

# INSURANCE IP BULLETIN

An Information Bulletin on Intellectual Property activities in the insurance industry

A Publication of - Tom Bakos Consulting, Inc. and Markets, Patents and Alliances, LLC

## Introduction

In this issue's feature article, *Employee Inventor Compensation in Europe*, our guest author, Jeremy Morton (Simmons & Simmons, London) discusses employee vs. employer invention ownership rights as they are applied in Europe where laws may determine appropriate levels of inventor compensation. In the US, Mr. Morton notes, employers rely primarily on employee contracts to address ownership of and compensation for intellectual property.

In our **Patent Q/A** we discuss how USPTO rule changes may affect the way patent applications are filed and the controversy surrounding these changes.

The *Patent Reform Act of 2007* was introduced into the 110<sup>th</sup> Congress replacing the 2005 version of this bill that died with the 109<sup>th</sup> Congress. These legislative changes are intended to improve the patenting system in the U.S. by making significant changes in the patent application processes. We carry this information over from our last issue for those who may have missed it.

The Statistics section updates the current status of issued US patents and published patent applications in the insurance class (i.e. 705/4). We also provide a link to the *Insurance IP Supplement* with more detailed information on recently published patent applications and issued patents.

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Our mission is to provide our readers with useful information on how intellectual property in the insurance industry can be and is being protected – primarily through the use of patents. We will provide a forum in which insurance IP leaders can share the challenges they have faced and the solutions they have developed for incorporating patents into their corporate culture.

Please use the FEEDBACK link to provide us with your comments or suggestions. Use QUESTIONS for any inquiries. To be added to the Insurance IP Bulletin e-mail distribution list, click on ADD ME. To be removed from our distribution list, click on REMOVE ME.

Thanks,  
Tom Bakos & Mark Nowotarski

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## Feature Article

### *Employee Inventor Compensation in Europe*

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The recent dispute between the UK derivatives exchange, LIFFE (London International Financial Futures and Options Exchange), and its former employee Dr. Pinkava (discussed below), illustrates the importance of understanding who owns employee inventions according to different local laws, and how to compensate employees for those inventions. The world of financial services is increasingly technology-focused, with an ever-greater awareness of the value of intellectual property, and employees in this field are often highly intelligent, highly skilled and highly driven. Such employees need to be managed effectively when it comes to rights in inventions.

The software, data, systems and algorithms developed by financial services businesses may be protected by a range of intellectual property rights, from confidentiality and copyright, to patents. Patent rights tend to be the most commercially valuable, as they are not dependent on copying, although in Europe patentability is limited compared with the US. In particular, business methods and software inventions that are patentable in the US are far less likely to be patentable in Europe. Nevertheless, some software inventions are patentable in Europe. Furthermore, if there is a dispute between employee and employer as to ownership of patent rights, it may fall to be determined under the law of the country where the employee is employed, even if the patent rights in question are in another territory.

#### *Ownership of Patent Rights – LIFFE vs. Pinkava*

In the UK, for example, the employer owns patent rights where either:

- (A) the invention was made in the course of the employee's normal duties, or duties specifically assigned to him, and the circumstances were such that an invention might reasonably be expected; OR

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(B) it was made in the course of the employee's duties, and the employee had a special obligation to further his employer's interests because of the nature of his duties and particular responsibilities.

These rules will apply to ownership of patent rights anywhere in the world, provided the employee in question is mainly employed in the UK. In *LIFFE vs. Pinkava*, Dr. Pinkava made a groundbreaking invention in the field of derivatives trading, and applied for US patents in his own name. LIFFE sued him, and after a detailed analysis of Dr Pinkava's duties and the nature of the invention, both the English High Court and Court of Appeal found in LIFFE's favour. Many will have predicted this outcome, but what is also interesting is that the door is now open for Dr. Pinkava to claim statutory compensation from LIFFE.

Statutory compensation schemes vary from country to country, and are often supplemented by voluntary arrangements between employer and employees. Employees such as Dr. Pinkava might, perhaps, be less likely to create situations such as those in which LIFFE found itself, if they have the benefit of a satisfactory compensation scheme for their inventions. This is something that technology businesses are familiar with: IBM, for example, offers an initial award on patent filing and a further award on grant, as well as bonuses for the top-five revenue-generating inventions.

## ***Compensation for Inventions – UK, Germany, Japan and US Compared***

As to statutory schemes, it is worth taking a look at the position in the UK, Germany, Japan and the USA for comparison purposes.

Up until recently, the advice in the UK would have been that employers were at little risk of compensation awards – the Court had never granted any, as the test required the employee to prove that the patent was of outstanding value to the employer, which was a very difficult burden to satisfy. Since a reform in 2004, however, compensation is payable if the invention, the patent, or the combination of both, is of outstanding benefit to the employer. It is possible that Dr. Pinkava, for example, would be able to prove that his invention is of outstanding benefit to LIFFE's business, even if the patent itself has so far conferred no tangible benefits on them. If compensation is payable under the UK regime, then the amount should be such as to confer on the employee a "fair share of the benefit". As yet there is no guidance on actual figures.

