

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

Late Breaking – Patent Reform Passes

H.R. 1249, the “Leahy-Smith American Invents Act” has just been passed by the Senate and President Obama is expected to sign it. A pdf copy of the bill can be found [here](#) and more [information here](#). We will address the implications of this bill for insurance patents in an upcoming issue. There are special provisions for tax patents (Section 14) and post grant review of business method patents (Section 18).

Now, back to our regularly scheduled bulletin.

Introduction

In this issue’s feature article, **Patent Watch**, we highlight the importance of being aware of what competitors are doing in their patent programs. Their behavior can change suddenly and with little notice. Keeping an ongoing patent watch helps detect these sudden changes early.

In the **Patent Q&A** we show how one major insurer has indeed made a sudden step change in their patent activity to create what appears to be a “patent thicket” around their critical programs. Their competitors need to take this into account in determining their own patent strategy.

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

Patent Watch

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

The fact that others in your industry may be seeking patent protection for their innovative processes ought to make you stop and think.

See the Patent Q&A below which alerts you to the fact that one major insurer, USAA, has been seeking and getting an awfully lot of patents recently and answers your reasonable question: Why would they do that? But, the more important question to ask may be why you didn't already know they were doing that.

Well, maybe you don't cross paths with USAA but if you are in an active thriving business like insurance or the provision of broader financial services, you probably want to know what your competitors are doing. And, based on the USAA example, you ought to be warned that they are not just developing new and exciting products to compete with yours. They may be protecting their innovation with patents so that you cannot do what competitors have almost always done in our industry – copied their competitors' successes.

So, in addition to doing market surveys and competitive analyses or even just wildly being innovative yourself, it is wise to add another step in your product development process. That step is a **patent watch** step. Here's why. The principle right a patent conveys to its owner is the right to prevent others from making or using the owner's claimed invention. Now, as the Q&A below implies, there may be other subtler reasons for creating or acquiring a patent portfolio but they all derive from that basic patent right.

What a patent means is that while you may be able to copy your competitors' product successes just as you always have (and vice versa, by the way), your competitors will probably not allow you to copy their **patented** product successes. Not knowing what they have or have not patented could be very disruptive to your business. Just like you cannot reinvent the wheel, you cannot reinvent and use what someone else has already invented and protected with a patent. That is, ignorance is not bliss. You can infringe a competitor's patent even if you don't know it exists.

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What will happen if you do? Well, your competitor did not go through the deliberate, expensive, and, often, frustrating process of seeking patent protection just for the fun of it. What they will do when they notice that you appear to be infringing their patent (or, patents) is they will send you a letter notifying you of the existence of their patent – at the very least. Once you are on notice and if it turns out you are actually infringing, the damages you owe them are tripled. Now it is not a fact that you are infringing just because they imply you are. It has to be proven. But that could take years and all during that time if you continue to sell potentially infringing products the damages you may eventually owe them are tripled.

Ouch! You will probably figure risk in a case like this is mitigated by stopping what you are doing until you better figure out your odds of prevailing. What your competitors are doing is providing you with a patent watch service. It's free ... well, not really. Your business is disrupted; you may have lost development costs sunk in a product you cannot sell as is; and you will probably incur legal costs whether or not you are actually infringing.

There is a better way. If you are engaged in an active market with an essential part of success being new product innovation, do patent watching yourself on the front end. Obviously, if you are in the insurance business and selling traditional whole life insurance and satisfied with that, there may be no reason to engage in a patent watch other than to satisfy idle curiosity.

But, if you are an aggressive marketer, the information provided to you from a patent watch program or service allows your company to be a better competitor – not a victim. Your competitors must disclose in their patent precisely what they believe their invention is. That information can be very helpful to you. It allows you to address the potential problem their patent may cause in a number of ways:

- In issuing a patent, the USPTO is agreeing with your competitor that they have indeed invented something new, useful, and not obvious. However, the USPTO is not the final authority on patent validity and could have been wrong. There are a number of ways to challenge a patent but they all start with an examination of the patent which, of course, you cannot do unless you know it exists.
- Understanding what your competitors have rights to in your product arena will allow you to design around and avoid infringing those rights and may even lead to a better approach which you might want to consider protecting with a patent. It is, obviously, more efficient to take those steps at the beginning of a design process rather than after it is completed.

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- Many inventions in the insurance and broader financial services areas are made not by competitors but by individuals unaffiliated with a competitor. Seeking a license or purchase of the patent (after careful examination and analysis to assure it is likely to withstand a validity challenge) from such an individual will, probably, make his or her day and elevate you to the catbird seat. You might, if a design around is unlikely to work, even be able to seek a license from a competitor unable to maximize the value of its invention by itself.
- Understanding the disclosure in the patent may insight improvements. That is, after all, the basic purpose behind patents – granting limited exclusivity in exchange for disclosure that may promote further invention. Seek patent protection for your improvements. Become a player.

