

NOTICE UNDER SECTION 67 OF THE COMMERCE ACT 1986

**Proposed acquisition by Evergreen NZ Holdings of 100 per cent of shares in
ACM New Zealand Limited from ACM Holdings (NZ) Ltd.**

8 April 2024

SECTION 67(1) COMMERCE ACT 1986: NOTICE SEEKING CLEARANCE OR AUTHORISATION

8 April 2024

The Registrar
Competition Branch
Commerce Commission
PO Box 2351
Wellington
NEW ZEALAND

By email: registrar@comcom.govt.nz

Pursuant to s 67 (1) of the Commerce Act 1986 notice is hereby given seeking clearance, or in the alternative, authorisation of a proposed business acquisition.

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Executive Summary

Proposed transaction

- Evergreen NZ Holdings (**Evergreen**) seeks clearance, or in the alternative, authorisation to acquire 100 per cent of the shares in ACM New Zealand Limited (**ACMNZ**) from ACM Holdings (NZ) Ltd (**ACM**) (the **Proposed Transaction**).
- Evergreen and ACM have entered into a share sale agreement in respect to the shares in ACMNZ, dated 28 March 2024 (**SSA**). A copy of the SSA is attached at Appendix 3.
- The SSA is conditional on obtaining either clearance or authorisation from the Commerce Commission.

The parties

- Evergreen (through a wholly owned subsidiary, Armourguard Security (**Armourguard**) operates a cash distribution and management business in New Zealand providing cash in transit (**CIT**) services and precious cargo services.
- ACMNZ also operates a cash distribution and management business in New Zealand.

Rationale for the Proposed Transaction

- Cash is an important part of the New Zealand economy, particularly for vulnerable members of the community. The RBNZ has noted the importance of cash in a number of reports, as outlined in paragraphs 5.9-5.16 below.
- The CIT industry, which underpins the movement and supply of cash throughout the economy, is a sunset industry and has been in decline for some time. It can no longer sustain two large national providers.
- The decline in the CIT industry has been driven by:
 - the continuing decline in the use of cash, with fewer people using cash and a sharp decline in the use of cash as a way to pay for everyday things, with cash being replaced by credit cards and other forms of digital payment;
 - COVID, which accelerated the decline in the transactional use of cash with about 70% of the population indicating they use cash in 2020 compared with 95.8% in 2019;¹
 - the comprehensive bank branch and ATM service rationalisation pursued by banks and other financial institutions², with the most recent example being the closure on 29 February 2024 of another 5 ASB Bank branches.³
 - the substantial reduction in the frequency and/or volume of cash services with the value of these cash withdrawals reducing by 20% from February 2020 to June 2021.⁴
- As a result of the market dynamics, both parties to the Proposed Transaction have suffered reduced transaction volumes and significant cash flow losses. The margins are unsustainable for both parties to continue operating.

¹ Reserve Bank of New Zealand (RBNZ) *Cash and payments data update: COVID-19 special* (June 2021), at p.15.

² For further details see paras 6.17–6.21.

³ Luka Forman "Closure of five ASB branches sparks concern for older customers" (29 February 2024) RNZ <<https://www.rnz.co.nz/news/business/510532/closure-of-five-asb-branches-sparks-concern-for-older-customers>>.

⁴ RBNZ *Cash and payments data update: COVID-19 special* (June 2021), above n 1, at p.2.

- The Reserve Bank of New Zealand (**RBNZ**) has concluded that consolidation in the CIT industry is inevitable⁵, and an independent report prepared by RBB Economics concluded that the market cannot sustain two providers.⁶
- The Proposed Transaction is the best means of ensuring the long-term financial health, viability, sustainability and resiliency of the New Zealand cash economy by combining the capabilities and financial resources of the two largest national full service CIT service providers in New Zealand. The Proposed Transaction is intended to create a sustainable business that will ensure that the New Zealand cash distribution system is effective, efficient, and resilient into the future.

The relevant market(s)

- The Applicant submits that (for the purposes of assessing the Proposed Transaction) the relevant markets are:
 - The supply of CIT services in New Zealand; and
 - The supply of precious cargo services in New Zealand.

No substantial lessening of competition in the relevant markets

- Armourguard Security and ACMNZ are the only two national providers of CIT and precious cargo services (although there are a number of smaller providers serving distinct geographic areas). Therefore, the Proposed Transaction will reduce the number of competitors in both the national CIT market and the national precious cargo market from two to one.
- However, the declining use of cash and the significant decrease in the demand and volume of CIT services means it is likely that one or both of the parties would cease to operate if the Proposed Transaction does not proceed.

[REDACTED]

- Therefore, it is submitted that the Proposed Transaction will not result in any substantial lessening of competition and the Commission should grant clearance for the Proposed Transaction.

Benefits of the Proposed Transaction

- If the Commission is not satisfied that there is no likelihood of a substantial lessening of competition, there are significant public benefits arising from the transaction, which outweigh any lessening of competition.
- The Proposed Transaction is pursued in a sunset industry where use of cash is declining, accelerated by bank practices in moving to digital services and reducing the number of bank branches and ATMs. As found in the RBB Report, the minimum efficiency scale in the industry only supports one player.⁷ The RBNZ has also concluded that consolidation is inevitable.⁸

⁵ Reserve Bank of New Zealand (RBNZ) *Future of Money – Cash system redesign* (1 November 2021) at p.28. For more detail see paras 6.23-6.27.

⁶ RBB Economics *The Proposed Acquisition of ACM by Armourguard: A competitive effects and public benefits assessment* (2 February 2024) at 4.2.4; see more specifically paras 97 and 102.

⁷ RBB Economics, above n 6, at 102.

⁸ Reserve Bank of New Zealand (RBNZ) *Future of Money – Cash system redesign* (1 November 2021) at p.28.

- At the same time, cash remains an important part of the New Zealand economy and is relied upon as an essential payment method by vulnerable members of society and in times of emergency. It is therefore crucial to ensure there is a strong, resilient national provider of cash distribution services.
- The Proposed Transaction secures the ongoing viability of a financially sustainable national CIT provider, particularly in light of conceivable counterfactuals which will include the exit of one or both existing providers, and/or a weaker remaining provider with degrading services.
- Public benefits resulting from the Proposed Transaction include:
 - improving productive efficiencies by reducing duplication of substantial fixed costs;
 - avoiding the risk of [REDACTED];
 - [REDACTED];
 - increasing the efficiency of interbank trading;
 - reducing the Parties' carbon footprint; and
 - increasing the resilience in wholesale cash distribution, and related benefits from facilitating cash as a method of payment.
- Therefore, the Applicant seeks authorisation of the Proposed Transaction.

REQUIRED INFORMATION

1. APPLICANT'S DETAILS

Provide the name(s) of the applicant(s) for authorisation, and the name(s) of the individual(s) responsible for the notice. In addition, please include the:

- *postal address, physical address, telephone number and web address of the applicant(s);*
- *email address, telephone number and position of the contact person(s); and*
- *names of any relevant related entities (showing shareholdings).*

1.1 This notice is given by Evergreen NZ Holdings (**applicant**).

1.2 The contact details for the applicant are:

Postal address: 5 Kellow Place, Wiri, Auckland, 2104, New Zealand
 Attention: Shane O'Halloran, General Manager, Armourguard Security
 Physical address: 5 Kellow Place, Wiri, Auckland, 2104, New Zealand
 Telephone: [REDACTED]
 Web address: www.armourguard.co.nz

1.3 The contact person for the applicant is:

Name: Shane O'Halloran
 Position: General Manager, Armourguard Security NZ
 Email address: [REDACTED]
 Telephone: [REDACTED]

1.4 All correspondence in relation to this notice should be directed in the first instance to:

Matthews Law
 PO Box 2579
 Shortland Street
 Auckland 1140

Attention: Alicia Murray/Andy Matthews
 Telephone: +64 9 972 3754 / +64 9 972 3753
 Email: andrew.matthews@matthewslaw.co.nz
 alicia.murray@matthewslaw.co.nz

Evergreen

1.5 Evergreen is a private unlimited liability company incorporated in New Zealand which is the owner of 100% of the shares in Armourguard Security. The ultimate owner of Evergreen is a family trust established by Gavin & Hope Wolfe. A structure diagram is included in **Appendix 1**.

1.6 Armourguard Security provides both manned guarding and patrol services as well as cash-in-transit (**CIT**) services and precious cargo services throughout New Zealand. The cash services it provides include:

- a. Cash in transit: providing secure transporting services for banks, public sector and financial institutions, retail sector chains and independent stores, deliveries of bulk cash to/from customers' premises to Armourguard Security processing branches and/or bank branches;
 - b. Cash management and processing: counting, reporting and reconciliation of cash moved;
 - c. ATM replenishment services, including ATM forecasting and first Line ATM maintenance services and guarding services;
 - d. Bulk cash vaulting (secure storage) and management; and
 - e. Secure vaulting and transport (delivery/collection) of precious cargo (foreign currency, bullion and other valuables).
- 1.7 Further information on the applicant is available at [Armourguard | NZ's Most Experienced Security Company](#)

2. OTHER MERGER PARTY'S DETAILS

Provide the name(s) of the other party/parties to the merger and provide the:

- *postal address, physical address, telephone number and web address of each party; and*
- *name, email address, telephone number and position of the contact person(s) for each party.*

2.1 The contact details for ACM are:

Postal address: 14 Tyers Road, Ngauranga, Wellington, 6035
 Physical address: 14 Tyers Road, Ngauranga, Wellington, 6035
 Telephone: 0800 577 592
 Web address: www.acmnz.co.nz

2.2 The contact person for ACM is:

Name: Liza Grage-Perry
 Position: Associate General Counsel
 Email address: liza.grage-perry@linfoxag.com
 Telephone: (+61) 3 8378 3906

2.3 All correspondence in relation to this notice should be directed in the first instance to:

Minter Ellison Rudd Watts
 Level 22, PwC Tower
 15 Customs Street West
 Auckland 1010
 Attention: Jennifer Hambleton/Dr Ross Patterson
 Telephone: +64 9 353 9794 / +64 9 353 9864
 Email: Jennifer.hambleton@minterellison.co.nz
 ross.patterson@minterellison.co.nz

ACM

2.4 ACM is a private limited liability company incorporated in New Zealand and is the owner of 100% of the shares in ACMNZ. ACMNZ is part of the Linfox Group, the ultimate parent of which is LEPGF Pty Ltd. Linfox acquired the ACMNZ business in 2009. A structure diagram is included in **Appendix 2**.

2.5 ACMNZ provides CIT services. These services include:

- a. Cash collection and delivery: deliveries of bulk cash to/from customers premises to ACMNZ processing branches and/or bank branches;
- b. Cash processing; counting, reporting and reconciliation of cash moved;
- c. Bulk cash vaulting (secure storage);
- d. ATM replenishment services;
- e. First line maintenance services and guarding services; and

- f.** Secure vaulting and transport (delivery/collection) of precious cargo (foreign currency, bullion and other valuables).

2.6 Further information on the applicant is available at <https://www.acmnz.co.nz>

3. MERGER DETAILS

Set out the details of the merger for which you are seeking authorisation including, where relevant:

- *the type of transaction (such as a merger or joint venture), what is to be acquired, how the merger is structured (such as whether assets or shares are to be purchased), the purchase price and anticipated timing of the merger;*
- *the rationale for the merger;*
- *how the merger changes the control of the company, including a diagram(s) of how the structure of ownership and affiliated companies are to change;*
- *a description of relevant ancillary agreements associated with the merger, such as long-term supply agreements between the target and the acquirer; and*
- *the likely relevant scenario(s) for both merging parties if the merger does not go ahead; and*

Details on how proposal is structured

- 3.1 Evergreen seeks clearance or, in the alternative, authorisation for its acquisition of 100% of shares in ACMNZ.
- 3.2 Evergreen and ACM have entered into a share sale agreement (**SSA**) in respect of these shares, dated 28 March 2024. A copy of the SSA is at Appendix 3.
- 3.3 The SSA is conditional on receipt of a notice in writing from the Commerce Commission giving clearance for, or in the alternative authorisation of, the Proposed Transaction as set out in clause 2 of the SSA. The condition must be satisfied by June 2025.

Rationale for the proposal - Decline in cash usage in New Zealand economy

- 3.4 The CIT industry, which underpins the movement and supply of cash throughout the economy, has been severely affected by the continuing decline in the use of cash. The decline in the transactional use of cash in the New Zealand economy has been accelerated by COVID, with cash being replaced by credit cards and other forms of digital payment, and by the comprehensive bank branch and ATM service rationalisation pursued by banks and other financial institutions. This branch and ATM service rationalisation undertaken by the banks, along with a fundamental change in consumer preference for the use of electronic payments over the use of cash has substantially reduced the frequency and/or volume of cash services in the New Zealand market.
- 3.5 In addition, major retailers have reduced the number of checkouts that accept cash, and some (smaller) retailers do not accept cash at all.

3.6

[REDACTED]

3.7

[REDACTED]

3.8

[REDACTED]

- 3.9 Armourguard seeks to pursue this transaction to strengthen the stability and resiliency of the cash economy in New Zealand to improve the long-- term prospects for its significant investment in New Zealand and provide the best opportunity for career development and competitive wages for both Armourguard and ACM's staff.
- 3.10 Having been involved in the RBNZ Future of Cash forum, Armourguard has strong motivation for this transaction as the RBNZ has affirmed the value of cash to financial and social inclusion (amongst other benefits), to commit to providing cash for as long as New Zealanders wanted and needed it. The RBNZ regularly advocates for improved efficiency and resiliency in the multi-party cash system.
- 3.11 This transaction will provide the New Zealand cash cycle with significant improved efficiency and resilience.
- 3.12 The RBNZ has reported an overwhelming positive view of cash, its cultural significance in Aotearoa – New Zealand, and the importance of ensuring continued access to it. RBNZ believes that maintaining the cash system is both a current and future need.
- 3.13 New Zealand is one of the most 'cashless' societies in the world by many measures, but cash remains essential for a significant minority to live their lives and is still valued by most as both an option and back-up to other means of payment.
- 3.14 It is noteworthy that the RBNZ have reported it is doing further research on the potential to mandate cash acceptance.
- 3.15 Cyclone Gabrielle exposed the lack of resilience of the NZ cash system caused by the commercial bank's retreat from cash services and sites to meet public and business needs. It also became clear that cash remains a widely used payment mechanism for local business activity and individual wellbeing in regional New Zealand. During Cyclone Gabrielle, it was the only means of payment available in remote areas for some time as data, electricity, and roading networks were significantly disrupted. Furthermore, the demographics of the affected regions suggested they are also likely to have more New Zealanders who ordinarily rely on cash to transact due to preference or lack of alternate means.
- 3.16 This transaction will assist in the sustainability of a currently unsustainable CIT market. This transaction will be for the greater good of New Zealanders, both business activities and individual wellbeing.
- 3.17 There are several pressing reasons to pursue the Proposed Transaction now including:
- a. **The secular decline in cash usage:** CIT providers operate in a "sunset industry". The rise in use of digital and other forms of electronic currencies, along with a change in consumer behaviour to embrace electronic payments as their preferred means of transacting has meant that cash usage and related CIT services in New Zealand are in secular decline. Yet CIT providers are vital to have a financially stable and resilient cash economy so that important consumer groups, such as vulnerable members of society and those in remote and less accessible regions, continue to have access to cash.
 - b. **The reduction/discontinuance of cash services resulting from comprehensive bank rationalisation:** New Zealand banks have undertaken extensive cost reduction initiatives to reduce the absolute cost of cash including rationalising national bank branch and ATM footprints, reducing frequency of cash services, and discontinuing other cash related services offered to customers including cash deposits, cheque processing, and foreign exchange. This comprehensive rationalisation accelerated during COVID and further

rationalisation has been seen with the most recent closure of five ASB branches⁹ and four BNZ branches this year. In addition to closures, [REDACTED]
[REDACTED]
[REDACTED] Further details about this rationalisation are set out in paragraphs 6.17–6.22 below.

c. Excess capacity and inefficient duplication: Reduced CIT services have left the parties' national CIT networks with significant excess capacity. [REDACTED]
[REDACTED] Current duplication of assets and overhead is costly, highly inefficient and limits resources available for other CIT investment. For example:

- i. Duplicating fortified processing and vaulting branch facilities nationally is costly to build, equip and maintain with expensive note and coin processing machinery. It is also highly inefficient, and limits resources available for other CIT investment;
- ii. Duplicating extensive semi-armoured transportation fleets nationally requires significant investment and ongoing annual maintenance / repairs, is highly inefficient, and limits resources available for other CIT investment;
- iii. Duplicating the annual overhead costs to employ, supervise and service a national footprint of note/coin processing branches and transport fleets is extremely costly, highly inefficient, and limits resources available for other CIT investment. Annual overhead includes senior management, branch processing and transport supervisors, branch processing and transport managers, floor note/coin processing staff, transport guards and staff, risk and compliance management, compliance customer account management, finance and administration, human resources, environmental health and safety, information technology and telecommunications, and risk management.

