



Travel Industry Council of Ontario

Funding Framework and Fee Model Review

Fall 2023



Agenda

PART I

- About TICO
- Overview and Results of the Funding Framework, Fee Model including Compensation Fund Review



Agenda

PART II

- Fee Setting Process and Criteria
- Current State of the Travel Sector
- Challenges in TICO's Funding Model
- Compensation Fund Challenges
- Additional Constraints
- Proposed Funding Model and Methodology
- Proposed Solutions and Recommendations



Agenda

PART III

- Final thoughts / Next steps
- Ways to provide your feedback





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PART I

About TICO

About TICO: Who We Are

- **Mission:** to regulate consumer protection by promoting awareness, education and compliance as part of the efficient and effective regulation of Ontario's travel industry.
- A self-managed, industry financed not-for-profit organization formed in 1997.
- Delegated responsibility from Ontario Government to administer the *Travel Industry Act, 2002* and Ontario Regulation 26/05.
- Mandated to provide consumer protection and administer the industry-financed Travel Compensation Fund

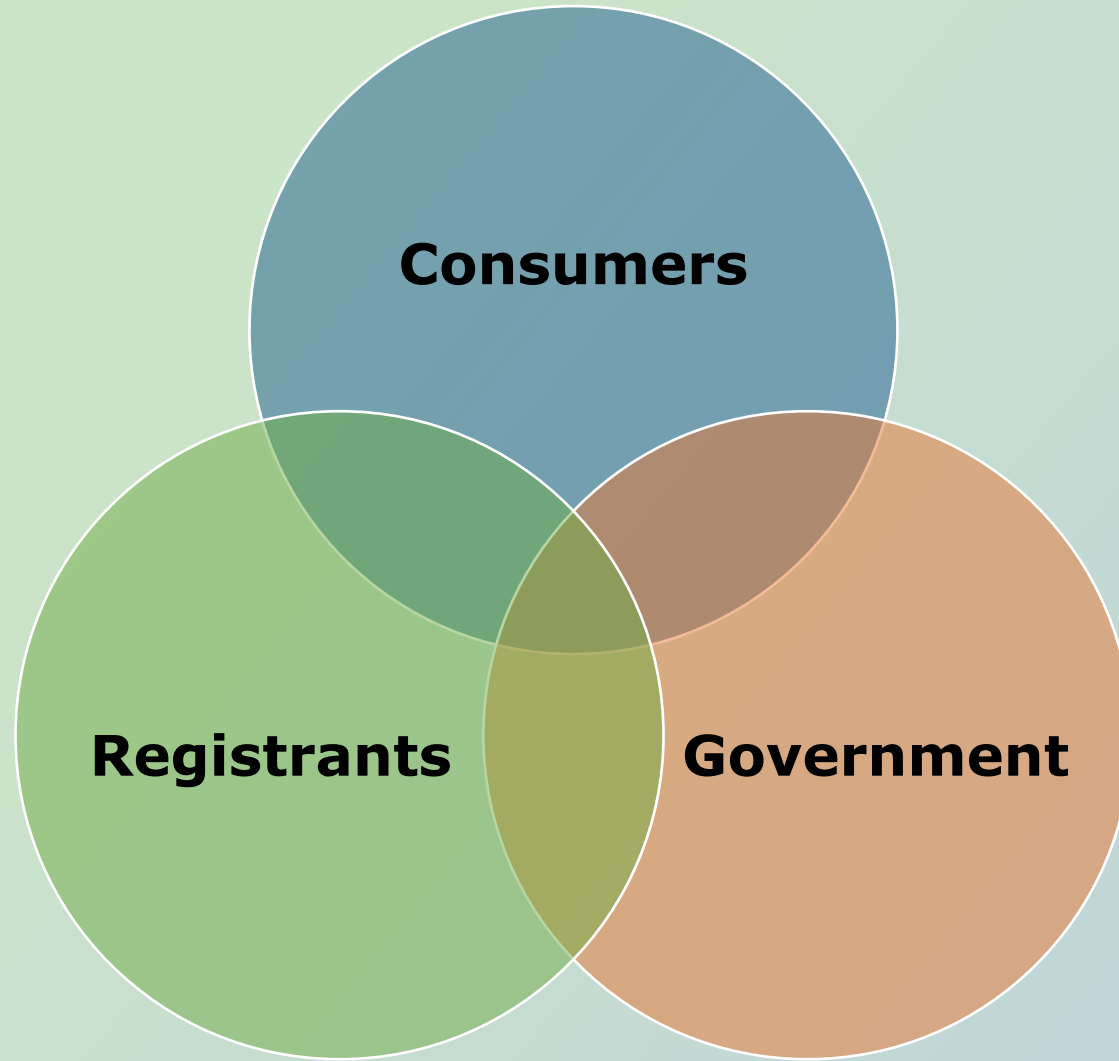


TICO: What We Do

- Education (TICO Certification Course and Exam)
- Registration
- Consumer and Registrant Awareness
- Continuing Education
- Compliance
- Complaints Handling
- Administration and Protection of Compensation Fund
- Prosecutions and Convictions



TICO: Stakeholders





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PART I

Overview and Results of the Funding Framework and Compensation Fund Review

Why did TICO conduct the funding framework and fee review:

- To address a long-standing funding gap
- Fairness and equity of fees across all registrants
- Understanding consumers' perceptions of consumer protection
- Critical industry changes, including the recent pandemic, required comprehensive review



Proposed Solution

How did we arrive at the proposed solution?

- A comprehensive funding framework review conducted by a third-party, inclusive of stakeholder insights
- A third-party actuarial study was completed to determine the Compensation Fund target
- TICO developed a set of guiding principles used to determine the best course of action



Proposals

Compensation Fund:

1. Decrease Compensation Fund payments to \$0.05/\$1,000 from \$0.25/\$1,000 of Ontario Gross Sales.
2. Remove non-contributing end-supplier coverage (airlines and cruise lines) from the Compensation Fund, subject to government consideration and decision-making
3. Double the maximum Compensation Fund payment per person to \$10,000 from \$5,000 for consumers, subject to government consideration and decision-making

Registration Renewal Fees:

4. Recalibrate registrant renewal fees, with modernized and more equitable fee bands.

Other:

5. Institute late filing fees to encourage timely submission of required documentation and ensure efficient processing.

April 1, 2024 - Anticipated effective date for proposals #1, #4 and #5. Proposals #2 and #3 are not within TICO's authority to implement at this time. TICO may need to reassess its fees in the future if these proposals are not implemented.



Consultation Consideration

Registrant options for TICO's fee and payment structure at the point of sale:

- Seek input from registrants regarding if there is a potential interest to voluntarily pass on to consumers and display registration renewal or Compensation Fund fees at the point of sale.
- We look forward to hearing about registrant interest in this potential voluntary option over the existing approach, where fees have not typically been displayed at the point of sale.



Impact to Registrants

- **3.6%** is the average aggregate increase in total fees paid to TICO by registrants, based on historical Ontario sales (fiscal year 2019-2020).
- **35%** of registrants will see their total annual fees to TICO decrease (combined renewal fees and Compensation Fund contributions).
- Fewer than 1% of registrants will see an increase in their annual fees by more than \$10,000, based on historical sales.



