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The Australian Patent Office rejects insurance plans as being unpatentable

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The Australian Patent Office has continued its tough stance on business method patent applications that claim to be patentable by virtue of a physical effect in cases where the physical effect is peripheral and subordinate to the invention. This was recently exemplified by the Patent Office decision in *Discovery Holdings Limited* [2011] APO 56, in which the Patent Office rejected a patent application for a computer implemented method and an electronic system for managing a life insurance plan.

The application

The application was directed to managing a life insurance plan in which a person having a life insurance plan for their own life insures against an event that could affect their parent's life. The patent application contained two independent claims, 1 and 5, which were nominally for 'a computer implemented method' and an 'electronic system', respectively. However, neither claim contained any significant limitation in respect of the computer or electronic system. The two claims were as follows:

> **1.** A computer implemented method of managing a life insurance plan, the method including:
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> receiving a premium from an insured life;
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> on occurrence of an insured event to the insured life, paying out a predetermined amount to the insured life; and
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> on occurrence of an insured event to a parent of the insured life, paying out a predetermined amount to the insured life.
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> **5.** An electronic system for managing a life insurance plan includes:
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> a memory for storing:
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> information relating to premiums received from an insured life;
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> and information relating to parents of the insured life; and
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> a processor disposed in communication with the memory, the processor being adapted to:
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> receive data indicating the occurrence of an insured event to the insured life, and in response thereto to effect the paying out of a predetermined amount to the insured life; and
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> receive data indicating the occurrence of an insured event to a parent of the insured life, and in response thereto to effect the paying out of a predetermined amount to the insured life.

The hearing

The hearing officer firstly considered whether an insurance plan, per se, was subject matter capable of patent protection. The decision was largely based on another recent Patent Office decision, *Iowa Lottery*[1]. In that case, the patent application was for a prize pool, a method of paying of a prizes and a method of managing a prize pool. The hearing officer in *Iowa Lottery* considered a financial transaction not to be an 'artificially created stated affairs' (as required by *NRDC*[2]) because it provided 'no concrete, tangible, physical, or observable effect', which was the basis upon which the Full Federal Court (in *Grant*[3]) rejected a legal scheme for protecting an asset as being unpatentable.

The hearing officer, relying on *Iowa Lottery*, stated that a financial transaction was no more than a transfer of a legal right of ownership or entitlement, and a 'right' is abstract in nature. Furthermore, the 'asset' could not be considered an outcome of

the method because the asset already existed – what has changed is only the entitlement to it.

The hearing officer noted that his decision would be consistent with the *Bilski* decision from the United States, in which a method relating to management of risk was rejected. The hearing officer commented that insurance is 'probably the most well-known form of hedging risks known to man'.

For these reasons, the hearing officer rejected independent claim 1 and its dependent claims.

The hearing officer then addressed whether claim 5 was patentable by virtue of its being for an *electronic system* configured to implement the method of invention. The hearing officer stated 'at best, the computing technology defined in the claims is both rudimentary and commonplace'.

To address this issue, the hearing officer relied on another recent Patent Office decision in *Invention Pathways*[3]. In that decision, it was observed that the presence of a physical effect may be insufficient for patentability if the physical effect does not alter the 'fundamental character' of the invention from being one that is not patentable subject matter. The hearing officer in *Invention Pathways* had similarly referred to *Bilksi*, stating that patentability could not be acquired by 'insignificant post-solution activity', which included inputting, storing or displaying data. The officer summarised that there was a need for a 'concrete effect or phenomenon or manifestation or transformation', as referred to in *Grant*, which 'must be one that is significant in that it is concrete but also that it is central to the purpose or operation of the claimed process or otherwise arises from the combination of steps of the method in a substantial way'. The officer continued to state that patentability of a method cannot 'arise solely from the fact that, in a general sense, it is implemented in or with the assistance of a computer or utilises some part a computer or other physical device in an incidental way'. Furthermore, the officer stated that the physical effect was 'peripheral and subordinate to the substance of the claimed method'.

On this basis, the hearing officer in the present case, rejected claim 5 and its dependent claims. Interestingly, claim 5 was for an **electronic system**, rather than for a method, per se. While this distinction was not explicitly addressed by the hearing officer, it seems that the officer has treated the claim as a method claim, perhaps because the electronic system is used only in a general sense for post-solution activity, by merely inputting and outputting data.

Conclusion

In light of the decision in *Discovery Holdings Limited* and other recent Australian Patent Office decisions, the Patent Office has demonstrated its view that legal schemes, or a financial transactions (which the Patent Office equates with a transfer of a legal right) are unpatentable. Claims to such 'inventions' will not be considered patentable by the Patent Office merely by incidental use of a computer. It is clear that the Patent Office expects more than lip service to a physical effect, but it still unclear how intrinsic to the invention the physical effect must be. In taking its present narrowed view on patentability, the Patent Office seems to have been highly influenced by the US decision in *Bilski*. However, business method patents have not been sufficiently tested in the Australian courts, and it remains to be seen if and how the courts will be influenced by *Bilski*, or whether we will see a return to the more inclusive principles on patentability as has historically been espoused.

This article was written by Jonathan Schnapp, Patent Engineer, Melbourne and Greg Noonan, Partner, Melbourne.

Endnotes

1. *Iowa Lottery* [2010] APO 25
2. *National Research Development Centre v Commissioner of Patents* (1959)102 CLR 252
3. *Grant v Commissioner of Patents* [2006] FCAFC 120
4. *Invention Pathways Pty Ltd* [2010] APO 10

More information

For information regarding possible implications for your business, contact

Greg Noonan
Partner, Melbourne
Direct +61 3 9288 1578
greg.noonan@freehills.com