PUBLIC VERSION

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31 October 2022

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Australian Competition & Consumer Commission
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Australian Competition & Consumer Commission
17/2 Lonsdale Street
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Dear Mr Pomery, Ms Kolacz,

Proposed merger between Armaguard and Prosegur

Next Payments Pty Ltd (***Next Payments***) welcomes the opportunity to provide a submission in relation to the application for ACCC authorisation for the proposed merger of Armaguard and Prosegur (the ***Proposed Merger***) (the ***Application***). Armaguard and Prosegur are referred to in this submission as the ***Applicants***.

Confidentiality

Parts of Next Payments' submission that have been highlighted red and are preceded by the word "**CONFIDENTIAL:**" contain confidential and commercially sensitive information of Next Payments and could cause harm to Next Payments if disclosed. Next Payments requests that the ACCC treat that information as strictly confidential and not disclose that information to any person without the prior written consent of Next Payments, except that, in accordance with the ACCC's usual confidentiality regime:

- there is no restriction on the internal use, including future use, that the ACCC may make of confidential information consistent with the ACCC's statutory functions;
- confidential information may be disclosed to the ACCC's external advisors and consultants on the condition that each such advisor or consultant will be informed of the obligation to treat the information as confidential;
- the ACCC may disclose the confidential information to third parties (in addition to its external advisors or consultants) if compelled by law or in accordance with section 89(7) or section 155AAA of the *Competition and Consumer Act 2010* (Cth).

Next Payments would be happy to respond to any queries the ACCC may have or discuss any matter in relation to its submission.

Yours sincerely

Tim Wildash
Executive Chairman
Next Payments Pty Ltd
[redacted]

[redacted]

Submission by Next Payments – Armaguard and Prosegur merger authorisation application

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1 Summary

1.1 Independent ATM deployers supply critical infrastructure

Reliable and affordable access to cash is of critical importance to Australians. Cash remains an important means of payment for parts of the community, particularly for older Australians, those with lower household income, people with limited access to digital forms of payment, and Australians in regional and rural areas. For many who do use digital forms of payment, cash is an important back-up.

As recognised by the RBA, ATMs play a key role in ensuring access to cash.[1] Independent ATM deployers, like Next Payments, provide a critical service to Australian consumers and merchants. In particular, as banks, credit unions and other financial institutions are selling off and decommissioning ATMs, as well as closing branches, independent ATM deployers are stepping in to ensure communities continue to have access to ATMs.

1.2 The Proposed Merger threatens independent ATM deployers' ability to continue to make this infrastructure available

The Proposed Merger threatens independent ATM deployers', including Next Payments', ability to continue to make this critical infrastructure available to Australian communities.

Cash-in-transit (***CIT***) services are a significant input cost in the deployment of ATMs. The Proposed Merger would create a monopoly in the supply of CIT services to independent ATM deployers leading to higher prices and lower service quality.

Following the Proposed Merger the merged entity, itself a vertically integrated ATM deployer, will have the ability and incentive to foreclose competing independent ATM deployers like Next Payments. Competing independent ATM deployers rely on the Applicants for CIT services [redacted] Competing independent ATM deployers would have no option but to deal with the merged entity. The merged entity would be able to increase prices for CIT services and reduce access to these services or reduce their quality to competing ATM deployers, so as to favour its own downstream ATM business. Independent ATM deployers would find it difficult to compete effectively and, in particular, to continue offering attractive terms to merchants at whose sites ATMs are deployed, and to invest in continued high service levels and innovation within their ATM networks.

This loss of competition would result in significant public detriments including:

- higher ATM fees being charged to consumers;
- decreased innovation in ATM deployment;
- merchants earning lower fees and rental income from ATMs;
- communities losing access to ATMs, particularly in regional and remote areas; and
- job losses as independent ATM deployers rationalise their businesses to manage reduced profitability, or exit.

Next Payments would be reliant on the merged entity for CIT services and would not be able to turn to smaller CIT providers as alternatives. Further, those smaller CIT providers rely on the Applicants for access to cash from the RBA pool. Post-Proposed Merger, smaller CIT service providers that rely on the Applicants for access to cash would also therefore be vulnerable to cost increases and

[1] The Reserve Bank of Australia notes that ATMs play a key role in the Australian cash distribution system and are important for ensuring access to cash, particularly in regional and remote areas, see *Review of Banknote Distribution Arrangements: Issues Paper,* November 2021, sections 3.1 and 4.3.

reduced services by the merged entity as a monopoly provider, further diminishing the ability of these smaller providers to compete with the merged entity.

