next PAYMENTS

Next Payments PTY LTD
ACN: 160 985 106

P.O. Box 1139
Moorabbin, VIC 3189

Phone: 1300 659 918
info@nextpayments.com.au
www.nextpayments.com.au

20 April 2023

Simon Pomery
Director, Competition Exemptions
Australian Competition & Consumer Commission
17/2 Lonsdale Street
Melbourne VIC 3000

Miriam Kolacz
Assistant Director, Competition Exemptions
Australian Competition & Consumer Commission
17/2 Lonsdale Street
Melbourne VIC 3000

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

Dear Mr Pomery, Ms Kolacz,

Proposed merger between Armaguard and Prosegur

We refer to Next Payments Pty Ltd's (***Next Payments***) previous submissions in relation to the proposed merger of Armaguard and Prosegur (the ***Proposed Merger***).

Next Payments writes to bring to the ACCC's attention an announced agreement between Armaguard and Westpac Banking Corporation (***Westpac***) to provide Westpac cardholders with fee free access to Armaguard's atmx network (***Armaguard / Westpac agreement***)[1] and the relevance of this agreement to the ACCC's assessment of the Proposed Merger.

This is a material development and one which Next Payments respectfully urges the ACCC to take into account as part of its assessment. It may well be that Armaguard has already disclosed to the ACCC this arrangement with Westpac because Next Payments can only assume negotiations were ongoing during the ACCC submission period. If these disclosures to the ACCC were provided on a confidential basis, then given they are now public and are of material relevance to the assessment of the Proposed Merger, Next Payments wishes to be given the opportunity to make this further submission, so the ACCC has all relevant information on which to make its decision.

The conclusion of the Armaguard / Westpac agreement is inconsistent with the failing firm narrative that Armaguard is presenting to the ACCC. This type of agreement, coupled with the vertical foreclosure strategies that Next Payments has previously outlined to the ACCC, will squeeze Next Payments and other independent ATM deployers, leading to their inevitable exit.

The result will be a vertically integrated monopolist controlling every stage of the supply of cash that leads to significant anti-competitive outcomes, and also threatens the security of supply of this essential service in Australia.

[1] Armaguard, Media Release, 'atmx by Armaguard welcomes Westpac Group to the network', 18 April 2023, see: https://www.armaguard.com.au/for/retail-fast-food-convenience-and-fuelatmx.com.aunews-and-eventsatmx.com.aunews-and-eventsatmx.com.aunews-and-eventsatmx.com.auatmx.com.aunews-and-eventsatmx.com.aunews-and-eventsnews-and-events/news/atmx-by-armaguard-welcomes-westpac-group-to-the-network.

Next Payments PTY LTD
ACN: 160 985 106

P.O. Box 1139
Moorabbin, VIC 3189

Phone: 1300 659 918
info@nextpayments.com.au
www.nextpayments.com.au

The only options to avoid this outcome would be to oppose the Proposed Merger or to authorise it with the divestment of the merger parties' ATM networks.

1 The Armaguard / Westpac agreement raises further questions regarding Armaguard's counterfactual.

Armaguard's 18th of April 2023 media release announcing the Armaguard / Westpac agreement states:

> *From Thursday 27 April 2023, 12.7 million cardholders across Westpac Group including Westpac, Bank of Melbourne, BankSA, RAMs and St. George Bank can now enjoy fee free transactions across the entire atmx by Armaguard ATM network.*
> *The partnership extends our fee free access to more than 23 million Australian cardholders across the atmx network. With a focus on ensuring everyone in Australia has convenient access to their cash, atmx by Armaguard has established a national utility network for all financial institutions seeking to provide their customers with 24/7 fee free access to their cash.*

The Armaguard / Westpac agreement is wholly inconsistent with the Applicants' representations to the ACCC that the likely counterfactual to the Proposed Merger is near-term disorderly exit of one or both of the Applicants.

It is implausible that Armaguard would be experiencing significant financial duress in its core business while simultaneously foregoing substantial revenue from its ATM business by entering a fee-free arrangement such as the Armaguard / Westpac agreement.

2 The merged entity will have an enhanced ability to engage in predatory conduct.

Of particular concern to Next Payments is the impact agreements like the Armaguard / Westpac agreement will have on competition in the supply of ATM deployment services if the Proposed Merger were to proceed.

Following the Proposed Merger, Next Payments and other independent ATM deployers will be squeezed by the merged entity – both via vertical foreclosure and predatory pricing strategies.

As set out in Next Payments' previous submissions, the merged entity will have the ability and incentive to engage in a range of vertical foreclosure strategies. This ability and incentive will result from the merged entity's monopoly over the supply of CIT services, while it concurrently operates an ATM network that competes with independent ATM networks.

Effective vertical foreclosure strategies include reducing the quality and level of CIT services, such as reducing the frequency of cash replenishment services to rival ATM networks, and increasing prices for crucial CIT services that independent ATM networks rely on to deploy ATMs. Reducing the frequency of cash replenishment services would be particularly damaging for independent ATM deployers. Independent ATM deployers

Next Payments PTY LTD
ACN: 160 985 106

P.O. Box 1139
Moorabbin, VIC 3189

Phone: 1300 659 918
info@nextpayments.com.au
www.nextpayments.com.au

typically deploy smaller and more cost-efficient ATMs with smaller cash storage volumes than typical bank ATMs. A reduction in cash replenishment services by the merged entity would require independent ATM deployers to increase the amount of cash held by each of their ATMs. This would significantly raise costs, as ATM deployers pay interest on cash they hold (a cost which is increasing in the current interest rate environment), as well as additional insurance costs. In some cases, smaller non-bank ATMs cannot store sufficient cash to deal with a significant reduction in cash replenishment drop-offs. Where ATMs cannot store sufficient cash or it becomes too expensive, the ATM will go out of service leading to loss of consumer access to cash and lost revenue for the ATM deployer.

The Armaguard / Westpac agreement – whereby atmx offers transactions for free to an important cohort of customers – will put pressure on Next Payments and other competing ATM deployers.

The merged entity will have the ability to offer this type of arrangement to other banks, cross subsidising its foregone revenue at the ATM level with the monopoly rents it can extract at the CIT services level. This, coupled with the merged entity's discriminatory practices, will squeeze out Next Payments and other competing ATM deployers.

Next Payments and others are not able to provide access to cash for free – some transaction fee is required to recoup the costs of deploying ATMs. Next Payments and others will experience reduced ATM transaction volumes as cardholders will choose free ATM services rather than paying a transaction fee for cash access. The reduced volumes will impact profitability at the same time that Next Payments and others face increased pricing and reduced quality and frequency of CIT services.

The result is the inevitable exit of Next Payments and other independent ATM deployers – leaving the supply of cash to be controlled by a vertically integrated monopolist. That monopolist will have the unfettered ability to increase ATM transaction fees free from the pressure of competitive constraints and recoup the costs of its foreclosure strategies.
Next Payments is grateful for the ACCC's consideration of this further submission and would be pleased to assist with any further queries the ACCC may have.

Yours sincerely

[redacted]

Tim Wildash
Executive Chairman
Next Payments Pty Ltd
[redacted]