



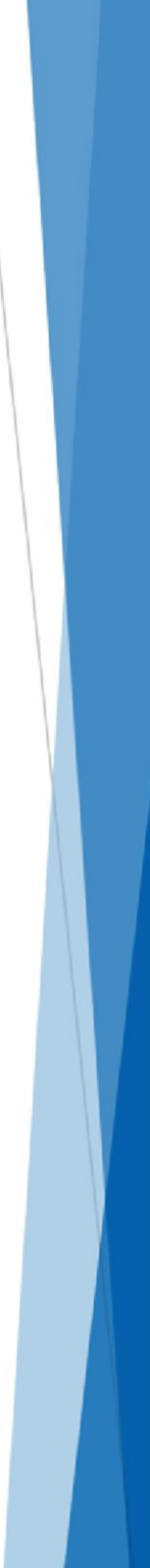
Australian Banking
Association



REGULATING CASH DISTRIBUTION IN AUSTRALIA

Council of Financial Regulators

15 August 2025





Introduction

The ABA welcomes the Council of Financial Regulators' (CFR) consultation paper into Regulating Cash Distribution in Australia and strongly endorses the need for a robust regulatory framework for the Cash-In-Transit (CIT) industry.

For nearly two years, the ABA has coordinated the substantial cross-industry efforts to stabilise Linfox Armaguard's CIT services given its near monopoly status and the impact that any disruption or cessation of its services could have on cash availability across Australia. Our involvement commenced soon after the completion of the merger between Linfox Armaguard and Prosegur Australia in September 2023,

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Industry efforts culminated in a \$49.1 million financial assistance package provided in June 2024 for a period of 12 months by the Four Major Banks, Australia Post, Coles, Wesfarmers and Woolworths (collectively, the **Funding Parties**) that has stabilised Linfox Armaguard while longer-term solutions could be developed.

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In July 2025, the industry financial assistance package was extended for a further six-months with additional funding of \$25.5 million so as to allow time for an independent expert to develop an Independent Pricing Model (IPM) proposal that is analogous to a utility pricing model that would apply to regulated services.

We are hopeful of finding alignment with Linfox Armaguard on an IPM but believe that a robust regulatory framework for the CIT industry underpinned by regulated utility pricing, is the most appropriate long-term solution for this industry. This is particularly so given that cash use is expected to decline to an expected 4% of payments by 2030.

While industry efforts to date have focused on Linfox Armaguard given its role as the only national provider of CIT service, the broader CIT industry also faces sustainability pressures. Given the above, we are supportive of all 11 CFR proposals and our responses to the consultation questions below are designed to support the development of these proposed reforms informed by our involvement in these matters to date.

Policy Leads: **Chris Taylor** (Chief of Policy) [REDACTED]

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About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.



ABA responses to consultation questions

Question 2:

- 2.1: Is the overarching objective for the proposed regulatory framework – to ensure the cash distribution system operates in the public interest – appropriate? If not, why?
- 2.2: Are the four policy principles (access, sustainability, resilience and efficiency) for the proposed regulatory framework appropriate? If not, why?

The ABA endorses the need for an overarching *public interest* objective and the four policy principles of access, sustainability, resilience and efficiency to underpin the proposed CIT regulatory framework. Further, the ABA supports the CFR's intention to design a regulatory framework that is transparent, flexible and proportionate.

Declining customer cash usage, high fixed costs inherent in the delivery of CIT services, and the market dynamics of the CIT industry Australia, mean that a robust regulatory framework for CIT services underpinned by regulated utility pricing based on the Building Blocks Methodology¹ will be crucial to ensuring continued availability of cash. Refer to our response to question 5.2 for additional information.

Such a regulatory regime underpinned by a public interest objective and the four proposed policy principles will be crucial to ensuring that when Linfox Armaguard's ACCC enforceable undertakings expire in September 2026, regional and remote customers in particular will not be subject to unrestrained monopolistic price rises or CIT services to certain regions simply no longer being offered.

The ABA notes however that compliance obligations associated with the proposed regulatory framework must be appropriately targeted to avoid unduly adding to the financial challenges in the CIT industry.