TICO's Proposals



FOR CONSUMERS

- Increased Compensation Fund maximums per person*

FOR INDUSTRY

- Decreased Compensation Fund payments
- More equitable fee bands
- Removal of non-contributing end suppliers*
- Discuss option to pass fees onto consumers

FOR TICO

- Alignment between operating expenses and funding
- Late filing fees

*Subject to government consideration and decision-making





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PART II

Fee Setting Process and Criteria

Fee Setting Process and Criteria

- Fee setting process and criteria governed by an Administrative Agreement with the government
- Defined process required for changes greater than inflation
- The following must be taken into consideration:
 - Business Case
 - Consultation and Notice
 - Criteria





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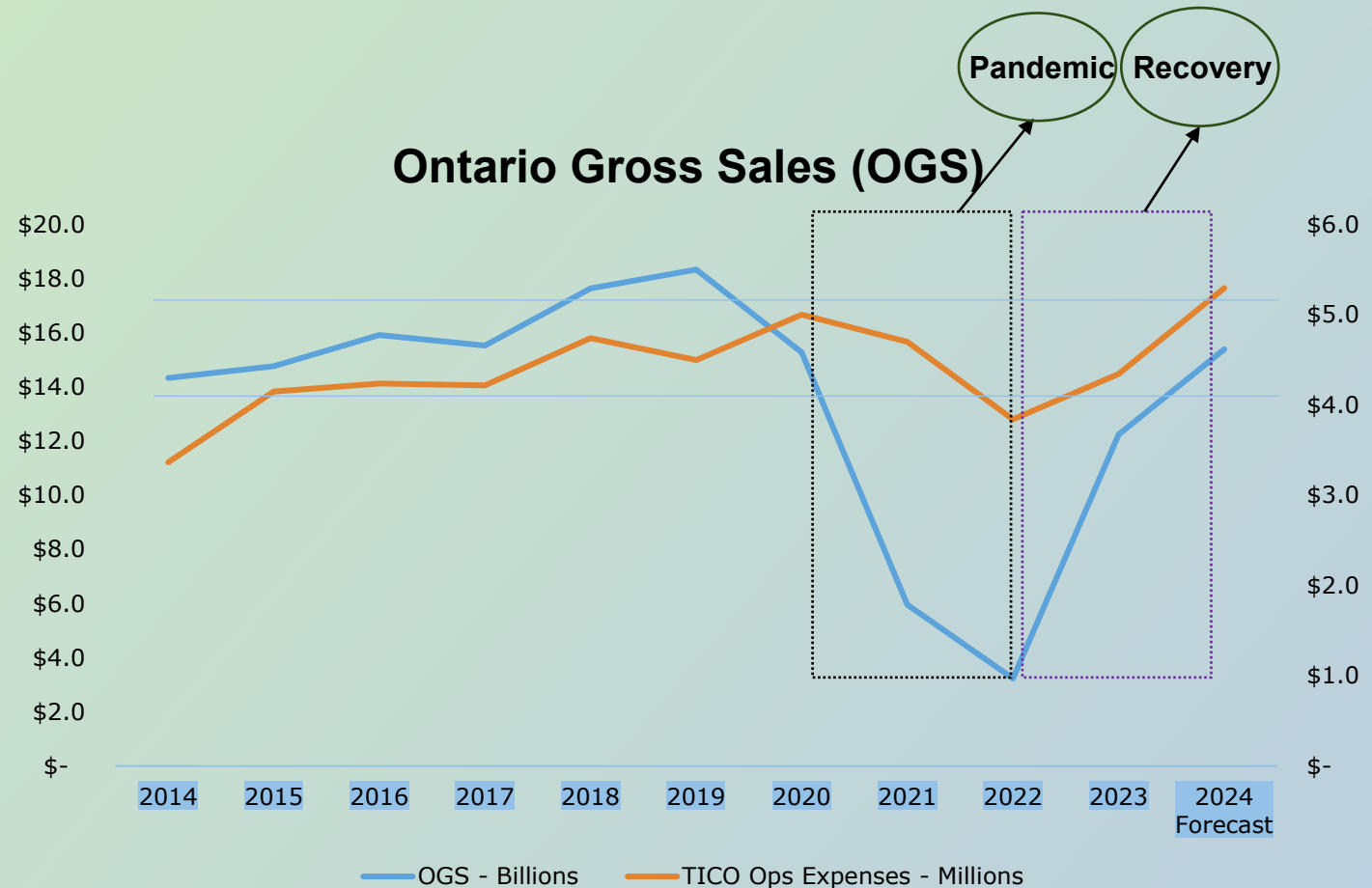
PART II

Current State of the Travel Sector

Current State of the Travel Sector

Ontario Gross Sales Trend

- Prior to the pandemic, the Ontario travel industry saw consistent growth
 - Industry: 3.7%
- Annual Growth Rate for 10-year period 2014-2023
 - TICO expenses: 2.8%
 - Current sales recovery close to pre-pandemic levels



TICO: Current State of the Travel Sector

Regulatory Amendments March 2020 to Current*

- Fee waivers extended to registrants for 3 fiscal years (ended March 31, 2023)
- Permanent regulatory changes made for:
 - Working capital thresholds replaced with positive working capital requirement
 - Verification Statements replaced Review Engagements for small registrants (sales < \$2 million)
 - Review Engagements replaced Audits for large registrants (sales > \$10 million)
 - Redeemed vouchers eligible for claims against the Compensation Fund
 - Eliminated commission recalls for registrants where customer has an eligible Compensation Fund claim
- Temporary regulatory changes made for:
 - Section 46 pertaining to the issuance of vouchers due to COVID-19 at the option of the registrant (revoked April 1, 2023)
 - Expanded Compensation Fund coverage for consumers with unredeemed vouchers due to COVID-19 related registrant failure (in effect until March 31, 2024)
 - Verification Statements for all registrants with sales greater than \$2 million (in effect until November 30, 2024)



Current State of the Travel Sector

Economic

1. Changing industry landscape:

- Increased online bookings, declining traditional travel agencies (brick and mortar), and credit card protection for consumers acting as additional layer of protection

2. COVID-19 impact:

- Business closures, reduced travel confidence and disrupted seasonal patterns
- Role of travel advisor and Compensation Fund remains important
- Continued labour supply, retention and learning-curve pressures



Current State of the Travel Sector

Economic

3. Consolidation and home-based agents:
 - Decreased number of registrants, increased competition and accelerated growth of the home-based agent model
4. Increased consumer expectations
 - Greater consumer awareness of TICO's role in consumer protection