This vertical foreclosure issue is not addressed in the Application or in the RBB Economics report dated 26 September 2022 (the ***RBB Report***). Next Payments urges the ACCC to closely examine this issue.

1.3 Costs savings for CIT services can be achieved without creating a market structure that would give rise to anticompetitive effects and public detriments

Next Payments recognises that the Applicants face challenges in continuing to profitably provide CIT services and that the Proposed Merger seeks to address those challenges. However, the Proposed Merger should not be authorised in its current form. Permitting the formation of a monopoly CIT service provider with a vertically integrated ATM deployment business would likely result in a substantial lessening of competition and public detriments.

Costs savings in CIT services can be achieved without creating a market structure that would cause these detriments. For example:

- the Applicants could merger their CIT services businesses and divest their ATM businesses thereby removing the risk of vertical foreclosure effects;
- alternatively, competition at the CIT services level could be retained. For example, the Applicants could enter a form of infrastructure sharing arrangement or joint venture that enables them to reduce costs and improve efficiencies in relation to the Applicants' upstream CIT infrastructure businesses, while retaining independent competition between the Applicants in respect of CIT services. This alternative could be accompanied by a commitment (in the form of an enforceable undertaking to the ACCC) that provides fair and reasonable access and pricing to CIT infrastructure for smaller CIT service providers that compete with the Applicants.

2 Next Payments

2.1 Overview

Next Payments is a wholly Australian owned technology and payments solutions provider, established in 2013 and based in Melbourne. Next Payments has offices and operations across Australia and New Zealand.

Next Payments operates an Australia-wide independent ATM network, and also supplies a range of other products including cash recyclers, end-to-end cash management solutions, loyalty cards, reconciliation software, and business analytics solutions.

2.2 Next Payments' ATM network

Next Payments owns and operates a fleet of [redacted] ATMs across Australia.[2] Next Payments' ATMs are located in each Australian capital city as well as in regional and remote areas.

Next Payments' main customer types for ATMs are:

- locations where a bank previously supplied an ATM such as shopping centres, high street locations, petrol stations and convenience stores. Next Payments refers to these ex-bank sites as 'retail sites' ([redacted]);

[2] Next Payments notes that Table 22 of the Application and Table 5 of the RBB Report state that Next Payments operates 3,800 ATMs in Australia. This figure is not correct as it includes Next Payments' ATMs in New Zealand.

- venues such as hospitality venues (restaurants, pubs and clubs) and entertainment and gaming venues ([redacted]);
- shops such as supermarkets and newsagents ([redacted]; and
- smaller Australian banks, such as Defence Bank ([redacted]).

Next Payments also deploys a small amount of ATMs (approximately [redacted] to government and other organisations. In this submission Next Payments uses the word 'merchants' to refer to all of these different types of customers.

[redacted]

2.3 Next Payments' investment in its products and services

Next Payments has, since its establishment in 2013, [redacted] Next Payments has done this to compete for customers with larger providers, including vertically integrated providers such as Armaguard and Prosegur. ATM deployment is highly competitive, and, for the reasons explained below, the Proposed Merger will exacerbate the challenges Next Payments faces to compete effectively, putting this investment in service improvement and innovation at risk.

Some of Next Payments' service improvements and product innovations in the ATM industry in Australia include the development and supply of:

- an expanded ATM network that services metropolitan and regional areas to provide greater access to cash;
- cash recyclers, which assist in the automation of cash accounting by counting cash and automatically identifying the denomination and quality of banknotes, then storing these securely for use later by a business. [redacted];
- ATMs that are enabled to work with 'digital wallets' to allow cardholders to access cash without their physical card, and to redeem loyalty points provided by a venue's loyalty program;
- surcharge free ATM networks for 'lower tier' banking organisations unable to compete with the infrastructure of the major banks;
- remote monitoring and reporting solutions through Next Payments' Concilio platform to provide merchants with real time data allowing them to respond to cardholder queries (eg, data on errors during transactions); and
- Eftpos integrated cash dispensing facilities that enable cash withdrawals using eftpos terminals instead of via an ATM.

