

CFR and ACCC Cash Distribution Consultation Submissions
c/o Note Issue Dept
Reserve Bank of Australia
65 Martin Place
SYDNEY NSW 2000

BY COURIER

Copy by email: CashDistributionRegulationConsultation@cfr.gov.au

6 August 2025

Dear Council of Financial Regulators,

Regulating Cash Distribution – Submission from Linfox Armaguard Pty Ltd

Linfox Armaguard Group (**Armaguard**) is the most significant service provider in the cash distribution sector in Australia, facilitating around 90% of national efforts. We welcome the opportunity to make a submission in response to the Council of Financial Regulators (**CFR**) and the Australian Competition and Consumers Commission (**ACCC**)’s consultation paper on Regulating Cash Distribution (**Consultation**).

The content set out in this response is generally intended to be public, however, the information set out in the Attachments are confidential and we request that the information is withheld or jointly redacted prior to being made public.

As a matter of record, we have been lobbying the Government and the Reserve Bank for many years in relation to requests for assistance regarding declining use of cash, Armaguard’s loss-making contracts with key customers and the impact those issues have on our business.

Armaguard has regularly sought opportunities to provide regulators with better visibility of our capabilities and challenges in the cash industry. Copies of examples of such correspondence are attached to this submission¹. At the time of writing, Armaguard is still waiting for responses to its latest correspondences from each of the RBA and Treasury on the future of cash-in-transit services in Australia.

In summary, Armaguard supports the Government’s objective of maintaining access to cash for all Australians as a part of modernising payment infrastructure, including the implementation of a fair and equitable regulatory framework to support the long-term sustainability of the cash distribution system. The four policy principles of access, sustainability, resilience and efficiency align with our own priorities for cash distribution.

However, the Consultation overlooks, and potentially undermines, much of the activity undertaken by Armaguard and other industry stakeholders to date to secure a sustainable future for cash distribution and to fairly allocate costs.

We would add the following key issues that must be included in any consideration of structural changes to the cash distribution industry:

¹ See Attachment 1 and Attachment 2

- Safety and security for employees, customers and the public must be paramount to any industry changes.
- Fair wages and conditions for employees across the industry, including a consultative process with employees and their representatives to adjust to the required changes.
- We agree that cash should be available at no cost or low cost to the public. However, as the service has a high fixed cost-base and significant compliance burden, it will require a return on capital that is reasonable. This must be recognised somewhere in the pricing chain.
- Fair access to commercial cash and bailment cash for ATMs.

Industry context

Armaguard is the only true end-to-end service provider in the cash supply chain with a national footprint across Australia, integrating management of wholesale cash arrangements and cash cycle execution through to direct provision of cash via our ATM channels: ATMx and Precinct Hub.

Independent Pricing

It is important to note that Armaguard and its largest customers (being the four trading banks, Coles, Woolworths, Australia Post and Wesfarmers, together the **Funding Parties**) have invested significant time and resources in developing a medium-term solution for cash distribution. That includes activity authorised by the ACCC²:

- that the Funding Parties make short-term financial contributions to Armaguard
- consider industry efficiencies that could be implemented by Armaguard and/or customers
- to develop an independent pricing mechanism that is analogous to pricing which would apply to regulated services (**Independent Pricing**).

Armaguard and the ABA on behalf of Armaguard's largest customers, have appointed Deloitte Access Economics (**Deloitte**) to act as pricing expert to assist with the development of a framework for Independent Pricing. The Deloitte model for Independent Pricing is currently in draft mode and expected to be lodged with the ACCC by the end of August 2025.

The parties intend to submit Independent Pricing for authorisation by the ACCC, following receipt of which, it is intended that Armaguard and its major customers will implement pricing based on Independent Pricing. Independent Pricing is expected to replace funding under the Short Term Financial Contribution Deed.

Our view is that Independent Pricing is the most fair and transparent way to manage the costs of cash distribution in the mid-term. We note that in the Consultation, there is only a fleeting reference to the history of Armaguard's trading losses, including that of the proposed solution of Independent Pricing.

Armaguard has consistently submitted that Independent Pricing must be overseen by a regulatory body, preferably from the ACCC, Treasury or the RBA.

Our view is, for industry reform, that 'no action' or 'industry self-regulation' is not appropriate as, without regulatory framework, the major customers will attempt to bilaterally negotiate with

² ACCC Determination and interim authorisation AA1000674 (lodged by the Australian Banking Association Ltd in respect of discussing, sharing information, reaching agreement on and/or implementing short-term financial contributions to Armaguard, operational sustainability and Efficiency Measures and the development and in-principle agreement to apply an Independent Pricing Mechanism

Armaguard on price and service levels to their own advantage, without due consideration of public benefit.

