Creating the right reaction

SPECIALTY CHEMICALS TO PRECIOUS METALS GROUP JOHNSON MATTHEY IS AMONG THOSE USING SWIFT FOR ITS CASH MANAGEMENT. JULIAN TASKER, DEPUTY TREASURER OF ITS TREASURY TEAM, EXPLAINS THE BACKGROUND AND THE PROCESS TO **GRAHAM BUCK**.

Johnson Matthey is a FTSE 100 multinational, with operations in more than 30 countries and a global workforce of around 8,500 people. The group is a major force in the specialty chemicals sector, and has three divisions covering environmental technologies, precious metal products and fine chemicals.

For the year to March 2009, it reported total annual revenues of £7.8bn and pretax profits of £249m, with these figures set to be surpassed in 2009/10.

Johnson Matthey has a centralised group treasury division based in the UK, which has a team of seven, and one cash manager in the US. The group's deputy treasurer, Julian Tasker, recently revealed the background to the group's SWIFT implementation and explained that treasury's decision to seek a more efficient cash management system was motivated by the need to address five major problems.

The five bugbears were the complexities created by different payment structures and fields; inefficiencies created by manual processes such as the rekeying of data; the need to maintain strong controls across multiple systems (such as passwords for users to gain access); a lack of flexibility with the ability to move accounts constrained by banks' electronic banking platforms; and the cost and treasury time involved in support, with up to four hours per day typically needed for downloading balances and making treasury payments (see Figure 1).

A SINGLE POINT Establishing a single point of access for all bank balances and payments offered a means of addressing these inefficiencies. A potential way of achieving a more streamlined cash management system lay in using a single bank, but the group was reluctant to concentrate all of its businesses and risks in this way and, being a multinational, miss out on the superior services that certain banks offered in some parts of the world. In addition, having a single bank would be impractical in many ways – hampering the group's ability to comply with local tax requirements, for example.

Johnson Matthey reviewed a variety of multibank platforms, but it was evident that SWIFT offered the broadest solution as it is used by all banks to communicate with each other.

CONNECTION CHOICES Having chosen SWIFT, the group then had the choice of three basic means of connection – direct, hosted or SWIFT's own Member Associated Closed User Group (MA-CUG) solution. Tasker says that for Johnson Matthew there was only really one choice: a hosted solution. This was because a direct connection is generally only cost-effective where there are very high volumes.

Also, with the exception of network or communications businesses, companies are unlikely to have the skills to manage direct access in-house. A corporate listed on a recognised exchange is eligible to access SWIFT using the Standard Corporate Environment more commonly known as SCORE, which means that it is not necessary to set up one or more MA-CUGs.

Opting for the hosted solution in turn opened up a choice of three more connectivity options: SWIFT's own AllianceLite (which is aimed at low-volume corporates and financial

institutions not connected to SWIFT) or outsourcing it to either a bureau or a bank-sponsored bureau.

The group used six key criteria in evaluating each of the three options: capability, security, scalability, bank independence, liability and cost. The business case came out strongest for the bureau option, which offered substantial benefits at a reasonable cost. The benefits included:

- single connection to multiple banks;
- standardised technology and processes to improve security;
- straight-through processing;
- greater degree of bank independence;
- reduced cost of liquidity;
- improved operational flexibility;
- access to the highest levels of security;
- scalability across the group; and
- treasury resource savings.

Having selected the preferred connectivity options, the project then moved on to the practical design considerations of how they would incorporate SWIFT into the existing treasury systems and utilise its functionality.

FUTURE PROCESSES Tasker says it was necessary for Johnson Matthey to define what its future processes would look like – not only in terms of group treasury, but the wider business units – and to ensure that the structure implemented would be able to meet these future needs. In particular, the group wanted the ability to make all of its external payments through SWIFT without having every business unit using the treasury management system (TMS) – see Figure 2.

