## Software start-up Protegent offers a new way for brokerages to quickly spot bungling — and fraud

By DUFF MCDONALD

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The brokerage industry's image just keeps getting worse: when the final count is in, a record 7,500-plus arbitration cases will probably have been filed in 2002 by U.S. investors who feel their money has been mishandled. A new survey by the industry's trade association shows that more than half of investors think a lack of internal controls at securities firms is a "big problem." All of which is great news for a small, privately held company called Protegent, whose software promises to prevent both bungling and perfidy by brokers and to save brokerages both money and embarrassment.

The company, started in 2000 by former broker supervisor David Tilkin, sells Broker Audit, software that automatically tracks client-account activity and alerts in-house compliance officers to suspicious doings. As Tilkin, 48, politely puts it, the idea is to prevent "accidents"--everything from long-term neglect to mistyped trade orders to ill-advised portfolio strategies to outright fraud.

Protégent's software screens account activity for exceptions such as churning (excessive trading to generate commissions), over-concentration in particular investments and potential suitability violations like selling high-risk, high-commission stocks to safety-conscious retirees. Brokerages set trigger points according to each customer's attributes, such as age, net worth and level of investing knowledge. In the case of a false alarm (that retiree really did insist on selling all his bonds), no harm is done.

Based in Hingham, Mass., Protegent charges a setup fee and then an ongoing $15 to $20 a month per broker (it can also bill by account). About 25,000 brokers handling more than 12 million accounts are currently tracked, the company says. Nationwide, there are more than 5,000 broker-dealers employing some 675,000 brokers. "Firms are under increasing pressure to be more and more watchful," says Jaime Punishill, an analyst who covers financial-services technologies at Forrester Research. "That's hard with a mostly manual system. If firms can automate cost-effectively, then it's a way to solve this problem."

Tilkin has bootstrapped his company to profitability (though he will not say how much), taking no outside investors and sharing equity only with employees. Revenues for 2002 will be about $5 million, he says. Clients so far include KeyCorp, Wachovia Securities and Wells Fargo Private Client Services. Tilkin is closemouthed about how particular users have configured his software, the users no less so. Even today, when the customers (and investors) of financial-services firms want to know that there's strict supervision, the firms seem afraid to admit that it's needed.

Competition for Protegent will increasingly come from suppliers of order-management software, the kind that handles the actual execution of trades. Publicly traded SunGard Data Systems, for instance, with more than $4.2 billion in annual sales, is adding broker-compliance screening to its products. Tilkin says Broker Audit's toughest competition will be in-house software developed by brokerages. That's probably truest of the largest houses, which might find it less expensive to write their own code than to pay a per-broker fee month after month.

Over time, though, it could be the hassle and expense of adapting to ever changing regulations that drives customers to Protégent's door. Even before the federal Patriot Act took effect last April, for example, Broker Audit was ready to handle new anti-money-laundering tracking requirements (like watching out for unusual wire transfers in and out of brokerage accounts). Coming up: tracking of unnecessarily high mutual-fund commissions, based on selling inappropriate types of shares to certain investors — a measure that will be required by the National Association of Securities Dealers later this year. So many opportunities for mischief — and sales.