A History of Financial Planning in the Czech Republic and Great Britain

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ABSTRAKT

Tato bakalářská práce zkoumá historický vývoj profese finančního plánování v České republice a Velké Británii. Dále se zaměřuje na historii čtyř sektorů finančních trhů, které jsou úzce spjaty s finančním plánováním a jsou velmi důležité pro vývoj profese jako takové. Nakonec tato práce představuje rozdíly a podobnosti ve vývoji finančního plánování v České republice a Velké Británii.

Klíčová slova: finanční plánování, historie, sektory finančních trhů, finanční služby

ABSTRACT

This bachelor thesis examines the historical development of the financial planning profession in the Czech Republic and Great Britain. It is focusing on the history of four sectors of financial markets, which are closely connected with financial planning and are very important for the development of the profession. Ultimately this thesis shows the similarities and differences in the development of financial planning in the Czech Republic and Great Britain.

Keywords: financial planning, history, sectors of financial markets, financial services

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I hereby declare that the print version of my bachelor’s thesis and the electronic version of my thesis deposited in the IS/STAG system are identical.

CONTENTS

INTRODUCTION

I identify myself as a financial planner, and although I have not yet reached any of the professional titles described further in the thesis, I certainly aspire to obtain one, to gain more experience in the field and to improve the service I can provide to my clients.

In 2019 financial planning profession celebrated 50 years since it was created in 1969 in the United States. Although many client-oriented services already existed, financial planning is certainly the most complex one, uniting certified experts from all around the world and creating satisfied clients with competent advisors by their side.

Owing to the fact that financial planning is a relatively young profession, its evolution is tremendously dynamic. In six months, the current situation could be completely different. This is the reason why it must be a subject of further studies.

The aim of this thesis is to examine financial planning and its six-step financial planning process. Furthermore, it is crucial to distinguish between financial planning and counseling. To lay the groundwork, the second part focuses on the history of the four sectors of financial markets, which are closely connected to financial planning and were very important for its development. Then the thesis focuses on the history of financial planning as a modern profession and its development in the Czech Republic and in Great Britain. Finally, the thesis compares the similarities and differences in the development in both countries.

1 THE CONCEPT OF FINANCIAL PLANNING

Every member of society has to, sooner or later, come into contact with a current medium of exchange, which is money. For money you can buy many things, the options are almost infinite, but lack of this medium can also be very troubling for some people. Financial problems are also the number one reason why people get divorced. To solve or prevent these kinds of issues, many people seek the help of a professional in the field of finance who would advise them. There are many professions connected to finance, but this particular thesis is dedicated to the most complex one, and that is financial planning.[1]

Financial planning is a type of financial service, which is considered to be the most advanced one. The definition of financial planning that was developed by the Registry of Financial Planning Practitioners® (1988) states, "Comprehensive Financial Planning is a client-oriented process focusing on all the psychological and financial factors which could have an impact on the client's financial goals and objectives." [2]

1.1 Six steps of the financial planning process

To emphasize the difference between financial counseling, insurance planning, and financial planning, and to point out that financial planning is indeed a client-oriented profession, the financial process was created and up until now is considered to be the cornerstone of this business.[3]

Financial planning is a process consisting of 6 crucial steps, none of which can be omitted because it plays an important role in the process.

1.1.1 Establishing goals and defining a client-planner relationship

The first step to financial planning is by establishing goals and defining the client-planner relationship. A financial planner explains how the client could benefit from their relationship, giving basic information about financial markets and his role as an intermediary between the client and financial institutions such as banks, insurance companies, investment

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[1] Sharon Feiereisen, "The 12 biggest money-related reasons people get divorced". *Business Insider*, 2019, accessed April 1st, 2020, https://www.businessinsider.com/divorce-money-issues-financial-relationship-couple-2019-7.
[2] Virginia Langrehr, "Financial Counseling and Planning: Similarities and Distinctions." *Journal of Financial Counseling and Planning*. 28, no. 1 (May 2014): 1.
[3] E. Denby Brandon and H. Oliver Welch. *The History of Financial Planning: The Transformation of Financial Services*. (Hoboken, N.J: John Wiley & Sons, 2009) 13.

trusts, etc. Then comes the setting of clients' financial goals and long-term dreams, including how he is satisfied with his housing and eventually if he plans on moving or buying another real estate or how does he picture his retirement. Previous experience with financial products and risk tolerance needs to be determined in order for a financial planner to define his role, responsibilities, and services to the client as well as the responsibilities of the client. This lays an important foundation for the financial planning process and provides clarity about the client's financial destination. Once an agreement is reached about goals and relationships, the process continues with another step.[4]

1.1.2 Gathering client data

To choose appropriate strategies and products to reach the goals, a financial planner must gather all the relevant data to form a sound financial plan. The age of the client is very important information that determines the time horizon of the chosen solution. Then other information about family background. Key information is if the client has any relatives that would be dependent on his salary or if he has any debts. Next is information on how much money they have already saved and household monthly income and expenditure, thus determining unused funds that could be used in the financial plan to reach the goals. For the plan to be as effective as possible, information about currently used financial products must be acquired, to assess whether the client uses the most suitable products corresponding with his goals and needs or not.[5]

1.1.3 Analyzing client data

The financial and other data gathered about the client is analyzed and evaluated by the financial planner to get an in-depth understanding of the client's situation with respect to his current and future needs, goals, and objectives, and determine the gap between the two and choose the path that must be followed. It is not usual that the client's goals would be easily achieved with the unused funds every month, so the real challenge here is to devise alternative solutions to obtain the client's goals.[6]

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[4] Kent Thune, "The 6 Steps Of Financial Planning". *The Balance*, 2020, accessed January 13th , 2020. https://www.thebalance.com/the-6-steps-of-financial-planning-2466498.
[5] Brandon and Welch. *The History of Financial Planning: The Transformation of Financial Services*, 63-66.
[6] Kent Thune, "The 6 Steps Of Financial Planning". *The Balance*, 2020, accessed January 13th , 2020. https://www.thebalance.com/the-6-steps-of-financial-planning-2466498.

1.1.4 Developing the plan

Based on the precedent analysis and evaluation of the customer data and needs, the financial planner develops alternatives and recommendations helping to meet goals and objectives and presents them to the client. Client feedback is taken into consideration. Concerns are addressed, and the plan is then revised to the client's satisfaction. The financial plan is developed by incorporating the most relevant recommendations and revisions. As said before, it is not usual that the client's goals would be easily achieved with the unused funds every month. Hence, the plan needs to evolve with customer's needs but, at the same time, remain within the boundaries of what is possible and how much risk the client is willing to undergo.[7]

1.1.5 Implementing the plan

Implementing the plan is very often the most challenging step of the financial planning process.[8] Financial plans, as sophisticated as they may be, are still just a piece of paper. Staying with such a plan requires a lot of focus and determination. That is why financial planners really need to think it through and take into account what is still within the client's budget and, even more importantly, within his comfort level. Rather than implementing it all at once, it is better to move up to desired savings rates slowly. At this stage role of a financial planner is very important as he can help in maintaining the discipline and beneficial habits. People, in general, have an easier time being disciplined while being supervised by someone else.

1.1.6 Monitoring the plan

The last step of the financial planning process is a regular revision of the plan. Revision most often happens on an annual basis, but the more often, the better.[9] Life is everchanging, and as the life of a client takes different turns, so must the plan change with it. There is plenty of things that can change in one's life. For example, marriage, the birth of children, moving from one place to another, carrier changes, economic recessions, etc. So, everything that somehow changes the financial plan must be noted.[10]

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[7] Kent Thune, "The 6 Steps Of Financial Planning". *The Balance*, 2020, accessed January 13th , 2020. https://www.thebalance.com/the-6-steps-of-financial-planning-2466498.
[8] Brandon and Welch, *The History of Financial Planning*, 63-66.
[9] Kent Thune, "The 6 Steps Of Financial Planning". *The Balance*, 2020, accessed January 13th , 2020. https://www.thebalance.com/the-6-steps-of-financial-planning-2466498.
[10] Brandon and Welch, *The History of Financial Planning*, 63-66.

1.2 The distinction between counseling and planning

According to Williams[11], term financial advising could be used for both planning and counseling, even though they are not the same. Their differences and similarities are what I will be discussing in this chapter.

Establishing academic training, professional standards, and criteria for certification in the area of financial counseling requires that financial counseling be differentiated from financial planning. Experts attending the 1983 Consortium on Financial Counseling and Planning attempted to define similarities and differences between financial counseling and financial planning. Those selecting a name for the Association for Financial Counseling and Planning Education (AFCPE) in 1984 wanted both counseling and planning in the title of the organization. Clearly, to members of the organization, enough difference existed that the use of both counseling and planning was important in defining the organization and its purpose.[12]

The main difference between a financial counselor and a financial planner is their target audience. Generally speaking, people who are in precarious financial situations or are even struggling to remain solvent should seek the help of a financial counselor. Financial counselors can help people get out of debt, build up an emergency fund, and catch up on bills that have gone unpaid by teaching them to make more rational decisions in relation to their financial problems.[13]

Financial planners, on the other hand, are usually more focused on advising related to wealth accumulation, to meet their client's future goals like buying a new house, saving for retirement or putting children through college.

