

Wall Street Races to Secure FinTech Patents

By Ziqun Guo, J.D. Candidate 2018 | February 24, 2016

America's heavyweight financial institutions, including banks and payments networks, have started aggressively applying for [patents](#) at an unprecedented rate. In the past three years, they have snagged 1,192 patents, representing a 36 percent increase over the previous three years. Those patents include an incredible range of technology that runs the gamut from [blockchain](#) ledgers to mobile wallets and beyond, and this shift can be attributed to a revolution in the market for financial services. Digital financial service companies, now known as Financial Technology or "FinTech" startups, threaten to push banks out of the market if they can't keep pace in the realm of innovation.

It is undeniable that the American public's [banking habits](#) are changing. In 2010, 40 percent of Americans with bank accounts went to a physical branch every week and only 9 percent would make a mobile transaction every week. However, those numbers have shifted in 2014 to 28 percent and 27 percent respectively. This shift could spell trouble for big banks finally regaining ground after the financial crisis, but some cast the change in a more positive light. Stephen Bird, Citigroup's new chief executive of global consumer banking has said, "It's a big opportunity for us if we can move fast enough. It's both an opportunity and a threat."

Some of the most popular patents banks are currently pursuing are [blockchain-related](#) patents. Blockchain is the type of technology that underlies the growing Bitcoin empire. It is especially valuable because it protects the entire global system of digital transactions through its advanced [cryptographic](#) system. The complex encryption program represents the most advanced iteration of private key encryption, which promises to be practically impossible to tamper with. Bank of America has already filed 15 such patents, and are preparing to file another 20.

Before the rise of FinTech startups, [banks](#) protected their internal processes through trade secret laws by simply keeping the processes private. However, this business custom became a problem once the patents for certain processes, such as those for transaction data encryption, were [awarded](#) to patent trolls. These patent trolls were then able to turn around and sue the banks for infringement. This exacted a costly lesson, but after spending many millions of dollars to defeat claims, banks are trying to change course. Following the ancient adage 'an ounce of prevention is worth a pound of cure', financial institutions have begun teaming up with tech companies and filing patents themselves.

Protecting key tech innovations has become just as vital to the lifeblood of the banking industry as to any Silicon Valley startup. As patent lawyer at Banner & Witcoff commented, "[banks are] touching pretty much anything that Silicon Valley seems to be touching." As the future of banking shifts out of brick and mortar establishments and towards digitalization, this technology seems absolutely vital to compete as a provider of global financial services. Whether banks can keep pace with their techie challengers is a trend to watch.