Surge in Patent Protection for Systems and Methods of Complying With the Bank Secrecy Act

By Jeffrey Young and Jennifer Miller

Patent savvy individuals and companies are moving fast to seek patents for creative solutions designed to help financial institutions comply with the rigorous requirements of the USA PATRIOT and Bank Secrecy Acts. If successful, no doubt they will demand that other individuals and institutions purchase a license or refrain from using these solutions in their own compliance programs. This article looks into this trend in patent protection and focuses on what a company needs to do not only to avoid patent infringement actions against its compliance program, but also to protect its own intellectual capital associated with the innovative solutions it creates.

A few examples of the systems and methods that are currently the subject of patents or published patent applications include:

- Detecting suspicious financial transactions for the purpose of complying with the Bank Secrecy Act and the USA PATRIOT Act;¹
- Approaching the sometimes conflicting or redundant compliance requirements of multiple federal, state and local regulations;²
- Accessing biometric profiles compiled on a worldwide basis and relating them to other information and a risk subject;³
- Identifying latent relationships among independent data elements in very large databases, such as the FinCEN SAR database;⁴
- Generating risk quotients using algorithms that consider regulatory risks;⁵ and
- Screening applicants against anti-terror databases in loan processing systems.⁶

Brief Summary of the Requirements of the Bank Secrecy Act

In general, under the Bank Secrecy Act (BSA),⁷ as enhanced by the USA PATRIOT Act (Patriot Act),⁸ banks and other financial institutions, including credit unions, trust companies, casinos, credit card operators, broker/dealers, and insurance companies, must comply with certain reporting and record keeping requirements. Under Title 12 of the Code of Federal Regulations, part 21, section 11, institutions governed by the BSA are required to develop and implement comprehensive anti-money laundering (AML) policies and procedures, including Customer Identification Procedures (CIP),...

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risk-based due diligence, and procedures for identifying and filing Suspicious Activity Reports (SARs) with the Financial Crimes Enforcement Network of the Department of the Treasury (FinCEN) in cases where they have reason to believe money laundering may be taking place.9 A covered institution must file a SAR in the event that it detects any potentially criminal activity (1) involving insider abuse of any dollar amount; (2) aggregating $5,000 or more where a suspect can be identified; (3) aggregating $25,000 or more regardless of potential suspects; or (4) aggregating $5,000 or more where the potentially criminal activity indicates possible money laundering or violations of the BSA.

Under 12 CFR 21.21, financial institutions subject to the requirements of the BSA must establish and provide for the continued administration of an AML compliance program that is written, board approved and reasonably designed to assure and monitor compliance with the BSA.10 To do this, the program must provide for (1) a system of internal controls to assure ongoing compliance; (2) independent testing of compliance; and (3) training for appropriate personnel. The CIP must include procedures for (1) verifying the identity of customers; (2) recording and retaining the identifying information provided by the customer, the steps taken to verify the identity, and the resolution of any substantive discrepancies encountered; (3) determining whether the customer is on any list of known or suspected terrorists or terrorist organizations provided to the bank; and (4) providing customers with notice that the bank will be requesting identity verifying information.11

The rigorous reporting and record keeping requirements of the BSA have forced many companies to develop and implement new methods and systems for maintaining compliance. Under the current patent law, these systems and methods may qualify for patent protection provided they are novel and nonobvious, see discussion below.

**Trend Toward Patent Protection for Compliance Programs**

Numerous patent savvy individuals have become aware of this potential for obtaining exclusive rights and have taken advantage of it. A recent search of the United States Patent and Trademark Office (USPTO) Web site at www.uspto.gov indicated that four issued patents and 29 published pending applications refer to either the BSA or the Patriot Act. Twenty-six issued patents and 85 pending patent applications refer to the term “money-laundering,” and 14 issued patents and 153 published pending patent applications refer to “homeland security.” The rights to many of these patents and published pending applications have been assigned to companies including the United States Postal Service (USPS), banks, investment firms, online trading networks and money transferring agencies.

The claims of an issued patent determine the scope of protection afforded the patent owner, who may seek to enjoin infringers or seek damages from them. To infringe a patent, an alleged infringer's activities must include all the elements of the invention that are specifically enumerated in the claims of the patent. Likewise, the claims of a published patent application represent what the applicant is seeking to protect. Because one of the focuses of this article is on how to avoid infringement actions, one goal is to show how the claims of exemplary issued patents and printed publications determine their scope of protection.12

One example of a patent relating to compliance with the BSA is a patent application directed toward “a method for detecting suspicious financial transactions for the purpose of complying with the Bank Secrecy Act and the USA PATRIOT Act,” and more particularly, to a method of assisting in the detection and reporting of illegal money laundering schemes.13 The inventor, Alben Joseph Gillum, assigned his rights in this invention to the USPS.

