to provide legal expenses and to pursue others for breaching a contract and defense costs in the event of a countersuit, empowering the policyholder to assert their contractual rights.

Being aware of one's contractual risk by having a knowledgeable insurance broker who's proficient in the various insurance coverage forms and endorsements and conducts thorough contract reviews regularly to identify, quantify, mitigate, and insure as much risk as possible is a key pillar in any IP risk management plan.



2. Contractual Indemnity Risk

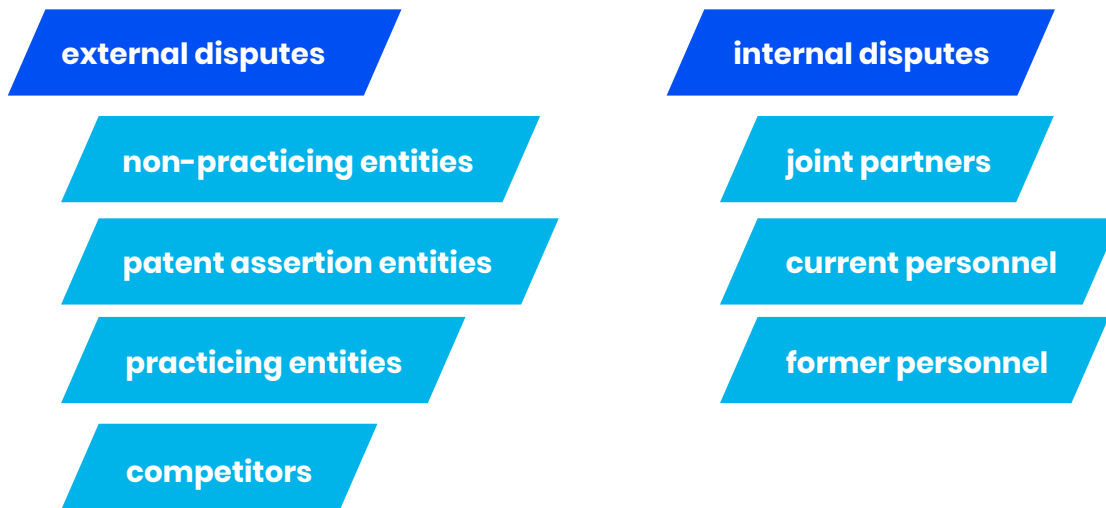
A source of contractual risk, a common source of IP risk arises from contractual indemnities, which refers to clauses in a contract whereby one party agrees to assume the tort liability of another. In many cases, the indemnifying party is unaware of their obligations until the dispute arises. A typical example of this risk is the obligation to indemnify a party for legal actions brought by third parties alleging IP infringement.

Contractual indemnities are usually written by and in favor of the party holding the most leverage at the negotiating table, typically a stronger party seeking to protect its interests when dealing with a comparatively weaker party. As such, indemnification language contained in first draft contracts is almost always written in broad terms requiring the indemnifying party to hold the indemnified party harmless for all losses arising from the contract, however caused.

Since all liability policies focus on specific exposures and contain coverage exclusions, it is imperative to consult collaboratively with outside counsel and a knowledgeable insurance broker to obtain appropriate insurance coverage and narrow the scope of the indemnity language to risks that the insurance program applies to, otherwise one could find themselves paying out of pocket for uninsured losses that were never contemplated and outside their control.

3. Infringement Challenge Risk

Infringement challenges occur when one party accuses another of infringing upon their intellectual property rights. These disputes can arise from a variety of external sources such as non-practicing and practicing entities, patent assertion entities, competitors, and internally from joint partners and current and former personnel. It's important to note that these legal actions can be made under frivolous grounds for a variety of reasons, from extracting small settlements and licensing royalties, to competitors seeking to bog down their competition with costly legal proceedings to slow down their technological advancements.



Entities can protect against infringement challenge risk by conducting comprehensive searches and clearance checks before developing new IP and launching products to ensure they don't infringe on existing IP rights. They can also consult with legal counsel to evaluate risk of potential infringement, conduct internal IP audits to ensure compliance and identify unintentional infringement, and keep up to date with changes in IP law, regulations, and court rulings impacting their industry.



Entities can protect against infringement challenges by being aware of their contractual indemnification obligations and whenever possible, requiring contracted parties to provide indemnity for infringement allegations brought by third parties.



