

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 articles we address issues centered on the licensing of patents and, in particular, to insurance companies.

Mark in **Preparing for Patent License Negotiations** provides advice on how one ought to be prepared and what support is useful in patent license negotiations.

In **Dealing with Insurance Companies** Tom points out characteristics of insurance companies important to know in approaching an insurer regarding a patent.

The Statistics section updates the current status of issued US patents and published patent applications in the insurance class (i.e. 705/004). We also provide a link to the **Insurance IP Supplement** with more detailed information on recently published patent applications and issued patents.

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 Articles

Preparing for Patent License Negotiations

By: Mark Nowotarski, President – Markets, Patents & Alliances LLC – co-editor, Insurance IP Bulletin

The licensing market for insurance patents is heating up. Patents are issuing, insurance companies are being contacted, the competition is getting bolder, and the lawsuits are flying. Patent holders who believe their inventions are being infringed, however, need to carefully prepare before entering into any license negotiations or commencing any litigation. The initial reaction might be “Sue them!”, but as my chief patent counsel used to say “Suing for patent infringement is like dancing with a bear. You don’t stop until the bear is tired”.¹ There are a number of standard steps to go through in preparation for a patent license negotiation with an entity believed to be infringing. These include:

1. **Determining how much money is at stake.** Patent owners are entitled to at least a “reasonable royalty” for their inventions. It is necessary, therefore, to understand how much money the alleged infringer is making off of the patented invention and what fraction of that would typically be due to a patent owner. This requires a certain amount of detective work, an actuarial analysis and perhaps even a little educated guess work. At the end of the day, however, the licensing strategy is going to depend a lot upon how much money is reasonably available from the alleged infringement.
2. **Verify that there is actual infringement.** Many license negotiations have been settled quickly when the alleged infringer has been shown clear evidence of infringement. Collect and document your evidence and obtain a formal legal opinion from outside counsel supporting your case before beginning negotiations. Settlement is the most financially efficient course when infringement can be shown to be clear and obvious.
3. **Stress-test the patent.** Issued US patents are presumed valid, but before a patent is asserted against an alleged infringer, one should be reasonably certain the patent will stand up to the enhanced scrutiny of a full-fledged lawsuit. An updated prior art search combined with a formal validity opinion by outside counsel will help confirm the

¹ The verb he used was actually somewhat more colorful than “dancing”, but this is a work-safe publication.

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patent's strength or reveal any previously undetected weaknesses. If new prior art is found and there are questions as to whether or not the patent is valid, a reexamination can be filed for at the US patent office. During a reexamination, the USPTO assigns a new examiner to the case, and the new examiner examines the case again in light of the new prior art. If the patent survives the reexamination, it's a stronger patent. If it doesn't then you've saved an enormous amount in time and effort as well as legal fees pursuing a licensing deal with a defective patent.

4. **Open negotiations.** Once prepared as noted above, it's time to begin negotiations. Who is approached and how they are approached will be determined by the results of the preparation. A seasoned negotiator familiar with the patent licensing process can be an enormous help in getting off on the right foot. It may be the patent owner's first license negotiation, but it's not the negotiator's. By taking advantage of his/her experience and expertise, you substantially increase your chances of success.

The insurance industry is entering into a new world of patent licensing. Sometimes license negotiations go quickly with quiet deals made to the benefit of all. Sometimes they blow up into full scale litigation that can take years and millions of dollars to conclude. No matter which road is taken, a patent owner needs to be prepared beforehand. The better prepared one is, the better the deal will be.

Resources

[Licensing Executive Society](#)

[Association of University Technology Managers](#)

[Intellectual Property Owners Association](#)

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Dealing with Insurance Companies

By: Tom Bakos, FSA, MAAA, Tom Bakos Consulting, Inc. – *co-editor, Insurance IP Bulletin*

My co-editor Mark has outlined a best practices way to address alleged infringement of one's insurance business method patent – and, probably, any patent in the broader financial services arena. His advice follows along well known practices in other industries where intellectual property and patents are well recognized as valuable property. However, in the insurance industry, that "ain't necessarily so".

I suspect that the contact in a situation where the licensing effort was initiated by alleged infringement, one's initial contact person (as addressed by Mark in point 4) would be the insurance company's general counsel. In any event, in a contact that alleges or hints at possible infringement, that is, probably, where any letter would end up.

With respect to intellectual property, I think, there are, essentially, two types of insurance companies: (1) those that are somewhat well versed in IP, may have a number of patents, may even aggressively seek patents, and may even have an in house IP counsel; and (2) those that don't have a clue. The larger of the two groups is, probably group (2).

