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New York State Department of Financial Services

Joint Legislative Public Hearing on FY 2025 Executive Budget – Health

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Good morning, Chairs Krueger, Weinstein, Breslin, Weprin, Rivera, and Paulin; Ranking Members O'Mara, Ra, Helming, Hawley, Gallivan, and Jensen; and all distinguished Members of the New York State Senate and Assembly. My name is Adrienne A. Harris, and I am the Superintendent of the New York State Department of Financial Services (DFS). Thank you for inviting me to address you at today's Joint Legislative Hearing. I appreciate the opportunity to discuss the Fiscal Year 2025 (FY25) Executive Budget and all that DFS has been able to accomplish over the past year, thanks to the support of the Governor and the Legislature.

DFS was established in 2011 when the Legislature merged the former Departments of Insurance and Banking. In the wake of the 2008 financial crisis, the goal was to create a more efficient, comprehensive financial regulator to oversee the financial services industry, better protect consumers, and encourage economic growth in the financial capital of the world. Today, the Department regulates the activities of over 3,000 financial institutions with nearly $10 trillion in assets. This includes over 1,900 insurance companies, including health insurers, property and casualty insurers, managed care, and pharmacy benefit managers, and over 1,300 banks and financial institutions, including credit unions, money services businesses, foreign and wholesale banks, credit reporting agencies, and student loan servicers. We are also the only prudential regulator in the country – state *or* federal – with authority specific to virtual currency.

I have been at DFS for just over two years, and I am grateful for the opportunity the Governor and all of you in the Legislature have given me to transform DFS in that time. When I arrived at DFS, the Department was known as a lone wolf prosecutor, famous for little process, transparency, or engagement with outside stakeholders, including our partners in government. The Department was underfunded, and without adequate investment in human capital, technology, or process management. This left DFS incapable of meeting the standards that New Yorkers have the right to expect from their government. Morale was low, and turnover was high. The Department's technology platforms were decades old. Combined with staffing deficiencies, lack of operational processes had created Department-wide backlogs. There was no strategic planning of any sort – whether for policy, human capital resources, or how to best leverage our budget. And there was no framework for responding to financial crises – the very catalyst for the establishment of the Department.

So, I got to work. I spent the first several months identifying the issues and risks, and then created a strategic plan mapped to those risks. In its simplest form, the Department's strategic plan is something I have shared with you before, and what I call "The Three Ps – Policy, Process, and People."

On **policy**, I instituted a rule that going forward, all policy would be data-driven rather than based on ideology. And the policy-making process would include robust collaboration and engagement with all stakeholders – the Legislature, consumer advocates, local officials, and industry – to achieve our mission of building an equitable, transparent, and resilient financial system that benefits individuals and supports business. I deepened the Department's focus on kitchen table issues – those things that are meaningful to the everyday New Yorker, and that would help them trust that their government is working for them.

For **process**, I committed to DFS becoming a transparent, process-driven organization. We began to set KPIs, measure progress, build knowledge management, and improve governance so that we could be an efficient and effective organization.

And then I emphasized that neither our policy nor process goals could be achieved without the third P – **people.** We had to attract and retain expert talent, fostering a culture of inclusion and performance. In order to unify employees across divisions on a North Star, we rewrote our mission statement and established four core values – equitable, innovative, transparent, and collaborative.

I'm immensely proud to report on the progress that we have made in my time since joining the Department. From a **policy** perspective, we have implemented 100 new amendments to the insurance, banking, and financial services laws; issued more than 60 pieces of guidance; and promulgated 31 new data-driven regulations. During this time, we also secured more than $344.4 million in restitution for New York State consumers and health care providers. Among the Department's many policy accomplishments from the past year, we amended our nation-leading cybersecurity regulation, put in place a more modern fee structure for check cashing, adopted guidance to protect banks and mortgage lenders from climate risk, and combatted discrimination in life insurance practices. And importantly, thanks to the authority and appropriation granted by the Governor and the Legislature, the Department promulgated regulations to assess the virtual currency industry and has built a virtual currency unit known around the world as the gold standard.

On **process**, we have committed to becoming a more efficient and effective organization, engaging in a Department-wide technology transformation. To address extensive backlogs within each division, I implemented what we call "60-Day Lists" to track every filing in the Department that is over 60 days old. I am proud to report that last year, we cleared more than 11,000 filings from our Banking and Insurance divisions alone.

We are also implementing a new customer relationship management (CRM) platform, which will transform the Department's operations. This platform will create a single portal to manage relationships and communications with insurers, banks, and other financial institutions. It will make licensing and renewals easier for our entities, create a centralized and streamlined information system for teams throughout DFS, and maximize efficiency in our oversight. In addition to implementing the CRM system, we are rolling out a data warehouse, data visualization tools, and productivity tools across the enterprise. As a prudential regulator who oversees thousands of financial institutions, including globally systemic institutions and foreign institutions, these technology and system upgrades give DFS the modern tools needed to identify and respond to risk, and better protect financial markets in New York and around the world.

But to do all of this, and more, the Department relies on the third P – **people**. I spent much of those first few months here engaged in a risk-based analysis of our human capital needs and created a five-year strategy for fully staffing the agency. My risk-based analysis allowed us to identify and describe the risks that could befall the financial industry, and therefore the State of New York and the global financial system, without adequate staffing.