The following are key issues facing Armaguard and the distribution of cash in Australia:

- The utilisation of cash has fallen dramatically³ and its decline was hastened by Covid.
- Armaguard's operational experience suggests that cash usage continues to fall but it is not certain at what rate or to what extent it will reduce⁴.
- Some forecasts, including that relied upon by the Reserve Bank suggests that cash usage may fall to as low four percent of payment of transactions by 2030⁵, and that Australia may be cashless within 10 years.
- The use of cash as a payment method continues to decline and there is significant and growing competition from digital payment methods⁶.
- Whilst it may be said that there is one single national cash level distributor service, it should be noted that banks and retailers, Armaguard's largest customers, have their own capacity to store and distribute cash. There are some other minor but relevant cash distribution companies, and the ATM business is highly competitive, from both independent ATM deployers and financial institutions.
- Armaguard's financial stress is primarily caused by the savage reduction in margins by six major customers during a period of fierce competition between Armaguard and Prosegur Australia Pty Ltd (**Prosegur**). Also contributing to Armaguard's trading losses is the ongoing decline in cash usage and the high fixed costs of labour and assets associated with secure infrastructure, cash processing and logistics and increasing compliance. Please see Attachment 4.

These industry issues have been confirmed by two independent reports. The first is a report by FTI Consulting, commissioned by RBA, and the second is a report by KPMG, in its capacity as advising accountant to the Australian Banking Association under the Short Term Financial Contribution Deed⁷. In addition, PwC, Ernst & Young and Grant Thornton have all undertaken various external audits of Armaguard, with zero adverse findings.

Armaguard has provided copies of these Reports to the relevant parties. Summaries of the FTI Report and KPMG Report are included in Attachment 5.

- Under the Short Term Financial Contribution Deed, Armaguard received approximately \$49 million from the Funding Parties in FY25, reflecting the pricing shortfall of those customers' agreements. [REDACTED]


³ The RBA's most recent triennial Consumer Payments Survey (CPS) found that the share of consumer payments made in cash had fallen from around 70 per cent by number in 2007 to 13 per cent in 2022.

⁴ See [Cash may be gone in 10 years: RBA's Michele Bullock](#)

⁵ Source: Accenture

⁶ [Mobile wallet transactions skyrocket to \\$93 billion, as 98.9% of bank interactions take place digitally - Australian Banking Association](#) (see Attachment 3)

⁷ Short Term Financial Contribution Deed between the Australian Banking Association Limited, Armaguard and others, including the four trading banks, two major supermarkets, Australia Post and a major retail customer, dated 24 June 2024 as amended by the Amending Deed to the Short Term Financial Contribution Deed dated 19 September 2024 and the Further Amending Deed to the Short Term Financial Contribution Deed dated on or about 11 July 2025 (the **Short Term Financial Contribution Deed**)

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- Armaguard has taken significant action to restructure its workforce and operations and create efficiencies within its own business. In doing so, Armaguard has removed \$43 million of costs since its merger with Prosegur, while simultaneously observing and complying with its obligations under its s87B Undertaking⁸ (**ACCC Undertaking**). Please see Attachment 6.
 - Armaguard employs over 2,000 team members across its operations. It also relies on subcontracted resources, largely for secure transport in regional and remote areas and for ATM maintenance and technical services. Armaguard's employees and subcontractors have had their conditions changed due to the trading losses of Armaguard, affecting job security, losing some major conditions of employment and deferring and delaying wage increases. Please see Attachment 7.
 - There has been widespread insecurity in the cash industry as a result of the financial position of Armaguard, the knowledge of declining cash usage and media statements made by public officials. This insecurity is not imagined.
 - Under the Short Term Financial Contribution Deed, the issue of pricing for cash services has been agreed between the Funding Parties and Armaguard to be settled by Independent Pricing.
 - This funding arrangement is well known to the regulators and implementation of Independent Pricing will require authorisation from the ACCC.
 - Included in the Short Term Financial Contribution Deed is the capacity for collective cooperation, by some or all of the Funding Parties to achieve industry efficiencies. At the time of writing, zero Joint Industry Working Group benefits have been achieved.
 - The parties have individually and collectively sought to keep the Reserve Bank, the ACCC and the Treasury fully informed. Copies of such correspondences from Armaguard are attached at Attachments 1 and 2.
 - Cash distribution demands the highest level of safety and security.
 - Armaguard's road crew are largely represented by the Transport Workers Union (**TWU**). Complex and difficult negotiations are underway with the TWU, which has claimed wage catch-up for cost of living, parity between Armaguard and former Prosegur employees, future wage increases, comparative work value for cash processors and a process for adjustments in a declining industry that are fair and transparent.
 - There is a current process within the Fair Work Commission addressing two key matters for employees: contractual chains of responsibility which provide for safe and secure conditions of employment and the above-mentioned industrial issues. Please see Attachment 9.
 - The union has advised Armaguard of the issues, but not yet lodged orders seeking protected industrial action.