Certainly, as Mark has pointed out, one reason for an inventor of an insurance business method to approach an insurance company is when the inventor believes the insurer is infringing his patent. Another reason for an inventor to approach an insurer, however, is in order to license his patent to an insurer that is not believed to be infringing. That is, the inventor has intellectual property which he believes enables new insurance products which could be mutually profitable for both the insurer and said inventor.

Interestingly, the same general process Mark outlines can, I believe, be recommended in either case:

- Know what your invention is worth;
- Make sure through stress testing that, despite the fact claims were allowed by the USPTO, it can otherwise be effectively defended as valid;
- Find the right person to talk to at the insurance company.

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As a substitute for the verify infringement step Mark presents, in situations where alleged infringement is not an issue, one should verify that the insurance company being approached has a use or market for any insurance product enabled by the IP being offered. There is, for example, no point in offering a car insurance invention to a life insurance company.

Finding the right person to talk to in an insurance company about innovative processes has always been difficult and frustrating – even when you are a pricing actuary working for the insurance company. At least, this is the case for the category (2) companies I identified above.

This difficulty in identifying the right person in an insurance company to talk to about inventive concepts is created by the fact that insurance companies don't have anyone, really, responsible for new, innovative, product development – unlike, for example, Apple, Microsoft, smartphone manufacturers, tablet makers, etc. who are pushing technology to be first and are willing to take risk and fail. Insurance companies have Marketing Departments whose primary mission is to distribute product not manufacture it. Their sales efforts are focused on building a distribution network to distribute, essentially, a generic product. They are not focused on the ultimate customer.

Most insurers' "new" product ideas come from their competitors' successes. They are copied and maybe slightly modified, but not necessarily to provide real improvement – more likely than not to create some kind of distinction that can be "marketed" as unique. Insurance companies (this may seem strange to some) are not risk takers. They "manage" risk. Typically, they are only interested in adopting products new to them that have been proven successful in the insurance marketplace by others. So, yes, the implication is that there are some rare exceptions who do take chances on new products.

Ironically, potential infringement may be the entrée one needs to get serious consideration from an insurance company. The company is, obviously, already interested in what you have to offer. The key, as I believe Mark agrees, is to not make the contact confrontational. It is much better to be dealing with the insurance company's marketing people than with their attorneys who are likely to be outside counsel in alleged patent infringement since most insurers will not have in-house patent counsel.

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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 6/30/2011		
YEAR	Class 705	Subclass 4
	#	#
2011	2,607	144
2010	5,250	276
2009	2,936	80
2008	2,521	90
2007	1,936	45
2006	2,119	46
2005	1,355	31
2004	899	24
2003	868	21
2002	833	15
2001	817	19
2000	1,020	31
1999	970	36
1998	711	21
1976 - 1997	2,734	47
TOTAL	27,576	926

Published Patent Applications as of 6/30/2011		
YEAR	Class 705	Subclass 4
	#	#
2011	3,873	123
2010	8,092	240
2009	8,357	284
2008	8,542	210
2007	6,751	196
2006	5,860	178
2005	6,020	159
2004	5,371	167
2003	5,776	135
2002	5,901	172
2001 *	1,286	31
TOTAL	65,829	1,895

* Patent applications were first published 18 months after filing beginning with filings dated March 15, 2001.

NOTE: Patents and Patent Applications may be reclassified by the USPTO between reporting periods. Therefore, numbers from prior years may change.

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

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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.)*.

NOTE: Patent and Patent Application totals may be different than in prior Bulletins due to USPTO reclassification.

Issued Patents

In class 705/4, **47** new patents have been issued in the last two months – continuing the trend to catch up on pending applications. [NOTE: 3 patents were reclassified out of class 705/4 making the total through the year only 144.] Patents are issued on Tuesdays each week. There has been an upswing in the number of issued patents because the patent office is making a concerted effort to clear its backlog of pending applications.

Note also, that because the USPTO reclassifies patents and patent applications from time to time, the numbers for prior years or months may change.

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

In class 705/4, **57** new patent applications have been published in the last two months. Patent applications are published on Thursdays each week.

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

A Continuing reminder -

Patent applications have been published 18 months after their filing date only since March 15, 2001. Therefore, the year 2001 numbers in the table above for patent applications are not complete and do not reflect patent application activity in the year 2001. A conservative estimate would be that there are, currently, close to 250 new patent applications filed every 18 months in class 705/4. Therefore, there is approximately that number of pending applications not yet published.

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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.

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.

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>

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>