For CIT service providers to survive in a sunset industry, it is essential to reduce duplicative and costly infrastructure and overhead to allow for an efficient allocation of remaining overhead over declining cash volumes and services.

d. The damaging impact of high inflation: There have been inflationary increases in virtually every input cost which have dramatically impaired the parties' margins, including: labour, armoured vehicles, note/coin processing equipment, fuel, computer hardware, software, IT and data services, etc.

e. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

⁹ Luka Forman "Closure of five ASB branches sparks concern for older customers", above n 3.

¹⁰ RBB Economics, above n 6, at 125.

- f. **The opportunity cost of capital:** Global capital markets are efficient and allocate capital based on risk adjusted returns. As interest rates rise, so does the opportunity cost of capital, which heightens investor sensitivity and willingness to invest in riskier “sunset industries” and/or companies which are unable to generate a sustainable risk adjusted return on invested capital.
 - g. **Enhance emergency preparedness:** Natural disasters and emergencies such as the Christchurch earthquakes (2011), Kaikoura earthquakes (2016), COVID (2020), and most recently Cyclone Gabrielle (2023) highlight the critical importance of having a healthy cash economy and CIT service provider. The Proposed Transaction will enable the merged entity to better support customers and ensure that the economy is more resilient. Despite their weakened financial health, the parties each worked closely with their customers and the RBNZ during both COVID and Cyclone Gabrielle to quickly respond to the immediate needs of the New Zealand market, including accessing its most remote and disaster affected regions, but if the industry continues its decline, this will become harder and the parties may not be able to respond effectively.
 - h. In addition, in an effort to ensure emergency preparedness, the RBNZ has set up contingency vaulting of notes and coin strategically located throughout New Zealand so cash can quickly be accessed and supplied to disaster affected regions. Both parties currently vault the RBNZ contingency notes and Armourguard Security also vaults contingency coin, which is a critical, cannot fail service. This duplication of service is wasteful and inefficient.
 - h. **The need to retain skilled staff:** The Proposed Transaction will create a more sustainable entity, leverage the parties’ best in class operating techniques, and provide competitive wages and career development opportunities for the parties’ management and extended staff. The parties and their staff are deemed essential businesses and employees, respectively. The Proposed Transaction will improve the prospects for the merged entity which should help attract, retain, and maximize career opportunities for such essential personnel which have in recent years sought employment in higher paying industries with more stable business prospects.
- 3.18 The Applicant believes the Proposed Transaction is the best means of ensuring the long-term financial health, viability, sustainability and resiliency of the New Zealand cash economy by combining the capabilities and financial resources of the two largest and most capable CIT service providers in New Zealand. While there are no guarantees in a sunset industry, the Proposed Transaction is intended to provide the best means of creating a sustainable business that will ensure that the New Zealand cash distribution system is effective, efficient, and resilient into the future.
- 3.19 As set out in Part 7 of this Notice (Public Benefits and Detriments), an independent report prepared by RBB Economics concludes that the Proposed Transaction will not likely substantially lessen competition and will deliver public benefits and synergies.

Likely counterfactual(s)

- 3.20 The likely counterfactual is [REDACTED] [REDACTED] The reasons are set out below and will be further addressed by ACM in a separate submission, and confirmed by an independent report prepared by RBB Economics.

3.21 [REDACTED]

3.22 [REDACTED]

a. [REDACTED]

b. [REDACTED]

3.23 [REDACTED]

3.24 [REDACTED]

3.25 [REDACTED]

3.26 [REDACTED]

3.27 The Reserve Bank of New Zealand (**the RBNZ**) has considered the cash industry and concluded that “consolidation within the wholesale cash sector, and in particular in relation to CIT services, seems inevitable in the absence of a policy response”.¹² The Applicant considers that any new regulatory solution the RBNZ may potentially propose is likely to involve consolidation in the CIT industry and a price level that would enable an efficient CIT provider to recover its (efficient) costs. However, any such policy response would likely be some time away and [REDACTED]

3.28 A change in market structure is therefore inevitable with or without the Proposed Transaction. Accordingly, the relevant forward looking counterfactual necessarily involves a single provider

¹¹ RBB Economics, above n 6, at 4.1.

¹² RBNZ *Future of Money – Cash system redesign*, above n 8, at p.28.

of CIT services, either, as the RBNZ postulates, under a regulated single provider utility model, or consolidation of the exiting providers by acquisition or merger.

4. NOTIFICATIONS TO OTHER COMPETITION AGENCIES

Please list any other agencies that are being notified of the merger (including any overseas competition agencies if the merger forms part of an international transaction) and the date on which those agencies were or will be notified. Where relevant, indicate the status of reviews by other agencies.

- 4.1 As the proposed transaction relates to New Zealand only it has not been notified to any other competition agency.
- 4.2 A similar transaction (relating to the merger of ACM's ultimate parent Linfox Armaguard Ltd with Prosegur Australia Holdings Pty Limited) was authorised by the Australian Competition and Consumer Commission (ACCC) on 13 June 2023.¹³
- 4.3 There are significant differences between the market in Australia and the market in New Zealand.

¹³ Australian Competition and Consumer Commission (ACCC) "Reasons for Determination Application for merger authorisation lodged by Armaguard and Prosegur in respect of the merger of their respective cash-in-transit and device monitoring and maintenance and ATM businesses Merger authorisation number: MA1000022" ("Reasons for Determination MA1000022") (13 June 2023) <[https://www.accc.gov.au/system/files/public-registers/documents/Reasons for Determination - 13.06.23 - PR - MA1000022 Armaguard Prosegur 0.pdf](https://www.accc.gov.au/system/files/public-registers/documents/Reasons%20for%20Determination%20-%2013.06.23%20-%20PR%20-%20MA1000022%20Armaguard%20Prosegur%200.pdf)>.

5. RELEVANT PRODUCTS AND SERVICES

Describe the relevant products and/or services of the merging parties and provide the following for each:

- *the merging parties' view on the appropriate market definition;*
- *each merging party's total sales revenues, volumes, and, where relevant, capacity and excess capacity figures for the past three financial years;*
- *the names and contact details for the merging parties' main competitors, and any trade or industry associations in which one or more of the merging parties participate; and*
- *the names and contact details for each merging party's key customers, including at least the top five by value, and the revenue earned from each in the last financial year.*

5.1 The Applicant submits that for the purposes of assessing the Proposed Transaction the relevant markets are:

- a. The supply of CIT services in New Zealand; and
- b. The supply of precious cargo services in New Zealand.¹⁴

5.2 This is consistent with the market definition adopted by the ACCC when granting authorisation for the merger of Linfox Armaguard and Prosegur.¹⁵

5.3 We set out below an overview of the industry and the importance of cash, and then details about the parties, competitors and market shares.

Industry overview – Use of cash in New Zealand's payment system

5.4 The New Zealand payments system is operated and supervised by the RBNZ.¹⁶ The RBNZ seeks to ensure the payment system is efficient, reliable, resilient and supports innovation and inclusion.

5.5 The payment landscape can be separated into the back-end arrangements and the front-end arrangements:¹⁷

- a. Payments are initiated in the front-end. This comprises payment instruments and gateways that facilitate transactions between consumers, merchants, and any other parties; and
- b. Payments are processed in the back-end by clearing and settlement systems.

5.6 There are two types of money in New Zealand: physical money and digital money.¹⁸

- a. The only type of physical money is cash. Cash refers to banknotes and coins issued by the RBNZ, also known as "central bank money".¹⁹ The cash system is comprised of three sectors: the central bank sector, wholesale cash sector, and retail cash sector.²⁰ These sectors deal with the design, manufacture, storage, transport, and provision of cash so that it can be used in transactions; and

¹⁴ RBB Economics, above n 6, at 3.1.

¹⁵ ACCC "Reasons for Determination MA1000022", above n 13, at 5.6–5.8.

¹⁶ Lydia Dudson, Liam Gillies and Amber Wadsworth *New Zealand's Payment Landscape: A Primer* (Reserve Bank of New Zealand, Bulletin Vol. 85, No. 3, 9 November 2022), at p.2.

¹⁷ *New Zealand's Payment Landscape: A Primer*, above n 16, at p.4.

¹⁸ Reserve Bank of New Zealand (RBNZ) "What is money?" (28 February 2022) <<https://www.rbnz.govt.nz/money-and-cash/future-of-money/what-is-money>>.

¹⁹ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.7.

²⁰ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.8.

- b. For New Zealanders, the only digital money available is private money.²¹ Private money refers to money created by private firms which is represented as an account balance.²² To use private money in a transaction, consumers need a payment instrument such as a debit card, credit card, or internet banking.²³

5.7 While there has been a significant decline in the use of cash as a method of payment for everyday items since 2017 (see Figure 1 below),²⁴ the total value of New Zealand banknotes in the hands of the public has continued to increase up to 2022, then decreasing slightly between 2022 and 2023 (see Figure 2 below).²⁵

Figure 1 – Cash users

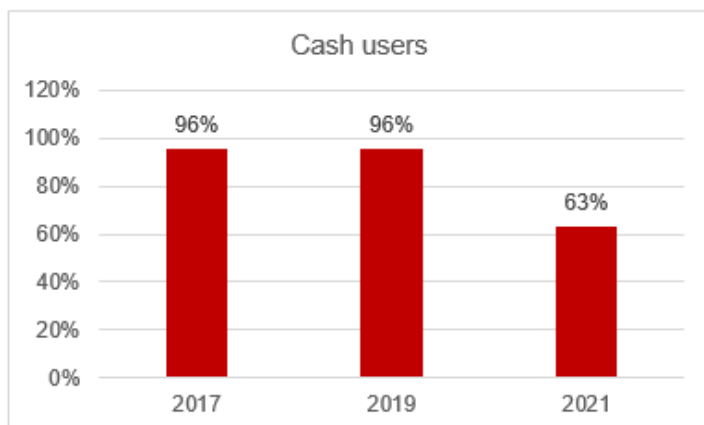
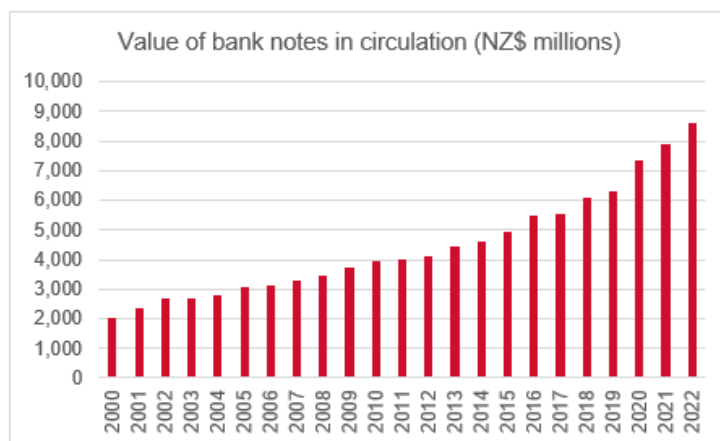


Figure 2 – Value of bank notes in circulation



5.8 Some of this increase of cash in circulation is likely due to corresponding population growth and inflation. However, there was also a significant rise in the use of cash during 2020 due to an unprecedented demand for cash before the New Zealand Pandemic lockdown began with the Reserve Bank issuing greater than 5 times more cash in March 2020 than in March 2019.²⁶ The value of banknotes in the hands of the public increased 16.4% from 2019 to 2020 (compared to

²¹ RBNZ "What is money?", above n 18.

²² RBNZ *Future of Money – Cash system redesign*, above n 8, at p.7.

²³ RBNZ "What is money?", above n 18.

²⁴ Reserve Bank of New Zealand (RBNZ) *Summary Report: 2021 Cash Use Survey* (February 2022), at p.4. This information was collated from surveys conducted by RBNZ in 2017, 2019 and 2021 regarding cash use in New Zealand.

²⁵ See data recorded in Reserve Bank of New Zealand (RBNZ) "Bank notes in the hands of the public (F3)" (28 April 2023)

<<https://www.rbnz.govt.nz/statistics/series/reserve-bank/bank-notes-in-the-hands-of-the-public>> which shows the total value of banknotes in the hands of the public in 2017 (\$5,521,284), 2018 (\$6,110,403), 2019 (\$6,285,389), 2020 (\$7,317,847) and 2021 (\$7,916,935).

²⁶ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.17.

a 2.9% increase from 2018 to 2019), but decreased from 2022 to 2023 by approximately 1%.²⁷ This highlights the importance of cash during emergency situations as set out at paragraph 5.9 below. However, despite the increase of cash in circulation, there continues to be a significant decline in the use of cash for payments. These trends in the use and storage of cash are discussed in further detail in the following sections.

Cash remains an important part of New Zealand's economy

5.9 Despite its decrease in overall use, cash remains an essential method of payment in New Zealand.

- a. Cash is an essential payment method when there are outages, communication system failures or inaccessibility to financial infrastructure due to natural disasters. During extraordinary times, cash supports the New Zealand economy.

The first nationwide lockdown due to the Pandemic caused a rush to withdraw cash. The RBNZ issued \$800 million to the major banks in March 2020 — a drastic increase from the \$150 million issued in March 2019.²⁸ In uncertain times like the Pandemic, CITs are crucial in ensuring cash is readily accessible in response to demand spikes. However, due to the need for excess capacity to accommodate volatile demands in cash, during business-as-usual periods, CIT cash systems are largely under-utilised and incur high and unavoidable fixed costs.²⁹

The recent impact of Cyclone Gabrielle in February 2023 also highlighted the ongoing need for cash as a method of payment during natural disasters. Power cuts caused by the cyclone affected the use of EFTPOS and ATM machines and also prevented NZ Banks from dispensing cash via their branches, with the government advising people to prepare to have cash at home in case it is needed,³⁰ and the RBNZ stepping in to assist with restoration of ATM services in affected regions.³¹

- b. Cash is still relied on as a method of payment by vulnerable members of society: such as low-income earners, people in rural areas, elderly people and those experiencing “digital exclusion”. In addition, Māori and Pacific people are more likely to use cash than non-Māori and Pacific people.³²

5.10 More people are also holding cash as a store of wealth for precautionary purposes rather than for immediate use.³³ This reflects the fact that people still regard cash as a value anchor that households trust.³⁴

Why some people continue to use cash as a method of payment

5.11 The RBNZ 2021 Cash Use Survey of a selection of cash-users in New Zealand noted that some groups are more likely to be cash-users than other. The results of the survey highlight that New Zealanders who live in rural areas, are Māori, lower income, or older are more likely to be cash users than others (see Figures 3, 4 and 5).³⁵ Data from Stats NZ corroborates that households

²⁷ See data recorded in RBNZ “Bank notes in the hands of the public (F3)”, above n 25, which shows the total value of banknotes in the hands of the public since 2000.

²⁸ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.17.