⁸ Linfox Armaguard Pty Ltd on behalf of itself and its subsidiaries – Undertaking to the Australian Competition and Consumer Commission under section 87B of the Competition and Consumer Act 2010 (Cth)

- Armaguard has no guaranteed ongoing access to commercial cash supply for retail, business and smaller (mostly regional) financial institution customers nor bailment funds to source cash for our own ATM fleets (ATMx and Precinct).

We believe that the above issues are the key facts and concerns upon which any discussion and determination under the Consultation should take place.

There is not one word in the Consultation about industry standards for security or safety or the impact of the proposed regulatory framework upon Armaguard and other industry participant's employees.

There is no reference in the Consultation to the massive trading losses caused by Armaguard's major customers nor the impact of the banks' proposed changes to supply cash and refusal to grant long-term commercial cash and ATM cash bailment facilities to Armaguard.

However, we accept, notwithstanding these limitations, that the Consultation is a paper calling for relevant stakeholders to join the discussion, finally shining a light on the issues that Armaguard has been trying to raise with the Government for many years. In the spirit of goodwill and for public interest, therefore, Armaguard submits this response.

Reduction in cash usage is not the biggest issue facing Armaguard

The Consultation fails to address the most significant issue facing Armaguard – that is, the major customers are contracted to pay Armaguard a cost for performing services which is well below the actual cost of providing those services. This has led to Armaguard incurring significant trading losses.

At the banking summit in March 2024, Matt Comyn, CEO of CBA described the cut-throat price war between Armaguard and Prosegur in the years leading up to the merger as one of "very, very aggressive price-based competition". He stated that banks had accepted "very attractive commercial terms", without "the foresight to think, that actually looks like unsustainable pricing"⁹.



An industry standard

Minimum security requirements

Security standards for cash services in Australia are currently largely unregulated and operate on an 'opt in' basis.

The Australian Security Industry Association Limited (**ASIAL**) is the national peak body for security organisations and professionals in Australia. ASIAL plays a key role in driving Australian Standards, developing codes of conduct and raising the level of professionalism within the industry, but membership is voluntary and compliance and oversight activity and breach consequences are limited.

⁹ <https://www.afr.com/companies/financial-services/inside-the-battle-for-armaguard-and-future-of-cash-20240404-p5fhkk>

Armaguard has adopted the security framework standard, as recommended by ASIAL, which aligns with AS ISO 22340 – “A Coordinated Approach to Security”. Furthermore, Armaguard is an A1 Graded Monitoring Centre (the highest level of security governance in Australia).

Armaguard submits that security standards and licensing should be implemented for all tiers of cash distribution activity with, at minimum onboarding and monitoring activity regulated, to avoid cash distribution participants being targeted for criminal or illegal activity such as money laundering.

Armaguard submits that minimum security standards similar to applicable components of the Protective Security Policy Framework¹⁰ (physical resource security) needs to apply to cash distribution services in order to provide public confidence in a secure regulated framework.

Recent exposure demonstrates that cash distribution services are at risk of being targeted for the purposes of illegal activity, which may include illegal tobacco sales, money laundering and taxation avoidance. For example, in several States, high cash users across multiple industries have been linked to organised crime and illegal tobacco sales¹¹.

Armaguard has ceased providing cash services to several customers in recent months as we had reasonable grounds to believe that each of the customers either had (or may reasonably be expected to) use Armaguard's cash distribution services as part of, or for the purposes of illegal activity.

These cases demonstrate vulnerabilities in cash distribution services that demand the highest level of security arrangements.

We are concerned that other operators in the cash distribution industry are not observing minimum standards of security and are increasing risk of being targeted for robbery or illegal activity. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

