Dallas Fed

Speech by President Lorie K. Logan

Welcoming Remarks at Day 2 of the Technology-Enabled Disruption Conference

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Dallas Fed President Lorie Logan delivered these remarks at the Technology-Enabled Disruption Conference 'Uncertainty and Prospects for Disruptive Investments' in Richmond, Virginia.

Good morning. Thank you for joining us for the second day of our conference on technology-enabled disruption.

This is the fifth conference on this topic in a series organized by the Atlanta, Dallas and Richmond Federal Reserve Banks. And the conversations among business leaders, scholars and policymakers remain as dynamic and important as ever.

The disruptive potential of technology has been unusually noticeable just in the short time since the previous conference in the series last October. After many years of relatively under-the-radar research, generative artificial intelligence [AI] exploded onto the public scene last November with the release of ChatGPT and, soon afterward, a number of competitors.

These remarkable new tools are already changing how companies provide customer service, how software developers write code, how college professors grade essays and even how art is made. However, you will be glad—I think—to know that the Federal Open Market Committee's monetary policy statements are still written entirely by humans.

One wonders whether, years from now, we'll look back at the time between this conference and the last one as a critical turning point—a time when we first truly saw a technology that, with its capacity to perform so many activities once thought of as uniquely human, may fundamentally reorient the human endeavor. Or will it turn out, instead, that generative AI is just another tool, an important one to be sure, but no more profoundly transformative or disruptive than other important technological tools?

In the financial sector, too, the disruption of technology has been quite volatile. We've seen in recent months how the combination of the rapid spread of information and the speed of financial transactions in the digital age puts a premium on banks' effective management of liquidity risk. To bankers in the audience, I'd highlight a message from remarks I made at the Texas Bankers Association last week. In this new environment, I believe every bank should be fully prepared to borrow from the Federal Reserve's discount window and to test its use regularly, including moving collateral between the Fed and the FHLBs [Federal Home Loan Banks]. It's a sign your bank is strong, manages risk well and is fully prepared to serve your customers' needs.

As authorities continue to learn from the recent episode, it will be valuable to examine how supervision and regulation can best take operational readiness into consideration. For example, an expectation that banks establish and regularly test the discount window access could help make individual firms and the financial system more resilient. Unlike requirements for banks to hold more liquid assets, an expectation for discount window readiness would allow banks to engage as much as always in the traditional business of banking—taking deposits and making loans—that is so critical to our economy. Also, if all banks regularly tested their discount window access, the traditional stigmas associated with borrowing from the Fed would be further reduced.

There is more here the Fed can do, too. Looking forward, the Fed should also consider expanding the hours of operation for critical services like the discount window. Our liquidity backstop should be available whenever banks might need it. As liquidity increasingly becomes a 24/7/365 business, that could come to include nights, weekends and holidays.

This morning, though, I'll focus on another aspect of innovation in financial services that hasn't gotten as many headlines as liquidity stresses but may be more transformative in the long run. That is how the Federal Reserve is advancing innovation in payments. I'll then turn the stage over to our experts on technological disruption. As always, these views are mine and not necessarily those of my Federal Reserve colleagues.

FedNow

The Federal Reserve operates part of the nation's payment system—a mission that is sometimes less visible than our work on monetary policy, financial stability and community economic development but is just as fundamental to the strength of the nation's economy.

The latest addition to the Fed's payments infrastructure is the FedNow service—a new instant payments service that the Fed is developing and will begin to roll out in July. FedNow will enable financial institutions of all sizes, in every community, to provide safe and efficient instant payment services for their depositors. Through institutions that use FedNow, people and businesses will be able to send and receive payments in real time. Recipients will have full and immediate access to funds. And the service will be available around the clock and every day of the year.

Throughout my career, increased speed has been a key theme in financial services innovation. Algorithms that trade in fractions of a second have replaced voice-brokered and open-outcry markets. The settlement cycle for stock trades shortened to two business days from three in 2017 and is scheduled next year to shorten again to one day. The special fleet of airplanes that moved paper checks around the country for processing has now been almost entirely replaced by much faster image processing, and the total volume of checks processed by the Federal Reserve is down more than 80 percent from the peak three decades ago as people convert to electronic payments.

Broadly available instant payments are the latest step in this push for speed, both in the United States and around the world. Of course, wire transfers between financial institutions are instantaneous and have been possible for decades. But enabling consumers and businesses to instantaneously make direct payments to one another is much newer and potentially transformative.

The private sector has created a number of options for instant payments—including tools built on existing payment rails as well as entirely new rails.

Against that backdrop, the Federal Reserve has the public responsibility of ensuring payment services are available and accessible to all depository institutions. That responsibility has been central to our work on many forms of payments over time. And as the world moves toward faster payments, we are taking that commitment to this new type of service. I see our commitment to ensuring broad and fair access as increasingly important in maintaining a diverse, vibrant banking ecosystem amid long-term trends toward consolidation.

FedNow will be the public option for financial institutions to support instant payments for their customers. This new payment rail will work alongside private sector rails, but the key is that this rail will ensure broad access. All types of depository institutions will have the option to use it—from the largest money-center banks to the smallest banks and credit unions in rural communities.

Some of the use cases for instant payments are already familiar, like using an app to instantly split a restaurant bill with a friend or getting paid immediately for your work instead of waiting for a paycheck.

But those familiar use cases are not why I see FedNow as potentially transformative. What's transformative is that broad access to this new service is likely to foster all kinds of innovations that we haven't even thought of yet.

When email first became available to the general public, it didn't seem like such a big deal to many of us. We thought it was just fine if a letter or bill took a few days to arrive through the mail. But once email was widely available, we discovered the power of immediate communication. Similarly, I expect that broad access to instant payments will enable people to invent all kinds of valuable new use cases that, today, we may not even imagine. And I think broad access is critical here because those great ideas could come from anywhere—any bank or any customer.

So that FedNow can achieve that transformative potential, I'm focused on making sure it is indeed accessible to the financial institutions that want to use it. Many smaller banks use third-party service providers known as core processors to connect to payments services. The Federal Reserve is working with core processors and other third-party technology providers to ensure banks will have the support they need to use FedNow.

It will take time to get all of the nation's depository institutions set up for a change of this magnitude. We are rolling out FedNow in July with some early adopters. And then we will continue working with institutions on a rolling basis. Broad access must remain the goal so the country can harness the full benefits of this innovation.

Concluding remarks

Let me conclude by briefly previewing this morning's sessions.

As we can see in the work of the Federal Reserve and depository institutions to create and connect to FedNow, technological innovation requires investment. That can be large-scale financial investment by a business. Or the smaller-scale— but still very meaningful—investment of a person working late, lonely hours to pursue their idea for making a better future.

In either case, investments in innovation are forward-looking decisions. They rely on the innovator's belief that the investment will ultimately pay a return.

Macroeconomic and global uncertainty can challenge that belief. In a world of pandemics, wars and economic volatility, one could forgive the innovator for being a little less confident in earning a future return. Yet a world of pandemics, wars and economic volatility is quite likely a world that needs more innovation—not less.

This morning, we will hear how business leaders and researchers resolve, or at least think about, that dilemma. Our speakers include executives from real estate, health care and banking, as well as scholars of firm dynamics, finance, economic growth, and research and development. It is a testament to the importance of research to the future of the economy that there are researchers who research research! I know we'll all learn a lot from these discussions.

Thanks to all of our speakers for sharing your expertise with us. And thanks to all of you for joining us here today.