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Australian Competition & Consumer Commission
Attention: Mergers, Exemptions and Digital Division
Level 20, 175 Pitt Street
SYDNEY NSW 2000

By email: Armaguard-Prosegur-Merger@accc.gov.au

28 October 2022

Dear Ms Kolacz and Ms Burns

Australian Competition and Consumer Commission (ACCC) – Application for merger authorisation by Linfox Armaguard Pty Ltd and Prosegur Australia Holding Pty Ltd – [MA1000022] – Submission in response to ACCC’s Market Inquiries Letter

The Commonwealth Bank of Australia (CBA) welcomes the opportunity to respond to the ACCC’s market consultation process in relation to the proposed merger between Linfox Armaguard Pty Ltd (Armaguard) and Prosegur Australia Holding Pty Ltd (Prosegur) (together, the Applicants).

Together, the Applicants supply approximately 80-90% of national, wholesale cash-in-transit (CIT) services.¹ In CBA’s view, the proposed merger raises concerns about future competition in this critical industry, and is unlikely to be in the best interests of our customers and the communities we serve.

CBA’s response to the market inquiries letter is at Attachment A to this letter, and responds to those questions most relevant to CBA operations. Some of the information provided by CBA in Attachment A is confidential to CBA and/or relevant third parties, and publication of this material by the ACCC would be damaging to CBA’s competitive or commercial position. CBA requests that this information, marked “CONFIDENTIAL” and in red text, be excluded from the ACCC’s public register.

For the purposes of the public register, CBA has provided a separate version of Attachment A in which CBA’s confidential information has been redacted.

Should the ACCC wish to publish any of the information over which CBA claims confidentiality, CBA requests that the ACCC provide sufficient notice so that CBA can supply further information about the confidential nature of that material and the specific objections to publication.

¹ See evidence given to the Rural and Regional Affairs and Transport References Committee by Linfox Armaguard CEO, [Hansard - Committee 11/03/2021 Parliament of Australia \(aph.gov.au\)](#).

Please contact us if you have any queries.

Yours sincerely



Samantha Taranto
Executive General Manager Retail Operations,
Retail Operations

Mobile 
Email 

ATTACHMENT A – CBA RESPONSE TO MARKET INQUIRIES LETTER

General

1. Please provide a brief description of your business or organisation.
2. Please outline the reasons for your interest in the Proposed Transaction, including any commercial relationships with Armaguard, Prosegur or any of their subsidiaries. In doing so please identify the specific service(s) you acquire from or supply to Armaguard and/or Prosegur, if any.

CBA is one of Australia's leading providers of integrated financial services, including retail, premium, business and institutional banking. Along with the RBA and companies that supply cash-in-transit (CIT) services, CBA plays a major role in the national banknote distribution system and is a major supplier of cash to and from metropolitan and regional communities and for Australian consumers and businesses.

With one of Australia's largest branch networks, the secure and reliable delivery of cash to and from metropolitan, regional and remote communities is integral to CBA's business and our customers. APRA has defined the ability of authorised deposit-taking institutions (ADIs) to ensure cash supply and distribution, including the operation and stocking of ATMs, and retail payments and banking systems that provide existing customers with access to funds, as an industry defined Essential Function.²

CBA's interest in the Proposed Transaction arises as a customer of each of the merger parties, and a key supplier of cash-based services to the community.

Armaguard supplies CBA's CIT and ATM services (with the exception of services supplied to Norfolk Island). CBA is heavily reliant on the CIT services provided by Armaguard to ensure cash is available to our customers across the country. Currently, Armaguard provides [REDACTED] to CBA's branches and ATM network.

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

² Prudential Practice Guide: CPG 233 – Pandemic Planning, APRA Practice Guide, May 2013, p7, <https://www.apra.gov.au/sites/default/files/Prudential-Practice-Guide-CPG-233-Pandemic-Planning-May-2013_1.pdf> accessed 24 October 2022.

[REDACTED]

The services supplied to CBA by Armaguard include:

- services supplied in relation to the receiving, processing and transporting of cash:
 - cash delivery/collection services
 - cash management forecasting services;³ and
 - cash vaulting services
- services supplied in relation to the Automated Teller Machine (ATM) network:
 - ATM/ Intelligent Deposit Machine (IDM) maintenance
 - ATM/IDM network monitoring
 - ATM/IDM hardware
 - ATM/IDM software
 - ancillary services including test lab services, Application Service Provider support services, unwinding services,⁴ professional services, and staff augmentation services; and

[REDACTED]

Separately, CBA contracts with Prosegur for the purposes of cash recarry services (branch to branch cash deliveries and collections). Prosegur is important for CBA as a fail over supplier as it allows for critical Business Continuity services to continue in the event of Armaguard industrial action, emergencies or natural disasters.

