

Australian Banking Association – Application for Authorisation AA1000674

Submission to ACCC

November 2024

Introduction

The Reserve Bank of Australia (RBA) has prepared this supplementary submission to the Australian Competition and Consumer Commission (ACCC) in relation to the Australian Banking Association's (ABA) application for authorisation dated 27 June 2024 (AA1000674) to enable discussions, information sharing and implementation of assistance measures for the purpose of supporting wholesale cash viability and cash access for businesses and the public (CIT Sustainability Measures Application). In early July, the ACCC granted interim authorisation in relation to short-term financial contributions to Armaguard from its major customers (the Funding Parties) and began public consultation on the ABA's application. The RBA submitted in July 2024 that it was broadly supportive of the proposed conduct on the basis that measures outlined in the ABA's application were designed to support the viability of wholesale cash distribution and access to cash in the community.

In late July, the ABA submitted a variation to the proposed conduct, and the ACCC granted interim authorisation with conditions on 12 September 2024 allowing an expanded range of conduct.¹ The interim authorisation was granted on four conditions, relating mainly to reporting and consultation requirements.

The RBA is generally supportive of the main elements of the ABA's application and the ACCC's conditions in relation to reporting, transparency and consultation with a range of participants in the cash distribution system. The conduct is aimed at avoiding a disruption to the supply of cash services in the near term and supporting the cash distribution system in the medium term. As noted in the RBA's previous submission, it will be important that measures in relation to efficiency and the proposed pricing mechanism take account of the broader public interest, and the cost and availability of cash services in the community into the future.² Consultation and transparency will assist in this regard.

This submission provides the RBA's perspective based on its responsibility as the sole issuer of banknotes in Australia and the high priority that the RBA places on the community continuing to have reasonable access to cash withdrawal and deposit services, in line with Government policy. In particular, it summarises the RBA's role in responding to the challenges in the wholesale cash distribution system.

¹ The ACCC revoked the interim authorisation dated 3 July 2024 at this time.

² Reserve Bank of Australia (2024), 'Submission to ACCC before draft decision on ABA Authorisation AA1000674', 24 July 2024.

Proposed Authorisation

Any suspension or significant disruption in the supply of CIT services would reduce the availability of cash across the country, particularly in regional and remote areas. Cash remains an important means of payment for a significant number of people and is widely held for precautionary and store-of-value purposes, and as a backup to electronic payment methods.

In late June 2024, the ABA and Linfox Armaguard (Armaguard) announced that Armaguard and the Funding Parties had agreed to an approximately \$50 million, 12-month financial support package. The funding is conditional on Armaguard reporting on its progress in meeting the milestones for implementing merger integration efficiencies, complying with arrangements in their cash services agreements with banks and other customers, and providing financial information to an advising accountant if required.

The RBA is generally supportive of the conduct outlined in the ABA's CIT Sustainability Measures application:

- a) The **short-term financial contributions** to Armaguard are aimed at reducing the risk of a major disruption to CIT services in the near term. The ABA submitted that the financial support was required as soon as possible to support the sustainability of Armaguard's business. The funding package should also provide additional time for participants in the cash distribution system to work towards a more sustainable longer-term model for cash distribution.
- b) Industry-led **operational sustainability and efficiency measures** are required to support the sustainability of Armaguard in the medium term as the industry works towards a longer-term solution for cash distribution. Accordingly, the RBA supports the ABA's application to discuss, agree or implement operational sustainability and efficiency measures across services provided to each of the Funding Parties.
- c) The RBA supports the ABA's proposal that relevant parties be able to discuss or reach an in-principle agreement on an **Independent Pricing Mechanism**. Developing a pricing mechanism is consistent with the need to make the distribution system more sustainable and resilient over the longer term, to support the availability of cash to businesses and consumers. As noted in the RBA's July 2024 submission, the proposed pricing mechanism would apply to (future) cash services provided by Armaguard to each of the Funding Parties. It will be important for any pricing mechanism to be developed with the broader public interest in mind to support the objective of cash remaining available to the community on reasonable terms, including in regional and remote areas. The RBA understands that implementation of any pricing mechanism would be subject to further public consultation and ACCC approval processes.

Consultation, Transparency and Oversight

The interim authorisation has been granted with a number of conditions. Condition 1 requires the ABA to report to the ACCC within 7 days of a financial contribution being made. Conditions 2 and 3 require the ABA to report information to the ACCC, RBA and Treasury, including on: proposed operational sustainability and efficiency measures; associated consultation undertaken by the ABA; and material activities enabled by the interim authorisation. Condition 4 relates to the role of the RBA Long Term Solutions Working Group.

In terms of the RBA's role since the challenges in the CIT industry came to the fore in late 2023, the RBA has helped facilitate industry discussions in three main areas (enabled by various ACCC authorisations):

- I. Short-term industry financial relief for Armaguard. The RBA helped facilitate initial discussions between the major banks and Armaguard on a range of commercial arrangements that could provide short-term financial relief (through Wholesale Banknote Distribution Roundtables chaired by the RBA Governor in late 2023). The RBA also facilitated initial industry consideration of short-term financial assistance for Armaguard. However, the RBA has not been directly involved in any subsequent commercial negotiations between Armaguard and the Funding Parties in relation to short-term financial assistance or commercial arrangements, including under the recent Short Term Financial Contribution Deed.
- II. Business continuity planning (BCP). The RBA chairs a BCP Working Group that has considered industry preparedness in the event of a disruption to the supply of CIT services, enabled by ACCC authorisation AA1000664 (which was recently updated).³ The focus of this group has been on areas where industry coordination could potentially assist in maintaining access to cash in the economy in the event of a major disruption to the supply of CIT services, including in regional areas. The RBA's role has been to coordinate discussions as Chair of the Working Group, as well as to participate in some industry-led discussions given the importance of maintaining access to cash services, and the RBA's role as the sole issuer of banknotes in Australia.
- III. Long-term solutions. The RBA is also Chair of a Long Term Solutions Working Group, with discussions facilitated by ACCC authorisation AA1000654.⁴ This group has met once to date, in early 2024, for preliminary discussions of options to promote a more durable model for cash distribution in Australia. The meeting was attended by the main participants in wholesale banknote distribution (being the parties to the Banknote Distribution Framework and Armaguard), as well as Treasury. The purpose of this working group is to consider a range of possible future models for a longer-term solution for the banknote distribution system in Australia. The RBA's role in this process is to facilitate discussion, and to participate in the RBA's capacity as the wholesale supplier of Australian banknotes and its role in overseeing the Banknote Distribution Framework. As noted above, the RBA is not involved in commercial discussions or arrangements between Armaguard and its customers, including in relation to operational efficiency measures.

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3 ACCC (2024), 'Application for revocation and substitution of authorisation AA1000664 - Interim authorisation decision', 23 October 2024.

4 The conduct authorised under AA1000654 was recently consolidated into a joint authorisation with the Business Continuity Measures authorisation. See ACCC (2024), 'Application for revocation and substitution of authorisation AA1000664 - Interim authorisation decision', 23 October 2024.