I then took that analysis to all of our stakeholders – industry, consumer advocates, and many of you – to make the case that full staffing was not just in DFS's interest, but in everyone's interest. And by engaging a diverse set of stakeholders with data leveraged to showcase our aligned incentives, we have been able to get the agency fully funded for the first time in its history thanks to support from all of you in the Legislature and the Governor. As a result of that backing, we have hired 336 new team members and promoted 309 existing team members since January 2022. I also hired the first-ever CTO; created the first-ever Data Governance office; established a Climate Division; and elevated our operational components like budgeting, procurement, facilities, and HR by creating an executive role to lead these functions.

Beyond the people within the Department, we also have expanded our network to collaborate with partners at the state, federal, and international levels, including advocates, industry leaders, legislators, and other regulators. At the state level, our partnership with the Legislature has been critical in enacting the Department-wide transformation that is improving outcomes for New Yorkers, strengthening the industry, and ensuring we can adapt to meet the needs of the evolving financial landscape. And for the first time, New York State is represented on the U.S. Department of Treasury's Financial Stability Oversight Council, a role in which I am honored to serve.

All of the actions that we have taken have been with one core goal in mind: to transform DFS into a preeminent regulator, fitting of the financial capital of the world. While we have made great progress in enacting this vision, we still have more work to do. As we move forward, DFS will continue to focus on three key areas: equity, innovation, and consumer protection.

I mentioned earlier that **equity** is one of our agency values. We consider policy decisions through the lens of building a more equitable financial system that protects and empowers *all* New Yorkers, including those in underserved and marginalized communities.

In the past year, the Department has taken definitive action to help make New York's financial and health care systems more accessible and equitable. We enacted policies to cut check cashing fees, a regulation just recently upheld by the Supreme Court of the State of New York, to better serve New Yorkers who rely on these services to access their money. We released guidance to combat discriminatory practices that previously made less-favorable versions of life insurance products available to low-income and minority consumers. We implemented expanded abortion protections that require health insurers to cover prescription medication for abortion to reduce reproductive health inequities. And we have prioritized increasing access to affordable banking services to underserved communities through our Banking Development District Program and BankOn expansion. Because of these efforts, more low-cost bank accounts are available across New York State.

As we look to FY25, the Department will continue to pursue a comprehensive approach to advancing equity for all New Yorkers, including those historically underserved and marginalized. As many of you know, diabetes has a disproportionate impact on LMI communities and communities of color in New York State, further increasing an already deep divide in health equity. Diabetes risk among low-income adults is more than double the risk of those not living in poverty.[1] Black New Yorkers are more than twice as likely to die from

[1] https://www.health.ny.gov/statistics/brfss/reports/docs/2021-06_brfss_diabetes.pdf

diabetes compared to white New Yorkers.[2] And studies have shown that 25% of those who used insulin have reduced their dose or stopped taking it altogether due to costs.[3,4]

These figures are the reality – and they demonstrate the critical need for Governor Hochul's proposal to eliminate co-pays for insulin. While cost-sharing for insulin is currently capped at $100 for a 30-day supply, these costs are still prohibitive for many New Yorkers. Studies have shown that removing these barriers will increase adherence to insulin treatments, thereby decreasing complications from diabetes and lowering overall health care costs. As a result, this proposal will improve the health of New Yorkers, help close the health equity gap, and lower long-term health care costs. DFS is proud to work with the Governor and the Legislature to help advance this and other bold, life-saving policy initiatives on behalf of the people of New York.

Governor Hochul has also introduced several other DFS-led policy initiatives that will help close financial and health equity gaps, including prohibitions on insurance discrimination against Section 8 voucher recipients and affordable housing providers, enhanced protections for seniors against elder financial abuse, and prenatal Paid Family Leave so expectant parents are not required to choose between health care appointments and a paycheck.

DFS also remains laser-focused on **innovation**, a key area that is shaping my vision for the Department, its transformation, and our future. In revising the Department's mission statement in 2022, it was important to me that we specifically articulated DFS's commitment to driving economic growth through *responsible* innovation. We are not interested in participating in a "race to the bottom," a term many regulators like to use when jurisdictions sacrifice

[2] https://rockinst.org/blog/causes-of-mortality-in-new-york-state/
[3] Peek ME. By any means necessary: why lowering insulin prices is relevant to racial health equity. Lancet. 2021 Nov 13; https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9172261/
[4] Yu AP, Yu YF, Nichol MB. Estimating the effect of medication adherence on health outcomes among patients with type 2 diabetes–an application of marginal structural models. Value Health. 2010;13(8):1038-45; https://pubmed.ncbi.nlm.nih.gov/20946182/

consumer protections for the purpose of attracting business. I firmly believe that we can protect consumers and markets, while also helping to grow a robust and thriving marketplace where companies want to do business.

One clear example is the Department's world-leading virtual currency framework. DFS is the nation's only prudential regulator with digital asset-specific authority. Our framework has served well to protect consumers, keep virtual currency entities safe and sound, and hold bad actors accountable, while allowing for responsible innovation compliant with our rigorous standards. As a result, state, federal, and international policymakers and regulators regularly seek out the Department's expertise in the development of their own regulatory frameworks.

