



BL O/282/06

3<sup>rd</sup> October 2006

## PATENTS ACT 1977

APPLICANT	Bruce Bradford Scott Thomas Lester Ware Preston III
ISSUE	Whether patent application number GB 0418292.9 complies with section 1(2)
HEARING OFFICER	P Marchant

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## DECISION

### Introduction

- 1 Patent application number GB 0418292.9 entitled "Collateral coverage", was filed on 17 August 2004 in the names of Bruce Bradford Scott Thomas and Lester Ware Preston III. The application claims priority from an earlier United States application filed on 22 August 2003.
- 2 The application concerns insurance contracts which cover hitherto uninsurable losses associated with an insured risk. For example if an automobile is damaged, an insurance policy will normally cover the direct cost of repair or replacement, but will not cover the lost time and expense of dealing with the repair or loss, nor the extra costs incurred by having to make alternative transport arrangements. In most cases these losses are not insured because of the difficulty, and therefore the high cost, of defining them in advance and proving them after the fact.
- 3 The "collateral coverage" contract of the invention addresses this problem. It provides for insurers to offer extra cover for such indirect losses which pay out an extra amount in addition to the principal insurance pay out. For example the insured may contract to receive 10% extra on top of the principal sum when an insurance policy pays out. An extra premium is paid for the collateral coverage and may be calculated using a simple mathematical relationship, for example, 10% extra premium for 10% collateral coverage.
- 4 In his reports of 14 September 2004, 16 November 2004, and 4 April 2006, the examiner objected that the subject matter of the application was unpatentable, being excluded by section 1(2)(c) of the Act, because it relates to a method for doing business. The applicants argued to the contrary in letters of 1

November 2004, 2 January 2005, 13 October 2005 and 19 July 2006.

5 The difference of view between the examiner and the applicants remained unresolved, and the matter came before me at a hearing which was conducted by telephone conference with Mr Thomas and Mr Preston on 12 September 2006.

6 Claim 1 was amended during prosecution and now reads:

*A contract that specifies a collateral loss payment as a proportional mathematical function of the losses recovered under one or more coverage parts of an insurance or reinsurance policy.*

Other claims relate to variations on, and details of, this idea.

### **The Law**

7 The provisions in the Act relating to excluded matter are in section 1(2) which reads:

#### *Section 1*

*(1) A patent may be granted only for an invention in respect of which the following conditions are satisfied, that is to say-*

*(a) the invention is new;*

*(b) it involves an inventive step;*

*(c) it is capable of industrial application;*

*(d) the grant of a patent for it is not excluded by subsections (2) and (3) or section 4A below;*

.....

*(2) It is hereby declared that the following (among other things) are not inventions for the purposes of this Act, that is to say, anything which consists of -*

*(a) a discovery, scientific theory or mathematical method;*

*(b) a literary, dramatic, musical or artistic work or any other aesthetic creation whatsoever;*

*(c) a scheme, rule or method for performing a mental act, playing a game or doing business, or a program for a computer;*

*(d) the presentation of information;*

*but the foregoing provision shall prevent anything from being treated as an invention for the purposes of this Act only to the extent that a patent or application for a patent relates to that thing as such.*

- 8 In the examiner's initial reports, he applied the then current "technical contribution" test and found that the invention, relating as it does to contracts for insurance, did not involve a technical contribution. The judgment now considered by the Patent Office to provide authority on excluded matter issues is the case of *CFPH*<sup>1</sup> which was handed down on 21 July 2005. In that judgment, Mr Peter Prescott QC, sitting as a deputy judge, noted that different approaches had been used from time to time in making assessments of patentability, and proposed a new test intended to greater certainty than the test currently in place. In his judgment he said, from paragraph 94:

"94. To that extent I believe the EPO is right no longer to apply the "technical contribution" test. Properly regarded, that was a two-stage test that identified what was new (not disclosed in the past) and then asked whether it was 'technical' (i.e. not excluded from patentability). But it cannot be right to stop there. The new advance also must not have been obvious to those skilled in the art and that too must be under the description 'technical' (i.e. not excluded from patentability). In practice it may not be useful to consider whether something is an 'invention' without considering whether it is new and non-obvious. Much the same thing was said by the House of Lords in *Biogen Inc v. Medeva plc* [1997] RPC 1, 42.

95. A patentable invention is new and non-obvious information about a thing or process that can be made or used in industry. What is new and not obvious can be ascertained by comparing what the inventor claims his invention to be with what was part of the state of the existing art. So the first step in the exercise should be to identify what it is the advance in the art that is said to be new and non-obvious (and susceptible of industrial application). The second step is to determine whether it is both new and not obvious (and susceptible of industrial application) under the description 'an invention' (in the sense of Article 52). Of course if it is not new the application will fail and there is no need to decide whether it was obvious."

