

Empowering the retail investor

Broadridge's Michael McPolin speaks exclusively to AST

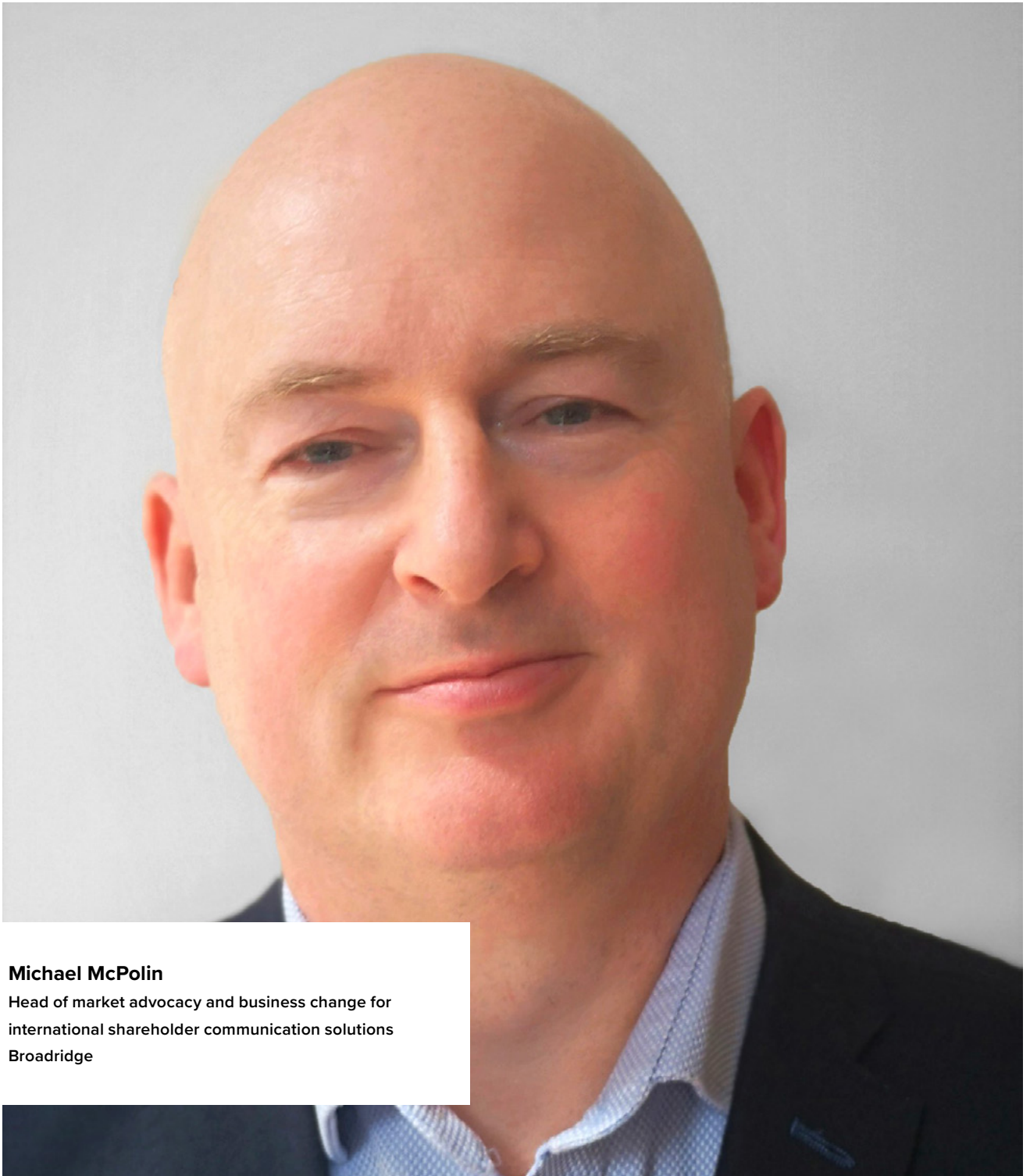
ESG

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Michael McPolin

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Empowering the retail investor

Asset Servicing Times asks Michael McPolin, head of market advocacy and business change for international shareholder communication solutions at Broadridge, about the growing demand for retail shareholder democracy in Europe

There appears to be a growing impetus to empower retail investors in Europe with a vote at company meetings. What is driving this trend?

There are several drivers that have facilitated the empowerment of the retail investor community in Europe, the most prevalent of these being the abundance of regulatory and market change such as that arising from the Shareholders Right Directive II (SRD II), the growth in ESG investments, and the Capital Markets Union (CMU), to name but a few.

