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Financial planning in Hungary

In late 2006, after several years of preparations, Hungarian financial professionals and leading financial institutions started the Hungarian CFP program (CFPTM—Certified Financial Planner™).

The program is aimed at adapting the international standard of financial consultancy and a new (quality of) industry to Hungary. This will create a community of quality-focused and controlled financial advisors, which operates in accordance with the training, further education, examination, professional practice-related and ethical requirements of FPSB, the Financial Planning Standards Board. The phenomenon that independent financial planning experts, especially those who work purely for fees, are gaining ground, is a striking international trend. The establishment of this new profession in Hungary as one of the first countries to do so in the world would greatly contribute to the acknowledgement of our financial culture both domestically and internationally.

The Hungarian association, which is taking on its final form these days, gets familiar with, learns and adapts the education and qualification system of financial planning experts in the process of accession to the international organization, thus receiving support from the member states. A planning expert first analyses the risks and cashflow factors that may impact a client's course of life, based on the financial-insurance

needs arising from the situations and events that occur during a lifetime. Then he optimizes the related financial services and finally, the process is closed by the conclusion of contracts selected on the basis of evaluating the real products of specific financial service providers. This process is of course followed by appropriate monitoring and the maintenance of the financial plan.

The Hungarian Association of Qualified Financial Planners was founded by leading local and international financial planning professionals. The Hungarian Association of Qualified Financial Planners was established with the help of the leading Hungarian financial service providers and with efficient support by the Denver-based FPSB, with the participation of Hungarian and international financial planning professionals. The HAQFP builds a multi-level certification system in order to develop financial planning. The “entry level” of this system, which affects consumer advisors, contains the basics of financial planning and aims at life event-focused professional product advising (RFPH – Registered Financial Planner of Hungary). Those professionals who have the detailed knowledge and several years of professional experience required for long-term financial planning will become QFPH's, i.e. Qualified Financial Planners of Hungary. The best QFPH's, who meet the international

requirements, will receive the internationally acknowledged title called *Certified Financial Planner™*.

HAQFP started its operation *in the form of HAQFP Nonprofit Ltd*, the rules of which are defined by *FPSB's requirements of professional and democratic operation*. The first generation of Registered and Qualified Financial Planners is trained on the basis of international curricula already. This, however, has been implemented from the very beginning in the framework of the Hungarian training system, with the participation of small groups of selected financial advisors and in the form of open courses and corporate academies, in training acknowledged (accredited) by the state. In 2008, after the approval and implementation of HAQFP regulations (practice standards, code of ethics, examination, certification, accreditation regulations and disciplinary rules), project work of several years will be concluded. The situation is that already registered/qualified planners and sponsoring corporations will transform HAQFP *into an open foundation*, the condition to entering which is for the planners as private individuals to be qualified, or to be a sponsoring corporation. Members can be elected to the board, as well as to the regulatory, training or scientific committees, or one of the several workgroups of these committees.

In line with the requirements of the international organizations and the practice of the other member states, the mission of HAQFP is to introduce a new quality in financial advising. Besides the best practical and theoretical professionals, the organization has involved the experts representing the financial sector, the financial supervisory board, customer protection, as well as the CFPTM experts of the foreign partner organizations. (Some of them are already participants of the program.) All this is necessary for the clients of the “qualified planners” to receive professional and ethical services, along with the development of a long-term

relationship of trust, which is high priority for both FPSB and HAQFP.

On the level of the national economy, customer-focused professional and legitimate financial advising, exceeding ethical compliance in many respects, will make competition in the financial market harder and may create more favorable conditions for the clients. Compliance with the international standards, the agreement concluded with the professional community, as well as FPSB bring an especially valuable *knowledge transfer* of financial planning from the FPSB to Hungarian professionals. The CFPTM qualification will shortly gain *international acceptance* and transferability. If a planning expert qualified elsewhere would like to work in a new country, the certificate-holder will only have to complete a course on the national legal and market specifics, and take the relevant exam.