- 9 The reference to Article 52 relates to the European Patent Convention, with which the UK Patents Act is harmonized. Article 52 contains the same exclusions as section 1(2). The two stage test proposed by Mr Prescott has been adopted by the Patent Office for the purposes of examiner assessments of patentability, as has been explained in the Patent Office Notice: "Patents Act 1977: Examining for Patentability" issued in July 2005. It was employed by the examiner in the present case in his reports after that date.
- 10 It is worth pointing out that the requirement for compliance with the list of excluded subject matter referred to in section 1(1)(d) is in addition to the requirements for novelty, inventive step and industrial applicability. An

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<sup>1</sup> *CFPH LLC's Application* [2005] EWHC 1589 (Pat)

invention may be new and inventive and of useful application in its industry, as the present applicants say their invention is, but still be excluded by section 1(2).

## Discussion

- 11 There is no doubt that the present invention is excluded from patentability. Section 1(2)(c) excludes methods for doing business. It specifies that the exclusion applies only so far as the patent application relates to the excluded thing as such. The present invention does relate to a business method as such and consequently falls squarely within the exclusion. However it is worth providing a little explanation and answering the points put forward by the applicants.
- 12 Many of the applicants' representations relate to the novelty and value of the invention to the insurance industry. As I have emphasized above, the exclusion of the present invention does not arise because it is not new or valuable, but because it lies within an area of subject matter, namely a business method, which legislators have decided as a matter of policy should not be susceptible of monopolization by the grant of a patent.
- 13 Other arguments in their letters and at the hearing centred around whether the present invention qualifies as "technical". This of course follows the terminology in the examiner's initial reports and indeed there was discussion about the requirements for patentability in terms of technical character at the hearing. There is some difficulty with these arguments since one apparent reason for Mr Prescott QC's reformulation of the test for patentability in *CFPH* was to avoid the need to assess the technical character of an invention. However "technical" can nevertheless sometimes be used as shorthand for "patentable", and no harm appears to be done in the present case by taking this approach.
- 14 The applicants' view is that the present invention has technical character because it involves new techniques within the insurance and financial services industries. They say in their letter of 2 January 2005, quoting initially from a previous Patent Office decision: "... the case law suggests that "technical contribution" can result from the problem to be solved or the proposed solution. The problem of financing losses that are collateral to insurable losses has, until now, been unsolvable. The best minds in the insurance industry using the existing techniques involved in underwriting and loss adjusting have been unable to finance these losses and have written-off this set of risks as uninsurable ... we would say that our invention demonstrates a technical contribution on both counts. Despite the size of this problem, it was not solvable with existing contractual forms and business methods. Our solution also constitutes a technical contribution as demonstrated by the fact that it goes against the teachings of the experts in the insurance and financial service industry in a number of important ways but still works."
- 15 However this view of the technical or patentable character of the invention does not coincide with that generally held. In his introductory remarks in *CFPH* for example, Mr Prescott QC said at paragraph 5:

“Often, the law is easy to apply. It is clear that you can patent a new and non-obvious medicine or mousetrap. But it is just as clear you cannot patent a new and non-obvious tax-efficiency scheme. That is excluded subject matter. The problem arises when someone wants to patent an idea that is a hybrid, or mixture of the two: excluded and non-excluded subject-matter.”

- 16 The present invention is one which is on all fours with the tax-efficiency scheme referred to by Mr Prescott and is therefore an example of an invention that falls cleanly outside the scope of patentability. It is not an example of a business method being implemented by computer systems, of the sort Mr Prescott refers to as a hybrid, and as was considered in the CFPH case itself. In such cases, a system, generally a computer system, performs a new function, and the question arises whether the external operation of the system or perhaps its internal operation if it is a computer system, relates to an invention that is properly included or excluded within the terms of section 1(2). This is not a case on which any such discussion arises; the invention involves no apparatus of any sort, computer based or otherwise. It is a business method as such.
- 17 I should say for the avoidance of doubt that the mere implementation of the present system on a computer would not make it patentable. Such a system would also be taken to relate to a method for doing business as such.

### **Conclusion**

- 18 Although the present invention may be a new and valuable idea, there is no doubt that it is excluded from patentability. I have considered the application in its entirety, and do not believe that it would be possible to formulate patentable claims. I consequently refuse the application because it does not comply with section 1(2)(c) of the Act.

### **Appeal**

- 19 Under the Practice Direction to Part 52 of the Civil Procedure Rules, any appeal must be lodged within 28 days.

**P MARCHANT**

Deputy Director acting for the Comptroller