

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 our guest author, Gerald L. DePardo, provides some insights into the fundamentals and best practices of corporate IP functions used in other industries for possible use in the insurance industry

In our **Patent Q/A** section we address an alternative that might be considered if you are having trouble getting a patent examiner to understand your invention.

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

In-House Intellectual Property Functions in the Insurance Industry - A New Corporate Paradigm?

By: Gerald L. DePardo, Partner at the firm of McCormick, Paulding & Huber in Hartford, CT.

The insurance industry may be one of the last multi-billion dollar industries to adopt a formalized in-house corporate intellectual property (IP) function. Over the past several years, numerous software and business method patents have been granted in the insurance sector and are now beginning to be enforced, and many more are pending. Consequently, many insurance companies are starting to recognize the value of intellectual capital and are considering creating in-house intellectual property functions. This article discusses some of the fundamentals and best practices of corporate IP functions used in other industries for possible use in the insurance industry.

Corporate IP Functions

Many traditional “technology” or “high tech” companies have a law department structure that includes a deputy or associate general counsel who is responsible for handling intellectual property for the company. The corporate IP function is typically led by a patent attorney with many years of experience in managing corporate intellectual property (including patents, trademarks, copyrights and trade secrets) and IP-related transactions. The activities and responsibilities that an in-house corporate IP function (or department) has within a technology company are shown in Fig. 1. In the inner circle of Fig. 1 there are four main activity areas surrounded by three additional areas.

IP Creation and Portfolio Management

The first of the four main areas is “IP Creation and Portfolio Management.” This area includes developing and executing a patent filing strategy, managing the preparation of U.S. & foreign country patents (using in-house and/or

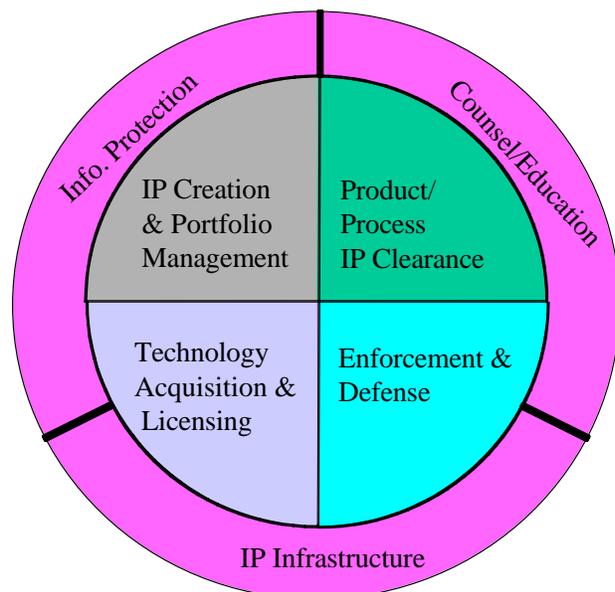


Fig. 1 Intellectual Property Function Activities

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outside counsel resources), managing U.S. & foreign patent maintenance, managing processes for invention disclosure submissions, meeting with inventors to capture ideas and help motivate innovation, providing reports on patent status, and holding patent committee review meetings to review inventions and make patent filing decisions (e.g., determine which inventions to file for patents, which to keep as trade secrets, which require more time to evaluate or test, which to defensively publish, and where to file for foreign protection). Further, if trade secret protection is desired for certain inventions, this area implements policies and procedures to ensure the required secrecy is maintained. Finally, the IP function manages an inventor recognition & incentive program. Many technology companies provide monetary rewards for inventors ranging from \$500 to \$1,500 upon the filing of a patent application and a patent plaque or the like when the patent issues. This type of program is designed to provide incentives for the workforce to spend time on patent activities in addition to the many other daily tasks they are required to perform.

The creation and management area of the IP function is critical to creating IP value (or intellectual capital) for the company. As a result, in-house counsel meets regularly with key project and technology managers to continuously develop and evolve the patent strategy. This strategy typically has multiple levels and cuts across all technology and product areas. In addition, in-house counsel selects outside counsel to file quality patent applications at a reasonable price and holds them accountable to ensure the strategy is executed on time and on budget. In some companies, in-house counsel will file key cases directly without the use of outside counsel. Further, in-house counsel will review the patent applications prepared by counsel to ensure they provide the desired breadth of IP coverage and target the correct areas consistent with the strategy. The success of this area of the IP function depends on how innovative the company is and how much the CEO and senior management are willing to invest in protecting and leveraging that innovation. The average cost per patent application is about \$10,000 to \$20,000, depending on the complexity and foreign filings, as it involves paying outside counsel and government fees in the U.S. and in foreign countries. Technology companies typically use financial metrics to determine what portion of Research and Development (R&D) spending will be allocated to investing in IP. However, investment in this area is typically viewed as improving the return on investment in corporate R&D programs.