The criteria included:

- **Message requirements** Types ranged from basic message transfer MT101 and customer statement message MT940 to the automated matching provided by MT210 and bank-to-bank messaging MT900, as well as the non-MT acknowledgments/negative acknowledgments (acks/nacks). It was important to evaluate what messages Johnson Matthey wanted to use and how these would meet its requirements, which included metals transactions.

- **Group treasury versus business unit needs** The choice was between a payment factory model with centralised payments or one that gave business units the ability to make payments and retrieve balances.

- **Data storage and maintenance** For example, how much would be held in the TMS and how much in the bureau?

- **Security** A major consideration was whether authorisation should take place within the TMS with a secure link to SWIFT, or directly in the SWIFT bureau interface. Other deciding factors included access via passwords, encryption devices and algorithms, plus applications such as precious metals transactions and BACS.

The various stages of implementing SWIFT were rolled out over a total period of 21 months, with providers selected in

Figure 1: Treasury systems requirement

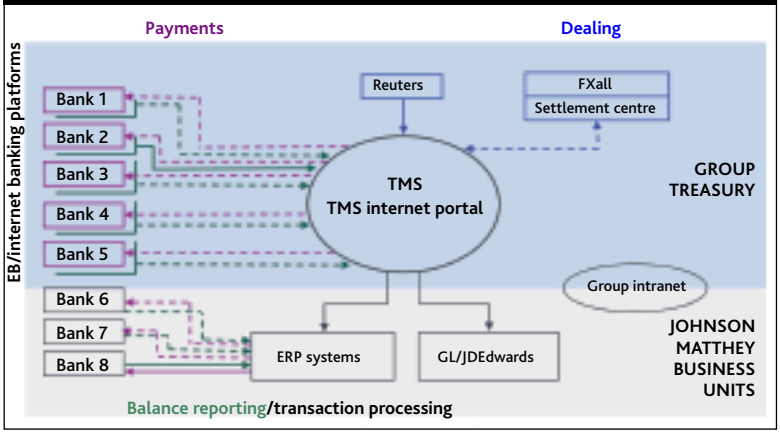
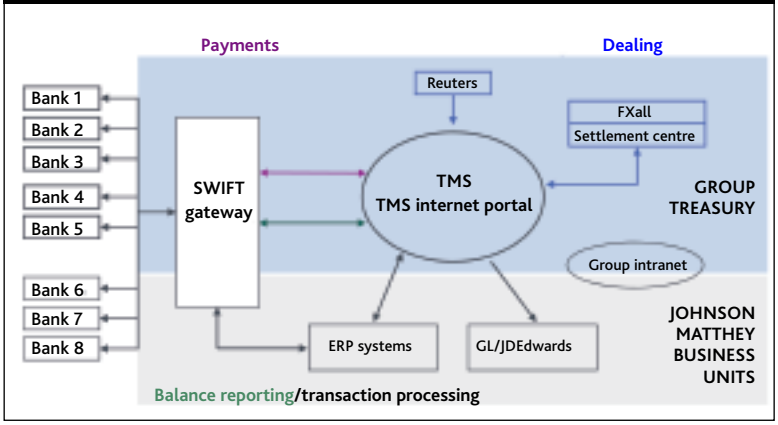


Figure 2: The future treasury landscape



the first five months and contracts subsequently agreed over the next five months. Agreeing banks terms was a particularly lengthy process, due to the documentation not yet being standard and banks having reached various stages of development of their corporate SWIFT access offering.

Configuration began towards the end of the first year and testing took place over a six-month period that began 12 months into the project.

Going live began simultaneously with the phase II rollout after 13 months, and the final phase III rollout for other instruments was in the final two months of the 21-month implementation.

So what were the key lessons that had been learned by the treasury team by the end of the project? Tasker says that it highlighted a number of needs, such as articulating the benefits in monetary terms where possible, obtaining legal resource at an early stage, allocating a realistic period of time for negotiating contracts, seeking commitment from providers and having a process for managing all parties effectively. It also provided the opportunity for a complete process review to improve all aspects of balance reporting and payment processes.

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