

28 October 2022



Bruce Mikkelsen
Acting General Manager, Competition Exemptions
Australian Competition and Consumer Commission
By email: Armaguard-Prosegur-Merger@acc.gov.au

Dear Mr Mikkelsen

PROPOSED MERGER BETWEEN ARMAGUARD AND PROSEGUR

I refer to your letter dated 6 October 2022 in relation to the above matter.

Enclosed is National Australia Bank Limited's response to the questions contained in Attachment B of the ACCC's market inquiries letter.

NAB does not make any confidentiality claims in respect of its enclosed response.

Further inquiries

If you have any questions or would like to discuss NAB's responses, please contact Virginia Porter, General Counsel – Regulatory Advisory at [REDACTED].

Yours sincerely



Patrick Wright
Group Executive, Tech and Enterprise Ops

RESPONSE TO MARKET INQUIRIES LETTER

General

1. Please provide a brief description of your business or organisation.

NAB is an ASX listed diversified financial services institution, headquartered in Melbourne. NAB is an authorised deposit-taking institution (ADI).

NAB's principal Australian businesses include:

- **Personal banking:** through its personal banking business, NAB provides transaction and savings accounts, term deposits, home loans, credit cards and personal loans.
- **Business and private banking:** through its business banking business, NAB provides SME banking services, lending and deposit products, equipment finance and merchant acquiring services and through its private banking business provides relationship bankers and high net worth (HNW) propositions to its private banking customers.
- **Corporate and institutional banking:** NAB provides a full suite of corporate and institutional banking services.
- **UBank:** NAB provides an online only banking service for customers who prefer online self-service offering transaction banking accounts; savings/term deposit products and home loans. As the ACCC is aware, UBank recently acquired neobank 86 400.

NAB's core consumer banking business operates under the NAB brand (but also the recently acquired Citi and related consumer banking brands) and includes physical branches across Australia as well as online browser-based banking facilities and smartphone operations. NAB also offers wealth management and investment services, and insurance.

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.

NAB's interest in the Proposed Transaction is as an existing customer of both Armaguard and Prosegur. NAB is currently reliant on the provision of a range of services from both Armaguard and Prosegur. NAB acquires some cash movement and management services from Prosegur. NAB acquires the following services from Armaguard:

- Forecasting & Planning;
- Cash Movement & Management;
- Custody of Australian Banknotes & Coins; and
- ATM monitoring maintenance and logistics services.

NAB's interest in the Proposed Transaction extends to the following:

- The Proposed Transaction does not cause any uncertainty or instability in respect of a core payment channel;
- Any changes to the structure of the supplier landscape does not negatively affect the services provided by these vendors; and

- Any rationalisation of the supplier landscape does not restrict the ability to customers to negotiate balanced terms.

CIT Services

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;

The Australian CIT market has, in recent years, consolidated significantly. Armaguard's acquisition of Brinks in 2015 and Prosegur's acquisition of Chubb (2013) and Toll Secure (2016) has resulted in market shares of circa 65% for Armaguard and 25% for Prosegur. The remaining 10% is apportioned between various other vendors.

b) the supply of CIT services to retail customers who require a full-service solution of cash transport, processing and administration; and

Whilst cash continues to be in decline, specific industry sectors continue to be heavy users of cash resulting in retail customers utilising the services of couriers and cash services providers for transporting their cash e.g., Pharmacies.

In support of these customers, NAB has partnered with Armaguard and Prosegur to offer supplementary services such as smart safes.

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.

NAB is not able to comment as these services are ordinarily procured by retail customers directly with the CIT provider.

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.

The Australian CIT market is primarily a duopoly, between Armaguard and Prosegur whose combined market share is circa 90%. The remaining 10% is accounted for by vendors such as Security Specialists, Streamcorp Armoured and ARA Security who provide cash movement and management services.

Due to the extent of NAB's branch and ATM network, only Armaguard and Prosegur can provide CIT services with consistent levels of service across all of NAB's locations. These vendors have some sub-contractor arrangements to meet service level expectations across the breadth of NAB's network. NAB does not consider that there are any other competitors to Armaguard and Prosegur who could meet NAB's overall requirements.

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?

Cash as a payment channel is seen as core to the function of a banking institution and reliable access to cash builds confidence with our customers. There are several factors that contribute to creating a stable service:

- Reliable access to cash for customers through the branch and ATM network or alternate arrangements such as Bank@Post;

- Adherence to service arrangements in line with contractual obligations are critical to ensure cash stocks are managed effectively;
- Robust contingency arrangements maintaining continuity of services through significant events e.g., pandemic, and natural disasters avoiding possible run-on cash scenarios within the cash industry;
- Ability to manage costs effectively ensuring cash distribution is not constrained; and
- Sorting of banknotes to maintain the quality of notes in the system (as a BDA participant).

Each of Armaguard and Prosegur offer a broad range of services that NAB requires to achieve the above elements. Other competitors are not able to match the breadth of their servicing e.g., depots/networks.

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?

NAB does not believe that any other company has the network/infrastructure or service offering to impose a competitive constraint on the merged entity.

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?

Given the requirements outlined in NAB's response to Question 5, in relation to the factors that are important to CIT customers, it is envisaged that any new entrant or existing provider seeking to expand would require significant investment to deliver on these factors. The decline in cash usage would create a challenging commercial proposition for any new or existing vendor.

As cash continues to decline, innovating and transforming the cash eco-system will become inevitable to ensure a sustainable and cost-effective payment channel for customers.

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.