To carry out this work, I have built the largest virtual currency regulatory team in the nation. Since I started at DFS, the virtual currency unit has grown from a handful of employees to more than 60 seasoned experts, who have been key to devising and releasing eight nation-leading pieces of guidance on virtual currency and stablecoins. This deep bench of talent has provided us with the resources and expertise to examine and supervise licensees in order to identify and alleviate risks and protect consumers. In the event that companies fail to meet the strict regulatory standards established by DFS, the Department has the authority to take enforcement action. During my tenure, DFS has levied the Department's first-ever penalties against virtual currency companies, including Robinhood Crypto and Coinbase, Inc., collecting more than $140 million in penalties. In 2023, the Department was also the first regulator in the world to take action against Binance, ordering Paxos to cease minting Paxos-issued BUSD.

At DFS, we believe that responsible innovation begins with cybersecurity. Last year, the Department adopted amendments to our nation-leading cybersecurity regulation to expand protections for consumers and businesses. The amended regulation includes new requirements and controls to build on the sweeping impact of our original regulations, which established the innovative framework that is now modeled by both federal and state financial regulators to protect against cyber threats. As part of our data-driven approach to cybersecurity, the regulation now ensures that companies' cyber defenses are better tailored to their size, risks, nature of business, and type of data maintained.

The same principles of responsible innovation apply to artificial intelligence (AI) and machine learning, where significant benefits and risks coexist. Last week, the Department proposed guidance on regulating the use of AI in insurance to mitigate potential harm to consumers. We advised that technological advances that allow for greater efficiency in underwriting and pricing should *never* come at the expense of consumer protection. And while DFS is taking a leading role in regulating the use of AI, we also are exploring how we can leverage this technology to enhance our ability to predict and respond to market events and risks.

DFS's proposed AI guidance builds upon Governor Hochul's statewide policy governing AI, as well as her commitment to making New York a leader in cutting-edge technology development and use. The Governor's FY25 initiative makes clear that New York State government will lead by example to responsibly harness the opportunity of AI to better serve New Yorkers. I believe that is something we can all support.

Lastly, I would be remiss if I did not share with you DFS's accomplishments in the area of **consumer protection**. I am endlessly proud of the Department's efforts to continually deliver for New Yorkers. A healthy market grows when consumers have confidence in the products offered and the providers offering them, and our policy results are examples of that. Last year, with the support of the Governor and the Legislature, we created the Health Guaranty Fund, a critical safety net for New Yorkers purchasing health or long term care insurance. Thanks to your partnership, New York is no longer the only state without this essential protection for policyholders.

In addition to the Health Guaranty Fund, the Department also has published new guidance prohibiting unfair and deceptive overdraft and non-sufficient funds fee practices; protected small business owners through new financing disclosures; and mitigated a national banking crisis, protecting the finances of New York's consumers and small businesses. Perhaps one of my proudest accomplishments is the Department's continuous work to put money back in the pockets of New Yorkers – and setting new record highs for recoveries in each of the last three years in the process. Last year, the Department returned a record $163 million to New York State consumers and health care providers, bringing the total in restitution during my tenure to more than $344.4. million.

With consumer protection and affordability top of mind in FY25, I look forward to our continued collaboration with the Governor and the Legislature to further support and empower those who call New York home. Several DFS-led policy initiatives will do just that.

Take, for example, the Buy Now Pay Later proposal. Without enough cash to cover all expenses, New Yorkers have turned to Buy Now Pay Later products, racking up debt with companies that have operated without guardrails in this state for too long. In fact, consumers made nearly $1 billion in Buy Now Pay Later purchases this past Cyber Monday alone, an increase of 42.5% over the previous year. [5] The Governor's proposal would give DFS the authority to establish a licensing and supervision regime for these products, including disclosure

[5] https://www.forbes.com/sites/britneynguyen/2023/11/28/cyber-monday-hits-all-time-record---fueled-by-buy-now-pay-later

requirements, dispute resolution and credit reporting standards, late fee limits, consumer data privacy, and guidelines to curtail dark patterns, debt accumulation, and overextension.

The Governor also has introduced initiatives to expand paid medical and disability leave benefits over the next five years, and to improve access to mental health and addiction services by expanding out-of-network coverage when timely appointments are not available for in-network coverage. This is just a sampling of Governor Hochul's critical agenda that will strengthen protections for consumers across the state. I know we will be engaging throughout the legislative session on these policy proposals and more.

Before I close, I want to take a moment to reflect on the events of the past year. In March, one week after I testified, community and regional banks across the country suddenly began to fail. The self-liquidation of Silvergate and then the $42 billion run on deposits at Silicon Valley Bank quickly led to three of the four largest bank failures in history, including one here in New York. The unprecedented speed of events put DFS at the center of preventing a global financial meltdown. Along with regulators in other states, in Washington D.C., and in Europe, my team and I worked around the clock to mitigate further panic and contagion across the broader banking system and ensure that individuals and small businesses could safely access their money, all while we continued the day-to-day operations of the agency. It is a set of events that is marked in the history of this country, and as we approach the one-year anniversary, I want to again express my deep gratitude to my team for all they did to protect New Yorkers and the global financial system.