The Hungarian CFP program has followed the PMI/ANSI standard of project management from the very beginning, its working language is English, and thus, its model, through the participation of corporate sponsors, is exemplary and adaptable for other countries of the Central-Eastern European region as well. The customer satisfaction and advisors' fee income indicators of CFPTM professionals are highly favorable and this affects more than 100 thousand professionals, the number of whom is speedily increasing all over the world, perhaps due to these favorable indicators. *This process will continue into the future, as in fact the appearance of this new profession can be regarded as a kind of professional response given to the global need for quality financial advisory services.*

RESPONSIBILITIES OF THE STANDARDS BOARD

The international standard for financial planning is the training-qualification-quality assurance system of Certified Financial Planner™

experts (CFP's™), of which already two dozens of countries are member states from among the world's leading economic or financial countries.¹ The legal possessor and supervisor of the standard is the international FPSB, i.e. Financial Planning Standards Board, which is governed by a board selected from the managers of the professional bodies of the member states. *The aim of the organization* is to promote and develop the standards of financial planning to serve the consumers better.² They start out from the idea that “financial planning is the process in which the appropriate handling of personal finances ensures the realization of the client's goals in life.”³ (See Chart 1)

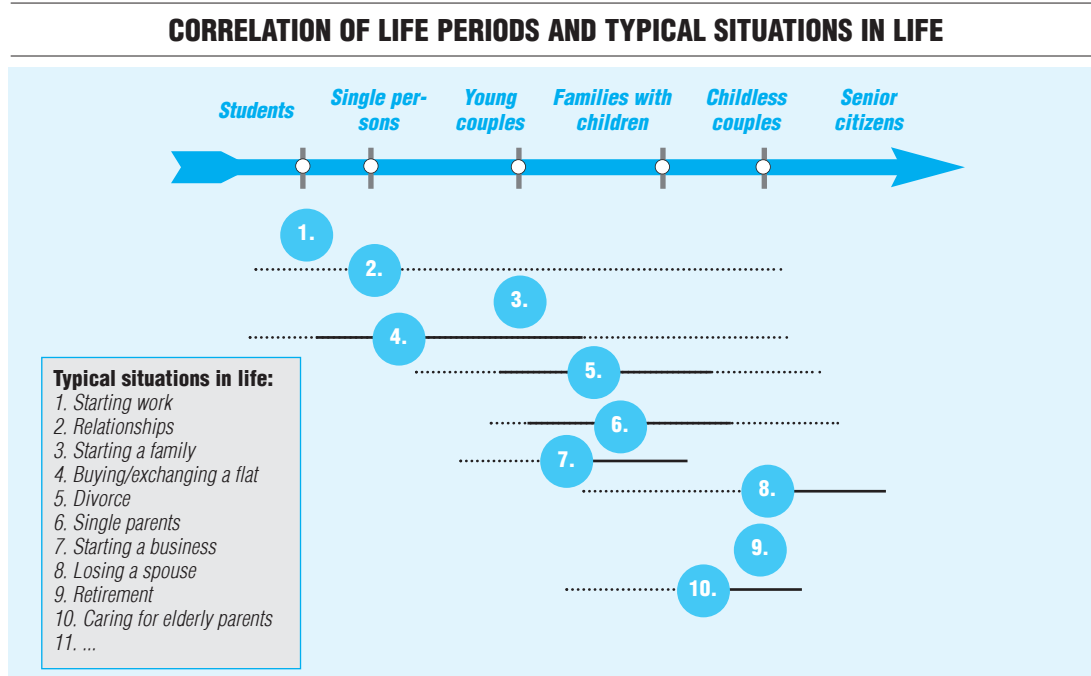
From a quality assurance perspective, the main points of the standard are determined by the 4E methodology, which abbreviation refers to the initials of the English names for the four basic requirements from the operation of the planning experts. Meeting these requirements allows that a financial advisor also uses the CFP™ qualification in the course of his work and in his client

relationships. The four fundamental requirements, on the level of principles, are as follows.

① *Education*: in the course of education organized in line with the standards required by FPSB, the candidates obtain the theoretical and practical knowledge necessary for financial planning. *Major subjects to be mastered*: planning techniques, investments, insurance, pension, taxation, inheritance, employer's contributions and the planning of training. In international practice, typically the (business) planning of micro- and small enterprises is also discussed, as this cannot be separated from the personal finances of entrepreneurs and company managers.

