

As the financial environment evolves and new technologies emerge, the Federal Reserve focuses on the most efficient and effective ways to fulfill its missions. First Vice President Bill Stone offers his insights on the evolution of the Federal Reserve System and the Philadelphia Fed's key role.

SPECIALIZATION AND EFFICIENT USE OF RESOURCES

Each of the 12 Reserve Banks in the Federal Reserve System expends great effort on issues concerning national monetary policy. Each Reserve Bank also does specialized research unique to its regional environment. For example,

Philadelphia area researchers are more interested in factors influencing the health-care industry and payment card providers because of the predominance of these activities in the District.

Financial institutions, too, have specialized and expanded into new financial vehicles. From a supervision and regulation perspective, uniform expertise is not required in every Federal Reserve District. Rather, sharing expertise across District lines ensures we are using resources effectively to best serve our financial institutions.

In providing services to the financial community and the U.S. Treasury, we have found that not all aspects of a service can be provided efficiently on a local basis. This is particularly true

CHANGING TIMES demand new

with changes in technology and the reduced reliance on paper transactions and documents.

An example of this is the Fed's participation in the ownership of government securities by individuals. U.S. Treasury securities are often purchased by consumers through TreasuryDirectSM, the first Systemwide consolidation of services, which found its home at the Philadelphia Fed back in the mid-1980s. Holding these securities in book-entry form made maintaining accounts at a single site a logical option.

Payments activities have also been in transition. As large-dollar payments and automated clearinghouse payments have become more electronic, geographic proximity has become less important. This consolidated processing brings significant improvements in efficiency.



William H. Stone, Jr., First Vice President

CHANGES IN CHECK INFRASTRUCTURE

During the early 1970s check payments were being influenced by a strong set of demands. Faster funds availability led to an expansion in Federal Reserve facilities as regional check processing centers opened to offer later deposit deadlines and improved funds availability. Despite predictions of their demise, check payments increased at a brisk pace.

Then, the mid-1980s ushered in electronic means for banks to provide information about check payments prior to processing the physical paper. Customers gained the advantage of earlier quality information, while banks avoided the demands of expensive additional processing equipment.

them electronically, and create machine-readable substitute checks that would be the legal equivalent of the original checks. The act, now in Congress waiting consideration, would remove certain legal impediments and would enhance the efficiency of the payments system.

OPPORTUNITIES FOR LEADERSHIP

When consolidation and centralization take place, they offer the opportunity for leadership



strategies for quality and efficiency

In the late 1990s, image processing furthered the decline in reliance on the physical check. In addition, the accelerating growth of electronic payments has led to declines in check volumes. Consequently, the Federal Reserve is re-examining its check infrastructure and reducing the number of processing sites.

The changes in check infrastructure are still limited by geographic constraints. Check service levels must be maintained, and the requirements for physical delivery of checks, although lessening, are still the primary limiting factor. Passage of the Check Truncation Act would open many additional opportunities for innovation in check processing and remove many of the geographic restraints. Banks would then be able to truncate — or stop the flow of — checks, process

and capitalization on special capabilities. This has been the case for a number of Fed services, such as collateral management for financial institutions and special payments applications for the U.S. Treasury.

Within the Federal Reserve System, the Philadelphia Fed has an outstanding reputation for leading System projects and an impressive portfolio of current leadership assignments. For example, we have earned a central role in the Fed's technology initiatives through our oversight of the planning, implementation, and functional enhancements to the shared technology — or Groupware — for the entire Federal Reserve System. Philadelphia also was asked to provide analysis on how to improve the effectiveness and efficiency of information security across our

distributed processing platforms.

As the largest single Fed site for check processing and also one of the most sophisticated and efficient operations in the System, Philadelphia is a major source of innovation and leadership. Philadelphia was asked to lead the effort and make recommendations on check infrastructure, leading to the decisions announced in early 2003. We are currently engaged in research for the System and the U.S. Treasury to combat check fraud. In addition, we are working to develop a new check information and reconciliation system for the U.S. Treasury.

At the Philadelphia Fed, we take advantage of change to leverage our strengths, pursue leadership opportunities, and share our capabilities

with the entire Fed System. When financial institutions access the services of their regional Reserve Bank, they do so with the confidence that the full arsenal of Fed resources and capabilities is behind them. This way, the power of sharing best practices is put to use to deliver superior, high quality customer service.

Our goal is to continue to provide the highest quality service in the most efficient and effective manner possible. We at the Federal Reserve Bank of Philadelphia are committed to quality, innovation, and responsiveness. We will strive to make strategic investments that allow us to contribute to the System and serve our Third District stakeholders. ■



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