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PART II

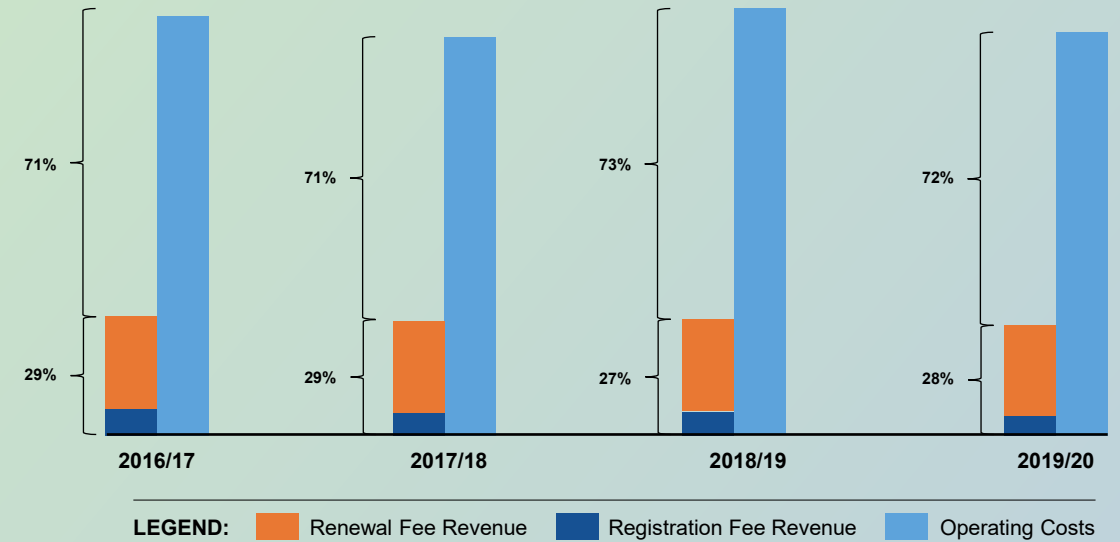
Challenges in TICO's Funding Model

Challenges in TICO's Funding Model

Expenses (2014-2024)



Amount of Operating Cost Recovery from Registration/Renewal Fees



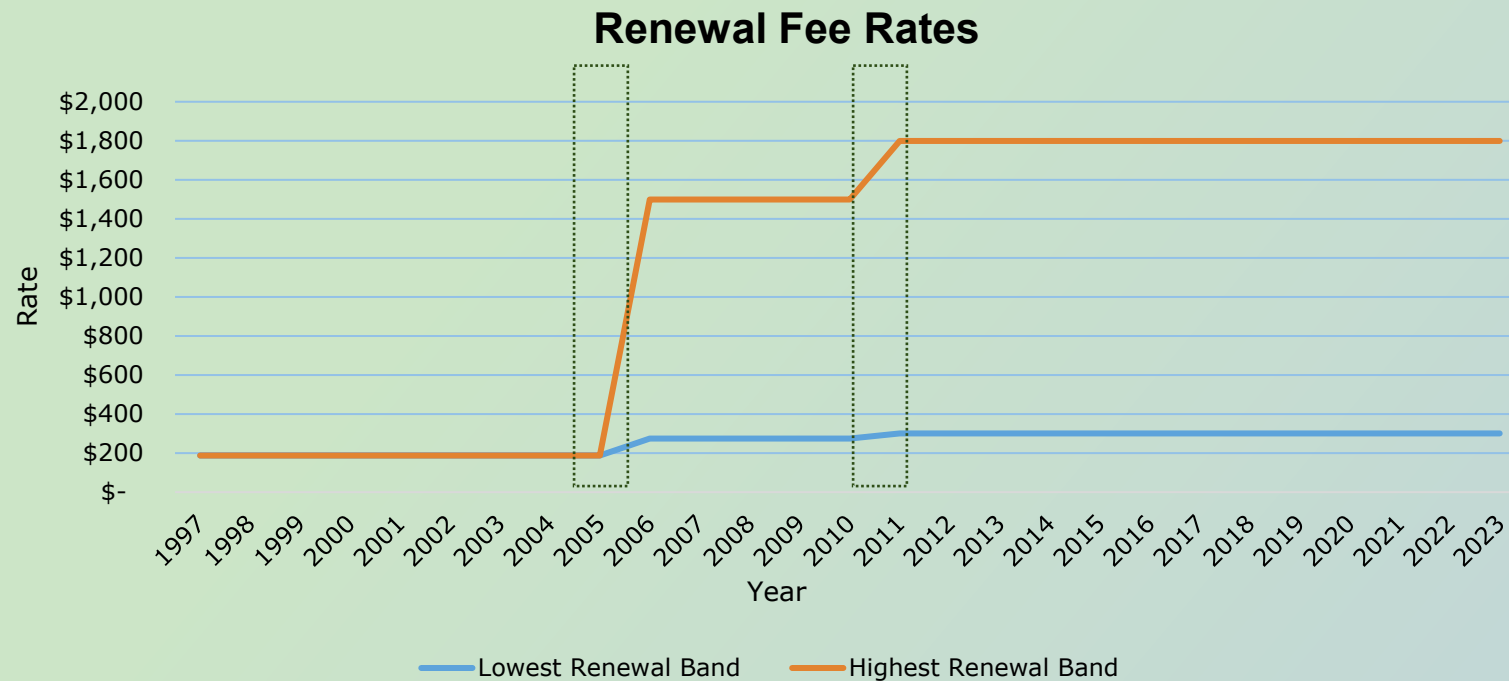
- The table to the right illustrates an ongoing gap between operational cost and revenue
- Operational expenses have remained relatively constant over the last 10 years
- Unchanged fees disproportionate to the inflation index
- Fee structure misalignment



Fee History

Renewal Fees

- Renewal fees have only changed twice in the last 26 years
- Last change to renewal fees was in 2011



Challenges in TICO's Funding Model

- Majority of the burden borne by smaller registrants in the current model

Current Fee Bands (OGS)	% of OGS	% Total Renewal Fees
Less than \$2M	5%	37%
\$2M - \$5M	8%	24%
\$5M - \$10M	8%	16%
\$10M - \$15M	15%	15%
Greater than \$50M	65%	8%