② *Examination*: in the course of the examinations supervised by FPSB, the colleagues testify that they are able to apply the knowledge gained in the course of the training sessions, in real-life situations. The examinations consist of solving case studies, by which the professional competences of the candidates can be assessed and which are compiled by CFP™ experts.

Chart 1



Source: Luttenberger (Financial Planning, 2005, p. 116)

③ *Experience*: varies country by country but it takes at least 2-3 years of full-time planner's practice, which is certified by the mentor and/or other qualified experts. The national financial planner qualifications "registered" and "accredited", as well as the international qualification "certified" require, in this order, an increasing time of practical professional experience. This allows the mastering of those practical skills which are indispensable for providing quality services to the clients.

④ *Ethics*: qualified financial planners meet those requirements of the Code of Ethics which ensure a responsible behavior towards the clients and other market players. In the disciplinary procedure conducted on the basis of the reports made by the clients or other qualified planners, the Disciplinary Committee may apply several types of sanctions against those planners who violate the ethical rules, depending on the outcome of the investigation, from warning to the temporary or final withdrawal of the planner's qualification.

From a *planning technical aspect*, the process of financial planning means the use of planning tools and procedures in the right order and in the appropriate manner. By mapping the relevant data, examining the dependencies of the individual planning areas, as well as the right consideration of the dimension of time, one can prepare a consistent financial plan, which is suitable for subsequent maintenance and the required modifications. Let us review the *FPSB-compliant steps* of the process, by mentioning the main numeric financial planning tools and procedures.

1. **STEP**: collecting the client's relevant financial data

For this, we use the following *data sources*, basically examining the prior (financial) year.

▶ **Tax returns**: show the aggregate income and expense figures, the related background documents provide information on the individual items of the financial transactions and port-

folios. They are increasingly frequently prepared in an electronic form.

▶ **Bank account statements**: detailed income-expense list. The assessment of expenses related to ATM cash turnover and non-banking payment systems is to be mentioned separately.

▶ **Financial and insurance contracts**, or transaction documents may carry information not represented in, or not familiar in detail from the sources listed in the previous points, on the one hand (terms, changes in obligatory payments, guarantees, exit options, etc.), on the other hand, they may provide more detailed information for the subsequent planning steps. We should complete a standardized, general (electronic) data sheet on the main data of the major contracts (investment, insurance, credit, loan, etc.), in order to see the information more clearly.

▶ In the case of a business enterprise, it is primarily the profit and loss statements of the company's prior year financial statements that we will need (but in the second place, we also need the balance sheet for the cash reserves and the liabilities).

2. **STEP**: definition of the client's purpose in life

This, seemingly simple task is an important challenge for the planning expert. It is typically the lifepaths for several decades ahead of several persons sharing a household that the planning expert has to find out about. Many people do not (consciously) define their goals in life, this is why the planning expert needs excellent "antennas" to hear the message. On the other hand, in a course of life, we have to think ahead in terms of alternatives: a good financial plan will offer a solution to any changes related to work, family, place of residence, etc. in the future as well. Technically speaking, we hereby identify the expected and potential life situations and place them on the timescale (see Diagram 1), from which the financial and risk factors can be derived and quantified for the cashflow plan.

3. STEP: analysis and evaluation of the client's financial situation

Based on the above, we compile the client's current *budget* (income, expenses), which we then group according to the types of the individual items (salary, annuity, investment yield, etc.; overhead costs, fixed, seasonal, variable types of expenses), as later we will also have to examine the evolution of the income and expense sides in time. After the budget, we have to compile the *funds flow*. In the disclosed budget, we can trace most of the elements of the funds flow, and its cash flow implications. Long-term investments represent a typical periodical difference between short-term budgets and long-term cashflow statements, which are compiled later. These are not necessarily to be found in the annual documents reviewed first, this is why we should also rely on the contracts and the verbal information provided by the clients. In the case of small enterprises, the financials of these are in an input-output relationship with the personal finances of the owners, which should also be taken into account by the financial planners.