In summary, both financial counselors and financial planners work with individuals seeking help with personal financial management. Both define the role of the counselor/planner broadly enough to cover almost every aspect of personal financial management. Both take a holistic approach to working with individuals to maximize their personal financial

[11] F. L. Williams, *A typology of financial advising* (Proceedings of the Financial Counseling and Planning Consortium, 1984), 82-89.
[12] Langrehr, *Financial Counseling and Planning*, 1.
[13] Josephson, Amelia. "The Difference Between A Financial Counselor And A Financial Planner". *Smartasset*, 2019, accessed January 11th, 2020. https://smartasset.com/retirement/the-difference-between-a-financial-counselor-and-a-financial-planner.

success. Thus, there are many similarities in the processes and objectives of financial counselors and planners.[14]

This is what is true for English-speaking countries, but in the Czech Republic, the reality is a bit different. The difference is not so much in the target audience, segmented by income or net worth level, but in the essence of the relationship with the client. A financial counselor provides service to his clients by comparing multiple options of financial products and deciding which one is optimal. The downside here is that counselors do not choose the products with a client's goals and dreams in mind. So it happens that people have financial products whose purpose is unclear to them, whereas the financial planner makes decisions and choices based on the client's needs and future goals. Hence, every chosen product plays its part in the complex financial plan.

[14] Langrehr, *Financial Counseling and Planning*, 1.

2 THE HISTORY OF FINANCIAL PLANNING

Financial planning as a profession combines multiple sectors of the financial market, so to fully understand its history, we need to understand and know the history of all the other sectors. Among these sectors, we include Banking services, Insurance services, Investment services, and Tax and Accounting services.[15]

2.1 Origins

It might come as a surprise, but mentions of loans or insurance date back long before Christ, not in the way that we know them today, but some similarities are obvious. In this chapter, we will review history, important events, and ideas that shaped these four sectors.

2.1.1 Insurance

It is impossible to date the origins of insurance accurately, but there are materials that prove that as early as 3000 BC, Chinese merchants used techniques resembling insurance.[16]These merchants were aware of the dangers that could cause the loss of all the goods they shipped downstream. The main dangers were pirates and treacherous rapids. Every now and then, a ship sunk, so the idea was to reduce the impact on a single merchant when this happened. To share the risk, they agreed to distribute their merchandise among several ships at once. When a ship was dashed to pieces on the rocks, it meant that each of them lost just a portion of their goods, and the rest could still safely continue to the markets.[17]

The Great Code of Hammurabi played a significant part in the evolution of insurance. Thanks to this code, the merchant whose goods were stolen by bandits or lost due to weather, was relieved of the debt to a moneylender who lent him money to buy the merchandise. Babylonian moneylender compensated for taking the risk by charging premium interest.[18]

Phoenician traders adapted this innovation and used it for their sea trade, but distributing cargo to several ships was not enough. They agreed that everyone would leave a part of their cargo ashore and created a stock that could be later used to compensate some merchants for the loss of an entire ship.[19]

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[15] Investopedia Staff. "Financial Services Sector". *Investopedia*, 2019, accessed March 18th, 2020. https://www.investopedia.com/ask/answers/030315/what-financial-services-sector.asp.

[16] Emmett J. Vaughan. *Fundamentals of risk and insurance*. (Singapore: John Wiley & Sons Pte, 2006) 74.

[17] J. François Outreville. *Theory and practice of insurance*. (Dordrecht: Kluwer Academic Publishers, 1998) 15-21.

[18] Vaughan, *Fundamentals of risk and insurance*, 74.

[19] Outreville, *Theory and practice of insurance*, 16.

Centuries later, Greek traders influenced by Phoenicians started to draw up bottomry contracts, in which the ship or the cargo was used as collateral. If the merchants' ship was lost at sea, he had an option to be freed from the loan by paying higher interest charges to the moneylender. Similarly to Babylonians, this way, the risk was transferred to the money-lender.[20]

Ancient Egyptians were the first ones to have something remotely resembling life insurance. Egyptian stonemasons organized burial societies, which provided necessary funds in case of death of a member. Around the third century, BC burial societies were quite common throughout Greece. They met the expenses of the burial and financed the needs of orphans and widows. Roman burial societies, which performed the same function, were called Collegia.

Even though these examples indicate some features of insurance, it is the European commercial revolution following the crusades, that formed the concept of insurance as we know it today.[21]

2.1.1.1 Modern insurance

Around the year 1000, the most common type of insurance was the bottomry agreement. This type of contract was most common in coastal city-states like Bari, Genoa, Venice, Florence, and Naples.[22] During the first half of the 12th century, a new type of insurance was born in northern Italy. Marine insurance, the oldest of the modern branches of insurance, was written by merchants or shipowners who wanted protection for their ship. After preparing a sheet with details about the ship, destination of the voyage, and any other important information, those who were willing to take part in the risk wrote their names under the description. This practice gave rise to the term underwriter. From Italy, it quickly spread to the rest of Europe and especially London. Soon after, merchants and shipowners seeking insurance started meeting with the underwriters in the coffeehouses of London. One of the coffeehouses belonging to Edward Lloyd became the main meeting place. This coffeehouse eventually became what we now know as Lloyds of London, one of the biggest insurance companies even today.[23]

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[20] Charles Farley Trenerry. *The Origin and Early History of Insurance: Including the Contract of Bottomry*. (Clark, NJ: Lawbook Exchange, 2009) 5-11.
[21] Vaughan, *Fundamentals of risk and insurance*, 74.
[22] Trenerry, *The Origin and Early History of Insurance*, 38-42.
[23] Vaughan, *Fundamentals of risk and insurance*, 75-76.

Life insurance, as a second modern branch of insurance, had much slower progress. In 1536 first contracts were issued by London underwriters, and it turned out to be a waste of money for them. More than a hundred years later, the first modern life insurance company was established in London. This company proved to be unsuccessful because it charged all insured the same amount regardless of their age or health. Then in 1762, the Equitable Society for the Assurance of Life and Survivorship came with an idea of varied premiums depending on the age of the insured. This company became an immediate success.[24]The catholic church did not agree with the philosophy of life insurance, as it basically was an immoral wager on human life. In France, life insurance was even prohibited until 1820.[25]

During industrialization, developing urban centers were constructed mostly of wood, so when fires occurred, high losses were generated. This proved to be true especially during The Great Fire of London in 1666, but this catastrophe created a new form of insurance, fire insurance. Seeing the opportunity, an unsuccessful English physician Nicholas Barbon established the insurance office and started insuring the newly built houses. Soon, other entrepreneurs followed his lead.[26]

The first successful insurance company in the New World was the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, founded by none other than Benjamin Franklin himself.[27]

In the half of the 19th century, a new type of insurance that was called casualty insurance appeared in England. The company established by the British Parliament sold insurance against accidents to railroad passengers. Followed by employers' liability insurance in 1886, public liability insurance in 1889, and in 1898 vehicle insurance, which became first compulsory in the United Kingdom in 1930 due to the Road Traffic Act.[28]

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[24] Vaughan, *Fundamentals of risk and insurance*, 75-76.
[25] Outreville, *Theory and practice of insurance*, 23.
[26] Outreville, *Theory and practice of insurance*, 24-26.
[27] Vaughan, *Fundamentals of risk and insurance*, 77-78.
[28] Vaughan, *Fundamentals of risk and insurance*, 77-78.

Since the end of the 19th century, state regulations of insurance became more and more common. Soon after, the whole insurance industry became monolized, meaning specializing in a single line of insurance.[29] So companies providing life insurance were not permitted to write fire or casualty insurance and vice versa. By specializing in a particular area of insurance, companies developed greater proficiency in each field.

In the middle of the 20th century, most governments began to change their laws regulating insurance providers. Companies providing fire insurance could start to combine it with casualty insurance. Companies providing property insurance started adding liability insurance in the same package. By combining all of those three main areas of insurance, the insurance, as we know it today, was formed.[30]

2.1.2 Banking

The development of banking is closely connected with the invention of coinage in most cultures. In Britain, widespread of the coinage preceded the development of banking by almost a thousand years, so it may come as a surprise that in several cultures, this process was reversed.[31] In ancient Sumer, banking developed when people used grain and copper or silver ingots as payment. Early financial transactions of Sumerians were codified in the *Great Code of Hammurabi* similarly to the origins of insurance. This code regulated the ownership of land, civil obligations, or the maximum amount of interest on the loan, which was 33,33% per annum for grain loans and 20% per annum for silver or copper loans.[32] Such loans had to be drawn up in the presence of an official witness. Temples are considered to be the first banking institutions. Priests gave out loans of grain and silver, and exceptionally loans to poor people where they did not charge any interest.

