



***Inquiry into
Regulation of the
Timeshare Industry***

RESORT CONDOMINIUMS INTERNATIONAL

Corporate Overview

Resort Condominiums International LLC (RCI) is a US based hospitality and leisure company servicing the world in a variety of vacation and tourism products including timeshare exchange facilitation. RCI established the holiday exchange concept over 30 years ago and today RCI is the market leader in holiday exchange. RCI is a company committed to innovative product development, high quality standards, and superior service delivery to more than 3,700 affiliated timeshare resorts, and over 3 million member families worldwide.

Seven out of every ten timeshare resorts worldwide are affiliated with RCI and eight out of every ten holiday exchanges are confirmed by RCI each year. RCI confirms more than 2.5 million exchange holidays per year, sending some 8.8 million people on holiday globally.

RCI is a wholly owned subsidiary of the Cendant Corporation, a Fortune 500 Company listed on the New York Stock Exchange, with a market capitalisation of approximately US\$35 billion.

Cendant operates in five principal segments:

- Hospitality Services
- Vehicle Services
- Travel Distribution Services
- Real Estate Services
- Financial Services

As part of the hospitality services group RCI sits alongside other leading brands such as Travelodge, Days Inn, Ramada, Howard Johnson, Budget, Galileo and Avis. Other Cendant brands include Century 21, Coldwell Banker, Fairfield Communities, and ERA. Cendant services nearly 73 million memberships and makes more than 100 million consumer contacts each year.

RCI History

RCI was established in Indianapolis, Indiana in the United States in 1974.

RCI's introduction of holiday exchange in 1974 provided the timeshare industry with greater product flexibility. Owners were no longer locked into holidaying at the same place at the same time every year.

RCI entered the international arena in 1976 when it opened an office in Mexico City. At that time it had just over 1,000 members and 35 affiliated resorts.

Today RCI's global operation has expanded to include over 52 offices with over 5,000 employees.

RCI is a member of the World Tourism Organisation (WTO) and the World Travel and Tourism Council (WTTC).

In all, \$6.7 million families, residing in 200 countries, own timeshare. Of those, more than 3 million are members of RCI.

Each year RCI sends more than 8.8 million travellers to destinations throughout the world. Since its inception in 1974 it has sent more than 60 million people on holiday.

RCI does not own resorts in its own right. Rather, resorts around the world choose to affiliate with RCI, giving timeshare owners the ability to trade vacation time with members in the RCI system. Members also benefit from the alliances and network created within RCI worldwide. For example, the RCI website makes it easy for members to search holiday options, list or 'deposit' their week, book and exchange, renew membership and more.

RCI – Australia and the Pacific Region

In 1981, the world's premier holiday exchange company established operations in Australasia. RCI Pacific is a proprietary limited company with its operations centre on Queensland's Gold Coast. Over 100 resorts are affiliated with RCI in Australia, New Zealand and the Pacific Islands. Highly qualified contact centre staff supported by state of the art phone technology and a multi million dollar investment in hardware and software serve the needs of 55,000 plus member families in the Pacific region. Substantial benefits also flow from the unique international alliances, technological sophistication and hotel experience provided by its parent company, Cendant Corporation.

RCI Securities Limited [RCIS] a subsidiary of RCI Pacific, holds an Australian Financial Services License {AFSL} permitting RCIS to operate, advise and deal in timeshare interests. This structure was used to create RCI Points Portfolio, a registered managed investment timeshare scheme. Formed in 2001 to operate the scheme, RCIS provides an important legal structure allowing developers to focus on the tasks of sales and marketing and leaving the running of a managed investment scheme to RCIS. Timeshare developers operate under a strict compliance regime and must still obtain an AFSL to advise and deal in timeshare interests. Under the RCIS structure, developers are freed from the onerous tasks of scheme operation and compliance requirements allowing them to concentrate on marketing and sales of timeshare inventory.

For the purchasing public, this structure offers significant comfort as the responsible entity (trustee) is owned by a large multinational organisation with significant financial resources to undertake the trustee role. This trustee role ensures all inventory backing timeshare sales is held safely, separately and securely from the assets of any other entity. This structure provides the infrastructure to allow developers to market timeshare interests without having to bear the costs of, and invest the time required to, establish a managed investment scheme in Australia. It also relieves developers from the burden of ongoing compliance associated with running an

Australian managed investment scheme by ensuring that RCI undertakes the required compliance activities on behalf of members.

RCI is well positioned and significantly involved in the timeshare industry, as the world's largest timeshare exchange company to make comments regarding the issues under consideration by the Parliamentary joint committee inquiry into regulation of the timeshare industry.

Terms of reference commentary.

A “the effectiveness of the current regulatory arrangements for the timeshare industry under the Corporations Act 2001 including:

- **whether the current regulatory arrangements are confusing to consumers and inhibit the development of industry;**

The disclosure requirements can be confusing because consumers, in our view, are not expecting such a vast array of legal documentation in order to consider whether they should purchase timeshare. Recently, a well-known ex politician commented that he can walk down the streets of Surfers Paradise consider buying a half million dollar investment property based solely on a real estate agents opinion that the investment market “looks pretty good mate” and no other formal information or in-depth disclosure is required. Yet if he were interested in buying a \$10,000 timeshare week, he would be presented with a plethora of disclosure information.

Current regulation requires a product disclosure statement, a cooling off statement, a pricelist and probably a financial services guide and/or a statement of advice to be handed to the timeshare prospect even before they consider purchasing the product.

