



How Falabella converted to a digital bank.

The evolution towards a creator of digital financial services.

Falabella underwent a comprehensive process to create a 100% digital bank focused on the customer. During a journey in two major phases, they generated new digital experiences and transformed their operations, organization, and technology. The success of this journey is evidenced by Falabella's current 6 million digital customers across Chile, Argentina, Peru, Colombia, and Mexico.



Introduction.

Over the past two decades, companies and executives have faced substantial changes in multiple work fronts. The speed of change in the markets has been accelerated by technological advances, changes in customer expectations, and the evolution of business models. All of these changes have given rise to new customer-centric operation and business models and have led to the so-called Digital Transformation. Most organizations that have initiated their digital transformation process began by questioning their own "status quo," analyzing the general changes in the environment, the threats and opportunities that are arising, and seeking to create and develop new and better digital experiences that allow them to remain attractive to their current and future customers in the markets they participate in. Falabella, a leading department store founded in Chile in 1889, proactively began a digital transformation process that laid the foundation for the organization to continue being a leader in the modern digital world, including financial services organization.

The vision of Gastón Botazzini - CEO of Falabella Financiero (2008-2018) to bring this business unit towards a process of modernization and digitalization to become a 100% digital bank focused on the customer, as well as the group's commitment to investing in all its business units, laid the foundation to start this transformation journey. If the initial vision was to convert Falabella Financiero into a 100% digital financial institution focused on the customer, where should they start? What should be the path? What initiatives should be part of each of the components to achieve the long-awaited digital transformation? Should the same internal structures be maintained or should new areas of operation be created, such as a digital factory of financial products?

Based on Galileo's experience in assisting financial institutions in entering the digital age, we will review the "Falabella Case: How Falabella Became a Digital Bank" under the Digital Capabilities model (See Diagram I - Galileo Digital Capabilities Model) in 5 key components: 1) Customer-Centric Digital Experiences, 2) Digital Business Model, 3) Organizational Skills and Capabilities, 4) Operational Efficiency, and 5) New Digital Platforms (Front, Middle, and Back).



In this way, we will analyze the evolution that Falabella Financiero has experienced during this process.



The Beginning of the Journey.

Digitalization of Falabella Financial Services

Since the beginning of 2013, Grupo Falabella had established a strong and ambitious investment plan for an initial period of 5 years aimed at increasing its regional coverage and enhancing its logistical and technological capabilities, dividing the investments into 75% and 25%, respectively, which included the operations of both CMR and Banco Falabella.

Even though CMR Falabella had achieved a growth rate of almost 9% in cards from 2013 to 2014, its growth and success began to be limited by operating with different platforms and architectures in each country, making it difficult to generate and create new and better experiences for its customers.

The situation for Banco Falabella was not much different, as they also had systems and architectures designed specifically for each market, making it difficult to maintain and standardize business processes, as well as to digitally reinvent themselves.

For both companies, the high level of integration and dependence between platforms made it difficult to connect to new and better service channels, which meant a disadvantage in defining the "digital journey" of their financial services customers.

On the other hand, the evolution to digital platforms raised the risk of external cyber threats, so it was necessary to implement better infrastructure and security schemes aligned with the changes in central platforms and service channels.

Faced with these challenges, the Falabella Financial team wanted to proactively prepare the group for the new times and "put a bank inside a cell phone through a unique and unparalleled customer experience," recalled Juan Manuel Matheu, one of the key executives in defining the new digital transformation strategy.

With the sponsorship achieved through the senior management of Falabella, both CMR Falabella and Banco Falabella analyzed the situation of both companies and began a process to identify, select, and implement new cutting-edge technologies that would allow the group to have a flexible technological architecture capable of decoupling all business logic from legacy systems and laying the foundations for establishing new and better digital experiences for their customers and prospects.