I am also grateful for your partnership. Your support and collaboration were critical as we weathered the storm. I look forward to continuing to work together to advance an affirmative policy agenda to benefit New Yorkers.

Thank you for the opportunity to address you today to discuss how the Department of Financial Services is working to build a more equitable and innovative financial system that benefits New Yorkers, supports businesses, and drives economic growth, cementing New York's place as the financial capital of the world. I look forward to answering your questions.

ADRIENNE A. HARRIS

Superintendent

2023 HIGHLIGHTS

ESTABLISHED A CRITICAL SAFETY NET FOR HEALTH INSURANCE POLICYHOLDERS

With the support of the Governor and the Legislature, DFS created the Health Guaranty Fund, an essential consumer protection for New Yorkers purchasing health or long term care insurance through a health insurer or property/casualty insurer. If an insurer becomes insolvent, policyholders who have paid their premiums and health care providers will have their claims paid by the Fund.

RESOLVED A RECORD NUMBER OF CONSUMER COMPLAINTS

DFS returned more than $163 million to consumers and health care providers in 2023. This represents a $5 million increase over money returned to New Yorkers in 2022, which was a previous Department record.

CREATED A FAIRER, DATA-DRIVEN CHECK CASHING REGULATION FOR NEW YORKERS

DFS adopted an updated check cashing regulation following the proposed regulation implementing a new, data-driven methodology for calculating fees which accounts for needs of licensees, and consumers who use check cashing services.

COMBATTED DISCRIMINATION BY LIFE INSURANCE COMPANIES

Superintendent Harris issued a new circular letter to life insurance companies prohibiting discrimination by offering multiple versions of the same product, addressing practices that can result in less-favorable versions of products being made available to low-income and minority consumers.

UPDATED NEW YORK'S NATION-LEADING CYBERSECURITY REGULATION

DFS has taken a data-driven approach to amending and finalizing its first-in-the-nation cybersecurity regulation to ensure that regulated entities address new and evolving cybersecurity threats with effective controls and best practices to protect businesses and consumers.

STRENGTHENED THE DEPARTMENT'S VIRTUAL CURRENCY OVERSIGHT

The Department has added more than 60 experts to oversee licensing and strengthen supervision and issued eight pieces of innovative industry regulatory guidance, including enhanced requirements for coin-listing and delisting policies of DFS-regulated virtual currency entities. Building on the Department's first enforcement actions against cryptocurrency companies, this year Coinbase agreed to a $100 million settlement for significant failures in its compliance program.

ENHANCED CHARACTER & FITNESS REQUIREMENTS

Superintendent Harris released proposed guidance to New York State banking organizations and non-depository financial institutions with updated expectations regarding the review and assessment of the character and fitness of their directors and senior officers, both upon onboarding and on an ongoing basis.

ADOPTED CLIMATE RISK GUIDANCE FOR BANKS AND MORTGAGE INSTITUTIONS

Issued guidance for New York State-regulated banking and mortgage institutions to help them manage their material financial and operational risks associated with climate change in a manner consistent with current risk management principles.

ADRIENNE A. HARRIS

Superintendent

Through engagement, data-driven policy and regulation, and a commitment to operational resiliency, Superintendent Adrienne A. Harris is building a new Department of Financial Services ("DFS" or the "Department") that is fostering an equitable, transparent, and resilient financial system that protects consumers and supports responsible businesses. Since joining DFS more than two years ago, the Superintendent has led initiatives to improve financial access and outcomes for consumers, strengthen supervision of virtual currency companies, and ensure entities are adequately addressing cybersecurity risk for their operational resiliency. Foundational to building a new DFS is the Superintendent's commitment to securing the Department's maximum full-time equivalent allotment and appropriations for the first time in its history and fostering a culture of inclusion and performance to attract, retain, and cultivate top talent.

FOSTERING POSITIVE OUTCOMES FOR CONSUMERS

Superintendent Harris has deepened the Department's focus on kitchen table issues and consumer restitution, ensuring that consumers have confidence in the financial products they use and the providers offering them. In addition to returning more than $344 million to New Yorkers in restitution through recoveries and enforcement actions over the last two years, the Superintendent is taking a proactive approach to protecting consumers by implementing new laws, proposing new regulations and amending existing ones, and issuing regulatory guidance.

PROACTIVELY BUILDING A MORE EQUITABLE FINANCIAL SYSTEM

Banking & Access to Credit

- DFS adopted an updated check cashing regulation, implementing a new, data-driven methodology for calculating fees that takes into account the needs of consumers who use check cashing services, creating a fairer fee setting process. The amended regulation replaced an outdated methodology that granted annual, automatic, CPI-based fee increases to check cashers, without any consideration of consumer impact.
- Addressing New York's critical need for affordable and accessible banking services, under Superintendent Harris's direction, DFS published new guidance for New York-regulated banking institutions to promote financial inclusion by prohibiting unfair and deceptive overdraft and non-sufficient funds fee practices. The guidance addresses "authorize positive-settle negative" transactions, overdraft protection fees, and representments.

