

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, *Lincoln Reexam: Where Are the Experts?*, co-editors Tom Bakos and Mark Nowotarski discuss how the set of Lincoln National Life patents covering GMWBs are about to get scrutiny not only in the courts but by the USPTO in a process called reexamination. We suggest that subject matter experts should have a role to play in these challenges and might have been helpful in protecting the patents from challenge in the first place if they had been engaged in the original examination of the patents.

In our **Patent Q/A**, we discuss the effect that the recently handed down decision on *Bilski* may have on business method patents in the insurance and financial services industries.

In addition, Jeremy Morton, a friend to the Bulletin, provides a European Union perspective on the *Bilski* decision.

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

Lincoln Reexam: Where are the Experts?

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

A hot set of insurance patents is getting tested in the courts and at least one is being further tested in a USPTO do-over called a “[reexam](#)”. These are the Lincoln National Life patents (6,611,815; 7,089,201, & 7,376,608) claiming various processes associated with the very popular Guaranteed Minimum Withdrawal Benefit (GMWB) commonly used with variable annuity products. This is a trillion dollar industry (that’s 12 zeros), so you can believe that the best counsel money can buy is being brought into play. What we’d like to know, however, particularly with respect to the reexam, is “Where are the Experts?”

Lincoln has asserted its patent rights through filing patent infringement lawsuits against, so far, three insurance companies (Transamerica, Jefferson National, and Sun Life). This guarantees that these patents will be tested in the courts. In addition, an ex parte reexamination request was made and granted by the USPTO with respect to a limited number of claims in patent 7,089,201. The reexamination request was granted due to the submission of prior art that hadn’t been considered before and which raised a “substantial new question of validity”.

Inventors seek patents to protect their inventions from unauthorized use or outright theft in order to preserve the significant value or effort the inventor invested in originating and developing his or her ideas. Getting a patent to issue is a significant step but it is certainly not the end of the process. Patents don’t enforce themselves. It is the patent owner’s responsibility to enforce the patent. If reminding potential infringers that you have a patent doesn’t work, then you must sue them in court. A cornerstone of any defense against infringement is to challenge the patent’s validity, but the law says that issued patents are presumed valid. The burden of proof to demonstrate invalidity in a court, therefore, is fairly high.

Not so in a reexamination carried out at the USPTO. A characteristic of the reexamination process is that the patent office does not start with the presumption that the patent it issued is valid – at least with respect to the prior art issues that must exist in order to justify a reexamination request.

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There are two types of reexamination requests:

- **ex parte** wherein the requester cannot participate in the reexamination beyond the initial request and filing a response to the patent owners statement, if made.
- **Inter partes** wherein the requester may participate more actively by filing written responses to issues raised by the patent owner in response to the Office action letters produced by the patent office.

The prior art cited by the requester must raise “a substantial new question of patentability”. The “existence of a substantial new question of patentability is not precluded by the fact that” the prior art was previously cited by, to, or considered by the patent office (35 U.S.C. §303). Expert affidavits might be submitted by the requester in order to help the patent office to determine whether or not a substantial new question of patentability exists.

The Lincoln reexam is ex parte. No expert affidavits were submitted. If the anonymous requestor was serious about overturning the patent, then they have to give it their best shot when they file the request. After that, they are no longer part of the process. Which brings us back to the original question, “Why are there no expert opinions in the Lincoln reexam request?” There are knowledgeable and thorough explanations by patent attorneys, but it has been our experience that USPTO patent examiners give a lot more credence in sworn statements by experts. This is particularly true in insurance inventions where the in-house expertise in the patent office is limited.

One possibility is that Lincoln itself requesting a reexam. This is not uncommon when a patent owner discovers previously unknown prior art. They submit it to the patent office in a reexamination request to make sure that it is considered before they enforce their patent. We don't think that is the case here judging from the thoroughness and tone from the reexamination request, but it is an interesting tactic.

When we reviewed the Lincoln National Life patent filings we also wondered why more use was not made of experts during the initial examination or even in the initial drafting of the patent. There is a lot of confusing aspects of this patent that could have been clarified if it had been properly reviewed beforehand. That might have avoided a lot of problems we see coming down the road in both the court infringement lawsuits and the reexam. See the [August issue of the Bulletin](#) and in particular Tom Bakos' [letter to Commissioner Dudas](#) for more on these problems caused by lack of expertise.

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The Lincoln court cases and reexamination case are important to the insurance industry as a whole. Greater use of experts in the drafting and examination of these patents might well have clarified many of the issues now causing the disputes between the parties. It's not clear why this hasn't happened yet.