The start of the journey began with the definition and launch of four projects that would break existing constraints and define the new operating model of Falabella Financiero:

This first part of the journey began like any great corporate project, through a master plan connected to specific plans and detailed activities in each of the defined projects. As expected, a multidisciplinary team was integrated that had the skills and knowledge of the business, as well as the appropriate support from strategic partners and other specialists.

One of the key factors that emerged during the project was the creation and launch of the Digital Factory of Financial Products. Its conception came through the challenge launched by the team leadership in seeking a more dynamic and effective structure in the execution of the agile components of the various projects.

1. **Standardization of Digital Channels:** This project included the selection of a digital channel platform with orchestration capabilities that would facilitate the definition of new and better experiences both at the user experience and product logic levels and that would be interconnectable with any platform through efficient use of APIs (Application Programming Interface).
2. **Standardization of the Bank's Core System:** This involved the selection of a central banking platform that would facilitate the definition and implementation of financial products for any market and any customer segment and that would be able to operate in a decoupled manner from the rest of the components.
3. **Standardization of the Card Systems for CMR Falabella:** Similarly, it was necessary to look for a core that could handle/manage card operations in all markets and that would be easy to connect to the rest of the architecture components.
4. **Security Infrastructure:** They required the implementation of advanced authentication solutions (1st, 2nd, and 3rd factor, as well as phone token) that would serve to reduce the inherent risks of becoming a fully digital bank.



Laying the Foundations for Digital Channels.

The "Homologation of Digital Channels" project on its own had its beauty and complexity: It involved bringing new tools and solutions to the group's application ecosystem, as well as identifying, selecting, and integrating a new platform that would facilitate the definition of the digital journey(s) of its customers and financial service users, and that would help provide a true competitive advantage.

During the evaluation process, CMR and Banco Falabella analyzed various technologies and potential business partners, moving from the typical long list and following a method to arrive at a short list. In the shortlist, relevant aspects of each partner and their platforms continued to be evaluated, where Galileo stood out for the flexibility of its platform design, advanced technology, credentials with banks in Latin America, and for having a scalable and high-performance solution. At the end of the process, Galileo was selected as the platform and business partner for this project.

"The objective was to identify a single strategic partner who had a product capable of being implemented out-of-the-box and that would allow for a fluid and efficient integration from one country to another. And Galileo was the most appropriate option for that moment," several executives who participated in the selection process recalled.

The platform selected by CMR and Banco Falabella was Galileo's Cyberbank Digital. This platform facilitates the creation of a digital ecosystem focused on the customer and the generation of exceptional empathetic banking experiences. This solution is supported through four key features:

- 1. Customer-Centric Focus:** Components designed to serve the digital needs and ambitions of financial services consumers by making the "Segment of One" a reality, that is, by following the activities and preferences of each potential customer, achieving personalized experiences in a unique and different way.
- 2. Structural Flexibility:** Facilitates innovation in financial products and services through the use of dynamic APIs - the result of its design and parameterization process, and its ability to decouple business logic from core systems.
- 3. Performance and Scalability:** Having one of the best recognized technological architectures by external entities (Forrester) with real examples operating throughout the entire American continent.
- 4. Full-stack:** Ability to independently handle each of its architecture components, from the frontend to core systems, including the use of APIs to change the behavior of financial products. This translates into a true accelerator that covers from the experience layer to the "system to register" layer.

In summary, Cyberbank Digital allows the creation of a true customer-centric experience for financial services, generates contextual segmentation according to the type of user and their needs, provides access to user support tools - digital assistants -, as well as having a personal and adaptive user interface (UX).

The Importance of Embedded Finance

Embedded finance refers to financial services that are integrated into people's daily lives. Banks that use embedded finance at the point of sale to meet their customers' immediate needs are prepared to be the undisputed winners in the market. The solutions offered at the customer interaction point are what make the difference. Therefore, Falabella, with the support of Galileo's platform, developed FPay™, its digital wallet, which is integrated with other financial products to provide its customers with a better financial service when they need it most, such as when they make a purchase or a transaction. With FPay™, users can integrate all their debit and credit cards from all issuing banks. Additionally, they can transfer money to third parties from their cards, make payments with QR codes in Falabella stores and affiliates.