Product & Process Clearance

The second main area of the IP function is “Product & Process IP Clearance.” This area involves reviewing company products before they are shipped or released to the public to ensure they are covered by patent applications where desired and do not infringe any third party patents. This includes reviewing the final product against filed cases to ensure all desired product features are covered by company patent applications. This also includes reviewing and analyzing existing third party patents, and continually monitoring newly issued and published patents. The IP

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function works closely with a selected team of in-house technical experts to assist in reviewing the patents. If a third party patent is identified during this process that requires further review, the IP function would be responsible for providing legal advice and counsel to the product team managers on the various legal alternatives, including “designing around” the patent, obtaining a legal opinion of non-infringement or invalidity, and/or obtaining a license to practice the patent.

The effectiveness of this second area depends on how proactive the company wants to be regarding IP awareness in its market space and whether the company wants to head off issues early or wait until competitors send “cease and desist” letters, “offer to license” letters, or file lawsuits. Another benefit of being proactive is that the company gets to know what technology and products the competition is developing. Such knowledge may affect the company’s patent filing strategy and possibly even the business strategy, and thus becomes a competitive advantage. This area also involves getting other people in the organization involved and educated about patents.

Technology Acquisition and Licensing

The third main area is “Technology Acquisition and Licensing.” This is the transactional side of IP and includes preparing and negotiating IP licensing or IP purchase & sale arrangements. This is often done to bring needed technology into the company and/or to sell/license technology out of the company for revenue generation. This area includes mergers and acquisitions (M&A) and other technology transactions as well as IP due diligence. In addition, activities in this area are typically linked to the overall strategic business plan for the company. As part of this activity, in the event of a technology acquisition (e.g., a merger), the IP function would work closely with the business team to perform IP due diligence on the target technology or company and advise whether there are any major IP problems. Also, this area deals with monetizing IP that is not being used by the company, or trading it for IP that the company can use in the future. Further, any transactions or agreements having IP provisions would be reviewed to ensure they are fair and reasonable and meet the company’s long-term strategic business objectives. Also, this area ensures that any joint development projects or agreements have the appropriate allocation of IP rights and/or ownership desired by the company.

Enforcement & Defense

The fourth main area in the IP function is “Enforcement & Defense.” This is the adversarial side of IP and includes responding to “cease and desist” or “offer to license” letters, responding to law suits, handling settlement issues, handling alternative dispute resolution issues, and last (but not least), enforcing the company’s IP against third parties through litigation and/or arbitration. This can be a very high cost area once litigation begins, with annual costs typically over \$1 million for important lawsuits. However, there are numerous strategies that can help mitigate the risk of litigation, such as the patent filing strategy and the product clearance activity.

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Accordingly, the IP function is constantly reviewing various strategies and evaluating risk/reward scenarios.

Outer Circle Functions

In addition to the four main areas discussed above, there are the three additional areas in the outer circle of Fig. 1, namely, Information Protection, Counsel/Education, and IP Infrastructure. These aspects are related to and support each of the four main areas. In particular, "Information Protection" relates to how the company handles its own confidential or proprietary information and how it handles confidential or proprietary information received from third parties. The IP function typically develops and implements the corporate processes for information protection. For example, before new product information is released outside the company, a process should exist to determine whether a patent application was intended to be filed on that information, to avoid a possible loss of patent rights. Similarly, processes should exist to ensure that a confidentiality agreement is in place before confidential information is provided to a third party or is received from a third party, and how to handle unsolicited third party submissions to the company. Also, the IP function works closely with the human resources function to ensure an IP agreement for each employee is in place and any ongoing obligations are explained to employees upon leaving the company. The "Counsel/Education" area relates to providing employee education, advice and counseling, and includes providing continuous education of the workforce, e.g., lunchtime talks, in-house seminars, team meetings, etc., regarding the aspects of IP they are involved with. Finally, the "IP Infrastructure" area includes implementing the appropriate tools for managing the IP docket and for reporting the IP metrics to corporate management.

While the above discussion has focused on patents and trade secrets, a similar process exists for the other areas of intellectual property as well, i.e., trademarks and copyrights.

Accordingly, the IP function typically has the responsibility for managing all aspects of corporate intellectual property. Also, if the IP function is fully integrated into the organization, it will coordinate with virtually every aspect of the company, including: CEO/Senior Management, business development, product development, advanced technology, finance, sales & marketing, operations, information technology, human resources, and communications. Having an integrated IP function helps to make intellectual property more a part of the corporate culture.