Patent Q & A

The Effect of In re: Bilski on Business Method Patents

Question: I read in the [Wall Street Journal](#) that the "[Bilski](#)" case was just decided. Is it going to be harder to get a business method patent now?

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: It depends. Bilski will make it harder if you have a pure business method with no technology. But, if you specify a particular computer system required to implement your invention, Bilski may have no impact.

Details: [As we've reported earlier](#), the Bilski case raised the issue of whether or not a "pure business method" devoid of any particular technology was patentable. In 1997, Bernard Bilski and Rand Warsaw filed a patent application on a method they invented for hedging the risks associated with commodity markets. They wanted to get a patent on their fundamental method of hedging, without tying the claims to any particular computer implementation.

It didn't work. First they were rejected by the examiner. Then they were rejected by the USPTO Board of Appeals. And now, they've been rejected by the Court of Appeals for the Federal Circuit (CAFC). It remains to be seen if they will appeal to the Supreme Court.

This was not an easy case. The CAFC went to great lengths to review both its and the Supreme Court's past decisions on what exactly you can and cannot get a patent on. They went all the way back to cases from the 19th century and ultimately came up with a new test to determine what sort of "process invention" is eligible for a patent. The new test is called the "**machine-or-transformation**" test. An inventive process is only eligible for patentable protection if it is either tied to a "particular machine" (e.g. a computer system) or transforms something into something else (e.g. lead into gold).

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For those inventing new financial service products, the key question is “What is a ‘particular’ machine?” Unfortunately, the Court did not address this issue. That means we have to look to the USPTO to see what standards they are setting for how particular a particular machine has to be.

In the past, it was enough for a patent examiner if you simply said that at least a portion of your process was carried out on a computer. There was a recent Board of Appeals, case, however, that said no, you have to be more particular than that. It did not say how much more particular you had to be.

The safest course, as far as we can tell, is to go “old school” in drafting your patent application. Before the 1998 State Street Bank decision, savvy patent agents went into great detail about exactly what sort of computer system was required to carry out a business method. They then tied the claims to that system. That still seems to work.

For those business method inventors that are not particularly technically adept, it may be worthwhile to hire a tech consultant to spec out a particular system for you. You can then include that system in your patent application and list the tech consultant as a coinventor. The tech consultant then assigns his or her ownership rights back to you in exchange for their fee.

Bilski is going to make life a little more challenging for business method inventors, but there are well tested strategies for coping. It’s important to put as much technology as possible in a patent application in order to pass muster with the new “machine-or-transformation” test.

A European (EU) Perspective on In re: Bilski

By: Jeremy Morton, Partner - Fasken Martineau, 17 Hanover Square, London W1S 1HU (www.fasken.co.uk) email: jmorton@fasken.co.uk

Pure business methods, like Bilski's method of hedging risks in commodities trading, are not patentable in Europe, but the topic has to be considered in the context of patentability of software inventions. No doubt, if pure business methods are not patentable in the US, patent applicants will seek to dress up their applications in more technical language, incorporating software and computers, to make them look more tangible and patentable. The Federal Circuit in Bilski left open the question of patentability of software inventions.

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In Europe, the patentability of software-based inventions is a very hot topic, with the UK and the European Patent Office (EPO), respectively, often taking a different approach, and an increase in the activity of patent 'trolls' seeking royalties in the fields of finance, telecoms and e-commerce. Very recently the Court of Appeal in Symbian said that the UK Intellectual Property Office's approach was too narrow and that, although the EPO's approach was sometimes too broad, it was possible to reconcile the two for the most part - and that the English courts should always strive to follow EPO reasoning in this area. The UK patent examiners had been too tough on applicants for software-based patents.

Meanwhile, on October 22, 2008 the President of the EPO took the unexpected step of referring the question of software invention patentability to the Enlarged Board of Appeal, whose task is to ensure uniformity of interpretation of the European Patent Convention. The reference states that "Diverging decisions of the boards of appeal have indeed created uncertainty . . . Currently there are concerns, also expressed by national courts and the public, that some decisions of the boards of appeal have given too restrictive an interpretation of the breadth of the exclusion [of patentability for software as such]". Such references to the Enlarged Board are rare and in this case even more unexpected because the previous EPO President already refused to make a reference to the Enlarged Board on this subject when invited to do so by the English Court of Appeal in the Macrossan judgment. It is not clear why the new President now feels that a reference is appropriate, since nothing has changed about the way the EPO examiners look at software patents in the interim. This might call into question the procedural standing of the reference. But if it does go ahead, the result could be a narrowing of the rather broad approach taken by some EPO examiners when faced with software-based inventions. It is possible that the EPO wishes to reduce the volume of applications, by tightening up the rules. But some argue that this is only likely to result in more appeals, not fewer applications.