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PART II

Compensation Fund Challenge

Compensation Fund Features and Structure

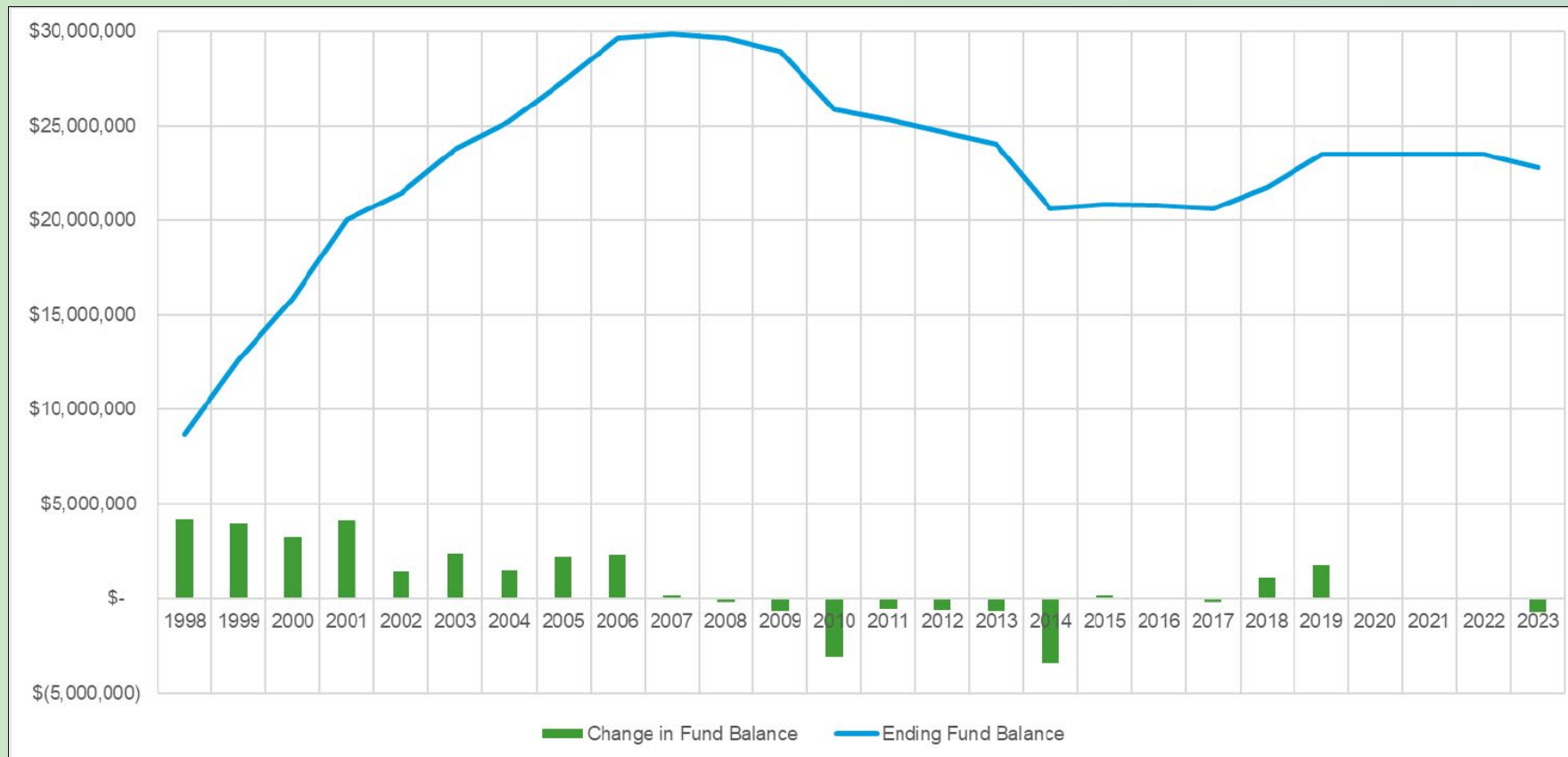
Current Structure:

- Funded by registrants
- **Reimburses up to \$5,000 per person**
- Max \$5 million per event plus \$2 million for repatriation (\$7 million total per event).
- Can cover immediate departures / repatriation
- Standard and Trip Completion Claims
- Does not protect purchases made with non-registrants
- Protects consumers for the non-provision of travel services due to the bankruptcy or insolvency of a registered Ontario travel retailer or travel wholesaler
- **Consumer protection due to the cessation of an airline or cruise line (end supplier)**
- No residency provision; payor of last resort



Compensation Fund

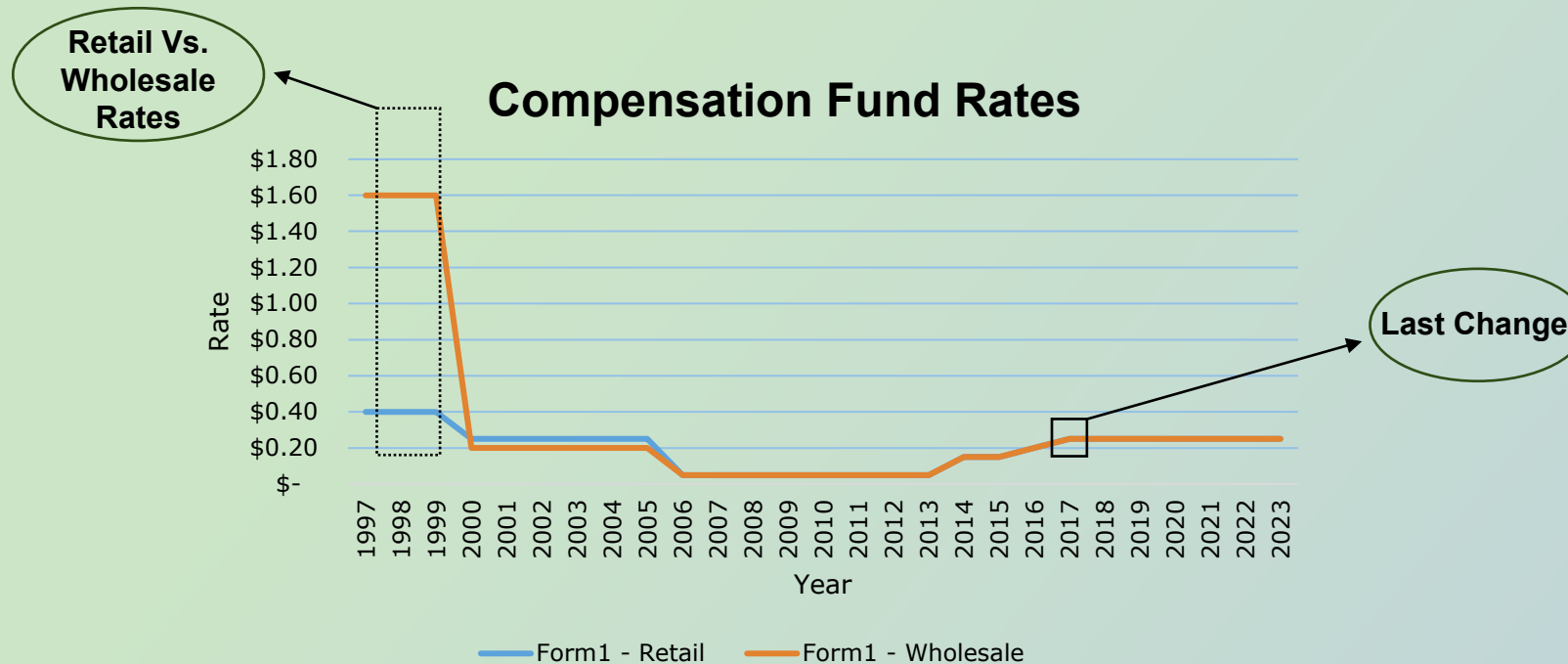
The following chart provides a historical view of Fund balance since 1998, as well as the net change in the Fund balance from March 31, 1998, to March 31, 2023.



