

19 January 2024

BY EMAIL

gavin.jones@acc.gov.au

Gavin Jones
Director, Competition Exemptions - Mergers, Exemptions & Digital
Australian Competition and Consumer Commission (**Commission**)

Level 17
2 Lonsdale Street
Melbourne 3000

Dear Mr Jones

Interested party consultation - Australian Banking Association Ltd (cash-in-transit services) - Application for authorisation AA1000654 (Authorisation Application)

Linfox Armaguard Pty Ltd (**Armaguard**) makes this submission in response to the invitation from the Commission to provide information, evidence and views to assist with its review of the Authorisation Application.

Armaguard understands its significant role in the wholesale cash industry and the very real challenges that the industry is facing given the ongoing decline in the use of cash as a payment method against the increasing costs of cash distribution in Australia. The cash-in-transit industry is also particularly vulnerable to external factors, with multiple increases in the official cash rate as a recent example of an ongoing threat to the viability of Australia's wholesale cash industry, which has now reached crisis point. The roundtable discussions initiated by the RBA reflect that reality.

Armaguard has consistently voiced its concerns regarding the unsustainability and overall inadequacy of the industry's settings to meet the future demands and requirements of key stakeholders.ⁱ

The industry needs both immediate relief (to ensure that Armaguard can continue its cash distribution role as cash usage continues to decline and banks scale down their publicly available cash handling services) and structural reform (to ensure a long-term solution is achieved as soon as possible).

Armaguard strongly supports the need for the RBA-led discussions on the future of the wholesale cash industry and, subject to its comments below regarding the need to ensure that appropriate controls are in place regarding the disclosure and use of commercially sensitive confidential information, supports the Authorisation Application.

Ongoing structural decline: the industry continues to be unsustainable

Since June 2023, when the Commission granted authorisation for the merger of Armaguard and Prosegur in Australia (**Merger Authorisation**),ⁱⁱ worsening trading conditions together with the ongoing decline in cash usage has meant that there is now a real risk that without its ongoing

ⁱ Armaguard, Prosegur Application for Merger Authorisation, 26 September 2022; Armaguard, Prosegur – Applicants Response to ACCC Statement of Preliminary Views, 9 March 2023.

ⁱⁱ Determination, Application for merger authorisation lodged by Armaguard and Prosegur in respect of the merger of their respective cash-in-transit and device monitoring and maintenance and ATM businesses, 13 June 2023.

shareholder contribution and support, Armaguard will not have sufficient cash to continue to operate the business.

While the Merger Authorisation has allowed Armaguard to achieve certain synergies to try and minimise underutilisation (such as by (i) aligning operations; (ii) rationalising the branch network; (iii) removing excess assets (including cash counting equipment and vehicles); and (iv) engaging in organisational restructure (including a redundancy program and redeployment for staff)) the positive impact of such synergies has been outweighed by lower than anticipated cash usage, cost of living pressures, significant cash rate increases, and other market influences impacting consumer confidence. As the Commission is aware, the changes that Armaguard can make to the services it provides to its customers (to further reduce underutilisation in its network) are constrained by the terms of the undertaking it gave to the Commission to obtain Merger Authorisation (**Undertaking**).ⁱⁱⁱ

As noted, one of the main drivers of increasing operational costs are increases in the cash rate which have a direct impact on the cost to Armaguard of its bailment and commercial cash facilities.

In addition, Armaguard continues to face high regulatory compliance costs, as the subject of constant audits by the Major Banks as well as the Independent Auditor who is responsible for monitoring compliance in accordance with the Undertaking.

The materially increased unit costs of transporting and distributing cash means that Armaguard is increasingly unable to recover its fixed costs as a result of the underutilisation of its cash distribution infrastructure which has resulted in the current crisis with the ongoing financial sustainability of the industry. It is in this context Armaguard reiterates that the RBA-led discussions on urgent industry reform are critically important.

The need for the proposed Authorised Conduct

Armaguard acknowledges the need for a degree of information exchange and discussions between the RBA, the Major Banks, the ABA on behalf its members, the Commonwealth Treasury and certain key stakeholders such as Australia Post and major Armaguard non-bank customers, to address the ongoing sustainability of Australia's wholesale cash industry. We note the Commission has granted interim authorisation to the Authorised Conduct subject to conditions as to reporting to the ACCC and the presence of a competition lawyer at discussions.

While Armaguard supports the imposition of these conditions, it submits that the Commission needs to carefully consider the need for conditions regarding the exchange and use of confidential information between the Authorised Parties as part of the Authorised Conduct. The presumption should not be that:

- (1) Any confidential information requested by an Authorised Party as part of the RBA discussions should be disclosed.

Instead, the RBA should undertake a process where specific consideration is given to whether the confidential information requested is in fact reasonably necessary for developing and evaluating a potential response.

- (2) All of the Authorised Parties require access to any confidential information it is decided needs to be exchanged to facilitate the RBA led discussions.

Instead, the RBA should undertake a process where specific consideration is given as to which Authorised Parties need access to specific confidential information in order for

ⁱⁱⁱ Undertaking to the Australian Competition and Consumer Commission, given under section 87B of the *Competition and Consumer Act 2010* (Cth) by Linfox Armaguard Pty Ltd (ACN 099 701 872).

discussions to progress. For example, of the ABA's members, it is only the Major Banks as BDA Participants which have direct involvement in the distribution of wholesale cash. It would be on an exceptions-only basis that non-Major Banks or other interested parties would require access to confidential information pertaining to those arrangements as the ABA can otherwise consider the information on their behalf.

Furthermore, any disclosure of Armaguard's confidential information should always be subject to the express consent in writing of Armaguard.

In the absence of such conditions there is a risk of public detriment from the unconstrained exchange of confidential information between competitors.

Please let us know if you would like to further discuss any aspect of this submission with Armaguard. We welcome this opportunity to work closely with the Commission and the relevant stakeholders to secure Australia's access to cash and the overall wholesale cash distribution system.

Yours faithfully



Mick Cronin
Chief Executive Officer
Armaguard