2.4 Next Payments acquires CIT services from Prosegur

Next Payments has acquired CIT services from Prosegur since Next Payments' establishment in 2013.

[redacted]

(a) CIT services supplied by Prosegur

Under Next Payments' CIT services arrangements, Prosegur provides the following services in relation to Next Payments' ATMs:

- **CIT delivery:** secure physical transportation of cash from Prosegur cash depots to fill Next Payments' ATMs via armoured vehicles and armed guards (also referred to as ATM provisioning). CIT delivery services are provided to [redacted] of Next Payments' ATMs.[3] Provisioning an ATM is required to keep it replenished with cash. If an ATM runs out of cash it goes 'out of service', making it unable to be used by cardholders and requiring replenishment to resume operation;
- **CIT clearance:** secure physical transportation of cash from Next Payments' ATMs to Prosegur cash depots via armoured vehicles and armed guards;
- **Cash reconciliation:** counting of cash returned from Next Payments' ATMs to Prosegur cash depots for the purpose of reporting this to Next Payments' treasury and finance teams;
- **'First line' maintenance:** processing and fixing of immediate and minor operational faults with ATMs such as cash and card reader jams;
- **'Second line' maintenance:** more complex technical maintenance or replacement of parts for ATMs (these services are acquired by Next Payments from Prosegur in South Australia only);
- **Escorting by security guards:** providing guards while Next Payments' technicians attend ATMs to conduct second line maintenance; and
- **Cencon Lock installation and management:** installation and management of remotely accessible high security locking mechanisms at ATMs, with capabilities to track who accesses the ATM.

(b) Maintenance and support services

Next Payments relies on Prosegur for first line maintenance of its ATMs [redacted] Further, as Prosegur is already in regular physical attendance at Next Payments ATMs to provide CIT delivery and CIT services, Prosegur is well-placed to attend to first line maintenance services. It would otherwise add additional costs and complexity for Next Payments to acquire first line maintenance services from another supplier given a Prosegur employee is required to attend the ATM whenever it is opened.

[3] The remaining ATMs in Next Payments' fleet are 'self-cashed' by merchants.

Next Payments has a dedicated team of technicians who carry out additional maintenance services not provided by Prosegur. Those technicians provide second line maintenance, such as servicing for ATM parts and assisting with technical failures including part replacement for hardware faults.

(c) [redacted]

[redacted]

3 ATM deployment services

3.1 ATMs meet ongoing demand for cash

ATMs play an important role in the distribution of cash in Australia, particularly for those in the community who rely on cash in their day to day lives, especially in regional and remote Australia.

Next Payments (and other ATM networks including those of the major banks and independent ATM deployers such as Cardtronics and Banktech) operate thousands of ATMs Australia-wide that provide cardholders with access to cash and assist with the distribution of cash to various parts of the Australian community.

Cash remains an essential method of payment for certain uses and a store of value for parts of Australia. This is particularly true of older or more vulnerable members of the Australian community, persons with lower household income, limited access to internet or digital forms of payment, or in regional or remote areas, who continue to rely on cash.[4]

Further, as indicated by the RBA, 'despite lower transactional cash usage, cash is expected to remain an important means of payment in the future', including for certain members of the community as outlined above, but also as a back to up to digital payment methods and as a store of wealth.[5] In Next Payments' recent experience, there is also evidence of an uptick in cash usage in Australia, and this is evidenced by RBA data showing an increase in annual capacity utilisation at cash depots operated by the Applicants since 2020-21 (when cash usage was particularly low during the COVID-19 pandemic).[6] In Next Payments' view, the reduction in cash usage in Australia is tapering off, with a long term baseline that could be categorised as a 'low-cash' but not a 'no-cash' environment.

3.2 Independent ATM deployers rely on Armaguard and Prosegur to provide CIT services

Independent ATM deployers rely on readily available, timely, competitive access to CIT services. These services are essential to the operation of a viable ATM network.

In Next Payments' experience, the Applicants are the only two CIT services companies capable of providing these services to independent ATM deployers. This is because independent ATM deployers require secure and reliable CIT services across broad geographic areas. The Applicants are the only CIT service providers capable of providing these services due to their:

[4] Reserve Bank of Australia, *Review of Banknote Distribution Arrangements: Conclusions Paper*, August 2022, 17 (see also the Reserve Bank of Australia, *Review of Banknote Distribution Arrangements: Issues Paper*, November 2021, 4).
[5] Ibid.
[6] Ibid.