Based on the generic product types that belong to the financial needs related to the individual life situations, we will conclude the key variables affecting the cashflow, as well as the estimated/possible values thereof, such as terms, amounts, fees, yields, etc., all of them with prudentially/realistically selected parameters (evolution of yields, credit interest rates, inflation rates, etc., the changes, scenarios thereof – exogenic variables).

4. STEP: development of proposed solutions

We have to take the client's current and future financial capacity into account. The individual expense items also compete with each other for the available cashflow, and they also have other dependencies with each other (tax correlations, investment strategy, etc.). Thus, it is a gradual *approach* by applying which we will have to harmonize the long-term cashflows of

the individual planning items for the following decades, as it is not sure that an optimal financial solution is achievable for each goal or situation in life (for example, having one's own real estate, private education of the children, as well as their endowment, or the total founding of hobbies on retirement may be competitive goals in life, depending on the available cash-flow).

5. STEP: application of the solution for the current financial situation

Based on the comprehensive description and interpretation of the client's financial situation, as well as the presentation of the possible solutions, the client *selects* the possible financial course (plan) that best suits his needs. It is on the basis of this choice that the financial planner will propose the conclusion of specific contracts on the basis of the assessment and comparison of various financial service providers and their products, of which the client will again choose one, and he will (or may) entrust the financial planner to conclude them, and later, to manage his contract portfolio.

6. STEP: planning of future financial needs

Besides the *long-term cashflow* prepared on the basis of the financial needs of the individual situations in life, the funds flow should also be prepared for the future dates (for every 5 years, or even annually). As the individual items of these affect the cashflow through the yields (income), and they may also contain items not specified in the budget (for example, inheritance), the funds flow and the cashflow should also be harmonized (iteration). Finally, we specify the affected data of the cashflow among the future budgets for the individual years or periods, which will serve as the primary documents of the client for his daily expenses in the future.

The above-described planning technique is the backbone of the financial plan, which will become a comprehensive financial plan by adding the description and interpretation of the

individual data, solutions, products and calculation methods, as well as the explanation of the results and the proposals. The quantitative part of planning can be handled in any spreadsheet program, and a high number of support materials are available in the technical literature written by the financial planners and on the internet as well. It is important that the presentation, the summary and the decision-support material are accessible for the client. It should be pointed out that a professional planner *does not make a decision* on behalf of the client, and *does not promote* specific products but undertakes a decision-supporting role and calls the client's attention to those products which are in line with the requirements. The process of planning also shows the financial planner's extraordinary personal responsibility, as it is the life of the client and his loved ones that will greatly depend on the work done by the planning expert.

The top international organization called the *Financial Planning Standards Board (FPSB)* is a *non-profit association* responsible for organizing, developing and operating the qualification, training and other programs of the financial planning organizations. It does so to serve the good and the protection of the global professional community by introducing, applying and promoting the professional standards of financial planning on a global basis. The national members of the FPSB are also nonprofit organizations from over 20 financially developed countries or regions of the world. A national organization can become an associated member first, then a full-fledged member in a two-step accession process. However, as regards the implementation of the international CFPTM qualification program, the FPSB only forges an alliance with nonprofit organizations or the local equivalents of the latter, which will thus become FPSB members as well. The FPSB members which meet the authorization and membership conditions of the FPSB will become entitled to perform the CFPTM qualification

program in the country, geographical or economic region in question.

FPSB is responsible for managing, developing and implementing the qualification, training and related programs provided to financial planning experts. The qualification program of FPSB called the *Certified Financial Planner™* certifies to the clients consulting the expert with a CFPTM qualification that the financial planning expert in question meets the knowledge, ethical and professional requirements set for the independent provision of comprehensive financial planning services. Furthermore, it also testifies that the expert in question has undertaken to follow the fundamental principles of integrity, objectivity, competence, fairness, confidentiality, professionalism and due diligence in serving his customers, as prescribed by the organization.

