CFR and ACCC Cash Distribution Consultation Submissions
c/o Note Issue Dept,
Reserve Bank of Australia
GPO Box 3947
Sydney, NSW 2001

Regulating Cash Distribution

National Seniors Australia (NSA) calls on the RBA and major banks to again be responsible for moving cash around the country, to reduce the risk of a collapse of cash transactions as a vital part of the modern economy.

As the peak consumer body representing older Australians, with around 270,000 members and supporters, NSA works to improve the well-being of all older Australians.

NSA welcomes the opportunity to make a submission on the proposed changes to regulating cash distribution. The ongoing availability and acceptance of cash is of concern to seniors, with its continued use having broad societal and economic benefits. We wholeheartedly agree with the summary of the benefits of maintaining cash in the economy from the Council of Financial Regulators (CFR) consultation paper:

> *Cash is critical for economic inclusion, particularly for older Australians and low-income households. Cash enhances the resilience of the payment system, serving as a fallback during natural disasters and electricity, telecommunications and digital payment system outages. Widespread availability of cash underpins trust in Australia's financial system and supports the role of cash as an important store of value during normal times and times of crisis.*

Risks to the cash distribution system are internal and external

We encourage the CFR to consider not just the risks to cash distribution from within the Cash-in-Transit (CIT) industry but also external risks. The Consultation Paper appears to consider responses to a crisis coming from factors within the CIT industry; while these are present, there are also external risks.

For instance, how would the CIT industry respond to a sudden increase in demand for cash, such as from a prolonged electronic payment system outage due to malicious actors or

Suite 19A, 160 Ann St Brisbane QLD 4000
GPO Box 1450 Brisbane QLD 4001
P 07 3233 9100 F 07 3211 9339
E general@nationalseniors.com.au
nationalseniors.com.au
National Seniors Australia Limited ABN 89 050 523 003

inadvertent IT disruption such as the 2024 CrowdStrike event? Strengthening the CIT industry will make it more resilient to a range of unexpected events.

Reforms so far have focussed on acceptance of cash, not access

For the benefits of cash (as listed by the CFR) to continue to be realised, people need to be able to access cash and transact in cash. But for people to obtain cash, and for businesses to be willing to accept it, requires a smoothly operating system to move cash around the country. Currently, the near-monopoly provider of these CIT services, Armaguard, is being bailed-out to keep it afloat and the most recent funding injection only runs until the end of 2025.

While a reasonable cash mandate[1] will go some way to maintaining cash through transactions, there remains the question of reduced access to cash through declining bank branches and bank-owned ATMs.[2] Industry statistics suggest that non-bank ATMs are now also declining in number.[3] But the most concerning threat to the use of cash in the economy is that the single company responsible for the majority of cash transportation could collapse. In our view, a new regulatory framework does not go far enough to reduce the risk to cash, which as the CFR says “underpins trust in Australia’s financial system”.

While cash transactions have declined in recent years[4], cash withdrawals from ATMs appear to have stabilised post-pandemic at close to $9 billion a month and may in fact be increasing.

Additionally, there is a near-historically high amount of cash in circulation: over $103 billion.[5] A shock to the cash-in-transit system could lead people to question if this large amount of assets remains a store of value and, as the CFR notes, could undermine confidence in the banking system.

NSA is disappointed to see that the CFR, along with the ACCC, has only considered three limited options (no action, industry self-regulation, and a new regulatory framework) and settled on the third as the course of action before considering more substantial reform of the CIT sector and before publicly consulting.

---

[1] NSA welcomed the announcement by the government of the intention to create a cash mandate. Unfortunately, the ridiculous exemptions proposed undermined the policy: in large part due to confining, it to ‘essential’ goods and services, the government definition of which somehow excluded water, clothing for adults, furniture, whitegoods, and most government services, as we noted in our submission.[1]

[2] Authorised deposit-taking institutions' points of presence statistics | APRA
[3] Device Statistics | Australian Payments Network
[4] RBA Banknotes: The Cash Landscape in Australia – Review of Banknote Distribution Arrangements: Issues Paper | RBA
[5] RBA Balance Sheet - A1 | RBA

How did the cash distribution system get close to collapse?

