

# Letter from the President

As Paul Connolly and I celebrate ten years as the top management team of the Federal Reserve Bank of Boston, we are struck by the pace and intensity of change in the Bank's environment and its activities. These ten years haven't affected the Bank's outward face—we're about the same size, albeit housed in fewer locations—and our mission of supporting the monetary and financial stability of New England and the nation remains the guiding star for our activities. But the way in which we follow that star is changing. We are making a gradual transformation from an organization with a large base of clerical operations to one that is engaged more in technologically sophisticated and policy oriented activities. Over time, we will be smaller in size, but we will remain a vital part of both the region and the Federal

Reserve System. This annual report highlights some of the changes we are seeing and how they affect the Bank.

Ten years ago, five major commercial banks had their headquarters in the First District, and hundreds of smaller institutions served the region. Today, banking assets are much more consolidated; nonbank providers of all types of financial services have proliferated; and, for all financial institutions, increased market complexity and competition have led to increasingly complex risk management. As we consider our responsibilities in an ever more competitive industry and society, the extent of change is striking. It is evident in how we supervise District banking institutions, how we provide financial services, and how we address our community and consumer protection responsibilities.

Ten years ago, the Bank operated its own data center and was a hub into the Federal Reserve's telecommunications system. Today, we, along with the other Reserve Banks, rely on centralized data centers that have proven to be both highly resilient in

systems and for the efficiency of the U.S. economy, but, as with most major changes, it brings with it uncertainty and transitional concerns.

As we look ahead, we see an organization undergoing significant change as well. An

## We have a critical mission to fulfill, and . . .

times of crisis and much easier to update as automation needs change. We have transformed the Bank's information technology areas to focus on specialized competencies. Among other things, we provide support for the System's Internet firewalls; we design, maintain, and operate the accounting system that serves all Reserve Banks; we design new payment platforms for the U.S. Treasury; and we have responsibility for the national implementation and operation of a new digital imaging platform and archive for checks. Even in cash services, one of the time honored tasks of a Reserve Bank, high technology dominates. In Boston, we are pioneering new ways to make that technology more effective, and our operations—and those of other Reserve Banks—more efficient.

As recently as three years ago, we saw paper check processing growing by nine percent per year here in Boston; now it is declining nationwide at an annual pace of about five percent. Research conducted within the Federal Reserve System indicates that the nationwide use of checks as a retail payment instrument likely started to decline in the late 1990s. Electronic retail payments are overtaking paper as businesses and consumers use a variety of debit and credit card alternatives, the ACH, and other electronic systems. This is a good thing for the payment

early retirement program offered in 2003 will see us bidding farewell to 200 colleagues with over 5,000 years of Bank service by the end of 2004. It's hard to imagine the Bank without these respected staff. Looking ahead, by 2005, a third of our staff will have worked for the Bank for less than five years, and that staff will be less clerical and more technical and professional in nature. To keep pace, our organizational structure has evolved, and new areas have been added to increase our emphasis on new payment technologies, strategic risk management, and regional outreach and communications.

Our building, as always a vital resource for our operations, has faced challenges as well—from the Big Dig to higher security levels in the wake of September 11, 2001. After nearly ten years of upheaval on our door step, we have begun a project that will bring new luster to the Bank's outward face and repair and enhance the security of our 25-year-old infrastructure. And at the same time, we've opened our New England Economic Adventure to engage visitors of all ages in games, exhibits, and activities that demonstrate to them how economies grow.

The nation's economy is changing as well. After a short and not particularly severe

recession, the ensuing recovery has taken some time to get on its feet. The second half of 2003 saw a remarkable pace of six percent GDP growth, but as this annual report goes to print, employment change has only begun to be positive. All the signs point to a strong 2004—renewed business spending, monetary and fiscal policy accommodation, and a renewal of growth around the globe even in the face of continued geopolitical uncertainty. And the spectacular increase in U.S. productivity augurs well for the long run. But for now, the slow pace of job growth surprises and puzzles us.

As we enter 2004, we say farewell to our chairman, James Norton, AFL-CIO vice president, who served six years as a director. His steady hand and common sense perspective were a mainstay as we encountered the many forces of change this annual report documents. We also recognize departing



Dorothy Simpson Krause, Untitled(History Series -Charter 2003), mixed media, Bank Collection

**FRANK E. MORRIS**, former President, and **JAMES A. MCINTOSH**, former First Vice President, are featured in a mural on the Bank's fourth floor.

lies not so much in the degree to which it is buffeted by change, but in the way in which it responds. Here, I have enormous confi-

## we will remain an important cornerstone of financial life in New England.

director Sherwin Greenblatt, past president of BOSE Corporation, for his contributions to our many discussions of high tech industries nationally and internationally; and departing directors Richard White, president and chief executive officer, Community National Bank in Derby, Vermont, and David Outhouse, president and chief executive officer, First and Ocean National Bank in Newburyport, Massachusetts, both of whom so ably represented the New England banking scene on our board.

As always, the measure of an institution

dence in the staff and management of the Bank. We have steered successfully through many changes during the 90 years since the Bank began to serve our region in 1914. We are and will remain an important cornerstone of financial life in New England and the nation and an important contributor to our communities as well.