¹⁰ <https://www.protectivesecurity.gov.au/>

¹¹ [Budget 2025: Taxpayers bear the cost of rise in black market tobacco;](https://www.abc.net.au/news/2025-06-18/macquarie-group-next-atm-illegal-tobacco-trade/105399234?utm_source=abc_news_web&utm_medium=content_shared&utm_campaign=abc_news_web_!!OxNmIGjfPi4!xKbdXcNVblo8u7Mgu54BwwwlGh5qlwtkwMSZ5zysvqKI11vKGI0xh8XmRJzgKVH_sTE1KxI2j9IML15Vv7i5t0E$;)
[https://www.abc.net.au/news/2025-06-18/macquarie-group-next-atm-illegal-tobacco-trade/105399234?utm_source=abc_news_web&utm_medium=content_shared&utm_campaign=abc_news_web_!!OxNmIGjfPi4!xKbdXcNVblo8u7Mgu54BwwwlGh5qlwtkwMSZ5zysvqKI11vKGI0xh8XmRJzgKVH_sTE1KxI2j9IML15Vv7i5t0E\\$;](https://www.abc.net.au/news/2025-06-18/macquarie-group-next-atm-illegal-tobacco-trade/105399234?utm_source=abc_news_web&utm_medium=content_shared&utm_campaign=abc_news_web_!!OxNmIGjfPi4!xKbdXcNVblo8u7Mgu54BwwwlGh5qlwtkwMSZ5zysvqKI11vKGI0xh8XmRJzgKVH_sTE1KxI2j9IML15Vv7i5t0E$;)
https://www.theaustralian.com.au/subscribe/news/1/?sourceCode=TAWEB_WRE170_a_GGL&dest=https%3A%2F%2Fwww.theaustralian.com.au%2Fnation%2Fsecurity-firm-and-classic-car-business-washed-millions-in-dirty-cash%2Fnews-story%2F11de38af53aa4579263d7fde1d777d46&memtype=anonymous&mode=premium&v21=HIGH-Segment-2-SCORE&V21spcbehaviour=appendend

Armaguard is working with ASIAL to investigate these purported beaches of security standards, but we submit that any regulatory framework across the industry must include minimum security standards, to ensure:

- the safety of all employees and the public
- security of cash movements and avoidance of loss
- avoid theft/cash losses and consequential impacts on cash insurances across the industry
- a level playing field for all participants to ensure confidence and trust in a secure cash distribution network.

Comments on Proposals

Proposal One: Establish a register of entities providing cash distribution service

Armaguard accepts competition in the cash distribution industry, and the establishment of a register of entities providing services seems useful precursor to developing minimum industry standards and bringing about industry change.

We suggest that regulatory obligations and powers should extend beyond registration as a critical cash provider and basic reporting. Regulation needs to attach minimum security and safety standards, policies and practices to tiers of values of cash being transported, stored, processed or otherwise handled by the registered entity.

Proposal Two – provide a regulator and/or Minister with designation powers

Armaguard has consistently submitted that Government or regulatory oversight is required for the pricing process in cash distribution to ensure transparency and fairness. We agree that the extent of regulatory obligation and powers should be considered in proportion to a designated entities' role in cash distribution. However, compensation for the increased compliance activity and regulatory burden must also be calculated in the assessment of pricing.

We do note that the introduction of a regulatory regime in and of itself would not prevent industry disruption or provide stability by itself. Regulation needs to effectively price services in a manner that continues to respond to reducing cash usage and increased fixed costs, to reward efficiencies and improvements in safety outcomes and invite investment.

Proposal Three – provide the regulator(s) with oversight powers

Armaguard has no objection to any independent regulatory body providing oversight to ensure that all stakeholders and the public are protected, so long as there are industry standards and participants' costs of servicing are properly understood, assessed and compensated. This could be achieved by:

- Fair wage rates
- Minimum security standards, including employee and customer onboarding, minimum security requirements for cash storage and movements (appropriate for tiered values of cash movement) and cash services monitoring
- Industry-standard service levels
- Pricing is adequately considered and allocated for metropolitan, regional and remote services, including cross-subsidy to avoid cherry-picking
- Government investment or subsidies for uplifts/improvements to critical infrastructure

We note that Armaguard is currently subject to extensive monitoring and reporting and compliance obligations under its the ACCC Undertaking and, as we approach the second anniversary of the ACCC Undertaking, in response to the various dot-points set out in the Consultation we note:

Audit, monitoring and reporting obligations – Armaguard participates in regular (3-monthly) audits for compliance against its obligations under its ACCC Undertaking. The audits to date have not exposed any material failure of Armaguard to comply with its ACCC Undertaking.

Each ACCC Undertaking audit requires approximately 25 internal dedicated working days to prepare information and documentation and prepare for and attend interviews. The direct external costs expected to be paid to the auditor for the ACCC Undertaking period is around \$750,000.

We have no issue with the implementation of oversight powers as set out in proposal 3, but we note that all additional and uplifted costs on designated entities increase the costs burden through the cash distribution chain, further exacerbating financial stress of industry participants or increasing costs on cash users. Therefore, the costs of compliance need to be reasonable and factored into pricing or otherwise subsidised.

Complaints handling, price and non-price disputes and independent expert determination- Armaguard has not received a single complaint about non-compliance with the ACCC Undertaking. We have had no cause to refer to the dispute mechanism set out in the Undertaking or refer any issue to the independent expert for determination. The majority of our customers are on standard-form contracts (the terms of which are publicly available as an attachment to the ACCC Undertaking).