In Biblical times, in The Old Testament (1200 BC – 165 BC)[33]could be found several references relating to debts, loans, or purchase of a property. Based on the fact that this set of books was a foundation of several religions that share basic convictions and high moral values, it comes as no surprise that it emphasized solidarity. In Leviticus 25:8-17, it is stated

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[29] Will Kenton. 2020. “Monoline”. *Investopedia*, 2020, accessed March 28th, 2020. https://www.investopedia.com/terms/m/monoline.asp.
[30] Vaughan, *Fundamentals of risk and insurance*, 79-80.
[31] Glyn Davies. *A history of money*. (Cardiff: Cardiff University of Wales Press, 2016) 34-66.
[32] George Levy. *Computational Finance Using C And C*. (2nd ed.. Amsterdam, Netherlands: Elsevier, 2016) 275-277.
[33] John Drane. “The Bible”. *BBC*, 2011, accessed April 23rd, 2020. https://www.bbc.co.uk/religion/religions/christianity/texts/bible.shtml.

that every fifty years, during the year of the Jubilee, all property was to be restored to its original owners, and in Leviticus 25:35-43 we are told to help the poor but not charge any interest on loans.[34]

The Chinese were the first ones to use coins as a form of payment. The first use of coins dates back to 1200 BC, but Chinese coins were made out of basic metals. The further consequence of using basic metals in crafting coins was that they were easily imitated and counterfeited. The raw metal costs were very low, the manufacturing process simple and inscriptions easy to apply. Coins were used for smaller purchases, and the larger ones had to be done with weighed precious metals. Although the Chinese were the first to introduce coins, the possibilities that they offered were not fully exploited in comparison to the western world, where, once invented, their development went very quickly.[35]

In ancient Lydia and Ionia, which formed the western part of what we know now as Turkey, first coins were created, and from there, their use quickly spread throughout the whole Europe. Lydia was ruled by the mythical King Midas, who was supposedly gifted a special power by god Dionysus and could turn anything he touched to gold. According to legend, King Midas swelled with pride at first, but when he realized that he could not eat or drink anything, he begged Dionysus to lift this "curse." Dionysus heard his prayer and told him to go and wash in the river Pactolus. He did so, and the river had taken his powers from him, while the river sands turned into gold. Rich deposits of precious metals near the capital city of Lydia, according to legend, were the result of Midas' bathing in the river. The first official coinage was made from a natural alloy of gold and silver called electrum.[36] Soon after, Lydians improved their metallurgical skills and learned how to separate the gold from the silver and started minting separate golden and silver coins. The spread of coins helped the development of commerce and banking.[37] From the sixth century BC to the first century AD, many types of loans developed in Greece. Loans were mostly provided by wealthy merchants or temples. Among the most common types, we include loans for personal or productive use (similar to the bank loan for a small business), loans secured on real estate, loans to cities, or loans to industry and commerce.[38]

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[34] Levy, *Computational Finance Using C And C*, 277-278.
[35] Davies. *A history of money*, 55-61.
[36] Rondo E. Cameron and Larry Neal. *A concise economic history of the world: from paleolithic times to the present*. (New York: Oxford University Press, 2016) 35-37.
[37] Davies. *A history of money*, 61-65.
[38] Levy, *Computational Finance Using C And C*, 278-279.

In Roman culture, banking activities were closely connected to temples. For example, minting of coins happened in temples, and they also were the most secure place for keeping money reserves. However, as time went, deposits gradually ceased to be kept in temples and instead were held in depositories of private owners. The largest temple in Rome overlooking the Roman forum was the Juno Moneta temple, where the city's funds were held. It is from the goddess Moneta that we derive the word "money."[39]

During 352 BC elementary public bank was established in Rome to deal with the debt of impoverished people. Later on, other banking-houses were established. Charging interest on loans became more developed and started to be competitive. Money-lenders used to set up their stalls in the middle of the enclosed courtyard of banking houses on a long bench. This bench was called *bancu* from which the word "bank" is derived. When interest rates became unbearable for lower classes, and many people ended in huge debt, the Roman empire started regulating financial institutions, and the maximal interest rate was set. With the ascent of Christianity during the first century AD, banking became even more regulated because charging of interest was seen as immoral. With the fall of the Western Roman Empire in 476 AD, banking temporarily ended in Europe and returned in the time of the crusades.[40]

2.1.2.1 Modern banking

The Christian church saw charging interest on loans as immoral and something that god himself forbids, therefore it was banned for all Christians. The usury, as it is called, was banned in the 4th century AD, and since then, banking developed very slowly. People who lent money to others with interest could be prosecuted or even excommunicated.[41] During the time of the first crusade by the end of the 11th century, Italian city-states were engaging in commerce with many other nations around the Mediterranean. Genoa became a major trading center, and its fair attracted many traders with many different currencies. In order to deal with that, a forum for arbitrating the exchange rates was established. Every third day of a fair, a representative body composed of recognized merchant bankers would assemble and determine the exchange rates. Fairs in different cities adapted this process, but the exchange rates would differ. This created an opportunity for merchants to profit from the variation.

[39] Davies. *A history of money*, 88-93.
[40] Cameron and Neal. *A concise economic history of the world*, 37-46.
[41] Julia Kagan. "Usury". *Investopedia*, 2019, accessed April 23rd, 2020. https://www.investopedia.com/terms/u/usury.asp.

During the 12th century bills of exchange were developed to make payments over long distances without physically moving large quantities of precious metals. Bills of exchange also created a loophole for bankers to evade usury laws by hiding interest charges in exchange rate adjustments.[42]

The Jews coming to Italy could not hold any land but held another great advantage over the locals. Just because of their religion, the Christian church did not have any jurisdiction over them. They could not be prosecuted or excommunicated for usury, so they became bankers. At first, they bought rights from farmers for a future harvest of crops, which they sold with a profit. This way, the farmer was protected from a bad harvest or other disasters, and the Jewish banker profited on the present discount against the future price. This form of trade was time-consuming, and soon they started trading grain debt instead of grain. Trading soon progressed from making their own trades to settling trades for others by holding deposits for people brokering the actual grain. In the meantime, bankers usually used these deposits for their own trades as it is common nowadays.[43]

Orders of crusading knights, especially Hospitallers and Templars, also played an important role in the early banking development in Europe. Not only did they bring new knowledge of mathematics, navigation, and architecture, but they owned a considerable amount of finances, which they increased by accepting deposits from kings and merchants. While deposited money in the fortress of the knights was safer than anywhere else, they used it for their own gain by lending it to trustworthy borrowers while hiding the element of interest in bills of exchange or foreign exchange transactions as it was usual.[44]

By the end of the 13th century, other Christian merchants started finding other ways to get around the ban on usury. This reduced the importance of Jewish bankers for European aristocracy. New banks were established by the wealthiest Italian families like Medici, Acciaiuoli, and Peruzzi by the of the 14th century. Thinking that nobody cared about the ban of usury anymore, Italian bankers became bolder and started to dominate banking throughout

[42] Levy, *Computational Finance Using C And C*, 279-280.
[43] Davies. *A history of money*, 153-169.
[44] Davies. *A history of money*, 153-169.

Europe. Twenty years later, a wave of opposition arose. Kings of England and France expelled Italian bankers from their territory and prohibited them from making profits by lending money.[45]

In the 16th century, Jews fleeing from Iberia found their way to the Ottoman Empire and brought with them the techniques of European capitalism and banking. Since Muslims have banned usury as well as Christians, the banking services of Jews had a high demand.[46]

In 1609 the Bank of Amsterdam was established to resolve problems created by the circulation of multiple currencies. This bank became an object of admiration for the whole economic world due to its policy to keep a 100% cash reserve. So not even during massive withdrawals had this bank trouble of returning deposits. From the Netherlands, banking finally arrived in England, where until the first half of the 17th century, no bank was established. Private bankers of London called goldsmiths stored the gold of wealthy merchants in their vaults and charged a fee for their service. For each deposit made, the depositor got a receipt certifying the quantity and purity of metal they held. These receits were accepted as a form of payment among most merchants. This lead to the development of modern banking practices, namely fractional reserve banking and issuing banknotes.[47]

In 1694 the Bank of England was established, and it was the first bank that began a permanent issue of banknotes. Even though the Bank of England was a private institution, by order of the government, it was the only institution allowed to issue banknotes, and by the end of the 18th century, it was becoming increasingly regarded as a public authority, and it is recognized as a first central bank.[48] During the 18th century, many European countries established their own central banks with a fixed ratio between gold reserves held and the notes that the bank could issue.[49]

By the end of the 18th century, emerging building societies started competing with banks. At first, they were based in taverns or coffeehouses of Scotland but soon spread to England, Ireland, Australia, and several other countries of Commonwealth. At first, as a financial institution owned by its members, building society offered its services only to

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[45] Norton Reamer and Jesse Downing. *Investment: A History*. (New York: Columbia University Press, 2017) 33-44.

[46] Levy, *Computational Finance Using C And C*, 280-284.

[47] Davies. *A history of money*, 238-251.

[48] Forrest Capie, et al. *The future of central banking: the tercentenary symposium of the Bank of England*. (New York: Cambridge University Press, 2008) 1-16.