At the heart of both the US and European issues is the difficulty in defining the boundaries of patentability. The reference to the EPO Enlarged Board states that "It is hoped that the referral of these questions . . . will lead to more clarity concerning the limits of patentability in this field". The US court has clung to the notion of the transformation of physical materials, whilst in Europe the focus is on finding sufficient 'technical' content. In Symbian, Lord Neuberger (descending from the House of Lords to join the Court of Appeal panel for this case) suggested that it would be "dangerous to suggest that there is a clear rule available to determine whether or not a program is excluded [from patentability]". There is still much to be played for in terms of how business method concepts, particularly in areas like insurance, translate to the world of patentable computer technology.

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Nevertheless, in Europe the prospects will remain extremely slim without hard technical elements to the invention, and even in the U.S. patent protection for insurance processes now looks like less and less of a sound investment.

Announcement

Creating Client Value with Peer-to-Patent

Mark Nowotarski (co-editor) will be conducting a [Workshop for Optimizing Patent Strategies at Patent Forum 2009](#) on **February 25 – 26, 2009** in San Francisco, CA.

The workshop will explore a powerful new tool for creating value for patent clients called [Peer-to-Patent](#) and how to use this new tool to potentially:

- increase licensing / investor interest in a pending patent application,
- identify and solve technical hurdles in an early stage invention, and
- increase consumer interest in a new invention.

The workshop will explore these goals through a fundamental redesign of patents which fully meet USPTO requirements made possible by the technology of Peer-to-Patent. Real life examples will be examined and participants will participate in patent drafting exercises based on peer-to-patent principles.

Peer-to-Patent is a joint program between New York Law School and the USPTO to provide “open” patent examination. Applicants volunteer to have their patent applications posted on the Peer-to-Patent website. Members of the public may then upload prior art and commentary. The prior art and commentary is passed on to a USPTO examiner and the applications are examined right away.

Analysis Available

Lincoln National Life Insurance Company Alleges Patent Infringement - GMWB

Lincoln National Life Insurance Company now has three patents covering the methods and processes used in providing **Guaranteed Minimum Withdrawal Benefits** (GMWBs) for variable annuities. Two additional patent applications remain pending.

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Lincoln is asserting its patent rights through patent infringement lawsuits against three competitors who offer GMWBs: ***Transamerica Life Insurance Company, Jackson National Life Insurance Company, and Sun Life Assurance Company.*** Claims in one patent are now the subject of a USPTO reexamination.

GMWBs have been credited with saving the variable annuity industry and are commonly offered by many of the 25+ insurers currently selling variable annuity products. Lincoln National's claim of protected patent ownership of the GMWB benefit is a threat to competitors offering GMWBs in the variable annuity market.

Tom Bakos (co-editor of the *Insurance IP Bulletin*) has prepared a comprehensive *Intellectual Property Analysis* of the Lincoln National GMWB family of IP. This analysis (over 200 pages of printed detail plus supporting documents on CD) represents well over 200 hours of review, analysis, and dissection of the specifications and claimed inventions. It describes prior art (believed to be relevant) either not disclosed or not considered by the USPTO on examination. It addresses the quality of the claims made.

For more information regarding this Analysis and how to acquire it, please go to: [Intellectual Property Analysis](http://www.BakosEnterprises.com/IPA) (<http://www.BakosEnterprises.com/IPA>).

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.

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Issued Patents as of 10/28/08		
	Class 705	Subclass 4
YEAR	#	#
2008	2289	79
2007	2,065	43
2006	2,224	44
2005	1,453	30
2004	998	23
2003	969	21
2002	887	15
2001	880	19
2000	1,062	29
1999	1,006	36
1998	745	20
1978-1997	2,778	47
1976-1977	80	0
TOTAL	17,436	406

Published Patent Applications as of 10/30/08		
	Class 705	Subclass 4
YEAR	#	#
2008	7,370	170
2007	6,990	183
2006	6,119	169
2005	6,305	148
2004	5,597	156
2003	6,010	129
2002	6,140	164
2001 *	1,327	30
TOTAL	45,858	1,149

* 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.)*.

Issued Patents

15 new patents have been issued between 8/12 and 10/30/2008 for a total of 79 in class 705/4 during the first 10 months of 2008 – almost 8 new patents issued each month.

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

43 new patent applications have been published between 8/14 and 10/30/08 for a total of 170 during the first 10 months of 2008 in class 705/4 continuing the pace of the prior two months and indicating a stable level of patent activity in the insurance industry in 2008 (about 17 new patent applications per month).

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>