Implementation of the Digital Channels Homologation Project

The project began following the methodological steps for implementation of this type and size of challenge, which included the integration of mixed work teams (client - strategic partner), and the monitoring and evolution of an implementation methodology.

Multiple meetings were held for analysis among all countries with the aim of defining the maximum common needs and contrasting them against the functionality of the platform to limit or avoid the generation of unnecessary gaps.

One of the keys to success was the empowerment that Falabella Financiero's management provided to the team, as decisions now primarily rested with them, which was a substantial cultural change within the organization.

Another key within this first wave was the commitment and participation of the Falabella Financiero management, as Gastón Botazzini - CEO of Falabella Financiero personally met with the team once a month to review progress and approve identified gaps, always seeking to act as an accelerator in decision-making.

The project in general established the enablement of 25 different channels in 5 countries, which involved a significant effort in the development of multiple connectors to integrate them with the new central and support systems.

Another significant change was the innovation in the way of working, as agile methodologies were used to shorten implementation times and generate results. Agile cells were created under this philosophy, documenting lists of required functionality (Product Backlog) and working on the development and release of such features.

The small success stories did not wait. During this period, the time-to-market was optimized, meaning the launch of the "on-off" functionality of their credit card. This milestone was one of the most representative of this wave since this functionality was the first of its kind in the Chilean market and was launched at least two weeks ahead of the same functionality that one of the country's big banks would launch.

The measurable results achieved in this first wave of transformation can be listed at three levels:

1. Efficiency::

Improvements were achieved by migrating customer service to remote channels, helping to increase customer acquisition and cross-selling. This meant achieving 86% of self-service interactions and a 54% growth in consumer credit sales through the Internet. Additionally, efforts were made to make the funding cost of these businesses more efficient by running commercial campaigns to increase first-time salary deposits, resulting in a 35% increase in regional account balances.

2. Risk:

Constant improvement was made to risk models and engines to avoid unnecessary exposure of the business as a whole and to grant suitable credits to each customer's profile.

3. Innovation::

Continued investment was made in technology projects focused on innovation through new and better payment methods, providing real and true omnichannel service (Mobile, Web, and Kiosks), and adapting the core of cards and other banking products. For example, the relaunch of the Web platform for Chile and Colombia was achieved, as well as the release of new mobile apps for CMR Chile, CMR Argentina, and Banco Falabella Chile.

In summary, and upon reviewing the progress at the end of this phase, Falabella Financiero started this "journey" by changing platforms, primarily focusing on components that could handle new and better digital experiences as a first step to breaking internal restrictions and facilitating component decoupling. The process was followed by changes and progress at the organizational level (Digital Factory / Senior Management Sponsorship), operational efficiencies by integrating new channels and service processes, as well as adjustments to the digital operation model.

Advances "The beginning of the journey - Digitization of Falabella Financial Services"



- Customer-Centered Digital Experiences
- Operational Efficiencies
- Digital Operating Model
- New Digital Platforms
- Organizational Skills and Capabilities



Falabella Financiero enters Mexico.

In mid-2016, Falabella and Soriana (a leading supermarket and department store chain in Mexico) signed a contract for the development of joint businesses, starting with the offering of financial services through Sodimac stores. For Falabella Financiero, entering Mexico would help strengthen its position in Latin America, where it already had over 5 million active CMR accounts with balances by the end of that year (Source: Grupo Falabella Annual Reports), and was already seen as a serious contender in Latin American banking.

The main objective for Falabella Financiero was to launch its credit card business quickly and organized, which included the development of a mobile application and a web platform (customer and executive service in branches), as well as the use - for the first time - of cloud infrastructure.