[REDACTED]

[REDACTED]

³ Historically cash management forecasting was undertaken in house by CBA. [REDACTED]

⁴ Unwinding services come into effect should CBA wish to transition out of its agreement with Armaguard. [REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
3. Please provide any views on the market shares and competitive positioning of Armaguard, Prosegur and their competitors in the following areas of competition:
- (a) the supply of integrated end-to-end wholesale and retail CIT services;
 - (b) the supply of CIT services to retail customers who require a full-service solution of cash transport, processing and administration; and
 - (c) the supply of cash-transport-only services to retail customers who only require cash transport between their location(s) and, for example, a bank branch.

Response to Question 3(a)

CBA understands from publicly available sources there may be as many as 126 regular suppliers of CIT services, of which four are approved by the RBA as approved cash centre operators (ACCOs).

The ACCOs collect banknotes from the RBA's distribution site and transport them to their cash depots for distribution to financial institutions and retailers across Australia. CBA understands that the four approved ACCO CIT companies are the Applicants, Streamcorp Armoured and Brinks Australia Pty Ltd.⁵ Together, the Applicants comprise 80-90% of CIT services,⁶ and CBA considers the Applicants to be each other's closest competitor.

In 2020, CBA went to market for CIT and non-CIT services in a RFP that included Armaguard, Prosegur, and seven other suppliers, all of whom could supply some or all of the services with the option available to the business to work as a single provider, or with a combination of providers. During the RFP process, the business determined that working with a single provider who could supply all of the services on a national basis was the best fit for CBA over the term.

Response to Question 3(b)

No response.

Response to Question 3(c)

Armaguard and Prosegur are also the only suppliers of CIT services to CBA, for the reasons set out above. Cash-transport-only ("cash courier") services, which carry cash from retailers to the bank branches, are typically supplied by smaller courier companies or by Australia Post through its 3,500 Bank@Post outlets.

CIT services

⁵ Reserve Bank of Australia, "Issues Paper" of the Review of Banknote Distribution Arrangements", Section 3.1.2. <RBA Banknotes: Australia's Banknote Distribution System> accessed 24 October 2022, ("RBA Issues Paper").

⁶ See evidence given to the Rural and Regional Affairs and Transport References Committee by Linfox Armaguard CEO, [Hansard - Committee 11/03/2021 Parliament of Australia \(aph.gov.au\)](#).

4. Please identify and describe other businesses that compete with Armaguard and/or Prosegur in the supply of CIT services. In your response, please identify the specific CIT service in which these competitors compete and discuss how strong these competitors are.

CBA is aware that Streamcorp Armoured is also an ACCO and may supply CIT/ATM services to one of the major banks,⁷ however CBA has not used Streamcorp's services and so cannot comment on how Streamcorp's offering compares to that of the proposed merger parties. Likewise, CBA has not acquired services from Brinks Australia.

At the retail level (that is, the movement of banknotes between bank branches, from bank branches to retail outlets, or between retail businesses), a number of participants supply CIT services including cash courier and re-carry services. Some also supply ancillary security or valuable cargo services. However, these suppliers are not ACCOs, and cannot collect banknotes from the RBA's distribution site, meaning that CBA could not contract with these suppliers in preference to either of the Applicants.

5. What factors (scope, quality, geographic coverage/networks, cost of service) are important to customers of CIT services? Why are those factors important? Do you consider there to be anything unique about the CIT services provided by Armaguard and/or Prosegur?

CBA considers a range of factors when selecting a supplier of wholesale CIT services. As one of Australia's leading banks, it is critical that cash supply is maintained consistently at all of our branches and throughout the CBA ATM network so that customers have access to deposits.

The key service level indicators for CBA's ATM and CIT network are consistency of supply and quality of service, national coverage, and a strong value proposition. It is important that CIT providers also have the necessary infrastructure to service CBA's branches and ATMs, including trucks, appropriately trained staff and depots.

The CIT services supplied by Prosegur and Armaguard are unique, compared to other suppliers in the market, largely because they offer:

- national coverage – Armaguard and Prosegur are the only suppliers CBA can rely on to complete all of its nationally required cash services; and
- a full range of services – each of Armaguard and Prosegur offer a full suite of CIT options from cash forecasting to cash delivery which has allowed CBA to fully outsource its cash requirements.