In order to obtain the CFPTM qualification, the financial planning experts should meet the *strict training, know-how, ethical and examination requirements* adapted by the FPSB members for the needs of the local market. Training can exclusively be conducted in the framework of the programs accredited by the FPSB or its member organization, at each member organization, the Board of FPSB conducts a comprehensive audit every two years, which extends to each detail of the 4E. Compliance is a condition to the validity of the qualifications issued by the national member organization. According to the ethical requirements, the possibility for filing consumer complaints should continuously be ensured. After duly substantiated investigations, an independent committee will make decisions on each complaint, whose documentation is also an audit responsibility. Becoming a member organization is a serious challenge in itself, it has happened that it was only the second application of an economically leading country that received the required votes from the Community Assembly. Due to the strict enforcement of the qualification norms

required for obtaining the qualification and the continuous use thereof, as well as the organization's strong commitment to public interests, the CFPTTM trademark is considered to be the guarantee for excellent quality professional financial planning all over the world, as has been testified by the latest global image survey conducted by the marketing workgroup (which was done by taking samples from each member state).

THE ROLE OF FPSB IN THE EU

European development is characterized by *three parallel processes*.

① The membership of the economically strong, leading member states (Germany, France, Great Britain) goes back for several decades. Nevertheless, they have not (yet) reached any breakthrough either from the aspect of penetration into the population, or multilevel qualification. By way of comparison: Japan, which has a population comparable to the quoted countries, has 130 thousand qualified planning experts, including 13 thousand CFPTTM experts. On the other hand, not even the total number of the CFPTTM experts of the EU member states exceeds 5 thousand, or the “entering advisor's” qualification has not even been established for consumer finances (2007).

② In spite of the slow and cumbersome start, a kind of boom seems to be taking place at the moment. Besides the alliances of the old member states, which seem to be getting stronger, some new entries, thus, competitors have also appeared. This means Holland and Ireland in 2007, as well as Hungary as the only state in the Central-Eastern European region, with its unique and tailor-made program. These processes, in total, suggest a new course of development in Europe, which used to come last in the competition of the continents (in this respect as well).

③ In Europe, financial advisory services as an independent consumer service can be represented by a separate organizational unit called *EFPA, the European Financial Planning Association*⁴. However, for its success to fully develop in the European Union or on an even wider international scale, it is also necessary that in the future, the EU legislation should promote and/or the activities of voluntary workers should extend the authority of this new organization.