4. Misappropriation of Trade Secrets

Trade secrets generally encompass valuable information critical to a company's success, including formulas, algorithms, processes, client lists, registered IP and other proprietary information that provides a competitive advantage. Not only does misappropriation of trade secrets expose businesses to significant direct and indirect financial loss in the event they fall victim, but they can also face serious legal liabilities if accused of misappropriating the trade secrets of another.

Trade secrets enjoy legal protection when they meet certain criteria such as being kept secret and have commercial value, provided reasonable efforts are made by the owner to keep them confidential. Any unauthorized acquisition, use, or disclosure of trade secrets constitutes misappropriation. While legal remedies are available to victims of misappropriation, pursuing those responsible can be complicated and costly.

Accusations of misappropriation relating to IP typically take the form of infringement actions.

Two common ways businesses can be exposed to legal liability arising from infringement actions based on misappropriation is through the former employer of an employee and through contractual indemnities provided to others.

In the first instance, the former employer of a new employee accuses the employee of taking their trade secrets to a new employer and pursues legal action against the new employer, often allegations of breaching provisions within the employment contract form part of the dispute. This scenario is particularly common with innovative sectors where employers fiercely compete for talent but is becoming more prevalent across different sectors of the economy as employers in general struggle to retain highly skilled labor.

In the second instance, provisions relating to IP can be found in most commercial contracts, such as Master Service Agreements, Contractor Agreements, Supply Contracts and License Agreements. If one party has agreed to broadly indemnify the other for all liability arising from the contract, which is very common, the indemnifying party may find itself legally obligated to defend a third-party legal action alleging misappropriation on the part of the indemnified party.

Businesses can protect against the risk of misappropriation of their trade secrets through contractual means, such as ensuring robust confidentiality and non-disclosure agreements with employees, partners and third parties accessing trade secrets. Implementing physical and digital security measures, access controls, data encryption and access restriction to sensitive information as well as employee training on the importance of safeguarding trade secrets with clear guidelines and conducting regular awareness programs is another important measure. Lastly, given the high commercial value of trade secrets, establishing systems to monitor and detect unauthorized access and taking swift legal action against misappropriation is an essential risk mitigation measure.

In the case of mitigating legal liability arising from contractual indemnification obligations, consulting collaboratively with a knowledgeable insurance broker and legal counsel to identify the indemnification risk, narrow the scope of the indemnity language, then backstop it with insurance can enable businesses to de-risk the contractual indemnifications often required to execute a contract.

5. Cyber Theft Risk

Cyber Theft of IP can occur through various methods but almost always involves exploiting vulnerabilities in digital systems, human behavior, and organizational processes. These crimes can have particularly devastating impacts on a business resulting in loss of competitive advantage, direct financial loss, reputational damage, and legal and regulatory actions.

The most common methods include phishing and social engineering attacks, the use of malware and ransomware, insider threats, weak IT security controls, third party breaches, exploitation of remote network access points and thefts of physical devices storing sensitive data.

The most effective measures to mitigate cyber theft of IP is to implement comprehensive cybersecurity measures aimed at prevention, including data encryption, firewalls, access controls, employee cyber awareness training, regular security audits and incident response plans. Additionally, establishing a culture of awareness and compliance regarding protection of IP and data security are ways to prevent IP cyber theft.



phishing and social engineering attacks



use of malware and ransomware



insider threats



weak IT security controls



third party breaches



exploitation of remote network access points



thefts of physical storing device



data encryption



firewalls



access controls



employee cyber awareness training



regular security audits and incident response plans



establishing a culture of awareness of IP and data security



6. Use of Generative AI

While generative AI was first introduced in the 1960s, it wasn't until 2014 that the technology advanced to the point that it could create convincingly authentic content, and in 2023, generative AI went mainstream with the advent of large language models (LLMs) such as ChatGPT.

Generative AI refers to deep learning models capable of producing various types of content, including text, imagery, audio, and synthetic data that mimic human creativity. The models are designed to process and analyze input data, learn patterns, and generate coherent and relevant responses through various forms of media. This innovative technology will undoubtedly provide significant productivity gains throughout the economy; but like most disruptive innovations, generative AI comes with risk.

As these programs rely on massive datasets harvested from the internet to generate their response to queries, the IP-related risks associated with their use arise primarily from copyright & trademark infringement and data privacy and confidentiality.