Question 3:

- 3.1: The proposed framework distinguishes between registration (for general oversight) and designation (that applies more substantial regulatory obligations and powers reflecting the critical cash services being provided). Is this two-tiered approach proportionate to the challenges facing the cash distribution sector? Are there alternative models that should be considered?
- 3.2: What baseline obligations should apply to all registered entities to support sector transparency? What additional reporting obligations should designated entities have, particularly in relation to service continuity, crisis preparedness, performance reporting, and/or compliance with industry codes of practice?
- 3.3: What factors should be considered when determining whether a cash distribution provider should be designated (e.g., criticality of services provided, market share and/or geographic coverage)? Should designation be the responsibility of a regulator or the Minister? What protections should be in place to ensure the designation process is fair?

The ABA supports a tiered regulatory regime for CIT providers. Designated entities should be subject to reporting obligations consistent with other operators of nationally critical infrastructure and sufficient to enable a utility pricing regime that is based on the Building Blocks Methodology.

At a minimum, the ABA considers the following reporting obligations to be required of designated entities:

1. Financial performance including in relation to revenue, cost, profitability, cashflows, and asset valuations (including ownership arrangements).
2. Service performance including in relation to missed services.
3. Capital and operating expenditure.

¹ The Building Blocks Methodology is an economic regulatory pricing approach typically used in monopoly situations where either a revenue or pricing cap is established having regard to providing an operator with an adequate return of capital, their efficient operating expenditure, and various other components such as taxes.

4. Demand forecasts and pricing assumptions.
5. Financial and liquidity position.

To support effective oversight in this regard, government must have information-gathering powers that may be exercised where necessary. The UK's *Digital Markets, Competition and Consumers Act 2024* provides a relevant reference point, albeit in a market with two major CIT operators and therefore without the acute issues present in the Australian context. The UK legislative regime establishes a framework in which regulators can request operational, financial, and performance information to support market sustainability and oversight, while reserving more interventionist measures for when specific conditions are met, including in relation to pricing. It includes contemplation of designation of systemic operators, the failure of which could threaten the stability or confidence in the financial system (through a loss or severe reduction of access to cash as a means of payment for consumers as well as a potential loss of confidence in cash as a payment method). A similar approach could be explored in the Australian context, allowing proportionate use of regulatory powers based on risk, market conditions, and public interest considerations.

The ABA further notes that CIT operators in Australia are no longer subject to the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*. Government may wish to consider the ongoing appropriateness of this exemption as part of the transparency obligations it is considering for registered and/or designated CIT participants.

The ABA supports designation decisions being guided by factors such as service criticality, market share, and geographic coverage. Responsibility for designation may sit best with an independent regulator, with Ministerial oversight consistent with other nationally significant sectors.

Question 4:

- 4.1: What key indicators or thresholds should trigger crisis resolution powers, to support the continued operation of cash distribution services critical to the functioning of the cash system?
- 4.2: Are the proposed powers and interventions appropriate for the cash distribution sector?

The ABA endorses the proposed crisis resolution triggers in Proposal 4 and 5 and considers them crucial to any robust regulatory regime.

Following the merger of Linfox Armaguard and Prosegur Australia, concerns have emerged among major customers of the now-dominant CIT provider regarding the reliability and continuity of service delivery. Given this, the ABA sought urgent ACCC authorisation for Business Continuity Planning (**BCP**) ahead of Easter 2024 which was granted and remains in operation. Industry BCP activities have taken place under the auspices of the RBA's BCP Working Group and continued via AusPayNet forums. Notwithstanding industry BCP activities to date, the ABA notes that there is no business continuity plan that could avoid the risk of significant disruption to cash availability in the event of an extended interruption to Linfox Armaguard's CIT services given its near monopoly status.

Accordingly, we support the triggers and proposed government intervention powers in Proposals 4 and 5 as critical to addressing the current weaknesses in the system and ensuring the continuity of CIT services. We consider such powers as fundamental to any robust regulatory framework.