While employers wait to see whether any UK employee successfully claims for compensation, they would do well to familiarise themselves with the German rules on employee compensation. These are quite different, and many companies find them hard to accept at first. When a German employee makes an invention, once the employer is aware of it they have four months to tell the employee whether they wish to own it. If the employer fails to comply with these formalities, or

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to elect for ownership, then the employee owns the patent rights. Furthermore, if the employer elects for ownership, the employee is always compensated. The amount is calculated by reference to statutory principles which have been finessed in practice, and the amount may be the subject of reasonable contractual agreement. Usually, it is a notional license royalty, calculated by reference to factors such as the importance of the invention and the employee's position in the company. Typically employees will receive about €2,000 – 3,000 per year, with occasional cases hitting higher levels (in one case, for example, about €38,400 over nine years).

Japan hit the headlines in 2004 when component maker Nichia was ordered to pay \$189 million to its employee Mr Nakamura, the principal inventor of the blue LED, a hugely profitable product. Nichia was reported to have initially offered Mr. Nakamura about \$200. Japan's statutory scheme had been interpreted in 2003 to mean that, whatever is in the contract of employment, the Court could order what is "reasonable" (i.e., potentially, more than specified in the contract). Following an appeal, the parties settled at \$8.1 million – still a substantial sum. Subsequently, however, the law was revised. Now, provided the employer consults employees in setting remuneration levels, the Courts will not hold the amount to be unreasonable even if it appears disproportionate to the company's resulting profits. Awards are still fairly large, however (for example Hitachi were ordered to pay about \$1.3 million to an employee last year).

These provisions contrast with the US position, where companies predominantly rely on contractual provisions and it is therefore important that these adequately address both ownership of intellectual property and compensation. US businesses with employees overseas should ensure that contractual clauses also adequately address local requirements.

**Jeremy Morton** is a partner in the Intellectual Property Group at Simmons & Simmons, an international law firm.

**This article is for information only and its contents do not constitute legal advice and should not be taken as such.**

## **Patent Q & A**

### *Effect of Patent Rule Changes on the Patent Application Process*

**Question:** I heard that US patent office is implementing a number of rule changes that could make it harder to get a strong patent. Is this true?

**Disclaimer:** *The answer below is a discussion of typical practices and is not to be construed as legal advice of any kind. Readers are encouraged to consult with qualified counsel to answer their personal legal questions.*

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**Answer:** Yes

**Details:** The US Patent and Trademark Office (USPTO or Office) is having difficulty in keeping up with the growing demand for its services. As a consequence, delays have become excessive and quality has suffered.

One of the strategies that the USPTO is implementing to help overcome the growing delays and quality issues is to propose several sets of [rule changes](#) that will place more stringent demands on what applicants can and cannot submit to the patent office when trying to get a patent. The goal is to simplify the work process for examiners so that they can be more efficient. These proposed rule changes, for example, include limitations on how many “continuing patent applications” an applicant can file, limitations on the number of claims that an applicant can file in a patent application, increased demands on applicants to interpret the prior art they submit to an examiner to help the examiner understand its relevance, and, most recently, strict requirements on the content and length of briefs that applicants submit when they need to [appeal an examiner’s rejection](#) to the Board of Appeals and Interferences.

The proposed rule changes are highly controversial. Many welcome the rule changes as a means to reign in what they see as an out-of-control patent system. Others are deeply opposed to the rule changes since they feel that the changes are designed primarily to punish applicants that try to get strong patents. Public comments on these rule changes can be found at [www.uspto.gov/web/offices/pac/dapp/opla/presentation/focuspp.html](http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/focuspp.html)

The first set of rule changes is due to be published in their final form in August and go into effect in October. These are the so-called “[continuing patent application rules](#)”. [Current US patent law](#) allows an applicant to refile a patent application as many times as is necessary in order for the applicant to get the full patent protection they feel they deserve. These re-filed applications are called “continuing patent applications”. They include “requests for continued examination” (RCE), “continuations”, “continuations-in-part”, and “divisionals”. It’s not uncommon in some technologies, such as pharmaceuticals, for applicants to require a series of 4 or more continuing patent applications in order to get full patent protection for their inventions. In business methods, the norm is 2.

Under the new rules, applicants will be limited to 1.

This limit of one continuation will place a special burden on applicants that file patent applications on insurance related inventions. Right now, applicants, who must accept an examiner’s narrow set of claims in order to get their first patent to issue, typically file at least one continuing application in order to keep the patent examination process active. Applicants accept the narrow claims but then [immediately file a second continuing application](#) in order to try to get

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broader and more commercially valuable coverage. 70% of the insurance patents that issued in the last twelve months, for example, followed this strategy.

Under the new rules, applicants will not be able to file the second continuing application. They will either have to live with the narrow set of claims or appeal the examiner's rejection of their broad claims to the Board of Appeals. The success rate of appeals is about 40% and it takes a minimum of two years to get a decision.

