

To the Minister of Finance  
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Trade Register 3300 3396  
Date  
30 June 2021

Our reference  
T042-1000851934-1730

Re:

The future of the cash infrastructure in the Netherlands

Dear Mr Hoekstra,

Enclosed please find the report “The future of the cash infrastructure in the Netherlands”. It presents the results of a six-month study carried out by McKinsey & Company commissioned by De Nederlandsche Bank (DNB).

#### *Background*

The use of cash at points of sale in the Netherlands is declining, and the cash infrastructure is under pressure.<sup>1,2</sup> These developments are not of a recent date, however. In 2020, they led the National Forum on the Payment System (NFPS) to review its position on cash. The NFPS considered that “also in an environment of increasing electronic payments, it is important from a social point of view to ensure that cash continues to function well as a means of payment for point-of-sale purchases”.<sup>3</sup> To this end, the Forum members made (temporary) agreements on the accessibility, availability and acceptance of cash. At the same time, the Forum advised DNB to commission an independent external study into the cash infrastructure. The agreements would apply until their review based on the results of the study. In the meantime, these agreements have come under pressure, however. At the end of 2020, DNB commissioned McKinsey to carry out the study. The aim of the study is to define and design a socially efficient, solid and secure cash infrastructure for the medium-to-long term, even when the use of cash is low.

#### *Summary of the study*

The McKinsey report foresees a further decline in the use of cash. In order to determine whether this is a problem, it distinguishes three functions of cash.

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<sup>1</sup> Point-of-sale (POS) payments include payments at points of sale in the retail sector, hospitality sector and street vending outlets, at petrol stations and public institutions. POS payments include cash payments and electronic payments with a (contactless) card, smartphone or wearable.

<sup>2</sup> The cash infrastructure comprises DNB, banks, ATM operators, security transporters and points of sale.

<sup>3</sup> See the [Letter to the House of Representatives](#) (in Dutch), 2019-2020 session, 27 863, No. 87.

**Date**

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- i. Fall-back. For the time being, cash is the only fall-back option in the event of failure in the electronic POS payment system – albeit only partly, due to the fact that the cash infrastructure is already shrinking.
- ii. Inclusiveness. People in vulnerable groups are relatively often dependent on cash as a means of payment.<sup>4</sup>
- iii. Public money. Cash is a claim on the central bank and can be used by anyone wishing to do so.

The report argues that these functions may gradually decrease or disappear with the introduction of other, digital means of payment, depending on the extent to which these are accepted. This may change the requirements that are necessary to ensure a smoothly functioning cash infrastructure. In addition, the report explores ways to improve the efficiency of the cash chain and addresses the costs and funding of the infrastructure. Lastly, it focuses on various possible policy measures to guide any infrastructure developments in the right direction, if so desired, from no intervention at all to regulation, including various options to fund these measures.

*DNB's opinion*

McKinsey's analysis provides valuable insights. For example, the report highlights the importance of having fall-back options for electronic payments and recommends that digital means of payment are developed for use at points of sale. This may allow the size of the cash infrastructure to flexibly adapt to the actual use of cash at any time. Research into the cost of cash also provides added value, as these costs turn out to be largely variable with usage rather than with the – shrinking – size of the infrastructure. The report also sheds light on the cost of cash for retailers. They bear the highest costs, although these are ultimately passed through in product prices. According to the report, 96% of points of sale accept cash payments, but a third of them also encourage customers to pay electronically. Based on these findings, McKinsey raises the issue of the funding of the (cash) payment system and payment services.

We endorse McKinsey's recommendation to focus on developing digital means of payment for use as alternative fall-back options to electronic payments at points of sale. This may help to improve the robustness and efficiency of this component of the payment system. The Dutch Payments Association and the banks have explored such alternatives and assessed them against different requirements, including robustness. Several conditions must be met before cash as a fall-back instrument can be replaced by digital means of payment, including conditions of scope and inclusiveness. This means that such digital payment instruments must be widely available and accessible to people in vulnerable groups.

In the current market circumstances, we recognise the pressure on profitability of the banks in the Netherlands, where prices for consumer payment services

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<sup>4</sup> Vulnerable groups include the elderly, low-literates, people with disabilities, people with low digital skills and people who need to strictly manage their budget due to financial difficulties.

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30 June 2021

**Our reference**

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have traditionally been lower than in other European countries.<sup>5</sup> We therefore see the McKinsey report as an indication that banks – even if they are profitable – pass on the cost of payment services to customers to a larger extent. Of course it is up to individual banks to determine their prices, but they should take care not to place the burden specifically on users of cash – a group that effectively comprises mainly the more vulnerable users. We also note that banks must devote efforts and resources to detecting and addressing money laundering and fraud – involving both cash and digital payment instruments. These efforts must not be used as an excuse to hamper the legitimate use of cash, reduce the accessibility of the cash infrastructure or reduce the inclusiveness of the payment system.

We note that if there are adequate fall-back options to cover for electronic payments while cash remains essential given the societal functions it fulfils, cash and the cash infrastructure will increasingly become a public good. We advise the cabinet to think about what this will mean for the role of the government with regard to the cash infrastructure once this point is reached.

We also recognise the views on the use of cash at points of sale. Some retailers will continue to accept cash payments, in any case as long as their customers use it. Others will be less inclined to do so in view of the costs involved or for security reasons. Security deserves continued attention from all parties in the cash chain.

*DNB's commitment*

We note that the House of Representatives has repeatedly expressed its views on the societal importance of cash and its role in the payment system. Like you, we share this view. However, we expect that without further measures, cash will soon become insufficiently accessible due to the ongoing closure of ATMs, and insufficiently available because points of sale discourage or indeed no longer accept it. Such measures could be laid down in regulation, as is now the case in Sweden, but we would like to try first whether availability and accessibility could also be achieved by means of multilateral agreements between the stakeholders involved. After all, this offers more flexibility, and we have learned from past experiences that it can work. The agreements could be laid down in a five-year covenant. In the meantime, the main parameters could be monitored on a regular basis through research and reports. The stakeholders involved in the covenant could discuss the results in the NFPS, for example. The covenant period would allow us to find a more fundamental approach to a situation in which cash no longer functions as a fall-back option, while the need for cash in society continues to exist.

*Final remarks*

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<sup>5</sup> See [EC. Study on EU Payment Accounts Market, April 2020](#), p. 32 ff.

We want to refrain from being overly optimistic: concluding such a covenant will not be easy. The stakeholders will have to overcome differences of opinion and conflicts of interest. At the same time they all share a common interest, however: an efficient, accessible and secure payment system. We therefore hope that all civil society partners will be prepared to participate in this covenant and honour the commitments they make. Of course we would be happy to discuss this matter in more detail with you.

In the meantime I would like to request you to present the McKinsey report and this letter to the House of Representatives, as you have indicated before.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S. de Vries', followed by a period.

**Date**

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**Our reference**

T042-1000851934-1730

Annex

**Page**

4 of 4