Conclusion – Application to the Insurance Industry

In view of the above discussion, a well-implemented IP function enables a company to fully exploit its intellectual capital, to protect the company's market share, and to create a competitive advantage, by creating, leveraging, enforcing and defending the company's IP for each of its businesses. It also provides the tools to develop and execute an overall IP strategic plan. Accordingly, as the insurance industry begins to encounter more significant IP issues and

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opportunities, an integrated corporate IP function that is aligned with the company's vision for innovation and return on R&D investment should become a reality in the insurance sector.

Gerald L. DePardo is a Partner at the firm of McCormick, Paulding & Huber in Hartford, CT. He has extensive corporate in-house experience and provides corporate IP legal services in the areas of insurance & financial services, e-commerce, software, and business methods.

Patent Q & A

Going

Question: Is there anything we can do if we can't convince a patent examiner that we should get a patent on our pending application?

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: Yes, file an appeal with the Board of Patent Appeals and Interferences (BPAI).

There are times when an inventor and his or her patent agent cannot reach agreement with a patent examiner on whether or not a patent should be granted on a particular patent application. To handle this, the US patent office has a special board of administrative judges called the "Board of Patent Appeals and Interferences" (BPAI). If an inventor feels that negotiations with the patent examiner have reached a dead end, he or she can appeal the case to these judges.

Patent appeals are fairly straightforward. The inventor's patent agent states his or her position in an "Appeal Brief". The examiner states his or her position in an "Examiner's Answer". They each get a chance to respond to each others' positions. The documents are then sent to the BPAI for its decision. Oral arguments may be presented if appropriate. If the inventor prevails, then the patent office must issue the patent. If the inventor fails, he or she can refile the application and start over or the inventor can further appeal the BPAI's decision to the Court of Appeals for the Federal Circuit. Inventors can even, theoretically, take their case to the US Supreme Court, although we are not aware of any cases that have made it that far.

If there is a split decision by the BPAI where some of the inventor's claims are allowed, but some are still rejected, the inventor can get a patent right away with the claims that have been allowed and then refile the case to try again for what was rejected.

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The appeals process typically takes from one to three years and costs about two to four times what a normal response to an office action costs. If an application has been “made special” and given accelerated examination, it’s handled faster.

Appeals are usually rare except for business method patents. Only about 1 – 2 % of US patents had to be appealed to the point of getting a decision by the BPAI. That number jumps to 10%, however, for business method patents. The appeal rate for insurance patents is even higher. Fully 30% of the insurance patents that issued last year (2006) had to get a decision by the BPAI in order to issue.

The high appeal rate for insurance patents is not surprising. Patents are still very new to the insurance industry and the insurance sciences (e.g. pricing, underwriting, reserving, etc.) are still very new to the patent office. This leads to substantial disagreements as to whether or not a given insurance invention is entitled to a patent. The BPAI acts as a relatively neutral third party to help determine how these disagreements should be decided.

The Board of Patent Appeals and Interferences has been set up by the U. S. patent office to help resolve differences between inventors and examiners as to what patent, if any, should issue from a particular patent application. The appeals process is fairly straightforward and not unduly expensive or time consuming compared to continuing with the normal process for getting a patent when communication with examiner has become difficult. Given the inherent difficulties in examining insurance patent applications, the BPAI plays an important role in helping ensure that proper insurance patent issue.

Patent Searches

Google has a new patent search function in beta test

We have discovered a new patent search tool which we haven’t yet explored fully. Google at: <http://www.google.com/patents> now aims its search engine at patents taken from the USPTO public data base. It may be a useful tool, but one should be aware of its limitations.

Currently, it only searches patents issued through mid-2006. Google indicates that it looks forward to expanding coverage in the future. Published patent applications are not included in the search data base – neither are international patents. Click on About Google Patent Search at the bottom of the web page linked above to get full details on what Google offers.

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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.

| Published Patents as of 12/26/2006 | | | Published Patent <u>Applications</u> as of 12/28/2006 | | |
|------------------------------------|---------------|------------|---|---------------|------------|
| | Class 705 | Subclass 4 | | Class 705 | Subclass 4 |
| YEAR | # | # | YEAR | # | # |
| 2006 | 2,221 | 44 | 2006 | 6,114 | 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 | | | |
| 1999 | 1,005 | 36 | | | |
| 1998 | 745 | 20 | | | |
| 1978-1997 | 2,778 | 47 | | | |
| 1976-1977 | 80 | 0 | | | |
| TOTAL | 13,077 | 284 | TOTAL | 31,474 | 795 |

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

During 2006, a total of 44 patents in class 705/4 have been issued. This is a significant increase over prior years.

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.

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

Published Patent Applications

A total of 169 patent applications have been published – another significant increase over prior years.

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 assumption would be that there are, currently, about 200 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.

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.

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>