How has it come to be that the sole national distributor of cash around Australia, a private company, is having to be bailed out by its customers with regulators considering emergency powers? In the view of NSA, this is due to outsourcing decisions made in the late 1990s.

In the early 1990s, the RBA had branches around Australia involved in cash distribution to banks. However, around the same time as the introduction of polymer banknotes, the RBA stepped away from this practice, closing the branches and replacing it with a system of 'note pools' held by CIT companies but owned, by 2001, by the banks. As the ACCC was told, the RBA had "transitioned from an 'operator' to a 'regulator'".

These arrangements appeared to operate satisfactorily while cash volumes were high. The services provided by the CIT industry include secure transportation and storage but also processing of the cash and coins, including sorting for quality, which contributes to the cost of the business. This meant that as cash usage declined, the CIT industry found itself with high fixed costs and declining revenue from customers with significant bargaining power who negotiated "significant discounts", as the ACCC said.[6]

In 2023, the ACCC granted authorisation for Armaguard and Prosegur (another CIT company) to merge, creating a near-monopoly in national CIT services.[7] Despite the merger, little more than a year later the Federal Treasurer was reassuring the public there would be continued access to cash following concerns Armaguard could collapse.[8, 9]

The disruption such a crisis would cause was averted because Armaguard was funded by the major banks and large retailers. This arrangement was recently extended for a further six months, at the cost of $25.5 million.

This funding calls into question the supposed savings from outsourcing this vital function. It is unclear how much the major banks have saved, though the RBA has estimated its outsourcing of cash processing saved the bank $35 million a year by 2018/19.[10] Nonetheless, NSA contends that any short-term cost saving is not worth the consequences that a collapse of cash transport would have nationally.

While a properly regulated monopoly isn't necessarily an issue, having a monopoly that is losing money but responsible for a key part of national economic infrastructure appears to be a recipe

[6] Reasons for Determination, Merger authorisation number: MA1000022 | ACCC
[7] Linfox Armaguard Pty Ltd and Prosegur Australia Holdings Pty Ltd proposed merger | ACCC
[8] Chalmers reassures on cash supplies after Armaguard meeting | AFR
[9] Armaguard rejects $26 million lifeline to avoid insolvency as Coles ends pause on cash deliveries | ABC News
[10] https://www.rba.gov.au/publications/bulletin/2019/dec/a-cost-benefit-analysis-of-polymer-banknotes.html

Suite 19A, 160 Ann St Brisbane QLD 4000
GPO Box 1450 Brisbane QLD 4001
P 07 3233 9100 F 07 3211 9339
E general@nationalseniors.com.au
nationalseniors.com.au
National Seniors Australia Limited ABN 89 050 523 003

for a crisis. Rather that create regulatory powers and wait for the crisis, proactive action should be taken to strengthen the cash transit function. NSA recommends reversing the outsourcing of this function, returning responsibility in-house to the RBA and the major banks.

The licence to operate a bank is not a right, but a privilege – one that should come with responsibilities. While banks aren't subject to a Community Service Obligation (CSO), we are of the view that they should be. Banks collect fees for providing services, such as cash services, they should not have been allowed to reduce their cost transit expenses by creating a systemic economic risk. The ability of the banks to shift their costs onto another company with little consideration of the long-term impacts was a failure both of prudent business planning and of regulation.

We reiterate the argument that we put to Treasury as part of the consultation on the cash mandate: given the importance of cash to the economy, responsibility from transporting cash around the country should not have been allowed to fall on a single, financially struggling, private company. A new regulatory framework is not sufficient to reduce this risk, prompt and substantial action is required.

The experiment of outsourcing this function has failed. Being a bank comes with responsibilities as well as profits. It is time the RBA and banking sector was again directly responsible for moving cash around Australia.

Yours sincerely,

Chris Grice
Chief Executive Officer

Suite 19A, 160 Ann St Brisbane QLD 4000
GPO Box 1450 Brisbane QLD 4001
P 07 3233 9100 **F** 07 3211 9339
E general@nationalseniors.com.au
nationalseniors.com.au
National Seniors Australia Limited ABN 89 050 523 003