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Australian Competition & Consumer Commission
Attention Ms Miriam Kolacz and Ms Nissa Burns

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

20 January 2023

Dear Ms Kolacz and Ms Burns

We refer to the Statement of Preliminary Views dated 21 December 2022 (regarding the proposed merger between Armaguard and Prosegur). We attach our submission on issues that we consider relevant to the Commission's consideration of the Proposed Transaction.

Yours sincerely

[redacted]

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Bendigo & Adelaide Bank

Bendigo & Adelaide Bank comments on ACCC's Statement of Preliminary Views

1. *Whether a sole major supplier of CIT services would have the ability and/or incentive to raise prices or decrease the quality of service.*
   We support the ACCC's preliminary views. The need to preserve cash market share against competing payment systems is not enough of a constraint. The profit-maximising point for the Merged Entity could easily be at a lower quality of service. An end to, or lower frequency of CIT services to remote areas is Bendigo Bank's chief concern.

2. *The extent to which CIT services are amenable to differentiation on non-price factors, such as service levels and innovative offerings.*
   Both Applicants provide services to a high standard already. It would be hard to increase SLAs. If customers could synchronise delivery needs, some runs could be consolidated. However, safe load limits would have to be observed.

3. *The extent to which customers would be, or already are, willing to pay higher prices for CIT services that are differentiated based on non-price factors.*
   The worst-case scenario would be for cash services to stop being available in remote areas. This includes services only being available as special runs at unsustainable cost. Non-price factors such as frequency of delivery are of concern. If cash supply to remote places becomes less frequent, cash outlets will have to hold higher cash reserves and be at higher risk themselves as a result. Consumers already resist paying for cash transactions at nominal amounts (eg $2 for non-customer use of an ATM) suggesting higher prices will be problematic.

4. *The extent to which Prosegur acts as a 'disruptor' or innovator, and whether the Proposed Transaction will result in the removal of a vigorous and effective competitor, including: a. evidence of past competitive pricing behaviour, both before and after Prosegur's entry into Australia b. evidence of innovation and leadership in non-price competition.*
   Prosegur has proved a vigorous competitor following its acquisition of Chubb's business. The proposed Transaction will remove it. Of course, this may happen anyway if one Participant closes. This makes the 'No Substantial Lessening of Competition' test more complex to apply. The Net Public Interest Test may be easier to apply where the Participants claim that industry players may be lost, at least in part. However, the reasons for a monopoly do not change the need for regulation in the public interest.

5. *Whether new entry or expansion, insourcing by customers, or sponsorship by the Major Banks would be (i) likely, (ii) timely, and (iii) sufficient in scope and nature, to effectively constrain a sole supplier from substantially raising prices or lowering quality or innovation. Specifically:*
   a. *In relation to likelihood, what are the key factors that parties consider in determining whether entry/expansion/insourcing/sponsoring is worthwhile? For example: i. What costs would entrants need to incur and how irrecoverable or 'sunk' would they be if the decision to enter were reversed? ii. How high would CIT prices need to rise to justify entry, or what qualitative factors (such as service frequency) would need to be lost? Do parties consider that prices are likely to rise to such levels, or that those factors are likely to be lost following the transaction?*
   b. *In relation to timeliness, how long would it take for a new entrant to start supplying integrated wholesale and retail CIT services, or full-service retail CIT services of sufficient breadth or scope to meet customers' needs?*

   In principle, it might be possible that major customers (e.g. Banks) could sponsor a new entry. In practice, it runs into the same difficulty as the Applicants have pointed out around their own fixed costs. The key factor is the need for fixed investment in a declining service. The trouble this causes has been explained well by the Applicants. It applies even more strongly after a merger. Any entrants would need to set up the depots, systems, trucks and staff before any revenue could be sought, let alone earnt.

   To reverse the decision and exit would lose most of the investment. The value of those assets would be highest with a going-concern sale. The likelihood of that must drop if a new entrant later exits.

Greater use of the Australia Post network (as mentioned in section 4.97) may result. It would be more economically-neutral to let other customers increase in size by negotiating collectively themselves. That would preserve more diversity in the sources of cash.

