



17 November 2023

By email: rrat.sen@aph.gov.au

SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES COMMITTEE
Secretariat

Dear Committee

Inquiry into bank closures in regional Australia

Please find following an opening statement in advance of my hearing on Friday, 1 December 2023.

In your opening statement you may wish to outline your main arguments, summarise your views or highlight the issues you would like to emphasise for the committee.

The Linfox Armaguard Group made a submission on 17 April 2023 to the Senate Standing Committee on Rural and Regional Affairs and Transport, regarding *The Current Extent of Bank Closures in Regional Australia*. This followed a submission in late 2021 to the Regional Banking Taskforce.

As noted previously, we repeat and rely upon the statements that were made in both submissions.

However, there has been significant developments since both submissions were made, which underscore the development of this paper. The key developments are as follows:

A Strategic Plan for Australia's Payment System

In June 2023, the Australian Government released *A Strategic Plan for Australia's Payments System*. This plan sets out the Government's vision for Australia's payments system: – *A modern, world-class and efficient payments system that is safe, trusted and accessible, and enables greater competition, innovation and productivity across the economy.*

One of the key priorities and supporting initiatives of this plan is *maintaining access to cash*.

Reserve Bank of Australia (RBA) Corporate Plan 2023/24

The Reserve Bank of Australia, in its Corporate Plan 2023/24, notes that *Shaping the Future of Money in Australia* includes *ensuring cash remains a viable means of payment for those who need or want it*.

Regional Banking Taskforce

As noted on the Australian Government Treasury website, *The Regional Banking Taskforce was established on 22 October 2021 to assess the impact of bank branch closures on regional communities.*



The Taskforce brings together banks and other key stakeholders to assess how bank branch closures have impacted local businesses, industries and communities and work collaboratively to identify possible solutions.

The Plans noted above followed on from the Final Report of the Regional Banking Taskforce in September 2022, which had six recommendations, with Recommendation 4 being *Maintain Access to Cash*. This Recommendation was aimed at Australia Post and their Bank@Post product, as well as the four major banks committing to fee-free ATM's in remote indigenous areas.

So in summary, there is a strong and clear commitment from both the Australian Government and the Reserve Bank of Australia in ensuring cash is available to all Australians.

Banknote Distribution System Industry Reform

As noted in previous submissions by Armaguard, the banknote distribution system, which supplies to and supports regional banks in Australia, is in crisis. The RBA has stated that declining volumes of banknotes being transported and processed in the distribution system has put financial pressure on private participants and contributed to excess capacity within the distribution network. Some aspects of the banknote distribution system are characterised by relatively high fixed costs, and tend to be significantly more efficient and cost effective with higher volumes. The Reserve Bank estimates suggest capacity utilisation in cash depots fell significantly in 2020 and has remained low since then.

As a result of this crisis, Armaguard and Prosegur reached agreement in mid-2022 to merge (subject to regulatory approvals), forming one significant banknote distribution organisation. The Australian Competition and Consumer Commission approved this merger in June 2023, and the merger was completed in September 2023. Integration of the two businesses is now underway, with significant synergy savings being sought in corporate overhead, branch and ATM rationalisation, as well as in other areas of the business. The authorisation of the merger is subject to an enforceable s 87B undertaking, which places a significant compliance burden on the merged group, whilst heavily regulating price and non-price terms for a 3 year period.

In November 2021, the RBA initiated a public consultation review of Banknote Distribution arrangements. As set out in the Conclusions Paper the RBA introduced a working group to provide a mechanism for the industry to consult on banknote distribution-related matters, which would assist in making the banknote distribution system more effective, efficient, sustainable and resilient. Whilst this initiative is appreciated, to date outcomes have not delivered the material change required to substantially alter forward prospects of the cash infrastructure providers. Whilst this step forward has been appreciated, the progress for change is very slow, and so far, there are no substantive prospects that will significantly contribute to the industry's sustainability.

In October 2023, the RBA led a *Wholesale Banknote Distribution Industry Roundtable*, including representatives from the RBA, Treasury, the four major banks, the Australian Bankers Association, and Armaguard. In Governor Bullock's invitation, she noted *the declining use of cash for retail payments has had a significant impact on the viability of the wholesale banknote distribution system. Declining volumes of banknotes being transported and processed has put significant financial pressure on private participants in the system and has contributed to significant excess capacity within the distribution network. Although there have been recent changes to the Cash-In-Transit industry that may lead to some improvements, the long-term economics of the industry are challenging....Given this, there is a clear imperative for industry participants to develop and implement a more sustainable model for cash distribution.*



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Whilst the first meeting on Oct 30 went well, time is of the essence for change to be made in the coming weeks and months.

Banknote Distribution System Next Steps

Bank closures in regional Australia have been occurring regularly for many years, as this Committee would be aware of.

Armaguard has continued to support access to cash for regional Australians, via physical cash delivery to retail outlets, banks and ATMs, through extremely difficult circumstances in recent years, particularly through the Covid-19 period. However, the cost of providing these services has increased significantly in recent years, and the industry is now in crisis (as noted above). A solution to this crisis must be found urgently, to ensure that cash remains available to all Australians, particularly regionally and remotely.

In the Undertaking noted previously, Armaguard is legally required to service a list of postcodes, even if the service density continues to be significantly reduced due to bank closures, more businesses going cashless, etc. In many circumstances, we are not able to recover the increased cost of providing such services to regional and remote Australia. So whilst the banks do not have an obligation to have a footprint regionally, the perverse outcome is that we do, compounding the crisis of the industry.

Armaguard is currently working closely with the RBA, Treasury and the four major banks to develop both an immediate solution, and a longer-term structural solution, to ensure a viable Banknote Distribution System exists in Australia which can help to provide access to cash to remote and regional Australia.

I look forward to discussing this with you further on December 1 2023.

Regards

Mick Cronin
Chief Executive Officer