Business-method patents should be an integral part of strategic planning for banks and other organizations in the financial sector. Typically covering services offered over the internet or to web-based back-office operations, business-method patents can be used to exclude rivals from markets or to generate significant amounts of licensing revenue. As such, they are tools that no financial institution can nowadays afford to overlook. But talk to practitioners working in this area and you will find that all too often this is exactly what happens. European institutions are by far the most neglectful of their interests.

There has been a surge of US interest in business-method patents since the landmark State Street & Trust Co vs Signature Financial Group Inc case was decided by the US Federal Circuit Appeals Court in 1998. The court held that a Signature data-processing system, which took the form of a computerized accounting system that managed a mutual fund investment operation, should not be excluded from patentability just because it was a business method. In coming to this conclusion, the court built on the business method and software examination guidelines issued in 1996 by the US Patent & Trademark Office. These stated quite clearly that in order to obtain patent protection it was not necessary for the applicant to demonstrate a technological advance in the relevant invention. Rather, it had only to demonstrate that it had a technical application that provided a useful, concrete and tangible result.

The combined result of the State Street case and the new guidelines was a rush of business-method applications in the US. Probably the most famous was awarded to online retailer Amazon in 1999 on a system and method for the placing of an order to purchase an item using the internet. Commonly known as the one-click patent, the invention covers a methodology that permits information about a user to be stored by a website, enabling the user to click up this information when purchasing items, so avoiding the need to fill in forms on each site visit.

In many ways, this is the classic US business method patent – a means of conducting a business transaction embodied within a piece of internet-related software.

The most recent figures released by the US Patent & Trademark Office show that in 2000 more than 7,800 business-method patent applications were made in the US, up more than 100% on the previous year. A large proportion of these came from financial institutions.

Foreign exchange trading platform Forexster is seeking a US patent for technology it has developed that will help take the banks out of forex trades and instead allow clients to talk directly to each other via web-based networks (see page 109). Forexster, which has yet to launch its service, claims that it has developed a system that will sideline the banks by linking clients through the credit lines they have with their banks, allowing them to make and take forex prices from each other.

The patent application, which relates to the use of implicit credit lines, seems to cover typical business-method territory so rivals who dismiss Forexster's chances of getting protection would be well advised to think again. If the company can show that its technology meets the standard US test for patentability – that it is new or novel, non-obvious and produces that useful, concrete and tangible result – the chances are a patent will be awarded.

The firm handling the Forexster application, Silicon Valley-based Fenwick & West, has a long-established reputation in intellectual property and it is confident the application will go through.

According to Chris Forsyth, a partner in the IP/IT group of London law firm Freshfields, there are two basic reasons why organizations such as Forexster seek patent protection. "If you develop a system and don't seek protection, you run a very real risk that a competitor will copy what you have done and encroach upon your market," he says. "A patent is a prima facie monopoly right – if someone infringes it you can stop them or negotiate a licensing deal." In addition, he says: "In not
having business-method patents you could be at a significant disadvantage if another party claims you are infringing their rights.

With patents of your own you are in a much better position to develop cross-licensing opportunities.”

These keep you out of court and enable you to carry on operating – a handy alternative to expensive litigation or the shutting down of a business.

Forsyth says that in the US financial institutions have been aware of the importance of obtaining business-method patents for several years. It is, however, a different story on the other side of the Atlantic. “I generally don’t get the impression that it is something the European banks have woken up to at all,” he says. “None seems to look routinely at this issue.” He believes that much of this lack of activity is a result of ignorance: “In Europe, patent protection is seen as something that is confined to technical areas of doing business such as the pharmaceutical industry, engineering or telecoms. It has just not been on the banks’ radar screens.”

There is a widely held belief that business-method patents cannot be obtained in Europe. But according to Simon Mounteney, a partner in the London office of patent attorneys Marks & Clerk, this is not true. “Whilst it may not be possible to get the same level of protection as is granted in the US, it is still very possible to obtain meaningful patents which cover much of the same territory,” he says.

In other words, the patents granted may not be called business-method patents but they do pretty much the same thing: give rights to ways of doing business that can be used to exclude rivals from a market.

Mounteney should know. Marks & Clerk has succeeded in taking a great many applications through to final grant. In Europe, he explains, the crucial thing is to demonstrate a technological advance. And once computers and the internet are involved this is not as hard as it sounds. “It could be something that enhances the operation of a computer, such as installing software that is employed in a business method,” he says. In such an example, the software is modifying the computer and so turning it into a different kind of device.

The key, Mounteney says, is to think of business systems: “In these kinds of application, it is very much down to the way you present the invention and which aspects you focus on. It is important to talk in terms of the hardware and how this interacts with the software applications – how these are modifying the system.” It is not something that everyone can do: “You need someone who can construct the specification in the right way. If you do this there is so much more potential to get patents granted than people realize.”

And it is not a case of cheating, says Mounteney: “You are pushing the boundaries of what is allowable by looking at inventions in the right way and focusing on the right parts of them. The fact is that a lot of very patentable inventions are being dismissed at too early a stage. Many banks could be achieving a lot more than they are.”