

31 October 2022

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## Proposed merger between Armaguard and Prosegur – interested party consultation

We refer to the Commission's 6 October 2022 letter to interested parties in respect of the Armaguard and Prosegur application for authorisation of the Proposed Transaction (**Application**). Thank you for the invitation to comment on this matter.

In the time available, Westpac Banking Corporation (**Westpac**) has sought to highlight key matters that it considers to be pertinent to the Commission's assessment of the Proposed Transaction, focusing, in particular, on cash in transit (**CIT**) services.

### The importance of cash distribution

- 1 Our overall objective is to ensure the ongoing accessibility and reliability in the supply of physical cash in Australia. Many Australians, particularly in remote regional communities, continue to rely on cash as an important and in some cases, predominant, form of payment.
- 2 Cash distribution is a critical feature of the Australian payment system. The maintenance of efficient, safe, secure and cost-effective infrastructure to transport high-quality banknotes across Australia is of paramount importance to the stability of the wholesale cash distribution system, and the retail and commercial cash distribution systems that rely on it.
- 3 Sustainable provision of this service is our paramount concern and given the critical and dominant role played by the Applicants in the cash distribution system in Australia, we feel several risks need to be considered by the ACCC.

### Applicants' role in cash distribution

- 4 The Applicants play a critical role in the wholesale and retail cash distribution system in Australia.<sup>1</sup> In particular:
  - (a) They are two of only four CIT providers with both approval from the RBA<sup>2</sup> as 'approved cash centre operators' (**ACCO**) and approval from the four major banks to conduct obligations on their behalf as part of the Banknote Distribution Agreement (**BDA**) with the RBA.<sup>3</sup>
  - (b) The Applicants are the only CIT providers that currently provide national CIT services, and full-service CIT services to banks, including cash counting and verification, fitness, sorting and storage.
- 5 We understand that the Applicants hold the majority of CIT contracts for retail (including commercial) cash services in Australia, as well as contracts for CIT services to all of the four major banks and their ATMs.

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<sup>1</sup> Application at [5].

<sup>2</sup> The RBA approval follows a nomination by one of the 4 major banks in their capacity as the only financial institutions who are able to purchase banknotes directly from the RBA.

<sup>3</sup> The role of an ACCO is to perform services for or on behalf of the BDA participants (i.e., the four major banks). For example, a CIT provider needs to be contracted to perform services on behalf of a BDA bank at the RBA banknote site in Melbourne, Victoria, known as an ACCO. An ACCO cannot perform its role as an ACCO without the request or involvement of a BDA bank

6 The alternative small CIT providers would likely need to make substantive changes, including becoming ACCOs and investing significantly in infrastructure including RBA-approved cash centres (ACCs), to be feasible substitutes for the Applicants' full-service CIT offering, at least for financial institutions including Westpac.<sup>4</sup>

### Westpac's role in cash distribution

7 Like the other major banks, Westpac also has an important role in the cash distribution ecosystem. Westpac is the largest of the four holders of a BDA with the RBA and undertakes various activities to meet the cash requirements of the Westpac Group cash points (branches and ATMs) and commercial cash facility customers (independent ATM deployers, CIT providers (including the Applicants), large retail customers).

8 In order to continue to fulfil this important role, we have a particular interest in the resilience of the system to ensure we meet our customers' banking needs.

9 [REDACTED] % of the physical cash held on title by Westpac is held in ACCs operated by the Applicants. To date, Westpac has relied on ongoing competition in the market to maintain the necessarily high full-service CIT service levels. If the Proposed Transaction proceeds, we have the following key observations in relation to its impact on our role in cash distribution:

[REDACTED]

(b) Visibility into the financial operations of counterparties is an important role in ensuring efficient market dynamics and is an important factor in assessing the viability of the service provider. Given the proposed corporate structure of the merged entity, such visibility would not be readily available to the industry, which is concerning given the criticality of cash distribution to the community.

[REDACTED]

### Risks to cash distribution if the Proposed Transaction proceeds

10 In considering the Proposed Transaction, we believe that the following issues are of importance for the ongoing efficient operation of the market:

- (a) Maintenance of service availability and quality (including flexibility, frequency and efficiency of services).
- (b) Continued investment in CIT businesses and ongoing innovation in respect of products and services.
- (c) Reasonable price levels for CIT services, with price increases consistent with the forecast provided by the Applicants in the Business Plan.<sup>5</sup>
- (d) Potential changes to the regulatory landscape<sup>6</sup> would take time, such that any consequences of the Proposed Transaction could be felt by consumers of CIT services and the public during any transition period.
- (e) Continued opportunities for existing smaller CIT providers to scale up to a national operation or for new entrants to enter the market, keeping open the possibility of future competition despite the scale and installed customer base of the merged entity.
- (f) A stable cash distribution system. This is a critical pipeline for the community where banks have a responsibility to ensure cash supply and confidence to customers and the public and the current competition between national CIT providers has played an important role in the resilience of the system. In the current market, there may be opportunities for industry and stakeholders to identify alternative strategies that could further stabilise the industry.
- (g) Ongoing competition in the market for ATM cash operations that is not hindered by one market participant obtaining increased access to commercially sensitive information about the ATM cash operations of its rivals.
- (h) Maintenance of public confidence in banks to meet our customers' cash distribution requirements.

<sup>4</sup> While Westpac has, on occasion, utilised smaller CIT providers to transport cash between sites, this is limited in geographical locations and has typically occurred in response to emergency needs only and is not sustainable as a permanent solution.

<sup>5</sup> Application at [276].

<sup>6</sup> Application at [386].

We would be happy to discuss the content of these submissions with the ACCC in more detail if that would be of assistance.

Yours sincerely



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