[49] Davies. *A history of money*, 238-262.

members. Every member paid a monthly subscription to the pool of funds, which was used to provide loans for housing to one of its members while other members profited from the interest of the loan. Even today, building societies compete with banks over clients by offering savings accounts or mortgages, but nowadays, they exist only in the United Kingdom and Australia.[50]

During the industrial revolution at the turn of the 19th century, philanthropist Henry Duncan established the first mutual savings bank to teach working-class the habit of thrift. Several attempts to establish savings banks were made in other parts of Europe by the end of the 18th century, but none of them influenced other localities. Although Duncan's savings bank started as an experiment, it quickly became imitated worldwide. Unlike commercial banks, savings banks are without capital stock and owned by its members who contribute to a common fund, similarly to building societies. This institution is a safe place for deposits of members to make limited and secure investments of their savings to mortgages, loans, and other securities. Members share any profits or losses that result from their investments.[51]

Until the 19th century, banks were mainly in large cities and catered only to wealthy customers. Lower classes from rural areas had to keep their savings at home. This changed in 1861 when Great Britain, as a first nation in the world, introduced the postal savings system to make deposits and savings accounts available even for poor and rural citizens. This idea quickly spread, and similar institutions were established in many countries in Europe and North America.[52] A similar trend can now be seen in the Czech Republic when in 1991, Poštovní spořitelna was established. This institution provides its services at every post office in the Czech Republic, making it easily accessible for the public.[53]

In the latter half of the 19th century, due to the lack of silver in circulation, British Empire, as the most powerful nation in the world, established Gold Standard as its monetary system in which value of goods, assets, services, etc., is based on a fixed quantity of gold. Most of the other major trading nations quickly imitated the currency system of the most

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[50] Davies. *A history of money*, 262-283.
[51] Charles P. Kindleberger. *A Financial History of Western Europe*. (New York: Oxford University Press, 1993) 79-89.
[52] Davies. *A history of money*, 337-340.
[53] Libor Žídek. *Transformace české ekonomiky: 1989-2004*. (Prague: C. H. Beck, 2006) 196-201.

significant nation in the world.[54] Countries that used the Gold Standard set a fixed price for buying and selling gold, which determined the value of the currency.[55]

Until the start of World War I, the situation was very favorable for Gold Standard and international trade, but with the finances of governments involved in the war depleted, the lack of confidence in the standard increased significantly. After the war, attempts to re-turn to the idyllic pre-war era of Golden Standard occurred, but the stock market crash of 1929 followed by raising interest rates made things only worse.[56] It became clear that the world needed something much more flexible upon which the global economy should be based. In 1971 Gold Standard was finally replaced by fiat money, which is a government-issued currency that is backed by the government and not by a physical commodity such as gold. Today most nations use fiat currencies, which hold value mostly because people have faith in it.[57]

In 1959 machine-readable characters on cheques and banknotes were developed, and since then, banking underwent its own technological revolution. A few years later, the first Automated Teller Machines were introduced, and in the 1970s, electronic payments were available. At the turn of the 21st century, banks offered far more complex services than 50 years earlier. They included mortgages, loans and credits, insurance, pension, mutual and hedge funds. By the beginning of the 21st century, traditional banking shifted to internet banking, and that is how we know banking today.[58]

2.1.3 Investments

Throughout history, investment used to be a privilege of the upper classes and wealthy people until the economic democratization in the 16th century. The first forms of investments were renting agricultural land, early forms of insurance, lending, and trade.[59]

In ancient Mesopotamia, Egypt, Greece, or Rome, it was typical for landowners to hire lower-status people or slaves to manage their estates, cultivate the land and grow crops.

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[54] Richard. S. Sayers. *Modern Banking*. (Oxford: Clarendon Press, 1972) 186-195.
[55] Nick Lioudis. "What Is The Gold Standard?". *Investopedia*, 2019, accessed April 24th, 2020. https://www.investopedia.com/ask/answers/09/gold-standard.asp.
[56] Marc Flandreau. *Money Doctors: The Experience of International Financial Advising 1850-2000*. (London: Routledge, 2005) 249-257.
[57] James Chen. "Fiat Money". *Investopedia*, 2020, accessed April 24th, 2020. https://www.investopedia.com/ask/answers/09/gold-standard.asp.
[58] Reamer and Downing. *Investment: A History*. 290-317.
[59] Reamer and Downing. *Investment: A History*. 13-62.

The same goes for early forms of insurance when members of higher social class were basically betting on the success of the insured person with expectations of great profits, and in cases of accidents, they did not lose everything due to the premiums charged. As described in more detail in previous chapters, lending turned out to be quite a profitable enterprise as well. However, its development was severely hindered by the taint of usury, which was economically counterproductive. Especially in Christian or Islamic societies, usury was considered immoral. In many religious Asian cultures, usury was objected as well but to a much lesser degree. On the contrary, in ancient China, government or monks made loans at a high interest very often as it was not constrained by religious codes. The government even occasionally forced citizens to borrow in order to raise revenue.[60]

Higher classes tended to avoid long-distance trading because it was the riskiest form of investment at that time. Profit from such trade could be very high, but the risk of loss was great. The merchant had to travel long-distances, during which unfortunate circumstances, such as bandit attacks or loss of all merchandise due to the stormy weather, made this enterprise seem unattractive and leaving it to the foreigners.[61]

During the 8th century, in early Islamic civilizations, a new form of contract called *mudaraba* was widely used. It was a contract between an agent who conducted the trade and the investor who provided the necessary funds. The agent obtained a percentage of the profits from a successful trade, but any losses were sustained only by the investor. In the 11th century, medieval Europe started shifting from agricultural to trading society due to the quicker development of trading, and the era of the Commercial Revolution had begun. European investment structure for overseas trade, similar to *mudaraba*, was the *commenda* with the same feature of an active and passive partner. The use of *commenda* became widespread, and Italian merchant banks used this investment structure to gain profits in a way that did not have to be hidden in bills of exchange due to the ban of usury.[62]

2.1.3.1 Modern Investment

In 1460 Jewish merchants established the Antwerp exchange for the trading of commodities. In 1531 Antwerp exchange served especially as a secondary market for bonds in circulation, although it served for other purposes like betting on safe returns of ships or spec-

[60] Reamer and Downing. *Investment: A History*. 13-39.
[61] Reamer and Downing. *Investment: A History*. 39-49.
[62] Reamer and Downing. *Investment: A History*. 39-62.

ulation. First futures contracts were used, which involved the agreement to buy or sell something at a predetermined price at a specified time in the future. The city of Antwerp became the financial capital of Europe.[63]

As Antwerp became less important, the Jews moved to Amsterdam. At the beginning of the 17th century, securities representing shares of a company became popular. In 1602 the Amsterdam Stock Exchange was established as the first public market to trade stocks. Another important step in the development of the modern financial market was the joint-stock company. The first joint-stock company was the Dutch East India Company, whose shares were widely traded on the stock exchange in Amsterdam. By 1622 the share price of this company was 300% higher than the initial price, and the average dividend paid to the shareholders was 18% per year. The first English joint-stock company was the Bank of England, and compared to Dutch East India Company, its shareholders had voting privileges on further development as it is common today.[64]

In the New World, the first pension fund was created and properly chartered in 1759 by the Presbyterian Church in Philadelphia and included both stocks and bonds. In the following centuries, many organizations and companies realized the value of pension funds, and many other emerged. This began massive democratization of investment, making it available to the broad public, and funding of retirement in the present time formed the largest aggregation of investment capital in the whole world.[65] After the American War of Independence, the federal government was in a huge debt. To pay it all back, first American public debt markets emerged. In 1793 forum for trading equities, securities, and government bonds was formed in the Tontine Coffee House in New York City. Now we know it as the New York Stock Exchange.[66]

Another modern investment option was a mutual fund created in 1774 by Dutch businessman Abraham van Ketwich. This fund offered investing in debt instruments of governments, banks, and plantations of high quality. More than a century later, this instrument was introduced in America.[67]

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[63] Levy, *Computational Finance Using C And C*, 280-284.
[64] Levy, *Computational Finance Using C And C*, 280-284.
[65] Johnson Hur. “History Of Investing”. *Bebusinessed*, 2017, accessed April 28th, 2020. https://bebusinessed.com/history/history-of-investing/.
[66] Reamer and Downing. *Investment: A History*. 87-89.
[67] Reamer and Downing. *Investment: A History*. 139-141.

During the Industrial Revolution, even common folk, for the first time in history, started to create savings from their jobs. This fact extremely sped up the development of investing and banking services. In the second half of the 19th century, merchant bankers of London and Paris started financing industrial expansions throughout the United States, and the idea of international investing expanded.[68]

Today we take for granted that you can check the Dow Jones index to see how the market is performing, but in the 19th century, this was not an easy thing to find out. By the end of the 19th century, the Dow Jones index was created to help investors and the general public in measuring market performance. What once started as an index measuring 12 top industrial companies now measures 30 most traded, blue-chip, companies from different industries.[69]

At the turn of the 20th century, the United States started to be the financial centre of the world. Although the US went through several recessions, nothing had such a huge impact so that the economy could not recover. This changed in 1929 with the stock market crash caused by overpriced shares in the times of the slowing economy. A wave of regulations hit financial markets in 1934 with the Securities Exchange Act. The Securities and Exchange Commission was founded to ensure higher transparency and less fraud or manipulation of secondary markets.[70]

After the Second World War, many new investment instruments emerged. In the 1949 hedge fund was invented, facing less regulation than other funds but only accessible to accredited or wealthy individuals. Another one was private equity, consisting of capital that is not listed on public exchange investing directly into private companies. With the internet boom by the end of the 20th century first electronic stock market Nasdaq was established.[71]

Today stock markets are available to citizens of almost every country, while various international brokers provide access to investments all around the globe. People can invest in stocks, bonds, commodities, foreign currencies, real estate, etc. This many various options

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[68] Davies. *A history of money*, 286-304.
[69] Johnson Hur. "History Of Investing". *Bebusinessed*, 2017, accessed April 28th, 2020. https://bebusinessed.com/history/history-of-investing/.
[70] Kenton, Will. "Securities Exchange Act Of 1934". *Investopedia*, 2019, accessed April 28th, 2020. https://www.investopedia.com/terms/s/seact1934.asp.
[71] Johnson Hur. "History Of Investing". *Bebusinessed*, 2017, accessed April 28th, 2020. https://bebusinessed.com/history/history-of-investing/.