Each of these changes has its own objectives and goals. One of the primary objectives of SRD II was to enhance shareholder participation in the corporate governance process.

To achieve this goal, it mandated that intermediaries provide proxy voting services to both institutional and retail investors, creating the opportunity for retail investors to have a greater say in the governance of the companies in which they hold shares, and making significant progress in delivering on the objective of democratisation of the markets overall.

ESG has become a driving force and catalyst for change, with retail investors taking particular interest in areas such as sustainability, climate change and board diversity and using their new voting capability to express their view and influence companies' performance and adherence to ESG standards.

The CMU focuses on enhancing retail investment and is working to reduce barriers to retail equity investment by increasing retail investors' access to market data and trading platforms, which will in turn increase the percentage of retail shareholders across the EU region — representing a major source of potential capital and liquidity. This expansion of retail share ownership will further increase the demand and participation in corporate governance and, specifically, proxy voting services.

Social media has also played a pivotal role in recent years, empowering the voice of the retail investor. At the start of 2021 we witnessed online forums demonstrating the appetite of retail investors to engage and influence markets via coordinated trading activities. These developments have influenced the way the issuers, regulators and the industry as a whole view the position of the retail investor.

As retail investors now have the ability to express a view and vote on company meetings, issuers may find that ignoring the retail voice can result in some unwelcome consequences.

Even though the size of the retail investor holding may be small in relation to institutional investors, they now have the capacity and social media platforms to express an opinion which can significantly impact an issuer both positively and negatively. A tweet by a social media influencer can play a disproportionate role in shaping sentiment and can ultimately impact a company share price.

To what extent is this causing banks, brokers and wealth managers to reappraise their service provision?

Regulation has been and will continue to be a primary driver of change, compelling firms to transform how they service the voting requirements of the retail investor community.

The European regulatory agenda will continue to evolve and grow with many of the existing regulations either under review or scheduled to be reviewed.

A good example is SRD II, which has been the most impactful regulatory change to corporate governance in many years.

The European Commission is due to undertake a post-implementation review of the directive later this year and will no doubt focus on addressing some of the implementation challenges that have impacted its adoption and effectiveness — such as the need to harmonise the definition of a “shareholder” across markets.

Once the review is complete it is inevitable that regulators will be compelled to address noncompliance within their jurisdictions and the demand for proxy voting services will expand.

Financial intermediaries must comply by offering proxy voting and disclosure services or face a combination of financial penalties and potential reputational damage.

There have been several recent examples of firms receiving negative publicity via social media for not offering voting capabilities to retail investors and this is now becoming a potential product differentiator.

The newer generation of retail investors demands digital access to financial services; they want to be able to see their portfolios and participate in corporate governance activities by voting digitally on their smartphones, tablets and mobile devices, so it is important that firms partner with a provider that can offer e-voting and digital channels for investor engagement.

The retail investor community will continue to expand, and firms must ensure that their service provision is suitably aligned.

What kind of impact can fintech have in terms of empowering the retail investor?

If, as predicted, retail investors are to become a larger part of the European market, financial institutions will need to provide digital, customised and scalable proxy voting solutions to their retail clients.

The good news is that this technology is already available from established fintech providers and is operationally functional.

As a result of the global pandemic and the “work from anywhere” approach that has been adopted in many industries, mobile fintech enablement and adoption has accelerated.

Retail investors should already be able to access a baseline of information on companies in their portfolio and be able to vote from anywhere.

A seamless user experience across electronic devices is essential for financial institutions offering retail investor solutions, including consistent and frictionless support for shareholder voting across the markets in Europe and beyond.

These capabilities necessitate a secure and reliable technology platform that provides easy access to data from multiple sources to the end investor.

The use of advanced end-to-end processing services and application programming interfaces to deliver this data quickly, effectively and on demand, enables issuers and intermediaries to contribute and benefit from an efficient and transparent ecosystem.

By offering voting capabilities — as mandated under SRD II — brokers, banks, wealth managers and other intermediaries will help shape the future of corporate governance in Europe, and represent an opportunity, rather than a barrier, to these retail investors. ■

To explore the theme of retail shareholder democracy further, read Broadridge’s latest whitepaper, [*The Rise of the Retail Investor*](#).

Facing new obligations under the Shareholder Rights Directive?

We've got you covered.

Our innovative solution for SRD II connects every market and intermediary—providing a single communication chain for all your proxy voting and disclosure requirements.

Deliver a seamless shareholder experience. Take advantage of the most advanced mobile apps, dashboards and technologies to achieve unrivalled economies of scale.

Transform shareholder communications and comply with confidence.

Communications
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