



Funding and Compensation Fund Frameworks

Executive Summary

April 10th, 2023





This Executive Summary represents an overview of detailed findings at the conclusion of the consultant's engagement with TICO [April 2023]. As such, some of the references and timeframes in this summary refer to the state of TICO's overall review at that time.

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Project Overview

In 2021, the Travel Industry Council of Ontario (TICO) conducted a fee review and industry consultation about a proposed funding approach that addressed only annual registration/renewal fees and other regulatory services. Feedback received at the time was that the industry was looking for a fee review that would also encompass the Compensation Fund. As a result, TICO committed to revisiting registrant fees in a comprehensive manner and are now in the process of following through on that commitment by engaging Optimus SBR to conduct an end-to-end review of TICO's current Funding Framework, as well as a full review of the Compensation Fund. In collaboration with the TICO Leadership Team and Board of Directors, Optimus SBR has considered a wide variety of options to develop an innovative Funding Framework and options for the Compensation Fund that will meet the protection needs of consumers today and into the future.

Purpose of this Document

The purpose of this document is to present the summarized findings from the Current State Analysis and the recommended Funding Framework and Compensation Fund. This document includes:

- An assessment of the current Funding Framework and Compensation Fund, informed by stakeholder engagement activities, comparator scanning and data/document reviews;
- An analysis of the various options explored for the Funding Framework and the Compensation Fund;
- Recommended options for the Funding Framework and the Compensation Fund, as well as an assessment of the recommended options against a set of Guiding Principles that were developed in collaboration with the TICO Leadership Team and Board of Directors;
- Impacts of the recommended options on consumers and registrants; and,
- Implementation considerations for the successful roll-out of the recommended Funding Framework and the recommended Compensation Fund.

Guiding Principles

To guide the development of both the Funding and Compensation Fund Frameworks, Optimus SBR has developed a set of Guiding Principles in collaboration with the TICO leadership team.

In the case of the Compensation Fund, there is a need to separate “first tier” objectives specific to the Compensation Fund from the general Guiding Principles that have been developed for both the Funding Framework and Compensation Fund, as this review is considering all options for the Compensation Fund, including whether or not it should exist at all. Given this reality, the existence of the Fund should not be assumed by the articulation of Guiding Principles. Optimus SBR has therefore used a two-tier approach to consider objectives and Guiding Principles for the Compensation Fund.

First Tier Objectives for the Compensation Fund

The table below outlines the first tier objectives that Optimus SBR will evaluate the Compensation Fund and various options against:

Table 1: First Tier Objectives for the Compensation Fund

Objective	Description
Consumer Protection	The Compensation Fund should provide useful and easily interpretable protection to consumers, which builds consumer confidence in travel services provided by registrants.
Consumer Understanding	The Compensation Fund’s coverage and process for making claims must be understandable to consumers. TICO will undertake efforts to educate consumers about the Fund, including providing additional clarity in terms of what the Fund covers, when claims can be made, and how to navigate the claims process.
Fund Sustainability	TICO’s Compensation Fund fees should be intended to maintain a sustainable fund that is able to cover any obligations due to the bankruptcy or insolvency of an Ontario registrant, an end supplier airline or cruise line or other suppliers and end suppliers.

Guiding Principles for the Funding Framework and Compensation Fund

The following table shows the Guiding Principles that have been developed in collaboration with the TICO leadership team. These Guiding Principles apply to both the Funding Framework and Compensation Fund.

Table 2: Guiding Principles for the Funding Framework and Compensation Fund

TICO’s Guiding Principles	Description
Cost Recovery	Registration and renewal fees, as well as alternative revenue sources, should cover all general costs of TICO operations, under normal course of business. One-time exceptional costs and capital expenditures may be funded through reserves.
Efficiency	Fees should aim to minimize the cost of administration for TICO.
Long-Term Financial Sustainability	Fees collected should enable TICO to carry out its consumer protection mandate, be resilient to business cycles, and provide stable funding and appropriate reserves.

TICO's Guiding Principles	Description
Simplicity	Fees should be easy for registrants and other stakeholders to understand, calculate and pay, with changes clearly articulated to registrants, and should not place undue administrative burden or requirements on registrants.
Equitability	To ensure that fees are fair and have a reasonable impact on all funders, TICO will consider underlying risks, along with registrant size/potential economies of scale, use of or burden on TICO resources, and ability to pay, when setting fees.
Transparency	TICO is committed to transparent communication and consultations with registrants, stakeholders, and the public regarding proposed fees, including describing how consultation informed the final determination of its fees or charges.

Current State Findings

Funding Framework Findings

To identify gaps in TICO's current Funding Framework, the current Framework's alignment to each Guiding Principle was assessed at a high level. The table below outlines the results of this assessment:

Table 3: Funding Framework Alignment to Guiding Principles

Guiding Principle	Alignment to Guiding Principle
Cost Recovery	Low
Efficiency	High
Long-Term Financial Sustainability	Low
Simplicity	High
Equitable	Low
Transparency	Medium

In general, there is significant room for improvement in terms of aligning the Funding Framework to the Guiding Principles articulated to date.

