

Opening Remarks at the Federal Reserve Bank of Boston’s 68th Economic Conference

*Remarks at
“The Future of Finance:
Implications of Innovation”*

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*The views expressed today are my own, not necessarily those of my colleagues on the
Federal Reserve Board of Governors or the Federal Open Market Committee.*

Good morning. It is a pleasure to welcome everyone participating in this conference, and those viewing the livestream.

This is the Boston Fed's 68th Economic Conference, and, per tradition, we've organized it to feature expert analysis and engaged discussion around a topic with real-world implications and relevance to economic vibrancy and the financial system on which we all rely.

I would like to thank Egon Zakrajsek, our Director of Research, and his team for organizing another special conference. My thanks also to those presenting research and insights today and tomorrow, as well as to the discussants and moderators.

I'll be brief in these introductory comments; but first, my standard disclaimer: The views I express are my own and may not reflect views of other Federal Reserve policymakers.

Our goal for the next day and a half is exploring the transformative impact of innovation in finance. Recent technological advances (for example in the FinTech space, in machine learning, and in Generative AI) have the potential to transform financial markets and the financial system. So, it is easy to see the importance of this topic for institutions and the public. And with the Fed's roles in the U.S. monetary and financial systems, it is essential that we explore both the opportunities and the associated risks.

There are many promising opportunities from financial sector innovation. For example, innovation could make financial markets more efficient, expand the types of services available, and help reduce barriers to participation. But one must also be highly cognizant of potential downside risks – including risks to security, privacy, and financial stability.

Changes are occurring very rapidly. The technology discussed here will not stand still and, in all likelihood, will only grow in importance. So, we want to understand its current effects and anticipate its future effects. We want to explore the potential impacts on traditional and nontraditional financial intermediaries, and, more broadly, on the public's access to financial services.

I will note that the Fed – and specifically, the Boston Fed – has been a force for innovation in the financial and payments systems. Many years ago, we built and helped popularize the automated clearing house network and then pushed for digital imaging and electronification of checks. Some of that happened right here, in this building – as befits a Reserve Bank in a region blessed with high technology, financial services, and innovative people.

A more recent example of Fed innovation is FedNow, the instant payments infrastructure we launched in July 2023. It's the first new payments platform built by the Fed in more than four decades. In our "always-on" digital world, expectations about transferring money have changed, and FedNow is bringing the immediacy we expect in other aspects of our lives to payments. Individuals and businesses whose financial institutions adopt the service can send and receive instant payments any time, with immediate funds availability. Over time, we expect instant payments to be used routinely for many everyday payments.¹

Of course, at the Fed we think about technological innovation broadly, not just in the finance space. The innovations we are all assessing – like generative AI – have the potential to impact the economy, labor markets, and prices in a variety of ways.²

Let me step back, for a moment, and comment on opportunities to participate in the financial system. My starting point is always the Fed's mandates from Congress,

¹ Businesses and consumers are starting to benefit from use cases such as account-to-account transfers, bill pay, earned wage access, digital wallet funding/defunding and many others. Workers completing their shifts can get access to their wages immediately when it's deposited into their account at a participating financial institution. Insurers can instantly disburse claim-related funds to people impacted by a natural disaster. Small businesses can use instant proceeds from sales or services to ensure steady cash flow and avoid the need for short-term credit. Account holders can move funds from a brokerage account to a checking account with no delay in accessing transferred funds. Digital wallet holders can fund or defund their wallets with immediate funds availability.

² For those who are interested, I recommend the annual "technology enabled disruption" conference co-organized by the Atlanta, Boston and Richmond Reserve Banks and available online at [Technology-Enabled Disruption: Implications of AI, Big Data, and Remote Work - October 1-2, 2024 - Federal Reserve Bank of Atlanta](#). Among the issues we discussed at the recent gathering were the abrupt shift, aided by technology, in how we worked during and after the pandemic - and the need to balance the potential of these technologies with appropriate cautions and risk management.

which are price stability and maximum employment, and our very framing and structure. The federated system that makes up the U.S. central bank touches every part of the country, underlining our public service mission. Fed policymakers look to support an economy and financial system that works for all the public, consistent with those mandates – and opportunities to participate in the economy and financial system are vital.

Parenthetically, the broad opportunity to participate, a form of financial inclusion, is a key dimension of the FedNow Service. FedNow is available to financial institutions no matter their size and location, and offers access to instant payments for their customers. Such access could, for instance, be attractive to people using expensive non-bank services for transactions.³ And other technological innovations in finance can also play roles in expanding access to financial services.

Given the Federal Reserve's roles in the U.S. monetary and financial system, we must be attuned to the frontiers of technological advances and explore their implications. In addition to payments systems, as already mentioned, this includes thinking through the potential impacts to:

- the transmission of monetary policy (including new channels for credit provision);
- financial stability (for example, understanding how technology builds or reduces risks); and
- supervision and regulation of financial institutions (including understanding how the financial institutions we supervise use technology-rich data models).

In an economic context, I've long referred to myself as a "realistic optimist." Today, I'll extend that moniker to finance, and its future. On the realistic side, we must all be attuned to the very real risks and challenges. The optimist sees potential for a

³ For example, businesses can leverage FedNow to offer benefits such as earned wage access for those in the gig economy or field workers in the agricultural industry; and financial institutions could offer their customers the ability to pay bills in the moment, which could help avoid late fees or reduce risk of damaged credit scores.

virtuous cycle, with the financial system benefiting from technological advances enabled by innovations, and adapting to changes in the economy – while a more efficient financial system, in turn, can boost economic growth.

This conference will explore two major themes in this space, around which the sessions are organized: financial inclusion broadly defined; and the implications of new technologies – on payment systems, on the transmission of monetary policy, and on financial stability. These topics are complex, and evolving rapidly – and there is much to learn from the emerging research. I am excited to bring together people across sectors to share insights and perspectives, and to enhance collaboration. I look forward to the active participation of everyone here.

Now it is my pleasure to turn things over to Jeff Fuhrer, who will moderate our first session.