Fee History

Compensation Fund Contributions

- Contribution rates significantly lower than at the time of delegation – 26 years ago
 - Rates last changed in 2017
- Perceived as inequitable, with compliant registrants subsidizing non-compliant ones



Legislated Consumer Pay Model

Quebec

About OPC*:

- In considering Quebec's legislated consumer pay model, must look at the framework as a whole
- OPC consumer framework model operates within the Quebec government
- Larger organization with 140+ employees and a much larger operating budget
 - Operating budget of \$12+ million (before any cross funding from the government) and sizing to Ontario's marketplace
 - Significantly lower number of travel agents (~ 650) than Ontario (~ 2,000) and permit holders (~ 10,000)



Legislated Consumer Pay Model

Quebec

OPC Consumer Protection Framework includes:

- Requirements include annual licensing of travel businesses and individual permit holders
 - Range of fees (General License \$1,068/yr, Branch \$660/yr, Individual Permit \$66/yr initial, \$33 renewal)
- Significant travel agency security requirements
 - Between \$25,000 and \$225,000 held for the life of the license, plus 3 additional years (no interest paid)
 - Eligible consumer claims recovered from security prior to using the indemnity fund
- Working capital requirements (\$5,000 to \$150,000) based on sales



Legislated Consumer Pay Model

Quebec

Indemnity Fund (aka FICAV):

- While registrants are required to collect from consumers, many choose to absorb fees and fund from margins
- Indemnity Fund current fee \$3.50/1000 sales (a rate 14x TICO's current Compensation Fund assessment)
- Indemnity Fund provides expanded coverage for events beyond bankruptcy, insolvency or cessation of a registrant, airline, or cruise line including:
 - Non-performance of travel services not involving a failure of a registrant or other supplier
 - Travel advisories from any Canadian public authority to avoid travel or non-essential travel
 - Where the default of any supplier is foreseeable



Legislated Consumer Pay Model

Quebec

Indemnity Fund (aka FICAV):

- For larger claims and/or events, OPC often outsources to third parties (e.g., PWC)
- Significant challenges exist with the processing of claims:
 - Verification of source documents from different jurisdictions
 - Verification that other recourse/remedies not available to consumer (e.g., avoid consumer “double-dipping”)
 - Potential for fraud considered higher with broader criteria for claims eligibility
 - Privacy rules, languages and different time zones across multiple jurisdictions



Legislated Consumer Pay Model Quebec

Conclusion supporting current Compensation Fund model:

- TICO would require considerable infrastructure driving higher ongoing expense and capital expenditures
- Additional regulatory costs would be funded largely by registrants
- FICAV provides very different coverages than Ontario's Compensation Fund requiring different infrastructure to support
- Compensation Fund assessments provide funding for consumer claims and do not resolve TICO funding misalignment
- No clear evidence that the OPC model provides superior consumer protection model for consumers
- No clear 'business case' to support a similar consumer protection model in Ontario





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PART II

Proposed Funding Model and Methodology

First Tier Objectives Specific to the Compensation Fund

Consumer
Protection

Consumer
Understanding

Fund
Stability



Guiding Principles for the Funding Framework and Compensation Fund

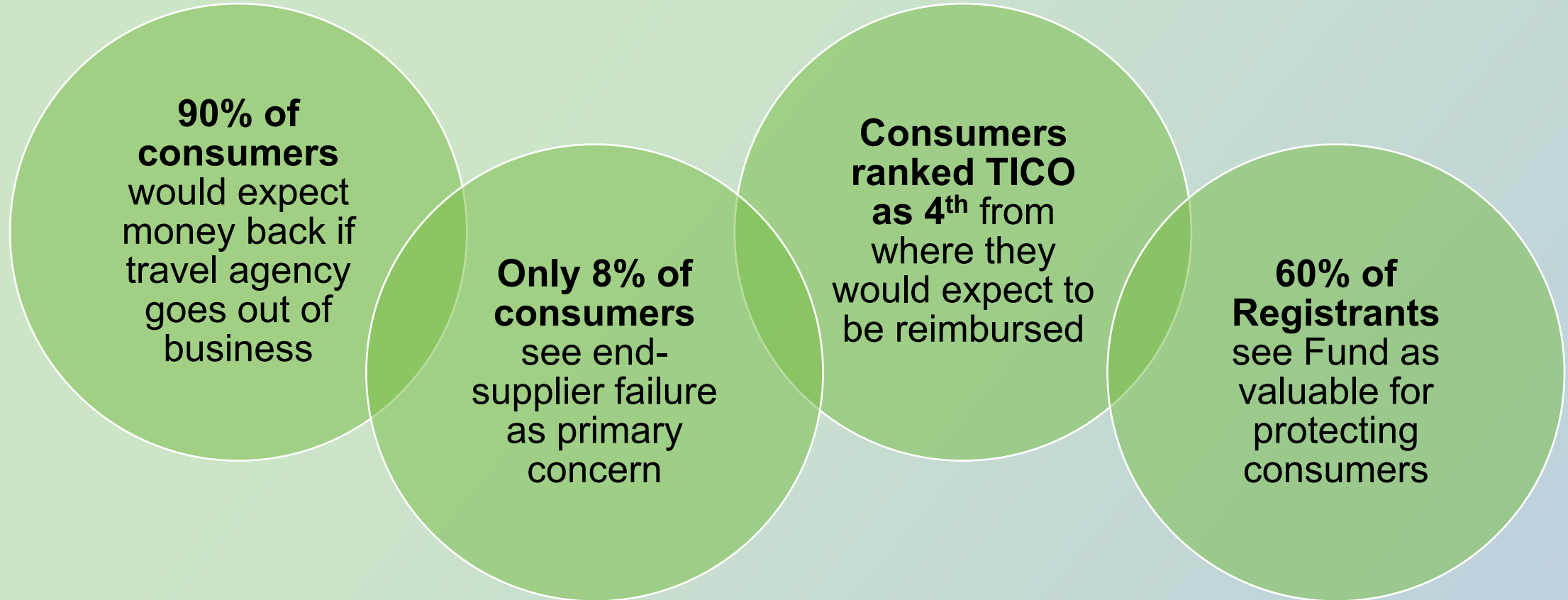


Guiding Principle	Current Model	Recommended Model
Cost Recovery	Low	High
Efficiency	High	Medium
Long Term Financial Sustainability	Low	High
Simplicity	High	Medium
Equitability	Low	High
Transparency	Medium	High



Third-Party Study Findings

Compensation Fund



Consumers and registrants indicated value in the Compensation Fund



Proposed Solutions and Recommendations

Compensation Fund Review

- Useful and easily interpretable protection to consumers.
 - 80% of consumers indicated that access to the Compensation Fund is valuable, while 17% indicated that getting stranded was a key concern.
- Develop and evaluate the most feasible option for the Compensation Fund going forward.
 - Only 14% of claims paid out to consumers related to end-supplier failures (vs. registrant failures).
 - End suppliers are not regulated by TICO and do not pay into the fund, however, the risk currently falls on registrants.
 - Protection from an end supplier failure exists by way of credit cards and travel insurance or other methods, where applicable.





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PART II

Proposed Solutions and Recommendations

Total Fees to TICO: Impact at-a-glance

- 3.6% is the average aggregate increase in total fees paid to TICO by registrants, based on historical Ontario sales (fiscal year 2019-2020).
- 35% of registrants will see their total annual fees to TICO decrease (combined renewal fees and Compensation Fund contributions).
- Fewer than 1% of registrants will see an increase in their annual fees by more than \$10,000, based on historical sales.

