



TRAVEL INDUSTRY  
COUNCIL OF ONTARIO  
COMPENSATION FUND

EXECUTIVE SUMMARY OF  
THE ACTUARIAL EVALUATION  
OF THE COMPENSATION  
FUND

JULY 25, 2023

## EXECUTIVE SUMMARY

### Reliance and Limitations

We have relied on data provided by Travel Industry Council of Ontario (“TICO”) to perform our analysis.

Our analysis relies on the quality, completeness and accuracy of the data provided. Any errors, omissions or inconsistencies in the data may affect the accuracy of our analysis and conclusions. We performed a limited review of the data for reasonableness and consistency; however we did not perform an audit or independent verification of the data. We assumed that the information provided is complete and accurate, and that we have been provided with all information relevant to the analysis of the Compensation Fund’s future fund balances. The accuracy of our results is dependent upon the accuracy and completeness of this underlying data.

There are limitations on the accuracy of actuarial forecasts as there is inherent uncertainty in such forecasts. This uncertainty limits the accuracy of any estimate of future contributions, claims, expenses and investment income. Actual experience may differ substantially from the results presented herein. In our judgement, we have employed standard actuarial techniques and assumptions which are appropriate under generally accepted actuarial practice in Canada.

Unless otherwise stated, we assumed that the current legislation remained in-force during the entirety of the projection period.

This report and the findings contained herein are provided to TICO for its sole benefit. The sole purpose of this report is to allow TICO to evaluate the health of its Compensation Fund under base case and adverse scenarios.

Any use which a third party makes of this report, or any reliance on or decisions to be made based on it, are the responsibility of such third parties. RSM accepts no responsibility for damages, if any, suffered by any third party as a result of decisions or actions made based on this report.

### Executive Summary of the Evaluation of the Compensation Fund

#### INTRODUCTION

The Travel Industry Council of Ontario (“TICO”) administers the Ontario Travel Industry Compensation Fund (the “Fund”), which reimburses customers for travel services purchased from registered Ontario travel retailers or booking websites and not provided due to the bankruptcy or insolvency of an Ontario-registered travel agent or wholesaler (“Registrant”) or the cessation or bankruptcy of an airline or a cruise line (“End Supplier”) so long as the services were purchased from a TICO registered travel retailer. Currently, the Fund is entirely financed by Registrants who are required to make contributions of 25 cents per \$1,000 of sales into the Fund on a semi-annual basis. In turn, these payments are invested by the TICO to support the overall fund balance and provide compensation to eligible customers in instances where the Registrant is unable to fulfill their obligations to their customers due to bankruptcy, insolvency or cessation of operations resulting in claims to the Fund (“Customer Claims”), as well as the associated Fund expenses.

## **RECENT EXPERIENCE**

During fiscal years 2020 to 2023, the travel industry was significantly impacted by the COVID-19 pandemic, as sales declined significantly and travel that was sold to customers could no longer be provided. Registrants were able to issue future travel credits when there was a failure of a supplier to provide travel services due to the pandemic and by extension the Registrant could not deliver the services. In the event customers are holding future travel credits that they are unable to redeem due to the bankruptcy or insolvency of a registrant due to COVID-19, they may submit a claim to the Fund for the value of the unredeemed credit by April 1, 2024. At the same time, contributions to the fund were paused for a period of 3 years such that 2021 through 2023 saw very little to almost no revenue for the Fund while at the same time, claims were paid by TICO and most of TICO's operating expenses were covered by the Ontario government through a Transfer Payment Arrangement (TPA). Given these changes, TICO was able to provide temporary financial relief to its Registrants while eligible claimants were able to recover valid claims.

For 2024 and onwards, TICO will no longer be provided financial relief from the government.

## **BASE SCENARIO 10-YEAR FINANCIAL PROJECTION**

As outlined in the following best estimate projected results for the Fund (i.e., Base Scenario), it is expected that the Fund will experience an increase in the total fund balance over the 10-year projection period.