- **National network of cash depots:** that provide secure cash storage facilities from which cash deliveries can be made quickly and cost-effectively to service national ATM networks.
- **National fleet of armoured cash delivery trucks and specialised and armed security guards:** which provide secure cash delivery, and assist to satisfy ATM deployers' risk management and insurance requirements.
- **Out of hours operations:** needed to provision ATMs deployed at locations where they can be accessed on the weekend or after ordinary business hours (eg, hospitality, gaming and retail sites).
- **Ability to respond to urgent cash requirements:** for example, where an ATM is running low or unexpectedly runs out of cash due to a spike in demand, or to provision an ATM in anticipation of high volumes of transactions.
- **Other expertise and capabilities** in handling large quantities of cash.

In particular, independent ATM deployers rely on CIT service providers to provide timely and responsive ATM provisioning, and first line maintenance services to clear faults. These services are needed to ensure ATMs are in continuous operation, also referred to as the ATM's 'uptime'. Interruptions to ATM operation reduce transaction volumes as well as cardholders' and merchants' confidence in the reliability of the deployer's ATM network. Further, less frequent ATM provisioning may lead to an ATM deployer replenishing ATMs with higher amounts of cash; this increases the costs and risks associated with operating the ATMs, and ultimately still leaves the ATM deployer reliant on provisioning and first line maintenance services (as the ATM will still require replenishment or maintenance at some point).

Simply put, Next Payments' ATMs are reliant for their uptime on Prosegur for first line maintenance services and for the provision of cash to the ATM.

Next Payments could not rely on smaller CIT service providers instead of the Applicants because:

- Smaller CIT service providers can be more expensive than the Applicants, as the smaller providers lack economies of scale.
- Smaller CIT service providers do not have the distribution network to supply CIT services across Next Payments' nationwide ATM network. Next Payments would be required to enter into multiple arrangements across many smaller CIT service providers to obtain coverage for its network, and even then (in addition to the inefficiencies, additional costs and risks this would give rise to) Next Payments would still have coverage gaps.
- 'Soft-skin' providers are not viable alternatives as they cannot provide the level of security required for cash delivery to ATM deployers (they lack armoured transport and the requisite specialised security guards). Using such providers would pose a financial risk to Next Payments and other independent ATM deployers. This risk is difficult to insure against, as insurers will not generally cover cash losses when using 'soft-skin' providers and the insurance premiums payable are not commercially viable.
- [redacted]
- Smaller CIT service providers often have no choice but to source their cash from Armaguard's or Prosegur's secure cash depots and networks, as the major banks can refuse to supply them with cash directly. This is an input cost for smaller CIT service providers which contributes to the higher costs of acquiring CIT services from such providers.

Next Payments also notes the Applicants' submission that Brink's Australia could become a viable alternative to the Applicants. Next Payments does not consider Brink's to be a viable alternative since it exited the supply of CIT services in 2014 in Australia when it sold its cash logistics business to Armaguard[7] [redacted]

Next Payments' merchant customers may request that Next Payments use one of the smaller CIT services providers in certain limited circumstances. This could be due to an existing arrangement that customer may have with the provider, and / or poor service experience with Prosegur in a particular location. Next Payments may therefore use smaller CIT services providers to meet such requests.

3.3 Independent ATM deployers provide revenue and other benefits to merchants

Independent ATM deployers focus on the deployment of ATMs in locations that are not serviced by bank ATMs. Historically these have been venues such as restaurants, hotels, pubs, clubs and gaming venues. Increasingly as banks reduce the size of their ATM fleets, independent ATM deployers are competing for sites where banks have previously provided ATMs such as in shopping centres, high street locations and petrol stations and convenience stores.

ATM deployers pay fees to the merchant (ie, the landlord or operator of the site where the ATM is installed), in the following ways:

- under a 'revenue-sharing' arrangement, the merchant receives a proportion of the transaction fees charged to cardholders when using the ATM ([redacted]); and / or
- under a 'flat fee' arrangement, the ATM deployer pays the merchant a set fee as 'rent' for the site on which the ATM is installed. This is more common in shopping centre locations. This is generally paid instead of a revenue sharing arrangement, although in some cases it may be paid in addition to the merchant receiving a proportion of ATM transaction fees.