Fee Band	Average \$ Fee Increase / (Decrease)	Average % Fee Increase / (Decrease)
Less than \$10M	(\$35)	(4%)
\$10M - \$50M	(\$1,493)	(24%)
\$50M - \$100M	\$2,171	11%
\$100M - \$250M	\$7,769	18%
Greater than \$250M	\$24,884	16%

Ontario Gross Sales	Current Fee	Proposed Fee	Increase / (Decrease)
\$1,000,000	\$550	\$804	\$254
\$10,000,000	\$3,400	\$1,290	(\$2,110)
\$100,000,000	\$26,800	\$31,250	\$4,450
\$1,000,000,000	\$251,800	\$289,850	\$38,050



Proposed Solutions and Recommendations

Proposal #1: Decrease Compensation Fund Payments

- Decrease Compensation Fund payments to \$0.05/\$1,000 from \$0.25/\$1,000 of Ontario Gross Sales
 - Compensation Fund assessments would only be payable one time per year, within 90 days of the registrant's year-end – elimination of mid-year filings.
 - There will continue to be a minimum Compensation Fund payment of \$25 + PST. Previously, the minimum payment was due on a semi-annual basis.
- The current Compensation Fund balance is sufficient as determined by third-party actuarial study
- A minimum level for the Fund to be \$14 million, two times the legislated maximum per event



Proposed Solutions and Recommendations

Proposal #2: End Supplier Coverage Removal

- Removal of end supplier coverage (airlines and cruise lines) is subject to government consideration and decision-making.
- End suppliers do not contribute to the Fund.
- Consumers will continue to be protected for airline or cruise line failures part of a package



Proposed Solutions and Recommendations

Proposal #3: Expanding coverage for consumers needs

- Double the maximum Compensation Fund payment per person to \$10,000 from \$5,000 for consumers, subject to government considerations and decision-making.



Proposed Solutions and Recommendations

Proposal #4: Recalibrated Fee Bands

- Number of bands remains the same
- Band limits are changing to improve equity
- Minimum fee is changing
- A new method of calculation for all the fee bands, except the smallest one
- 90% of registrants will pay a flat fee of \$750

Current Fee Bands (OGS)	Proposed Fee Bands (OGS)	Proposed Renewal Fees
Less than \$2M	Less than \$10M	Flat rate of \$750
\$2M - \$5M	\$10M - \$50M	\$0.29 per \$1000 in OGS
\$5M - \$10M	\$50M - \$100M	\$0.27 per \$1000 in OGS
\$10M - \$50M	\$100M - \$250M	\$0.25 per \$1000 in OGS
Greater than \$50M	Greater than \$250M	\$0.23 per \$1000 in OGS



Proposed Solutions and Recommendations

Proposal #4: Recalibrated Fee Bands

- Ontario Gross Sales historically used as the base for calculating fees
- Common across travel industries outside of Ontario
- Independently verifiable



Proposed Solutions and Recommendations

Proposal #4: Recalibrated Fee Bands

Current Fee Bands (OGS)	% of OGS	% Total Renewal Fees
Less than \$2M	5%	37%
\$2M - \$5M	8%	24%
\$5M - \$10M	8%	16%
\$10M - \$50M	15%	15%
Greater than \$50M	65%	8%

Proposed Fee Bands (OGS)	% of OGS	% Total Renewal Fees
Less than \$10M	20%	31%
\$10M - \$50M	15%	10%
\$50M - \$100M	7%	7%
\$100M - \$250M	17%	16%
Greater than \$250M	41%	36%



Proposed Solutions and Recommendations

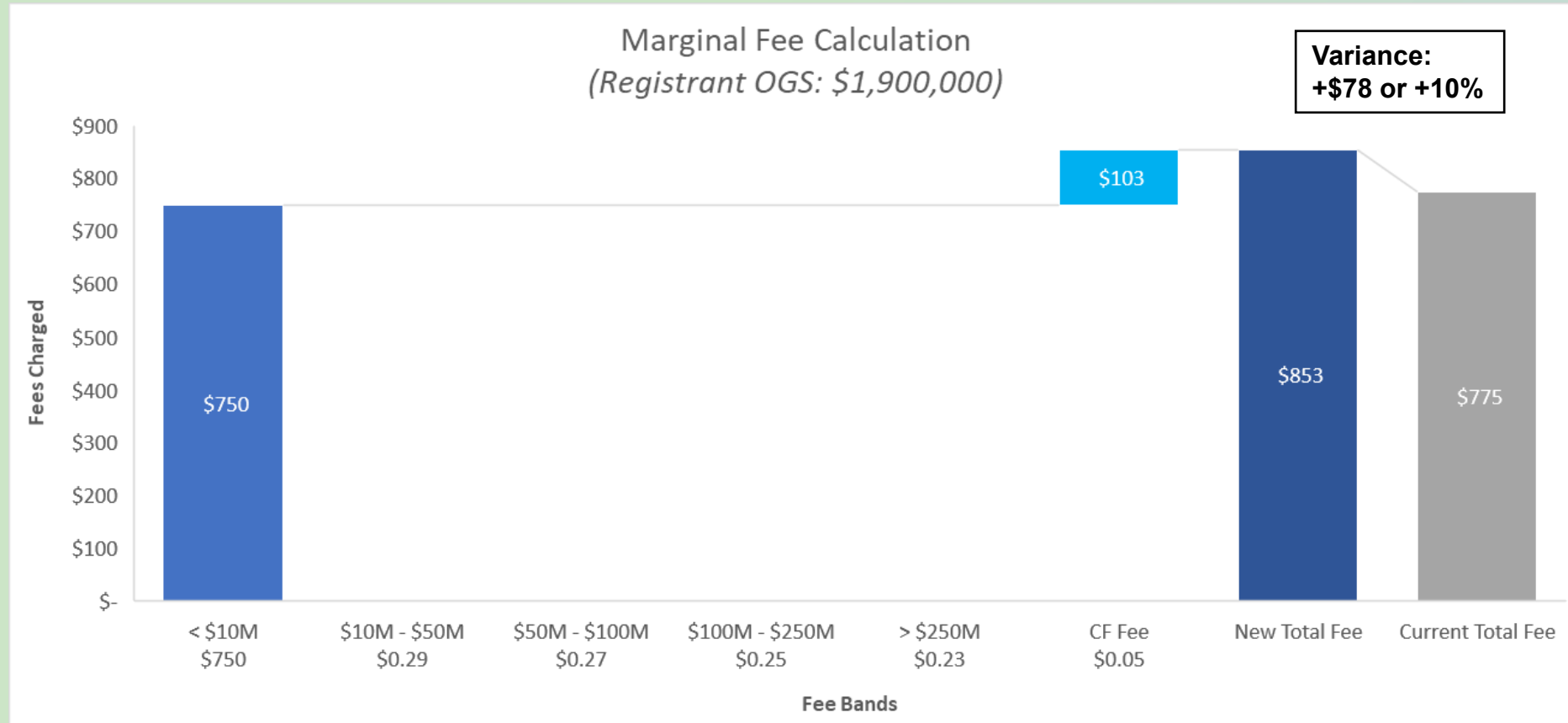
Proposal #4: Recalibrated Fee Bands

Total Fees	Renewal							+	Comp Fund
OGS	\$2M	\$5M	\$10M	\$50M	\$100M	\$250	\$250+		Rate/\$1,000
Current Band	\$300	\$600	\$900	\$1,200	\$1,800	\$1,800	\$1,800	+	\$0.25/\$1,000
Proposed Band	\$750			+ \$0.29/\$1,000	+ \$0.27/\$1,000	+ \$0.25/\$1,000	+ \$0.23/\$1,000	+	\$0.05/\$1,000



