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# Is It the End of a Brief Era of Business Method Patents in the Insurance Industry?

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**In 1998 the Federal Circuit Court of Appeals opened the door to financial business method patents. Since then, there has been a deluge of business method patents in the financial and life insurance industries.**

As a result, insurance companies have aggressively and successfully prosecuted patent actions against their competitors. For example, Lincoln National Life Insurance Company secured a $13 million verdict against Transamerica Life Insurance Co. The suit asserted infringement of patents on variable annuity products using computerized methods for administering retirement income benefits. The two companies are also engaged in separate litigation over similar Transamerica financial products in the U.S. District Court for the Northern District of Indiana.

This brief era of business method patents, however, may be coming to an end. On October 30, 2008, the Federal Circuit Court of Appeals issued an *en banc* decision in *In re Bilski*, setting forth a more demanding test for the patent eligibility of business methods. In *Bilski*, the court rejected claims based on financial methods of hedging risk in commodities transactions, noting that transformations or manipulations of public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the test because they are not physical objects or substances. Prior to *Bilski*, courts applied a variety of tests. In *Bilski*, the court held the "machine or transformation" test to be the exclusive test. Under this two-part test, a claimed process is patent-eligible "if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." An applicant may demonstrate patent eligibility by meeting either prong of the test.

The *Bilski* standard has been applied in rejecting business method patent claims. Recently, for example, a district court in Northern California rejected several claims based on methods of verifying credit card transactions over the Internet, finding that these claims failed to meet the "machine or transformation" test. Courts have also extended the "machine or transformation" test to system claims, which may frustrate patent

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practitioners' attempts to disguise method claims as system claims. There have also been a number of decisions from the Board of Patent Appeals and Interferences that have rejected business method patent applications under the new *Bilski* test.

The future of the new *Bilski* standard, however, is uncertain. The U.S. Supreme Court granted certiorari to review the *Bilski* case. Last month, the Court held oral argument. None of the justices who spoke seemed to favor patent eligibility for the risk-hedging process at issue. Some observers, though, have predicted that the Court will uphold the Federal Circuit's decision on a narrow ground without going so far as to adopt the *Bilski* "machine or transformation" test. We will let you know what the Court decides. The opinion should be out by next June.

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