

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, *Reducing Patent Costs Using Patent Office "PAIR" Data*, Mark describes how information contained in the Patent Information and Retrieval System or PAIR, can be used to examine the efficiency of a patent application process.

In our **Patent Q/A**, *More Insurance Patents Issued than Applied For?*, we address what can be causing the observed phenomena that more patents are issuing in class 705/4 than are being applied for.

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 Article

Reducing Patent Costs Using Patent Office “PAIR” Data

By: Mark Nowotarski, President – Markets, Patents & Alliances LLC

Every patent practitioner wants to effectively represent his or her client’s interests. Every patent examiner wants to effectively represent the public’s interests. Unfortunately, these goals are not always met. This is particularly true in the newer and more controversial fields of patentable subject matter, such as business methods. There is a relatively new source of information, however, that can help both the patent practitioner and patent examiner make substantial improvements in the speed and efficiency of patent examination. This resource is the Patent Application Information and Retrieval System (PAIR). PAIR can be accessed at <http://portal.uspto.gov/external/portal/pair>. A new PAIR-based metric, the ratio of allowances to rejections, can be tabulated and analyzed quickly to reveal where significant inefficiencies exist in the patent examination process and suggest how fundamental improvements can be made to reduce costs.

The ratio of allowances to rejections is the total number of allowances issued by patent examiners for a given portfolio of patent applications divided by the total number of rejections issued by the same examiners for the same portfolio. This data can be tabulated by looking up the PAIR files for each individual application in the portfolio and examining the “transaction history” of the application. The transaction history lists all of the rejections and allowances along with the dates of each.

All of the rejections in the portfolio are counted, including those for applications that have been abandoned or are still pending. Each one of these rejections could have been an allowance presuming that the applicant was making a genuine effort to advance prosecution when it last corresponded with the patent office.

Patent applications in all technologies over the past 10 years have had an average allowance to rejection ratio of about 0.3. An allowance to rejection ratio of 0.3 corresponds to about one allowance for every three rejections. First office actions have a somewhat lower allowance ratio than the average. This is consistent with the common knowledge that applicants will take a more aggressive position with the claims that they file relative to the amended claims they present after a rejection. The allowance to rejection ratio for second and higher rejections

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remains relatively constant. This has the somewhat disturbing implication that at least on average, practitioners and examiners are not getting any better at understanding each other as prosecution progresses. If practitioners and examiners were learning from each rejection – response interchange, then the allowance ratio would increase for each succeeding office action.

Figure 1 illustrates that allowance to rejection ratios are very different for different technologies.

