Who Owns Your Intellectual Property?

By Tom Bakos

Early in my actuarial career I recall participating in a psychological study which was supposed to measure individual creativity. My recollection is that the results of the study showed that actuaries, as a group, were very creative people. I was pleased to be a member of such a group and, of course, suspected the result all along.

Certainly, in my career since then, I have seen nothing but support for the conclusion that study reached over 30 years ago. Actuaries are highly creative. Sometimes critics may complain that this creativity dwells on the dark side to the extent that actuaries aid and support, through their creative product designs and processes, attacks on the supposed integrity of valuation, illustration, or taxation systems. All of this they say, in apparent condemnation of creativity, is done to the ultimate detriment of our company’s policyholders or stakeholders and the insurance industry’s reputation.

Well, I think we need to take a more balanced look at this. After all, you can’t have animals without insects or seasons without winter. So too, one must be willing to accept all kinds of creativity in order to have creativity at all. Let’s focus on the creative efforts we actuaries exhibit that most of us can be proud of. These creative efforts are also reflected in new product designs, systems, and processes many of which support valuation, illustration, or taxation systems and provide lasting value to our company’s policyholders, customers, and stakeholders. And that last element of good creativity, the "value" element, raises an interesting question: What is the measure of creativity’s "value"?

Constitutional Origins

Our forefathers recognized that individuals could be creative and provided in the constitution they drafted a way for individual citizens to protect the value of what they created. In particular, Congress (in Article 1, Section 8, Clause 8 of the U.S. Constitution) was given and exercised the power to allow individual inventors the right to exclusive use of their discoveries for a limited period of time. The granting of exclusive use was intended to encourage creative people to share their ideas with the general public which, in turn, was expected to encourage additional creativity. Exclusive use is recognized by a patent issued by the United States Patent and Trademark Office (USPTO). The value in creativity protected by a patent, therefore, is the right to exclusive use for a limited period of time – typically, 20 years.

The creativity embodied in the patent is generally characterized as intellectual property and this characterization as "property" begs the next question: Who owns it?

Well, the insurance industry, in which most of us practice, has not, in general, ever placed much value on creativity even though it has been an important and necessary element in the success of many insurance companies. In large insurance organizations there has never been much acknowledgement, encouragement, or reward for inventiveness. In the insurance industry creative ideas, new products, illustration concepts, and marketing techniques have been freely shared as if they had no value. They are copied and plagiarized by competitors in ways which would confound the practitioners in almost every other type of business. One might even suggest that creativity within our insurance organizations is not even expected.

Contrast this with the electronics industry, for example, where innovation is part of the culture. Product designers are expected to produce patentable inventions on a regular basis. That is what they were hired to do. The employment agreement they sign clearly spells this out and clearly states that the inventions they produce are the property of their employers. It is important to note that only individuals can patent an invention. A corporation cannot be an inventor. However, the invention can be owned by the corporate employer through an assignment made by the inventor employee.
So, in industries where intellectual property, as reflected in patents, is considered a thing of value, the ownership issue is fairly well resolved. You are specifically hired to invent things. You are paid to do that. You are given all the tools and training you need to make it easy to invent things and the company pays all expenses associated with your work including the costs associated with actually getting the patent. In exchange for that, your employer owns the intellectual property you create. In fact, you’d be paid even if you didn’t invent anything — although, probably, not for long.

Insurance Business Model

Now, back to the insurance industry where the question about who owns your intellectual property is not so clear. I have never signed an employment contract. While there may be some rare exceptions, I imagine most of you haven’t either. So, is the ownership of anything you might invent on or off the job some kind of free for all? Of course, if you adopted the existing free-for-all view now practiced, you would simply publish your idea either in the form of an insurance product, an illustration calculation, marketing material, a newsletter article, or something like that and measure your advantage only in terms of the head start you could get over your competition because you thought of it first. Indeed, that is probably what your employer expects of you. They, probably, consider your invention to be no more than a beneficial by-product of some other process you are involved in.

However, let’s assume, for the sake of it, that you are a rebel as, perhaps, you would have to have been in order to be creative in the first place. You think you have a pretty good idea that could be worth a lot of money and you are not willing to just give it away. Assume that you know a little about patents and that is the direction you start to go.

First, recognize that I am not an attorney and I am not intending to provide legal advice. However, my best guess is that you would be involved in one of the following scenarios:

• Your invention might clearly have nothing at all to do with insurance or your job and the idea might have come to you during your long commute to work or in the shower. It might be some great new idea for novel, cheap Cracker Jack prizes which your employer could not possibly claim they hired or paid you to invent. In this case, the invention is, probably, all yours assuming it would qualify for a patent at all and, unless you could find some other backer, the costs and the risks of proceeding would be all yours.

