

Carriers Unaware of IP Ownership Threats and Opportunities

By Therese Rutkowski, Managing Editor

August 1, 2005 - Do the numbers 705/4 mean anything to you? What about the name Ronald Katz? If not, you may want to pay more attention to what's happening in the patent world.

The numbers 705/4 represent the U.S. Patent Office classification for insurance inventions. And, according to industry sources, carriers are woefully oblivious to the spike in patents filed under that classification over the past few years.

They're also unaware of the threats and opportunities that are emerging as a result of the 1998 court decision that opened those floodgates.

In the case, titled *State Street Bank & Trust Co. v. Signature Financial Group*, the U.S. Court of Appeals for the Federal Circuit determined that business methods are patentable. Up until that time, everyone knew you could patent technology, but also assumed you couldn't patent a methodology. And no one had ever brought the issue to the courts until then.

"That decision got rid of a myth-the myth that you cannot patent business methods," says Frank Cuypers, head of intellectual property at Zurich-based Swiss Re. Banks and dot-coms reacted swiftly to the "State Street" decision, he says. with some banks now holding hundreds of patents.

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Your Views

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- Reconfigure core applications to enable Web Services functionality
- Enhance networking systems to enable agents to conduct real-time transactions
- Launch or revamp Web-based marketing efforts

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The insurance industry, however, has largely ignored the new rules of engagement, according to Cuypers. In fact, only 20% of insurance patent applications have been filed by carriers. The rest are the work of independent inventors, software vendors and other small companies.

A teaching example

The fact that so many "outsiders" are patenting insurance technologies and business methods is troubling, according to industry sources.

If carriers don't protect their intellectual property, they open themselves up to considerable business risk while also diminishing new opportunities for revenue and further innovation.

"In 2000, Swiss Re saw the e-commerce activity as a threat," says Cuypers. "We thought we would build our e-business model and we'd be at someone else's mercy. That is, someone [would patent the same model] and forbid us to use it-or charge us horrendous sums of money to run our business," he says.

After a year or so, Swiss Re also began to view the ability to patent insurance business methods as a potential revenue stream that could help fund its research and development efforts.

"We produce quite a bit of products, tools and methods," says Cuypers. "So by obtaining patents for these inventions, we can recoup our development costs and invest in more technology."

That is exactly what Progressive Casualty Insurance Co., Mayfield Village, Ohio, has done with its "pay as you drive" patent portfolio, according to Mark Nowotarski, patent strategy consultant, with Markets, Patents and Alliances LLC, Stamford, Conn.

Prior to the 1998 State Street decision, Progressive had filed for a patent for the technology that monitors a car and gathers data about its speed, location and other driving parameters. Shortly after the 1998 decision, Progressive re-filed its application adding the associated methods of doing business to its patent claims.

The carrier is now testing a program called TripSense in Minnesota, which is based on these patents (see October 2004, "Progressive Resurrects Its Patented 'Usage-Based' Insurance Program," page 14). TripSense technology enables policyholders to upload data from their car to the carrier to receive a discount on their premiums. Progressive also has licensed the invention to Norwich Union in the U.K.

"Progressive is a great teaching example of how patents can justify long-term and substantial investments in new product development," Nowotarski says. "Progressive has been working on this program for almost 10 years now-and the only way you can justify that kind of investment is to have some measure of exclusivity."

Simple questions

Since forming its patent department in 2001, Swiss Re has filed for approximately 50 patents-for innovations ranging from pricing tools to methods of simulating hurricanes and floods to IT systems, workflow managers, even firewalls, according to Cuypers.

Similarly, GE Insurance Solutions has filed for 35 patents since 2001. Prior to that, it had filed for about eight patents related to e-business, according to Phil Hargrove, vice president, intellectual asset management, at the Kansas City, Mo.-based insurance unit of General Electric.

When GE Insurance Solutions became serious about protecting its intellectual property-after the State Street decision-it discovered a lot of innovative IT applications that it had built for automating manual reinsurance processes.