We have put through annual CPI increases for most of our smaller customers, even where we may have the right under the Undertaking and/or the customer's contract to impose a higher price. As we have consistently stated, Armaguard's trading losses are not caused by the majority of small and medium-sized customers, but by the large customers and their onerous contracts.

We submit that the proposed regulator must be empowered to determine disputes initiated by designated entities as well as customers, in order for fair and reasonable pricing and service standards to apply across the industry. The countervailing power of the biggest customers and their onerous contracts must also be scrutinised for regulatory oversight and intervention as required to ensure the sustainability of the industry.

Assessment of pricing and access arrangements – Independent Pricing will determine pricing and in the short to medium term. The risk of Armaguard suffering financial distress or severe disruption caused by industrial action or failure of critical infrastructure is alleviated by fair pricing, allowing for negotiations to proceed to new employment agreements and investment in capital requirements. We have no objection to regulatory oversight and have long been lobbying for appropriate pricing oversight by a regulatory body.

Proposal Four - Crisis readiness and resolution powers

The greatest risks facing Armaguard's ongoing ability to supply critical cash distribution services are:

- a. Ensuring the safety of our people and security of our customers' cash
- b. Financial sustainability and stability
- c. Securing our workforce under reasonable employment conditions
- d. Breakdown/failure of aging infrastructure
- e. The ability to source cash to deliver our contracts (for both retail and ATM customers). The banks have either refused to provide us with sufficient commercial cash and bailment requirements or have Armaguard on short-term contracts for cash supply.

Independent Pricing will address (a.) – (d.) of the above-mentioned crisis management and business continuity risks, allowing for investment in people and infrastructure.

Independent Pricing should also positively impact risk (e). An improved financial position will increase the banks' likelihood of offering credit terms for the increased single bailment that we

require for ATM system synergies. Armaguard is also seeking a long-term industry solution for the supply of commercial cash for small businesses, retailers, postal services providers and non-trading banks.

Armaguard's view is that the most effective way to prevent business interruption crises is to enable fair price determination, fair wages and industry-standard conditions to be afforded to employees via an open and honest process of consultation. Minimum standard safety and security standards and practices need to be implemented (ensuring that safe work conditions and insurance requirements can be satisfied).

If an independent Regulator oversees Independent Pricing and can ensure transparent, reasonable and fair terms of supply and service levels, including offering dispute resolution between a designated entity and customers, risks of business interruption crises are adequately addressed.

Armaguard already has significant resources invested in crisis management and business continuity planning, preparation and testing. We are not averse to being held to uplifted requirements or specific accreditation if there is an industry standard to apply to all designated entities, however, any such standards must apply across the industry any additional cost burden associated external audit and testing regimes etc, must be recoverable. The likely impact of increases to the cost of cash distribution must also be considered, and appropriately shared across designated entities, end-users, banks and Government.

The shareholders of Armaguard have subsidised cash services for years, and they have invested heavily in the efficient contraction of the industry to meet reduced cash usage and the process of developing Independent Pricing. Armaguard and its shareholders have demonstrated their commitment to continuing to provide efficient cash services across Australia.

They have no interest in transferring the shares or business assets of Armaguard, and we feel that the proposal is heavy-handed and highly disadvantageous to Armaguard's owners, management and workforce. Instead, as we have been lobbying for for many years, we need the RBA, Treasury and ACCC to work with us to plan a sustainable, transparent and fair process to ensure free or low cost cash is available to all Australians for so long as cash is required.

Proposal Five - Ongoing crisis readiness powers and triggers for crisis resolution powers

Proposal 5 concentrates on the effect and ignores the cause of the highest risk for business interruption. Armaguard's most pressing priority is to ensure the financial sustainability of its cash distribution business, and it is addressing its trading losses by securing Independent Pricing. That process will allow us sufficient business certainty to negotiate medium-term arrangements and fair conditions of employment with our workforce.

Independent Pricing is intended to achieve a fair outcome, balancing the need for efficient cash distribution with transparent and independently determined pricing. We agree that access to cash should be available to all Australians at no or low cost, but that policy position does not reflect the high costs of performing the services and the capital investment required to uplift the current physical and systems infrastructure for further efficiencies and automation.

Armaguard is supportive of cross-subsidisation of costs from metropolitan areas to regional areas as we believe that approach will prevent customers from cherry-picking cheaper service offerings for metropolitan areas and reflects the reality of national network costs. While we accept competition in the industry, we are concerned that cut-cost operators could drive poor safety and security outcomes while simultaneously creating a new price-war that could further adversely impact cash distribution in regional areas that are higher-cost to supply (where more vulnerable populations have less access to reliable digital means of payment transacting).