7. *The ACCC invites views and further information on the extent to which the ability of banks to restrict access to cash and/or of retailers to not accept cash is likely to impose a constraint on a sole supplier of integrated wholesale and retail CIT services, or full-service retail CIT services.*
The restriction of cash would be a possible response by banks and retailers. But it cannot be relied on to the counter a monopoly in supply. There is public interest in having reliable cash supply, and some consumers need it. The cost of supporting that should be spread evenly. It should not be left to banks and retailers to force choices on consumers because of the supply structure. A monopoly supplier might raise prices using unconstrained market power to test elasticity of demand. Public detriment would be felt long before the inelastic minimum demand.

8. *The ACCC invites further views on the strength of bargaining power possessed by large retail CIT customers and the extent to which those customers could exercise any bargaining power to secure better terms in CIT service if there was only 1 major supplier of CIT services.*
Large CIT customers do have power now, but they would not if there were to be only one major supplier. CIT would have jumped from unsustainable competition all the way to unstable concentration. This supports the ACCC's attempt to find solutions short of merger.

The Applicants' reasons for the Transaction are to do with unsustainable competition, not a direct request to extract monopoly rents. If the Transaction is approved, it would then not matter how the monopoly came about. There would still need to be the right response by regulators to limit the public detriment. This would also be needed under the Counterfactual of one Applicant exiting.

The Applicants will benefit privately from avoiding the Counterfactual of a disorderly exit. They do not yet know which one of them might exit at a loss. By merging, they will have preserved substantial private value. But the Merged Entity should not be able to jump all the way to a dominant position from which monopoly rents can be extracted. It would be preferable for the Merged Entity to accept some kind of balancing of its power. A responsive way to do this would be to allow collective action by buyers. This would require the least continuing oversight from regulators.

12. *The ACCC invites further views and information about:*
a. likely future trends in cash usage, particularly post-COVID-19

b. consumers' willingness/ability to switch to non-cash payment methods if access to cash becomes more expensive or less convenient

c. likely future trends in demand for CIT services, including customers' willingness to pay for different levels of quality and frequency of CIT services

d. any differences between the likely levels of demand for wholesale CIT services and retail CIT services in the short to medium term

e. any likely structural shifts or events that may reduce or increase the demand for CIT services, such as new technology or regulatory changes.

a. Bendigo Bank has seen cash transactions revert to pre-COVID levels and this may persist in the short term.
b. Consumers have many non-cash options, which banks are already encouraging. Only a few banks offer their own cash solutions. The others direct their customers to ATMs owned by others.
c. Based on previous experience, consumers do not wish to pay much extra for cash services.
d. We have no further views on this topic.
e. Competing non-cash options will become more convenient over time but face similar problems of acceptance among elderly and vulnerable customer cohorts.

13. *The ACCC invites further views and information about whether it would be viable for the Applicants, having regard to the specific requirements and willingness to pay of CIT customers, to:*

a. reduce service levels, including by providing lower frequency of service, further rationalising routes, or moving to next-day processing

b. introduce amended pricing arrangements for services

c. implement further Approved Cash Centre closures

d. engage in further outsourcing e. diversify their offerings, including by increasing complementary service offerings, splitting up existing offerings, refocusing offerings in terms of geographic areas or products, or otherwise, or

f. sell assets to third party buyers as part of a rationalisation strategy.

Each time an appropriate level of fixed costs is found, it may become obsolete through any further decline in cash usage. This would require further reorganisation. A merged entity negotiating with a collective of buyers may give the best outcome for the public for this process of change. The buyers compete for consumers and will represent the voice of the consumer to CIT. They can assess and agree on which proposals for service changes, cash and closures or investments make sense for customers to fund. Competition can in that way influence the outcomes in the CIT market if it has become largely a monopoly.

15. *The ACCC invites further views and information about:*

a. whether any entity, including multinational firms, would be able to acquire all or most of the business or assets and continue to supply CIT services in Australia, particularly at a national scale or wholesale level

b. whether any existing CIT supplier could expand into the supply of wholesale CIT services, either with backing by a large customer, in partnership with another CIT supplier or otherwise, and if so at what scale (incremental expansion versus expanding to become a national supplier in the short to medium term)

c. the identity of potential buyers who could service the Major Banks (both integrated wholesale and retail CIT services) and other large national customers such as Australia Post and the large retailers.

d. the likelihood that no entity would acquire all of most of the business or assets and continue to supply CIT services in Australia, particularly at a national scale or wholesale level, given current demand for CIT services.

