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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

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[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.