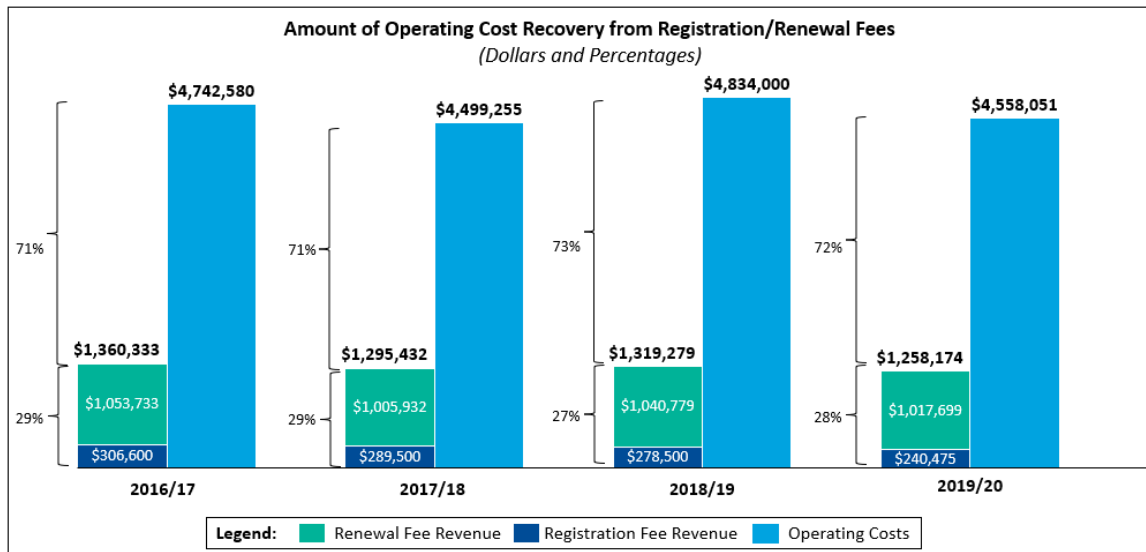
Summary of Key Findings

- The Funding Framework has not changed since TICO's inception in 1997 (except during COVID-19 when the fees were waived). Since that time, the way in which consumers purchase travel services has changed significantly including a rise in online transactions, credit card transactions and booking directly with end suppliers and out-of-province travel retailers.

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- While TICO’s Funding Framework is intended to recover operational costs primarily through registration and renewal fees, there has historically been a significant shortfall in funds raised from these sources to recover TICO’s operational costs. Before the COVID-19 pandemic, registration and renewal fees averaged a cost recovery rate of ~28%, leaving ~72% of TICO’s operational costs to be recovered primarily through reimbursements for administration from the Compensation Fund, as shown in the figure below:

Figure 1: Amount of Operating Cost Recovery from Registration/Renewal Fees



To cover this shortfall in its cost recovery, TICO has historically relied heavily on reimbursement from the Compensation Fund,¹ through monthly cash transfers ranging from \$250K to \$280K. Over the previous four pre-pandemic fiscal years, TICO has used ~78% of contributions to the Fund to reimburse itself for its operating costs, as shown in the table below:

Table 4: Amount of Reimbursement from the Compensation Fund (2016-2020)

	2016/17	2017/18	2018/19	2019/20	Avg.
CF Contributions	\$2,710,952	\$3,980,009	\$4,681,556	\$3,929,432	\$3,825,487
TICO Reimbursements	\$2,550,000	\$3,000,000	\$3,000,000	\$3,360,000	\$2,977,500
% Reimbursement	94%	75%	64%	86%	78%

Effectively, this means that ~78% of Compensation Fund contributions have historically been funding TICO operations, which is higher than what would be deemed reasonably attributable to the direct cost of administration of the Fund.

- TICO’s current registration and renewal fees, as currently constructed, are influenced by both the *number of overall registrants*, as well as the *Ontario Gross Sales (OGS) of each registrant*; as a result of these influences, TICO’s current Funding Framework is significantly influenced by business cycles and industry-wide sales.

¹ A proportion of revenues are also obtained from investment income, although these funds are restricted to the Compensation Fund and vary significantly year-to-year.

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- TICO’s external stakeholders generally do not perceive the current Funding Framework to be equitable. The current renewal fee bands were raised as a significant concern by many stakeholders, particularly TICO’s smallest registrants. These stakeholders’ primary equity concerns were:
 - That the current fee bands max out at OGS above \$50M.
 - That the differences in the flat renewal fees charged across fee bands are not proportional to the difference in size/scale of registrants across the fee bands.

Stakeholders also noted that the current fee bands are not representative of the registrants’ actual size and profit margin associated with various OGS levels. The following table illustrates nominal revenue and nominal net income for travel businesses of various sizes, using an assumption of 15% nominal revenue and 5% nominal net income:

Table 5: Illustrative Examples of Nominal Revenue and Nominal Net Income at Various OGS Levels

Type	OGS	Nominal Revenue (15% of OGS)	Nominal Net Income (5% of Nominal Revenue)
Small	\$2M	\$300,000	\$15,000
	\$5M	\$750,000	\$37,500
	\$10M	\$1,500,000	\$75,000
Medium	\$20M	\$3,000,000	\$150,000
	\$50M	\$7,500,000	\$375,000
	\$100M	\$15,000,000	\$750,000
Large	\$125M	\$18,750,000	\$937,500
	\$150M	\$22,500,000	\$1,125,000
	\$200M	\$30,000,000	\$1,500,000
	\$500M	\$75,000,000	\$3,750,000
Very Large	\$1B	\$150,000,000	\$7,500,000

Compensation Fund Findings

To determine whether the Compensation Fund provides useful consumer protection, is understandable to consumers, and is a sustainable fund, the current Compensation Fund’s alignment to each First Tier Objective was assessed. The table below outlines the results of this assessment.