²⁹ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.24.

³⁰ Hon Kieran McNulty “Government urges people to prepare for Cyclone Gabrielle” (10 February 2023) <<https://www.beehive.govt.nz/release/government-urges-people-prepare-cyclone-gabrielle>>.

³¹ Reserve Bank of New Zealand (RBNZ) “RBNZ and cash industry supporting cash services in regions affected by Cyclone Gabrielle” (17 February 2023) <<https://www.rbnz.govt.nz/hub/news/2023/02/rbnz-and-cash-industry-supporting-cash-services-in-regions-affected-by-cyclone-gabrielle>>.

³² RBNZ *Future of Money – Cash system redesign*, above n 8, at p.67.

³³ RBNZ *Summary Report: 2021 Cash Use Survey*, above n 24, at p.8–9.

³⁴ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.14–15.

³⁵ RBNZ *Summary Report: 2021 Cash Use Survey*, above n 24, at p.10.

that receive New Zealand Superannuation or other government benefits or identify as Pacific people or Māori show a relatively high reliance on cash.³⁶ In 2021, households which received income from government benefits reported that 31% of all household payments were made in cash (compared to 11% for households who received income from wages and salaries).³⁷

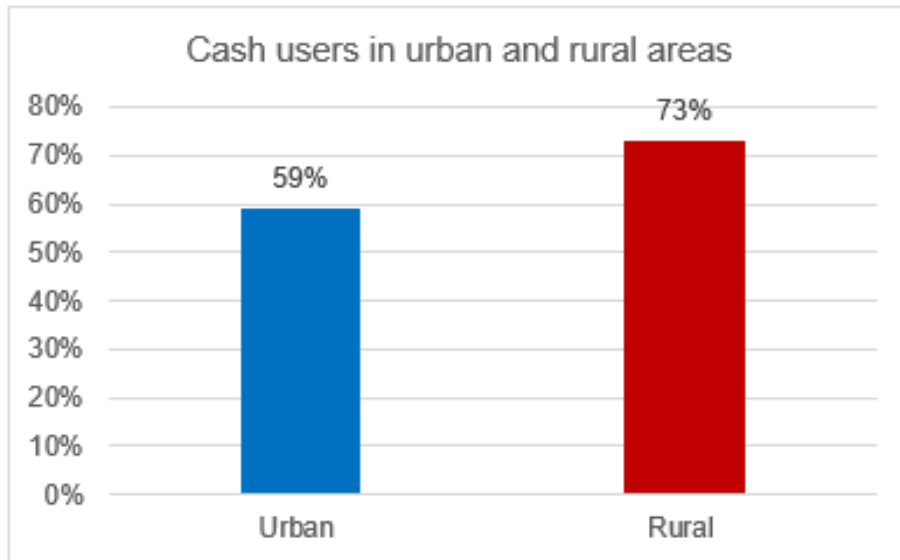


Figure 3 – Cash users in urban and rural areas³⁸

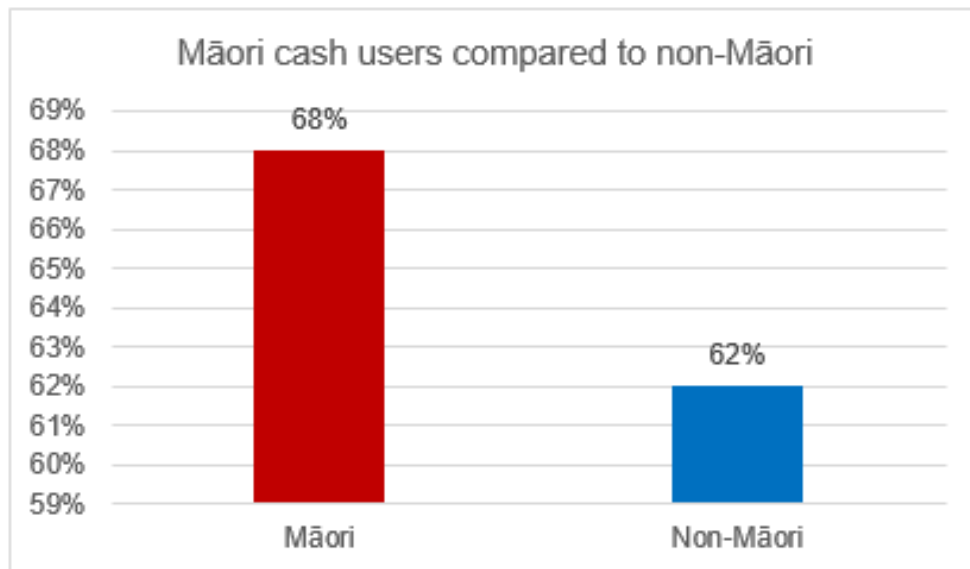


Figure 4 – Māori cash users compared to non-Māori³⁹

³⁶ RBNZ *Future of Money – Cash system redesign*, above n 8, at p. 26 and 66–67. This data was collected from the Stats NZ Household Economic Survey commissioned by RBNZ.

³⁷ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.67.

³⁸ RBNZ *Summary Report: 2021 Cash Use Survey*, above n 24, at p.10.

³⁹ RBNZ *Summary Report: 2021 Cash Use Survey*, above n 24, at p.10.

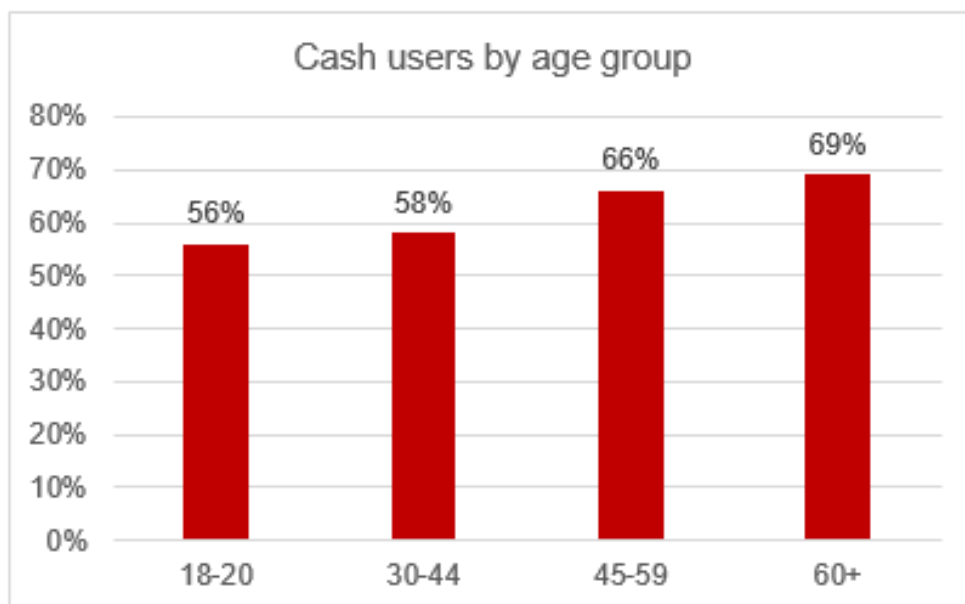


Figure 5 – Cash users by age group⁴⁰

- 5.12 Cash also contributes to financial and social inclusion, particularly in social and cultural settings. The contribution to financial and social inclusion is one of the key roles of central bank money.⁴¹
- 5.13 One of the key groups of people who rely on cash as a method of payment are those who experience “digital exclusion”.⁴² Digital exclusion arises in situations where people face barriers to participate fully in society because of information and services being online; in practical terms it can be a lack of access to a computer or the internet, a lack of digital confidence or skills, or experiencing a range of other barriers such as language and literacy.⁴³ People experiencing digital exclusion often do not have the means to transition to alternative payment methods. The RBNZ has described the barriers to digital inclusion as follows:⁴⁴

Barriers to digital inclusion include insufficient internet coverage, affordability constraints for technology hardware or data plans, lack of skills, lack of confidence and low motivation to use digital platforms. For example, even if people have access to the internet they might not be motivated to upload personal details to an online bank account due to privacy concerns.

People who face barriers to digital inclusion are people with disabilities, senior citizens, people with low socio-economic status, people who live in rural communities with low internet service, migrants and refugees with English as a second language, Pasifika and Māori. The 2013 census revealed that 33 percent of Māori did not have access to the internet (10 percentage points higher than the national average).

⁴⁰ RBNZ *Summary Report: 2021 Cash Use Survey*, above n 24, at p. 11.

⁴¹ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.57.

⁴² Reserve Bank of New Zealand (RBNZ) *Issues Paper The future of cash use – Te whakamahinga moni anamata* (June 2019) at p.23.

⁴³ Citizens Advice Bureaux New Zealand *Face to Face with Digital Exclusion: A CAB Spotlight Report into the Impacts of Digital Public Services on Inclusion and Wellbeing* (February 2020) at 5–6.

⁴⁴ RBNZ *Issues Paper The future of cash use*, above n 42, at p. 24 (footnotes omitted).

- 5.14 The RBNZ Cash Use Survey shows that 47% of cash users surveyed in 2021 do not use online banking because they do not know how to, and 34% do not use online banking as they do not own the necessary electronic devices.⁴⁵
- 5.15 In addition, the Cash Use Survey highlighted other reasons why cash-users still use cash, including the fact that respondents shopped at places that only accept cash, preferred paying in cash for small payments, or used cash for budgeting reasons (see Figure 6 below).

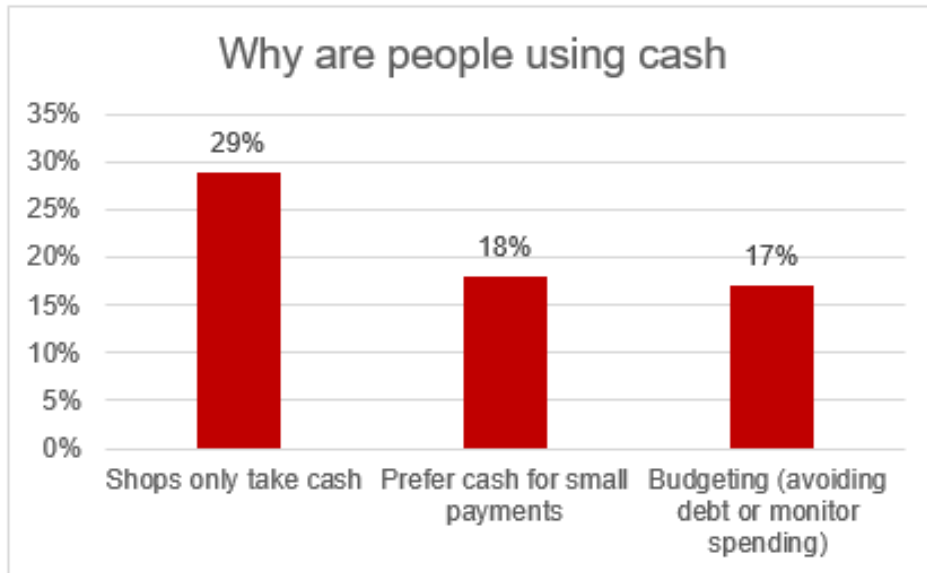
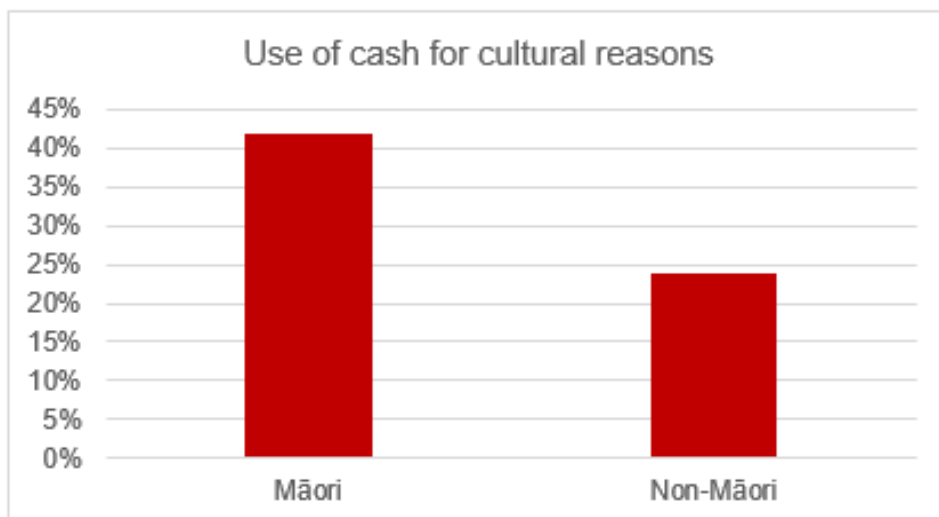


Figure 6 – Why cash-users use cash⁴⁶

- 5.16 The survey also indicated there was a greater percentage of Māori cash-users compared to non-Māori, likely due to the fact that the Māori population use cash for cultural reasons such as Koha and gifting compared to non-Māori (see figure 7 below).⁴⁷

Figure 7 – Use of cash for cultural reasons of Māori cash users⁴⁸



⁴⁵ RBNZ Summary Report: 2021 Cash Use Survey, above n 24, p. 15.

⁴⁶ Above n 24, p. 7.

⁴⁷ Above n 24, p. 7.

⁴⁸ RBNZ Summary Report: 2021 Cash Use Survey, above n 24, p. 7.

New Zealand's cash distribution system

5.17 New Zealand's cash distribution system is the process of cash moving between the RBNZ, major banks, and consumers. It is a key part of the cash cycle that involves the distribution, circulation and management of cash which enable the public to obtain and use the cash they need.

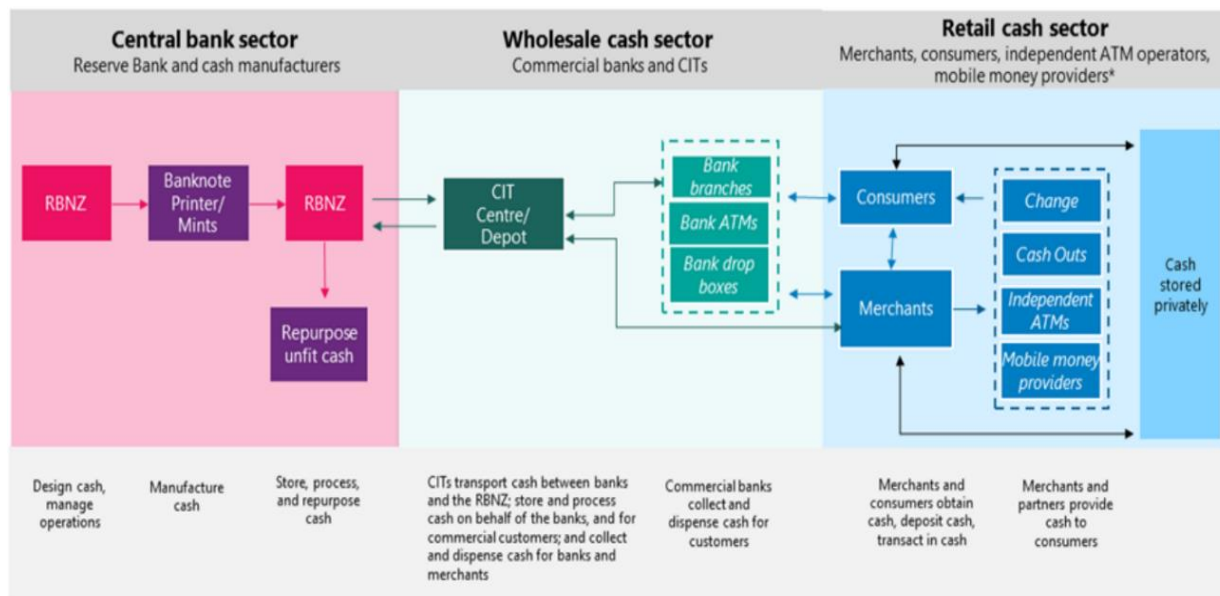


Figure 8 – New Zealand's cash system⁴⁹

5.18 Since 2000, the RBNZ's vaulting capability was centralised to the vault below the RBNZ's corporate headquarters in Wellington to be the only facility providing bulk storage and distribution capabilities. CITs operate the only other significant vault and store currency in bulk. Since 2019, the RBNZ has also stored bulk cash reserves at a number of CIT major vault premises.