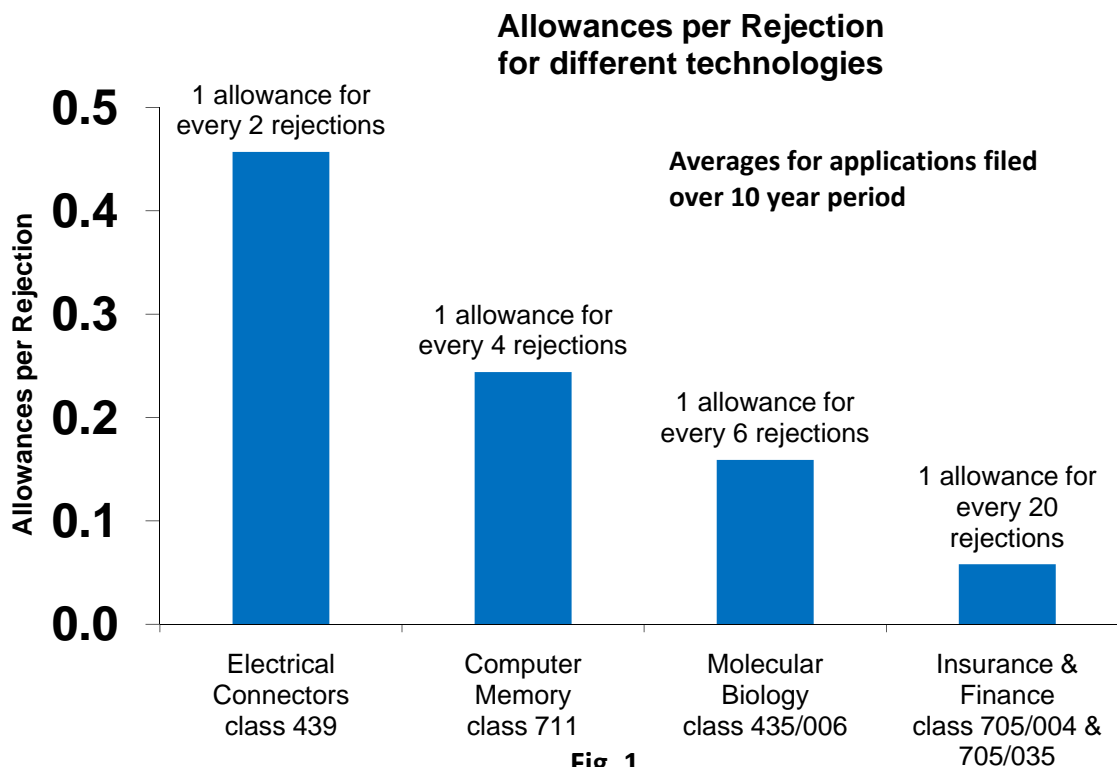


Fig. 1

These ratios were generated by randomly selecting samples of published applications within a particular class or class/subclass. The file wrappers of the applications were then reviewed in PAIR. The samples covered about 10 years of filings. Traditional fields of patentable technology, such as electrical connectors, have high allowance to rejection ratios. Newer fields, such as insurance and finance have very low allowance to rejection ratios.

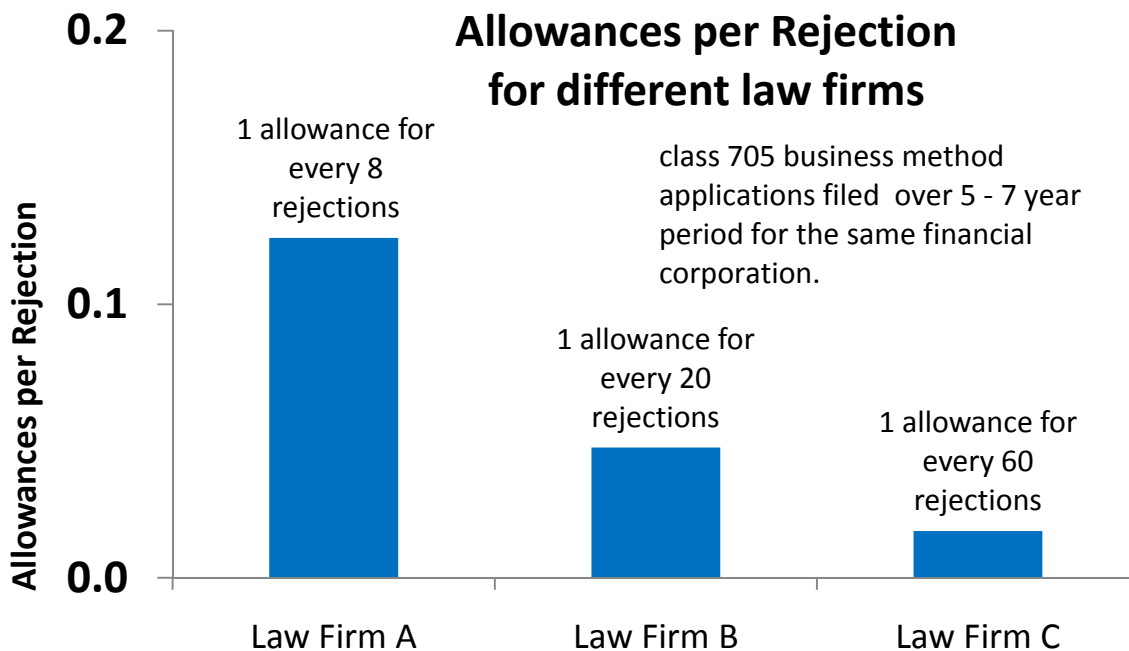
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Allowance to rejection ratios translate directly to prosecution costs. Electrical Connectors have an allowance ratio of 0.45. This corresponds to about 2 rejections per allowance. If each response to a rejection costs about \$2,000 in legal fees, then the prosecution cost per patent in the field of electrical connectors is about \$4,000. At the other extreme, insurance and finance applications have an allowance to rejection ratio of only 0.05. This corresponds to about 20 rejections per allowance. The prosecution costs for these applications are about \$40,000 per issued patent.

The allowance to rejection ratio in insurance & finance is very sensitive to the law firm that is handling a given portfolio of applications. Figure 2 shows the allowance ratios for three different law firms, each preparing and prosecuting applications over a five to seven year period for the same major financial corporation. This corporation has several hundred applications pending and, until recently, each law firm handled a comparable share.



Prosecution costs for these firms range from \$16,000 per issued patent (Law Firm A) to \$120,000 per issued patent (Law Firm C). While reviewing the file wrappers in PAIR, we discovered that this financial company recently transferred all of the cases filed by Law Firms B and C to Law Firm A. Figure 2, therefore, only shows the allowance ratios for each law firm

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prior to the transfer. After the transfer, the allowance ratio for the cases that Law Firm A took over then increased to the same level as the cases originally prepared and filed by Law firm A.

It's not clear why there is such a large difference in examination efficiency in business methods between equally experienced and equally competent law firms. When we looked at each firms overall track record for all technologies that they handle, they all had about the same allowance to rejection ratio. It's possible that some firms are playing strictly by the book and responding to rejections in a standard manner. This is unlikely to be successful given the very difficult nature of examining business method cases and the constantly shifting criteria for patentability as expressed in different court cases. Other firms may be spending more time understanding the nuances of business method patent examination and hence may be more successful in properly responding to examiner's rejections. Whatever the causes, however, properly identifying them and responding to them could lead to substantially reduced prosecution costs.

