The Realities of Shareholding through Intermediaries

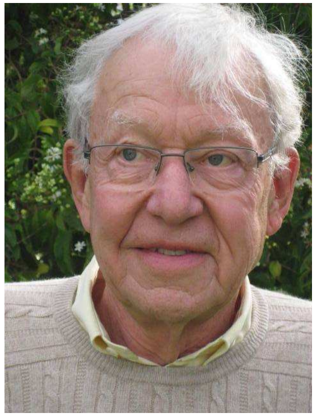
by Roy Colbran

The BIS research paper to which Eric refers on the preceding page runs to 160 pages. For those unwilling to tackle all of it I have picked out a few points that I found of particular interest. Thus we are told that its objectives include finding out why individuals hold shares in a particular way and whether they are aware of alternatives. The researchers wanted to know how investor voting worked in practice and whether investors understood the extent to which they could exercise the rights associated with the shares. They also looked at levels of fees and perceptions of value added and what was received for the fees.

A variety of methods was used including surveying 400 members of the two shareholder associations UKSA and ShareSoc. Their results were set alongside those derived from a general population sample. Of 1001 people of the second group initially surveyed, 221 admitted to holding individual company shares either directly or through an ISA or SIPP and were then questioned in detail.

While one may have some doubts about the conclusions from the wider-public sample, the comparisons between them and Shareholder Association members are still interesting as are brokers' views on the services provided and nominee rights in general. For example 76% of Association members were aged 55 or more against 48% of the public group while 56% of the former had household incomes in excess of £48,000 against 24% of the wider public group. 45% of Association members still had some paper certificates and for 10% that was their only method. And 74% of Association members check prices at least once a fortnight against a mere 18% of the wider public. As you would expect Association members were well aware of their rights, and the lack of them, for voting etc compared with the public group many of whom seemed to be generally confused by the whole issue. Of those who believed they had rights one third of the public group said they voted whenever possible and nearly as many again said they would vote on things that seemed important.

The quality of proof-reading and small numbers of follow-up interviews provide evidence of the pressure of time and limited resources under which the research was carried out. There are a couple of figures that are worrying. The numbers in the population sample are grossed up to suggest that about 12 million individuals in the UK hold shares. This answer makes me think they forgot that not all of our 64 million population are adults. Also I find this number difficult to reconcile with the ONS reporting that just 12% of households (not individuals) hold UK shares. And yet they say that the three big registrars support the figure of 12 million. Whatever the truth there's lots



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of scope for us all to get out and recruit more members. Another table in the report states that 14% of the wider public group have shares in a Personal Crest account. The same grossing up method would produce about 1½ million people with Personal Crest accounts against a true figure which they quote of just 20,000 in the whole of the UK.

The brokers surveyed were remarkably sanguine about pooled nominee accounts. They consider that not only are they cost-effective and efficient but they also provide confidentiality and protect investors from unwanted information, junk mail and interference – although the latter issues were not raised by investors themselves. The brokers believed that the question of security was a moot point because of the Financial Services Compensation Scheme. One is quoted as saying: "*unless you've got an awful lot of money you are quite well protected anyway*" evidently unaware of the £50,000 limit per manager. Some shareholders, being better informed, had split their holdings among several brokers for security reasons.

The paper tells us it was not within its remit to discuss the benefits and disadvantages of nominee accounts saying these have been discussed at length elsewhere. Unfortunately the link then given is to a London Stock Exchange site which simply tells us how wonderful nominee accounts are. It even says *"Nominee accounts are ring-fenced from brokers' other activities so they are financially secure."* But then we know that the LSE has a lot to learn (e.g. from the Aussies) about constructing a website which is friendly to small shareholders.

The report contains two long sections on Institutional Investors covering both the Investment Chain and Voting with much worth reading. My overriding impression was that the institutions (especially the smaller ones) have almost as much reason as private shareholders to wish for a new and better system. To mention just one thing, the current chain of ownership means that there is never any certainty that votes have been cast as intended.

This paper deserves full reading for anyone interested in a transparent and secure system of shareholder ownership. It adds much useful material to the case for a major change in the system.

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