5.19 Major banks have been reducing their involvement in cash distribution, and reliance on CIT services has progressively increased. Now, CIT services are central in the wholesale cash sector to support New Zealand's cash system.⁵⁰

Cash in circulation

5.20 The RBNZ is responsible for collecting and destroying old cash, dispensing cash into circulation and ensuring that the banking sector has sufficient access to cash to meet customers' needs. Banknotes are printed by Canadian Bank Note Company in Canada, and coins are minted by both the Royal Mint in the United Kingdom and the Royal Canadian Mint. Banknotes can be in circulation for six or seven years, after which they are shredded for recycling.

5.21 The RBNZ is the monopoly issuer of banknotes and coins who solely undertakes functions related to the demand forecasting and operational planning of cash. The RBNZ buys or sells cash to and from major banks, by adjusting their ESAS account balances. Therefore, CITs that conduct the logistics of cash between RBNZ and the major banks are vital in ensuring cash is effectively supplied and processed in the wholesale cash sector.⁵¹ Cash processing involves quality assurance of banknotes. The Reserve Bank of New Zealand Act 2021 came into effect on 1 July

⁴⁹ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.8.

⁵⁰ Reserve Bank of New Zealand (RBNZ) *The future of cash in New Zealand – An internal project research report* (June 2018), at 5.3.2.

⁵¹ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.8.

2022. RBNZ can now set standards for banknote handling machines in preparation for its distribution to the public.⁵²

- 5.22 The major banks are increasingly unwilling to provide cash services, which is clear from the decline of bank-owned ATMs and bank branches set out in more detail in paragraphs 6.17–6.22 below.

Cash is transported, processed, and quality sorted

- 5.23 The reduction in cash held in major bank branches has caused heavy reliance on CITs for bulk currency vaulting. The RBNZ has a vault located in Wellington, and CITs operate the only other significant vault to store currency on behalf of themselves and the major banks.⁵³
- 5.24 New Zealand has a very low counterfeit rate of banknotes in circulation by international standards, and this is linked to quality as high-quality notes are harder to replicate. Banknotes have strict control frameworks, including sophisticated machine processing to check the authenticity and quality. This is to ensure that the banknotes in circulation are fit for purpose for the public.⁵⁴
- 5.25 The RBNZ conducts rigorous authenticity and quality assessments on all repatriated banknotes using high-speed note processing machines (**NPMs**). CITs are cash processing agents for commercial banks and business customers, so they therefore play a vital role in authenticating and quality checking banknotes in our cash system.⁵⁵ The two major CITs obtain NPMs from the same supplier, Giesecke + Devrient.

Bank notes taken out of circulation

- 5.26 The Same Day Value (**SDV**) scheme is the RBNZ's key tool to ensure banknotes which do not meet the RBNZ's "fit note" guidelines are out sorted and returned to the Reserve Bank. The SDV scheme is only made available to commercial banks in which they can claim electronic credit for the unfit banknotes returned. RBNZ also pays the costs of collecting all unfit notes from CIT depots for verification and destruction.⁵⁶

The role of the CIT providers in the cash distribution system

- 5.27 As the RBNZ recognises in its "Future of Money – Cash system redesign" issue paper, CIT providers are central to the New Zealand cash distribution system. "The cash services they provide entail transport, counting, and digitally processing cash deposits to convert cash to private money, withdrawing cash on behalf of clients, quality checking banknotes and coins, cash storage, and administration services",⁵⁷ helping the RBNZ to meet its objectives to maintain the value anchor of cash, provide users with financial and social inclusion,⁵⁸ and a fit for purpose cash system with the necessary infrastructure to ensure cash is available efficiently.⁵⁹
- 5.28 CIT services refers to any service related to the transportation, storage, and processing of cash on behalf of clients. CIT providers' role in the cash distribution system can be separated in two functional levels:

⁵² [Reserve Bank of New Zealand Act 2021, s 160.](#)

⁵³ RBNZ *The future of cash in New Zealand – An internal project research report*, above n 50, at 5.4.1.

⁵⁴ RBNZ *The future of cash in New Zealand – An internal project research report*, above n 50, at 5.4.3.

⁵⁵ RBNZ *The future of cash in New Zealand – An internal project research report*, above n 50, at 5.4.3.1.

⁵⁶ RBNZ *The future of cash in New Zealand – An internal project research report*, above n 50, at 5.4.3.3.

⁵⁷ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.10.

⁵⁸ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.14–15.

⁵⁹ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.16.

- a. **wholesale** cash distribution, which refers to the movement of cash between RBNZ and major banks through CIT centres or depots. CITs are central in storing, processing, distributing and fitness sorting cash on behalf of RBNZ and major banks, and
 - b. **retail** cash distribution which refers to the transport of cash to and from locations available to the public such as merchants, ATM providers, and CITs. Retail cash distribution assists New Zealand customers to withdraw cash or convert their cash into private money.⁶⁰
- 5.29 The RBNZ and major banks rely on CIT providers to conduct wholesale distribution of cash, as such CITs ensure that New Zealand's demand for cash is met so that cash is readily available for customers. In the wholesale cash distribution cycle, CITs transport banknotes in bulk to their cash centres and depots to meet requests from RBNZ and major banks when a purchase or sale of cash between the two occur.
- 5.30 Figure 8 above illustrates the CITs' role in the wholesale distribution of cash. CITs act as a conduit between RBNZ and entities that provide cash to the public. CITs perform key functions of the wholesale cash sector including cash transport, cash processing to ensure banknotes are fit for purpose, and cash storage on behalf of major banks.
- 5.31 The CIT providers also service the retail cash sector by transporting and processing cash that is made available to the public through merchants and other entities. CITs provide the transport, counting, balancing and fitness sorting between the CIT cash centres/depots and the retail cash sector.
- 5.32 CIT services can be broken down into four main services:
- a. cash collection and delivery services; and
 - b. cash processing services; and
 - c. cash & valuables vaulting services; and
 - d. cash administration services.

Cash collection and delivery services

- 5.33 Cash collection and delivery services involve the physical transportation of cash to and from customer locations and the cash centres including depots where CITs count, balance, and fitness sort cash. This requires investment in highly secure vehicles and highly trained staff. In addition to this, the requirement for national geographical coverage involves continually high fixed costs.
- 5.34 There are three categories of collection or delivery services:
- a. **cash collection:** the transport of cash collected from the customer's location to a cash centre. The cash is then processed (count, balance, and fitness sort) to transfer into the client's bank account; and
 - b. **recarry services:** delivery of cash from the customer's location to a branch of the customer's nominated bank; and
 - c. **cash delivery:** the transport of cash from a cash centre to the customer's location.

⁶⁰ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.9.

- 5.35 Collection and delivery of cash requires highly secure transport services using semi-armoured vehicles. These vehicles have armoured cabins with G2 ballistic protection and unarmed uniformed crew.

Cash processing services

- 5.36 Cash processing services are the counting, balancing, and fitness sorting of collected cash, and the transfer of that cash into the customer's bank accounts, or in the case of the commercial banks, the physical transfer of cash into the banks pool at each applicable CIT company's vault. Cash processing services provide measures to detect counterfeit money and is carried out at depots operated by CIT companies.

- 5.37 CITs process different types of cash including commercial business deposits, bank branch cash, ATM deposits and rebanks, non-bank ATM rebanks, retail deposits, ticketing machine cash and more.

Cash & Valuables vaulting services

- 5.38 Cash & valuables vaulting services are the secure storage of cash and/or valuables for customers over a period of time.

Cash administration services

- 5.39 Cash administration services refers to the other services that are included in CIT services, such as cash management and cash funding services.

- a. **Cash management services** includes the management such as transferring cash to digital money, after collection and processing. Cash management may also involve ATM forecasting (when to replenish an ATM and the amount of cash required) and vault management services for commercial banks.
- b. **Cash funding** is where the CIT operator provides the customer an electronic payment of funds before physically collecting the cash from the customer for cash clearances. This may include the provision of a safe to the customer. When the customer deposits cash in the safe (often daily) the CIT company will make a payment to the customer of the amount deposited based on an electronic record generated by a smart safe device. At that point the CIT company owns the physical cash and will collect it on the next scheduled service. The customer pays a fee for this service.

- 5.40 Both Evergreen and ACMNZ provide the full range of CIT services.

Evergreen

- 5.41 Armourguard Security (a subsidiary of Evergreen) provides both manned guarding and patrol services as well as CIT services and precious cargo services. Armourguard Security is headquartered in Auckland and its CIT business operates [REDACTED] across New Zealand. Its core business is currency management: supporting financial and retail institutions with the circulation of cash into the community.

- 5.42 This application does not refer to Armourguard Security's manned guarding and patrol services, as ACMNZ does not offer these services, and therefore there is no overlap in that market.

- 5.43 The CIT services provided by Armourguard Security are:

- a. Cash collection and delivery: deliveries of bulk cash to/from customers' premises to Armourguard Security processing centres and/or transport hubs and/or bank branches; and
- b. Cash processing: counting, reporting and reconciliation of cash moved; and
- c. Bulk cash vaulting and management (secure storage); and
- d. ATM replenishment and forecasting services for banks and independent ATM networks; and
- e. First Line maintenance services and guarding services for ATMs; and
- f. Secure vaulting and transport (delivery/collection) of precious cargo (foreign currency, bullion and other valuables); and
- g. Coordination and return of all New Zealand banks' unfit notes back to the RBNZ.

5.44 Armourguard Security's CIT/precious cargo customers include:

- a. commercial banks [REDACTED]; and
- b. government departments [REDACTED]; and
- c. commercial customers such as both large and small retailers [REDACTED]; and
- d. local governments [REDACTED]; and
- e. supermarkets [REDACTED]; and
- f. casinos [REDACTED]; and
- g. pubs & clubs and gaming [REDACTED]; and
- h. fast food outlets [REDACTED]; and
- i. liquor stores [REDACTED]; and

- j. specialist foreign currency exchange providers [REDACTED]; and
- k. independent ATM owners [REDACTED]; and
- l. international CIT companies [REDACTED].

5.45 Armourguard Security provides cash services across the full spectrum of retail/commercial customer segments throughout New Zealand. For further information see <https://www.armourguard.co.nz/services/cash-services>.

5.46 For all Armourguard Security customers, Armourguard Security is the supply source for all their coins requirements i.e.: Armourguard Security's New Zealand banking and retail customers purchase their coins requirements directly from Armourguard Security.

ACM

5.47 ACMNZ is headquartered in Wellington and operates [REDACTED] throughout New Zealand. Its core business is currency management: supporting financial institutions with the circulation of cash into the community.

5.48 The CIT services provided by ACMNZ are:

- a. Cash collection and delivery: deliveries of bulk cash to/from customers' premises to ACM processing branches and/or bank branches; and
- b. Cash processing: counting, reporting and reconciliation of cash moved; and
- c. Bulk cash vaulting (secure storage) for [REDACTED]; and
- d. ATM replenishment services for [REDACTED]; and
- e. First line maintenance services and guarding services for [REDACTED] ATMs; and
- f. Secure vaulting and transport (delivery/collection) of precious cargo (foreign currency, bullion and other valuables); and
- g. Coordination and return of all New Zealand banks' unfit notes back to the RBNZ.

5.49 ACMNZ's customers include:

- a. commercial banks;
- b. [the Reserve Bank of New Zealand (the RBNZ)];
- c. commercial customers such as both large and small retailers [REDACTED];
- d. local governments;

- e. casinos;
- f. “pubs & clubs”;
- g. fast food outlets;
- h. independent ATM owners; and
- i. liquor stores.

5.50 ACMNZ provides cash services across the full spectrum of retail/commercial customer segments throughout New Zealand.

5.51 For all ACMNZ customers, ACMNZ is the supply source for all their coins requirements i.e.: ACMNZ banking and retail customers purchase their coin requirements directly from ACMNZ.

Other Suppliers

5.52 The two largest providers of CIT services in New Zealand are ACMNZ and Armourguard Security. ACMNZ and Armourguard both have national networks to provide CIT services, as set out above.

5.53 There are a number of other CIT providers in New Zealand who provide services on a local or regional basis, including:

- a. Security North Ltd which provides CIT services in the Whangarei and Northland regions; and
- b. Direct Security which provides CIT services for retail customers throughout New Zealand.

5.54 These other suppliers provide contract or CIT for hire services to both ACMNZ and Armourguard, as well as services to smaller customers.

5.55 However, major CIT and precious cargo customers generally do not use CIT providers other than Armourguard Security and ACMNZ because these other providers:

- a. have limited or no processing capabilities and do not offer a broad range of cash administration services; and
- b. do not offer national services; and
- c. do not have semi-armoured vehicles or drivers with protective vests and body cameras; and
- d. do not have the resources to invest in the training or infrastructure required.⁶¹

5.56 Total revenue and market share information is set out in paragraph 5.60 below.

The Applicant’s view on market definition

5.57 RBB Economics have defined the relevant markets as:

- a. The supply of CIT services in New Zealand; and

⁶¹ RBB Economics, above n 6, at 2.2.

- b. The supply of precious cargo services in New Zealand.⁶²

5.58 More detail on RBB's conclusions on the segments of the market can be found in its report, but the Applicant notes RBB's conclusions below:

- a. **Product market:** Customers generally procure CIT services from a single provider, despite the individuals services (cash transport, cash processing, cash administration and other ancillary services) not being demand-side substitutes. Armourguard Security and ACMNZ, as the two main providers provide all of these services, and those suppliers who do not are very small. For this reason, RBB concluded that the relevant product market is for CIT services.
- b. **Geographic market:** There is a single New Zealand-wide market for CIT services, as the main suppliers compete on a nation-wide basis for the major customers and there is not meaningful variation in price or supply across regions.
- c. **Functional market:** While there are wholesale and retail CIT services, the only two providers of wholesale services are also the major suppliers of retail services, and customers of wholesale services do not procure these separately to retail services.

5.59 There is a separate market for precious cargo services as these are not generally procured alongside CIT services and are not substitutable.

The parties' total sales revenues and volumes

5.60 The parties' respective total sales revenues and respective market shares for both the CIT market and the precious cargo market are set out in the RBB report and reproduced below.⁶³

⁶² RBB Economics, above n 6, at 3.1.

⁶³ RBB Economics, above n 6, at 3.2.

Table 1: Market shares in the market for the supply of CIT services in New Zealand, FY 2023

Supplier	Revenue (\$m)	Share
ACM		
Armourguard		
Combined		
DSS		
Others		
Total		100%

Table 2: Market shares in the market for the supply of precious cargo services in New Zealand, FY 2023

Supplier	Revenue (\$m)	Share
ACM		
Armourguard		
Combined		
DSS		
Others		
Total		100.00%

Main competitors

5.61 The Applicant's main competitor is ACMNZ, the other party to the Proposed Transaction.

5.62 There are also a handful of smaller companies who provide CIT and precious cargo services on a regional or localised basis. These include:

- a. Direct Security Services (**DSS**), which is the third largest provider of CIT services; and
- b. Security North, which provides CIT services in the Whangarei and Northland regions.

