February 15, 2007 **Vol: 2007.1**

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

Lauren Bloom, former General Counsel for the American Academy of Actuaries, has written our Feature Article this month. She discusses the ownership of intellectual property created by professionals working in a business environment. While her focus is on actuaries doing work for an employer or a principal, it is equally applicable to any professional doing innovative technical work.

In our **Patent Q/A** we address a frequent question: Is it possible to buy a patent application?

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

Whose Work Is It, Anyway? Intellectual Property, Engagement Letters, and the Code of Professional Conduct for Actuaries

By: Lauren M. Bloom, Elegant Solutions Consulting - laurenmbloom@aol.com

The actuarial profession came into being in the late 18th Century,[1] long before computers had even been imagined, much less invented. The first actuaries used paper, pencils, and relatively simple assumptions and methods to project how future events would likely unfold for the principals they served. Those actuarial pioneers did remarkably good work, given the tools available and the level of knowledge that existed at the time.

Today, thanks to the availability of computers and advances in actuarial science, actuaries are able to provide a much broader range of services to their principals, making expert use of sophisticated probabilistic models and complex methods to project assumptions concerning contingent future events. An entire software development industry has emerged to support the actuarial profession in these endeavors.

In many instances, though, installing a computer program is only a first step for an actuary. Actuaries routinely customize the models they use to better reflect the circumstances and meet the needs of their principals. Whether they simply make minor adjustments to "off the shelf" computer software or design custom models involving complex parameters and multiple dimensions, actuaries often find that they can better serve their principals with tools they have designed themselves.

Actuarial innovation is not limited to computer software development. Actuaries design and price insurance products and employee benefits, offer advice on tax management, develop strategies to maintain required reserves and otherwise help their clients meet applicable regulatory requirements while achieving their legitimate business objectives. Innovative application of actuarial principles and practices can be tremendously valuable, and having a track record for being creative while meeting the standards of conduct and practice established by the actuarial profession can give an actuary a tremendous competitive advantage.

Once an actuary has developed a new software program or a creative solution to a particularly thorny problem, however, a second issue can arise – who owns the actuary's work? An actuary who has slightly modified commercially available software or applied a minor variation to

[1] *Encyclopedia of Actuarial Science* (John Wiley & Sons, 2004).

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"standard" actuarial practice to better meet the needs of a particular client may be perfectly happy to relinquish ownership rights in the underlying processes. However, if the actuary has developed a model, method or other work that is truly original and of significant commercial value, the actuary may well want to make the work available to other principals. If the principal for whom the work was originally developed learns that the actuary has been marketing the work elsewhere, a dispute may arise as to who owns the work and the right, if any, to market it beyond the original relationship.

The matter can become even stickier if the principal decides to change actuaries. Precept 10 of the *Code of Professional Conduct* recognizes that principals have an indisputable right to choose their professional advisors, and requires actuaries to cooperate with a principal's decision to change actuaries. The actuary must furnish relevant information (subject to receiving reasonable compensation for the work required to assemble and transmit pertinent data and documents), but is not required by the *Code* to "provide any items of a proprietary nature, such as internal memoranda or computer programs." Thus, the *Code* supports the actuary in retaining proprietary work, but that support may be of little benefit if the actuary and the principal have not agreed as to what elements of the actuary's work are and are not "proprietary."

One good way to reduce the risk of conflict with a principal concerning ownership of an actuary's work is to address the matter in an engagement letter or contract before the actuary begins the assignment. This approach offers an excellent opportunity to educate the principal as to what work product the actuary is actually "selling" before the actuary commits significant time and effort to the project. It also imposes upon the actuary the initial task of affirmatively deciding which aspects of the work the actuary deems proprietary, and which aspects the actuary is willing to convey to the principal when completing the assignment. This task may seem to increase the actuary's workload, but it permits the actuary to retain ownership of intellectual property that may prove, over time, to have significant commercial value.