The first set of claims of the above-referenced application is directed toward a “method for detecting dollar threshold transactions.” The method roughly includes (1) obtaining identity information relating to the customer; (2) aggregating the financial activities by that customer within a given day; (3) determining whether the aggregate dollar value of those transactions exceeds a threshold amount; and (4) if so, capturing and storing additional information and generating a report including both the additional and identity information. Other claim sets are directed toward “a method of monitoring and enforcing employee compliance in dollar threshold reporting;” and “a method for detecting suspicious transactions.” The latter includes examining digitized images of transactions in a plurality of workstations; and determining whether a condition is satisfied that indicates money laundering activities.” Thus, if the USPS succeeds in patenting these processes, it will be able to exercise control over their use in complying with the BSA and Patriot Act.

Another exemplary patent application relating generally to the BSA is one involving a software method for approaching the sometimes conflicting or redundant compliance requirements of various federal, state and local regulations, such as the BSA, HIPPA, GLBA or Sarbanes-Oxley.14 The basic idea behind the software method disclosed in this application is that it is more efficient for a business to approach the issue of compliance in totality, rather than regulation by regulation. To achieve this, the software method “combines a unified ontology-based compliance model with reasoning elements to address compliance issues across multiple governance areas.” The unified compliance model (UCM) of this invention identifies and analyzes compliance issues that are common to the various regulatory
acts to which a company is subject, as well as the inter-
relationships between them. The UCM allows the com-
pany to view compliance as a whole and to ultimately 
select the optimum path for execution.

A sample claim of this pending application reads:

A method for using a software system to address multiple regulatory compliance require-
ments comprising a unified, ontology-based model representing both the regulatory legisla-
tion and the state of the organization required to comply, in combination with one or more 
reasoning elements that operate against the model.

As with the first example, were the inventor to succeed in acquiring a patent for this software method, it could 
preclude others from using the method in their own compliance programs without first purchasing a license.

Requirements for Gaining Patent Protection

As may be evident by the above examples, many of 
the issued patents and published patent applications 
relating to the ways in which a company complies with 
the reporting and record-keeping requirements of the 
BSA have business method aspects. Underlying this 
surge of patent activity, therefore, is the caselaw that 
allows business methods to be patented. In 1998, in State Street Bank & Trust Co. v. Signature Financial 
Group, Inc. (State Street), the Court of Appeals for the 
Federal Circuit re-interpreted the U.S. patent laws to 
add methods of doing business to the body of 
patentable subject matter. Prior to that decision, innov-
ators of computerized or Internet-based business sys-
tems regularly filed patent applications relating to the 
hardware and technical software used to implement the 
business method. Immediately after the Federal Circuit's 
State Street decision, innovators and their patent lawyers 
began filing claims directed to new business methods 
themselves, independent of the computer or Internet 
infrastructure, if any, supporting the business offering.

In addition to the requirement that an invention 
comprise patentable subject matter, to gain patent pro-
tection, the invention must also be both “novel” and “nonobvious.” To be novel, an invention must not be 
“anticipated” by any one form of “prior art.” In gen-
eral, prior art includes any (1) publication relating to, 
(2) public use or knowledge of, (3) patent relating to, or (4) offer of sale or sale of the underlying technology, which 
exists either before the individual conceives of his or 
her invention, or more than one year before he or she 
files a patent application for it. For the prior art to antic-
ipate an invention, it must, by itself, teach or suggest 
every element of that invention. In other words, it must 
fully enable a person of “ordinary skill in the art” to 
practice the invention, where the level of ordinary skill 
in the art is determined by the “(1) education level of 
the inventor; (2) type of problems encountered in the 
art; (3) prior art solutions to those problems; (4) rapidity 
with which innovations are made; (5) sophistication of 
technology; and (6) educational level of active workers 
in the field.” For example, if an article was published 
more than one year before an individual files a patent 
application for his invention, in which the author of the 
article provides sufficient detail to enable a hypothetical 
person of ordinary skill in the art, as determined by the 
above factors, to make and use the invention, that 
printed publication constitutes prior art that anticipates 
the invention and prevents the inventor from gaining 
patent protection under the novelty requirement.

