The future of proxy voting

The world of investor communications is changing faster than ever. Global Custodian speaks to Demi Derem, managing director, investor communication solutions, international, at Broadridge, about what is driving radical changes for investors, custodians and shareholders.

Global Custodian: How has proxy voting changed since the 2008 financial crisis?
Demi Derem: It's no secret that public, media and shareholder scrutiny over how publicly listed companies are run and how decisions are made has significantly increased since 2008.

Good corporate governance, transparency around areas like executive pay and environmental and social considerations have collectively helped put investor communications at the top of the agenda. But investors also want more of a say in how companies are run, believing greater influence on board decisions can improve performance and profitability – ultimately leading to greater returns.

GC: Why are good corporate governance and ESG credentials such an important part of proxy voting today?
DD: Institutional investors recognise the benefits of investing in companies that maintain strong corporate governance and the need to act as an effective steward for their end-investors. They are also prioritising more 'good' – environmental, social and governance (ESG), as well as diversity and ethical values.

We've also seen the rise of ESG funds in recent years, as a growing proportion of investors look for investment managers and stocks with clear ethical credentials. Good corporate governance underpins these values and helps ensure a firm or fund honours these commitments.

GC: To what extent has the sector fallen under the scope of regulatory reform and how are you adapting?
DD: The updated Shareholder Rights Directive (SRD) set for 2019 will introduce new requirements around director remuneration, exercising shareholder rights and providing transparency for institutional investors, asset managers and proxy advisors.

Translating SRD into national law by individual EU states by June 2019 will entail potentially costly changes and technology investment that will impact a range of intermediaries and service providers.

Although a positive regulatory initiative for investors, the main challenge will be harmonising market practices, when national regulators have been given a relatively wide scope to interpret and transpose the directive. There is a major risk that we will end up with 27 different versions of the SRD requirements and practices become less standardised.

GC: How is technology, specifically blockchain, changing the investor communications landscape?
DD: Blockchain makes complex business processes in capital markets firms more secure, transparent and efficient. It has obvious applications to proxy voting - providing a single record of shareholder voting activity verified on a blockchain network increases transparency, reduces complexity and risk and eliminates cumbersome reconciliation processes.

We have an ongoing commitment to leading the development and implementation of innovative solutions like blockchain. In March 2018 we completed a first practical use of blockchain for investor voting at the Banco Santander AGM, using our proxy voting blockchain solution.

GC: What could the sector and technology look like in five years' time?
DD: This is an exciting period for the sector, with public and investor interest, government and regulatory scrutiny and technology innovation all combining to create an environment where transformational change is likely.

Demi Derem, managing director, investor communication solutions, international, Broadridge

Institutional investors and custodians are demanding greater oversight and reporting functionality; they are also seeking ways to differentiate their services from those of their peers. In the future we expect to see a greater emphasis on voting confirmation, better integrated workflow production platforms, a more diverse use of specialist local market research firms and the widespread adoption of risk weighted ESG analytics in investment decision making.

On the technology front, blockchain, AI and robotics will evolve significantly to meet changing investor demands, increased regulatory obligations and the demands of more cost-efficient operating models from custodians and other financial institutions.

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