

INSIGHT

# The Role of Financial Companies in Promoting Intellectual Property Financing



Intellectual property financing requires valuation of intangible assets such as trademarks, design rights, patents and copyright. Photo credit: Korea Institute of Finance.

*In the Republic of Korea, large financial firms should lead efforts to support high-risk, high-return intellectual property investments.*

## Introduction

Intellectual property is a key indicator of competitiveness in the fourth industrial revolution. Yet intellectual property-backed financing remains largely underdeveloped.

To stimulate economic growth, it is an urgent task to nurture intellectual property-based industries and channel private funding to these areas. Securities and asset management companies need to make greater effort to identify valuable and promising intellectual property, and more actively invest in innovative firms.

# Analysis

Intellectual property is used mostly to protect patent-based business. Recently however global firms have been establishing various business models that capitalize on intellectual property, including funding and licensing. According to an Intangible Asset Market Value Study, the share of intangible assets in the market value of the benchmark S&P 500 has risen from 17% to 84% between 1975 and 2015.

The Republic of Korea ranks fifth in the world in terms of the number of intellectual property applications (e.g., trademarks, copyrights, patents), but only a few have been turned into lucrative businesses. The country also ranked 12th in the global innovation index in 2018. And the intellectual property rights trade balance remains in red ink (\$0.72 billion in 2018) because of substantial deficits incurred by small and medium-sized companies, even though large corporations have been posting surpluses.

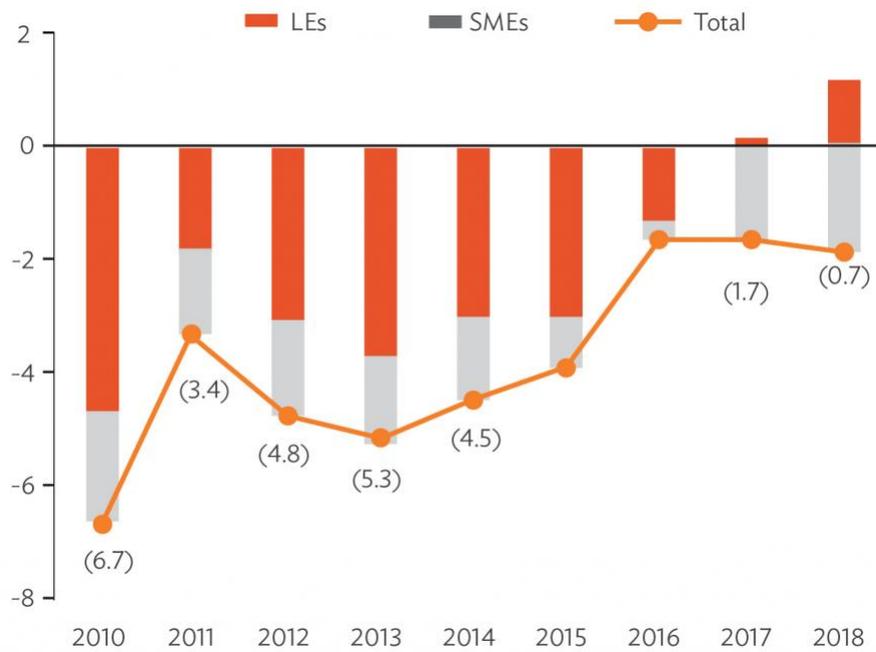
It is important to increase financing to improve the use of intellectual property in business. In the Republic of Korea, the government drives intellectual property financing through the Korean Intellectual Property Office and the Korea Fund of Funds. It plans to expand the volume of financing to 2 trillion won (about \$1.7 billion) by 2022 from 367.9 billion won in 2017.

Meanwhile, banks use intellectual property assets only when they provide additional loans after all other tangible assets are collateralized. Also, the Korea Technology Finance Corporation's guaranteed bank loans and banks' credit lending for tech firms provide only limited funding resources for startups.

As for venture capital firms, intellectual property plays an important role in the first round of investment, but business performance is more important in the subsequent rounds of investment decisions, and intellectual property's role is reduced. Furthermore, only few venture capital firms are big enough to bear the risks of investment.

Some securities firms have introduced intellectual property-related funds after the government unveiled measures to promote financing, but the size of the fund is quite small (Ideabridge-Heungkuk IP royalty fund is valued at 11.3 billion won).

Figure 1: Intellectual Property Rights Trade Balance in the Republic of Korea



LEs = Large enterprises, SMEs = small and medium-sized enterprises.  
Source: Bank of Korea.

Figure 2: Intellectual Property Financing in the Republic of Korea



Sources: Financial Services Commission, Korean Intellectual Property Office, Measures to Promote IP Financing (2018).

# Implications

Securities and asset management firms need to develop intellectual property-related fund products including sale and leaseback, asset-backed securities with license royalty as an underlying asset, and primary collateralized bond obligations, which reduces credit risks through diversification and credit enhancement. For instance, the late British musician David Bowie issued a 10-year Bowie Bond based on copyright revenues in 1997. He raised \$55 million and successfully redeemed them. Similarly, Korea Development Bank issued asset-backed securities worth 5.5 billion won in 2014 based on license royalty and accounts receivables of Wa Bar, a local beer and brewery franchise.

Going forward, securities and asset management companies need to expand the scope of eligible intellectual property to include trademarks, copyrights, and content, in addition to patent rights. Lastly, considering its high-risk, high-return nature, intellectual property investment would need to be led by large securities firms, in cooperation with organizations that have expertise and know-how in intellectual property evaluation, such as the Korea Technology Finance Corporation and Korea Invention Promotion Association.

# Resources

Cornell University, INSEAD, and WIPO. 2018. *The Global Innovation Index 2018: Energizing the World with Innovation*. Ithaca, Fontainebleau, and Geneva.

Korea Institute of Finance website.

World Intellectual Property Organization (WIPO). 2018. *World Intellectual Property Indicators 2018*. Geneva.



Jieun Lee

Senior Research Fellow, Capital Markets Division, Korea Institute of Finance

Jieun Lee served as head of the Financial Markets Division at Korea Institute of Finance, and as the standing senior counselor of the Financial Services Commission and Financial Supervisory Service in 2007–2009. His research broadly addresses the role of financial institutions and regulations to develop financial markets, especially capital markets. He earned his BA in Economics from Seoul National University and PhD from the University of California, Riverside.



Korea Institute of Finance (KIF)

The Korea Institute of Finance provides expert analysis for the development of the Republic of Korea's financial sector and financial policy.

---

Last updated: August 2019