Table 6: Compensation Fund Alignment to First Tier Objectives

Objective	Alignment to First Tier Objective
Consumer Protection	Medium
Consumer Understanding	Low
Fund Sustainability	Medium

To determine gaps in TICO’s current Compensation Fund, the current Fund’s alignment to each Guiding Principle was assessed at a high level. The table on the following page outlines the outputs of this assessment:

Table 7: Compensation Fund Alignment to Guiding Principles

Guiding Principle	Alignment to Guiding Principle
Cost Recovery	N/A
Efficiency	Medium
Long-Term Financial Sustainability	Medium
Simplicity	Medium
Equitable	Low
Transparency	Medium

As with the Funding Framework, there is significant room for improvement in terms of alignment to the First Tier Objectives and the Guiding Principles.

Summary of Key Findings

- The origins of the Compensation Fund date back to the original 1974 Travel Industry Act, long before TICO was delegated as an administrative authority and took control of the Fund in 1997. As noted in the Funding Framework findings, how consumers purchase travel services has changed significantly. The high-level mechanics (i.e., funded by registrants, maximum payouts, time to submit a claim) of the Fund has not changed significantly over the years, with the exception of the introduction of trip completion claims in 2010.
- Surveys of consumers tend to indicate that the Fund is valued by those who are aware of its existence. However, there is limited awareness of the Fund and surveys can be difficult instruments from which to elicit genuine willingness to pay.
 - In contrast, registrants were split on the value the Fund provides. While many understood its function as a Fund of last resort for consumers, many registrants pointed to the administrative burden and costs associated with contributing to the Fund as significant challenges for the sector.
- Both internal and external stakeholders believe there is a perceived inequality in how the Fund is administered; fundamentally, the “good” agencies and wholesalers subsidize the “bad” agencies and wholesalers. In addition, sector stakeholders generally believe that the Fund does not have the required coverage to effectively protect consumers.

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- The maximum payout per person is currently \$5,000 (unchanged since TICO’s inception), which does not reflect the ticket prices and transactions that some sector stakeholders typically process for consumers who purchase more expensive high-end or luxury travel packages.
- Sector stakeholders also highlighted the fact that the Fund’s coverage for end supplier failure is only initiated when an airline or a cruise line fails. The Fund’s coverage is not initiated when other end suppliers such as a hotel or car rental company fail. However, consumers are protected for travel services purchased but not received when the travel service package is made through a registrant. This includes travel services purchased but not received by an end supplier, such as a hotel or car rental company.
- Some internal and sector stakeholders believe that consumers should be contributing to the Fund, given they are the beneficiaries of the Fund, if a claim is approved.

Recommended Funding Framework

Overview of Recommended Funding Framework

The recommended model for renewal fees incorporates the following characteristics:

1. Use of fee bands as before, with the following significant alterations:
 - a. The smallest fee band has been expanded to include registrants with up to \$10M in OGS (increased from the current \$2M threshold)
 - b. Additional fee bands have been added for registrants with \$50M to \$100M in OGS, \$100M to \$250M in OGS, and greater than \$250M in OGS. Below is a table that compares the current fee bands to the new fee bands in the recommended model:

Table 8: Comparison of Current Versus New Fee Bands

Current Fee Bands	New Fee Bands
Less than \$2M	Less than \$10M
\$2M – \$5M	\$10M – \$50M
\$5M – \$10M	\$50 – \$100M
\$10M – \$50M	\$100M - \$250M
Greater than \$50M	Greater than \$250M

2. Continued use of a flat fee for registrants in the smallest fee band, with registrants in other fee bands now paying a variable fee that is tied to their OGS.

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- a. The minimum flat fee has been increased from \$300 to \$750, to reflect the greater number of registrants that are now within the smallest fee band (~92% of all TICO registrants would be in this fee band) and the increased size of some of the registrants within this fee band, as well as the associated greater total amount of OGS now within the band. Additionally, there is a fixed cost associated with regulating an entity of any size, and this increased fee better reflects these costs than the previous \$300.
3. Variable fee rates for each fee band will be calculated marginally (i.e., similar to how personal income tax is calculated), meaning that the rate within a particular fee band is only applied to incremental OGS within each fee band. This also means that all registrants are paying the same variable rate on the same dollar of OGS.

Table 9: Proposed Fee Bands and Renewal Fee Rates

Fee Band	Renewal Fee
Less than \$10M	Flat Rate of \$750
\$10M – \$50M	\$0.29 per \$1000 in OGS
\$50 – \$100M	\$0.27 per \$1000 in OGS
\$100M - \$250M	\$0.25 per \$1000 in OGS
Greater than \$250M	\$0.23 per \$1000 in OGS

Should industry sales increase above forecasted levels, there is a possibility that TICO may generate greater revenues than intended from renewal fees. Initially, any surpluses generated as a result would be used to build up TICO’s operating reserves (up to one year’s worth of operating expenses). After the initial implementation of these fees, TICO would then increase the amount of costs to be recovered through fees by a particular amount that is linked to the length of time it wishes to build up the reserve over. Once the appropriate reserve level is achieved, these fee rates will be assessed for either a fee reduction and/or for specifically approved initiatives.