make it very difficult to choose suitable investment opportunity, and this is one of the reasons why advice from experts is demanded so much.[72]

2.1.4 Tax and Accounting

Like insurance, banking, or investments, accounting can also be traced back to ancient Mesopotamia. The first found accounting records date back as early as 3500 BC. Accounting as a profession evolved from simple bookkeeping performed by scribes. This early development is closely linked with counting, writing, controlling goods, and trading in the temple economy of Mesopotamia. Duties of scribes were to ensure that transactions comply with the *Hammurabi Code* and afterwards to record such transactions on clay tablets.[73]

Similarly to Mesopotamia, Egyptian scribes kept detailed records of royal storehouses, and during the 2nd millennium BC, their role expanded to keep records of regular tax payments.[74]

A considerable impact on the evolution of accounting had Greek introduction of coined money around 600 BC and its quick adaptation by other cultures. Athenian public finances were controlled by ten selected state accountants, who oversaw transactions and ensured that people maintained real control of its use in this early democratic society.[75]

During the reign of the first Roman emperor Augustus, we can see an enormous development of accounting. Information on everything from tax income to public expenditure like grants of land to army veterans, religious offerings, gladiator games, etc., was available for the emperor. For tax determination, heads of families were obliged to keep records of receipts and payments. The duty of Roman bankers, aside from keeping records of payments and receipts, was to show an account balance to government official if asked.[76]

With the fall of the Roman Empire, the development of accounting stopped for hundreds of years, similarly to banking, although the Christian Church continued to improve existing techniques of receipt and payment bookkeeping. In 812 AD, Charles the Great, who

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[72] Reamer and Downing. *Investment: A History*. 317-334.

[73] John Edwards and Stephen P. Walker. *The Routledge Companion to Accounting History*. (London: Routledge, 2010) 30-37.

[74] Patrick Omagbon. 2015. "Conceptual Development of Accounting: A Historical Perspective". *International Journal of Management, Accounting and Economics*. 2. 1393-1402, 3-4.

[75] Patrick Omagbon. 2015. "Conceptual Development of Accounting: A Historical Perspective". *International Journal of Management, Accounting and Economics*. 2. 1393-1402, 3-4.

[76] Richard Brown. *A History of Accounting and Accountants*. (New York: Routledge, 2014) 29-33.

united the majority of western and central Europe, ordered that accounts of income and expenditure be kept throughout the empire. Every steward managing imperial estates was obliged to make an annual report of the empire's property, lands, farm produce, tax income, etc.[77]

At the beginning of the 13th century, first signs of double-entry bookkeeping occurred in Florence in bank ledger where depositor's account was debited on one page and credited on the other, while the first preserved record of a complete double-entry system can be found in books of accounts of Genoan stewards from 1340.[78]

2.1.4.1 Modern accounting

In 1494 Italian mathematician Luca Pacioli published a 27-page-long treatise on double-entry bookkeeping, which was crucial for the development of accounting as we know it today. Although Luca Pacioli was not the one to invent the method of double-entry bookkeeping, its wide circulation among merchants of various nations helped in spreading it. The importance of accountants for the success of businesses has become even more clear during the 16th century. In England, Lords started employing experts to oversee their estates, receive cash and make payments, and audit financial documents. With the rise of stock exchanges and joint-stock companies which attracted capital from investors, the role of accountants became even more important to distinguish between the actual income of the company and the capital invested.[79]

A century after the publication of Pacioli's work, many of his followers tried to advance on his work. Dutch authors were most successful, namely Jan Ympyn Christoffels, Nicholaus Petrie, and Simon Stevin. For the first time, they introduced the trial balance, compound entry and practice of balancing the profit and loss account at the end of each year and rather than using formal statement, as it was usual, to reflect the profit, using the account itself. Translations of their works and the establishment of colleges for accountants in Holland and Italy helped in popularizing this modern way of keeping an account.[80]

Cost accounting, which aims to capture the company's total cost of production, developed at the beginning of the 16th century in England, when many woolen manufacturers moved

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[77] Patrick Omagbon. 2015. "Conceptual Development of Accounting: A Historical Perspective". *International Journal of Management, Accounting and Economics*. 2. 1393-1402, 5-6.

[78] Edwards and Walker, *The Routledge Companion to Accounting History*, 71-120.

[79] Brown*, A History of Accounting and Accountants*, 93-181.

[80] Patrick Omagbon. 2015. "Conceptual Development of Accounting: A Historical Perspective". *International Journal of Management, Accounting and Economics*. 2. 1393-1402, 7-8.

from large cities to rural areas, angered by many guild restrictions. In order to effectively compete with guilds and other manufactures, more accurate records of costs were required to succeed. This system became once again very important during the industrial revolution in the 18th century. This evolution resulted in the division of accounting into two systems. The financial accounting created for external purposes and cost accounting, which was later replaced by management accounting for internal purposes. At the turn of the 20th century, management accounting evolved out of cost accounting. The aim of management accounting was not to evaluate the profitability of a company but rather to assess the efficiency of the processes.[81]

A decisive year for professional accounting is 1854, when accountants practicing in Scotland established The Institute of Accountants in Glasgow and petitioned Queen Victoria for a Royal Charter. In 1977 the International Federation of Accountants was formed in Munich to fulfil the need for international standardization of accounting and auditing practice. Over the course of the 19th century, the accounting profession required not only mathematical skills, critical thinking, and the knowledge of legal system but also a tax system of the particular country. This way, the modern accounting profession was born.[82]

2.2 Financial planning profession

With the intention to help ordinary Americans to gain control over their finances, two men organized a conference in a hotel meeting room in Chicago. Those men were Loren Dunton, motivational speaker and salesman, and James R. Johnston, former life insurance salesman. In the course of their first encounter in 1968, they swiftly realized that they had something very important in common. It was the desire to improve the way financial services were provided and to raise the level of professionalism in an industry that was driven mostly by salesmanship. They saw ongoing professional education as a way to achieve their goal. In June 1969, Dunton established Society for Financial Counseling Ethics (later called the Society for Financial Counseling), whose objectives were to recognize counselors who meet not only legal but also ethical standards and to establish the educational institute.[83]

For several months after the establishment of SFCE, Dunton and Johnston planned the upcoming conference in Chicago. They invited everyone they knew from financial services, but only 11 attendees showed up. Among the attendees were several salesmen of insurance and mutual funds, one financial consultant, and one publicist. The other attendees

[81] Edwards and Walker, *The Routledge Companion to Accounting History*, 137-274.
[82] Edwards and Walker, *The Routledge Companion to Accounting History*, 137-274.
[83] Brandon and Welch, *The History of Financial Planning*, 1-7.

were: Herbert Abelow, Walter Fischer, Jerrold Glass, John Hawkins, Lewis G. Kearns, Lyle Kennedy, Robert Leshner, Hank Mildner, Charles Weitzberg, Herman W. Yurman and Gerald Zipper. It was December 12th when on the second day of the conference, these 13 men from various areas of financial services with a shared vision in mind created a new profession.[84]

As a result of the Chicago conference, Lewis Kearns was tasked with establishing an institution to educate and subsequently certify financial planners. In 1970 the College for Financial Planning (originally the International College for Financial Counseling renamed after few months of existence) was established to serve this purpose. In 1971 more than 150 students signed up to college, but at that time, no curriculum existed.[85] Kearns was the one to develop a syllabus for the Certified Financial Planner program. At that time, the financial planning process consisted of 5 steps. The first step was collecting and evaluating financial and personal information followed by counseling on financial objectives and alternatives, installing the financial program, coordinating the elements of the financial plan, and keeping the long-range financial plan current. In 1972 137 enrolled in the CFP program, of which only 42 in 1973 successfully obtained the CFP title, and the same evening 36 out of this group founded the Institute of Certified Financial Planners to promote this new profession. In 1974 New York Stock Exchange authorized everyone who had received College for Financial Planning education to place CFP mark on their business cards.[86]

In the year 1970, Dunton himself directed newly formed membership organization International Association of Financial Planners (formerly International Association of Financial Counselors renamed in 1971) and organized sales workshops around the country. By the year 1973, IAFP had over 3000 members from different states. During the 1980s, IAFP peaking with Almost 25,000 members saw a massive decline due to the Tax Reform Act, having only 11,000 members by 1992. This decline was taken as an opportunity to focus more on true financial planners rather than salespeople.[87]

Due to the criticism of financial planners and pointing out that they are just mutual funds and life insurance salesmen, IAFP reformed the old financial planning process and