The transaction fees charged to cardholders are generally the same regardless of the location of the ATM. This is despite higher provisioning costs in regional and remote locations. [redacted]

When seeking to secure merchant contracts, independent ATM deployers generally make commitments concerning the ongoing operation, or uptime, of the ATMs deployed. [redacted] Merchants value having an ATM in close proximity that provides their customers with ready and reliable access to cash, which can generate further sales for the merchant.

3.4 ATM deployers compete closely with each other for merchants

Independent ATM deployers compete closely with each other to secure merchant customers. In particular, Next Payments competes with Armaguard's ATMx and Prosegur's Kwikcash / Precinct ATMs for the deployment of ATMs particularly at ex-bank sites (shopping centres, high street locations, petrol stations and convenience stores). The majority of growth in ATM deployment services is at those sites as banks are shutting down or selling their ATM networks.

[7] Armaguard and Prosegur, Application for merger authorisation – 27.09.22 [156].

4 The Proposed Merger will likely substantially lessen competition in the supply of CIT services to independent ATM deployers

If the Proposed Merger is allowed to proceed it will likely result in a substantial lessening of competition in the supply of CIT services to independent ATM deployers. The Applicants have a combined market share of close to 90% for the supply of CIT services, meaning the Proposed Merger would effectively result in a monopoly provider that is unconstrained in its ability to raise its fees and / or reduce services.

Next Payments and other independent ATM deployers are significant customers of those CIT services. The impact of the Proposed Merger on these customers is not addressed in the Application. CIT services constitute a significant cost for Next Payments with respect to ATM deployment. Next Payments will be significantly impacted by a loss of competition in CIT services.

4.1 The Proposed Merger will result in a monopoly in the supply of CIT services to independent ATM deployers

The Proposed Merger will result in the removal of the Applicants' closest, and indeed only real competitors, in the supply of CIT services. As set out in section 3.2 above, the Applicants are the only CIT service providers capable of supplying CIT services to ATM deployers who require secure, reliable and competitive access to wholesale cash nationally. The Applicants compete directly with each other for the same customers. [redacted]

4.2 Smaller CIT service providers will not provide a strong constraint

Smaller CIT service providers do not pose a strong competitive constraint on the Applicants. Such smaller providers lack the capabilities to fully compete with the Applicants, and in particular, the scale to provide cost-effective CIT services across broad geographic areas, and the requisite security, infrastructure and expertise to meet the risk requirements of independent ATM deployers.

The ability of smaller CIT service providers to compete with the Applicants will be even further reduced by the Proposed Merger. Post-merger, the Applicants' will have a combined market share of close to 90% in relation to CIT services nationally, with an unrivalled, national wholesale cash distribution network, and unique access to specialised and secure trucks, security guards, and related expertise to handle large quantities of cash. Smaller CIT providers also rely on the Applicants for access to cash as an input into their businesses. Post-Proposed Merger, smaller CIT service providers that rely on the Applicants for access to cash will also therefore be vulnerable to cost increases and reduced services by the merged entity as monopoly provider, further diminishing the ability of these smaller providers to compete with the merged entity. Next Payments understands that StreamCorp may have limited direct access to the RBA cash pool and that Authentic may do so to a degree via Westpac.[8]

4.3 Existing contractual obligations will not provide an effective constraint

In Next Payments' experience, CIT services contracts are not an effective constraint to price increases or service changes.

[8] Armaguard and Prosegur, Application for merger authorisation – 27.09.22 [156].

[redacted] Next Payments anticipates that contractual terms will become more onerous for customers of the merged entity post-Proposed Merger, given the lack of alternative options.

4.4 Barriers to entry and expansion in the supply of CIT services to independent ATM deployers are high

There are significant barriers to new CIT service providers entering, or existing smaller providers expanding, to compete with the merged entity. The Applicants submit that the merged entity will be constrained by the threat of entry and expansion by smaller CIT providers.[9] The Application is contradictory in this respect, suggesting that Australia cannot sustain two CIT service providers while at the same time submitting that the merged entity will be constrained by the threat of potential entry or expansion by other providers.

