

Highly Commended Winner

Best Cash Pooling Solution

3M

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3M is a diversified global company that manufactures a wide range of products, such as adhesives, building materials, insulation, lubricants, tools, medical supplies, electronics components, cleaning supplies and office supplies. The company's safety and industrial segment generates the most sales and profits.

## 3M continues the innovation in-house

### The challenge

3M's new CEO Bill Brown states that he wants to drive innovation to inspire topline growth and improve performance across the supply chain at the company that has evolved from mining at the turn of the last century to selling innovation and science today. That will be made much easier thanks to the recent transformation of the group's global treasury operation, namely establishing an in-house bank (IHB) in Dublin that has become a cornerstone to a new approach to cash management.

The company wanted to set up a best in class treasury, cash and banking operation that would improve the way it managed cash, transacted, monitored and reported activity. The IHB facilitated improvements in cash visibility, optimisation of cash concentration, increased investment returns, enhanced risk management, and the attainment of significant operational and financial efficiencies.

3M shifted from a treasury set-up that required cash settlement of intercompany transactions, substantial hedging of its foreign currency cash position, and manual processes to a more sophisticated internal financial structure. This structure centralises core treasury functions by aggregating transactions and risks arising from commercial activities of its subsidiaries.

The IHB pools 3M's international cash and provides liquidity to the business by acting as a hub for intercompany loans and deposits for the group. Additionally, it manages third-party foreign exchange payments-on-behalf-of (POBO) 3M's subsidiaries, invests surplus cash, executes intercompany netting, and continually explores opportunities to innovate its operations.

### The solution

The liquidity pooling structure is a key pillar of the IHB construct. In collaboration with Citi, 3M created a tailored liquidity concentration structure centred around a single entity multi-currency notional pool with 23 currency headers in London and a target balancing structure that physically sweeps liquidity from more than 100 source accounts. As a result, 3M's central cash position increased by US\$200m as 3M no longer needs to hold liquidity buffers across source accounts. Moreover, the structure reduces swap hedging by 80%, enabling resources to be strategically allocated within the company.

As part of the ongoing innovation efforts, 3M implemented virtual accounts as a proof of concept to lay the foundation for future enhancements. This proof of concept tested virtual accounts to streamline reconciliation of receivables and POBO in select locations. In addition, 3M expanded its investment options by gaining access to Citi's Online Investments electronic banking portal, which offers access to a wide range of short-term investment options.

Citi and 3M collaborated throughout the design and implementation of the IHB liquidity structure. Together, the following was implemented:

- Single entity multi-currency notional pool in London including 23 currencies (AED, AUD, CAD, CHF, CNY, CZK, DKK, EUR, GBP, HKD, HUF, ILS, JPY, MXN, NOK, NZD, PLN, RON, SEK, SGD, TRY, USD and ZAR).
- Expansion of 3M's global target balancing structure with automated, true end-of-day balancing sweeps that resulted in more than 100 accounts connected to a single liquidity structure.
- Deployment of a POBO structure by supporting the foreign currency flows of 3M's operating entities directly from treasury.



Enrique Fernandez, 3M and Angela Ortiz, Citi

- Intraday credit limits on the operating accounts to facilitate payment activity.
- Access to Citi's Online Investment electronic banking portal.
- Virtual accounts to complete proofs of concept in select locations.
- Standardised and automated statements via host-to-host connectivity.

### Best practice and innovation

The implementation of the IHB and the liquidity structure transformed 3M's treasury operation. In May 2022, 3M established its IHB legal entity in Dublin as the first step to initiate the transformation.

The team worked with acute focus on optimising costs, enhancing investment yields, and obtaining operational efficiencies to build a best in class structure. 3M's IHB is now the company's cornerstone of its global cash management treasury function.

### Key benefits

- Cost savings.
- Process efficiencies.
- Return on investment (ROI).
- Increased automation.
- Risk mitigated.
- Improved visibility.
- Errors reduced.
- Manual intervention reduced.
- Increased system connectivity.
- Future-proof solution.
- Exceptional implementation (budget/time).

When 3M established its in-house bank in Dublin, they leveraged Citi's solutions to bring it to life. While working with us, 3M built a liquidity structure centred around a multi-currency notional pool, a bespoke system that consolidates money from 23 different currencies into one London pool.

This scalable solution helped to improve cash visibility, optimise concentration, reduce FX hedging by 80% and increase 3M's central cash position by US\$200m. Citi is delighted to support 3M in aiming to achieve significant cost savings, increased automation and improved risk management – making their treasury operations best in class.

**Angela Ortiz, UK Global Solutions Sales, Treasury and Trade Solutions, Citi**

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