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Patent Pending?

Although insurers largely protect their proprietary systems by keeping relevant information under wraps, a patent may be a viable tool to further safeguard a competitive advantage.

by George D. Morgan

When one thinks of patents, the insurance industry seldom comes to mind. Yet as a professional in the insurance industry, you may one day find it necessary to obtain a patent. Approximately 175 insurance-related patents have been issued by the U.S. Patent and Trademark Office.

In general, a patent represents the grant of a property right to an inventor, issued by the Patent and Trademark Office. The right conferred by the patent grant is, in the language of the statute and of the grant itself, the right to exclude others from making, using, offering for sale, or selling the invention in the U.S. or importing the invention into the U.S.

Most insurance-related patents cover software. Consider, for instance, U.S. Patent No. 6,128,598, entitled System and Method for Generating and Executing Insurance Policies for Foreign Exchange Losses. This patent covers a computerized method for providing foreign-exchange insurance policies that offer protection against unpredictable foreign-exchange rate fluctuations.

An analysis of U.S. Patent Class 705/4, which is defined as subject matter drawn to a computer-implemented system or method for writing an insurance policy or processing an insurance claim, reveals approximately 37 percent of insurance-related patents pertain to property/casualty insurance, 26 percent to life insurance, 23 percent to health insurance, and the remaining 14

percent to other types of insurance.

Although patents can be a powerful tool, they can be relatively costly and time-consuming to obtain. An alternate option commonly used in the insurance industry is simply to keep software programs secret. However, this tactic runs the risk that competitors may be able to discover how the program works (e.g., by reverse engineering) and then simply copy it.

In recent years, patents have been extended to subject matter not previously considered. For example, patents now can cover data processing systems. One fascinating example that illustrates the current landscape is the landmark *State Street Bank* case.

The issue in *State Street* was whether a patent for a data processing system to implement an investment structure for managing mutual funds was valid. The system, identified by the proprietary name Hub and Spoke, facilitated a structure whereby mutual funds (spokes) could pool their assets in an investment portfolio (hub) organized as a partnership. The invention calculated and stored data representing the percentage share each spoke fund holds in the hub portfolio, any daily activity affecting the portfolios assets, and allocations of gains, losses, and expenses to each of the spoke member funds.

Initially, the U.S. District Court found the patent invalid because it was directed to a mathematical algorithm and to a method of doing business, which were asserted not to be subject matter patentable under U.S. patent law. However, on appeal, the U.S. Court of Appeals for the Federal Circuit reversed and remanded, holding that the claimed process was patentable subject matter. In so ruling, the court decided the mathematical algorithm exception did not apply because the invention produced useful, concrete, and tangible results. Most important, the court took the opportunity to lay the ill-conceived business method exception to rest.

Even before the *State Street* decision was handed down in 1998, the U.S. Patent and Trademark Office had been issuing a small number of insurance-related patents. What *State Street* did was to validate these patents and to remove any uncertainty.

Although the business method exception no longer exists, there are still various hurdles to be overcome before the Patent Office will issue a patent. As with other types of inventions, an insurance-related software program must be novel and nonobvious to one of ordinary skill. If you are considering patenting as an option, your patent attorney should not only understand the legal issues but also the business itself.

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