There are significant barriers to entry and expansion, including:

- **Scale and coverage:** CIT service providers need to have sufficient scale so as to offset the high fixed costs associated with maintaining an extensive cash distribution network to distribute and store cash across broad geographic distances, and to ensure high levels of security and reliability.[10] The issue of scale is more acute with the decline in cash usage as CIT service providers need to be more efficient and cost effective to offset their fixed costs.[11]
- **Access to capital:** CIT service providers need to have substantial capital to purchase sufficient banknotes to operate a CIT business on a profitable scale.
- **Investment in equipment:** CIT service providers need to ensure banknote quality is high. This is particularly important for ATM deployers and requires investment in quality sorting equipment and expertise in handling. The RBA makes this clear in its *Review of Banknote Distribution Arrangements: Issues Paper*, at page 14, noting that 'folded banknotes and banknotes with tears can cause issues in ATMs and ticketing and vending machines; these issues are costly as they can take the machine out of service and/or require a technician to rectify the problem'.
- **Security and insurance requirements:** Next Payments and other ATM deployers must meet requirements relating to bank bailment facilities that stipulate that CIT service providers satisfy strict criteria relating to security and insurance so as to transport cash that the ATM deployer requires. [redacted]

5 The Proposed Merger will likely result in vertical foreclosure of independent ATM deployers

The Application does not address the likelihood that the Proposed Merger will enhance the Applicants' ability to engage in a vertical foreclosure strategy against Next Payments and other independent ATM deployers, and the fact the merged entity will have the incentive to engage in such strategies to favour its downstream ATM business. Independent ATM deployers compete closely

[9] Armaguard and Prosegur, Application for merger authorisation – 27.09.22, section 12.6.
[10] Reserve Bank of Australia, *Review of Banknote Distribution Arrangements: Conclusions Paper*, 13 – 15.
[11] Ibid.

with the Applicants in the supply of ATM deployment services to merchants. They also rely on the Applicants for essential CIT services to operate their ATMs, as set out in section 3.2 above.

5.1 The merged entity will have a range of vertical foreclosure strategies it could deploy

The merged entity will have a range of methods available to effectively foreclose competing independent ATM deployers, including:

- **Withholding or reducing CIT service provision:** The merged entity could withhold or reduce access to cash, for example by reducing the frequency of ATM provisioning or cancelling cash delivery routes. This would cause affected ATMs to run out of cash and go out of service. ATMs that run out of cash are perceived as unreliable, causing merchant customers to lose confidence in that ATM deployer's network, in contrast to the merged entity's ATMs (which have guaranteed access to CIT services). It would also result in reduced transaction volumes and therefore revenues for affected ATM deployers, diminishing their ability to compete with the merged entity's ATM business. Alternatively, to counter less frequent ATM provisioning an ATM deployer would need to load more cash in an ATM at any one time which would increase the costs and risk associated with deploying that ATM.
- **Raising costs for independent ATM deployers:** The merged entity could increase fees charged to independent ATM deployers for CIT services. Raising the CIT service costs would reduce the profitability of independent ATM deployers and their ability to offer competitive revenue sharing or lease arrangements to merchants to secure ATM sites. [redacted]
- **Reducing the quality of CIT services:** The merged entity could reduce the quality of CIT services in a way that interferes with the performance of the independent ATM deployers' networks. For example, the merged entity could:
  - reduce security levels of its cash delivery services (increasing risks for independent ATM deployers);
  - be slow to provision ATMs that are identified as running low on cash;
  - reduce maintenance services or be slow to respond when required to clear faults with ATMs (the first line maintenance services set out in section 2.4 above);
  - provision an ATM with lower quality banknotes that can cause jams or are not processed as easily; and / or
  - provide fewer out-of-hours services.
- **Leveraging the upstream CIT businesses to create an unlevel playing field:** At the same time as adopting one or more of the above strategies, the merged entity could leverage its upstream CIT business to secure merchant customers. It could do this by:
  - guaranteeing to merchants that ATMs deployed by the merged entity will be consistently provisioned and operational, due to preferential access to its vertically integrated CIT business;
  - offering discounted CIT services bundled with ATM deployment services. For example, deploying ATMs to high cash use businesses (such as gaming venues) while offering reduced rates for secure cash clearance, reconciliation and storage services; and / or

- using transaction data obtained from independent ATM deployers to gain a competitive advantage when making offers to merchants. The merged entity will have access to valuable and commercially sensitive data relating to the level of cash withdrawals over a given period at competitor ATMs to which it provides cash delivery / clearance and reconciliation services. This data would enable the merged entity to calculate the number of transactions at ATMs, allowing it to build an accurate forecast of revenues at ATM locations across the combined network of ATMs supplied by the merged entity, providing it an enhanced ability to tailor its offerings to merchants in those location and outbid competing independent ATM deployers.

