

Managing intellectual property in the financial services industry sector: Learning from Swiss Re

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Abstract

Legal protection strategies are still a relatively new phenomenon in emerging business fields like the service industry sector. Especially patents are considered novel as intellectual property means for protecting service innovations, which particularly accounts for the Knowledge Intensive Business Services (KIBS) sector. This contribution focuses on the opportunities and risks of managing intellectual property in the financial services industry sector by empirically analysing the leading reinsurance company Swiss Re. Swiss Re is considered to be one of the first (re-) insurance organizations worldwide that created its own patent department and today carries out a consistent legal protection strategy. The in-depth single-case study design is based on a triple iterative research process. The paper concludes with a success factor model for managing intellectual property to protect service innovations in the financial services industry sector.

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1. Trend towards legal protection strategies for service-based innovations

1.1. Introduction

There is currently a strong trend towards service innovations, as value-creating activities of an organization are increasingly based on information technology and services (Hipp, 2000). However, within the emerging business fields of the service industry sector, legal protection strategies generally still are a novelty. This especially accounts for the knowledge intensive business services (KIBS) sector (Miles et al., 2000). A very exemplary field in this context is the financial services sector which also includes the business to business activities of banks and insurance companies.

The legal protection of service innovations in the financial sector by patents is a relatively new phenomenon, especially for European organizations. Especially Anglo-

American and Japanese entities serve as examples of predecessors that incorporated intellectual property into business activities (Gassmann and Bader, 2004). At the European Patent Office 75% of patent applications in the bank and (re-) insurance industries originate from companies in Anglo-Saxon countries like the US, Canada, and Great Britain (Fig. 1). Only 10% of all patent applications come from European organizations. Despite the fact that the European Patent Office is more restrictive with respect to the protectability of new business models, it is clearly evident that US-based service organizations are more patent aware.

From a business perspective, a specific problem that comes with (re-) insurance products is that these are often characterized as possessing a relatively easy imitateness. Competitive advantage can thus be achieved by emulation of existing products. This is often described as the second-mover advantage. Furthermore, first-mover activities, e.g. the introduction of a new product on the market, are considered to involve high-risk components and hence lack attractiveness.

Financial service providers and insurers therefore are increasingly becoming aware of the opportunities created

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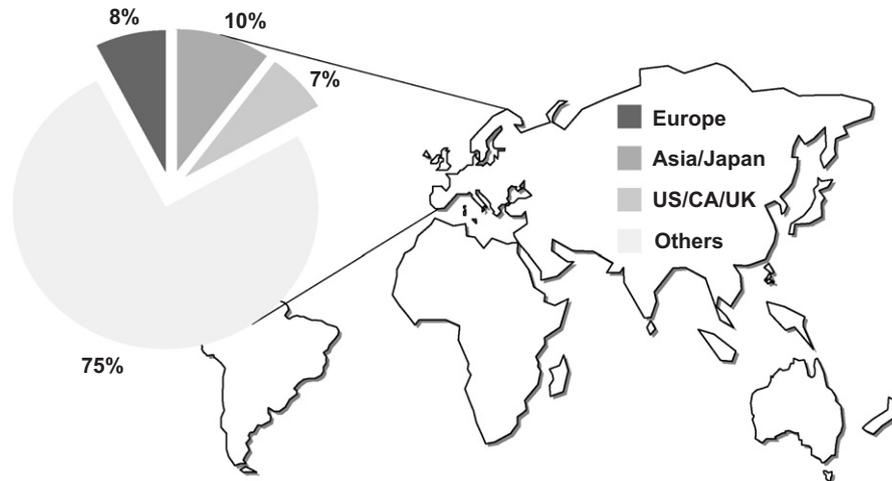


Fig. 1. Patent applications in the financial services industry sector in Europe. *Source:* Gassmann and Bader (2006).

by patenting innovations to take advantage also of first-mover activities. They are now devising new methods to protect their competitive advantage: business models and software solutions are more patentable, something that has already become common practice in the US and Japan. Typical areas of concern for insurance patents include risk transfer schemes, e-business solutions or pricing instruments, systems and methods for user authorization, verification and audit systems, devices and process for calculating options, and internet-based insurance products.

In the following table, the published patent applications and prominent patents of insurers and reinsurers are displayed (Table 1, as of October 2003). According to the data, Japanese insurers are strong in this area, occupying the first three places. It is evident from this, that other than *Converium*, *ERC* and *Swiss Re*, no other reinsurer has produced patents internally. The world's second largest reinsurer *Munich Re (Münchener Rück)* has no published patent applications. Additionally, the table also specifies *Swiss Re's* as of yet unreleased patent applications. The *Swiss Re* data shows how sizeable the difference is between published patents or patent applications, and unpublished patents. This means there should be probably many more applications in the pipelines of the other companies, too, that are to become published, until some time in the future.

A large number of patents in this industry can be attributed to original patent holders and large companies that have many years of patent experience, however, characteristics are not often associated with the (re-) insurance industry. This situation is likely to stem from the new economy hype from a few years ago, when the dot-com companies were vying for patents on software and business practices. They were doing so to make their financial situation more attractive to investors (Cuyper, 2003).

1.2. Aims

Innovation and value creation are shifting towards service innovations. However, legal protection strategies

Table 1
Published patent applications of large insurance companies

(Re-) insurance company	Published patent applications
Tokio Marine and Fire	76
Sumitomo	49
Aioi	38
AIG	18
Aiu	11
Swiss Re	9 (30 filed patent applications)
Progressive	5
EQE	4
Prudential	4
Allstate	4
ERC	4
Zurich	3
eReinsure.com	3
Toshiba	2
Ace	2
Chubb	1
Converium	1

Source: Swiss Re, Intellectual Property Report 2003 (Swiss Re, 2004a).

applying patent protection are a novelty in the financial service industry sector. The ways in which intellectual property can be managed in such an environment is therefore the subject of this paper. Following the US trailblazers, e.g., *Citigroup* and *Merril Lynch*, some European financial services organizations like *Swiss Re* and *UBS* have caught on to the trend: they have established dedicated patent departments and announce in-house patents. *Swiss Re* is one of the first (re-) insurance organizations worldwide that created its own patent department and carries out a consistent legal protection strategy. Hence, the following sections look at the problems faced by the Swiss reinsurance firm *Swiss Re*, in dealing with patent rights and patents in the financial services sector. Finally, by analyzing the case study outcomes, success factors for managing intellectual property in the financial service industry sector are derived.

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