Question 5:

- 5.1: Under what circumstances should the regulator intervene on price and non-price terms in cash distribution agreements of designated entities to ensure they are in line with the objectives of enabling adequate access and being industry-led, sustainable and efficient?
- 5.2: In the instance that a regulator applies a pricing model, what is the most appropriate approach for setting prices?
- 5.3: Should dispute resolution processes for designated entities be regulated by the regulator or a third party?

The ABA believes that the dynamics of the current CIT sector mean that a utility pricing regime based on the Building Blocks Methodology should be administered by a designated regulator and include negotiate-arbitrate mechanisms. Where agreement on price or non-price terms cannot be reached, there should be a clear mechanism for parties to escalate disputes to the designated regulator. The regulator should have the authority to intervene and, where necessary, arbitrate a resolution to ensure outcomes are consistent with the overarching objective of operating in the public interest and aligned with the policy principles of access, sustainability, resilience and efficiency.

Our position is informed by the specifics of the CIT industry in Australia which is characterised by:

- High fixed costs driven primarily by transport and labour costs, plus industry-specific security costs inherent in the handling of cash.
- A declining market caused by declining customer cash usage.
- The near monopoly status of Linfox Armaguard alongside two smaller providers with a predominately metro presence.

Currently, the continued availability of CIT services is being ensured by a combination of the financial assistance provided by the eight Funding Parties to Linfox Armaguard and the ACCC enforceable undertakings (which prevent prices rises of greater than CPI plus 7.5% and require the continued servicing of regional and remote areas). These status quo arrangements are clearly neither sustainable nor optimal.

Given these dynamics, the ABA believes that a regulated utility pricing regime based off the Building Blocks Methodology for CIT services would ensure fair pricing, promote efficiency, provide investment certainty, lead to transparency and accountability, and balance the needs of providers and customers. The Building Blocks Methodology is a commonly used approach to determining pricing in regulated industries such as water, transport and electricity.

The ABA and Linfox Armaguard have engaged Deloitte Access Economics as an independent expert to develop an IPM analogous to a utility pricing regime, to apply initially to the cash services agreements with each of the Funding Parties. We have agreed to nine pricing principles to guide development of such an IPM:

1. Formula based in a consistent way.
2. Underpinned by Activity Based Costing (developed on arm's length terms and including disclosure at a level of activity and detail sufficient to enable customers to identify the source and drivers of cost).
3. Ensures full transparency of Armaguard's cost base.
4. Incentivises Armaguard to realise operational efficiencies including CAPEX and OPEX decisions that drive cost efficiencies with consideration to the structural decline in the CIT industry.
5. Incentivises customers to move to standardised offerings (see item 6) and customer measures that promote efficiencies.
6. Does not unreasonably discriminate between customers (including supporting ongoing access to cash in regional and remote Australia).
7. Fully funds Armaguard's overhead costs and provides an appropriate return on invested capital to fund current and future investment and cost related to the delivery of operational efficiencies (as detailed above in principle 4) before payment of any shareholder returns to Armaguard shareholders.



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- a. Invested capital and Rate of Return on invested capital to be consistent with methodology applied by other regulatory bodies overseeing regulatory pricing models such as AER, IPART, QCA.
8. Provides a consequences regime for any non-compliance with the above principles and service standards.
9. Compliance with all requirements including regulatory and community responsibility.

Further, while the IPM would initially apply to the cash services agreements with each of the Funding Parties, it is being developed on the basis that it could also apply to all Linfox Armaguard CIT customers, subject to ACCC approval to be sought by Linfox Armaguard.

The ABA (on behalf of the Funding Parties) has also engaged Rennie Advisory, a specialist regulated pricing firm, to support the Funding Parties consideration of an IPM. We are hopeful of finding alignment with Linfox Armaguard on such an IPM model, however a long-term policy solution needs to consider not only the current but potential future participants in the CIT industry. CIT companies in Australia are a largely unregulated operators of nationally critical infrastructure. Without a robust regulated pricing model, the current or future CIT participants may engage in anti-competitive behaviour that would run counter to public policy interests.

The ABA would welcome a designated independent regulator building on the IPM development work to date and introducing a utility pricing regime based off a Building Blocks Methodology.