• If it’s an insurance invention, you could approach your employer and suggest that you would assign your invention to them for some payment to be negotiated if they absorbed the costs of a patent application. They might surprise you. They may recognize that you are a valuable employee whom they want to retain and also recognize that they have never placed any value on or had any concern or expectation that your job involved inventing things. They might note that, although they do not have an employment contract with you they have provided you with a job description and that in your file are many job evaluations and that no where in this material is any indication that your job requires you to invent things or that it is even expected that you might. Because of this they may recognize that their compensation arrangement with you did not contemplate their assumption of ownership of any intellectual property you create and they would have no hesitation to reward you for your additional effort in bringing value to the company above and beyond the scope of what you were hired to do.

• But, more realistically, they would probably react with wonder and amazement at your audacity. They would, probably, insist that those are not the rules. You were hired, specifically, to solve the types of problems for the company that your “invention” solves and that you, in fact, were paid to come up with the solution you came up with and you owe it to the company. They might not be so much arguing that you had an obligation to assign a patent on your invention, if issued, to the company as they were arguing for the status quo, the free-for-all environment. They would be arguing that whether or not you have developed a patentable invention it is, nevertheless, a work product of your employment with the company and they have a right to use it. They may not see the need for a patent.

• Or, they may recognize the value in a patent but claim, as above, that the idea is a work product of your employment with them and the intellectual
property has already been bought and paid for as a result of your employment. They may insist that you patent the invention since only the inventor can seek a patent. The company would pay for the patent expenses and you would be required to assign it to the company. The continuation of your employment would, probably, depend on it.

Clearly, if faced with one of the last two situations you need to have a Plan B. You could either be a meek capitulator and play the game the old way or you could be a daring go getter and step out on your own. Some people, familiar with invention in the insurance industry, suggest that it would be rather rare to find inventive minds in a large insurance organization. The large insurance company environment, they observe, is not currently well suited to independent inventors who think beyond the box. So, I suspect, there has been a lot of stepping out.

I believe that most invention in the insurance industry is done in small shops where constraints are not imposed on the way people think and where invention may even be rewarded. Or, the patents are for data processing systems or other similar support processes utilized in the insurance industry and are owned by companies in these support industries. For example, IBM has 5 of the currently issued 175 U.S. business method patents issued between 1978 and 2002 in class 705/4, the class designation for insurance business method patents. This is more than any other company. In fact, very few insurance companies have insurance related business method patents assigned to them.

Of course, not all insurance companies are ignoring the talent of their people or the value of the intellectual property they create. More insurance companies are realizing that they have a large research and development (R&D) budget. They just had not been recognizing it as such. Clearly, many actuaries, underwriters, advanced marketing, and systems people who work for insurance companies and are involved in product development often find themselves doing R&D. The need for insurance companies to recognize and claim this creative effort in a more formal way is going to become critical to the future success of insurance companies that are spending a lot of money on R&D. Obviously, all good product or data processing ideas have to originate somewhere. While many follow, some do lead.

**Times are Changing**

Why is the value and ownership of intellectual property important? Because things are changing. Business method patents, the category which most easily includes insurance product design, marketing, underwriting, and sales concepts, were given a tremendous boost when the U.S. Supreme Court in July, 1998 upheld the Federal Circuit Court of Appeals affirmation (in State Street v. Signature Financial) that “business methods” were proper subject matter for patents. From 1998 through 2002, 128 business method patents have been issued in the insurance category (Class 705, subclass 4). Only 47 were issued in the prior 20 years and none were actually issued before 1985! Currently, there are over 200 insurance business method patents pending. The count grows daily. The insurance segment is not big in the whole scheme of things. The USPTO issues over 180,000 patents and gets over 350,000 new applications each year. However, you may be getting the idea that you could be missing out on something.

The answer to the question *who owns your intellectual property* begins with a recognition that you might have some. If you are an employer you may want to consider what your employee’s expectations are regarding this question because a difference in expectations can create a problem. Clearly, it would be difficult to layer an employment contract, which makes demands on creative talent, on an unsuspecting employee population. My belief is that a requirement to sign such an agreement cannot be made a condition of continued employment. Rather, an insurance company that wakes up to the patent revolution would, probably, have to be selective in which of its employees it solicits and provide some reward or compensation for signing an agreement to assign intellectual property to the company. And, of course, appropriate job description modification and employment contracts which clearly provide for invention will become a necessity for new hires in positions like actuarial product design and development or in any other position in which problem solving is a job requirement. Even if your employer doesn’t suggest an employment agreement, you may find it advantageous to address this issue and arrive at some agreement relative to invention prior to accepting employment. For example, this may be
particularly important if the reason you left your previous employer was because of a dispute regarding an invention.

Basically, you, the individual inventor, are the initial owner of your intellectual property. You can retain and use it for your own profit, if you have carefully avoided any outside claims others may have on your work. Or, you can license it to others or sell it outright and reap the rewards of your invention that way. If your employer is enlightened, you may find yourself working in an environment that encourages and rewards your inventive efforts but this is, probably, a little bit into the future yet. Any way you go, however, recognize that your inventiveness has value.

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