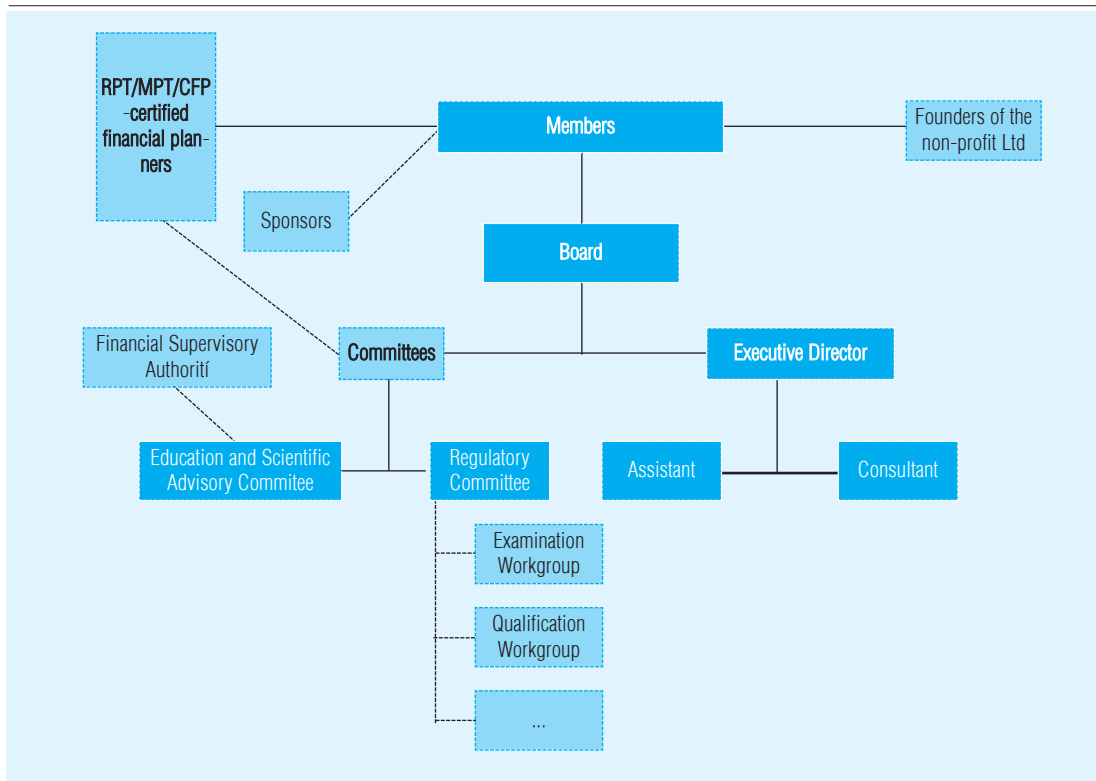
THE HUNGARIAN ASSOCIATION OF QUALIFIED FINANCIAL PLANNERS

The Hungarian CFP program and the development of the association have been implemented in four phases.

① The first phase was the building of the foundations. From 2004, as part of the OKJ (National Training Register) training, in order to supplement the subject called “Finances”, the subject “Financial Planning” was also introduced, which discussed the basics of the international standard in a few hours. This continues in the already competence-based OKJ module to be introduced in 2008. In 2005, the textbook entitled *Financial Planning*, in which the financial planning sector was reviewed, was also published. This sold out in two thousand copies within a bit more than one year. This means that in the course of the past few years, through the training sessions and the textbook, a few thousand advisors got familiar with the concept and fundamental issues of financial planning.

② The second phase is the building of the FPSB relationship. After taking up the relationship in 2006, FPSB conducted two country visits, and prepared two separate country reports. Then, after the participation of the Hungarian representative in the FPSB Council meeting, a cooperation agreement was also

HAQFP OPEN FOUNDATION



concluded between the Hungarian association and the FPSB, in the framework of which the accession preparations could commence.

3 The third phase meant the establishment of the project company called MPTSZ Nonprofit Kft (HAQFP Nonprofit Ltd) in 2007 with the aim and intention of establishing all the operational conditions (regulations, training of the first generation of RPT and MPT experts, etc.) that were necessary for entering the 4. phase that followed associated membership. This was done by receiving support from the participants of the Hungarian program and the FPSB.

4 Fourth phase: in this, MPTSZ (HAQFP) has to become an open foundation in order to become a full-fledged member and to comply with the requirements of regular international audits, and it has to certify that its operation is in line with all the major requirements of 4E.

The national framework compliant with the international requirements is illustrated in Chart 2.

The members of the *foundation* can only be qualified financial planning experts, or financial service providers as corporate members, and finally, the private individuals who founded the project company. The management of the foundation is elected by the members' meeting operating under the basic principle of One Member One Vote. The board approves the regulations in which the operation of the organization is defined in detail and which are controlled by the FPSB (examination rules, qualification rules, code of ethics, etc., as listed before). The members of the board are elected for two years and they can be re-elected but at least one year should elapse between the two different memberships. The regulations and the amendments thereof are prepared by the

workgroups, and controlled and submitted for approval to the board by the Regulatory Committee. The Training and Scientific Advisory Committee is the body of authentic experts of the financial sector, with a wide horizon and ample international experience, who also have training know-how, and who support the activity of the foundation by providing advice on important issues and giving their opinions on important decisions. The executive director is responsible for the functioning of the operative organization in accordance with the resolutions made by the board. The sponsors are financial service providers which accept and support the professional objectives of MPTSZ (HAQFP) and the FPSB, as well as the further training and qualification of their colleagues, they provide regular financial support to the foundation, in return for which they can indicate this in their corporate communication, and MPTSZ (HAQFP) can mention them in its documents.