The company subsequently filed for patents for several of these inventions-which are still pending-including a desktop network diagnosis tool for teleworkers called TraceLink and an automated workflow and imaging e-mail tool called MailStar used to transmit documents to and from reinsurance brokers.

More recently, GE Insurance Solutions is focusing on patenting inventions more closely tied to core business activities such as underwriting and actuarial tools, says Hargrove. "We also realize patents aren't the only answer. There are a number of ways to protect your intellectual property."

GE Insurance Solutions uses a decision matrix to determine the best method of protection, he says.

"We ask some simple questions: Will this innovation have a shelf life greater than five years?" [Currently, it takes five years to get a patent granted.] "Is it detectable-that is, would we be able to tell if someone was infringing on our patent? Is it going to give us a competitive advantage? Or, if one of our competitors had a patent on this technology, could they block us from using it? Those are the kinds of things we ask ourselves," he says.

In addition, says Hargrove, when you apply for a patent you have to reveal the details of how it works. So there may be

some technologies or methods that are not detectable, and which are better protected as closely held trade secrets by not filing for a patent.

Either way, insurance companies are wise to work with their legal counsel to put a simple program in place to review patents that are filed and issued, says Nowotarski.

"Every manufacturing company does this. It's routine. It's not a big burden in time and effort-and it avoids enormous amounts of problems later on," he says.

Beyond that, he advises: "Recognize that you have creative people in your organization who are solving hard problems, and those solutions-in all likelihood-are patentable."

Who is Ronald Katz? And why should you care?

In the 1980s, an inventor named Ronald A. Katz secured approximately 50 patents related to the technology that links a telephone to a computer. Since the early 1990s, Ronald A. Katz Technology Licensing LP and its affiliate A2D LP have gone after companies using his computer-telephony integration (CTI) and interactive voice response (IVR) technologies-collecting an estimated \$1 billion in licensing revenue.

So far, Katz has settled with dozens of companies in the computing, telecommunications and banking industries. The legal teams of giants such as American Express, AT&T, IBM, Microsoft, Sprint and Verizon have capitulated to his demands.

That's because he's not doing anything illegal, according to sources. "There's nothing even immoral in what he's doing-because he paid for those patents," notes Frank Cuypers, head of intellectual property for Zurich-based Swiss Re.

By the time many of Katz's patents expire in 2009, he could conceivably collect another \$1 billion-or more. And some of that money will come from insurers' coffers.

In fact, several Swiss Re customers already have been contacted by Katz, Cuypers says. And, according to A2D LP itself, Nationwide, The Principal Financial Group, and Prudential Financial Inc. have license rights under the Katz portfolio.

Basically, "if you have a call center and you have some kind of interactive voice response system, you are infringing on his patent," notes Phil Hargrove, vice president, intellectual asset management at GE Insurance Solutions, the Kansas City, Mo.-based insurance unit of General Electric.

Essentially, whenever a customer calls a company and is

prompted to enter an account number-enabling the system to find that customer's records in a database and present them to a service representative, Katz's technology is used, notes Michael Callaghan, CEO of Opus Group LLP, a Chicago-based performance optimization firm.

"If you think about how often you do this and how ubiquitous this technology is, Katz is literally redefining patent law in the United States," he says. "His will be the most successful patent infringement initiative ever in this country."

What can insurers do to protect themselves against Katz? Understand their exposure, according to Callaghan, whose company offers Katz liability assessment solutions.

"There are many cases of 'false positives' in the Katz world," he says. Those occur when a customer calls a company-to obtain the phone number for the billing department, for example-and Katz's technology isn't actually used to adjudicate the call.

Insurers can defend their position by "getting into the muck" of every one of those transactions to determine their exposure. That includes exactly what types of calls they received, exactly how often, and exactly what the average time per call is, explains Callaghan. He claims Opus Group has been able to reduce companies' liability to Katz by 40% to 60%.

"Otherwise, Katz can come in and say, 'You guys have CTI and IVR technology. I know you take 1 million calls a day. I know they take 6 minutes apiece. I'm going to charge you 'x' cents per minute for all those calls. You owe me \$40 million. Period.'"

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