Generative AI models are trained on vast amounts of data, including copyrighted material. As a result, there is a risk that the generated content may inadvertently replicate copyrighted content. This can lead to accusations of copyright infringement if the generated content too closely resembles protected material and authorization for its use has not been obtained.

Similar to the risk of copyright infringement, generative AI models can generate text and images that may include trademarks. This can occur if the model generates product names, slogans, or other trademarked phrases and without authorization for use can lead to trademark infringement issues.

LLMs trained on diverse datasets may inadvertently learn and reproduce sensitive or confidential information contained in the training data. This could include personal data, trade secrets, or proprietary information. If this information is included in the generated text, it could lead to unauthorized data access, privacy breaches, or disclosures of confidential information.

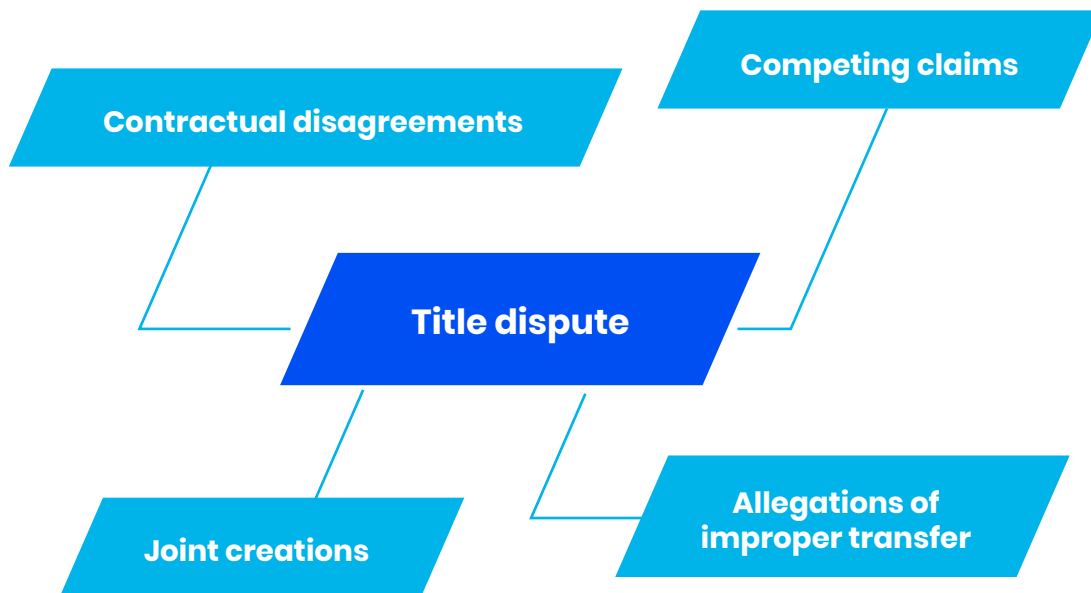
Users of generative AI technologies can take a variety of steps to mitigate their exposure to IP-related legal liability. Ensure that the data provided as input is authorized for use. Avoid the use of copyrighted material, trademarks, or patented content without proper authorization. Conduct thorough IP checks on generated content with tools available online before using or publishing it to verify its originality and ensure it doesn't contain infringing material. Ensure content created by generative AI is attributed as such.

Businesses can develop internal policies based on the above that outline best practices for respecting IP rights when using generative AI in the workplace and communicate them to their employees. If unsure about the legality of using certain data or generating content with the assistance of generative AI, seek legal advice from IP experts. Lastly, consider obtaining IP insurance to protect against potential legal actions related to IP infringement arising from the use of generative AI.

7. Title Dispute Risk

IP title dispute refers to disagreement regarding the ownership or legal title of an IP. Title disputes can arise when there is uncertainty or conflicting claims over who holds the rightful ownership or rights to use a particular IP. Common scenarios leading to an IP title dispute include competing claims, contractual disagreements, allegations of improper transfer, and joint creations and can be initiated by competitors, former employees, licensees, and assignees, third parties claiming prior rights, government authorities, customer or end users and non-practicing entities.

In the case of competing claims, multiple parties may assert ownership of the same IP, leading to disputes over who holds the valid title. Contractual disagreements may arise when contracts or agreements related to the creation, transfer, or licensing of IP lack clarity regarding ownership rights. Allegations of improper transfer can occur if there are concerns that the transfer of IP rights was not valid or proper, such as disputes over the assignment or licensing of IP. Lastly, joint creations can give rise to title disputes if collaborators, co-creators, or former employees question the ownership of jointly created IP, particularly in cases where individual contributions and rights are unclear.