The current regulatory environment requires sales and marketing companies of timeshare interests to produce a vast array of disclosure information more consistent with obtaining financial advice from a financial planner rather than buying a timeshare interest which is, in RCI’ s view, a holiday product not a financial services product.

Requirements to have a licence are a necessary part of doing business. An AFSL, in its current form, requests timeshare operators to comply with lots of financial service conditions which appear irrelevant and confusing.

Notwithstanding that, in our view, some form of licensing regulated by the ASIC does offer significant comfort to RCI as a provider of exchange services to consumers who

purchase from licensed developers. We see the requirement for an appropriate licence actually a good thing because any developer who is able to obtain a licence and meet the necessary [but relevant] compliance obligations required by that licence, forms a significant part of the financial and capability assessment RCI undertake when we consider affiliation applications from developers to our exchange company. What needs to be achieved is an appropriate licensing structure and format, relevant to the timeshare industry regulated by the ASIC.

Hence we consider the current regulatory arrangements with regards licensing inhibits developer growth. A licensing system relevant to the timeshare industry, would allow developers to either meet the necessary criteria and obtain their own licence to operate, advise and deal in timeshare interests or access RCI Securities, a company which provides the necessary vehicle to allow developers to concentrate on sales and marketing activity solely.

- **whether the current regulatory arrangements placed an undue compliance costs on industry;**

The current legal environment involves obtaining a licence and maintaining the terms and conditions of that licence.

For participants of timeshare there are two types of timeshare licenses required namely:

- a company may hold a licence to operate, advise and deal in timeshare interests or
- a company may hold a licence to advise and deal in timeshare interests only.

Licence holders with an "advise and deal" restriction on their licence are not required to have professional indemnity insurance, do not have any compliance committee or compliance costs associated with running a compliance committee but do need to have trust account audits but do need to operate under a product disclosure regime which is expensive to maintain. These companies are usually sales and marketing companies who have met a high barrier to enter the market by obtaining an AFSL.

Licence holders who are permitted to operate as well as advise and deal in timeshare interests are required to (in most cases) have an independent compliance committee, have a constitution and scheme management responsibilities and usually a compliance manager whose role it is to ensure the operator of the scheme is conducting business in accordance with the Constitution, the compliance plan, and the corporations Law.

Holders of both types of licence face significant compliance costs in obtaining and maintaining their licenses.

Once the structure is established, however, most costs are borne by the scheme members or incorporated within the sales price on a cost recovery basis so that promoters of timeshare interests have included these compliance costs as part of the sale price (i.e. its the cost of doing business in timeshare).

In RCI's view, the licensing regime is an important component for ensuring participants have significant cash resources and appropriate compliance measures to operate their businesses in accordance with the law provided the type of licensing, assessment and the conditions contained therein are relevant to the timeshare industry.

Timeshare is a much maligned product around the world and any endeavour which ensures only financially stable, compliant operators are permitted to do business in this market can only enhance and hopefully change the opinion of non timeshare owners.

- **whether the current regulatory arrangements are effective in protecting the consumers of timeshare products.**

RCI is of the view the following list of regulatory processes insures an appropriate level of consumer protection including;

1. operators, advisers, and dealers in timeshare must hold in Australia financial services license
2. all sales of new timeshare interests must be undertaken in the context of a responsibility entity [trustee] holding scheme assets on behalf of members / consumers
3. all advisers and dealers must undergo training [albeit the compulsory content of which is not necessarily relevant to the timeshare industry] to ensure they are familiar with the responsibilities they have as authorised representatives operating under a licence
4. appropriate cooling-off options [albeit more onerous than other financial product offerings] are offered to all purchases on all occasions

B. “advantages and disadvantages of possible models for reform of the revelatory arrangements applying to the timeshare industry, including:

- **self-regulation of the industry on a national basis;**

Advantages- self-regulation would require an industry representative body possessing substantial resources to ensure compliance of all self-regulation standards. If the industry representative body possessed such resources to adequately ensure compliance with a code of conduct and a code of practice then self-regulation would be a workable option. It is RCI's view that in order for an industry representative body to police self regulation best practices, then that body would need to possess significant financial resources and expertise necessary to allow the monitoring role to operate effectively.

Disadvantages - a lack of adequate resources to police a self regulated industry may allow the development of unsavory business practices.

- **alternative to coverage under the Corporations Act 2001, either by separate Commonwealth legislation or State and Territory legislation**

Advantages: Separate timeshare legislation operating under Commonwealth jurisdiction would be, in RCI's view, the best option for all concerned. There is a

significant amount of anecdotal evidence which would attest to the many advantages of operating the industry under national legislation.

Alternatively, we would encourage the legislators to view timeshare as separate from other investment provisions of the Corporations Act- i.e. have a separate section within the Corporations Act dealing exclusively with timeshare and addressing those elements which are specific to the timeshare product [licensing, trustee holding assets on behalf of consumers, management of property, sale, training, disclosure etc.] We still see timeshare regulation remaining with the ASIC, but with provisions that better reflect the product being offered and a licensing regime which reflects industry needs to afford appropriate consumer protection.

Disadvantages:

If any proposed change resulted in an outcome which produced State based legislation RCI is of the view this would be a retrogressive step in promoting the tourism industry and the timeshare product in Australia. Disjointed State based legislation would make it extremely difficult for new entrants to enter the market on a national basis. The compliance costs associated with dealing with individual State based legislation would be prohibitive and a disincentive for growth within the Australian tourism industry.

We see no apparent disadvantages with either having national legislation or separate sections within the Corporations Act dealing specifically with timeshare recognizing that this tourism product is different from other investments / securities as defined in the legislation.

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