6. Do you consider that other companies would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its CIT services? Why? Which companies would provide this competitive constraint?

CBA does not consider that either of the other two ACCOs could constrain the proposed merged firm from raising prices or reducing the quality of service, because neither of the other ACCOs offer the geographic coverage or breadth of services offered by the proposed merger parties.

Should the Proposed Transaction proceed, and in the circumstances that the Applicants describe in their submission (ie, each losing money) a combined Armaguard / Prosegur would not be incentivized to discount prices or offer increased service levels beyond those that are currently offered. However, CBA expects that it

⁷ See eg. <https://www.streamcorp.com.au/industries/financial-institutions/>.

would be forced to continue to acquire most services from the combined entity because of CBA's national requirements and breadth of services required.

With more than 90% share of the CIT market, it is hard to see how a combined Armaguard and Prosegur would be constrained by competitors or by customers. The effect of this could include an increased dominance over the supply chains that support the CIT industry and an increased ability to set prices. These consequences would be felt both by existing competitors, potential new entrants, suppliers and customers. Likewise, CBA anticipates that post transaction, the combined entity would not be incentivised to ensure high ATM availability, which could be detrimental to consumer choice.

As indicated above, the secure and reliable delivery of cash to and from metropolitan, regional and remote communities is fundamental to CBA's business and our customers. CBA is proud to have the largest branch network in Australia, and it is critical that CBA can continue to service that network across the country and provide the face-to-face services expected by our customers, regulators, and the Federal government.⁸

7. Would a new entrant, or existing business seeking to expand face any significant barriers in seeking to establish a CIT service? Do you consider that the possibilities noted by Armaguard and Prosegur, including the major banks sponsoring new entry and the ability of retail customers to insource cash delivery, are viable options?

CBA considers that a new entrant, or existing business seeking to expand, would face significant barriers to establishing a competitive CIT service. The cost of entry would include the high cost of infrastructure (depots, trained staff, armoured vehicles), the complexity of managing an armed workforce / obtaining gun licences, the ability to become an ACCO, limited opportunities to bid with major Banks for new opportunities (based on the typical procurement cycle of those firms, and considering existing supplier relationships), and decline in cash distribution within the community.

In the near term, and subject to any technology-linked disruption, the declining market will make it harder to justify the investment required for a new firm to enter the market.

It appears unrealistic that a regional operator/smaller player would have the capability to increase customer accounts/volumes to a level required to compete vigorously.

CBA does not consider that the possibility of the major banks sponsoring new entry is credible on commercial grounds given the costs of infrastructure, and decline in cash usage. [REDACTED]

8. Do you consider any other factors would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its CIT services? For example:

(a) Do you consider customers have significant bargaining power in the negotiation and procurement of CIT services? You may wish to consider factors such as the contract tendering process (including details of the process and results of any recent tender processes) and how easy or difficult it is for customers to switch supplier.

(b) To what extent does the price of CIT services influence retailers' decisions about whether to offer cash as a payment option (i.e. do you consider that, as Armaguard and Prosegur submit, they

⁸ Note that APRA requires "Branches" to meet a set of minimum criteria in the services that are supplied on a face-to-face basis. See definition of "Branches": [Glossary \(apra.gov.au\)](https://www.apra.gov.au/glossary). In addition, the work of the Federal Government's Regional Banking Taskforce (2021-2022) reinforced the importance of the branch network.

would need to keep prices of CIT services sufficiently low to arrest the decline in cash usage by remaining a cost competitive payment method for retailers to offer in comparison to card and digital payment methods)?

(c) Do you consider, as Armaguard and Prosegur submit, that if they were to significantly increase prices for CIT services the RBA could exercise powers to regulate the cash distribution system and that the threat of such regulatory intervention would constrain them?

Question 8(a)

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Question 8(b)

No response.

Question 8(c)

The Applicants suggest that if they were to significantly increase the price of CIT services post-merger, the RBA could exercise its broad powers and regulate the cash distribution system in Australia,⁹ and that this threat of intervention would act as a significant constraint on the post-merger entity's ability to set prices.