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[84] Brandon and Welch, *The History of Financial Planning*, 1-7.
[85] Dave Yeske. "A Concise History Of The Financial Planning Profession". *FPA*, 2015, accessed April 30th, 2020. https://www.onefpa.org/journal/Pages/SEP16-A-Concise-History-of-the-Financial-Planning-Profession.aspx.
[86] Brandon and Welch, *The History of Financial Planning*, 7-44.
[87] Brandon and Welch, *The History of Financial Planning*, 37-62

created the one described in the first chapter, which made it even more professional. The influence of IAFP became international. In 1985 financial planning profession found its way to Australia, and over the coming four years, IAFP organized world congresses in Japan, Hong Kong, Australia, Switzerland, and the United Kingdom. In 1985 the International Board of Standards and Practices for Certified Financial Planners was established, and its purpose was to oversee the activities of CFP program students, certification process, and exams. In 1995 it was renamed to the CFP Board of Standards.[88] In 1987, the College for Financial Planning was founded in the United Kingdom. During the 1990s, the IBCFP authorized the granting of CFP marks in Australia, Japan, the United Kingdom, Canada, New Zealand, France, Germany, Singapore, South Africa, and Switzerland by their financial planning organizations.[89] Since then, many other countries were added to this list. By the end of the second millennium, over 100 colleges and universities were offering verified programs leading to CFP certification. In 2000 IAFP and ICFP merged to form Financial Planning Association. Since 2007 bachelor's degree is required to obtain CFP certification.[90]

2.3 Development in Great Britain

Throughout history, Great Britain held a very important status for the global economy. That said, it comes as no surprise that the profession of the financial counselor was very common in Great Britain. However, the profession of financial planning was yet to be discovered. In the 1980s, due to the influence of IAFP based in the United States, many counselors showed interest in this new profession and attended conferences held in London.[91]

The establishment of the College for Financial Planning in 1987 was the first milestone in the process of improvement of financial services in the United Kingdom. However, the effort to mandate testing of financial planners according to British legislation did not progress over the course of three years, so William Anthes, former director of the college, passed responsibility for administering and maintaining the CFP program to English Chartered Insurance Institute. The CII was established in 1912 by the royal charter.[92] The purpose

[88] Dave Yeske. "A Concise History Of The Financial Planning Profession". *FPA*, 2015, accessed April 30th, 2020. https://www.onefpa.org/journal/Pages/SEP16-A-Concise-History-of-the-Financial-Planning-Profession.aspx.
[89] Brandon and Welch, *The History of Financial Planning*, 44-68.
[90] Brandon and Welch, *The History of Financial Planning*, 90-98.
[91] Brandon and Welch, *The History of Financial Planning*, 54-56.
[92] Robert L. Carter and Peter Falush. *The British Insurance Industry Since 1900: The Era of Transformation.* (Houndmills: Palgrave Macmillan, 2009) 14-15.

of CII is to secure and justify the confidence of the public in the insurance sector.[93] In 1995 CII was authorized by CFP Board to grant CFP marks to those who met all requirements and completed a set of exams.[94] In 2005 CII was given the power to issue Chartered Financial Planner title by the Privy council, which is a formal body of advisors to the monarch of the United Kingdom. Nowadays, CII offers six Chartered titles, of which five are from the field of insurance, and the sixth is for financial planners. The title Chartered is widely accepted in the United Kingdom as a guarantee of expertise in the particular field. Other than insurers and financial planners, accountants, engineers, surveyors, etc., can obtain this title.[95]

In 2009 the Chartered Institute for Securities & Investment was established. In 2015, CISI merged with the Institute of Financial Planning and became the only licensing authority for the CFP mark in the United Kingdom. In March 2017, CISI, CII and Chartered Banker Institute joined together to form Chartered Body Alliance with headquarters in London. Aim of CBA is to promote the Chartered title so that consumers understand the benefits of the cooperation with qualified professional.[96]

In 2001 the Financial Services Authority was established. Its purpose was to regulate the financial services industry in the United Kingdom. This government body had responsibility for the practices of banks, financial advisors and insurance companies. Although FSA was responsible for the mortgage business, it could not prevent the financial crisis in 2008. This failure became the reason for the Financial Services Act of 2012, which split responsibilities of FSA between two newly established agencies. Since then, the Prudential Regulation Authority oversees banks, building societies, credit unions, insurance companies and investment companies.[97] The PRA is responsible for upholding standards of risk control and holding adequate capital to ensure liquidity. The second agency is the Financial Conduct Authority, which regulates the conduct of companies in the financial services industry. It can

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93 Privy Council. *The Chartered Insurance Institute*. (London, 1912) 1-2.
94 Brandon and Welch, *The History of Financial Planning*, 108-110.
95 "The Institute Of Chartered Professionals". *Institute Of Chartered Professionals*, 2011, accessed May 1st, 2020. http://www.icpedu.org/.
96 "About Us". *Chartered Institute For Securities & Investment*, accessed May 1st, 2020. https://www.cisi.org/cisiweb2/cisi-website/about-us.
97 Philip Rawlings, Andromachi Georgosouli, and Costanza Russo. "Regulation Of Financial Services: Aims And Methods". (London, 2014) 17-18.

investigate organizations or individuals, specifies standards and requirements of financial products, and ultimately can ban products whose promotion is misleading.[98]

2.3.1 Distinction between CFP and Chartered Financial Planner

Both CFP and Chartered Financial Planner must meet several requirements to achieve the title. First of all, it comes to education. The Bachelor's degree or higher, from an accredited college or university, is mandatory since 2007 but can be obtained within five years after passing the exams. For obtaining any of those two titles in the United Kingdom, the applicant must be a member of the Personal Finance Society, which is a professional body for financial advisors and also a part of CII. Afterwards, a series of exams take place from major planning areas such as insurance planning, retirement planning, estate planning, investment and securities planning, state and federal income tax planning, etc. In addition to exams, ongoing education through Continuing Professional Development courses is required. Lastly, five-year experience in the planning industry is needed. After completing these conditions, the applicant is entitled to obtain his Chartered title.[99]

However, for obtaining the CFP title, even more is required. Before engaging in exams, the applicants must complete a comprehensive course of study that meets standards of FPBS.[100] Then they need to agree to abide by the CISI's Code of Conduct, which defines ethical responsibilities, and to always put interests of the client before their own.[101] After passing exams, both demonstrate that they have a fair amount of knowledge from the field, but CFP needs to prove the ability to apply this technical knowledge in real-life client situations by formulating a financial plan covering all aspects of client's financial and life situations. This way, the CFP shows compliance with the internationally recognised six-step planning process.[102]

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[98] Alastair Holt. "Banking Regulation 2020". *Global Legal Insights*, 2020, accessed May 1st, 2020. https://www.globallegalinsights.com/practice-areas/banking-and-finance-laws-and-regulations/united-kingdom.

[99] "Individual Chartered". *Personal Finance Society*, accessed May 1st, 2020. https://www.thepfs.org/membership/join-us/chartered/individual-chartered/.

[100] "The Certification Process". *CFP Board*, accessed May 1st, 2020. https://www.cfp.net/get-certified/certification-process.

[101] "How To Become A CFP Professional". *Chartered Institute For Securities & Investment*, accessed May 1st, 2020. https://www.cisi.org/cisiweb2/cisi-website/study-with-us/financial-planning/why-study-financial-planning.

[102] Julie Lord. "Certified Financial Planner Is 'Chartered Plus'". *Financial Planning Today*, 2017, accessed May 1st, 2020. https://www.financialplanningtoday.co.uk/news/item/7601-julie-lord-certified-financial-planner-is-chartered-plus.

According to an independent research, the Chartered title is the most respected indicator of expertise in the United Kingdom.[103] However, the CFP is recognized internationally. Julie Lord, who is both Certified and Chartered, views their difference especially in the use of the six-step financial planning process. Whereas many Chartered planners do not even follow the process, all CFPs do. According to Lord, "Certified Financial Planner is Chartered PLUS," mainly because of the process which puts emphasis on their ability to communicate well with the clients, use of empathy and understanding of their objectives.[104]

The current number of Chartered Financial Planners is over 5000, while the number of Certified Financial Planners in the United Kingdom is only 897.[105] This shows that although the CFP is internationally recognized much more, English citizens think otherwise.

2.4 Development in the Czech Republic

During the 1970s, most countries west of the Czech Republic have experienced rapid development of financial services. However, the Czech Republic, under the supermacy of the Union of Soviet Socialist Republics, was lagging behind in development. Before the revolution in 1989, there was no need for sophisticated financial services, due to the limited options of for ordinary citizens. The company Česká spořitelna was a monopoly in the banking sector and Česká pojišťovna in the insurance sector.[106]

A German company Organisation für Vermögensberatung was crucial for the development of financial advisory in the Czech Republic. OVB was established in 1970 after one of its founders had an unpleasant experience with various German banks. His experience was that in every bank, the employee only promoted their products and introduced them as the best on the market. He believed that there should be an unbiased company which would compare these products and choose what is best for the customer. During the 1990s, OVB started its expansion to other European countries.[107] In 1993, owner of the OVB, Otto

[103] "Individual Chartered". *Personal Finance Society*, accessed May 1st, 2020. https://www.thepfs.org/membership/join-us/chartered/individual-chartered/.

[104] Julie Lord. "Certified Financial Planner Is 'Chartered Plus'". *Financial Planning Today*, 2017, accessed May 1st, 2020. https://www.financialplanningtoday.co.uk/news/item/7601-julie-lord-certified-financial-planner-is-chartered-plus.

[105] "Chartered Status". *Personal Finance Society*, accessed May 1st, 2020. https://www.thepfs.org/membership/join-us/chartered/.; "Establishing Financial Planning As A Global Profession". *Financial Planning Standards Board*, accessed May 1st, 2020. https://www.fpsb.org/.