The strategy followed by the Falabella Financiero team and the Digital Factory established a 5-month implementation plan for the release of the mobile application and web customer service channel almost simultaneously, as well as a fast-track 3-month implementation plan for the executive service web channel in branches.

The speed and efficiency of this plan was based on Falabella Financiero's ability to reuse components of the Galileo platform, the strong experience curve developed by the implementation team in other Latin American markets, and the launch of the required cloud infrastructure.

The success of the foray into the Mexican market was evidenced by 2 key aspects: 1) The number of queries to executives in branches and calls to the contact center was stopped and stabilized; and 2) The ideal infrastructure and application were available to grow the number of branches and provide solid tools for the massive attention of its executives in branches.

For Raúl Vera, the project leader in Mexico and now Director of Technology for Falabella Financiero in Peru, this project "was a new stage of evolution and maturation of our architecture and technological platforms since we were able to leverage all previous knowledge and demonstrated that we could take our business to the cloud."



Realignment of Digital Expectations.

The closure of the first wave of transformation laid the foundation for taking the next big step. The progress in internalizing knowledge and using agile development practices had permeated throughout the organization, in addition to achieving a very good level of maturity and solidity both operationally and in leadership.

The creation of the digital factory had been another great success, as it integrates personnel dedicated to the development of digital solutions for Financial Services and relies on its business partners, including a physical space separate from the rest of the group. Additionally, it had the co-leadership of Matías Aranguren and Leo Di Nucci, both as Corporate Managers of Digital Channels, to achieve a balance between business capabilities and technological capabilities. The logic stated that one person should cover both profiles, but the group's decision was to separate them by bringing in the best profiles for each capability.

Towards the second wave of digital evolution, the group understood that in addition to developing digital products, they also had to focus on creating and generating better customer experiences.

For Matías Aranguren, "This change in focus was one of the key learnings and allowed work teams to be much more empathetic in identifying customer needs and designing experiences that were covered from end to end."

The internal work of the teams, integrated by business partners and Falabella, achieved great performance by assigning the best talent in each role within the agile cells (Product Owner, Developers, Testing, etc.) regardless of which company the person belonged to.

Later on, a process of internalization in the team began, and the search for talent went beyond the borders of the country of origin. "We embarked on an extensive journey to search for the best available specialists regardless of their country of origin, which led us to conduct search tours to countries such as Argentina, Colombia, Ecuador, and Venezuela," Matías Aranguren recalled.

The results in terms of business were very visible and decisive, given that the number of cells that integrated wider customer experiences such as Transactions, Payments, Authentication, etc.

Naturally, new and diverse "battles" were won, due to the digital value that each of them delivered to customers, reaching their peak with Falabella's successful entry into the Mexican market, hand in hand with Grupo Soriana, as well as the launch of in-person payments with Google Play and the launch of Sodimac's Sales Finance pilot program - financing of high-ticket purchases for CMR customers.

Results 2017-2020 - Falabella.

By the end of 2019, Falabella Financiero was already considered a solid digital bank with Latin American coverage. Falabella Financiero, which was already operating in 5 countries (Chile, Argentina, Peru, Colombia, and Mexico), had achieved a compound annual growth rate (CAGR) of 4.82% between 2013-2019, that is, more than 5.6 million active CMR accounts with a balance at the regional level, in addition to enabling more than 3 million digital customers and more than 2.8 million active customers on its app.

In fact, its success was so visible in the Latin American financial market that various competitors in the retail sector that had embarked on creating a similar financial services unit to that of Falabella Financiero had already given up their efforts to have a financial unit of this type.

In 2020, Falabella had gone from being a retail company with a financial arm to being a retail company integrated with a continuous and centralized digital factory of financial products. A result that not many of the region's big players could boast of.