Whether or not the RBA would be minded to exercise its powers in the manner contemplated by the Applicants, this is unlikely to deter the merger parties, at least in the short to medium term, from increasing prices. There is an absence of constraint from competitor ACCOs, and large customers like CBA are unable to exercise significant bargaining power because of inelastic demand for the relevant services. As a result, it could be expected that the merged firm would look to increase profits; at least until the point at which the RBA contemplates intervention. These increased CIT costs would need to be absorbed by customers or passed on to retail banking consumers.

If we assume that prices were to 'significantly increase' to an unknown threshold at which the RBA would intervene, it is unlikely that the intervention could provide swift pricing relief. The RBA's designation of the cash distribution system as a payment system under section 11 of the *Payment Systems (Regulation) Act 1998 (Cth)* is likely to be a complex and lengthy process. As such, there is no real regulatory constraint on the ability of the merged firm to set prices, and perhaps entertain significant price increases, in the foreseeable future.

CBA also notes that the threat of regulatory intervention on price is unlikely to prevent the merged firm from cutting costs either by reducing the number of cash centres across Australia, decreasing staff levels, or selling infrastructure.

9. Do you consider, as Armaguard and Prosegur submit, the current demand for cash is not sufficient to sustain two major national suppliers of CIT services? Please provide details including examples where possible.

A number of entities monitor and report on the current demand for cash in Australia, including the RBA and AusPay Net, based on data supplied quarterly by CBA and other financial institutions. The RBA produces a range of publicly available reports that consider metrics including the number and value of banknotes in circulation, the number and value of cash payments, the number and value of cash withdrawals, and other indicators of cash system activity.¹⁰

Non-CIT services

10. Please provide any views on the market shares and competitive positioning of Armaguard, Prosegur and their competitors in the following areas of competition:

- (a) the supply of ATM services (including cash withdrawal facilities, deployment services to merchants and access arrangements to financial institutions);
- (b) the supply of ATM maintenance services; and
- (c) the supply of valuable cargo transportation services.

Response to 10(a)

⁹ Merger authorisation application, at [399].

¹⁰ See eg data referred to in Part 2 of the RBA Issues Paper, "The Cash Landscape in Australia" <[RBA Banknotes: The Cash Landscape in Australia](#)> accessed 24 October 2022.

CBA understands that Armaguard, through its related party Armaguard (ITS), has 1,774 ATMs under the atmX brand, including 500 machines that were sold by CBA to Armaguard between 2020 and 2022. Prosegur has 693 ATMs, including mostly off premise ATMs that were acquired from Westpac in 2019.¹¹ Should the Proposed Transaction be approved, the Applicants will become the largest operator of ATMs in the market, with a total of 2,467 ATMs between them and an ATM network that has full vertical integration across the supply of hardware, software, servicing, cash supply and maintenance services.

If the Proposed Transaction were to proceed, the merged company would be responsible for providing ATM related services to its own network, as well as a broad range of customers including CBA.

Response to Question 10(b)

The Applicants are each other's closest competitor in the supply of ATM services and maintenance.

Armaguard (ITS) is the largest supplier of ATM maintenance services. It supplies end-to-end technology services including maintenance, repairs, a national field service team, OEM and local self-service devices, customised software solutions, customer centre and helpdesk, device storage, transport, installation and commissioning. Prosegur's "KwikCash" is an "all-encompassing ATM solution",¹² offering a wide range of ATMs with comprehensive services and maintenance to its own network and to Westpac.

If the Proposed Transaction were to proceed, the merged firm would provide maintenance services (via Armaguard (ITS)) to ATM networks belonging to CBA, Westpac, ANZ, NAB, Bank of Melbourne, Bank SA, St George, Bankwest, atmX and Precinct and others – potentially as many as 12,000 ATMs.¹³

11. To what extent do Armaguard and Prosegur compete in the areas of competition listed above in question 10? Do you consider Armaguard and Prosegur to be particularly close competitors? For example, do they compete for the same customers?

Armaguard (ITS) and Prosegur compete strongly for the supply of ATM maintenance and services; although CBA considers that Armaguard (ITS) is the market leader.

Armaguard (ITS) is the only authorised and recognised services partner for Diebold Nixdorf technology within the Asia Pacific which means that only they can supply spare parts and technical support to CBA's fleet of ATMs. In addition, Armaguard (ITS) is the only ATM maintenance provider that also runs its own guarding workforce alongside their ATM technician workforce which creates efficiencies when supplying/maintaining ATMs as a third party security guard is not required. CBA understands that Armaguard (ITS) services over 40% of the Australian domestic ATM base in one way shape or form.