[106] Libor Žídek. *Transformace české ekonomiky: 1989-2004*. (Prague: C. H. Beck, 2006) 4-6.

[107] "With A Strong History Into A Strong Future". *OVB*, accessed May 3rd, 2020. https://www.ovb.eu/english/company-ovb/50-years.html.

Wittschier, met the Prime Minister of the Czech Republic, Václav Klaus. Klaus was interested in the service OVB provided in Germany and said that such a service could be appreciated in the Czech Republic as well. Later that year OVB established its branch in the Czech Republic.[108]

Although all consultants of OVB introduced themselves to clients as financial advisors, the truth was that they were just financial products agents. In 1993 they offered only one product, and that was building savings contract. The general public did not have any experience with more complex financial services. Thus they welcomed this opportunity with open arms.[109] At that time, financial consultants were not required to pass any exams or in any other way, prove their qualification to advise people with their finances. Cleaners, miners, builders, etc., were recruited to OVB with the vision of getting rich and nobody cared if they did not even finish primary education, as long as they concluded contracts. The lack of legislative regulation in the Czech Republic caused that this profession was only sales-oriented, and there was no interest in helping clients to fulfil their needs whatsoever. All that OVB was after was the quantity of sold products and the number of new consultants to join their ranks.[110]

Others followed the example of OVB, and many new financial advisory companies emerged. In 1995[111] ZFP Akademie was established, in 1998[112] Broker Consulting, in 2000[113] Fincentrum and in 2005[114] Swiss Life Select. These companies are among the major ones on the Czech market.

In the following years, banks and insurance companies realized that consultants could be a great distribution channel for their products. The product portfolio of OVB started to expand. Life insurance and retirement savings were added and offered to clients.[115] In the year 1997, OVB consultants started offering a new investment opportunity to their clients.

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[108] "Historie Holdingu A OVB Česká Republika". *OVBjournal.cz*. https://www.ovbjournal.cz/cs/clanky/1274-historie-holdingu-a-ovb-ceska-republika.shtml.
[109] Petr Zámečník. "Kam Spěje Finanční Poradenství?". *Investujeme.cz*, 2015, accessed May 3rd, 2020. https://www.investujeme.cz/clanky/kam-speje-financni-poradenstvi/.
[110] Luděk Tkadlec. Interview by Kristián Vencl. Zlín. April 21, 2020.
[111] "Kdo Jsme: ZFP Akademie, A.s.". *ZFP Group Akademie*, accessed May 3rd, 2020. https://www.zfpa.cz/kdo-jsme.
[112] "Broker Consulting Roste Nepřetržitě 19. Rok V Řadě". *Brokerconsulting*, 2018, accessed May 3rd, 2020. https://www.bcas.cz/pro-media/broker-consulting-roste-nepretrzite-19-rok-v-rade/.
[113] "Historie". *Fincentrum*, accessed May 3rd, 2020. https://www.fincentrum.com/cz/stranky/historie/.
[114] "Poradenská Firma Swiss Life Chystá Expanzi Na Českém Trhu". *E15*, 2013, accessed May 3rd, 2020. https://www.e15.cz/byznys/finance-a-bankovnictvi/poradenska-firma-swiss-life-chysta-expanzi-na-ceskem-trhu-972935.
[115] Luděk Tkadlec. Interview by Kristián Vencl. Zlín. April 21, 2020.

Clients were promised a guaranteed return of investment 5,6% per year if they were to invest in a Swiss company named Helvag. The minimal amount invested was 200,000 Czech crowns. In 2001 Helvag went bankrupt. This information was kept from the clients for long 14 months. When they found out, many of them sued the OVB company with no positive outcome, because OVB held their consultants accountable. A total of 300 million Czech crowns was lost. This nation-wide incident tarnished the reputation of financial advisors and had a severe impact on the trust that clients had in their advisors.[116]

Another infamous product which spoils the reputation of advisors is investment life insurance. Investment life insurance was created as a means to protect the client in an unexpected life situation, as well as to give the client an opportunity to start investing a small amount of money each month with the intent to withdraw it at the end of the insurance period, which was usually several decades. Many advisors recommended this product as a form of investment for retirement due to the commission, but that is not the purpose it was created for. The problem occurred when clients wanted to withdraw their money after a few years and found out that from the amount invested only around 20% is available to them, due to the high fees during the first five years.[117]

At the turn of the 21st century, the distribution of financial products by consultants of various companies evolved to financial advisory. The financial analysis to identify the situation of the clients and to determine their goals became common practice. This was an essential step towards professionalism. Although advisors presented themselves as independent, in most cases their choice of product for the client was still commission-based.[118]

In 2002 Asociace finančních zprostředkovatelů a finančních poradců was established to support the development of the financial services industry, to set ethical standards and to strengthen the confidence of the broad public in financial advisors.[119]

In 2004 a wave of long-awaited regulation hit the financial services industry in the Czech Republic. All advisors, insurance agents and investment brokers were required to be entered

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[116] Robert Sattler. "Ovb Jí 'Dohodila' Produkt. Přišla O 210 Tisíc, Ostatní Celkem O Stovky Milionů". *Lidovky.cz*, 2017, accessed May 3rd, 2020. https://www.lidovky.cz/domov/ovb-ji-dohodila-produkt-prisla-o-210-tisic-ostatni-celkem-o-stovky-milionu.A170224_183745_ln_domov_rsa.

[117] Eva Moniová. "Nula Na Smrt, Všechno Na Spoření. Životní Pojištění, Které Nevydělá". *Idnes.cz*, 2018, accessed May 3rd, 2020. https://www.idnes.cz/ekonomika/test-a-spotrebitel/investicni-zivotni-pojisteni-se-na-zhodnoceni-penez-nevyplati.A180604_120035_test_nio.

[118] Luděk Tkadlec. Interview by Kristián Vencl. Zlín. April 21, 2020.

[119] Petr Zámečník. "Jednotná Asociace Finančního Poradenství Je Na Světě". *Investujeme.cz*, 2018, accessed May 3rd, 2020. https://www.investujeme.cz/clanky/jednotna-asociace-financniho-poradenstvi-je-na-svete/

in the register of the Czech National Bank, which oversees and regulates financial market in the Czech Republic.[120]

As another institution unifying advisors, Unie společností finančního zprostředkování a poradenství was established in 2006. Its goal was to participate in the legislative processes, which set standards and regulate financial markets. Another purpose was to enable members to discuss problems related to the financial services business.[121]

The director of OVB branch in the Czech Republic, Radim Lukeš, left with 650 consultants to establish his own company Partners Financial Services in 2007. The reason was the long-lasting dissatisfaction with the practices of OVB management and their sales-oriented attitude. PFS started the trend of unified commissions from their business partners to ensure that the choice of products for the client does not depend on the commission. This trend is later adopted by many other companies. Around the same time, the first financial plans resembling complex financial planning are created.[122]

An important year for financial planning in the Czech Republic was 2010 when the European Financial Planning Association was founded. EFPA is an organization operating in 12 countries of Europe, accredited by CNB to certify investment and financial advisors operating on the Czech market.[123] In cooperation with the PFS, EFPA created an educational program to improve the quality of services provided by financial advisors and planners in the Czech Republic.[124]

Since then, the financial services industry underwent a revolution and a number of regulations, especially in the years 2013 and 2018, which resulted in the decline of the number of financial advisors operating in the Czech Republic.[125] In 2014 there were around

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[120] Petr Šafránek. "Rozdělení Do Kategorií Zprostředkovatelů Se Mění". *Regulaceporadenstvi.cz*, 2018, accessed May 3rd, 2020. https://www.regulaceporadenstvi.cz/zdpz-nova-pravidla-pro-pojistovaci-zprostredkovatele-3/.
[121] Petr Zámečník. "Jednotná Asociace Finančního Poradenství Je Na Světě". *Investujeme.cz*, 2018, accessed May 3rd, 2020. https://www.investujeme.cz/clanky/jednotna-asociace-financniho-poradenstvi-je-na-svete/
[122] "Měníme Svět Finančního Poradenství K Lepšímu". *Partners*, accessed May 3rd, 2020. https://www.partners.cz/o-partners/.
[123] "EFPA ČR". *European Financial Planning Association*, 2010, accessed May 3rd, 2020. https://efpa.cz/.
[124] "European Financial Advisor". *Partners Akademie*, 2010, accessed May 3rd, 2020. http://efa.partners.cz/.
[125] Jiří Šindelář. "Směrnice Idd Je Tu. Co Přinese Distributorům Pojištění?". *Opojištění.cz*, 2016, accessed May 3rd, 2020. https://www.opojisteni.cz/pojistny-trh/smernice-idd-je-tu-co-prinese-distributorum-pojisteni/c:10491/.