This approach may not entirely eliminate questions about what aspects of the work could become proprietary as the actuary moves forward with the assignment. If a problem arises and the actuary develops a brilliant new method or designs a new model to address the problem, the actuary may want to retain the rights to market that method or model more broadly. For this reason, the actuary may wish to consider having the engagement letter contain a general clause that reserves the actuary's ownership rights in all methods, models, tools, techniques and processes used to complete the assignment, in addition to language that addresses ownership of specific intellectual property that the actuary plans to use. The actuary may find it beneficial to retain a qualified attorney to help the actuary develop an engagement letter that appropriately reserves all of the actuary's ownership rights in intellectual property that is used to complete an assignment.

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Once the principal has agreed to the actuary's ownership of various aspects of the work, it is normally important for the actuary to complete the work assignment consistent with the terms of the engagement letter in order to retain ownership of intellectual property. As work proceeds on a project, the actuary is usually wise to refrain from intertwining the principal's data and other information with the actuary's proprietary items to the point where the two become inseparable. This may require careful planning and execution on the actuary's part, but can prevent disputes if the actuary is ever called upon to furnish data or other information to a successor actuary under Precept 10 of the *Code* or if the actuary wishes to market proprietary methods or models to someone other than the principal.

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Patent Q & A

Buying a Patent Application

Question: Is it possible buy an inventor's pending patent application before it issues as a patent?

> **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. Patent applications can be bought, sold and licensed just like issued patents.

We've seen a significant increase in activity in the past few months of financial service companies approaching inventors to see if they could buy or license the inventors' pending patent applications. These companies realize that a pending patent application could pose a problem for the new products they are developing if that patent application ever issues as a patent. They want to buy it now so that they can keep their future risks of patent infringement to a minimum.

Unfortunately, many of these attempts to buy or license patent applications are failing. The main reason is that both financial service inventors and financial service companies are new to the patent game. One or both sides often become alienated by what the other side considers normal negotiating tactics. Many inventors, for example, become insulted when a company belittles their pending patent application. They don't realize that the company is just trying to get the best

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price possible and is probably worried that the inventor will make outrageous price demands. If the company really thought that the patent application was worthless, they never would have contacted the inventor. Conversely, many companies are turned off by an inventor's exaggerated claims of the importance of his or her invention. They don't realize that the inventor is also trying to get the best price he or she can and is probably worried that the company will lose interest if the invention doesn't, at least, revolutionize the industry.

Despite these difficulties, however, some deals are going through. Those that have been successful report that it was essential to have an experienced patent negotiator involved. The patent negotiator helped both parties become familiar with the norms of patent licensing and how to properly interpret what the other side was really saying. The negotiations are still difficult, but the results have been worth it. Companies have reduced their future patent infringement risks, and inventors have received not only reasonable compensation, but a certain amount of recognition as well.

Pending patent applications have value. More and more financial service companies are attempting to license or purchase patent applications relevant to their future business plans before they issue as patents. Those that are successful report that the services of a knowledgeable patent negotiator helped make the deal happen.

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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 2/13/07		
	Class 705	Subclass 4
YEAR	#	#
2007	269	1
2006	2,221	44
2005	1,453	30
2004	997	23
2003	969	21
2002	887	15
2001	880	19
2000	1,062	29
1999	1,005	36
1998	745	20
1978-1997	2,778	47
1976-1977	80	0
TOTAL	13,346	285

Published Patent *Applications* as of 2/15/07		
	Class 705	Subclass 4
YEAR	#	#
2007	868	39
2006	6,115	169
2005	6,300	148
2004	5,590	156
2003	6,009	128
2002	6,135	164
2001	1,326	30
TOTAL	32,343	834

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

Things have slowed down a bit in 2007 with only one patent issued in class 705/4 during the first two months.

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 39 patent applications have been published indicating that there is still a substantial amount of patent activity in class 705/4.

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

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