

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, *Non-Statutory Subject Matter – Huh?*, we discuss the importance of laying the groundwork for a computer or machine component in your invention description. This link is important in order for a business method invention to be considered statutory subject matter and patentable under the law.

In our **Patent Q/A** we consider a question on the topic: *What are today's 101 standards?* 35 USC 101 is the section of the U.S. Code that defines the categories of patentable subject matter. This Q&A expands upon the feature article by discussing how this determination gets made in the USPTO.

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

Non-Statutory Subject Matter – Huh?

By: Tom Bakos, FSA, MAAA and Mark Nowotarski, Patent Agent
Co-Editors, *Insurance IP Bulletin*

“Non-Statutory Subject Matter”: Those are the dreaded words in a 101 rejection. What they mean is that you are trying to get a patent on something the government doesn’t give patents on. If you can’t get past this threshold, there is no point in even asking the question as to whether or not your invention is new, useful or not obvious. Even if it is, you can’t get a patent on it.

101 rejections used to be rare, now they are almost guaranteed in business methods.

When an examiner rejects a claim based on non-statutory subject matter, he/she starts off the office action with a form paragraph that reminds the inventor of the threshold all inventions must cross in order to be patent eligible:

35 U.S.C. 101 reads as follows:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requires of this title.

This is followed with the declaration that “because the claimed invention is directed at non-statutory subject matter” the claims are rejected. The phrase “non-statutory” means “it’s not in the law”.

The law provides for only four things (as noted in the above quote) you can get a patent on: a “process”, “machine”, “manufacture”, or “composition of matter”. An invention in the field of insurance or broader financial services will, typically, be in the first of these categories, a **process**.

Not just any process qualifies, however. The examiner will continue in the office action with an indication of what sort of processes qualify:

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In order for a process to be considered statutory under 35 U.S.C. 101, the claimed process must either: (1) be tied to another statutory class (such as a particular apparatus) or (2) transform underlying subject matter (such as an article or materials).

This is the so called “machine or transformation” test. Financial inventions generally don’t transform anything in the sense of, for example, literally changing lead into gold – although, metaphorically, that’s often exactly what they do. Instead, they must be “tied” to another statutory class. The only other statutory class that is normally available is a “machine”, such as a computer – hence the name “machine or transformation test”.

Insurance & Computers

A computer is a machine which, notably, transforms data physically stored in memory circuits in the computer hardware into transformed versions of the data physically stored in other memory circuits. A process for doing this transformation exists in computer programming code which serves to instruct a general purpose microprocessor what to do.

All insurance and all financial services processes rely in some way for at least a portion of the work they do on computers. This may not have always been the case but in the modern world in which we all now live the insurance or financial services we rely on, expect, demand, or depend on would be impossible without computers.

Insurance companies, banks, and other financial service providers have huge data processing centers which, process data. Nearly every desk in the offices housing these companies has a programmable computer on it now where once, in the olden days, stood a Marchant or Frieden calculator. And, these desk top computers do much more than the old manually operated calculators did. In fact, they do things the old calculators could never do in a million years – literally.

It’s kind of like this. You can make a phone call with two tin cans and a piece of string. You just yell at your buddy to pick up his can, pull the string taut, and begin to talk. And, to think of it, you might have been able to patent that technology if you had invented it since there is a lot of science involved. But modern times are more demanding and a tin can phone was never really more than a novelty. Cell phones do the same thing only much, much, much better.

Just as communication processes have leaped tall buildings, so too has computing technology. You can do today on computers things that could not be done without computers. Actuaries can run proprietary programs on desk top computers to price or value insurance products more

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exactly than they could ever do on the old Marchant – or Frieden, if taking a square root was involved. Insurance companies can process data, claims, bill premiums, keep track of clients, and service clients more efficiently.

So, what is the problem with the examiner who tells you that your invention which does one or more of the things that insurance companies must do to stay in business better does not pass the “machine or transformation” test? Clearly, there is a disconnect someplace.

Lay the Groundwork

What could possibly explain this cavalier treatment of your greatest thing since sliced bread invention? Clearly, it would have been nice to be able to claim to be the first person to have gotten all claims allowed on the first pass. The reality, however, particularly with respect to insurance and financial services business method applications, is that the examiner needs more enlightenment before he or she can make the big jump to allowance. Either you did not explain things well enough in your description in the application or the examiner did not understand what you wrote. It is, probably, a little bit of both.