Resolving IP title disputes often involves litigation, arbitration, and mediation with the outcome of the dispute impacting the ownership, licensing, or use of the IP in question. Businesses can be proactive in addressing potential title disputes by conducting thorough IP searches to identify and address potential title issues as early as possible.

Utilizing clear contracts and documentation provides a strong legal foundation that reduces ambiguity and can establish clear ownership rights to facilitate IP creation and transfer.

Insisting upon the use of alternative dispute resolution processes in contracts can expedite dispute resolution that can be both fast and cost-effective compared to traditional litigation.

Comprehensive IP insurance can be obtained to defend against IP title disputes, pursue contracted parties to assert contractual rights, and provide business interruption coverage to recover the application costs and loss of future profit in the event the title challenge is successful.

A knowledgeable insurance broker who is proficient with the various coverage forms can help assess the risk and provide a tailored insurance program to defend against these actions and preserve contractual rights.

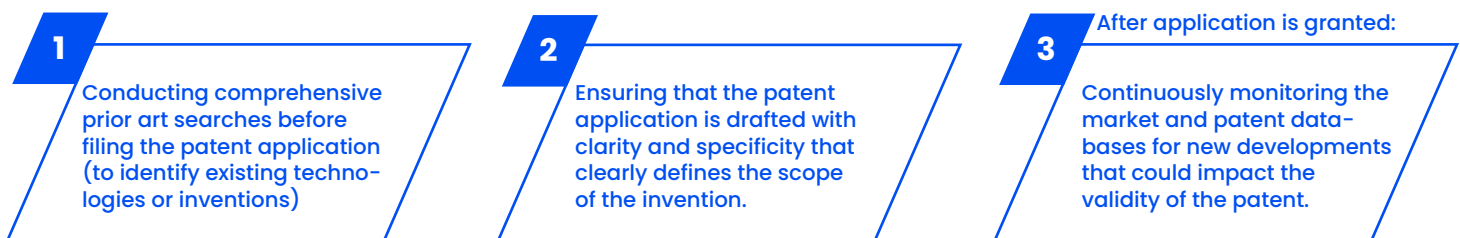
8. Validity Challenge Risk

A validity challenge is a form of title challenge and can arise when one party questions the legitimacy of a patent, trademark, or copyright of another. Validity challenges differ from infringement challenges in the sense that validity challenges question whether the IP is valid and enforceable, whereas infringement challenges focus on unauthorized use.

Validity challenges present existing IP holders with the risk of a costly legal dispute that has the potential to result in a loss of IP rights which, depending on the extent the business relies on the disputed IP to provide a competitive advantage, can threaten its existence as a going concern.

In the context of patents, validity challenges often revolve around claims that the patented invention lacks novelty, is obvious, or wasn't adequately described. Mitigating these challenges requires a multifaceted approach. The first step is to conduct comprehensive prior art searches before filing the patent application to help identify existing technologies or inventions that might invalidate the novelty of the application. The second step is to ensure that the patent application is drafted with clarity and specificity that clearly defines the scope of the invention with as much detail as possible. Once the application is granted, taking a proactive posture by continuously monitoring the market and patent databases for new developments that could impact the validity can help the patent holder address potential challenges.

Process of introducing new patent



Throughout the application process, it is important to seek the advice of legal counsel who specialize in the relevant technical field as their expertise can help navigate complex patent laws, ensuring the application meets all requirements and can stand up to potential challenges.

An insurance broker knowledgeable with various IP Insurance coverage forms can help craft an insurance policy to provide tailored coverage that includes legal costs to defend against invalidation challenges and business interruption coverage to recover the application costs and loss of future profit in the event the invalidation challenge is successful.



9. Supply Chain Liability Risk

Supply chain partners provide exposure to IP-related legal liability and have the potential to cause legal entanglements and financial losses. Conversely, businesses that contribute to the supply chain of others can face exposures through contractual indemnity agreements contained in their supply contracts. Addressing these risks is crucial for protecting a company's reputation, preventing costly litigation, and ensuring business continuity.

IP infringement by a supply chain partner can cause severe repercussions for businesses relying on that partner. Legal consequences, including costly litigation, injunctions, and financial penalties can significantly impact on the bottom line.