Similarly, an invention fails the nonobviousness test 
where, though no one piece of prior art fully anticipates 
the invention, the differences between the invention 
sought to be patented and the prior art taken as a 
whole are such that the invention would have been 
obvious at the time the invention was made to a person 
having ordinary skill in the art to which the invention 
pertains. In other words, separate prior art references 
can be combined under the nonobviousness test, if 
in there is a motivation to do so, whereas under the nov-
elty test, a piece of prior art is looked at by itself to bar 
patenting of an invention.

Protective Measures

In view of the considerable activity currently going 
on with respect to patenting systems and methods for 
complying with the various requirements of the BSA dis-
cussed above, companies governed by the BSA should 
consider taking certain measures to protect themselves 
against potential patent infringement suits brought 
against them by the owners of these patents. In order 
to do this, we recommend, at a minimum:

1. Assessing where patent barriers are located in your 
   industry, and finding out who controls them.
2. Implementing inexpensive online watching searches 
   to provide warnings when particular competitors or 
   known “patent predators” publish new patents or 
   applications.
3. Training personnel in the basics of patent law, 
   including keeping the records needed to prove 
   public activities that can invalidate a patent, or to 
   prove that your company is the first inventor actu-
ally entitled to the patent.
4. Training personnel to watch for patent notices on 
   competitor materials and news of patents in trade 
   publications.
5. Assessing when to conduct freedom to operate 
   studies for proposed products, and when to obtain 
   a formal opinion as a shield against treble damages 
   and attorneys’ fees for willful infringement.

It is equally as important that a company under-
stand the dual role of owning patent rights—offensive 
and defensive. Patents can be used offensively to pro-
tect a company’s competitive advantage or to generate significant revenue through licensing of the patented invention. In addition, they can be used to provide evidence to help justify a claim for a research and development tax credit. **Defensively**, owning patent rights may help to deter a competitor from bringing a lawsuit, such as one for patent infringement, where it fears that the potential defendant might counterclaim for patent infringement. Also, cross-licensing of patents can provide a basis for settling commercial disputes.

Every serious competitor in the financial services industry that presently has no program for protection and enforcement of its intellectual property (IP), therefore, should consider the following steps:

1. Establish a program for incorporating IP assessment and protection into the life cycle of every project or product.
2. Find innovations being created and implemented by business people throughout the organization.
3. Actively protect significant concepts before they are publicly disclosed.
4. Develop a procedure to allow employees to submit invention disclosures and to assess them for value to the company and the likelihood of success in obtaining a patent.
5. Educate supervisors and employees on the importance of protecting inventions, and communicate the priority attached to patents by upper management.
6. Assess and map competitors’ patents to minimize risk of infringement and focus efforts to obtain patents on areas which are not already covered.
7. Consider IP protection costs (e.g., acquiring licenses and/or developing IP) in budgeting analysis of projects or products.

**Conclusion**

As individuals and companies continue to patent their solutions to the compliance requirements of the BSA, it becomes increasingly important that institutions governed by the BSA take steps to avoid liability for infringement based on their own compliance methods. Such steps should include maintaining at least a working knowledge of those issued patents and pending published applications that relate to the BSA, the patent laws in general, and the patent prosecution and litigation practices of patent savvy companies. As the present surge in patent protection continues, it is equally as important that institutions investigate the potential for acquiring their own patents for the innovative solutions to the compliance requirements that they create. By following these strategies, companies can be in an optimal position to avoid risk of infringement, while also creating their own exclusive rights.

**Notes:**

7. 31 USC §§ 5311-5330. The BSA was enacted to prevent criminals from using financial institutions as intermediaries for, or to hide the transfer or deposit of money derived from, criminal activity. It is a tool used by the government to fight drug trafficking, money laundering, etc.
8. HR 3162 RDS 107th Congress 1st Session Oct. 24, 2001
9. 12 CFR 21.11
10. 12 CFR 21.21
12. The following discussion is of the general thrust of exemplary patents and published patent applications only, and is not an attempt to fully analyze their coverage. Please also note that pending claims may be rejected or substantially changed prior to issuance of this article.
17. MPEP § 2141.03 citing Environmental Designs, Ltd. v. Union Oil Co., 713 F.2d 693, 696 (Fed. Cir. 1983).