The key premises of Falabella Financiero were to consciously place the customer and their satisfaction at the center of their entire digital strategy, as well as to integrate a group of decoupled and scalable platforms and infrastructure that would serve as a basis for making the bank fully digital.

These premises helped to accelerate a series of launches focused on serving the customer better and continuing to strengthen the Falabella brand, such as:

1. **Launch in Chile** of the opening of a 100% digital credit card throughout the region, through its Falabella.com site: This initiative allows customers to obtain a card online, facilitating the payment process immediately and helping customers take advantage of discounts available at the time of purchase.
2. **Launch of the Digital platform in Peru, Colombia, and Chile:** New functionality that allows branch executives to serve their customers using the same web interface available. This facilitates customer education in the use of digital channels, digitizes the process from its origin, and improves the customer experience.
3. **Tap & Pay Direct Payment:** Launch of the Tap & Pay payment functionality within Falabella stores in Chile, allowing customers to have a more agile payment experience from their cell phone. This new functionality integrates with its digital wallet (FPay™), which was successfully launched in the market during 2020.
4. **FPay™:** Launch of its digital wallet and its integration with other financial products. For example, Falabella Financial users can transfer money to third parties from their credit cards, as well as make payments through QR technology in Falabella company stores and the network of affiliated businesses. Even from this app, all debit and credit card information can be integrated into one place, regardless of the issuing bank.

On the other hand, its business model evolved by facilitating the integration of CMR Tarjetas with Banco Falabella's business. The first was a business that had been born as an extension of Falabella stores to facilitate the purchase process of its customers and had been increasing in relevance and size over the years. The second, Banco Falabella, had developed to expand the offer of financial services to its customers through an acquisition. Although they were born separately, both businesses could be efficiently and easily integrated as a single operation in 2018 due to the stability of its new infrastructure and the maturity of its entire organization. Positive results were not long in coming, as cross-selling increased both in CMR branches and Banco Falabella branches.

Falabella Financiero for this year was a very different company from the perspective of its organization and people. The organization had changed by betting on the creation of a continuous factory for the design and creation of digital financial products in Chile that operates through agile methodologies; a very innovative initiative aligned with global digital trends. Following the success of the implementation of the Digital Factory, between 2019 and 2020, Falabella Financiero launched its new versions of the digital factory based in Argentina and India, focused on supporting and developing the following versions of the group's digital wallet.

The achievements and recognitions towards the group in these years were very visible in multiple disciplines (People, Market, Product, etc.) both at the level of Falabella and specifically Falabella Financiero since they had been awarded as leaders in several areas.

All of these changes together helped to create a more convenient, simple, and standardized customer experience, as the initial investments in platforms and their good maintenance allowed for substantial improvements in product and service offerings, operational process optimization, organizational improvements, and attention to both physical and digital channels.

Results 2017-2020 Falabella Financiero



- Customer-Centered Digital Experiences
- Operational Efficiencies
- Digital Operating Model
- New Digital Platforms
- Organizational Skills and Capabilities

When evaluating the results achieved during this digital transformation process, many doubts about the value proposition of Falabella Financiero were dispelled. "We had focused our efforts on expanding our offering of digital financial services to the middle customer segment, a bet that was very different from that of all banks in the region," recalled Juan Manuel Matheu - CEO of Banco Falabella and one of the main leaders and architects of this transformation process - "to 'put a bank inside a cell phone.'"





The Digital Journey Learnings.