Proposal Six - Oversight of agreement terms

Armaguard has no issue with the regulatory framework providing for agreement oversight. Armaguard has already agreed that its prices shall be set independently and will be authorised by the ACCC to ensure they are in the public interest. Independent Pricing must be fair and promote the sustainability of cash access across Australia. It needs to provide sufficient return to promote investment in the high-cost infrastructure required to safely and efficiently distribute cash throughout Australia. There is no reason that Independent Pricing should not apply to all designated entities, as it is under designed to apply as for regulated markets.

Armaguard agrees that regulatory oversight of non-price terms and price terms (subject to Independent Pricing) would ensure consistency of services and service levels, security and safety standards, employment conditions across all service providers.

We would welcome a regulatory regime that determines pricing and non-pricing disputes and sets terms for supply, including appropriate service levels and penalties/incentives. Armaguard submits that designated entities must also be able to bring disputes to the Regulator in circumstances where customers or suppliers are engaging in conduct that may impact cash distribution activity.

Proposal Seven - Agreement setting powers

Armaguard has developed its standard-form agreement in an effort to balance the rights and responsibilities associated with cash distribution. It reflects cash insurance requirements, regulatory and compliance obligations and our safety and security policies and procedures. We have had very few contractual disputes with customers on standard terms. Our standard-form agreement is publicly available as an annexure to the ACCC Undertaking and we frequently negotiate those terms with new and renewing customers.

We have experienced far greater issues, delays and disputes with the onerous terms set out in contracts with large customers, which were negotiated and executed in the period of aggressive competition between Armaguard and Prosegur. The countervailing power of those larger customers has resulted in onerous price and non-price terms being imposed on cash distribution providers.

Armaguard would welcome the implementation of standard-form agreements that balance each parties' key requirements and specific costs for various industries – e.g. for APRA-regulated entities and for large/small customers. This would provide an industry-consistent approach to the following key contractual issues:

- Service levels and SLA penalties/incentives
- Term and termination rights
- Efficiencies
- Fair and reasonable liability and indemnity regime (including insurance requirements)
- Price and price review mechanism (reflecting Independent Pricing)
- Exclusivity, minimum volumes
- Compliance regimes, audit, monitoring and cost recovery

In the absence of regime-imposed standard agreements, enabling regulatory intervention in the scenarios set out in the proposal would also benefit contract negotiation process, balance the issue of countervailing power and lead to optimised and efficient outcomes.

RBA, AUSTRAC and APRA-regulated entities have significantly higher compliance burdens that are passed-through to cash distributors, often with the expectation that the cash services provider carries the compliance cost burden. These obligations require monitoring, oversight, audit and

compliance activity. Consistent terms and conditions should apply, and reasonable cost allocation/recovery considered for various industry requirements.

Where the regulatory framework provides for agreement oversight, we submit that the regime must consider agreement impacts on whole network deliverables. For example, the network cost of delivering a national service needs to be appropriately allocated across cash users, to avoid a scenario where customers access low-cost metropolitan designated entities, so that true national service providers are left to recover a higher cost-base from a smaller (and regional) customer pool.

The aggressive pricing competition practices of the past must be avoided, as it was to the detriment of cash distribution. As cash usage continues to shrink, but is an essential service, there must be a considered program to ensure network sustainability.

In terms of pricing, Armaguard has agreed that its prices are to be determined independently so that it is analogous to pricing which would apply to regulated services basis. Independent Pricing is currently being developed by Deloitte, which is consulting broadly with industry stakeholders. Once developed, Independent Pricing will need authorisation from the ACCC. Independent Pricing satisfies all of the policy objectives set out in part 5 of the Consultation and we submit that it is the most appropriate regime for securing the medium term sustainability of cash distribution.

Proposal Eight - Oversight of dispute resolution

We have no objection to regulatory oversight of dispute resolution processes with business customers in relation to contractual disputes or escalations. Armaguard would welcome a regulated and independent dispute resolution forum to hear disputes and issues in a timely, fair and inexpensive manner, avoiding litigious pathways with large customers which are better resourced to defend unfair contract terms. In conjunction with the above-mentioned proposal (agreement-setting powers), we submit that either business customers or designated entities must be able to initiate dispute resolution.

As set out above, in the medium term, our view is that Independent Pricing should apply. If, despite our submission, the regulator applies a pricing model, we do not see it appropriate that the same regulator hears disputes on pricing. Any dispute resolution process should be independent and fair.

We note, however, that the TWU has referred various issues to the Fair Work Commission. We do not want to see competing dispute resolution processes.

Proposal Nine - Third-party access regime

The ACCC approved the merger of Armaguard and Prosegur on the basis that the industry was carrying excess capacity in the cash distribution infrastructure. Since the merger, Armaguard has closed 28 depots and removed over 130 trucks to meet its business requirements. This has contributed to the \$43 million of post-merger savings from Armaguard and Prosegur.