28,000 advisors, and in 2019 this number was about 9,300. This decline is perceived positively by both advisors and the general public as it was a necessary step in the evolution of a professional service.[126]

In 2018 Česká asociace společností finančního poradenství a zprostředkování was created by the merger of USF and AFIZ. ČASF took on the responsibilities of both companies and united the most prestigious companies to represent their interests and to share the so important ethical code of conduct.[127]

2.4.1 Becoming a certified professional

To become a recognized professional of financial planning, EFPA offers three achievable titles. The first one is Poradce Finančního Plánování, available since 2018. To obtain this title, the graduation exam and a clean criminal record is required as well as one year of experience in the field. The attendees are required to go through a three-day practical training course, pass a written exam that examines the knowledge of insurance, investments, loans and retirement savings and finally to pass an oral exam of the case study from a real-life situation. Only 26 planners in the Czech Republic now hold this title.[128]

A higher level title is the European Financial Advisor. This title was available since the establishment of EFPA in 2010. Basic requirements are similar to antecedent title, but three-year experience in the field of financial services needs to be proved. In addition to that, the understanding of the code of ethics and the in-depth knowledge of advanced topics such as portfolio management, legislation and regulation, and collective investment must be demonstrated. After successfully passing written and oral exams, ongoing education is needed every year, to remain well informed. Only 359 experts in the Czech Republic can be proud of their EFA title.[129]

The highest form of education achievable in the financial planning profession is the European Financial Planner title. This proof of the highest expertise can only be achieved by professionals holding EFA title for two years already. They are also examined from pre-

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[126] "Dva Ze Tří. Za Posledních Pět Let Ubylo V Česku Finančních Poradců". *E15*, 2019, accessed May 3rd, 2020. https://www.e15.cz/domaci/dva-ze-tri-za-poslednich-pet-let-ubylo-v-cesku-financnich-poradcu-1364870.
[127] "Na Trhu Finančního Poradenství Vzniká Jednotná Asociace". *ČASF*, 2018, accessed May 3rd, 2020. https://casfpz.cz/na-trhu-financniho-poradenstvi-vznika-jednotna-asociace/.
[128] "Zkouška PFP". *EFPA*, accessed May 3rd, 2020. https://efpa.cz/zkousky/zkouska-pfp.
[129] "Zkouška EFA". *EFPA*, accessed May 3rd, 2020. https://efpa.cz/zkousky/zkouska-efa.

viously mentioned topics, but their scope of expertise must be expanded by behavioural finance, financial planning for entrepreneurs, advisory for family businesses and estate planning. Since 2018, only 29 proved to be worthy of this title.[130]

In the upcoming years, EFPA plans to launch an introductory course for the internationally recognized CFP title.[131]

2.5 The comparison of the development

The first main difference in the development of financial planning in Great Britain and the Czech Republic is when the financial planning profession emerged. In Great Britain, this profession came from overseas. The US-based IAFP introduced financial planning as early as 1987, followed by the establishment of the College for Financial Planning. Other financial services, such as stock brokering or financial counseling already existed. The Czech Republic on the other hand, under the influence of the Communist regime, was far behind in the overall economic development, not to mention the development of the financial services industry, which was basically non-existent until 1989. The first resemblance of the complex financial planning was almost 25 years later than in Great Britain.

The FPSB, which operates in 26 countries and territories, including Europe, oversees the standards of the certification process in the United Kingdom together with the London-based CII and CISI. All of these institutions have a long tradition and strong foundation upon which they are built. In the Czech Republic, the certification process is controlled by EFPA, which, compared to the British organizations, is relatively new.[132]

The titles issued by the mentioned institutions are, in fact, quite similar. The Chartered Financial Planner could be compared to the Czech European Financial Advisor title, although EFA professionals do not have to have five years of experience in the field. The highest form of education in the Czech Republic, European Financial Planner title is equivalent to the internationally recognized Certified Financial Planning title.[133] The only difference worth mentioning is that CFPs consider the six-step financial planning process as the

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[130] "Zkouška EFP". *EFPA*, accessed May 3rd, 2020. https://efpa.cz/zkousky/zkouska-efp.
[131] "Radit Si Nechejte Od Profíků: Dva Nové Tituly Pro Finanční Poradce". *Peníze.cz*, 2018, accessed May 3rd, 2020. https://www.penize.cz/financni-poradenstvi/336315-radit-si-nechejte-od-profiku-dva-nove-tituly-pro-financni-poradce.
[132] "Establishing Financial Planning As A Global Profession". *Financial Planning Standards Board*, accessed May 1st, 2020. https://www.fpsb.org/.
[133] Petr Zámečník. "Od Finančního Poradenství K Finančnímu Plánování". *Investujeme.cz*, 2017, accessed May 3rd, 2020. https://www.investujeme.cz/clanky/od-financniho-poradenstvi-k-financnimu-planovani/.

foundation of their profession. The EFPs in work with their clients proceed by the planning process as well but are not as strict in following it.[134]

Probably the most fundamental difference is currently the way financial planners are rewarded in both countries. In the Czech Republic, most planners use the commission-based system. That means they are compensated by the company whose product they recommend. Although the system of unified commissions is used by many financial advisory companies, still it does not ensure complete independence. Another disadvantage is that they usually make the highest profit from the creation of the financial plan. Therefore, some planners with lower moral standards may neglect the long-term service. Unlike the Czech Republic, in Great Britain as a result of the regulations imposed by the FCA, most financial planners use the fee-based system.[135] This way, financial planners are not tempted to prioritize a financial institution which compensates them with the highest commission instead of the one which would be more beneficial for the client. Since they are mostly rewarded with the percentage of the assets they manage, they have all the more reason to choose suitable investment opportunities for the client. For when clients are profiting, and the volume of their assets grows, the planner gets higher fees.[136]

The hardly regulated financial services sector in the Czech Republic creates fewer obstacles for aspiring financial planners and advisors, but also creates unnecessary space for dishonest consultants, who intentionally harm their clients with bad advice and recommend products which they choose because it is beneficial for them. In Great Britain financial consulting, advising and planning is regulated much more. The main difference would be that in Great Britain to become a certified financial planner, a bachelor degree is required, whereas in the Czech Republic the graduation exam is sufficient. Furthermore, financial planning is a more prestigious profession in the United Kingdom, since the past OVB practices greatly tarnished the reputation of financial advisors in the Czech Republic. English planners experience higher demand for their services by the general public. Although it was

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[134] "EFPA ČR Zavádí Evropsky Akreditovaný Program Poradce Finančního Plánování". *EFPA*, 2018, accessed May 3rd, 2020. https://efpa.cz/aktualita/135-efpa-cr-zavadi-evropsky-akreditovany-program-poradce-financniho-planovani.
[135] "The Difference Between Fee-Based And Commission-Based Financial Advice". *Experts For Expats*, 2018, accessed May 4th, 2020. https://www.expertsforexpats.com/expat-news-and-opinion/latest-expert-opinion/the-difference-between-fee-based-and-commission-based-financial-advice/.
[136] Nick Green. "Independent Financial Adviser Fees - How Much Does Advice Cost?". 2020, accessed May 4th, 2020. https://www.unbiased.co.uk/life/get-smart/cost-of-advice.

never proven that professional advice helps clients save more money, at least they have a competent person to turn to.[137]

[137] Jeremy Burke and Angela A. Hung. *Do Financial Advisers Influence Savings Behavior?* (Santa Monica: RAND, 2015) 5-9.

CONCLUSION

My bachelor thesis was focused on the history of financial planning and its development in the Czech Republic and Great Britain throughout history. As the topic is wide in range, attention was put on the close connection with the economic history of the world. The first part demonstrated the complexity of financial planning through its six-step planning process, which takes into account every need, preference and goal of the client. Then a clear distinction between financial consultant and planner was made, showing that each is an important profession, but differing in the target audience.

Although it is only 50 years ago when financial planning was created, I have shown how each of the sectors of the financial market, which are included in this particular service, originated and more importantly how they evolved from ancient times to this day. Surprisingly, there is an enormous difference in the level of development of ancient Mesopotamians compared to the people in Europe during the Dark Ages, thousands of years later.

Furthermore, a history of financial planning was described, starting with its creation in the United States. The shared vision of founders, to improve the way financial services were provided, through education and increasing professionalism, is what remains until today. That is also the reason why financial planning developed so quickly and spread to other parts of the world.

The mostly smooth way of development in Great Britain resulted in a high level of professionalism and fast adoption of financial planning practices. In comparison to the Czech development on the unpolished market with no experience, Britain was in the lead. During the Soviet domination and communist regime, Czech citizens had no need for financial services, but soon after the Revolution, many opportunities emerged. At first, financial counseling was a sales-oriented service, which tarnished the reputation of advisors for decades to come, but during the 2000s financial counseling revolutionized and financial planning arose.

Although it is clear that financial planning is still more advanced in Great Britain than in the Czech Republic, I believe that if the development continues in the current direction, it will not be for long.

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LIST OF ABBREVIATIONS

AFIZ	Asociace finančních zprostředkovatelů a finančních poradců
CBA	Chartered Body Alliance
CFP	Certified Financial Planner
CII	Chartered Insurance Institute
CISI	Chartered Institute for Securities & Investment
CNB	Czech National Bank
ČASF	Česká asociace společností finančního poradenství a zprostředkování
EFPA	European Financial Planning Association
FCA	Financial Conduct Authority
FPA	Financial Planning Association
FPSB	Financial Planning Standards Board
FSA	Financial Services Authority
IAFP	International Association of Financial Planners
IBCFP	International Board of Standards and Practices for Certified Financial Planners
ICFP	Institute of Certified Financial Planners
OVB	Organisation für Vermögensberatung
PFP	Poradce Finančního Plánování
PFS	Partners Financial Services
PRA	Prudential Regulation Authority
SFCE	Society for Financial Counselling Ethics
USF	Unie společností finančního zprostředkování a poradenství
USSR	Union of Soviet Socialist Republics