Funding Framework Impacts

Funding for TICO’s operations currently relies on significant allocations from the Compensation Fund, of approximately 72%. The recommended Funding Framework will rely significantly less on allocations from the Compensation Fund, which is currently estimated at ~\$1M.² As such, it is important to recognize that renewal fees would significantly increase to reduce TICO’s reliance on allocations from the Compensation Fund to ensure an accurate comparison that incorporates these changes, it is critical to examine the current total amount of operational costs borne by registrants (inclusive of ~78% of Compensation Fund contributions) to those in the new Funding Framework. The table on the following page outlines this comparison and the aggregate impacts on registrants of various sizes.

Pending a decision on the structure (i.e. coverage, limits and other constraints) of the Compensation Fund, and the associated fund size required, it is unclear whether contributions to the Compensation Fund will be needed in the future. Based on our recommended option for the Compensation Fund, an actuarial assessment would be required to determine the amount of funding required. It is expected that in the short term, there would be a significantly lower Compensation Fund fee while TICO conducts an actuarial assessment to determine the appropriate size of the Fund. As such, the table on the following page does not include the impacts of any future fee related to the Compensation Fund.

Summary of Impacts:

² An allocation amount of \$1M was determined by TICO through an internal costing analysis exercise that was performed concurrent to this project.

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- Overall, the effects of the recommended funding framework result in total fee contributions by each fee band that are generally proportionate to that fee band’s share of overall OGS, with some variation; particularly in the smallest and largest fee bands. It should be noted that registrants in the “less than \$10M” fee band represent ~92% of TICO’s registrants, which is why their contribution is significantly greater than their share of OGS. Conversely, there is a very small number of registrants in the largest fee band, and there are economies of scale to regulating these entities.
- 650 (35%) registrants would see their fees decrease, while 1,215 registrants would see their fees increase.
 - Only 8 registrants would see an increase in their fees by more than \$10K
 - 1,174 of the 1,215 registrants who would see their fees increases (~97%) are small registrants with OGS levels of less than \$10M; these registrants would see their fees increase by less than \$450. This is due to the increase in the minimum fee, and these registrants’ relatively small amount of current Compensation Fund contributions being less than the increase in the minimum fee).
 - Registrants with OGS between \$5M and \$25M (~265 registrants) see the largest decreases in their fees, as these registrants were currently paying a larger flat fee and were also making material contributions to the Compensation Fund.
 - In particular, the greatest beneficiaries are those registrants with OGS levels that were just above \$10M, as the marginal variable rate results in these registrants no longer paying a higher flat fee for being in a higher fee band.

The table below outlines the range of the increases and decreases within each fee band:

Table 10: Registrants Experiencing Fee Increases and Decreases, and Range of Increases and Decreases

Fee Bands	Fee Rule	Range of Fee Decreases	Range of Fee Increases
Less than \$10M	\$750	\$(2,256) – \$(274)	\$28 – \$450
\$10M – \$50M	\$0.29	\$(2,557) – \$(12)	\$125 – \$750
\$50M – 100M	\$0.27	–	\$312 – \$2,635
\$100M – \$250M	\$0.25	–	\$3,071 – \$8,782
Greater than \$250M	\$0.23	–	\$9,386 – \$41,928
Total	N/A	\$(2,557) – \$(12)	\$28 – \$41,928

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The table below outlines the high-level impacts of the recommended Funding Framework on registrants within each of the proposed fee bands in the recommended Framework:

Table 11: Summary of Funding Framework Impacts

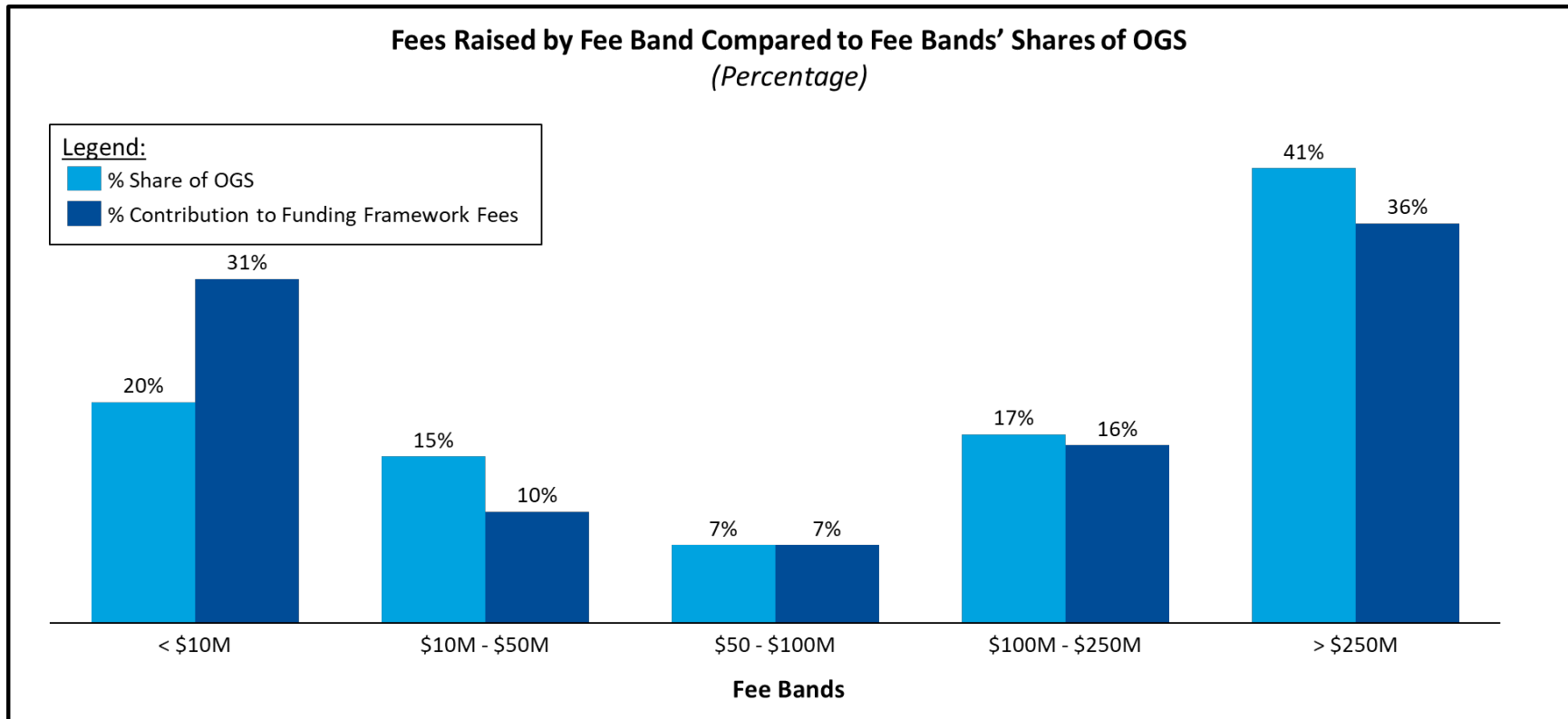
Current Fees (Calibrated to a Target Recovery of \$4.2M)					Recommended Fees (Based on a Target Recovery of \$4.2M)			Impacts	
Fee Band	Average Current Renewal Fee	Average Current Compensation Fund Contribution (~84%)	Average Current Total Fee (Renewal Fee + CF Contribution)	% of Operating Costs	Average New Fee	Average New CF Contribution	Average New Total Fee	Average \$ Fee Increase/Decrease	% of Operational Costs
Less than \$10M	\$425	\$381	\$806	33%	\$750	\$0	\$750	\$(56)	31%
\$10M – \$50M	\$1,200	\$4,257	\$5,457	15%	\$3,738	\$0	\$4,154	\$(1,719)	10%
\$50M – 100M	\$1,800	\$15,107	\$16,907	6%	\$18,276	\$0	\$22,035	\$1,369	7%
\$100M – \$250M	\$1,800	\$35,540	\$37,340	14%	\$43,224	\$0	\$52,767	\$5,883	16%
Greater than \$250M	\$1,800	\$132,536	\$134,336	32%	\$152,187	\$0	\$179,253	\$17,852	36%
Total Raised	\$938,400	\$3,261,600	\$4,200,000	100%	\$4,200,000	\$0	\$4,200,000	N/A	100%

Please note that for the purposes of illustrating a true comparison of the impacts of the fee change in the above table, the “Current Fees” have been calibrated to the new target recovery amount of \$4.3M, through an increase in the reimbursement amount from the Compensation Fund to 84%.

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Overall, the effects of the recommended funding framework result in total fee contributions by each fee band that are generally proportionate to that fee band’s share of overall OGS, with some variation as shown in the charts below. It should be noted that registrants in the “less than \$10M” fee band represent ~92% of TICO’s registrants, and there is a fixed cost to regulating any entities, which is why their contribution is greater than their share of OGS. Conversely, the largest fee bands contains a very small number of registrants, and there are economies of scale associated with regulating these entities. Through the use of marginal variable rates, this is achieved while ensuring that all registrants pay the same fee for the same dollar of OGS across registrants.

Figure 2: Fees Raised by Fee Band Compared to Fee Bands' Shares of OGS



Funding Framework Alignment to Guiding Principles

Similar to the Guiding Principles assessment that was conducted in the Current State portion of the engagement, an assessment of alignment to the Guiding Principles has been performed for the recommended Funding Framework:

Table 12: Funding Framework Alignment to Guiding Principles

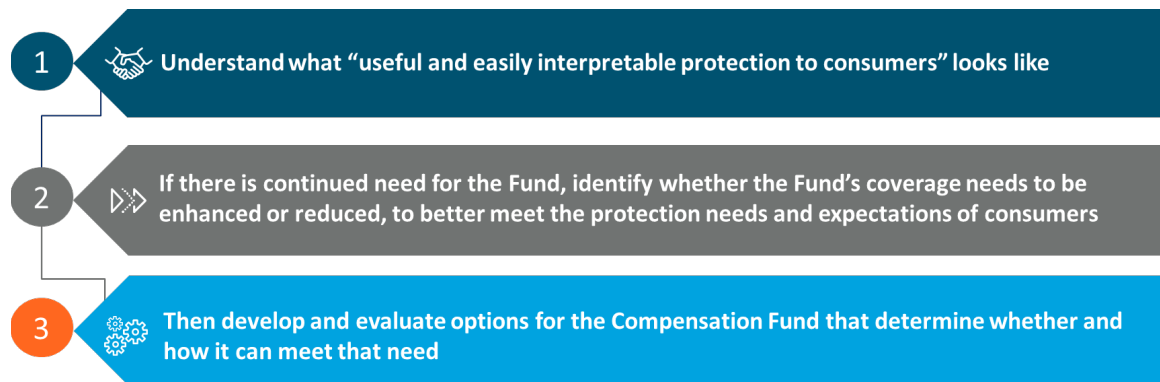
Guiding Principle	Current Model	Recommended Model
Cost Recovery	Low	High
Efficiency	High	Medium
Long-Term Financial Sustainability	Low	High
Simplicity	High	Medium
Equitability	Low	High
Transparency	Medium	High

Recommended Compensation Fund Model

Approach to Determining Compensation Fund Model

For the Compensation Fund, the TICO Leadership Team and Board have explored and evaluated multiple options in the past. Upon reviewing these options, it is clear that these options vary greatly in terms of the problems they address.

While these options are comprehensive and have considered fund models used by similar jurisdictions, there is a need for TICO to first:



Upon making these decisions, TICO would then have an understanding of the **legislative changes** that may be required to O. Reg. 26/05, **how the Fund would need to operate**, and what **size** it would need to be.

Decision #1: Understand what “useful and easily interpretable protection” to consumers look like

The Compensation Fund, as currently constructed, needs to be improved to provide useful and easily interpretable protection to consumers. However, there is continued need for the Travel Compensation Fund on the basis that:

- Consumer protection is core to TICO’s mandate;
- Stakeholders have mixed views on how the Fund operates today, but there is a lack of a compelling case to eliminate the Fund altogether; and,
- Australia’s approach to de-regulating the travel sector has resulted in a few cases where consumers were financially harmed.

Decision #2: If there is continued need for the Fund, identify whether the Fund’s coverage needs to be enhanced or reduced, to better meet the protection needs and expectations of consumers.

Based on the determination that the Fund should continue to exist, the next decision requires a review of what an appropriate scope of coverage looks like.

To support decision-making, the scope of coverage for the Fund was organized into several coverage items, each with potential sub-options and corresponding remedies. This is summarized in the table below:

Coverage item	Potential Scope of Coverage (Features)	Remedies
Registrant failure	Travel services purchased through an Ontario registrant, but not received due to registrant failure (current state)	Payments out of the Fund are limited to a maximum of \$5,000 per person.
	No coverage for registrant failure	No remedy – TICO will not reimburse a claim when travel services are not received due to a registrant failure.
End supplier failure	Select end suppliers (e.g., airlines, cruise lines, hotels and car rental companies)	Payments out of the Fund are limited to a legislated maximum.
	Airline and cruise line (current state)	Payments out of the Fund are limited to a maximum of \$5,000 per person.
	No end suppliers	No remedy – TICO will not reimburse a claim when travel services are not received due to end supplier failure.
Trip completion and repatriation	All circumstances (e.g., severe weather)	Reasonable expenses incurred to complete a trip up to a legislated maximum.
	Either registrant or end supplier fails	Reasonable expenses incurred to complete a trip up to a legislated maximum.

Coverage item	Potential Scope of Coverage (Features)	Remedies
	When a registrant fails (current state)	Reasonable expenses incurred to complete a trip where travel services have not been provided, up to \$5,000 per person.
Claim Limits	Payments out of the Fund are either: <ul style="list-style-type: none"> • Decreased; • Maintained; or • Increased relative to the current limits of \$5,000 per person, \$2M per trip completion event and \$5M per standard claim event.	Impacts the above columns

1.1.1 Decision #3: Develop options for the Compensation Fund that determine whether and how it can meet that need.

Based on working sessions conducted with the TICO Senior Leadership Team, the key components of the Compensation Fund were combined to create comprehensive and cohesive options. While several combinations were explored over the course of the process, several component options were eliminated resulting in three distinct options for analysis against the first tier objectives and guiding principles.

The following section reflects some of the decisions that were made along the process to eliminate certain options.

Funder

To answer the question of “who would contribute to the Fund” several sub-options were explored:

- **Legislated consumer pay model** – the consumers are required to contribute to the Compensation Fund, as outlined in legislation.
- **Registrant pay with option to pass fee to the consumer** – Registrants are required to remit the Compensation Fund fee to TICO. Registrants may choose to pass on the fee to consumers, but this is optional.
- **Registrant pay** – the registrants continue to make contributions to the Fund.

One of the key implications of introducing a legislated consumer pay model is that the Fund would need to have enhanced coverage and be positioned as a fund of first resort. While the merits of a consumer pay model appear reasonable, a fund of first resort does not appear optimal based on this review. In addition, the expected additional costs associated with administering a fund of first resort are likely significant. There is also a greater challenge associated with making the case for this model given current government priorities regarding reducing burden on the consumer. Therefore, any option that involved a legislated consumer pay model was eliminated.

Any options that involved a registrant pay model (as it exists today) were also eliminated on the basis that stakeholders believe there is a perceived inequality in how the Fund is administered and given the fact that there are no risk-based mechanisms in place in terms of how fees are collected.