The current infrastructure of Armaguard's business, therefore, no longer has significant excess capacity. In some branches, we have significant space limitations and are currently looking for expansion sites. For major branches (super centres), operational hours are 5.00am to 10.00pm leaving very little opportunity to enable third-party access within depots.

Our security arrangements around trucks and depots, including layout, entry requirements, security features etc are held strictest secret, to ensure the protection of our customers' cash and valuables and the safety of our people and the public. We have world class cash insurance, that underwrites 90% of the cash in circulation in Australia. That insurance is issued based on our access and security regime. Under our customer contracts we accept liability for cash that is in our sole possession, custody and control.

In addition, our cash counting equipment requires on-site technical support from suppliers of the cash counting equipment to ensure that it continues to operate with minimal interruption.

If Proposal 9 is implemented so that third parties have internal access to Armaguard operations, the following consequences will need to be considered and addressed:

- Liability for cash discrepancies, shortfalls and losses
- Liability for purchase, repairs and maintenance of equipment
- Impact on insurances (public liability, cash in transit and personal injury) will need to be addressed
- Access requirements, security and safety policies and procedures
- Liability for damage to property and other assets, including compensation for breakages, repairs and business interruption
- Management of injury claims
- Service level impacts where equipment is impacted and/or assets are in use by other participants

Armaguard already enables third party cash-in-transit providers access to its Approved Cash Centres across Australia in accordance with its ACCC Undertaking. Those obligations require Armaguard to cash processing services for bulk cash, bag level and bulk coin as well as:

- Cash collection service from the third party cash-in-transit providers' depot, or acceptance of cash drop off at Armaguard depots
- Cash delivery services from Armaguard depots to third party cash-in-transit providers' depots or cash collection from Armaguard's depots by the third party cash-in-transit providers
- Cash supply services

These services to third party cash-in-transit providers must be provided by Armaguard on terms no less favourable than those set out in ACCC Undertaking.

For the reasons set out above, Armaguard sees no reason for expansion of the current arrangements for infrastructure-sharing with third party cash-in-transit providers. However, we would be willing to continue the current third-party access regime on regulatory terms similar to those set out in the ACCC Undertaking.

Proposal Ten - Setting service level standards

We note that the proposed regulator has the power to enforce service level rules. We agree that services to regional customers must be available and supplied on transparent, non-discriminatory and fair terms. Regional participants are vulnerable to electricity and telecommunications outages and have fewer options for accessing cash due to bank and ATM closures.

Service standards must be achievable and apply across industry and customer base.

We believe that our submission to Deloitte, as the Independent Pricing determinator, is consistent with these terms. We are less comfortable with an arrangement that ultimately has the Minister as the determinator of pricing and service levels, as we see the Government's role as having independent oversight and ultimate responsibility for ensuring the industry observes and complies with Independent Pricing.

We note that safety and security are not even mentioned in the Consultation, and we see these as non-negotiable pillars in the supply of cash services.

Safety considerations must extend to the welfare of employees and the public who may be exposed to harm from attempts at robbery and theft, as well as injuries that occur due to the heavy and physically manual efforts required to move, process and store physical notes and coins.

In accordance with recent changes to federal work safety legislation, the psychosocial impact of the changes proposed under the Consultation must also be considered. The impact on our workforce from the media response to the Consultation, and the lack of prior notice given to Armaguard to notify and prepare communications to our team, has caused harm and concern around job security and livelihood threats. This does not help with the TWU activity.

In terms of security, as set out above, minimum standards must be implemented across the cash industry, as this underwrites sound and responsible protective security practices, as well as identifying and mitigating security risks and vulnerabilities.

Proposal Eleven - Provide enforcement powers to regulator(s) and establish penalties

We believe that Proposal 11 is the stick when the issue is the carrot.

Armaguard has been trying to engage with the RBA, Treasury and the Government for many years to plan a pathway for sustainable cash distribution in the face of reduction in cash usage, aggressive pricing competition practices of the past, issues of access to a cash supply for commercial cash and bailment requirements and the ever increasing compliance burden passed through from the banks.

All of the proposals set out in the Consultation, when taken together seem to be badly timed to interfere with and undermine the process of Independent Pricing and to unfairly and adversely target Armaguard.

Prior to resorting to penalties and enforcement activity for essential services, a fair and transparent framework must be established and implemented with appropriate compensation for services provided by industry participants (such as Independent Pricing). If penalties are to be imposed under regulation, we suggest that there should also be a corresponding incentive regime similar to the RBA's Note Quality Reward Scheme.

Conclusion

Whilst Armaguard accepts the need to respond to the issues set out in the Consultation, we do not believe that they should substitute for, or distract from, the Independent Pricing process already in train.