5.2 The merged entity will have the ability to discriminate against competing ATM deployers

The merged entity will have the ability to engage in a successful vertical foreclosure strategy against competing ATM deployers, including Next Payments. This is because post-merger, Next Payments will have no choice but to acquire CIT services from the merged entity. [redacted]

5.3 The merged entity will have the incentive to favour its own ATM network and foreclose competing ATM deployers

Next Payments considers that the merged entity will have the incentive to pursue a vertical foreclosure strategy against competing ATM deployers, leveraging their monopoly position in CIT services to increase profits earned by their downstream ATM networks.

- **The merged entity will earn profits on any ATM sites diverted from Next Payments**. [redacted]
  - [redacted]
  - [redacted]
- **Merchants will continue to demand ATMs from the merged entity.** As described at section 3.3, ATM deployment services provide revenue and other benefits to merchants, such as extra sales generated from cardholders having access to cash on the merchant's premises. Landlords of shopping centres, for example, see significant benefit in having ATMs on site to generate additional foot traffic and sales for shops located within the centre. This means that merchants would continue to demand that ATMs be deployed to their sites by the merged entity, even if competition from alternative ATM deployers were foreclosed.

5.4 Vertical foreclosure strategies will likely lead to a substantial lessening of competition in respect of ATM deployment services

The effect of the vertical foreclosure strategies outlined above would be to limit the ability of independent ATM deployers to compete with the merged entity. Hindering the ability of Next Payments, and other third party ATM deployers' ability to compete with the merged entity's ATM business, would likely result in less ATM deployer options for merchants, increased transaction fees

(Next Payments notes that Armaguard recently increased cardholder fees from $2.50 to $2.80) and reduced service levels for cardholders, as well as reduced investment in innovation in ATMs and related products. This effect is likely to manifest itself in the following ways:

- **Merchants would switch away from competing ATM deployers to the merged entity:** As set out in section 3.3, merchants place a high premium on ATM reliability. Next Payments and other ATM deployers give commitments to maintain ATMs that are consistently replenished and operating [redacted] Once the merged entity reduces or removes access to ATM provisioning required to fulfil these commitments, Next Payments and other ATM deployers would likely breach their Service Level Agreements, permitting merchants to switch to the ATM networks they can trust to be replenished – being the merged entity's.
- **A reduction in viability for independent ATM deployers:** A reduction in ATM deployers' merchant customer base will significantly impact earnings for Next Payments and other independent ATM deployers. This will make it more difficult to continue operating ATMs at a high standard, investing in the ATM network, and introducing innovations and service improvements required to compete effectively.
- **Increases in costs would need to be passed on in cardholder transaction fees:** Faced with the increased CIT service fees, independent ATM deployers will be forced to raise cardholder transaction fees. This will further reduce their ability to compete effectively against the merged entity as they are perceived as more expensive. Higher costs will result in a reduced ability among independent ATM deployers to invest in high levels of services and innovative solutions for merchants and cardholders.

[redacted]

5.5 The threat of regulatory intervention by the RBA is unlikely to provide a sufficient constraint

The Applicants submit that the threat of regulatory intervention by the RBA post-merger will constrain the merged entity from raising pricing levels for CIT services post-Proposed Merger. Next Payments does not consider that the threat of regulatory intervention is likely to be a sufficient constraint on the merged entity. Even if the threat of potential regulatory intervention were to pose some constraint, this is not an optimal outcome when compared to a market structure in which the Applicants' CIT businesses compete with each other.

The Applicants' submission in this respect also does not address the issues relating to vertical foreclosure set out in section 5 above. Vertical foreclosure strategies and discriminatory practices are particularly difficult to detect and monitor as they can involve more subtle conduct, for example imposing onerous contractual terms, reducing quality and frequency of services, or discriminating between customers.

6 The Proposed Merger will likely result in public detriments

In addition to the reduction in competition set out in sections 4 and 5 above, Next Payments submits that the Proposed Merger will likely result in other public detriments.