These possibilities cannot be relied on. The reasons are as given in point 5.

16. *The ACCC invites further views and information about:*

a. the likely timing of exit (if any), having regard to contract lifespans and upcoming contract renewal points, especially for larger customers, and

b. whether any exit would occur sooner within the next 2 years if an Applicant were to lose any important contracts.

There is no way of knowing whether the forces suggested would be powerful enough to bring about that result.

22. *The ACCC invites views and further information on:*

a. Whether the Proposed Transaction is likely to generate productive efficiencies in the provision of CIT services, for example by reducing duplicative Approved Cash Centres.

b. The extent to which the benefits of any such efficiencies, in the form of cost savings, are likely to be passed through to end customers.

23. *The ACCC invites views and further information on: a. The extent to which the risk of customers expanding their adoption of non-cash payment options at the expense of cash payments is likely to incentivise investment in CIT services by the merged entity b. The extent to which the merged entity is likely to have incentives to: i. invest in new technology ii. develop new and innovative solutions c. maintain high levels of service for its customers.*

22&23. The Deloitte analysis shows substantial efficiencies generated through the Proposed Transaction. The Merged Entity would be able to capture most of the efficiency gains. This would be a swing from one unsustainable position to another. Collective representation of buyers would be a remedy requiring the least regulatory action.

There is a substantial risk of static profit-maximisation, as noted in section 4.57 of the Statement of Preliminary Views. It is true that the Merged Entity would have an interest in protecting the position of cash against rivals. It would tend to be at the profit-maximising level. This may be found at a lower level of service than consumers currently have and be at a low level of inelastic demand served at high cost.

24. *The ACCC invites views and further information on:*

a. Whether the Proposed Transaction is likely to generate environmental benefits from reduced carbon emissions.

b. *Whether 1 of the Applicants ceasing to supply CIT services is likely to result in lower safety standards from customers switching to alternative CIT suppliers.*

c*. Whether either Applicant has unique expertise in the operation of a CIT business that would be likely to be lost if they ceased supplying CIT services.*

a. The ACCC's view is correct. Ultimately, the cash must be moved, and defended against theft. That relies on heavy diesel transport. Even with 8% fewer trucks, they will cover similar mileage to service the same points.
b. The ACCC's view is correct.
c. This would not be the case in the medium to long term. Both Applicants are large, well-managed businesses with substantial skills. Either could match the other's relative advantages in a reasonable timeframe, if it were profitable.

25. *The ACCC invites views and any further information on:*

a. Whether the Proposed Transaction is likely to affect the ability for banks and remaining CIT suppliers to respond to disruptions and maintain sufficient business contingency plans.

b. Whether the Proposed Transaction could reduce access to cash in regional and remote areas.

c. *If access to cash was reduced in regional areas, the effect this would have on vulnerable members of the community.*

Bendigo Bank's business model emphasises personal interactions in regional places. In these communities, we support other businesses for trading cash, even if they do not themselves dispense cash against card transactions. In over 50 locations in regional Australia, Bendigo Bank is the only bank in town noting:

- Most, but not all, of these regions have an Australia Post Bank@Post outlet.
- Many would have a supermarket which dispenses cash, but the likely case is that the supermarket obtains that cash from the Bendigo Bank branch.
- Other businesses in the town tend to rely on the Bendigo Bank branch for their trading cash for customer transactions.

There will clearly need to be some rise in the cost of purchases for doing this under the Proposed Transaction. If the rise is too much, these sorts of locations may lose the remaining diversity of their cash sources. Equally, reductions in frequency of the CIT service will require local businesses to have great cash holdings at greater security risk, that is better managed by CIT.

Vulnerable members of the community have less access to technology, and often are more difficult to persuade to adopt non-cash payment methods. They are also often more likely to be found in regional and remote locations and will be subject to the pressures described in the previous paragraph. The reasons for this were covered in the Final Report of the Regional Banking Taskforce Recommendations 4 and 5 - see Regional Banking Taskforce - Final Report | Treasury.gov.au