



Travel Industry Council of Ontario

Funding Framework and Fee Review Proposal

October 5, 2023



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About the Comprehensive Funding Framework and Fee Review

As an organization focused on protecting consumers, we want to make sure our actions are transparent, and we are accountable for the progress in the transformation of the organization based on the spirit of the *Ontario Travel Industry Act, 2002*.

- Over the past year, TICO engaged a consultant to conduct a comprehensive funding framework review, actively seeking input from Ontario consumers, registrants, and industry stakeholders. A comparator scan was conducted to understand practices and approaches taken by comparable travel regulatory bodies in other regions, including Quebec. A comprehensive view of the state of the travel industry was also completed. This review formed the basis for TICO's proposals.
- Throughout the process TICO has delicately balanced the interests of Ontario consumers and the travel industry.
- Following the funding framework review, an actuarial study was completed to review past claims, the current state of the industry, and future economic and external factors, to assess what the target value of the Compensation Fund should be.

[Read summaries of the review report and actuarial report on TICO's website.](#)

Why Did TICO Conduct a Comprehensive Funding Framework and Fee Review

- The travel industry has evolved significantly in recent years, including throughout the devastating period of COVID-19, creating an opportunity to do a comprehensive end-to-end review of the way TICO is funded and the role of the Compensation Fund.
- Consumers are looking for safe ways to travel, and part of a safe marketplace is having the confidence that travellers will be protected if something goes wrong. TICO has undertaken a review of its model and a series of consultations to hear directly from our stakeholders about how we can improve consumer protection.
- We know this is a difficult time for many companies in the travel industry still recovering from the pandemic and navigating inflation. While always putting consumer protection first, we keep the interests of registrants front and centre.
- Since TICO was formed in 1997, it has consistently faced a gap between registration and renewal fees and the full cost of its regulatory operations. Compensation Fund payments are continually used to support TICO's operations.

Key Review Highlights

From the comprehensive review, we learned that TICO's Compensation Fund remains an important backbone for consumer protection.

From consumers

- 90% of consumers surveyed* indicated they would expect to get their money back (in full or in part) if the travel agency they purchased through went out of business.
- When asked who they would expect to provide the reimbursement, TICO ranked 4th, with the travel agent, insurance company and credit card company all ranking above TICO. This aligns with the current positioning of the Fund as a fund of last resort.
- Consumer research conducted as part of the funding review indicated that consumers 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.

* Based on a third-party survey of 853 Ontarians, conducted between December 2022-January 2023.

From registrants

- 60% of registrants surveyed** agree that the Compensation Fund is a valuable model for protecting consumers.
- Stakeholder consultations revealed that the sector in particular values coverage for trip completion and repatriation.
- Stakeholders oppose end-supplier coverage (airline and cruise line) in the Compensation Fund, as those providers do not pay into the Fund.
- The industry is looking for added flexibility in how they manage costs, especially during this time of recovery and inflation.

** Based on a third-party survey of 164 Ontario registrants (all registrants invited to participate) between January-February 2023.

Proposals for Consultation

TICO is pleased to present its proposals for its future funding framework, fee structure and Compensation Fund that will be consulted on during the upcoming stakeholder sessions. There are five key 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 new late filing fees to encourage timely submission of required documentation and ensure efficient processing.

Proposals #1, #4 and #5 have an anticipated implementation date of April 1, 2024.

Proposals #2 and #3 are subject to government consideration and decision-making, and 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.

Quick Facts

The majority of registrants can expect a modest adjustment to their total fees payable to TICO.

- **35%** of registrants will see their total fees to TICO (combined renewal fees and Compensation Fund contributions) decrease.
- **3.6%** is the average aggregate rate of increase in total fees paid to TICO by registrants, based on historical Ontario sales (fiscal year 2019-2020).

About the Proposals

Compensation Fund Changes

TICO commissioned an actuarial study to determine the necessary balance for the Compensation Fund, reflecting today's environment and the impact of the past three years. The industry is now on a path to recovery in the post-COVID environment, and the Compensation Fund's structure and balance needed to be revisited with a new lens.

The recently completed actuary report recommends a minimum level for the Compensation Fund of \$14 million, which represents two times the legislated maximum per event.