One thing an inventor of new insurance processes should ever forget to do is to build into the invention description the obvious – that insurance business methods operate on computers. They require computers to function in some part or measure. If an inventor forgets to describe this in the patent application specification, all hope is lost. But, the good news is that if you have enough money to trot through the Board of Patent Appeals and Interferences and the Court of Appeals for the Federal Circuit on your way to the Supreme Court so you can be as famous as Bernard Bilski.

It is easy to include a “machine and transformation” in an insurance business method claim because that’s what insurance business methods are, but you are not going to be able to add this to your claim unless you specifically talk about what the computer does in your specification. So, assume that the Supreme Court does nothing dramatic in its upcoming “Bilski” decision and make sure to explain, in detail, exactly what computers do in every step of your invention so that you can include that in your claims and satisfy the statutory subject matter requirement.

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Patent Q & A

What are Today's 101 Standards?

Question: We have a computer in our claim, but the examiner is still rejecting us under 35 USC 101. Why?

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: Because the standards are changing.

Details: 99% of all issued insurance patents over the past 10 years recite a “computer”, “system” or similar machine in their claims. Patent attorneys and agents well understand that a computer of some sort must be recited in a business method claim. The requirements of how the computer is recited in the claim, however, are changing. At present, individual patent examiners have a great deal of discretion on how firmly a business method must be tied to a particular machine. This means that different art units are setting different standards and that places a greater burden on inventors and their attorneys or agents to adapt the language of their claims to meet a particular examiner’s requirements. This can be especially challenging if an application was written several years ago when the need for explicit description of the role of the computer was not as apparent. Lack of an explicit description of what the computer does severely restricts the inventor’s ability to adapt claim language to evolving standards. You can’t recite something in your claims that isn’t in your Specification.

The most recent formal guidance that patent examiners have been given on the requirements of 35 USC 101 is found in the August 24, 2009 memo “[New Interim Patent Subject Matter Eligibility Examination Instructions](#)”. It basically tells examiners that there must be a significant tie between a computer and a business method, but it is left up to the examiner and his/her immediate management to determine what, exactly, “significant” means.

The most conservative interpretation of “significant” that we’ve seen is that the claim must be written so that no human at all participates in the process. This may be an overly aggressive application of the guidelines, but as a practical matter, if an examiner takes this position, an inventor has little choice but to adapt to the examiner’s requirements or appeal the examiner

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to the board of appeals. An appeal is a multi-year process that involves considerable expense and so it is common for applicants to do their best to meet the examiner's requirements.

We are hopeful that the Supreme Court's upcoming decision in the Bilski business method case will clarify the proper position examiner's should be taking. We are also hopeful that the USPTO will rapidly implement the Bilski decision and bring uniformity in its practice.

In the meantime, thorough preparation during patent drafting and creative flexibility during patent examination are the keys to success. As we've often said in the past, make sure you write your application with sufficient explicit description of the computers and systems required to practically implement your new business method invention so that you can adapt your claims to the evolving requirements of 35 USC 101.

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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 2/28/2010		
	Class 705	Subclass 4
YEAR	#	#
2010	578	21
2009	3,022	78
2008	2,664	89
2007	2,062	43
2006	2,216	44
2005	1,448	30
2004	998	23
2003	962	21
2002	887	15
2001	880	19
2000	1,062	29
1999	1,006	36
1998	744	20
1978-1997	2,778	47
1976-1977	80	0

Published Patent Applications as of 2/28/2010		
	Class 705	Subclass 4
YEAR	#	#
2010	1,136	38
2009	8,456	279
2008	8,705	199
2007	6,987	183
2006	6,115	169
2005	6,301	148
2004	5,586	156
2003	6,006	129
2002	6,130	164
2001 *	1,327	30
TOTAL	56,749	1,495

* 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.

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.)*.

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Issued Patents

In class 705/4, 21 new patents have been issued in the first two months of 2010. Patents are issued on Tuesdays each week.

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, 38 new patent applications have been published in the first two months of 2010. 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.

Resources

[Recently published U.S. Patents and U.S. Patent Applications](#) with claims in class 705/4.

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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>