- Additionally, Superintendent Harris has approved four new Banking Development Districts in the Bronx, the City of Poughkeepsie, and Brooklyn to increase financial access in support of the Department's mission to build a more equitable financial services system. The Heritage Financial Credit Union in the City of Poughkeepsie is the first credit union to be approved through the program.
- Superintendent Harris also issued guidance to expand access to low-cost bank accounts for New Yorkers. State-regulated banks can now offer BankOn-certified accounts as an alternative to the New York Basic Banking Account, allowing more New Yorkers to have access to safe, affordable banking services without several common fees—including overdraft, inactivity, and low balance fees—while permitting banks to meet their state-mandated affordable banking requirements.
- Superintendent Harris has championed the expansion and modernization of the Community Reinvestment Act in New York State to ensure equal access to credit for consumers. She pushed legislation to cover non-depository mortgage lenders and adopted a new regulation to allow the Department to evaluate how well New York-regulated banking institutions are serving their communities with respect to minority- and women-owned businesses.
- Superintendent Harris proposed and adopted a small business lending disclosure regulation that will increase transparency and help business owners better understand and compare the terms of commercial financing offers.

Holocaust Survivors

- Superintendent Harris championed the work of the DFS Holocaust Claims Processing Office ("HCPO") in advocating for Holocaust victims and their heirs, requesting that New York State-chartered institutions voluntarily waive wire transfer and processing fees associated with Holocaust reparations payments. Working in coordination with Governor Hochul and the Legislature, DFS's continued commitment to support Holocaust survivors and maintain an updated list of banks has now been codified into law.
- The Superintendent, in collaboration with the international law enforcement agencies, has returned 19 pieces of Nazi-looted art to their rightful owners. To date, HCPO has responded to thousands of inquiries and received claims from 46 states and 39 countries. The office has helped secure over $183 million in offers for bank, insurance, and other losses. The office has facilitated settlements involving more than 232 cultural objects.

Health & Insurance

- With the support of the Governor and the Legislature, DFS created the Health Guaranty Fund, an essential consumer protection for New Yorkers purchasing health or long term care insurance through a health insurer or property/casualty insurer. If an insurer becomes insolvent, policyholders who have paid their premiums and health care providers will have their claims paid by the Fund.
- Superintendent Harris proposed artificial intelligence guidance to combat discrimination in insurance underwriting and pricing. DFS has a responsibility to ensure that the use of artificial intelligence in insurance will be conducted in a way that does not replicate or

expand existing systemic biases that have historically led to unlawful or unfair discrimination.

- In coordination with Governor Hochul and the Legislature, the Department is requiring insurance companies to cover pre-exposure prophylaxis (PrEP) and post-exposure prophylaxis (PEP) to provide New Yorkers with critical access to lifesaving medications which help prevent HIV infection.

- Superintendent Harris committed the Department to address the systemic health inequities in our society that have disproportionately impacted communities of color. DFS has collected data from insurers to understand the scope and impact of their programs aimed at reducing health disparities. The data gathered allows DFS to establish a foundation from which to build thoughtful, data-driven policies to ensure better health outcomes for all New Yorkers.

- Under Superintendent Harris's leadership, DFS expanded its oversight to the pharmacy benefit manager (PBM) industry with the creation of the DFS Pharmacy Benefits Bureau, which is tasked with licensing and supervising PBMs to keep a watchful eye on their impact on consumers and the cost of health care. Superintendent Harris has built this new bureau from the ground up, finalized licensing regulations, and licensed nearly every PBM by the end of 2023.

- Consumer advocacy groups lauded Superintendent Harris for adopting an essential new regulation to protect consumers against health care provider directory misinformation to ensure that consumers who believe that a provider is in their network based on incorrect information provided by their insurer will pay no more than their in-network cost-sharing for services from that provider.

- To fully understand the current long term care market challenges, the Department analyzed historical data, conducted key stakeholder interviews, and assessed the impacts of past actions. In the spirit of transparency, Superintendent Harris issued a report to make the findings public, a critical step to address long term care insurance challenges to benefit New Yorkers.

- Superintendent Harris issued a new circular letter to life insurance companies prohibiting discrimination by offering multiple versions of the same product, addressing practices that can result in less-favorable versions of products being made available to low-income and minority consumers.

Student Debt

- Working in coordination with Governor Hochul and the Legislature, the Department is helping borrowers take advantage of new legislation that removes substantial barriers to accessing the Federal Public Service Loan Forgiveness ("PSLF") program. The new law establishes uniformity as to what qualifies as full-time employment for the purposes of accessing PSLF and allows public service employers to certify employment on behalf of workers.

- Continuing DFS's commitment to New York student loan borrowers, Superintendent Harris issued a letter to federal student loan servicers to increase awareness of and enrollment in the PSLF program before the rule waiver expired. The waiver, which was in effect through

October 2022, made it easier for eligible borrowers to have their federal loans forgiven. Superintendent Harris secured commitments from organizations representing more than 8,500 public and not-for-profit employers to distribute information to their workforces about the PSLF program and to assist them in applying before the waiver expired.