Other components that were reviewed as part of options development included:

- **Risk sharing** – determining which entity bears the risk associated with the Fund.
- **Fund positioning** – determining whether the Fund should be positioned as a fund of first resort or last resort.

Based on the analysis, three options were identified and selected for assessment against the first tier objectives and guiding principles.

1. Enhanced Coverage Including Coverage for End Supplier Failure
2. Increased Claim Limits with End Supplier Coverage Removed
3. Trip Completion and Repatriation Only

Overview of Recommended Compensation Fund Model

Increased Claim Limits with End Supplier Coverage Removed

The Compensation Fund would continue to cover registrant failure and trip completion and registrant claims. The Compensation Fund's coverage would also be expanded through increased claim limits. However, coverage for the failure of any end supplier would be removed. Registrants would be required to remit the Compensation Fund fee. They may choose to pass on the fee to consumers, but this is optional.

This option is driven by the following rationale:

- Coverage for end supplier failure should be removed because:
 - In the PMG Intelligence Consumer Survey conducted in December 2022, consumers indicated that they were generally not concerned about the failure of an end supplier while travelling. Only 8% of respondents indicated that the risk of an end supplier going out of business was their primary concern.
 - Coverage for end supplier failure, especially airlines, creates significant tail risk³ for the Compensation Fund.
 - TICO does not regulate the airline industry or the cruise line industry. It does not have the regulatory tools to impact or influence entities in those industries, and therefore should not be protecting consumers from risks of bankruptcy or insolvency in those industries.
- End suppliers do not currently contribute to the Compensation Fund. As previously stated, since TICO does not regulate those industries, they cannot impose Compensation Fund fees on those end suppliers.
 - Registrants are currently paying for the risk of end supplier insolvency.
- To alleviate burden on the sector, registrants should be given the option to pass Compensation Fund fees onto the consumer.

³ Tail risk in this context is defined as the risk associated with a rare event occurring and that event having severe consequences on the Compensation Fund.

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- If registrants choose to pass the fee onto the consumer, it is expected to raise awareness for the Fund.
- This would also create a clear delineation between funding for TICO operations and the Compensation Fund.
- While an actuarial assessment would be required to determine the appropriate size of the Fund based on this scope of coverage, it is assumed (for the purposes of this exercise), that the Fund size would not differ greatly from how the Fund has been managed and operated in current state. Therefore, TICO is expected to cover the risk through a self-insurance model (where TICO bears all the risk associated with claims made against the Fund).
- The Fund can be positioned as a Fund of last resort, as travel consumers can and should seek reimbursement from other sources (e.g., registrant, insurance, credit card) before making a claim to TICO.

Compensation Fund Alignment to First Tier Objectives and Guiding Principles

To determine whether the Compensation Fund provides useful consumer protection, is understandable to consumers, and is a sustainable fund, the recommended Compensation Fund’s alignment to each First Tier Objective was assessed at a high level. The table below outlines the results of this assessment.

Table 13: Compensation Fund Alignment to First Tier Objectives

First Tier Objective	Alignment to Guiding Principle
Consumer Protection	Medium
Consumer Understanding	High
Fund Sustainability	Medium

To confirm the recommendation, the Compensation Fund model was assessed against each of the Guiding Principles. The table below outlines the results of this assessment.

Table 14: Compensation Fund Alignment to Guiding Principles

Guiding Principle	Alignment to Guiding Principle
Efficiency	Medium
Long-Term Financial Sustainability	Medium
Simplicity	High
Equitable	High

Note: While Cost Recovery is a Guiding Principle that stretches across both the Funding Framework and the Compensation Fund, the Guiding Principle description for Cost Recovery (and the research questions associated with it) does not allow for a clear assessment of TICO’s alignment to this principle. The definition of cost recovery specifically references TICO’s ability to cover the cost of TICO operations through registration and renewal fees.

Note: the assessment for the guiding principle of “transparency” for all options is considered medium, as its alignment is dependent on how TICO implements the selected option.

Summary of Combined Impacts

An actuarial assessment was conducted by Deloitte in 2018 based on the Fund's current scope of coverage. Deloitte projected that a large registrant failure could result in the Fund facing a loss of \$62M based on a moderate scenario where a large registrant failure occurs during the busy March break travel season. As such, Deloitte's official recommendation for a target Fund size was \$50M.

Optimus SBR cannot comment on the target size of the Fund, but above findings from Deloitte's 2018 actuarial study may serve as future considerations based on the outcomes of this review. Historically, TICO has advocated for regulatory change and conducted multiple fee reviews to identify methods that might close the gap between the Fund's current level of funding and the target Fund size, however, there has not been a clearly identified path to get the Fund to the previously defined target size of \$50M.

Pending a decision on the structure of the Compensation Fund, and the associated fund size required, it is unclear whether contributions to the Compensation Fund will be needed in the future. Based on our recommended option for the Compensation Fund, an actuarial assessment would be required to determine the amount of funding required. It is recommended that in the short term, TICO would charge a small fee to recover the \$1M that would be reimbursed to TICO, while TICO conducts an actuarial assessment to determine the appropriate size of the Fund. This cost would be to cover the direct and indirect costs of maintaining and administering the Fund, and to ensure that the Fund is not depleted further during the assessment period.