The tarnishing of reputation due to association with an infringing partner can lead to customer distrust and declining sales. In addition, disruptions in the supply chain, delayed production, and potential product shortages jeopardize product availability and customer satisfaction, and increased costs from legal expenses and potential damages cause decreased profitability.

While supply chain partners face the infringement challenge risks already discussed in Section 3 above, they can face a heightened risk of third-party infringement claims aimed at impeding projects, particularly if operating in highly competitive, innovative sectors, or if contributing to a project that has high commercial value or is of a particularly high profile. Usually employed by a commercial rival, this tactic involves strategically asserting infringement claims to disrupt a competitor's supply chain by seeking to divert resources, introducing uncertainty, and delaying project timelines.

Additional risk for the supplier stems from contractual indemnities in favor of the buyer that are often found in supply contracts relating to the products supplied and can extend to both the background IP provided by the buyer and its improvements.

Businesses can protect against IP related attacks to their supply chain by conducting thorough due diligence on their supply chain partners to ensure their IP compliance and minimize the risk of infringement claims. Identifying potential issues early can help prevent disruptions and legal challenges. Establishing clear contractual agreements regarding IP rights, obligations and dispute resolutions can provide a framework for addressing disputes efficiently and minimize the impact on project timelines. Collaboration with legal counsel to assess the validity of infringement claims can help formulate effective legal strategies to defend claims. Contingency planning to ensure the product or service can be obtained from a secondary vendor can help reduce disruption.

In addition to the mitigation measures outlined in Sections 2 and 3 above, supply chain partners can protect against frivolous IP-related litigation intended to impede development through engagement with a knowledgeable insurance broker that can conduct thorough contract review of supply contracts to identify contractual risk and indemnification obligations and craft an insurance program to defend against the risks.

10. Social Media & Online Content Liability Risk

IP-related risks in the context of social media and online content liability are significant due to the ease of sharing and disseminating information. IP-related risks arising from social media and online content include copyright infringement, trademark violations, unfair competition arising from allegations of deceptive online practices, defamation, libel, and privacy violations.

Users unknowingly sharing copyrighted content without authorization face strict liability resulting in statutory damages and cease and desist orders.

Unauthorized use of trademarks can cause brand identity issues causing trademark owners to pursue legal action to maintain their brand identity and prevent confusion.

Deceptive online practices such as spreading false information about competitors, exaggerating one's product features, or engaging in misleading advertising to create a false perception of superiority can result in legal action for deceptive practices. Defamation and libel claims can be made for making false or damaging statements that hurt the reputation of competitors and unauthorized use or disclosure of private information can result in legal action and loss of trust.

Businesses can protect against IP-related risks arising from social media and online content by enacting strict internal content moderation policies that establish and enforce guidelines that prevent the dissemination of infringing or harmful content. Educating employees on IP laws and the importance of respecting IP rights can foster awareness and responsible content-creation practices. Implementing effective reporting mechanisms for users to flag potential IP violations can ensure prompt action can be taken to remove infringing content as soon as possible. Legal review of online content to identify and address potential IP risks, particularly material that may infringe upon existing trademarks and copyrights, can mitigate risk.

Depending on the industry sector a business operates in, insurance coverage against media liability risks can be obtained as either an endorsement to an existing policy or on a standalone basis, but there are nuances. Working with a knowledgeable insurance broker who can assess risk and match coverage to specific needs is an important backstop to internal risk mitigation efforts.

Conclusion

Navigating IP-related risks requires a comprehensive understanding of the multifaceted challenges presented and effective strategies for mitigation. From IP title disputes and infringement challenges from non-practicing entities to complex contractual indemnities, businesses face a complicated landscape where safeguarding their IP and defending against third-party actions is crucial.

The myriad of strategies including contract review, legal advice, user education, and enacting proactive cyber security control measures underscores the importance of taking a proactive posture. However, in this complex field, being aware of contractual risk and working collaboratively with both a knowledgeable insurance broker and legal counsel versed in IP issues cannot be overstated.

IP insurance can serve as a financial shield against legal actions and help businesses protect and assert their IP rights. Moreover, a skilled insurance broker with a nuanced understanding of contractual risks can assess the severity of each exposure based on the unique circumstances of the business and tailor an insurance program that considers risk tolerance and budgetary constraints.