ENFORCING LAWS & REGULATIONS TO PROTECT CONSUMERS

- Under Superintendent Harris, DFS has secured more than $344 million for consumers, breaking annual records in both 2022 and 2023.

    - Under Superintendent Harris's leadership, DFS secured $3.1 million for New Yorkers, including $473,565 in restitution, following DFS's review of New York insurers' compliance with state and federal cost-sharing requirements for mental health and substance use disorder parity. The penalty provides critical funding for initiatives supporting parity implementation and enforcement on behalf of consumers.

    - Consumers and/or their beneficiaries are receiving $21.6 million after the Department found that John Hancock Life & Health Insurance Company prematurely terminated 156 New York State Partnership long term care policies prior to insureds exhausting benefits and miscalculated lifetime maximum benefits. Because these policies were prematurely terminated, insureds who were on claim or who went on claim after termination may have paid long term care expenses out of pocket or accessed Medicaid prematurely.

    - Superintendent Harris has taken critical action in response to violations of the Insurance Law, securing almost $8 million in restitution for New York consumers from Columbian Mutual for failing to make efforts to identify beneficiaries for thousands of life insurance policies, most of which were held by low-to-moderate income consumers and people of color.

    - DFS secured $3.4 million in restitution for New York consumers in addition to $2.24 million in penalties through a settlement with Nationwide Life Insurance Company for its failure to properly disclose to consumers income comparisons and suitability information, which caused consumers to exchange more financially favorable deferred annuities for immediate annuities.

    - Superintendent Harris secured a $950,000 penalty and restitution to eligible impacted borrowers from Rhinebeck Bank to resolve fair lending violations concerning auto loans. The Department's investigation found that Rhinebeck's practices resulted in minority borrowers paying higher interest rates than non-Hispanic white borrowers for their auto loans, without regard to their creditworthiness.

    - DFS secured $3.2 million in reimbursements for New York students in addition to $4.6 million in penalties through settlements with student health insurers 4 Ever Life Insurance Company, Aetna Life Insurance Company, UnitedHealthcare Insurance Company of New York, and Wellfleet New York Insurance Company. As part of its annual review of student health insurers in the New York market, DFS found that the four insurers charged unapproved premium rates to students covered under blanket health insurance contracts with institutions of higher learning, and 4 Ever Life and Aetna used unapproved policy forms.

Responding in Crisis

- Superintendent Harris guided DFS's efforts to assist New Yorkers recovering from Hurricane Ida, which caused extensive damage throughout the state. She toured multiple disaster sites, meeting with local residents and ensuring that DFS's resources were available to assist affected communities. She also helped establish an informal steering group, including representatives from the property/casualty insurance industry, to share best practices, strengthen consumer education, and gather real-time information to ensure that New York is better prepared for the next storm. Under her leadership, DFS provided insurance advice to more than 2,700 affected New Yorkers, both in person and through its disaster hotline. DFS also issued guidance to insurers requiring them to increase their resources to impacted communities and expedited the issuance of temporary permits to qualified, out-of-state, independent insurance adjusters so that more adjusters were available to process claims and help get residents' property repaired and claims paid.
- Following Hurricane Fiona, Superintendent Harris directed DFS to issue guidance calling on New York state-chartered banks to take all reasonable steps to assist consumers and businesses affected by the hurricane, including waiving ATM and late fees, increasing ATM withdrawal limits, and facilitating and expediting the transmission of funds. These actions helped ease financial burdens for the many New Yorkers seeking to support family and friends in Puerto Rico, as well as anyone in Puerto Rico with a New York bank account.
- Similarly, following a severe winter storm in the Western and North Country regions of New York, Superintendent Harris issued guidance to banking institutions to provide fee-free services to nearby customers and non-customers while travel conditions remained dangerous.

BUILDING AN OPERATIONALLY RESILIENT DFS

Superintendent Harris is building a new DFS on a foundation of policy, process, and people.

- <u>Policy</u>: **Strengthen consumer protection while encouraging a healthy marketplace.**
    - Superintendent Harris is leading the adoption of a data-driven approach, developing policy based on data rather than ideology.
    - New rules, amended regulations, and draft guidance go through a robust engagement process with all stakeholders, including consumer advocates, legislators, other regulators, and industry.
    - Superintendent Harris undertook a review the Department's mission statement to align with this foundation, soliciting feedback from employees to articulate how the agency works, the agency's values, and the outcomes the agency aims to achieve.
    - Under Superintendent Harris, the Department has promulgated 31 new regulations, issued over 60 pieces of regulatory guidance, and implemented 100 new amendments to the banking, insurance, and financial services laws.