The founders of the project company called MPTSZ (HAQFP) are financial planning experts with several decades of international practice both in Hungary and internationally. This list includes, for example, *Imre Kiss*, founding executive director of Moneymoon, an investment expert who graduated from the Berlin Humboldt University, and who has a decade of European investment experience. *Zsolt János*, the Hungarian and Central-Eastern European executive director of the leading independent European advisory group AWD, with a financial planning experience of one and a half decades, should also be mentioned here. *Pál Kutvölgyi*, the founding co-owner of the market-leader independent Hungarian financial advisory group BROKERNET has professional experience of 18 years, while *Zoltán Luttenberger*, who is a technological leader in the training of financial advisors, is the founding executive director of the BABIK-SZI Bancassurance and Risk Management Training Institute.

The members of the committees and workgroups are the senior managers and financial advisors of the founding and supporting organizations. Thus, besides the above-listed persons, the experts of Aviva, Generali and ING are further participants, supporters and guests. In the efforts of MPTSZ (HAQFP), as well as the training of the financial planning experts, the experts of BAMOSZ, ELLA Bank, OTP, the National Association for Consumer Protection, the State Financial Supervisory Authority (PSZÁF), as well as independent Hungarian and foreign financial experts, and all kinds of voluntary experts and organizations may and do take part.

THE HUNGARIAN TRAINING SYSTEM

RPT and MPT training sessions can only be provided by such a training institution in the future which complies with the requirements specified in the accreditation regulation of MPTSZ (HAQFP). The core of the requirements on the level of principles related to the training programs and systems is provided by the competence-based and practice-oriented training, which complies with the positions profile regularly updated by MPTSZ (HAQFP) in such a way that it should also meet the general Hungarian requirements of training (for instance, the accreditation of institutes and programs).

In the previous years, the students at the Budapest Corvinus University and the Miskolc University had the opportunity to get acquainted with the basics of personal financial planning, as part of their graduate and postgraduate courses, in Hungarian and English language seminars. Similarly to the international examples, financial planning may become an integral part of Hungarian and English language graduate and postgraduate training in our country in the future.⁵ After a longer preparatory period,

BABIKSZI started RPT-level courses first, and then it will also launch MPT-level courses, as the first to do so from among the Hungarian founders. The 7 modules of MPT-training covers all the planning areas, calculating with 50 group lessons and tutorials (“contact classes”), and 50 hours of individual preparation by each module. In the building of the training system, a high number of Hungarian and foreign financial experts take part, some of them have already been mentioned above. Technical training and adult training are supported by the most up-to-date know-how tested in the training of several thousand financial advisors in Hungary, which has been signified by the eTrainer™ trademark registered in Geneva and used at the corporate academies, for several years.

A successful final exam at MPTSZ (HAQFP), however, *is not equivalent to gaining the qualification*. In order to achieve the latter, more and other requirements should also be met, which are as follows: certification of relevant experience, declaration of ethics, further training, further education and grandfather-

ing/reference. It is also an important feature that even this qualification will become obsolete if the qualified financial planner fails to meet the requirements of further education, or violates the voluntarily undertaken operational and ethical norms.

SUMMARY

The committed and voluntary efforts taken by the founders and the supporters did not only allow a fast and internationally recognized development for MPTSZ (HAQFP) but has shown that Hungary is (may become) competitive at least in the financial service providers' sector, in comparison to the countries with the most developed financial systems. However, the key to this is the continuous further education of the human resources, in order to equip them with the most modern technical knowledge – the main beneficiaries of which anticipated and desirable development will be the Hungarian buyers of financial services.

NOTES

¹ Some member states: Australia, Brazil, South-Africa, France, India, Japan, Canada, China, Great Britain, Germany, Switzerland, Singapore, the USA, etc., see the national associations in detail at: http://www.fpsb.org/CMS/index.php?option=com_content&task=view&id=84&Itemid=110

² www.mptsz.hu , www.fpbs.org

³ Personal financial planning is the process of achieving your goals in life through the proper management of your finances.

⁴ www.efpa-europe.org

⁵ For example, in the USA or Germany, MBA, MSc and PhD qualifications can be gained in financial planning.