Question 6

- 6.1: Should a new regulatory framework for the cash distribution sector seek to establish an access regime governing the terms and conditions by which third parties can access critical cash services operated by a designated entity?
- 6.2: What rules would support a third-party access regime to critical cash services operated by a designated entity?
- 6.3: How should disputes under such an access regime be settled?

The ABA supports in-principle an access regime on the basis that it will promote competition and innovation in the provision of CIT services.

Question 7:

- 7.1: Do regional business customers require service level standards established through a regulatory framework to ensure they continue to have adequate access to cash on reasonable terms?
- 7.2: What standards are required for cash distribution services, including service frequency? How should this be considered by the Minister?
- 7.3: What criteria should the Minister use to determine where service level standards should apply?

Given the declining nature of the CIT industry, the design of a regulatory regime will need to pay specific regard to ensuring it is fit-for-purpose, not only in the present but as cash use declines to an expected 4% of payments by 2030.² Accordingly, a regulatory regime should not necessarily embed current service delivery models but instead focus on ensuring reasonable and sustainable access to services, driven by actual demand given declining cash usage.

The ABA believes that a regulated utility pricing regime built around the pricing principle that regional and remote CIT customers are not unreasonably discriminated against, is key to ensuring the long-term sustainability of CIT services in these areas. Models for ensuring this are currently under consideration in the

² Australian Banking Association, *Bank On It: Customer Trends 2024* (research prepared by Accenture), June 2024, p. 36.

development of an IPM (analogous to regulated pricing) that the ABA and Linfox Armaguard have engaged Deloitte Access Economics for.

Incentivising innovative and more sustainable cash handling practices such as regional cash recycling will also be crucial to ensuring ongoing regional and remote cash access. Cash recycling can reduce the need for unnecessary long-haul CIT movements by maintaining cash in otherwise expensive to serve regional communities for longer. The ABA is working with the RBA on these matters but notes that a key unlock of the expected benefits of this potential future state of regional cash recycling will be businesses making investments in cash recycling assets such as smart safes. Given declining cash usage, the government can assist in the business case for such investments through incentives including accelerated depreciation and other tax incentives.

Another issue that a regulatory regime for CIT services will need to consider is possible future changes to Linfox Armaguard's depot network which may disproportionately affect regional and remote customers. That is, as part their merger application, Linfox Armaguard indicated that it would rationalise its 30 depots (a combination of Accredited Cash Centres and transport hubs) with Prosegur Australia's 26 depots to remove duplicative locations while maintaining service coverage. While the removal of duplicative depots has now largely occurred, should there be additional network rationalisation (as cash volumes decline) involving the closure of regional depots then, absent innovative new cash handling practices, the cost to serve regional and remote customers may increase. The ABA acknowledges that the CIT industry may need to right-size as cash usage declines and recommends consideration of powers similar to the UK's *Digital Markets, Competition and Consumers Act 2024* which provides the Bank of England with information gathering powers, supervisory authority, and powers to give CIT companies directions in relation to cash centre closures that may affect the effectiveness, resilience and sustainability of the wholesale cash distribution systems. The ABA believes that to be an important public policy consideration for the Australian regulatory framework.

Question 8:

- 8.1: What principles should design of penalty and enforcement powers to ensure they are proportionate, transparent and effective in achieving compliance?
- 8.2: In what circumstances should the regulator be empowered to issue an infringement notice or take court action? In what circumstances would penalties not be appropriate?

The ABA supports the inclusion of enforcement powers that are proportionate and support compliance outcomes.

One approach could be per the UK *Financial Services and Markets Act 2023* which requires the Bank of England to publish a statement about its approach to imposing financial penalties in relation to wholesale cash distribution participants and their amount.

The Bank of England has said that when considering whether to impose a financial penalty, and in deciding the amount of the penalty, the Bank will act in line with its public law duties and consider the facts and circumstances of each case. This includes consideration of the impact, or potential impact, on the wholesale cash distribution market of the compliance failure, the previous disciplinary and/or supervisory record of the recognised firm, as well as their conduct and co-operation with the Bank of England after the compliance failure was identified.