The actuarial analysis supports:

Proposal #1

A decrease in registrants' Compensation Fund payments to \$0.05/\$1,000 from \$0.25/\$1,000 of Ontario Gross Sales.

- As a burden reduction measure, TICO is proposing to eliminate mid-year Form-1 filings. Compensation Fund assessments would only be payable one time per year, within 90 days of the registrant's year-end.
- There will continue to be a minimum Compensation Fund payment of \$25 + PST. This also represents a burden reduction, as the minimum payment was previously due on a semi-annual basis.

Proposal #2

From the comprehensive funding framework review, we heard that registrants oppose end-supplier coverage (airlines and cruise lines) in the Compensation Fund, which TICO is proposing to remove, subject to government consideration and decision-making.

- Historically, only 14% of total claims paid out to consumers since TICO's inception related to end-supplier failures (vs. registrant failures).

- 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. Consumers impacted by end-supplier failures can continue to seek reimbursement from credit cards, travel insurance or other methods, where appropriate.

Proposal #3

Doubling the maximum payout to \$10,000 per consumer, from the current \$5,000 maximum to better protect consumers and reflect the cost of travel. This proposal is subject to government consideration and decision-making.

Recalibrated Fee Bands

Proposal #4

TICO's goal is to create a modernized and more equitable fee structure for registrants, while providing more stability for TICO to execute its consumer protection mandate and provide support to consumers who need it.

- The last time TICO adjusted its renewal fees was in 2011, 12 years ago. The organization continuously looks for ways to be more efficient, however like all other businesses, TICO faces the impacts of inflation.
- TICO is realigning fees so that registration and renewal fees fully reimburse TICO's operating expenses, which has not been the case in the past.
- TICO continues to practice prudent financial management. Over the last five years, total operating expenses have declined by an average of 0.7% annually. We continue to look for efficiencies, while supporting Ontario's travel consumers.
- TICO registration renewal fees will continue to be payable within 90 days of the registrant's year-end.

[Use TICO's fee calculator](#) to estimate total fees payable to TICO.

- **The recalibrated renewal fee bands work in a similar way as personal income tax.** As a result, all registrants will be paying the same variable rate on the same dollar of Ontario Gross Sales. To be fair to larger registrants, this rate reduces as Ontario Gross Sales increase.
- **Based on pre-pandemic Ontario sales, more than 90% of registrants will fall under the 'less than \$10 million' band,** where the registration renewal fee will be a flat rate of \$750, and a decreased rate of \$0.05/\$1,000 Ontario Gross Sales for Compensation Fund assessments. This provides added financial predictability for travel agency and tour operator owners, while supporting a competitive landscape for new entrants into the industry.
- There is a minimum cost for TICO to regulate a registrant of any size. By ensuring that 90% of registrants pay a base fee, TICO can recover these costs in an efficient manner. This enables TICO to provide effective oversight and maintain high standards within Ontario's travel industry.
- The current flat fee of \$300 for the smallest registrants does not fully reflect the fixed costs associated with regulating an entity of any size. Increasing the minimum fee to \$750 better aligns with the costs associated with regulating the majority of registrants.

NEW FEE BAND THRESHOLDS

Current Fee Bands	New Fee Bands	New Renewal Fee
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

AVERAGE FEES AND IMPACT BY FEE BAND

Fee Band	Current Fees	New Fees	Impacts	
	Average Current Total Fee (Renewal Fee + CF Contribution)	Average New Total Fee (Renewal Fee + CF Contribution)	Average \$ Fee Increase/(Decrease)	Average % Fee Increase/(Decrease)
Less than \$10M	\$876	\$840	(\$35)	(4.1%)
\$10M – \$50M	\$6,239	\$4,746	(\$1,493)	(23.9%)
\$50M – \$100M	\$19,682	\$21,853	\$2,171	11.0%
\$100M – \$250M	\$43,868	\$51,637	\$7,769	17.7%
Greater than \$250M	\$158,679	\$183,563	\$24,884	15.7%

Institute New Late Filing Fees

Proposal #5

TICO is proposing to institute new late filing fees to encourage timely submission of required documentation and payment for registration renewals and Compensation Fund filings. This will allow TICO to ensure efficient processing without the need for extensive reminders and individual follow-ups.

