

DIEBOLD INC (DIEBOLD) AND WINCOR NIXDORF AG (WINCOR) MERGER INQUIRY

Summary of a call with Barclays Bank (Barclays) during the phase 1 inquiry on 24 May 2016

Background

1. As at 24 May 2016, for its automated teller machines (ATMs) estate Barclays primarily used a combination of machines from Wincor and NCR.
2. Within its estate Barclays had [redacted] Wincor ATMs and had recently purchased [redacted] new Wincor ATMs to replace existing machines. It had [redacted] Wincor multi-functional ATMs. It also had [redacted] NCR ATMs and was currently rolling out [redacted] NCR account servicing kiosks.
3. Barclays also had [redacted] Diebold ATMs, [redacted] Diebold multi-functional ATMs and had recently purchased [redacted] Diebold ATMs to be installed later in 2016.

Hardware

4. Diebold had exited the UK market about 10 years ago and re-entered the market around three-and-a-half to four years ago. Barclays was the first UK customer to order ATM hardware from Diebold upon Diebold's re-entry. This was a deliberate strategy to introduce a third supplier into the market so that Barclays could obtain a better price as a result of the competition between the three suppliers. Some organisations liked having one provider for its entire estate such as HSBC who Barclays understands uses Diebold exclusively in the UK for new ATM purchases.
5. Barclays adopted a different approach and supported Diebold's re-entry to the UK to get a better price for the ATM machines it needed to refresh its estate. Now this refresh has completed Barclays does not need to replace those ATMs for [redacted] years and could focus on the servicing of its estate. [redacted]. While ATM hardware and servicing agreements are separate, a manufacturer could potentially service its own ATMs more cheaply and there was a degree of simplicity in having a single supplier for servicing.

Servicing

6. Barclays had recently conducted a request for proposal (RFP) for a servicing contract. Both parties to the merger were asked for a proposal, and while both were considered credible, Wincor was considered more credible because of the size of its servicing capability. Barclays would have had to rely on Diebold growing its engineering capability, which would have involved an element of risk during that transitional period in order to get comfortable that Diebold had the appropriate capability.
7. As mentioned above, a manufacturer could generally service its own products more efficiently. However cross-servicing is possible between manufacturers. Any of the three main ATM suppliers were credible servicers of standard ATMs and Barclays believed there were standard reciprocal agreements facilitating access to spare parts. There was also a significant open market for copied and recycled parts which facilitates cross-servicing. On more modern machines (which could include specific components made by a particular manufacturer) this was more difficult but Barclays recalled that [X] was confident that it could manufacture parts even for new devices.
8. In this RFP, other third party servicers were credible but often wanted to outsource some parts of servicing. For example, [X] did not have a dedicated helpdesk and wanted to use a third party to deliver its service offering. Barclays did outsource to some third parties for some complex devices and those providers have proven to be credible.
9. Another factor in choosing an ATM supplier was installation costs. A new version of an ATM from the same manufacturer (intended as a replacement or upgrade) would usually be the same size as the previous ATM. This normally made installation easier and cheaper, since changing the size of a wall aperture was expensive and may require planning permission. Manufacturers were increasingly aware of this risk and were designing devices that minimise these transition costs.

Software

10. Software was purchased separately from hardware and servicing. All ATMs (those made by the main three and smaller manufacturers) were 'hardware-agnostic', because software providers recognised that some customers had mixed ATM estates. Barclays used third-party software.

Sponsored entry

11. Barclays were confident that when they next wanted to invest in ATMs it would be able to work with manufacturers other than the parties to the merger. It noted one manufacturer, [X] had the required hardware capability and its software platform was flexible to facilitate integration with Barclays' systems. However, Barclays noted that it would take two to three years of work to do this effectively.
12. Barclays had met and had discussions with [X], but ultimately Barclays was not comfortable with the transition risks that [X] presented. [X] did not want to invest in its own servicing business (and preferred to do this on a third-party basis). This was on contrast to Diebold who were willing to invest in the UK upon their re-entry.
13. Barclays understood that [X] did not offer to invest in its servicing business because it had a focus on [X]. Barclays believed [X] would want to ensure it would have sufficient demand in the UK for its ATMs before setting up there. This was similar for other suppliers such as [X].

Other suppliers

14. [X] and [X] were other possible suppliers.
15. [X] had never, in Barclays' view, been strong manufacturer of standard ATMs. Barclays were unsure as to the quality of their hardware but noted that [X] were refreshing their hardware and could be more attractive in future. [X] produced low cost ATMs that would only be suitable if the ATM would be required for a low volume of transactions.

Cash recycling ATMs

16. The three main manufacturers offered these machines, but they were not widely used in the UK because the presence of the Link scheme reduced the benefits of recycling cash. GRG and Hyosung also offered these machines but there were questions around their servicing capability.
17. Barclays recently purchased [X] and was in the process of installing [X] Diebold recycling ATMs and Diebold had sufficient scale to reliably service them. Barclays believed it is the only bank using ATMs with recycling functionality.

ATM hardware differentiation and innovation

18. Barclays said there was no differentiation or important innovation between ATMs and that the core functionality was offered by all hardware suppliers. Some organisations (such as Diebold) were potentially more innovative, for example, in being flexible when responding to specific customer requirements.
19. Barclays view was that a move away from cash and cheques was possible but it did not foresee a decline in ATMs usage in the next 10 years. Projections from the Payments Council showed that cash was forecast to fall by about 30% by 2024 in terms of number of transactions, but that cash volumes were projected to fall at a much lower rate at around 6% in the same time period.
20. Barclays is of the view that the ATM-mobile phone interface will be key in the future. However introducing this interface to ATMs could be achieved by retrofitting relatively simple devices and so no manufacturer would have a particular advantage.

View of merger

21. Barclays viewed the merger positively in the short term as it would be able to have one servicing provider, which could be a better model for its requirements. It could foresee a problem arising due to the reduction to two suppliers, which it considered would be important during phases when it is expanding or replacing its ATM estate. However if it felt there were too few suppliers, it could work with another supplier from the UK or Europe to obtain its requirements.