In 2011, CBA made a decision to refresh the ATM Fleet moving to a standardised device manufactured and supplied by Wincor Nixdorf (now Diebold Nixdorf). [REDACTED] Prior to 2011, CBA had a mix of NCR and Diebold ATMs, serviced and maintained by each provider.

12. Please identify and describe other businesses that compete with Armaguard or Prosegur in the supply of these non-CIT services. In your response, please identify the specific non-CIT service in which these competitors compete and discuss how strong these competitors are.

¹¹ <https://www.news.com.au/finance/business/banking/atmx-withdrawal-fees-why-you-should-avoid-this-atm/news-story/e5e5da03525b6a1290a683bbbd301f14>

¹² <https://www.prosegur.com.au/solutions/device-maintenance-services>

¹³ Armaguard ITS notes that ITS services over 12,000 ATMs of multiple brands and device types across 25 different clients (see [eg integrated-technology-services.pdf \(atmia.com\)](#)).

CBA understands that there are other participants who compete with Armaguard and Prosegur for the supply of ATMs. Those participants include:

- NCR Global, a global enterprise technology provider that provides banking technology including the "Allpoint" branded ATM network. In mid-2021, NCR Global acquired Cardtronics Australasia Pty Ltd, a major ATM deployer in Australia with ATMs found in leading retail locations, petrol stations, convenience stores and gaming/hospitality venues. Cardtronics operates a large number of machines with a surcharge free network.
- Command IT, is a Western Australia managed service provider.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

13. Do you consider that other companies would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its non-CIT services? Why? Which companies or factors would provide this constraint?

While a number of participants supply non-CIT services to banking and retail customers, CBA does not consider that any of these companies could constrain a combined Armaguard and Prosegur entity. None of the current competitors have the geographic scope, infrastructure or expertise to be direct competitors with Armaguard or Prosegur and it will be harder to compete against the merged firm given it would have the highest ATM deployment of any bank or non-bank entity, and full integration in terms of ATM maintenance, services, a guard workforce, and related CIT services.

The only factors that could provide a constraint on the merged firm from raising prices or reducing quality would be:

- stronger competitors in the supply of ATM maintenance and services;
- a competitor that was able to adopt innovative technology, in order to compete vigorously against the more dominant suppliers;
- an alternative provider (bank, retail or government) entering the market for the supply of ATM maintenance and servicing. CBA notes that over time the major banks, including CBA, have progressively decreased the numbers of ATMs supplied in Australia, in turn reducing incentives to self-supply ATM services.

14. Do you consider any other factors would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its non-CIT services? Why and what is the likelihood of each of those factors occurring?

No response.

15. Do you consider, as Armaguard and Prosegur submit, that if one of them was to cease supplying CIT services this would cause major interruption to the operation of the cash distribution system and associated costs?

No response.

16. In the event of one party ceasing to supply CIT services, what would be the anticipated timeframe for transitioning across to another provider? What, if any, disruption do you consider that this transition would cause to your business?

From the point at which a new supplier was selected, CBA estimates that the internal planning/transition process would require a minimum of 24 months. The disengagement processes for individual services are expected to range from between 6 and 18 months. Anticipated activity to enable this process would include the transition of IT infrastructure, re-establishment of cash delivery and collection services for all CBA locations, and the refit of all Cencon locks on all CBA/Bankwest ATMs and IDMs to ensure ATM access.

17. Do you consider, as Armaguard and Prosegur submit, that the Proposed Transaction will generate efficiencies in the provision of CIT services by them and/or ensure ongoing high levels of customer service?

No response.

18. To what extent would acquirers of CIT and non-CIT services, and/or the community more broadly, benefit from Armaguard and Prosegur combining their businesses?

No response.

19. To what extent do you consider that any other public benefits, including the ones listed in Attachment A, are likely to result from the Proposed Transaction?

No response.

20. How significant do you consider any public benefits likely to arise from Proposed Transaction to be in terms of likely size/magnitude (for example, on a scale from very small, to significant)? Where relevant, is the public benefit likely to be an enduring benefit or a one-off benefit?

No response.

21. In addition to any competitive detriment that you may have identified in your responses to questions 3 to 14, please outline whether there are any other effects of the Proposed Transaction that you consider may give rise to a public detriment.

In CBA's experience, and as demonstrated by the RFP for these services conducted in 2020, suppliers are most likely to improve their pricing, innovation and service delivery if they are motivated to do so through genuine competition.