Professional Perspective

# Navigating Global Fintech Patent Eligibility Challenges

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Because rights granted by a patent generally extend only as far as the borders of the country granting it, a fintech patent granted in one country will not extend to foreign countries. What's more, fintech finds itself in the crosshairs of patent eligibility questions because many countries have taken specific steps to prevent the granting of patents on pure methods of doing business or finance. Despite the "tech" portion of the word, many patent offices focus squarely on the "fin" side of things to err on the side of not allowing patent protection.

Clearly, creating a strong global patent portfolio presents challenges when countries treat patent eligibility differently, and it is typically not enough to file only in "easy" jurisdictions. But while accounting for each country having different standards for eligibility presents its own challenge, knowing the rules remains a key step in securing a strong patent portfolio that can protect innovations around the world.

This article will touch on key fintech eligibility variations in the US, Canada, EU, and Asia that innovators and counsel will need to keep in mind as they seek protections for their intellectual property.

## What is Fintech?

The scope of fintech innovation has changed drastically over time. At one point, the ATM was an innovative technology in financial services. Nowadays, fintech more often refers to newer, emerging technologies.

Fintech includes hardware, such as sensors on ATM machines to detect how many people are lined up to use them. But more recent innovations in fintech are often software-based, such as those built on blockchain technology—which runs cryptocurrency, decentralized finance, and smart contracts—digital wallets, and biometric technology used to protect financial institution data. It also includes peer-to-peer transfers through mobile payment applications. But at its core, fintech continues to refer to a combination of financial and technological innovation.

Because fintech generally involves a mixed bag of financial and technical innovations, obtaining patent protection regularly implicates patent eligibility questions. When it does, highlighting the technical field or the improvements to the technology itself can be one way to proactively address potential eligibility concerns.

## US Patent Challenges

The Supreme Court has developed a two-part test, often known as the *Mayo/Alice* test, to determine if claims are ineligible for patenting. The claims are first examined to determine if they recite a "judicial exception"—abstract ideas, laws of nature, and natural phenomena—that would make them ineligible for protection. When dealing with fintech, the issue is generally whether the claims are directed to an "abstract idea" and must be examined under part one's two-pronged approach.

While this evaluation seems straightforward, figuring out the metes and bounds of ineligible abstract ideas has proven a difficult question to answer, as the Supreme Court refused to qualify what is and what is not an abstract idea and thus eligible for patent protection. Nevertheless, if the claims recite a judicial exception but are determined to "integrate" the judicial exception into a "practical application," then the claim is eligible under part one, and does not need to be examined under part two of the *Alice/Mayo* test.

But if the claims are deemed "directed to" an exception, claims move to part two requiring an analysis of whether the additional elements of the claim—those parts beyond the identified abstract idea—transform the nature of the claim into a patent-eligible application. The Supreme Court has provided that "well-understood, routine, and conventional" claim elements do not form an inventive concept sufficient to overcome part two's analysis.

But like part one, determining what qualifies as an inventive concept in part two can be difficult. Some lower courts have outlined scenarios that may not offer enough to get past part two of the *Alice/Mayo* test, including mere instructions to perform a claim with a generic computer; insignificant, extra solution activity, or routine data gathering steps; and limiting an invention to a particular technological environment. On the positive side, courts have also recognized that an improvement to the functioning of a computer of other technology may be enough to illustrate an inventive concept.

 

Regardless, many companies report frustration with claims being allowed in some countries only to face eligibility challenges in the US. Sometimes, this forces companies to accept narrower protections or to abandon their patent applications in the US altogether. Indeed, even claims that specifically recite technical elements can face eligibility challenges.

A recent example from the Southern District of New York found the claims of AuthWallet LLC's US Patent No. 9,292,852 ineligible, which relate to systems and methods for authorizing and processing financial data. The court noted that the claims recited two-factor authentication and data storage mechanisms, but without an inventive concept to transform “the abstract idea of processing discounts on payment transactions” into an eligible invention.

## Global Eligibility Variations

While there are eligibility-related challenges to obtaining valuable software patents in the US, other countries have their own roadblocks that can affect patent eligibility in fintech.