5.63 There are also suppliers who provide services to Armourguard and ACM on a contract basis.

5.64 Contact details for the main competitors are below.

MANUFACTURER / DISTRIBUTOR	CONTACT PERSON	CONTACT DETAILS	
Competitors			
Direct Security Services	Rhiannon Boulton		
Security North			
NCR (FLM)	Peter Corkery NZ Country Manager		
First Security	Tim Covic CEO		
Northern Districts Security	Stephanie Irwin		
HSM Group	Matt Stevenson CEO		
ACM	Michael Preece NZ Country Manager		
Suppliers			
Onenet	Hunter Tretheway Relationship Manager		
Giesecke + Devrient Ltd	Dr Alex Pun General Manager Australia & New Zealand		
Glory Global Solutions	Paul Couper NZ Country Manager		
Orix New Zealand	Alex McTiernan Key Account Manager		
Sealed Air (NZ)	Aimee Bagshaw Business Consultant		
Rollspack NZ Ltd	Craig Ashby CEO		

Air New Zealand	John Stewart Cargo Sales Manager	[REDACTED]
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Industry associations

5.65 There is one relevant industry association, being the NZ Security Association (**NZSA**).

5.66 The contact person is Gary Morrison, who is the President of NZSA. His details are:

- a. [REDACTED]
- b. [REDACTED]

Key customers

5.67 The names and contact details for the Applicant’s key customers are:

[REDACTED]

CUSTOMER	CITY	ANNUAL PURCHASE (YE details)	CONTACT NAME	CONTACT PHONE	CONTACT EMAIL
TOP 5 Customers					
[REDACTED]					

5.68 ACM’s key customers will be provided separately by ACM.

6. THE EXTENT TO WHICH THE MERGER IS LIKELY TO RESULT IN A SUBSTANTIAL LESSENING OF COMPETITION

Explain the extent to which the merger is likely to result in a substantial lessening of competition in any market having regard to our Mergers and Acquisitions Guidelines. You should address:

- *how firms compete in the relevant markets, including how the merging parties seek to acquire and retain customers, how sales are made and the key dimensions of competition, such as price, quality or innovation;*
- *the merging parties' existing competitors, including approximate market shares (explaining how these have been calculated), and the extent to which these competitors will constrain the merged firm;*
- *the likelihood, extent and timeliness of entry and expansion by potential competitors (including conditions of entry and expansion) and the extent to which such entry or expansion will constrain the merged firm;*
- *the countervailing power of customers and the extent to which that countervailing power will constrain the merged firm; and*
- *any other relevant factors.*

OVERVIEW

6.1 Armourguard Security and ACMNZ are the two main national providers of CIT and previous cargo services. Therefore, the Proposed Transaction will reduce the number of competitors in both the national CIT market and the national precious cargo market from two to one.

6.2 However, the declining use of cash and the significant decrease in the demand and volume of CIT services means it is likely that one or both of the parties would not be able to continue to survive if the Proposed Transaction does not proceed.

6.3 [REDACTED]

6.4 Therefore, it is submitted that the Proposed Transaction will not result in any substantial lessening of competition and the Commission should grant clearance for the Proposed Transaction.

6.5 This is consistent with the approach taken by the Commission in granting clearance on the following applications:

- a. Shell New Zealand Limited and Mobil Oil New Zealand (Decision No. 655), where the Commission concluded: *"In those local markets (at Ardmore, Taupo and Whakatane) where the only real and substantial prospect is that Mobil would be likely to close down its Aerostop facilities, there is no material difference in competitive constraint between the factual and the counterfactual scenarios. As a consequence the Commission concludes, in respect of these five markets, that the proposed acquisition will not have, nor would be likely to have, the effect of substantially lessening competition."*⁶⁴
- b. Southern Cross Health Trust and QE Hospital Limited (Decision No. 620), where the Commission concluded: *"In the factual scenario, the combined entity would be the only private hospital in the Rotorua region. The Commission considers that in the counterfactual, while neither QE Health nor Southern Cross Rotorua are failing firms, it is likely that one of these hospitals would not continue to operate in the short term. The likely exit of one of*

⁶⁴ Commerce Commission (CC) "Shell New Zealand Limited and Mobil Oil New Zealand Limited" (10 October 2008) Decision No. 655 at E9.

these hospitals would mean that there would be little difference in the level of competition between the factual and counterfactual scenarios.”⁶⁵

CURRENT TRENDS IN THE CIT INDUSTRY

- 6.6 It is important to consider the current trends in the CIT industry to understand the competitive effects of the merger, and this section will cover:
- a. The declining use of cash as a method of payment and increased use of other payment methods; and
 - b. The approach of banks and major retailers to the use and acceptance of cash; and
 - c. The impact this has had on CIT providers.

Cash is being used less as a method of payment

- 6.7 The major trend in the CIT industry is the impact of declining cash use in the economy.⁶⁶ New Zealand consumers are continuing to switch to digital payment methods in preference to cash.

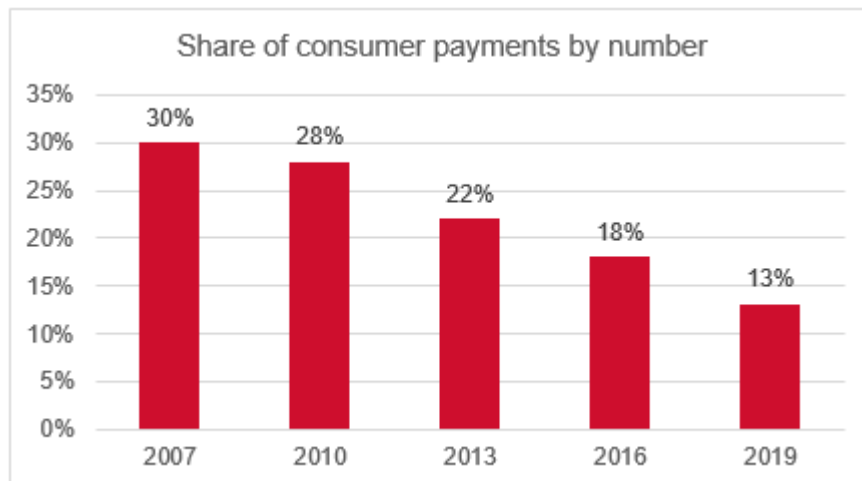


Figure 9 – Cash payments

- 6.8 The cash system has been heavily impacted by the decline in cash circulating through the economy. As activity has fallen, distribution system participants such as CITs have experienced a sharp fall in demand for their services.
- 6.9 Stats NZ records data on payment methods in their Household Economic Survey (HES). The HES shows the decline in cash transactions since 2007. The RBNZ notes that if this trend continues, the cash system will become less resilient and the role of cash as a value anchor will continue to be challenged. If cash services such as CITs shrink their businesses and increase their margins, this will be detrimental to businesses when there is a spike in demand for cash.⁶⁷
- 6.10 The Pandemic has accelerated the decline in cash transactions, with contactless payment methods becoming the preferred way of paying for most New Zealanders.⁶⁸ During 2020, New

⁶⁵ Commerce Commission (CC) “The Southern Cross Health Trust and QE Hospital Limited” (28 September 2007) Decision No. 620 at 115.

⁶⁶ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.24.

⁶⁷ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.25.

⁶⁸ RBNZ *Cash and payments data update: COVID-19 special* (June 2021), above n 1, at p.10.

Zealand saw a spike in contactless enabled terminals from 36% of terminals to 52% of terminals being able to accept contactless payments from January to December 2020,⁶⁹ increasing the ease of non-cash payment options.

- 6.11 The decline in cash use is continuing post-Pandemic. Consumers are increasingly making transactions online, while retailers are increasing their online engagement with consumers, increasing accessibility to their products. Online transactions typically require non-cash payment methods, further decreasing the demand for cash.⁷⁰
- 6.12 Innovation in the payments industry has caused an increase in the use of non-cash payment methods, allowing consumers to access a larger portion of their wealth immediately.⁷¹ New technology has drastically changed the way that New Zealand consumers make payments. Payment preferences and attitudes are shifting towards the use of payment instruments involving private money and away from the use of cash.
- 6.13 This is evidenced, for instance, by the dramatic growth of Buy Now Pay Later (**BNPL**) payment schemes, which grew to \$1.7 billion dollars in 2021 from \$755 million in 2020,⁷² leading to a government decision to bring BNPL credit under the ambit of the Credit Contracts and Consumer Finance Act 2003.⁷³
- 6.14 Digital payment instruments have expanded beyond card-based methods. Payment instruments such as online bank transfers and phone-based payment options have increased in popularity, allowing account holders to manage their money more efficiently.⁷⁴ The use of debit or EFTPOS cards is by far the most common payment method for everyday things as of 2021, with 89% of New Zealanders using these cards for such payments.⁷⁵ In contrast, only 60% of New Zealanders use cash to pay for everyday things. Additionally, 57% of New Zealanders prefer using a debit or EFTPOS card, with only 10% preferring cash as their method of payment.⁷⁶ As a result, the use of cash for payments in New Zealand has declined in favour of methods that utilise digital money.

⁶⁹ Payments NZ "New Zealand payments stats – 2020 in review" (24 June 2021) <<https://www.paymentsnz.co.nz/resources/articles/new-zealand-payments-stats-2020-in-review/>>.

⁷⁰ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.19.

⁷¹ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.18–19.

⁷² Hon Dr David Clark "Better protections for Kiwis using Buy Now, Pay Later" (2 November 2022) <<https://www.beehive.govt.nz/release/better-protections-kiwis-using-buy-now-pay-later>>.

⁷³ See Exposure Draft of [Credit Contracts and Consumer Finance \(Buy Now Pay Later\) Amendment Regulations 2023](#).

⁷⁴ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.18.

⁷⁵ RBNZ *Summary Report: 2021 Cash Use Survey*, above n 24, at p.7.

⁷⁶ RBNZ *Summary Report: 2021 Cash Use Survey*, above n 24, at p.7.

6.15 Cash competes with other payment methods. The decline in the use of cash has been accompanied by the uptake of other non-cash payment methods, such as card payments and electronic payments, with only 14% of New Zealanders preferring to pay with cash.

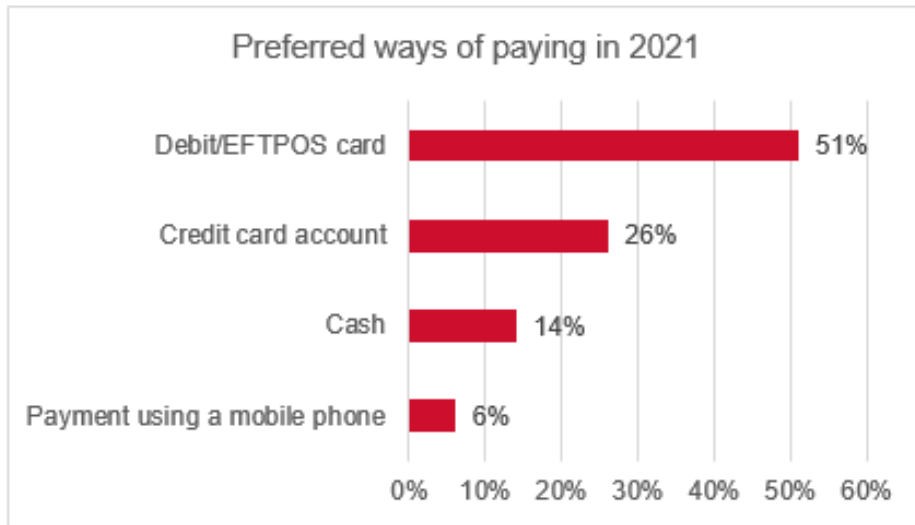


Figure 10 – Preferred ways of paying

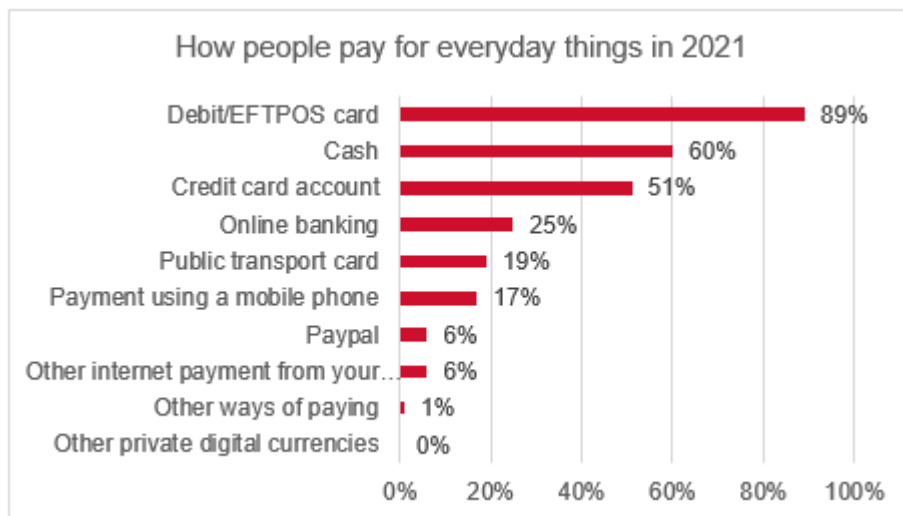


Figure 11 – How people pay for everyday things

6.16 Non-cash payment methods have generally increased in uptake over the past decade.⁷⁷

- a. **Card payments:** On average in 2019, a New Zealander makes 211 debit card transactions per year and 170 credit card or contactless transactions per year. While number of debit card transactions are the highest per year, this number has been decreasing since 2015 while credit and contactless card payments have been increasing.⁷⁸ During the 2018 to 2020 period, there has been a 62% increase in contactless transactions, and the total

⁷⁷ Payments NZ "New Zealand payments stats – 2019 in review" (7 September 2020) <<https://www.paymentsnz.co.nz/resources/articles/new-zealand-payments-stats-2019-in-review/>>.

⁷⁸ Above n 77.

number of card transactions has increased by 5% for debit cards, decreased by 6% for mag stripe, and increased by 1% for credit cards.⁷⁹

- b. **Cheques:** Use of cheques has been steadily declining over the past decade, with the average New Zealander only making 2.9 transactions with cheques in 2019, compared to 18 transactions on average in 2018.⁸⁰ New Zealand cheques are no longer accepted by any bank in New Zealand.
- c. **Electronic transactions:** Electronic credit transactions and direct debit transactions have been steadily increasing over the past decade.⁸¹
- d. **Emerging innovations in payments:** Technological innovation has stimulated research and experimentation in relation to tokenised assets such as cryptoassets. Currently, there is low uptake of cryptoassets in New Zealand, but the RBNZ notes that there is potential for greater uptake.⁸² In New Zealand, a central bank digital in cash. currency (**CBDC**) has not been introduced at the consumer level but is actively being developed by the RBNZ. Emerging innovations such as these will likely contribute to the further decline of cash.

Banks and businesses' approach to cash use

6.17 Banks are transitioning into primarily providing digital services which has increased the costs of cash for consumers and merchants.⁸³ Banks have reduced the number of branches and ATMs steadily over the past decade as shown in Figure 12 below. Between 2000 and 2022 the number of bank branches fell from 1,245 to 795, with 158 branch closures between 2019 and 2024.⁸⁴

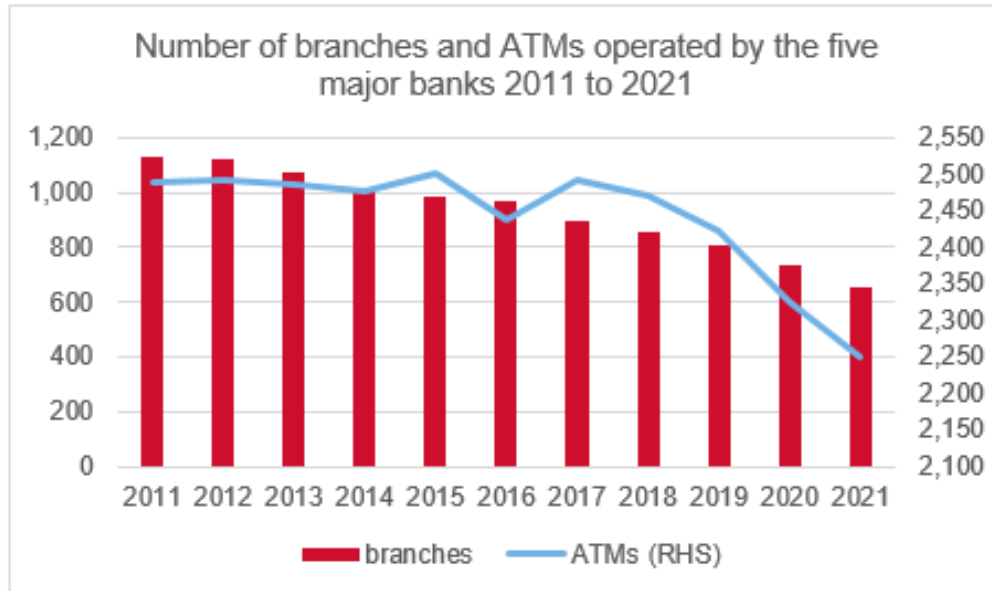


Figure 12 – Number of branches and ATMs operated by major banks 2011 – 2021⁸⁵

⁷⁹ Payments NZ “New Zealand payments stats – 2020 in review”, above n 69.