With only two suppliers and significant barriers for any new entry into the CIT market, NAB believes the transaction will reduce competition.

A further observation is that within capital cities and major urban areas higher profit margins have led to several independent cash courier services emerging to provide point-to-point cash collection and deposit services for businesses avoiding establishing CIT depots. In contrast regional and rural areas are likely to have less competition where the cost to serve is higher due to the CIT depots requirements.

- 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 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)?**

Digital payment options are becoming increasingly popular and given their lower cost, in many instances are more attractive for some business customers.

Despite this, NAB has a responsibility to ensure it is maintaining multiple payment channels and supporting financial inclusion for all its customers. Government and RBA continue to promote the need for businesses to accept cash payments to ensure economic inclusion for all customers.

As a result, the cost of CIT services needs to remain low for cash to remain a viable payment option for customers.

- 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?**

NAB is not able to comment on any decisions that may be taken by the RBA.

RBA has committed to developing ways to ensure that bank note distribution is effective, sustainable, and resilient for the long term through their recent wholesale cash review.¹ This may include setting minimum standard of services to be maintained to meet community requirements for distribution and management of cash.

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.**

NAB recognises the declining usage of cash and the challenges this represents for all parties involved in the cash eco-system. All participants have a role to play in creating a sustainable and cost-effective payment channel.

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);**

Armaguard and Prosegur have invested in offsite ATMs which are not connected to any bank branch. There is a reliance for customers to continue to have access to cash at multiple locations including offsite ATMs, provided by Armaguard and Prosegur.

- b) **the supply of ATM maintenance services; and**

There are three main vendors in the Australian market providing ATM maintenance services including monitoring, hardware support, field services and logistics being NCR, Armaguard and Prosegur. All these vendors offer and support national coverage for ATM maintenance field services.

¹ Reserve Bank of Australia, Review of Banknote Distribution Arrangements: Conclusions Paper, August 2022.

c) the supply of valuable cargo transportation services.

There are multiple vendors who offer such services, and this is not limited to just Armaguard and Prosegur.

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 and Prosegur actively compete in the Australian market for the supply of all non-CIT services. NAB considers Armaguard and Prosegur to be close competitors with each of them capable of supplying these services to NAB.

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.

Other than Armaguard and Prosegur, a third supplier of ATM maintenance services including monitoring, hardware support, field services and logistic is NCR. It also offers monitoring, service desk and national coverage for field services.

Each of Armaguard, Prosegur and NCR also engage subcontractors to provide some of the services including:

- **Field Services:** to varying degrees each party maintains a workforce of field services technicians, predominantly in metropolitan areas. Field services support is typically outsourced to local technicians in rural and regional areas. In many cases, the same technicians in remote areas provide services to all three vendors: and
- **Storage and Logistics:** All three vendors outsource storage and logistics (movement) of ATMs.

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?

As NCR is the national provider of ATM services for NCR machines, they may act as a constraint on a combined Armaguard/Prosegur raising its prices.

NAB's ATMs are serviced by NCR. However, if NAB were to change its ATM machine model (e.g., to Diebold-Nixdorf or Hyosung machines), this could present a risk as NCR may not be able to cover support for these machine types and hence the potential for increased costs/reduced services from a combined Armaguard/Prosegur.

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?

As with CIT services, the complexity in establishing monitoring, field services and logistics for the ATM fleet would make the prospect of new entry commercially unlikely. Due to this, insourcing would likely not be a constraint for raising prices or reducing quality of services. As NAB has an NCR fleet of machines, effective competition exists however if this was to change to a different machine type then it is likely that an effective support alternative would not be available (to be assessed at the time).

Public Benefits

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?

A decision by either Armaguard or Prosegur to exit would have a significant impact on the cash eco-system with one firm having to step-in to support impacted customers.

Further to this, the contingency arrangements that Armaguard's or Prosegur's customers have in place would no longer apply. This would expose all market participants to increased risk.

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?

NAB anticipates that any transition would require a minimum of 6 months. Impacts and any remediation would need to be discussed at an industry level given the significance of the services and consideration to regulators and other CIT customers.

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?

Whilst Armaguard and Prosegur have separately implemented extensive efficiency and improvement programs to reduce costs, further benefits will be realised by addressing the high fixed costs of CIT services and providing improved efficiency by leveraging best practices.

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?

NAB's sourcing principles anchor to partnering with organisations that are leaders in their industry to deliver on NAB's commitment to serve customers well and help communities prosper. The expectation is that the proposed transaction will deliver on the efficiency, sustainability, and reliability that Armaguard and Prosegur are seeking to address and negate the current risks associated with the proposed merger.

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?

It is NAB's expectation that the merged entity would fulfil its obligations as noted in the Public Benefits of Attachment A.

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?

Based on what has been shared in the parties' Merger Authorisation submission, NAB anticipates that the proposed transaction should be the impetus to deliver enduring benefits through their contribution to a cost efficient and sustainable cash distribution system.

Public Detriments

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.

Nothing further identified.

22. Please provide any additional information or comments, or identify other competition or public benefit issues, that you consider relevant to the ACCC's consideration of the Proposed Transaction.

All participants in the cash distribution system have a role to play in supporting the sustainability of cash distribution in Australia.

Key considerations around the proposed merger for this essential service would be:

- Ensuring that there remains CIT coverage across the country at an affordable price especially for regional and rural communities that have fewer service provider options;
- Impact on pricing for customers for this essential service; and
- Impact on service and continuity of supply.

Privately owned companies managing the cash supply may require greater oversight and regulation from government to ensure continued stability.