- **Higher costs and fewer options for CIT services acquirers.** The Applicants are the only two CIT services companies capable of providing secure and reliable cash delivery services across broad geographic areas. They are the only options for customers like Next Payments. The Proposed Merger would reduce choice of CIT services providers for independent ATM deployers from two to one. This loss of competitive tension will result in higher CIT services costs and a reduction in service quality. Smaller CIT service providers also rely on the Applicants for access to the RBA pool of cash. Those smaller providers would also be vulnerable to cost increases and reduced services by the merged entity as monopoly provider, further diminishing the ability of these smaller providers to compete with the merged entity.
- **Increased transaction fees for cardholders.** As set out in section 5.4 above, the Proposed Merger is likely to result in increased transaction fees for cardholders. This is likely to occur through the merged entity raising CIT services costs to independent ATM deployers, which are then passed on in the form of higher transaction fees to cardholders. Transaction fees are also likely to increase as competition in respect of ATM deployment is diminished as a result of the vertical foreclosure strategies set out in section 5.1 above.
- **Fewer options for customers of ATM deployment services.** Independent ATM providers will not be able to compete for merchants effectively with the merged entity. This will lead to the decline of independent ATM deployers, and their potential exit.
- **Reduced access to cash for cardholders, particularly in regional and remote areas.** Increases in CIT costs and reduced access to wholesale cash will substantially impact independent ATM deployers' ability to deploy ATMs in less profitable locations. Next Payments anticipates that it and other independent ATM deployers will need to focus on more profitable ATM deployment sites to mitigate the risk of losses because of higher costs and reduced services. Communities served by less profitable ATMs would therefore lose access to ATMs. This is likely to impact access to cash in regional and remote communities the most, where the cost of provisioning an ATM is highest and transaction volumes are generally lower.
- **Reduction in service improvements and innovation in ATM networks.** As set out in section 2.3 above, [redacted]. If CIT services costs increased, Next Payments would be constrained from continuing to invest in its ATM network.
- **Reduction in revenue for merchants.** Post the Proposed Merger, merchant customers of ATM deployment services are likely to receive lower revenue over time. Independent ATM deployers impacted by CIT price rises and reduced access to cash will be less likely to be able to offer attractive revenue-sharing or lease payment terms to merchants in order to secure business. In addition, as the ability of independent ATM deployers to compete with the merged entity will be reduced, the merged entity will have less incentive to offer attractive terms to merchants itself. This loss of competitive tension will lead to a decline in merchants' share of the revenue obtained from operating ATMs on their sites.
- **Loss of employment.** Independent ATM deployers will be required to rationalise operations in the face of reduced margins, post-merger. Next Payments anticipates this will lead to job losses as independent ATM deployers seek to cut costs to remain viable.

7 Alternatives to the Proposed Merger

Next Payments recognises that the Applicants face challenges in continuing to profitably provide CIT services nationally, and that the Proposed Merger seeks to overcome these challenges. However, there are alternatives to the Proposed Merger that would achieve cost savings in the supply of CIT services, without leading to anti-competitive effects.

For example:

- **Divestment of the Applicants' downstream ATM businesses:** The Applicants could merge their upstream CIT businesses while divesting their respective downstream ATM networks. This would achieve the efficiencies and cost synergies suggested by the Applicants in relation to the supply of CIT services, while removing the risk of the vertical foreclosure effects set out in section 5 above.
- **Shared CIT-related infrastructure:** The Applicants could pursue a joint venture or other infrastructure sharing arrangement in respect of their core CIT infrastructure. At the same time, the Applicants would continue to compete independently of each other in relation to the CIT services they provide to customers of these services. This would reduce overcapacity in wholesale cash distribution infrastructure, allowing the Applicants to reduce costs, while maintaining competitive tension between the Applicants in the supply of CIT services. This alternative to the Proposed Merger could be strengthened by a commitment by the Applicants (potentially in the form of an enforceable undertaking to the ACCC) to provide access to their upstream CIT infrastructure on fair and reasonable terms (including fair access pricing) to smaller CIT service providers that require access to this infrastructure to remain viable. Next Payments is aware of a precedent for such a commitment in the Finnish cash in transit industry.[12]

[12] See the decision by the Finnish Competition and Consumer Authority in the acquisition of Automatia by Loomis, October 2020 (The FCCA conditionally approves acquisition of Automatia by Loomis – Finnish Competition and Consumer Authority (kkv.fi)).