There is a tremendous wealth of information in the USPTO's patent application information and retrieval system. New statistical measures of patent examination efficiency, such as the allowance to rejection ratio, can now be calculated and analyzed. Practitioners that take advantage of this data will be in a better position to serve their clients effectively.

Patent Q & A

More Insurance Patents Issued than Applied For?

Question: It looks like there are a lot more patents issuing in insurance lately. Why is that?

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.*

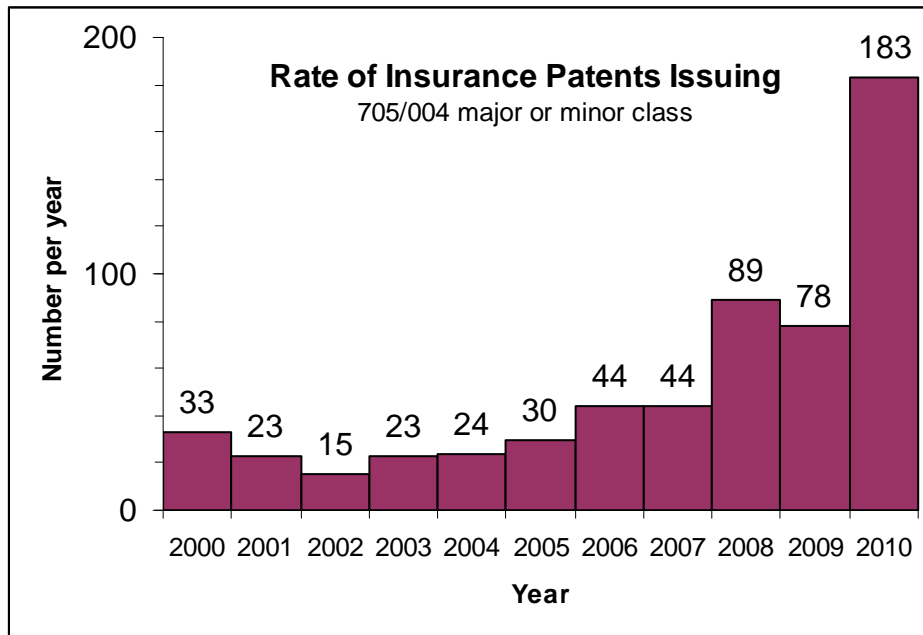
Answer: The new director of the patent office, David Kappos, has made it a priority to clear up the backlog.

Details: For the past few years, insurance patents have been issuing at an ever increasing rate. The graph below shows the number of insurance patents that have issued in each year since 2000.

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Back in 2004, when we first started publishing the *Insurance IP Bulletin*, insurance patents were issuing at a rate of only about 24 per year. By 2006 that number nearly doubled to 44 per year. By 2008 it doubled again to about 80 per year. This year, it has already more than doubled again to 183 and may go as high as 250 by the end of the year.

Over the long term, what we think is happening is that applicants and examiners are simply getting better at drafting and examining patents on insurance related inventions. Shorter term, the new USPTO director, Dave Kappos, has made it clear that reducing the backlog is a priority and examiners are to be more proactive in reaching agreement with applicants. As he put it, [quality does not equal rejection](#).

Examiners are still very tough in insurance, however. We did a spot check of recent office actions since the beginning of the year, and examiners are still only issuing one allowance for every ten rejections. Nonetheless, our impression is that examiners are showing extra effort to make sure that all issues are before the applicants so that agreement can be reached more quickly.

The surge in insurance patents in combination with recent willingness of insurance companies to sue to enforce their patents (e.g. [Lincoln Financial and Progressive](#)) could make life challenging for companies that have hoped that business method patents would just go away.

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Any insurance company that has not yet formulated policies and procedures for protecting its own innovations through patents or defending itself from competitors' patents would do well to put those policies and procedures in place as soon as possible.

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 8/31/2010		
	Class 705	Subclass 4
YEAR	#	#
2010	3,495	184
2009	3,007	78
2008	2,642	89
2007	2,050	43
2006	2,201	44
2005	1,434	30
2004	990	24
2003	950	21
2002	879	15
2001	868	19
2000	1,058	29
1999	1,502	36
1998	738	21
1978-1997	2,768	47
1976-1977	80	0
TOTAL	24,162	680

Published Patent Applications as of 8/31/2010		
	Class 705	Subclass 4
YEAR	#	#
2010	5,298	162
2009	8,470	283
2008	8,648	203
2007	6,888	191
2006	5,978	176
2005	6,154	153
2004	5,491	160
2003	5,906	133
2002	6,040	168
2001 *	1,319	30
TOTAL	60,192	1,659

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

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, **54** new patents have been issued in the last two months. 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.

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, **42** 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.

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.

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>