⁸⁰ Above n 77.

⁸¹ Above n 77.

⁸² Reserve Bank of New Zealand (RBNZ) *Future of Money – Private Innovation (Te Moni Anamata – Te Auahatanga)* (7 December 2022) at p.16.

⁸³ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.20.

⁸⁴ Reserve Bank of New Zealand (RBNZ) *Cash Industry Forum* (13 March 2024), p.24–26.

⁸⁵ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.13.

- 6.18 This trend continues, with the recent public announcement of the closure of 5 ASB branches⁸⁶ and [REDACTED]
- 6.19 The number of bank operated ATMs has also decreased significantly between 2019 and 2024, however there are private ATM providers (Next, All Point) who have filled the gap, for example Allpoint took over 198 BNZ ATMs. However, while the bank operated ATMs have been sold to private ATM providers, the expectation is that once the banks largely exit the bank operated ATM market, the private ATM providers shall reorganize and rationalize any overlapping ATMs.
- 6.20 The reduction of bank branches and bank ATMs has made cash increasingly inaccessible. This will have two primary effects on consumers as they will elect to use non-cash payment methods and/or store more cash at home, rather than with banks.⁸⁷ This has flow-on effects for businesses as they will decrease their demand for cash services, while also finding it more difficult to access banks and ATMs to utilise some cash services due to the banks' reduction in physical services.⁸⁸
- 6.21 [REDACTED]
- 6.22 In addition (or perhaps in response) to the bank's approach to cash, businesses are transitioning away from the use of cash and some retailers are electing not to accept cash payments. One example of a business sector pushing towards non-cash payment options is the supermarket sector. About 70% of self-service supermarket checkouts are card-only checkouts.⁸⁹

Impact of decline in cash usage on CIT providers

- 6.23 The RBNZ has recognised that the decline in cash usage has created financial vulnerability for CITs because:⁹⁰

as transactional demand for cash declines, these firms face declining profits. Fixed costs related to plant and equipment, transport equipment, and security systems (for example) are an important component of total costs for these firms, and these costs do not necessarily decline when the demand for their services falls. In other words, the decline in the transactional use of cash creates the risk of 'stranded assets' in the wholesale cash sector – highly specialised equipment that cannot be repurposed easily (if at all) sitting idle (cash-transport vehicles and cash-processing equipment are potential examples). These stranded assets exist as fixed costs borne by the private firms. Moreover, there are limits to how far CIT variable costs such as labour and power can be reduced, as these are constrained by safety considerations (worker safety and security systems respectively for example).

⁸⁶ Luka Forman "Closure of five ASB branches sparks concern for older customers", above n 3.

⁸⁷ RBNZ *Future of Money – Cash system redesign*, above n 8, p.19–20.

⁸⁸ RBNZ *Future of Money – Cash system redesign*, above n 8, p.19–20.

⁸⁹ RBNZ *Cash and payments data update: COVID-19 special* (June 2021), above n 1, at p.5.

⁹⁰ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.24.

6.24 The RBNZ also recognises that this has implications for the resilience of the cash system:⁹¹

If the future of the cash system is one of a further decline in transactional demand, there is the likely transition to consider. With no prospect of improvement, the exit of firms is implied, and this exiting will not be planned or deliberate. Therefore the transition will be potentially chaotic and disruptive. Firms that are financially vulnerable are also less able to invest in their systems (thereby making them vulnerable to external shocks such as cyberattacks and power disruptions at cash centres). This vulnerability puts the whole cash system at risk.

6.25 These factors lead the RBNZ to conclude that industry consolidation is inevitable:

Consolidation within the wholesale cash sector, and in particular in relation to CITs, seems inevitable in the absence of a policy response. There are a number of ways this could come about: one of the dominant firms might simply close and exit; one dominant firm might acquire another; or a new entrant may replace the firms that exist now. Irrespective of the scenario that brought about the consolidation, however, we believe the end result for the cash system would be the same – the continuation of the recent past, namely, a self-reinforcing downward spiral in access to cash, acceptance of cash, and system resilience.⁹²

...

We are of the view that collaboration between private firms, potentially with the involvement of the Reserve Bank or other public agencies, is likely to be an effective way to directly address the resilience and efficiency issues facing the cash system.

The business case for involvement in the cash system weakens for private firms as demand falls further. The risk of stranded assets increases, making it difficult to maintain profit margins. Adding to the problem is the widening gap between business-as-usual transactional demand for cash and demand during localised emergencies or short-lived disruptions to non-cash payments systems.

The business case for continued involvement in the cash system can improve for private firms if costs are reduced, and one way to do that is to reduce duplication.⁹³

6.26 We note that these views of the RBNZ were expressed in March 2022 and the situation has worsened since then.

6.27 The impact of this decline in cash use and unfavourable market dynamics has impacted each of the two main providers. The impact on Evergreen, the Applicant, is set out below, and ACMNZ will provide information to the Commission on the impact this has had on its business separately.

⁹¹ RBNZ *Future of Money – Cash system redesign*, above n 8, at 25.

⁹² Above n 8, at 28.

⁹³ Above n 8, at 35.

[REDACTED]

6.28

6.29

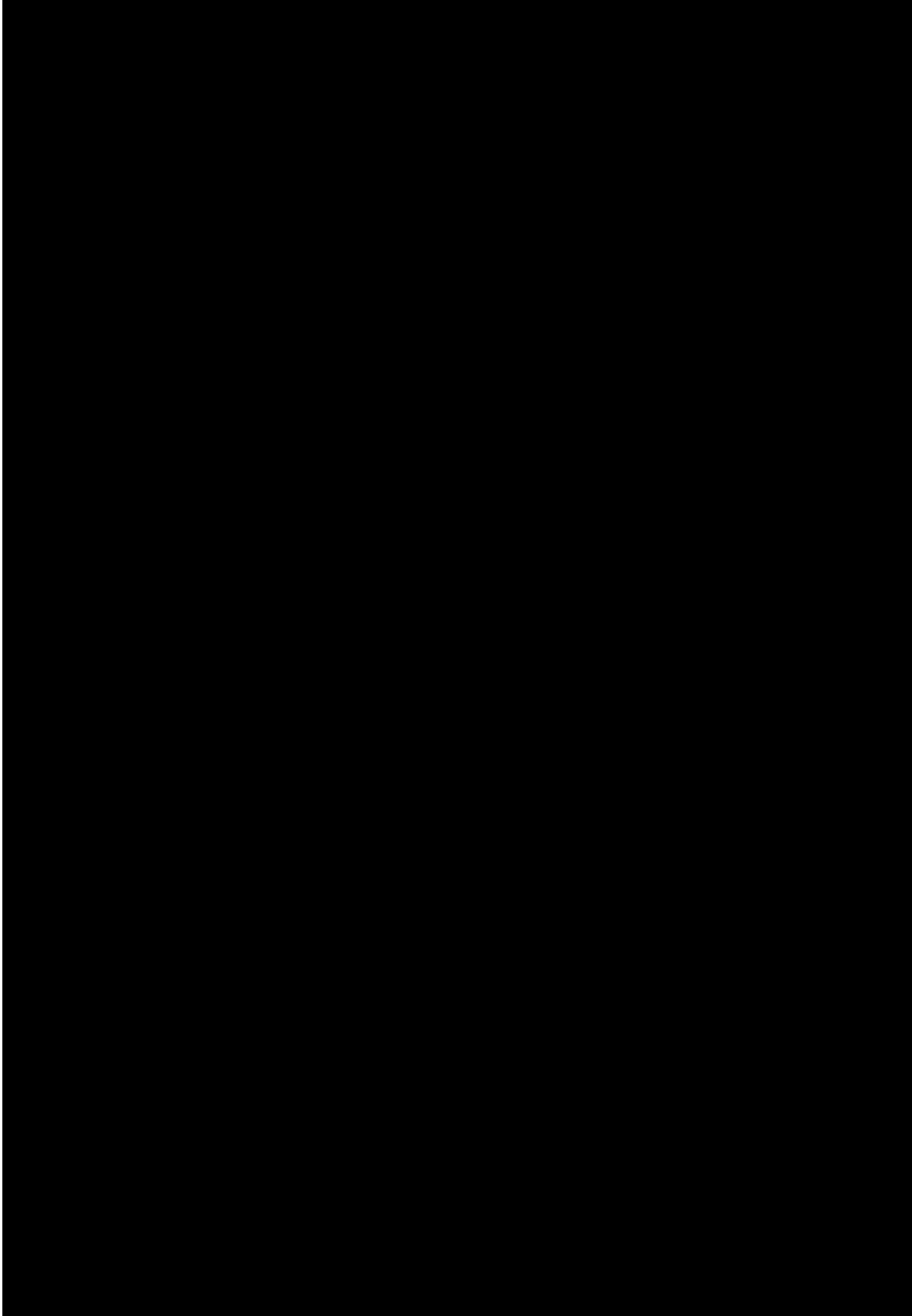
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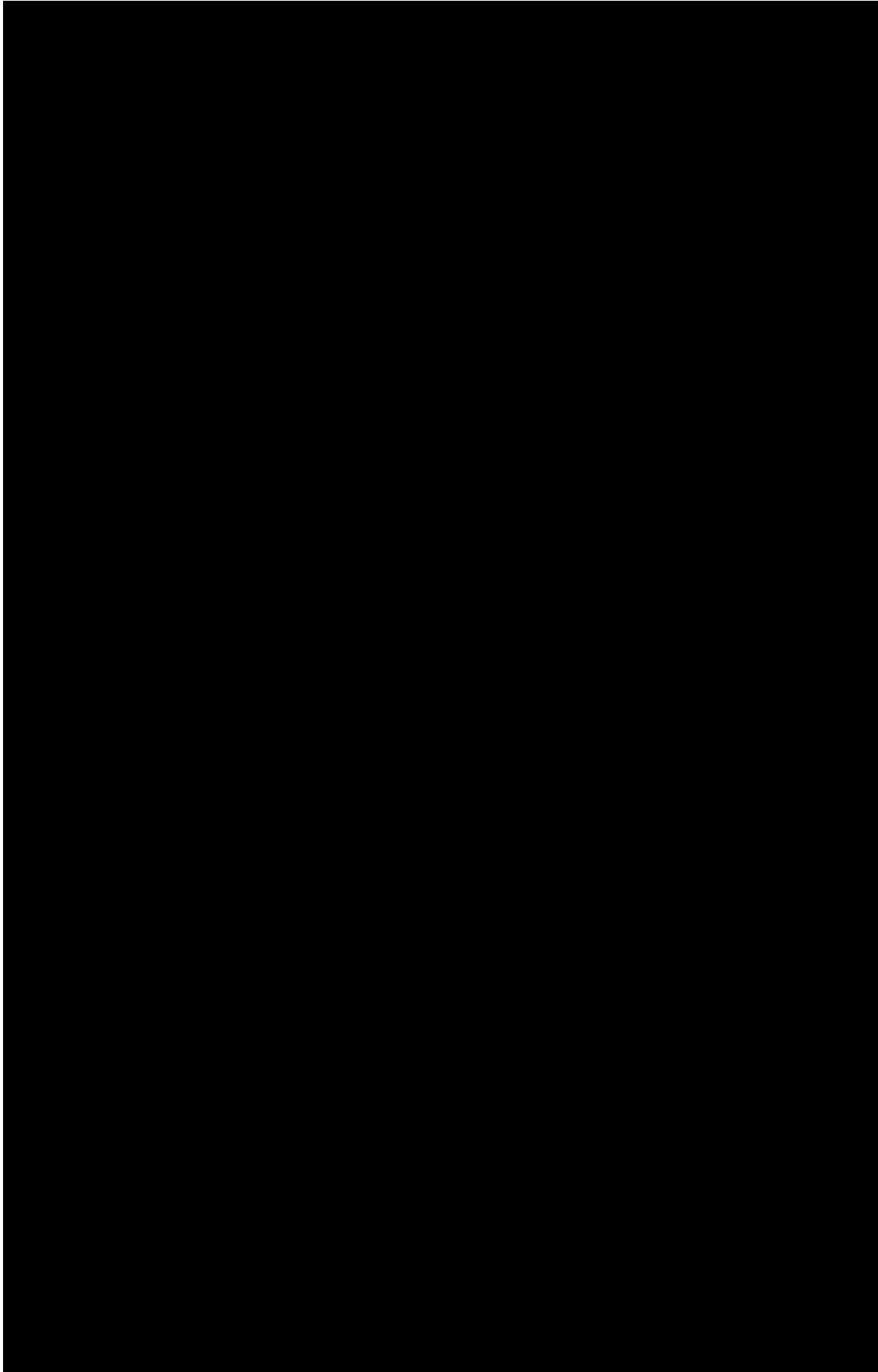
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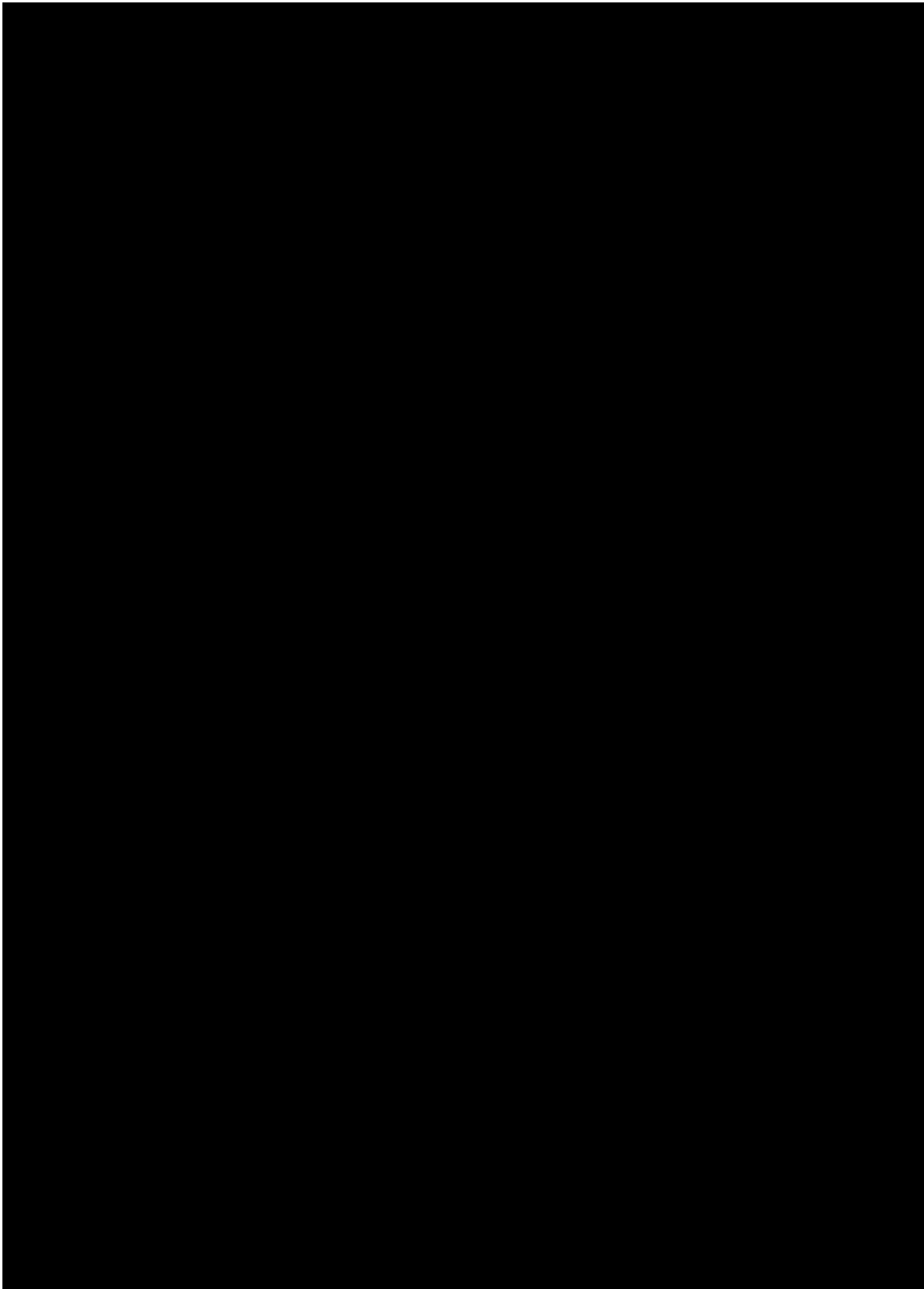
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6.39

6.40

6.41



CUSTOMERS OF CIT SERVICES

6.42 A wide range of businesses and organisations use CIT services, from major banks and supermarkets to other retailers, gambling venues and more. However, a large portion of the parties' revenues is derived from supplying the major banks. A list of Armourguard's major customers is set out at 5.67 while ACMNZ's major customers will be provided separately.