(\$'000)	2023/24 Year 1	2024/25 Year 2	2025/26 Year 3	2026/27 Year 4	2027/28 Year 5
<b>Initial Fund Balance</b>	22,787	22,822	23,078	23,439	23,843
<b>Semi-Annual Assessments</b>	3,277	1,119	1,142	1,165	1,188
<b>Net Investment Income</b>	740	817	973	1,024	1,058
<b>Total Revenue</b>	4,017	1,937	2,115	2,188	2,246
<b>Net Customer Claims</b>	559	629	669	668	671
<b>Operational Expenses</b>	3,423	1,053	1,084	1,117	1,150
<b>Total Expenses</b>	3,981	1,682	1,754	1,784	1,821
<b>Excess/(Deficiency)</b>	36	255	362	404	426
<b>Fund Balance at End of Year</b>	22,822	23,078	23,439	23,843	24,269

(\$'000)	2028/29 Year 6	2029/30 Year 7	2030/31 Year 8	2031/32 Year 9	2032/33 Year 10
<b>Initial Fund Balance</b>	24,269	24,728	25,173	25,644	26,114
<b>Semi-Annual Assessments</b>	1,212	1,236	1,261	1,286	1,311
<b>Net Investment Income</b>	1,097	1,113	1,144	1,169	1,199
<b>Total Revenue</b>	2,308	2,349	2,404	2,455	2,510
<b>Net Customer Claims</b>	665	685	678	693	691
<b>Operational Expenses</b>	1,184	1,219	1,256	1,293	1,331
<b>Total Expenses</b>	1,849	1,904	1,933	1,986	2,022
<b>Excess/(Deficiency)</b>	459	445	471	470	488
<b>Fund Balance at End of Year</b>	24,728	25,173	25,644	26,114	26,602

The above best estimate 10-year projection of the Fund balance shows that the incoming cash flows (assessments and investment income) will exceed the projected outgoing cash flows (claims and expenses) for the foreseeable future. The annual increase in the Fund balance is amplified due to the projected accretion of the asset base which will have a positive impact on the annual amount of investment income. Based on our best estimate actuarial assumptions, the Fund balance is not expected to drop below a \$14M (i.e., twice the maximum per-event payout limit) threshold during the 10-year projection period.

### STATISTICAL VOLATILITY OF FINANCIAL RESULTS

In addition to developing the above best estimate projection of the Fund, we also analyzed the variability of the Fund results due to normal and plausible statistical deviations from the expected best scenario estimate. To this end, we generated 20,000 potential future scenarios for the Fund's investment returns and claims, developed based on historical empirical data provided by management and common actuarial modelling techniques. 20,000 scenarios were

determined to be an appropriate number of simulations to capture events throughout the distribution (including events in the tail).

Based on our 20,000 simulated scenarios, there is a 3% probability that the Fund will drop below the \$14M threshold by March 2033. We have provided management with the Base Case target Fund level at 2023/24 such that the Fund's balance does not decrease below the \$14M threshold with 90%, 95%, 99% and 99.5% levels of confidence to assist Fund's management in setting an appropriate target level for the long-term sustainability of the Fund, in line with its risk appetite and objectives.

## **SCENARIO ANALYSIS**

In collaboration with TICO and using historical Fund data, we also included the following scenarios to assess the Fund's ability to withstand significant adverse experience:

- 1) The failure of one or two Large Registrants
- 2) The removal of coverage for End Suppliers and increasing the per-person payout limit
- 3) A reduction of the contribution levels to the Fund
- 4) A combination of the above
- 5) Severe, but plausible, scenarios
- 6) Other scenarios, including extreme and severe adverse scenarios, involving the change in economic and claims assumptions.

## **CONCLUSIONS AND RECOMMENDATIONS**

In conclusion, the Fund balance is projected to increase steadily during the 10-year projection period (under the Base Scenario projections) and the financial sustainability of the Fund remains strong with the revised funding model using a contribution rate of 6.5 cents per \$1,000 of sales on a semi-annual basis which may be adopted as early as FY2024.

Management may consider a recommendation to the Board of Directors for Fund assessment rates as modelled in the Base Case scenario. Further, there is a scenario for further consideration that includes a lower Fund assessment rate (5 cents per \$1,000 of sales), an increase to the per-person payout limit (increase from \$5,000 to \$10,000 per person) and the removal of End Supplier coverage (subject to Minister approval)<sup>1</sup> that may provide management and the Board sufficient confidence, and be aligned with TICO's overall risk appetite. Further, a Fund balance in 2024 of approximately \$22.8M reflects a 97% probability that the Fund balance remains above \$14M by March 31, 2033. This threshold (twice the maximum event payout) is considered reasonable in the view of management.

Should changes be made in the legislation, in the way the Fund is administered, or if investment returns, expenses, or claims experience were to differ significantly from the assumptions

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<sup>1</sup> Removal of End Supplier coverage and increase in the per-person limit is subject to regulation and requires government approval.

outlined in this report, we recommend that a similar analysis be performed to ensure the continuing long-term financial sustainability of the Fund.

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