In Canada, the “essential elements” of a claim must satisfy a “physicality requirement” according to the Canadian Intellectual Property Office (CIPO). The physicality requirement looks at whether the claim elements have a physical existence or produce discernible effects, and CIPO may consider claims eligible when a computer—or analogous element—forms an essential part of the claims. For example, business methods may become patent eligible when they comprise a practical application but, similar to the US, inventions that are merely “implemented using a computer” may not have enough more to be patent-eligible. Fintech applications may be eligible when they follow the rules for business method patents at the CIPO and have claims directed to a practical application of the technology.

Before the European Patent Office, software may be patentable if it presents a technical solution to a technical problem. The EPO applies a test based on the presence of a physical feature in a claim, as well as an analysis of whether the “technical features” of the claim provide that technical solution. Keeping these guiderails in line may help avoid eligibility concerns in the EPO.

In Japan, the claimed invention as a whole must meet the standard for eligibility, meaning it must utilize a law of nature, be based on technical ideas, and involve a “creation.” Japan has a specific test for software that first requires determining whether or not the claimed invention is the creation of a technical idea utilizing a law of nature. If, on the other hand, a determination cannot be made regarding whether the technical idea uses a law of nature, the next step is to determine whether or not the claimed invention is “the creation of a technical idea utilizing a law of nature” based on the standpoint of software. If the claimed invention fulfills these criteria, then it constitutes a statutory invention that is patent-eligible. Otherwise, the claimed invention does not constitute a statutory invention.

South Korea also requires that an invention utilizes a law of nature, which can present some challenges when it comes to computer software and business method patents. A computer software or program alone is not enough to be patent eligible because it does not use a law of nature. Claims making clear the programs are executed using hardware, however, may be considered technical inventions that use the laws of nature. The claims must state how information processing by software use the hardware to overcome this hurdle.

While Japan and South Korea may be relatively permissive with respect to fintech or business methods patents, India represents the other end of the spectrum and excludes business method patents by statute—Section 3(k). This can make it a comparatively more difficult jurisdiction for fintech patents. Indeed, India-based companies have steadily increased their filings in the US to ensure the global coverage of their fintech portfolio at least covers their other largest markets. India-domiciled companies have filed 9,500 patents in the US between 2015-2021, a marked increase of about 47% from 2015-2019.

## Looking to the Future

The uncertainty around patent eligibility affects companies’ strategic patent portfolio decisions. Without confidence in their ability to obtain proper protection, fintech companies may reduce their level of investment in new and emerging technologies to focus on innovations traditionally treated more favorably in those jurisdictions.

The US Supreme Court was recently invited to take up the task of providing clarity to the *Mayo/Alice* test in the *American Axle & Manufacturing v. Neapco Holdings* case. In 2019, the Federal Circuit issued a ruling that American Axle's method of manufacturing drive shaft assemblies was ineligible under §101 because the claims involved the application of Hooke's law to dampen vibrations in the propshaft. The case presented an interesting issue because the *Mayo/Alice* eligibility question was largely restricted to patents in the computer and life sciences.

In May 2022, the US Solicitor General recommended granting review of the case, stating that the Federal Circuit "erred in reading this Court's precedents to dictate a contrary conclusion." The brief also supports American Axle's case that the claims in the patent do not recite a law of nature, and recommended that the Supreme Court use this case as a way to provide greater clarity on the test as a whole. Despite this, the court denied certiorari in this case on the last day of the 2022 term.

Another case that the Supreme Court may take up next session, *Interactive Wearables v. Polar Electro Oy, et al.*, asks three questions: what is the standard for finding a claim directed to "directed to" an ineligible concept, whether eligibility is a question of fact or law, and whether enablement considerations—whether the patent explains how to make or use the invention— factor into the eligibility question. At the moment, that petition has been set for conference in September 2022.

## Conclusion

The uncertainty around patent eligibility affects companies' strategic patent portfolio decisions. Without confidence in their ability to obtain proper protection, fintech companies may reduce their level of investment in new and emerging technologies to focus on innovations traditionally treated more favorably in those jurisdictions.

The rules on eligibility will inevitably vary from country to country. In general, focusing fintech patents on the technical problem solved by a technical solution will remain an effective place to start. Still, it is not the only piece of the puzzle. Effective counsel will understand the variations of each country's approach to eligibility and adjust their approach accordingly when developing a global fintech portfolio.