SUPPLIERS OF CIT SERVICES

6.43 The two largest providers of CIT services in New Zealand are ACMNZ and Armourguard Security. ACMNZ and Armourguard both have national networks to provide CIT services, as set out above.

6.44 Other CIT providers in New Zealand include:

- a. Security North Ltd who provides CIT services in the Whangarei and Northland regions; and
- b. Direct Security who provides CIT services for retail customers throughout New Zealand.

6.45 There are also various contractors who provide CIT for hire services to both ACMNZ and Armourguard.

6.46 However, major CIT and precious cargo customers generally do not use CIT providers other than Armourguard Security and ACMNZ because these other providers:

- a. have limited or no processing capabilities and do not offer a broad range of cash administration services; and
- b. do not offer a national service; and
- c. do not have semi-armoured vehicles or drivers with protective vests and body cameras; and
- d. do not have the resources to invest in the training or national infrastructure required.⁹⁴

6.47 Total revenue and market share information is set out in paragraph 5.60 above.

ENTRY AND EXPANSION*Conditions of entry/expansion*

6.48 The parties do not consider that conditions of entry are favourable.

6.49 While there are no structural barriers to entry, the parties do not believe there is a real chance of de novo entry into a declining industry where the incumbents are suffering ongoing operating losses and the initial and ongoing capital investment is significant.

Likelihood, Extent and Timeliness of Entry (the LET test)

6.50 The parties are the only national CIT service providers.

6.51 The parties do not consider that new entry is likely. The small size of the New Zealand market, high fixed costs and declining transactional cash use makes the market unattractive to a new entrant.

6.52 [REDACTED]

⁹⁴ RBB Economics, above n 6, at 2.2.

[REDACTED]

6.53 The RBB Report concludes:

- a. [REDACTED] and
- b. the relevant markets cannot generate a rate of return high enough to sustain two providers. A firm looking to invest today, which effectively combines the operations of Armourguard and ACM, would not generate an IRR at or above its cost of capital. In other words, we find that there is no allocation of revenues and costs across both firms which will enable both firms to generate an economic return going forward.⁹⁶

COUNTERVAILING POWER OF CUSTOMERS

6.54 For both Armourguard Security and ACMNZ, their largest customers are the major banks in New Zealand. Approximately 53.3% of CIT services by revenue are provided to the major banks.

6.55 This gives the banks a significant amount of countervailing power. The power exerted by the banks can be seen in the unfavourable terms of the supply agreements between the parties and the banks.

6.56 [REDACTED]

6.57 [REDACTED]

6.58 [REDACTED]

- a. [REDACTED]

⁹⁵ RBB Economics, above n 6, at 4.2.3.

⁹⁶ RBB Economics, above n 6, at 97.

b. [Redacted text block]

c. [Redacted text block]

6.59 [Redacted text block]

6.60 [Redacted text block]

6.61 [Redacted text block]

6.62 [Redacted text block]

a. [Redacted text block]

b. [Redacted text block]

6.63 [Redacted text block]

[REDACTED]

6.64 ACM will address its views on the countervailing power of the banks in its separate confidential submission.

7. PUBLIC BENEFITS AND DETRIMENTS

Explain why you consider the merger will be likely to result in such a benefit to the public that it should be permitted, having regard to our Authorisation Guidelines. Please provide quantitative and qualitative evidence of the public benefits and detriments that may result from the merger. You should address:

- *The proposed benefits that will arise from the merger, including the likelihood and magnitude of the benefits*
- *How and when these benefits will arise (including whether the benefits are one-off or recurring)*
- *Whether these benefits can be achieved absent the merger, and*
- *Any detriments that may result from the merger*

7.1 If the Commission does not accept that [REDACTED] there is no likelihood of a substantial lessening of competition, there are also a number of public benefits that arise from the Proposed Transaction that outweigh any potential detriments.

Public Benefits

7.2 The Proposed Transaction is pursued in a sunset industry where use of cash is declining, accelerated by bank practices in moving to digital services and reducing the number of bank branches and ATMs. As found in the RBB Report, the minimum efficiency scale in the industry only supports one player.

7.3 At the same time, cash remains an important part of the New Zealand economy and is relied on as an essential payment method by vulnerable members of society and in times of emergency. It is therefore crucial to ensure there is a strong, resilient provider of cash distribution services.

7.4 The Proposed Transaction secures the ongoing viability of a financially sustainable CIT provider, particularly in light of conceivable counterfactuals which could include the exit of one or both existing providers, and/or a weaker remaining provider with degrading services.

7.5 Public benefits resulting from the Proposed Transaction include:

- a. improving productive efficiencies by reducing duplication of fixed costs;
- b. avoiding the likely dislocation costs, uncertainty and customer impacts associated with a disorderly exit by one or both national CIT service providers ;
- c. increasing the efficiency of interbank trading;
- d. reducing the Parties' carbon footprint;
- e. avoiding the risk of [REDACTED]; and
- f. increasing the resilience in wholesale cash distribution, and related benefits from facilitating cash as a method of payment.

Improving productive efficiencies by reducing duplication of fixed costs

- 7.6 As set out in the RBB Report, the Parties both incur large fixed costs so that they can both offer end-to-end CIT services nationally. This leads to significant duplication of fixed costs. For example [REDACTED]
- 7.7 Combining the Parties' CIT operations will mean that the duplication of costs within cash distribution can be avoided.
- 7.8 Removing this duplication will increase productive efficiency and likely result in significant cost savings. This is evidenced by the RBB Report, which records that:⁹⁷
- a. Armourguard estimates that by Year 3 post-completion (i.e., post completion of the Proposed Acquisition), the removal of these duplicative costs will save the merged entity [REDACTED]
 - b. RBB estimates the NPV of the net cost savings (i.e., the cost savings net of any integration and restructuring costs) [REDACTED]
 - c. This NPV of [REDACTED] could be fully attributed to the Proposed Acquisition if ACM would continue to operate indefinitely absent the Proposed Acquisition. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- 7.9 The Proposed Transaction will therefore result in public benefits to the extent that the removal of duplicative fixed costs (and the concomitant productive efficiency gains) would be achieved sooner than it would be absent the Proposed Transaction, [REDACTED]
[REDACTED]
[REDACTED]

Increasing the efficiency of interbank trading

- 7.10 The Parties offer services to facilitate interbank trading. Interbank trading arises when one of the major banks sells surplus cash to another major bank who is short on cash.
- 7.11 If the Party in question stores cash for both banks at the same processing centre, the Party can perform an interbank trade on behalf of both banks without physically transporting any cash. This is the most efficient way to execute an interbank trade because it avoids the costs associated with physically transporting cash between processing centres.
- 7.12 The transition of customers to a single entity following the Proposed Transaction would lead to more interbank trading of this (more efficient) type. This is because Armourguard would store cash for all the major banks.
- 7.13 The Proposed Transaction will therefore result in public benefits to the extent that this increase in efficiency would be achieved sooner than it would be absent the Proposed Transaction,

⁹⁷ RBB Economics, above n 6, at 112–114.

[REDACTED]

Avoiding the risk of [REDACTED]

7.14 The ACCC in *Linfox/Prosegur* considered that, with or without the Proposed Acquisition, a long-term reduction in overall safety standards in the provision of CIT services was not likely.⁹⁸ It therefore did not accept maintaining industry safety and security standards was a relevant public benefit in those circumstances.

7.15 The Proposed Acquisition here differs from *Linfox/Prosegur* in that the New Zealand market is much smaller and [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

7.16 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

7.17 In contrast, following the Proposed Transaction, the Applicant would have both the ability and incentive to invest in any additional vehicles and equipment necessary to maintain service quality levels.

7.18 The Proposed Transaction therefore results in public benefits from [REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

7.19 [REDACTED]
[REDACTED]
[REDACTED]

7.20 [REDACTED]
[REDACTED]

- a. [REDACTED]
- b. [REDACTED]
[REDACTED]
- c. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

⁹⁸ ACCC "Reasons for Determination MA1000022", above n 13, at [6.75].

- [REDACTED]
- d. [REDACTED]
- e. [REDACTED]
- f. [REDACTED]
- g. [REDACTED]

7.21 [REDACTED]

7.22 [REDACTED]

7.23 [REDACTED]

Reducing the Parties' carbon footprint

- 7.24 Both Parties have four main sources of emissions: petrol/diesel, electricity, air travel, and waste/landfill. The reduction of two companies to one would almost halve the carbon footprint.
- 7.25 For example, each of the Parties will currently visit the same shopping centres to carry out jobs for each of their respective customers. By combining this to one journey, associated use of petrol would essentially be halved. The Applicant expects that, following the acquisition it will operate fewer transport vaulting hubs, fewer cash processing centres, fewer vehicles, and carry out more efficient cash transportation runs.
- 7.26 The Applicant will have the ability and incentive to remove duplicative fixed costs. The Proposed Transaction will therefore result in public benefits from avoiding the emissions that would

99 [REDACTED]
100 [REDACTED]
101 [REDACTED]
102 [REDACTED]

otherwise occur from the duplicated activities. Given similar benefits may be likely to occur [REDACTED], these benefits are likely limited to the extent that they are realised sooner with the Proposed Acquisition compared to without the Proposed Acquisition.

- 7.27 The Applicant anticipates that there will be a reduction of [REDACTED] after the Proposed Acquisition. The excess vehicles [REDACTED]

Increasing the resilience in wholesale cash distribution, and related benefits from facilitating cash as a method of payment

- 7.28 The Proposed Transaction increases resilience in the wholesale cash distribution system by creating a financially sustainable business that will be able to:
- a. **continue to provide CIT services** and provide aligned services to meet customer demands in a digital payments environment.
 - b. **invest in its systems.** The RBNZ recognises “Firms that are financially vulnerable are also less able to invest in their systems (thereby making them vulnerable to external shocks such as cyberattacks and power disruptions at cash centres). This vulnerability puts the whole cash system at risk.”¹⁰³
 - c. **better respond to emergencies.** As discussed at paragraph 3.11(g), natural disasters and emergencies such as the Christchurch earthquakes (2011), Kaikoura earthquakes (2016), COVID (2020), and most recently Cyclone Gabrielle (2023) highlight the critical importance of having a healthy cash economy and CIT service provider who can readily respond to emergencies.
 - d. **attract and retain skilled staff**, thereby ensuring that the New Zealand work force retains these essential skills and experience. As discussed at paragraph 3.7(h), the Proposed Transaction will create a more sustainable merged entity, leverage the Applicant’s best in class operating techniques, and provide competitive wages and career development opportunities for the parties’ management and extended staff. The Proposed Transaction will improve the prospects for the Applicant which should help retain, attract and maximize career opportunities for such essential personnel which have in recent years sought employment in higher paying industries with more stable prospects. In addition, in the context of a high risk industry, the retention of skilled staff is particularly important as it helps uphold issues of safety and security.
 - e. **maintain confidence in cash as a high quality payment system.** Also, in the event of [REDACTED], there is a real risk that [REDACTED], the major banks would lose access to high quality banknotes. Even if necessary, processing capabilities are eventually restored, the subsequent impact of counterfeit banknotes circulating the New Zealand economy would significantly decrease retailers’ long-term confidence in cash. Confidence in cash is maintained through the removal of folded or torn banknotes, which may cause faults to, for example ATMs; or that may have worn or damaged security features. With poor quality banknotes in circulation, there is an increase in counterfeit risk and,

¹⁰³ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.25.

accordingly lowered willingness of retailers to accept cash. It could also become easier to facilitate crime.

7.29 As discussed in paragraph 6.24, the RBNZ recognises that the financial vulnerability of the CIT industry has a number of resiliency implications for the New Zealand cash system.¹⁰⁴

7.30 There is significant benefit to the New Zealand public from having a resilient wholesale cash distribution system. The wholesale cash distribution system facilitates cash as a method of payment and, while there has been a significant decline in the use of cash a method of payment for everyday items, cash remains an important part of New Zealand's economy.

- a. **Cash remains an important part of New Zealand's economy:** The RBNZ reported for the December 2023 quarter that 44.6% of the population still uses cash for everyday things, and only 4.3% of the population never use cash.¹⁰⁵ The RBNZ *The Future of Money – Te Moni Anamata* consultation received overwhelming support for cash:¹⁰⁶

There was overwhelming support for cash

The great majority of respondents supported having a well-functioning cash system. Some respondents said access to cash is a basic human right. One respondent said access to cash is "as important to the whole population as access to clean water".

Respondents described what they like about cash, stating they value the privacy it provides and its tangibility or physicality. In addition, people said they felt safer and less anxious knowing they had cash in their wallets.

...

Feedback also supports the important economic role cash plays

Respondents gave examples of the important economic role cash plays, pointing to cash as important budgeting aid; a valuable part of any emergency preparedness plan; the only way to pay when there are digital outages or cyberattacks; an important option when someone has a low level of trust in banks or the government; and the most feasible money for use in farmers' markets and other small local settings. Some respondents said cash is superior to digital payment methods for buying second-hand goods.

Many respondents pointed out that some people rely on cash entirely to satisfy their everyday needs.

The demise of cash would create considerable harm

Some respondents focused on the harm that would arise if cash became less available. The consequences included severe economic hardship for people who rely on cash, and the elderly having to make unsafe decisions (such as giving out their bank card and PIN to a neighbour who has offered to shop on their behalf). Some mentioned the adverse safety implications of people holding more cash at home (as they can no longer rely on a local ATM). New Zealanders' social and cultural life could be weakened without cash.

¹⁰⁴ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.24–25.

¹⁰⁵ Reserve Bank of New Zealand (RBNZ) "Cash use (H3)" (11 March 2024).

¹⁰⁶ Reserve Bank of New Zealand (RBNZ) *Future of Money – Te Moni Anamata : Summary of responses to our 2021 issues papers* (29 April 2022) at p.6–7.