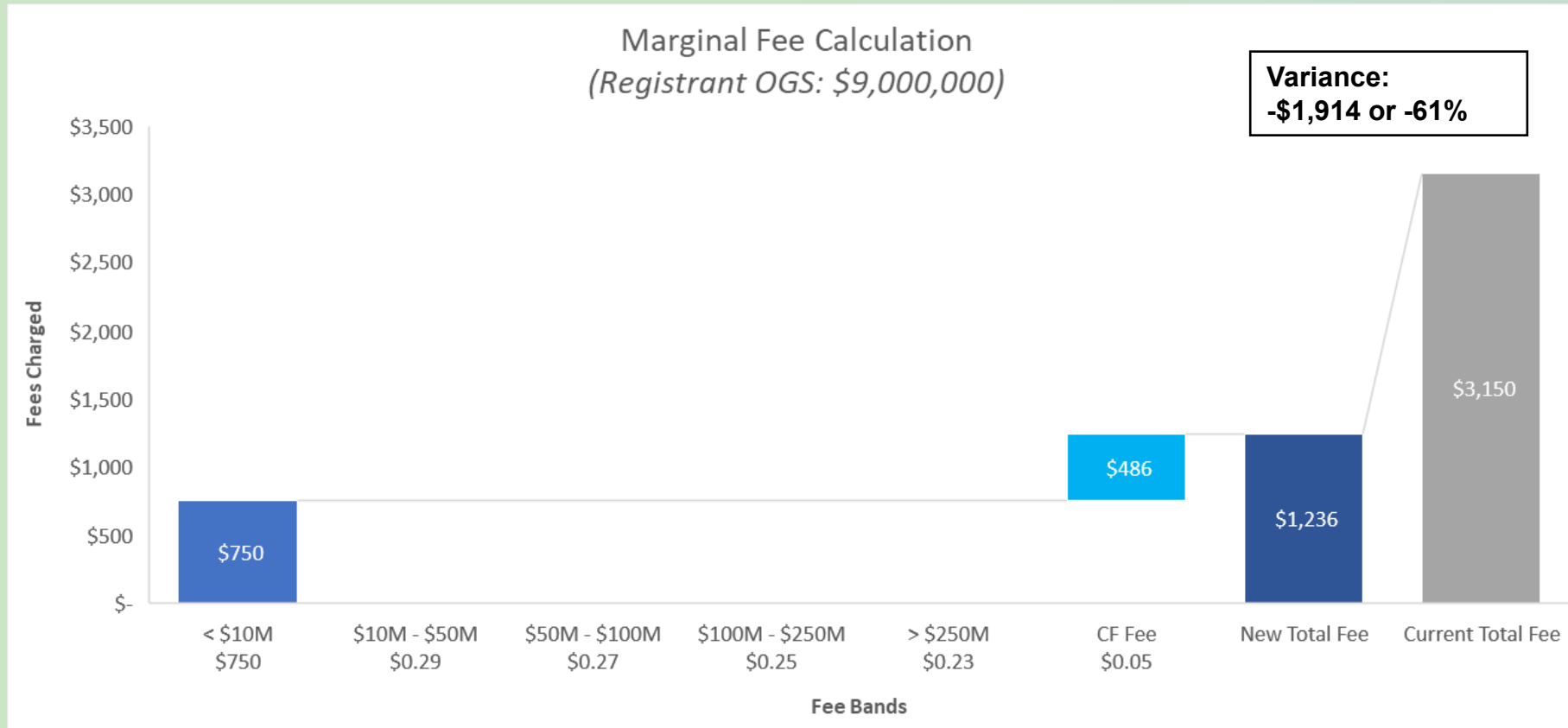
Proposed Solutions and Recommendations

Proposal #4: Recalibrated Fee Bands



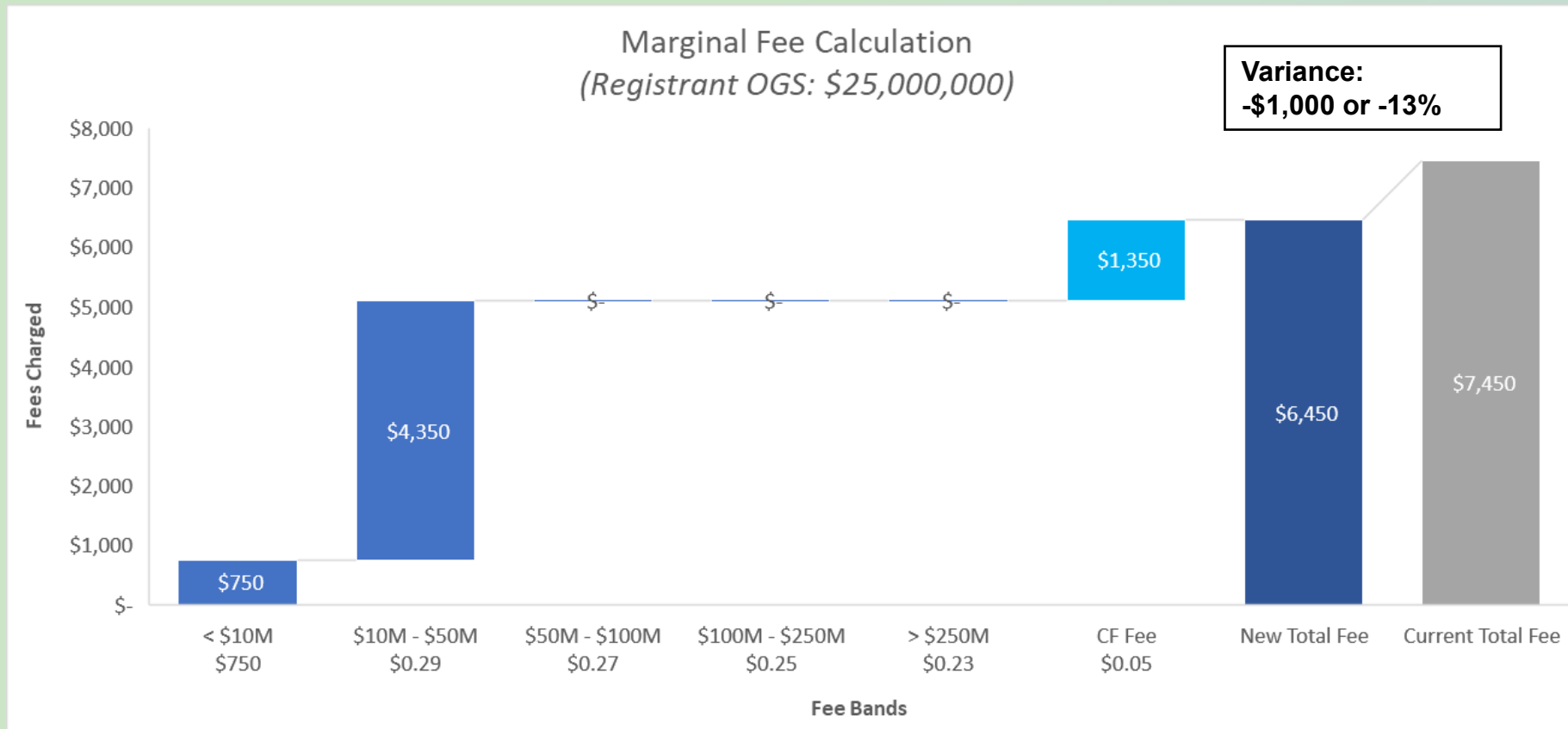
Proposed Solutions and Recommendations

Proposal #4: Recalibrated Fee Bands



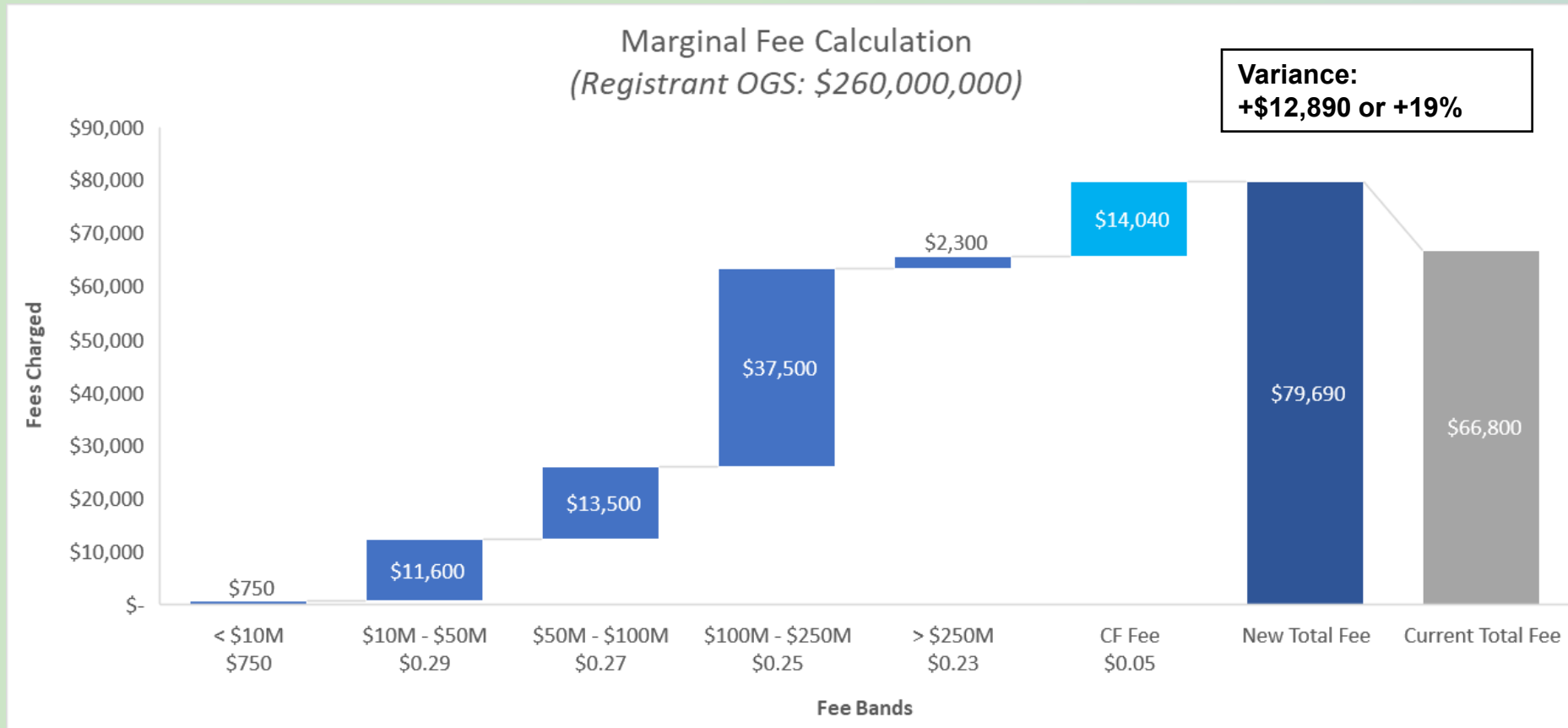
Proposed Solutions and Recommendations

Proposal #4: Recalibrated Fee Bands



Proposed Solutions and Recommendations

Proposal #4: Recalibrated Fee Bands



Proposed Solutions and Recommendations

Proposal #5: Late Filing Fees

- Late filings fees range from \$25 to \$100 and would apply to filings, renewals, and other administrative changes (e.g., notice of business change)

Type	Rate
Annual filing	\$100
Semi-Annual filing	\$50
Renewal	\$100
Notice of business change	\$25



TICO's Proposals



FOR CONSUMERS

- Increased Compensation Fund maximums per person*

FOR INDUSTRY

- Decreased Compensation Fund payments
- More equitable fee bands
- Removal of non-contributing end suppliers*
- Discuss option to pass fees onto consumers

FOR TICO

- Alignment between operating expenses and funding
- Late filing fees

*Subject to government consideration and decision-making



Consultation Consideration

Registrant Options for TICO's Fee and Payment Structure at the Point of Sale:

- Seek input from registrants regarding if there is a potential interest to voluntarily pass on to consumers and display registration renewal or Compensation Fund fees at the point of sale.
 - Other Ontario regulators, including the Ontario Motor Vehicle Industry Council and the Bereavement Authority of Ontario have instituted voluntary passing of certain regulatory fees to consumers, through a disclosed line item on the contract or invoice.
 - Registrants should consider the requirement of all-in pricing when advertising travel services. Any fee passed on to consumers at the point of sale would be required to form part of the all-in price.
 - We look forward to hearing about registrant interest in this potential voluntary option over the existing approach, where fees have not typically been displayed at the point of sale.





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PART III

Final Thoughts / Next Steps

Final Thoughts

- The proposed solution strikes a balance between consumer protection, industry sustainability, and stakeholder expectations.
- The proposed solution aims to ensure a sustainable funding model that meets consumer needs, while supporting the travel industry's recovery.



TICO – Next Steps

- **November 2023:** Review and analysis of feedback
- **December 2023:** Submission of feedback and Ministry review
- **February 1, 2024:** Notification of new fees
- **April 1, 2024:** Anticipated effective date for proposals #1, #4, and #5



Consultation Process

- The consultation period runs until November 10.
- Website hub includes all information ([click here](#)).
 - To estimate your fees under the proposed model, please use [TICO's fee estimate calculator](#).
- There are two ways that stakeholders and registrants can voice their feedback ([click here](#) to access survey or register for focus group):
 1. An online survey with space for written feedback
 2. Consultation focus group – Friday November 10 at 10 am





Travel Industry Council of Ontario

**We look forward to
hearing from you**