- Process**: The Superintendent is cultivating operational excellence so that decision-making is efficient, transparent, fair, and surfaces the best solutions for New Yorkers.**
    - The Department is increasing the use of data and technology to license, supervise, and regulate financial services, protect consumers, and enforce the law.
    - The Superintendent hired the Department's first-ever Chief Technology Officer, spearheading a complete technology overhaul, implementing a Customer Relationship Management platform, data warehouse, and productivity tools across the enterprise.
    - In 2023 alone, the Department has cleared more than 11,000 filings from the Banking and Insurance divisions.
- People**: The Superintendent is shifting the perception of DFS to that of an outcomes-oriented, innovative regulator with a strong culture of performance to retain, promote, and attract top talent.**
    - Working with the Governor, Superintendent Harris secured the Department's maximum full-time equivalent allotment and appropriations in FY23; this is the first time in the Department's history that it is fully funded.
    - As a result of the Superintendent's commitment to staffing, the Department has hired more than 336 new employees and promoted 309 existing employees since January 1, 2022.
        - Since September 2021, the Department has hired 107 financial service examiner trainees, the first class since 2018.

A ROBUST REGULATORY FRAMEWORK FOR VIRTUAL CURRENCY

Superintendent Harris has worked diligently to strengthen the Department's leadership to become the preeminent, prudential regulator for virtual currency business activity. Through industry guidance and a commitment to operational excellence, the Superintendent has built upon the State's virtual currency regulation to strengthen consumer protections, preserve the safety and soundness of companies, ensure cybersecurity compliance, and root out financial crimes like money laundering and terrorist financing.

- DFS leads the nation with a comprehensive regulatory framework for virtual currency. The framework includes strict licensing, supervisory, and examination standards, as well as enforcement authority. DFS-regulated virtual currency entities are subject to capitalization and reserving, cybersecurity, BSA/AML, and consumer protection requirements. Once licensed, companies are subject to a rigorous and transparent pre-approval process for new products, new listings, and material changes in business model.

To ensure operational excellence across the Virtual Currency Unit, DFS has defined and formalized a set of internal guiding principles under Superintendent Harris, which is known as VOLT – Vision, Operations, Leadership, and Technology.

- Through Superintendent Harris's VOLT initiative, the Department has added more than 60 experts to oversee licensing and strengthen supervision, enhance existing and established new policies and procedures, and enact new assessment authority to support the continued growth of the virtual currency unit.

- Under Superintendent Harris, DFS brought its first penalties against cryptocurrency companies including Robinhood Crypto and Coinbase, Inc. In the last two years, the Department has levied over $140 million in penalties against virtual currency companies. The Department was also the first regulator to take action against Binance, ordering Paxos to cease minting Paxos-issued BUSD.

- To address emerging issues, DFS issued eight pieces of innovative industry regulatory guidance, including first-in-the-nation regulatory guidance setting foundational criteria for USD-backed stablecoins issued by DFS-regulated entities, guidance to better protect customers in the event of a virtual currency insolvency or similar proceeding, and guidance for establishing the use of blockchain analytics tools as a best practice for virtual currency entities to prevent and manage financial risks and suspicious activities.

    - In response to the evolving marketplace, Superintendent Harris released updated guidance regarding the adoption or listing of virtual currencies to enhance consumer protections and market integrity. This guidance serves to enhance the original framework issued by the Department in 2020 by clarifying the expectations of DFS with respect to coin-listing and requiring licensees to develop and submit to DFS for approval a coin-delisting policy.

    - Superintendent Harris released an updated framework for DFS approval of coins presented on its Greenlist. The Greenlist is a forward-looking regulatory tool that permits virtual currency entities to list or custody certain coins meeting specific DFS standards. This guidance strengthens consumer protections and provides greater transparency in the greenlisting process.

    - Superintendent Harris issued first-in-the-nation regulatory guidance setting foundational criteria for USD-backed stablecoins issued by DFS-regulated entities. The guidance outlines the Department's expectations with regards to reserves, redemption policies, and independent audits.

    - Under Superintendent Harris's direction, the Department issued new guidance to better protect customers in the event of a virtual currency insolvency or similar proceeding, reiterating expectations regarding the safekeeping of customer assets.

    - Superintendent Harris directed the issuance of new guidance to establish the use of blockchain analytics tools as a best practice for virtual currency entities to prevent and manage financial risks and suspicious activities, providing companies with an efficient, data-driven way to conduct customer due diligence, transaction monitoring, and sanctions screening.

    - Superintendent Harris released virtual currency guidance for banking organizations, reiterating the Department's expectations to review virtual currency-related activities for prior approval and outlining criteria by which proposals will be evaluated.

CREATING A SAFE & SOUND FINANCIAL SYSTEM

Superintendent Harris has taken a number of steps to ensure the health of the entities the Department regulates and preserve the stability of the global financial system. Under her leadership, the Department finalized amendments to New York's cybersecurity regulation, acted quickly to mitigate a banking crisis, and stood up a first-in-the-nation Climate Division.

- Superintendent Harris released proposed guidance to New York State banking organizations and non-depository financial institutions with updated expectations regarding the review and assessment of the character and fitness of their directors and senior officers, both upon onboarding and on an ongoing basis.

- In light of macroeconomic conditions, Superintendent Harris implemented heightened supervision relating to the commercial real estate portfolios of state-chartered banks. Working collaboratively with industry and regulators, the Department is working to assess commercial real estate concentration risk, including loan values in the event of refinancing and diversification to ensure that risk is being managed.

CYBERSECURITY

DFS has taken a data-driven approach to amending and finalizing its first-in-the-nation cybersecurity regulation to ensure that regulated entities address new and evolving cybersecurity threats with effective controls and best practices to protect businesses and consumers. The finalized regulation strengthens the Department's risk-based approach to ensure cybersecurity considerations are integrated into business planning, decision-making, and risk management.