1. The idea and necessity of placing the customer at the center of their strategy required getting closer to them and understanding their preferences and behaviors, including developing a high level of empathy.
2. Experiencing firsthand the freedom to make decisions since there was always a commitment and support from top management to make the best decisions based on their analyses and recommendations.
3. Having strong sponsorship from the management team, as Leo Di Nucci - Corporate Manager of Digital Channels, recalled: "Top management never left us alone during the execution of the entire digital transformation program, which gave us a lot of confidence and strength throughout the journey."
4. The group's maturity in recognizing that the platforms available to Falabella were insufficient to start the digital journey, as well as knowing from the outset the components they needed and the discipline to seek out the best available technologies. The ability to select and integrate the most appropriate business partners, building strong teams through a unique culture unified with Falabella Financiero's vision.
5. The evolution of agile methodologies, shifting the focus from product to customer experiences, integrating experts in customer experience and usability (UX/UI), and implementing a portfolio vision and planning that demonstrated progress in experience and maturity in line with the skills required to continue on the transformation journey.
6. Supporting and consolidating Falabella Financiero's learning process, which experienced growth and development that achieved alignment of the entire organization towards a continuous factory of financial services.

Planting the new "Digital Horizon."

By the end of 2020, Falabella Financiero had taken the first steps to transform from being a physical bank with digital channels to establishing itself as a Digital Bank with a physical presence. As a result, that same year brought more recognition as the "Best Medium-Sized Bank," as well as the "Best Commercial Card" by PROCALIDAD Chile.

This situation put them ahead in terms of competitiveness with other banks both globally and regionally, as only one or two more could boast a similar level of agile maturity to theirs.

When Juan Manuel Matheu and his team summarized the group's strengths towards the end of 2020, they knew they had a mature, capable internal team with a cutting-edge digital corporate culture, and a business partner ready to continue their support on the digital journey through the evolution of the platform, guaranteeing a state-of-the-art technological architecture to compete head-to-head with the best banks or neobanks in the world.

Who is Falabella?

Falabella is one of the leading retail companies in Latin America, whose business motor and center is the passion to serve its customers in the best possible way. The group's main objective focuses on improving the customer shopping experience through the establishment of a strategy of differentiated formats and channels, with strongly positioned brands. Its regional presence includes 7 countries mainly: Chile, Colombia, Peru, Argentina, Brazil, Uruguay, and Mexico, and with satellite offices in China and India.

The group's businesses include department stores, home improvement stores, supermarkets, real estate, as well as financial services through a network of 511 stores and 43 shopping centers. Its main brands are Falabella, Tottus, Sodimac, Linio, Mallplaza, Ikea, and Banco Falabella.

In recent years, Falabella has built a physical-digital ecosystem (see Figure 1) that strengthens its value proposition to its customers through the various business formats and brands with which they operate. And it is supported by an agile and flexible organization, maintaining its tradition of keeping its customers and employees at the center of all its management.

Grupo Falabella's main objective is to simplify the lives of Latin Americans by transforming their shopping experiences, including their savings and financing needs. The focus of their business begins by generating engagement with all stakeholders (both external and internal), identifying specific needs, and establishing and maintaining open communication channels.

To execute and achieve their corporate growth plan in recent years, Grupo Falabella established six main strategic priorities:

1. Exceeding customer expectations
2. Developing their employees comprehensively
3. Generating social value
4. Governance model
5. Managing the supply chain
6. Managing environmental impact

Falabella Digital Ecosystem



WHO IS GALILEO?

Galileo is one of the most innovative technology companies in digital banking that helps established banks, challenger banks, neo-banks, fintechs, and financial companies transform into digital organizations. The company offers an accelerator for improving the digital customer experience, as well as a next-generation core banking platform that enables financial institutions to differentiate themselves by adapting to changing consumer behaviors and helping them become an integral part of their customers' lives.

Both solutions coexist in a single digital banking technology architecture, being native platforms to operate in the cloud (Cloud Native), focused on the use of APIs (Application Program Interfaces), and based on microservices. The difference of working with Galileo lies in its high innovation capacity, the talent of its human capital, and its vision of the future of financial services. In this way, the company becomes a strong ally for companies and organizations that need to compete and differentiate themselves in this new digital era.

Galileo is a leading financial technology company whose platform, open API technology and proven expertise enable fintechs, emerging and established brands to create differentiated financial solutions that expand the financial frontier.



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