- b. Cash plays a role in the social and cultural life of New Zealanders:** The RBNZ also noted feedback to *The Future of Money – Te Moni Anamata* consultation reaffirmed cash’s important for the social and cultural life of New Zealanders.¹⁰⁷

Many respondents highlighted the non-economic role of cash – pointing out that cash facilitates the social and cultural life of New Zealanders ... Respondents provided examples of the social and cultural uses of cash:

- *Parents use cash to teach children lifelong skills and money management habits (such as entrepreneurship, saving and budgeting)*
 - *Cash facilitates people making social connections through donating to charities, rewarding buskers, participating in school and club fundraising efforts, and buying goods from roadside stalls and local markets.*
 - *Cash enables people to make meaningful gifts to show their appreciation for the help they have received.*
 - *Cash plays an important part in many cultural ceremonies, eg wedding money dance.*
- c. Cash is an essential back up payment method** during natural disasters, emergencies or systems or communication outages. The importance of cash during these times is discussed at paragraph 5.9(a) above.
- d. Cash is relied on as a method of payment by vulnerable members of society:** such as low-income earners, people in rural areas, elderly people and those experiencing “digital exclusion”. In addition, Māori and Pacific people are more likely to use cash than non-Māori and Pacific people.
- e. Cash is used as a store of wealth.** More people are also holding cash as a store of wealth for precautionary purposes rather than for immediate use. This reflects the fact that people still regard cash as a value anchor that households trust.
- f. Cash contributes to financial and social inclusion,** particularly in social and cultural settings. The contribution to financial and social inclusion is one of the key roles of central bank money.¹⁰⁸

Public Detriments

7.31 Public benefits resulting from the Proposed Transaction are significant, and will outweigh any public detriments, including any lessening of competition.

7.32 The ACCC in *Linfox/Prosegur* identified two public detriments:¹⁰⁹

- a.** competition effects; and

¹⁰⁷ RBNZ *Future of Money – Te Moni Anamata*, above n 106, at p. 6–7.

¹⁰⁸ RBNZ *Future of Money – Cash system redesign*, above n 8, at p.57.

¹⁰⁹ ACCC “Reasons for Determination MA1000022”, above n 13, at [6.86].

- b. less resilience in the wholesale cash distribution (greater difficulties in managing supply disruptions) arising from a reduction in the ability of alternative CIT suppliers, who could provide assistance in times of disruption, to expand or enter.¹¹⁰

Competition effects

7.33 The Applicant submits that, as set out in Part 5, the Proposed Transaction will not have, or be likely to have, the effect of substantially lessening competition in any market, because [REDACTED]. Therefore, any adverse competition effects will be insignificant.

7.34 However, even if the Commission cannot rule out some short-term lessening of competition, competition effects will be limited given the market dynamics outlined above, including:

- a. the real risk of exit of one or both parties in the short and medium term; and
- b. the significant decline in cash usage and the rise of digital payment options; and
- c. the counter-vailing power of the banks which will constrain the merged entity's ability to increase prices, which is evidenced by the unfavourable terms of the parties' contracts with the banks (who have been driving down the prices which has exacerbated the unsustainable situation) and the ability of the banks to in-source CIT services; and
- d. the constraints imposed by RBNZ oversight and the relevant regulations applying to the cash industry, including BS11.

Less resilience

7.35 The concerns about less resilience in wholesale cash distribution identified by the ACCC are not applicable to the Proposed Transaction because, unlike in *Linfox/Prosegur*, there is no real potential for alternative suppliers to materially expand in or enter the supply of CIT services in New Zealand. The parties are the only national CIT service providers. As found in the RBB Report, [REDACTED] the market is not able to generate a rate of return high enough to sustain two firms.¹¹¹

7.36 Rather, the Proposed Transaction will *increase* the resilience in wholesale cash distribution by creating a stronger and financially sustainable CIT provider, that is better equipped to meet customer demands and respond to emergencies.

8. Distribution of Benefits

If you consider the distribution of benefits and/or detriments is relevant to your application for authorisation, you should explain why and provide evidence in support.

8.1 Not applicable.

¹¹⁰ ACCC "Reasons for Determination MA1000022", above n 13, at [6.99].

¹¹¹ RBB Economics, above n 6, at 4.2.3 and 4.2.4.

9. DOCUMENTS BRINGING ABOUT THE PROPOSED MERGER

Provide copies of the final or most recent versions of any documents bringing about the proposed merger such as the sale and purchase agreement, contracts, ancillary agreements or offer documents.

9.1 A copy of the SSA between the parties dated 28 March 2024 is attached as **Appendix 3**.

10. OTHER DOCUMENTS RELATING TO THE PROPOSED MERGER

Provide copies of any documents (including planning documents, due diligence reports, strategy documents, minutes of meetings, customer research, pricing studies, reports, presentations, surveys, analyses, industry/market reports and recommendations) in the applicant's possession which:

- *have been prepared for, seen or considered by senior management and/or any member of the board of directors (or equivalent body) (whether prepared internally or by external consultants); and*
- *either:*
 - *set out the rationale for the merger (including but not limited to the benefits of, and/or investment case for the merger) and/or plans following the merger; or*
 - *assess or analyse the merger with respect to competitive conditions, competitors (actual and potential), potential for sales growth or expansion into new product or geographic areas, market conditions, market shares and/or the price to be paid;*
 - *within the last two years, set out the competitive conditions, market conditions, market shares, competitors, or the applicant's business plans in relation to the relevant product(s) or service(s) as identified in response to question 5 above.*

10.1 An index of the Applicant's documents relating to the Proposed Transaction (and which accompany this application) are set out below:

a. RBB Economics, "The Proposed Acquisition of ACM by Armourguard: A competitive effects and public benefits assessment" dated 27 March 2024;

b.

c.

d.

e.

f.

g.

i.

ii.

iii.

h. Reserve Bank of New Zealand (RBNZ) – Cash Industry Forum (13 March 2024).

10.2 ACM's relevant documents will be provided separately.

11. ANNUAL REPORTS AND FINANCIAL STATEMENTS

Provide copies of, or links to, the most recent annual report, audited financial statements and management accounts for the relevant business unit(s) as identified in response to question 5.

- 11.1 Evergreen NZ Holdings annual report for the year ended 31 December 2022 is attached as **Appendix 4**.
- 11.2 **ACMNZ**'s annual report will be provided separately.

12. CONFIDENTIALITY

If you wish to request confidentiality for specific information contained in or attached to the application, a schedule must be provided which sets out the reasons for each request, preferably with reference to the Official Information Act 1982.

- 12.1 Confidentiality is sought in respect of the information in this application that is contained in square brackets or is described as being in a "confidential appendix", including information that is confidential as between the Parties as indicated by the colour coding:
- a. Information in red is confidential to ACM and has not been disclosed to Evergreen/Armourguard.
 - b. Information in green is confidential to Evergreen/Armourguard and has not been disclosed to ACM.
 - c. Information in blue is confidential to both parties and is shared on an external counsel only basis.
- 12.2 Confidentiality is sought for the purposes of section 9(2)(b) of the Official Information Act 1982 on the grounds that:
- a. the information is commercially sensitive and valuable, and confidential to the participants and, in some cases, to third parties with whom the participants have confidential commercial arrangements; and
 - b. disclosure would be likely unreasonably to prejudice the commercial position of the participants (and in some cases the third parties with which they have confidential commercial arrangements), as the parties providing the information.
- 12.3 A separate schedule of all confidential information accompanies this application.
- 12.4 Confidentiality is sought until the applicant confirms in writing to the Commission that the particular information is no longer confidential.
- 12.5 This request is made because the information is commercially sensitive and valuable information which is confidential to the applicant (or third parties), and disclosure of it would be likely to unreasonably prejudice the commercial position of the relevant party. Confidentiality is requested under section 9(2)(b) of the Official Information Act 1982.
- 12.6 The applicant requests that they be notified of any request made to the Commission under the Official Information Act 1982 for release of confidential information, and that the Commission seeks their views as to whether the information remains confidential and commercially sensitive, at the time a response to such a request is being considered.
- 12.7 The above paragraphs also apply in respect of any additional information provided, whether orally or in written form, to the Commission where it has been expressed to be confidential or it is implicit by the nature of that information or communication.

DECLARATION

I, Shane Timothy O'Halloran, Director of Evergreen NZ Holdings, have prepared, or supervised the preparation of, this notice seeking authorisation.

To the best of my knowledge, I confirm that:

- all information specified by the Commission has been supplied;
- if information has not been supplied, reasons have been included as to why the information has not been supplied;
- all information known to the applicant that is relevant to the consideration of this notice has been supplied; and
- all information supplied (except for confidential information supplied by ACM which I am not privy to) is correct as at the date of this notice.

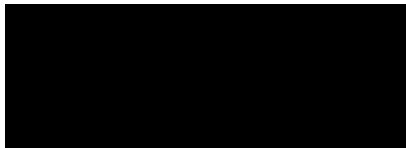
I undertake to advise the Commission immediately of any material change in circumstances relating to the notice.

I understand that it is an offence under the Commerce Act to attempt to deceive or knowingly mislead the Commission in respect of any matter before the Commission, including in these documents.

I am a director of Evergreen NZ Holdings and am duly authorised to submit this notice.

Name and title of person authorised to sign:

Shane O'Halloran Director



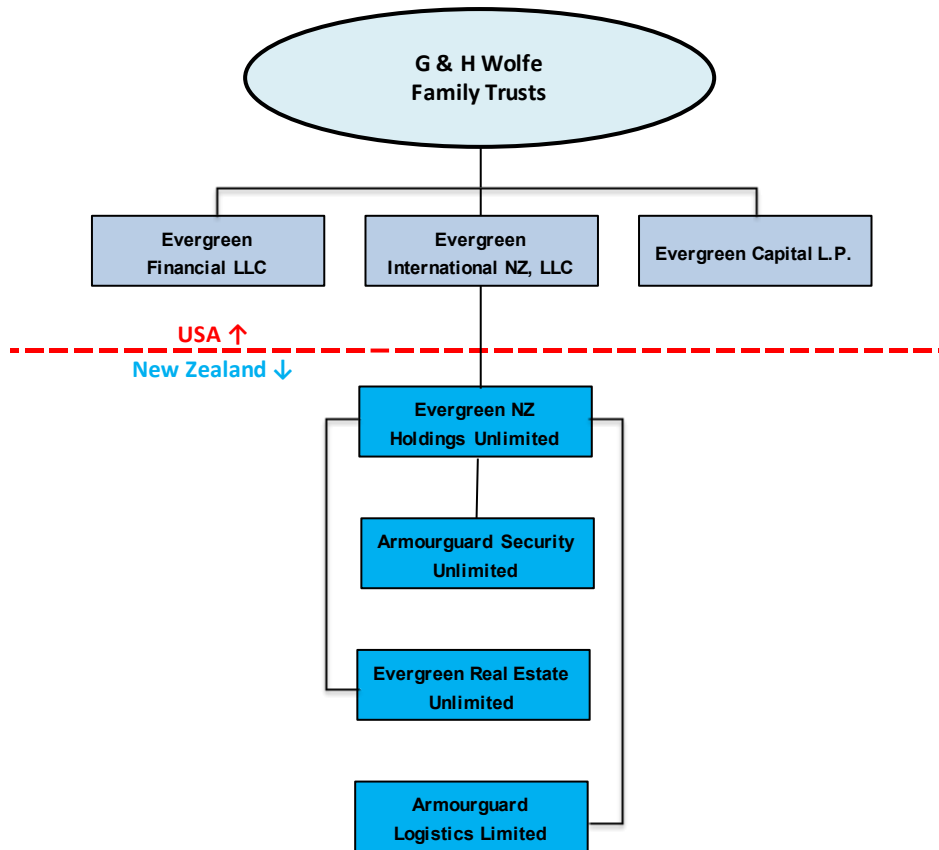
Sign

6 April 2024

Date

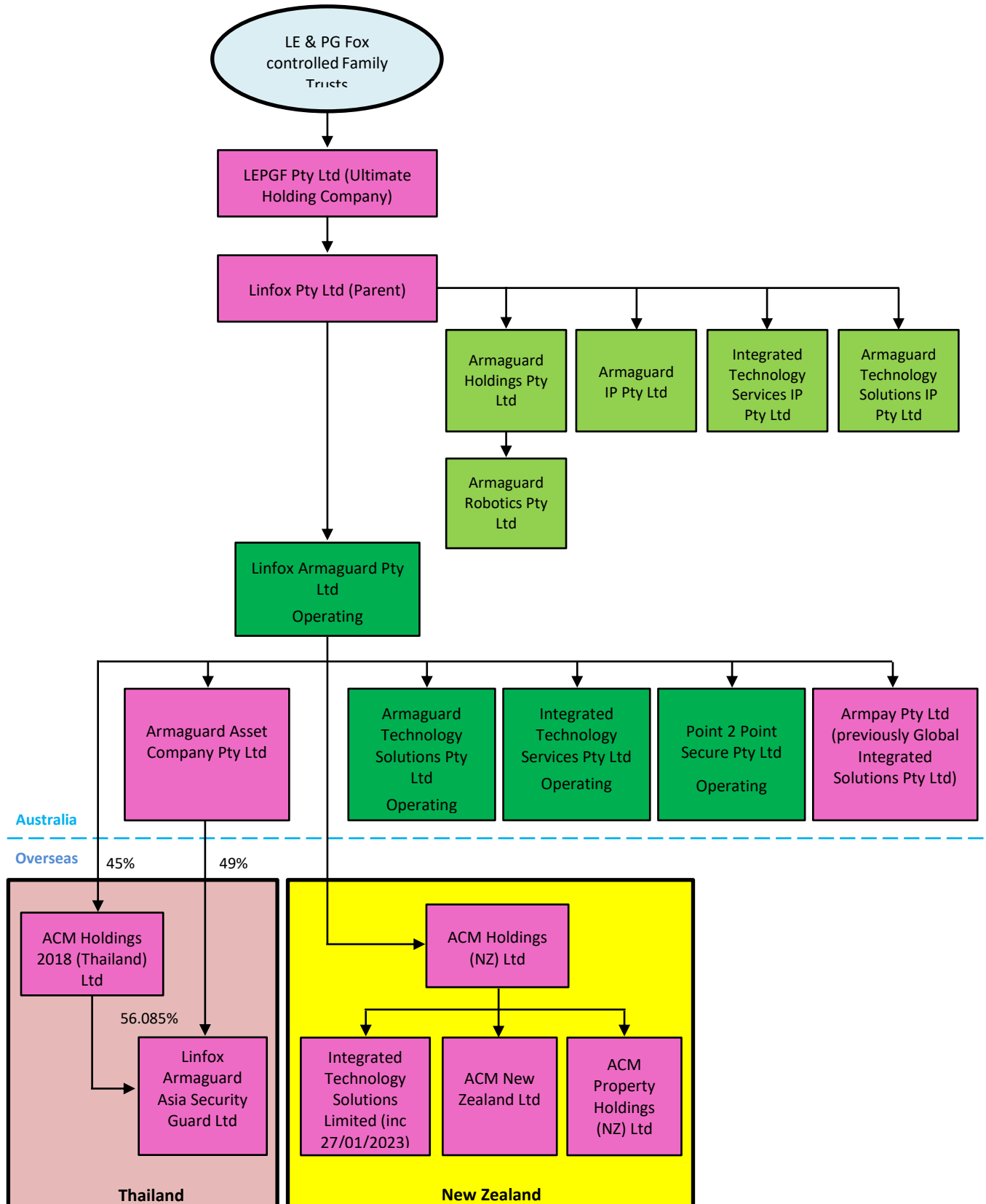
APPENDIX 1 – EVERGREEN CORPORATE STRUCTURE

Evergreen NZ Holdings Unlimited



APPENDIX 2 – ACM CORPORATE STRUCTURE

Linfox Armaguard Group – as at 31 January 2023



APPENDIX 3 – SHARE SALE AGREEMENT

Executed Share Sale Agreement dated 28 March 2024

**APPENDIX 4 – EVERGREEN NZ HOLDINGS ANNUAL REPORT 31
DECEMBER 2022**