In addition to amending the regulation, Superintendent Harris brought enforcement actions against companies for non-compliance with the cybersecurity regulation.

- Robinhood Crypto: In July 2022, under Superintendent Harris, DFS assessed its first penalty against a cryptocurrency company, despite regulating the industry since 2015. Robinhood Crypto paid a $30 million penalty for significant cybersecurity, anti-money laundering, and consumer protection violations. All virtual currency companies licensed in New York State are subject to the same cybersecurity, anti-money laundering, and consumer protection regulations as traditional financial services companies. These regulations are critical to protecting New York consumers and ensuring the safety and soundness of institutions.

- Genesis Global Trading: Superintendent Harris secured an $8 million penalty against Genesis Global Trading after a DFS investigation found significant anti-money laundering and cybersecurity compliance failures. In connection with the settlement, Genesis Global Trading will surrender its BitLicense and is in the process of ceasing operations.

- Carnival Corporation: DFS imposed a $5 million penalty for cybersecurity violations after cybersecurity events at Carnival caused the exposure of substantial sensitive, non-public, personal customer data.

- OneMain Financial Group: Under Superintendent Harris's leadership, DFS secured a $4.25 million penalty for cybersecurity violations including failing to effectively manage thirdparty service provider risk, manage access privileges, and maintain a formal application security development methodology, significantly increasing the company's vulnerability to cybersecurity events.

NATIONAL SECURITY

Superintendent Harris renewed DFS's commitment to protecting our national security by assessing more than $225 million in penalties to companies that violated U.S. sanctions laws and/or had significant Bank Secrecy Act/Anti-Money Laundering ("BSA/AML") deficiencies. Representative enforcement actions include:

- For processing payments in violation of U.S. sanctions laws, Mashreqbank paid a $100 million penalty;
- For significant compliance program failings, Coinbase, Inc. paid a $50 million penalty and will invest an additional $50 million on its compliance program;
- For compliance deficiencies related to BSA/AML requirements, the National Bank of Pakistan paid a $35 million penalty;
- For significant compliance program failings, Metropolitan Commercial Bank paid a $15 million penalty;
- For compliance deficiencies related to BSA/AML requirements, Shinhan Bank America paid a $10 million penalty; and
- For compliance deficiencies related to BSA/AML requirements, MoneyGram paid a $8.25 million penalty.

To protect U.S. national security and consumers, Superintendent Harris has issued guidance reiterating that regulated entities must fully comply with U.S. sanctions, as well as New York State and federal laws and regulations, including Department cybersecurity and virtual currency regulations.

- DFS also took action to strengthen the Department's enforcement of sanctions against Russia, including the expedited procurement of additional blockchain analytics technology. These tools have bolstered DFS's ability to detect exposure among DFS-licensed virtual currency businesses to Russian individuals, banks, and other entities that the Biden Administration has sanctioned.

CLIMATE

Superintendent Harris took the bold step of making DFS the first financial regulator in the nation to establish a stand-alone Climate Division, ensuring that DFS will maximize the integration of climate risks into the safety and soundness supervision of its regulated entities.

- The newly created Climate Division issued final guidance to New York-regulated domestic insurers detailing DFS's expectations that all New York insurers begin integrating consideration of the financial risks from climate change into their governance frameworks and risk management strategies.
- To help banking and mortgage institutions manage their safety and soundness risks related to climate change, DFS issued final banking guidance. The guidance will support efforts by

regulated institutions to identify, measure, monitor, and control their material climate-related operational and financial risks.

- In response to increasing flood risks, DFS now requires education in flood insurance for property/casualty insurance producers.

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES

MISSION

The New York State Department of Financial Services seeks to build an equitable, transparent, and resilient financial system that benefits individuals and supports business. Through engagement, data-driven regulation and policy, and operational excellence, the Department and its employees are responsible for empowering consumers and protecting them from financial harm; ensuring the health of the entities we regulate; driving economic growth in New York through responsible innovation; and preserving the stability of the global financial system.

PRIORITIES

1. Maintain and grow DFS as a preeminent, global regulator
2. Deepen our focus on kitchen table issues and consumer restitution
3. Create a fairer, more resilient financial services system via engagement and data-driven policy making
4. Build a sustainable, forward-looking agency

GUIDING PRINCIPLES

POLICY

Strengthen **consumer protection** while encouraging a **healthy marketplace**.

Adopt a **data-driven approach;** develop **policy based on findings** rather than ideology.

Lead through **collaboration** and **engagement** with all stakeholders.

PEOPLE

Foster a **culture of inclusion** and **performance**.

Attract, retain, and support **expert talent**.

Be known as a "**Best Place to Work.**"

PROCESS

Cultivate **operational excellence** so that decision-making is **efficient, transparent, fair,** and surfaces the **best solutions** for New Yorkers.

Increase the use of **data** and **technology** to **regulate** financial services, **protect** consumers, and **enforce** the law.

EQUITABLE • INNOVATIVE • COLLABORATIVE • TRANSPARENT