It is our understanding that a number of major corporations, including at least one financial services organization, feel that these rule changes go beyond the statutory authority of the USPTO. Their position is that if the law says applicants are entitled to file whatever number of continuations applicants feel are necessary in order to get full patent protection, the Patent Office can't simply override that law because of their workload. Legal challenges, therefore, can be expected once the final rules are published.

In the meantime applicants that already have insurance patents pending, and in particular, those that have already used up their one continuing patent application, would be well advised to revisit their overall patent strategy with their patent agent or attorney once the final form of the new rules is published.

## **Patent Reform Act of 2007 - Repeat**

*(This remains an important proposed change to the patent process in the US – so we repeat it from our last issue for those who may have missed it)*

The Patent Reform Act of 2007 essentially replaces the Patent Reform Act of 2005 which died with the 109<sup>th</sup> Congress. This new, very similar legislation was introduced on April 18, 2007 in the 110<sup>th</sup> Congress. The [House](#) and [Senate](#) versions are virtually identical.

Among the changes these bills are proposing are the following:

- The U.S. would adopt the “first-to-file” standard which is an international standard.
- The Board of Patent Appeals and Interferences (BPAI) would be eliminated and replaced with a Patent Trial and Appeal Board. A derivation proceeding would be used to determine if an invention was stolen.
- Damages would be limited only to the economic value of the patents contributions to the prior art.
- Additional damages for “willful” infringement will be subject to new limitations.
- A Post Grant Review process would be established.

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## Statistics

### An Update on Current Patent Activity

The table below provides the latest statistics in overall class 705 and subclass 4. The data shows issued patents and published patent applications for this class and subclass.

Issued Patents as of 8/14/07			Published Patent <u>Applications</u> as of 8/9/07		
	Class 705	Subclass 4		Class 705	Subclass 4
YEAR	#	#	YEAR	#	#
2007	1,391	31	2007	4,170	118
2006	2,223	44	2006	6,115	169
2005	1,453	30	2005	6,300	148
2004	997	23	2004	5,590	156
2003	969	21	2003	6,009	128
2002	887	15	2002	6,135	164
2001	880	19	2001	1,326	30
2000	1,062	29	<b>TOTAL</b>	<b>35,645</b>	<b>913</b>
1999	1,005	36			
1998	745	20			
1978-1997	2,778	47			
1976-1977	80	0			
<b>TOTAL</b>	<b>14,470</b>	<b>315</b>			

Class 705 is defined as: DATA PROCESSING: FINANCIAL, BUSINESS PRACTICE, MANAGEMENT, OR COST/PRICE DETERMINATION.

Subclass 4 is used to identify claims in class 705 which are related to: *Insurance* (e.g., computer implemented system or method for writing insurance policy, processing insurance claim, etc.).

### Issued Patents

A total of 31 patents have been issued in class 705/4 so far in 2007 – 15 during the period mid-June to mid-August 2007.

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Patents are categorized based on their claims. Some of these newly issued patents, therefore, may have only a slight link to insurance based on only one or a small number of the claims therein.

The [Resources](#) section provides a link to a detailed list of these newly issued patents.

## Published Patent Applications

A total of 118 patent applications (31 in the last two months) have been published so far this year indicating continued patent activity in class 705/4.

The [Resources](#) section provides a link to a detailed list of these newly published patent applications.

## Again, a reminder -

Patent applications have been published 18 months after their filing date only since March 15, 2001. Therefore, there are many pending applications that are not yet published. A conservative estimate would be that there are, currently, close to 250 new patent applications filed every 18 months in class 705/4.

The published patent applications included in the table above are not reduced when applications are either issued as patents or abandoned. Therefore, the table only gives an indication of the number of patent applications currently pending.

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## Resources

[Recently published U.S. Patents and U.S. Patent Applications](#) with claims in class 705/4.

**The following are links to web sites which contain information helpful to understanding intellectual property.**

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United States Patent and Trademark Office (USPTO): *Homepage* - <http://www.uspto.gov>

United States Patent and Trademark Office (USPTO): *Patent Application Information Retrieval* - <http://portal.uspto.gov/external/portal/pair>

Free Patents Online - <http://www.freepatentsonline.com/>

Provides free patent searching, with pdf downloading, search management functions, collaborative document folders, etc.

US Patent Search - <http://www.us-patent-search.com/>

Offers downloads of full pdf and tiff patents and patent applications free

World Intellectual Property Organization (WIPO) - <http://www.wipo.org/pct/en>

Patent Law and Regulation - <http://www.uspto.gov/web/patents/legis.htm>

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### **Here is how to call the USPTO Inventors Assistance Center:**

- Dial the USPTO's main number, 1 (800) 786-9199.
- At the first prompt press 2.
- At the second prompt press 4.
- You will then be connected to an operator.
- Ask to be connected to the Inventors Assistance Center.
- You will then listen to a prerecorded message before being connected to a person who can help you.

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### **The following links will take you to the authors' websites**

Mark Nowotarski - Patent Agent services – <http://www.marketsandpatents.com/>

Tom Bakos, FSA, MAAA - Actuarial services – <http://www.BakosEnterprises.com>