Executive Summary

Based on a preliminary costing analysis, TICO deemed that a reasonable amount of \$1M would be required to be raised annually, to offset reimbursement from the Compensation Fund to TICO operations. As such, it is recommended that a fee of \$0.065 per \$1,000 be charged to recover this amount. The chart below outlines the impacts of the combined renewal fees and Compensation Fund contributions on registrants. The contribution of future investment income earned was not taken into consideration and could reduce the impact on future compensation fund fees. Please note that for the purposes of illustrating a true comparison of the impacts of the fee change in the table below, the “Current Fees” have been calibrated to the new target recovery amount of \$5.2M, through a 10% increase to the Compensation Fund fees collected.

Table 15: Summary of Combined Impacts on Registrants

Current Fees (Calibrated to a Target Recovery of \$5.2M)				Recommended Fees (Based on a Target Recovery of \$5.2M)			Impacts
Fee Band	Average Current Renewal Fee	Average Current Compensation Fund Contribution to TICO operations	Average Current Total Fee (Renewal Fee + CF Contribution)	Average New Renewal Fee	Average New CF Contribution	Average New Total Fee (Renewal Fee + CF Contribution)	Average \$ Fee Increase/ (Decrease)
Less than \$10M	\$425	\$498	\$923	\$750	\$117	\$867	\$(56)
\$10M – \$50M	\$1,200	\$5,563	\$6,763	\$3,738	\$1,305	\$5,044	\$(1,719)
\$50M – 100M	\$1,800	\$19,739	\$21,539	\$18,276	\$4,632	\$22,908	+\$1,369
\$100M – \$250M	\$1,800	\$46,437	\$48,237	\$43,224	\$10,897	\$54,120	+\$5,884
Greater than \$250M	\$1,800	\$173,171	\$174,971	\$152,187	\$40,636	\$192,823	+\$17,852
Total Raised	\$938,400	\$4,261,600	\$5,200,000	\$4,200,000	\$1,000,000	\$5,200,000	\$0

The above assumes that \$1M is sufficient to cover the costs TICO incurs to administer the fund. As noted elsewhere, there has not been a clearly identified path to get the Fund to the previously defined target size of \$50M. As such, depending on the results of the actuarial assessment, there may be an even greater increase in the overall obligation to registrants.

Implementation Plan

The tables on the following pages outline the high-level activities that will be required to support the implementation of both the new Funding Framework and Compensation Fund.

Table 16: Funding Framework Implementation Plan

	Phase 1: Interim State Year 1	Phase 2: Future State Years 2-4
Funding Framework	<p>Stakeholder Consultations</p> <ul style="list-style-type: none"> ○ Conduct Consultation and Notice in accordance with the Administrative Agreement <p>Development of Fee Review Analysis</p> <ul style="list-style-type: none"> ○ Analysis of stakeholder feedback ○ Develop Fee Review Analysis in accordance with the Administrative Agreement <p>Operations</p> <ul style="list-style-type: none"> ○ Setup IT systems to support recommended funding framework ○ Development of new processes and policies and staff orientation <p>Stakeholder Management and Communications</p> <ul style="list-style-type: none"> ○ Development of communication materials ○ Ongoing stakeholder outreach and communications <p>Execution</p> <ul style="list-style-type: none"> ○ Implement recommended model ○ Use any surpluses generated to build up TICO operating reserves <p>Risk-based</p> <ul style="list-style-type: none"> ○ Develop robust risk criteria ○ Begin collecting data on risk criteria 	<p>Execution</p> <ul style="list-style-type: none"> ○ Incorporate pending legislative changes into Funding Framework <ul style="list-style-type: none"> ○ Individual registration ○ Retailer and wholesaler combined as “travel seller” ○ At the time of next fee review, determine approach to building up reserves: <ul style="list-style-type: none"> ○ Determine the value of operating reserves built up through surpluses ○ Identify target timeframe to recover remaining amount required, and associated annual amount to be recovered ○ Add annual amount to be recovered for building operating reserves to the total funding amount to be recovered from renewal fees <p>Risk-based</p> <ul style="list-style-type: none"> ○ Explore and incorporate potential risk-based fees (2-3 years)

Executive Summary

Table 17: Compensation Fund Implementation Plan

	Phase 1: Interim State Years 1-2	Phase 2: Future State Year 3-4
Compensation Fund	<p>Stakeholder consultation</p> <ul style="list-style-type: none"> ○ Conduct Consultation and Notice in accordance with the Administrative Agreement <p>Development of Fee Review Analysis</p> <ul style="list-style-type: none"> ○ Analysis of stakeholder feedback ○ Develop Fee Review Analysis in accordance with the Administrative Agreement <p>Operations</p> <ul style="list-style-type: none"> ○ Implement temporary fee holiday ○ Conduct actuarial assessment ○ Conduct further analysis on Compensation Fund mechanisms ○ Setup IT systems to support recommended model <p>Legislative Change</p> <ul style="list-style-type: none"> ○ Consult with the Ministry of Public and Business Service Delivery (MPBSD) on legislative changes ○ Pending Ministry approval, begin process to make legislative change 	<p>Stakeholder Management and Communications</p> <ul style="list-style-type: none"> ○ Development of communication materials ○ Ongoing stakeholder outreach and communications <p>Execution</p> <ul style="list-style-type: none"> ○ Implement recommended model ○ Registrant pay, with an option to pass it on to the consumer