Of course, that last bullet and the Q&A following indicate a likely result. Knowledge and understanding that come from a patent watch program and, perhaps, a strong patent portfolio make one look less like a victim, more like a strong competitor, and wise to respect.

Patent Q & A

USAA Patents

Question: Why is USAA getting so many patents?

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: To build a patent thicket.

Details: There has been a sudden surge in US patents issued to USAA (United Services Automobile Association). USAA provides a broad array of insurance product and other financial services to current and former members of the armed forces and their families. These products and services include auto insurance, homeowners insurance, investments, financial planning, banking, credit cards, etc.

In the past, USAA typically had 1-5 patents issue per year. This rate made a step change in 2010 to over 70 patents per year. They now have ~~147~~ 151¹ patents issued with perhaps several hundred more still

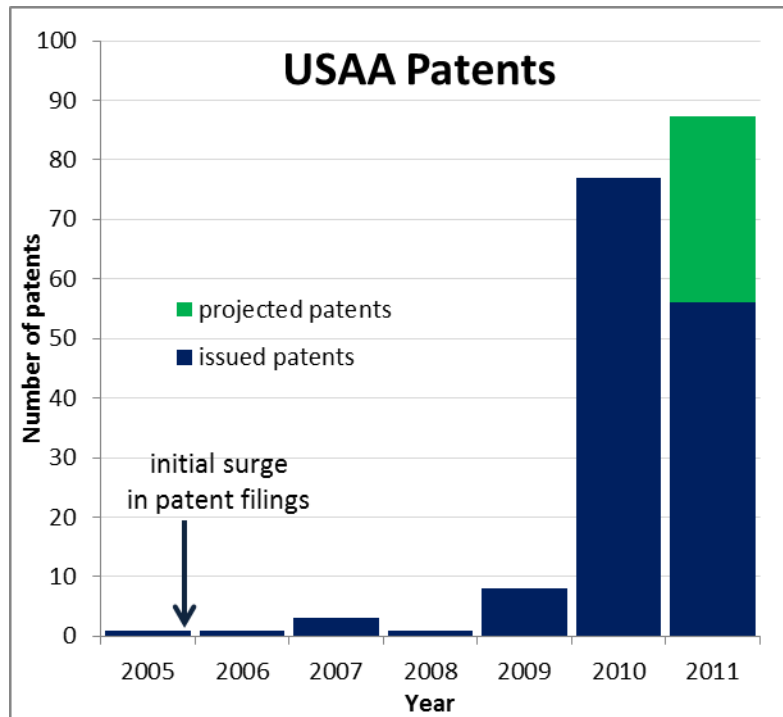
¹ During the few days this @&A was in draft issued patents went up by 4!

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pending. The exact number of pending applications is difficult to estimate since USAA has been filing all of its patent applications with non-publication requests. That means we can only see them when, and if, they issue as patents. Based on the filing dates of the patents issuing now, it appears that sometime in 2006, USAA made a strategic decision to protect its business interests by filing a large number of interrelated patent applications. This is known as creating a “patent thicket”.



Patent thickets can be used to build strong patent protection around critical products. With a large number of interrelated patents, it's difficult for a competitor to get around all of them to copy an invention.

Patent thickets can also be used to fend off patent litigation from direct competitors. With a wide range of patents on all aspects of a business, a competitor is bound to be infringing at least one of them. That's all that's needed to create a viable threat of patent countersuits. Very often, therefore, patent thickets lead rival parties to cross license their patents to each other, and litigation or onerous license fees are avoided.

Patent thickets can also create large valuable patent portfolios for sale or license. Witness Google's recent purchase of Motorola's mobile phone patent portfolio (as well as the rest of the business, of course) for \$12.5 billion.

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The level of patent activity by USAA represents a significant legal expenditure of perhaps several million dollars a year. Given the high development costs of creating new products, the potentially much higher costs of patent litigation (especially if you lose), and the opportunity to create valuable intellectual property, this may very well represent a very prudent investment.

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 8/31/2011		
YEAR	Class 705	Subclass 4
	#	#
2011	3,596	180
2010	5,251	276
2009	2,936	80
2008	2,523	90
2007	1,936	45
2006	2,119	46
2005	1,356	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	28,569	962

Published Patent Applications as of 8/31/2011		
YEAR	Class 705	Subclass 4
	#	#
2011	5,075	154
2010	8,092	240
2009	8,355	284
2008	8,537	210
2007	6,742	195
2006	5,853	177
2005	6,018	159
2004	5,372	167
2003	5,776	135
2002	5,901	172
2001 *	1,286	31
TOTAL	67,007	1,924

* 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, **37** new patents have been issued in the last two months – continuing the trend to catch up on pending applications. 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, **31** 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>