The proposed late filing fees will include:

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

Registrants who file on time will not be impacted by these proposed changes.

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

Recognizing different business models and operational choices among registrants, seek input from registrants regarding if there is a potential interest to voluntarily pass on and display registration renewal or Compensation Fund fees at the point of sale.

- Should registrants be interested in passing fees to consumers at the point of sale, TICO could provide guidance on how these fees could be determined and displayed.
- Other Ontario regulators, including the Ontario Motor Vehicle Industry Council and the Bereavement Authority of Ontario have instituted voluntary approaches where industry has the option of passing on 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.

Compensation Fund: Survey Data

At the outset of the funding framework review, all options were on the table and evaluated, ranging from eliminating the Compensation Fund altogether, to a consumer pay model, to status quo.

Consumer data

- TICO engaged a professional research firm to conduct a survey of more than 800 Ontarians. The survey found:
 - 90% of respondents indicated they would expect to get their money back (in full or in part) if the travel agency they purchased through went out of business.
 - When asked who they would expect to provide the reimbursement, TICO ranked 4th, with the travel agent, insurance company and credit card company all ranking above TICO. This aligns with the current positioning of the Fund as a fund of last resort.
 - More than 80% of the respondents indicated that access to the Compensation Fund is valuable.

Registrant data

- We acknowledge that the Compensation Fund is a topic that industry has mixed views about—the review confirmed that some registrants and stakeholders believe it should be significantly changed while others believe it's a valuable consumer protection tool.
- As part of the 2023 comprehensive registrant survey, TICO found:
 - 59% of registrant respondents agreed that the Compensation Fund is a valuable model for protecting consumers. This is up from 51% in 2021.
 - Stakeholder consultations revealed that the sector in particular values coverage for trip completion and repatriation.



Compensation Fund: Quebec Legislated Consumer Pay Model

As part of the funding framework review, Quebec's legislated consumer pay model was researched and analyzed as a potential proposal for Ontario.

A legislated consumer pay model was not proposed for several reasons:

- During the COVID-19 pandemic, Quebec saw a significant increase in claims due to their scope of coverage and Fund positioning, resulting in a significant depletion of the Fund. At the same time, claim processing was delayed as the regulator grappled with complications. Quebec uses a third-party global big four accounting firm to adjudicate consumer claims, adding additional cost to the process.
- Quebec's Office de la protection du consommateur (OPC) regulates not only travel agencies, but also a number of other sectors. Their size and scope are considerably larger than TICO's, as is their ability to administer an expanded compensation fund.
- In the context of our province, the overall regulatory cost to the industry would likely increase under a legislated consumer pay option.
 - Quebec's model allows for greater overhead efficiency across multiple sectors. Focused on a single sector, TICO anticipates having to add significant overhead to replicate the Quebec model, the costs of which would be borne by industry. Registrants would also have additional costs associated with administering, collecting and remitting payments to TICO.
 - For TICO to consider a consumer pay model, further investment would be required to scale its operations to enable it to address operational challenges (e.g., claims administration and processing) associated with double-dipping, where the risk exists of consumers receiving reimbursement from multiple sources.
 - The potential for fraud would be much higher, and privacy rules in different jurisdictions would make it difficult for TICO to ensure consumers do not have other options for reimbursement. Further, language, time zones and consumer protection regimes in other jurisdictions would make it difficult for TICO (provincial regulator) to be effective in processing claims for suppliers around the world.

TICO is consulting on if there is a potential interest from registrants to voluntarily pass on and display registration renewal or Compensation Fund fees at the point of sale.

Consultations: Have your say

TICO is conducting a comprehensive consultation with registrants and stakeholders about the proposals. There are two ways to get involved:

1. Complete an online survey and provide your written feedback.

The survey will remain open until Friday, November 10, 2023. [Visit TICO's website to access the survey.](#)

2. Attend a virtual or in-person focus group

Visit TICO's website for a [listing of all virtual and in-person focus groups](#) and for details on how to register.

Timeline

Thursday, October 5, 2023: TICO announces proposals and launches consultation period	Friday, November 10, 2023: Consultation period concludes	Monday, April 1, 2024: Anticipated effective date for proposed changes #1, #4 and #5
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