



INDUSTRY ADVISORY
Travel Industry Council of Ontario (TICO)
Proposed Compensation Fund Rate Increase
Consultation Paper, March 21, 2016

Summary

At TICO's 2015 Annual General Meeting and as reflected in the 2015 Annual Report, TICO is proposing to increase the industry financed Compensation Fund rate.

The Board of Directors of TICO has approved an increase to the Compensation Fund rate subject to industry consultation. The proposed rate will increase from \$0.15 to \$0.25 per thousand of registrant's Ontario travel sales, effective July 1, 2016. Without a rate increase, TICO is projecting an operating deficit and the potential for the Compensation Fund to fall below the targeted balance of \$20 million. Further, a number of strategic initiatives in support of TICO's Mission/Vision will be delayed or otherwise adversely impacted.

Background

TICO has managed the Compensation Fund since receiving delegation from the Ontario government in 1997. At that time, the Compensation Fund had a balance of \$4.5 million and the Compensation Fund rates were \$1.60 per thousand of wholesale sales and \$0.40 per thousand of retail sales. Since that date, TICO has changed the Compensation Fund rate three times as detailed below:

| Year | Compensation Fund Balance (\$M) | Wholesale Rate (per \$000 Sales) | Retail Rate (per \$000 Sales) |
|---------------|---------------------------------|----------------------------------|-------------------------------|
| May 1, 2000 | \$20 | \$0.50 | \$0.25 ↓ |
| April 1, 2006 | \$30 | \$0.05 | \$0.05 ↓ |
| May 1, 2013 | \$24 | \$0.15 | \$0.15 ↑ |

Since inception, TICO has reduced the Compensation Fund rate twice with a single increase in 2013. At \$0.25 per thousand of Ontario travel sales, the Compensation Fund rate will return to a level last charged to retailers in the year 2000. It is also worth noting that the proposed rate level of \$0.25 is lower than the TICO Board approved rate of \$0.30 originally announced in 2012 which was proposed as a phased-in increase over three years. Recognizing both economic and industry challenges over the past



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two years, TICO has avoided a rate increase as long as possible. Through prudent cost management including lower claims against the Fund, TICO has kept this proposed increase to a minimum while maintaining the Fund at targeted levels. For comparison purposes, Canada’s Consumer Price Index has increased by 40% for the period of 1997-2015.

Business Case

With oversight provided by the Board of Directors, TICO is committed to its mandate and to strong fiduciary management. Prior to 2014, TICO experienced several years of net operating deficits. Following the previous rate increase in 2013, TICO’s financial performance is summarized below:

| Year-ending March 31 | Total Revenue (000’s) | Net Surplus/(Deficit) before Claims (000’s) | Net Surplus/(Deficit) after Claims (000’s) | Compensation Fund Balance (000’s) |
|---------------------------------|--------------------------------------|--|---|--|
| 2013 | \$2,853 | (\$514) | (\$211) | \$24,038 |
| 2014 | \$3,191 | (\$961) | (\$3,189) | \$20,649 |
| 2015 | \$4,743 | \$504 | \$442 | \$20,850 |

While fiscal year 2016 is not complete, management is projecting lower revenues and a small net surplus before claims, a reflection of a consistently smaller registrant base, lower sales volume and a continued focus on prudent cost management. Management remains focused on efficiencies and is committed to continued cost reduction initiatives. The Compensation Fund balance remains at a level supported by the Board and consistent with target of approximately \$20 million.

As reported in TICO’s three year 2015 Business Plan, the Board of Directors and management are committed to an overall Mission/Vision to “promote a fair and informed marketplace where consumers can be confident in their travel purchases”. Four overarching strategic priorities have been established and management tracks various objectives using a balanced scorecard.

Current projections however continue to indicate a declining registrant base of 2-3% per annum. Registration/renewal fees have remained flat since the last change in 2011 (5 years ago) and are not



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projected to change with this review. In addition, investment income has reduced significantly over the years consistent with a low-rate interest environment and TICO’s risk-averse investment philosophy. Forward revenue projections, without a fee review, are expected to decline over the business plan horizon.

As described in the Business Plan, the current operating environment and industry models are both challenging and constantly evolving. These factors, combined with an increased incidence in fraud, require new investments directed at consumer awareness and education, risk-based methodologies and associated technology to ensure consumers are provided the necessary legislated protections and that the Fund continues to be funded at a level commensurate with these increasing risks. These investments will also affect registrants through a more efficient and effective regulator. It is estimated that this rate increase will generate an incremental \$1.5 million once fully deployed across all TICO registrants over the following 12 months.

Effect on Consumers

It is difficult to determine the effect on consumers, as registrants pay the Compensation Fund rate directly to TICO. Each registrant will determine the flow-through impact on its pricing of services to consumers. On an average package price of \$2,000, the impact to consumers could range from NIL to an increase of \$0.20 cents.

Effect on Registrants

TICO registrants range in size and complexity. The impact of this fee review will result in an increase rate to registrants as follows:

| Ontario Travel Sales | Current Rate (\$0.15 per \$000) | Proposed Rate (\$0.25 per \$000) |
|-------------------------|---------------------------------------|--|
| Under \$2M | Under \$300 | Under \$500 |
| \$2-5 M | \$300 - \$750 | \$500 - \$1,250 |
| \$5-10M | \$750 - \$1,500 | \$1,250 - \$2,500 |
| \$10-50M | \$1,500 - \$7,500 | \$2,500 - \$12,500 |
| > \$50M | > \$7,500 | > \$12,500 |



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More than half of TICO's registrants have Ontario sales less than \$2 million per annum. The impact of this rate proposal is an increase of up to \$200 per annum. The minimum \$25 rate threshold remains in place for sales of up to \$100,000 per annum. For the very large registrant (Sales > \$50 Million), the impact of this rate increase is a minimum of \$5,000 but will be higher based on larger sales volume.

Conclusion

This proposed rate increase follows a Board of Directors' decision in 2012 to increase the Compensation Fund rate to \$0.30 over three years. Through prudent cost management, lower consumer claims and a focused strategic plan over the next three years, management is now recommending an increase to the Compensation Fund rate to \$0.25 per thousand of Ontario travel sales.

With a July 1, 2016 implementation, it will take a full year for this revised rate to become fully effective across all registrants (Compensation Fund submissions to TICO are self-assessed twice a year, based on the prior six month sales period).

Make a Submission

To make a submission on TICO's proposed Compensation Fund rate increase, please forward your comments by April 15, 2016 to:

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