The negotiations between Armaguard and the Funding Parties to agree the Short Term Financial Contribution Deed and its provisions for Independent Pricing, were long and arduous, and they reflect a balanced and fair process that can benefit the whole cash industry.

We believe that, rather than implementing the proposals as drafted, it would be better to allow the existing processes for Independent Pricing to be completed as follows:

- First, determination by Deloitte as to the principles and model of Independent Pricing
- Second, to apply for the Independent Pricing to be authorised by the ACCC (with conditions as the ACCC finds appropriate)
- Third, once Armaguard's financial stability and sustainability (under Independent Pricing) is established, finalise the negotiation on new employment agreements with the TWU
- Fourth, accept that the TWU has the opportunity to argue its cases before the Fair Work Commission, including work and pay conditions and any resulting chain orders in relation to Armaguard customers.

We believe that the outcome of that process will:

- a. ensure the viability of the cash distribution industry, by restoring the margins dramatically reduced
- b. return confidence in Armaguard's business, providing the basis for investment to facilitate further efficiencies
- c. Armaguard's (and other industry participants') employees are provided fair wages and processes of consultation to deal with their claims and uncertainties of job security in a shrinking market
- d. interested parties and other stakeholders will have the opportunity to make submissions to Deloitte, the ACCC and the Fair Work Commission
- e. Armaguard is willing to commit that price adjustments outside the top ~20 customers will not be greater than the commitments given under the ACCC Undertaking (in the absence of material further change to the industry)
- f. employees and their representatives will be given the opportunity to process disputed claims in a structured and sensible manner

We have no objection to a public interest framework which requires a well-functioning cash distribution system guided by the Independent Pricing principles set out in Annexure 10.

Armaguard actively demonstrates a risk-based and compliance mindset and framework as it works within the confines of its ACCC Undertaking. We would be open to similar ongoing levels of compliance and regulation in order to support confidence in the cash distribution network, so long as the costs burden is recognised and fairly distributed as a network cost.

After the above-mentioned process has been exhausted, we believe there is both a need and the opportunity to establish the means by which all the stakeholders in the industry can examine future requirements.

However, we would add the following key issues that must be included in any consideration of structural changes to the cash distribution industry:

- Safety and security for customers, public and employees must be paramount
- Fair wages and conditions for employees across the industry including a consultative process with employees and their representatives to adjust to the required changes
- We agree that cash should be available at no cost or low cost to the public. However, as the service has a high cost-base, it will require a return on capital that is reasonable and must support and encourage investment in further opportunities for efficiencies including automation. This has to be recognised somewhere in the pricing chain.

In summary, the position of Armaguard is that the priority is to settle the issue of Independent Pricing. We explicitly reject the option of no action or industry self-regulation.

We are operating on the basis that there will be a new regulatory framework supporting Independent Pricing that involves further ACCC authorisation and regulatory oversight. To that end we have asked the Treasury, the ACCC and the Reserve Bank to consider providing an auspice or supervisory regulator with wider authority, which could encompass elements of the proposals set out in the Consultation.

We accept that uncertainty and delays around sustainable pricing have created an unacceptable framework for Armaguard's employees and the Australian public. They are angry and confused and have good reason to be concerned, respectively for job security and ongoing access to cash.

Armaguard has no interest in selling or otherwise transferring the business. The shareholders have recently met and reaffirmed that they intend to see it through Independent Pricing as a partnership.

We strongly believe that cash distribution and processing services must be above all, safely and securely executed.

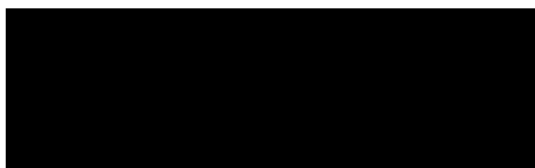
We also know there are major issues of public interest that the Government and the stakeholders need to address.

These include:

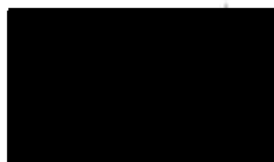
- Legislating for cash supply – including free or low cost access to commercial cash and ATM bailment cash
- Ensuring that all parties in the industry are treated fairly
- Same day value for cash
- A fair wage adjustment and job security for employees that is industry based and recognises security qualifications
- Safety and security of the employees and the public as a paramount concern and must be tied to minimum industry security standards
- Armaguard believes that there needs to be an ongoing forum for all relevant stakeholders in the industry as and when cash continues to decline

We would be pleased to participate in further discussions regarding the future of cash distribution services.

Yours sincerely



Peter Fox
Executive Chair
Linfox Armaguard Pty Ltd



Matt Caulfield
Chief Executive Officer
Linfox Armaguard Pty Ltd

Attachments

