

Consultation on Options to Reduce Merchant Service Fees: Air New Zealand response

19 February 2021

1. Air New Zealand welcomes the opportunity to comment on the Ministry of Business, Innovation and Employment (MBIE) consultation on options to reduce merchant service fees. Please note that this response contains commercially sensitive information and we would appreciate the opportunity to redact parts if this response is to be published.
2. In responding to this consultation, Air New Zealand wears two hats. The company is a significant 'merchant' in New Zealand, selling airline tickets and travel products through its website and contact centre. Air New Zealand also operates a significant loyalty programme, Airpoints, which includes direct relationships with three retail banks (ANZ, KiwiBank, Westpac) and one credit card provider (AMEX).
3. **Air New Zealand supports the Government's commitment to reduce merchant service fees, as this is likely to have a positive impact on consumers and business, in particular small business.**
4. Noting our overall support of this change, we wish to also outline to MBIE several issues it may wish to consider.
5. A reduction in merchant service fees will result in a revenue stream decrease for any New Zealand card issuer captured by the proposed regulation. The risk for consumers is that any benefit obtained from a reduction in these fees (or a reduction in the prices of goods and services) could be negated by a dilution of credit card rewards programme earn rates.
6. [REDACTED] members from all walks of life and income levels are members of Air New Zealand's Airpoints loyalty programme. In addition to earning on Air New Zealand flights, members can earn through a wide variety of retail partners as well as our bank and credit card partners.
7. We note comments in the MBIE Issues Paper regarding cross-subsidisation of credit card fees, where a concern is raised that premium credit card products typically used by higher income earners are subsidised by lower cost forms of electronic payment typically used by lower income earners.
8. While we cannot speak for all credit card products in the market, our consumer research and [REDACTED] our [REDACTED] experience tells us [REDACTED] that for many Airpoints members, Airpoints credit cards are their predominant method for

earning Airpoints Dollars because their employment or circumstances mean they are not able to earn enough through flights.

9. By way of illustration, in 2019, approximately [REDACTED] of all Airpoints Dollars spent were earned via a credit card. In that same year, [REDACTED] Airpoints members used Airpoints Dollars to pay for [REDACTED] flights.
10. Care should be exercised to ensure any reduction merchant service fees does not result in a significant reduction in the ability of an estimated [REDACTED] New Zealanders to earn reward points including Airpoints Dollars. This unintended consequence would be unwelcome for those New Zealanders who not only use and enjoy Airpoints and other credit card rewards, but who rely on them to subsidise their domestic travel and annual household expenditure.
11. With New Zealand's international borders closed for around a year and counting, many New Zealanders are, and have been, redeeming Airpoints Dollars on domestic leisure travel. This is a net positive for New Zealand's struggling tourism industry and something Air New Zealand is keen to support for as long as COVID-19 impacts our ability to travel abroad. MBIE should be alert to the possibility that any significant reduction in Airpoints Dollars earn rates may have a negative flow on effect to the New Zealand tourism industry.

Case study 1: Domestic Tourism (illustration only – not an actual family)

The Taylor family consists of Mary (45) – a nurse – and Trevor (46) – an IT analyst. The couple live in Auckland with their two teenage children and want to get out of the city, as they haven't been able to get away all year due to COVID restrictions and work demands. They settle on decide to fly to Christchurch and then embark on a summer road trip to Queenstown and back over 7 days.

Mary and Trevor are active and engaged members of the Airpoints Programme. Through using their Platinum Visa card to pay for their everyday regular spend, swiping their Airpoints membership cards at various retailers, the couple earn approximately 50 APD's per month through their regular purchasing activity. Alongside, the occasional leisure flight over the past four years, the couple have built up a balance of approximate 2500 Airpoints Dollars.

They have enough Airpoints Dollars to rent a car in Christchurch and pay for two of the return flights for the family. The total cost of the family's flights and car rental is \$1300, which the family are able to pay for with their Airpoints Dollars, thus reducing the upfront cash cost of the trip for the family.

On the trip the family spend an additional \$3500 on accommodation, food, and visiting local tourism attractions. Of this additional \$3500 cost, the family are able to use the remaining 1200 APD's to pay for their accommodation, reducing the cost of the holiday even further.

Of the total cost of \$4800 for their week-long South Island holiday, the Taylor's were able to use their 2500 APD's – which were earned through Mary and Trevor's everyday spend – to reduce the cash cost of their holiday by more than 50%. Had earning rates been lower, the Taylors would have not saved as much on their holiday or may not have been able to afford the trip at all.

12. A further consequence of lower Airpoints earning rates is the impact on Airpoints Store partners. Airpoints members are able to redeem their Airpoints Dollars on goods and services from over 130 New Zealand businesses (and growing). While some of these businesses are large and well known (e.g. Mitre 10), many are fledgling New Zealand SME business who benefit significantly from access to a highly engaged customer base on a platform that encourages discretionary spend.
13. In 2020, almost [REDACTED] Airpoints members spent [REDACTED] million Airpoints Dollars on the Airpoints Store, and increase of [REDACTED] from three years prior. Again, our experience and consumer research tells us that Airpoints members do use their Airpoints dollars to reduce their annual household costs – particularly when their financial situation changes (for instance, purchasing Christmas presents on the Airpoints Store instead of using cash or a form of credit).
14. Thank you once again for the opportunity to comment on this proposed change. We would be happy to discuss or expand on any of the above matters with MBIE.

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Air New Zealand