Adrienne A. Harris, Superintendent of Financial Services
New York State Department of Financial Services
Joint Legislative Public Hearing on FY 2026 Executive Budget – Health
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Good morning, Chairs Krueger, Pretlow, Bailey, Weprin, Rivera, and Paulin; Ranking Members O'Mara, Ra, Helming, Blankenbush, 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 Budget Hearing. I appreciate the opportunity to discuss the Governor's fiscal year 2026 (FY26) Executive Budget. I also am proud to share all that DFS has accomplished in 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.

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 property and casualty insurers, life insurers, health insurers, managed care organizations, and pharmacy benefit managers. DFS also regulates over 1,300 banks and financial institutions, including 120 foreign banks, 15 Global Systemically Important Banks, credit unions, money services businesses, credit reporting agencies, student loan servicers, and more.

DFS is fully funded through assessments on regulated entities and does not receive any General Fund monies, though the work DFS does benefits all New Yorkers. In fiscal year 2024, DFS provided over $514 million to New York State and New Yorkers including through restitution to consumers and health care providers; penalties paid to the state General Fund by regulated entities; and assessment revenue reappropriated to other state programs for insurance-related initiatives, including firefighter training, newborn health screenings, no-cost pediatric vaccinations, and investigations of insurance fraud and building code violations.

Today, DFS is widely considered one of the premier financial regulators in the world, a role we take very seriously. The Department's mission dictates our responsibility to protect consumers and markets, while also helping to grow a robust and thriving marketplace where companies want to do business.

When I joined the Department more than three years ago, the Department's role as a preeminent, global regulator in the financial capital of the world was in question. The DFS I joined had little process, transparency, or engagement with stakeholders, including the Legislature. The Department was underfunded, understaffed, and without adequate investment in human capital, technology, or risk management procedures. These deficiencies, combined with a lack of modern, documented, and results-driven processes, created years-long backlogs in applications and filings. The Department lacked strategic planning and frameworks to respond to crises. This left DFS hamstrung in its ability to meet the standards New Yorkers have the right to expect from their government.

Thanks to the support of the Governor and you and your colleagues in the Legislature, we have rebuilt DFS, transforming the Department and the work we do every day. The following figures are a testament to all the Department has done to transform its operations and policy priorities on behalf of New Yorkers.

- Since August 2021, DFS has adopted or amended 54 regulations, issued 98 pieces of regulatory guidance, and closed 117 enforcement actions resulting in more than $418 million in penalties.
- We have addressed more than 157,000 consumer complaints and returned $645 million to New York State consumers and health care providers, including over $228 million just last year.
- And in 2024, we collected more in penalties and restitution, issued more enforcement actions, and addressed more consumer complaints than in each of the two previous years.

I am incredibly proud of the significant work the DFS team has done to make these accomplishments a reality. But the Department is not just focused on churning out new rules or drafting additional guidance for the sake of it. Instead, we look at the current regulations, existing guidance, and industry practices through the lens of today's financial landscape. In many cases, we have promulgated regulations, made amendments, and clarified guidance that streamlines compliance or modernizes requirements to meet 21st century public policy objectives – including consumer protection – while also reducing compliance burdens. For example, we tailored the requirements in our updated cybersecurity rules to account for the many types and sizes of business we regulate, and we rewrote check-cashing fee rules to reflect consumers' needs today.

During today's hearing, I look forward to the opportunity to highlight three areas: (1) our positive impact for New Yorkers; (2) how we have cemented DFS as a preeminent, global regulator; and (3) all we have done to create a more modern, operationally resilient organization.

Kitchen Table Issues

Central to transforming DFS has been our expanded focus on kitchen table issues that directly impact the lives of New Yorkers. The first line of the DFS mission statement that we revamped in 2022 says: "We seek to build an equitable, transparent, and resilient financial system that benefits individuals and supports businesses." We strive to deliver on that promise for the people of New York every single day. With all people contend with in life – holding down multiple jobs; caring for family members; rising housing, gas, and food prices; illness – we at DFS can make their lives just a little bit easier, especially for those who, in addition to the issues we all deal with, must contend every day with systemic bias and discrimination.

Above all, I am incredibly proud of our continuous work to put money back in the pockets of New Yorkers, ensuring that consumers harmed by the financial services system are made whole through restitution. Since I joined DFS, we have set record highs for restitution each year. In total, during my tenure we have returned a record $645 million to New York State consumers and health care providers, including more than $228 million in restitution in 2024.

Beyond returning money to New Yorkers, DFS has taken a more proactive approach to expanding consumer access to banking services and affordable products. We have approved seven new Banking Development Districts and branches, allowed state-chartered institutions to offer "Bank On" accounts, and have proposed regulations to eliminate exploitative overdraft fees.

Moreover, to ensure consumers who use non-bank financial services are not unfairly penalized, we have taken bold action to modernize our oversight of check-cashing businesses and non-bank mortgage lenders. One of the first actions we took when I joined the Department was to issue an emergency regulation to halt automatic, annual, CPI-based, check-cashing fee increases while we developed a new, fairer fee methodology. The new fee structure saved New Yorkers more than $22 million in fees in 2022 and 2023.

Earlier this month, DFS proposed a regulation which expands the Community Reinvestment Act to non-bank mortgage lenders, encouraging equitable lending practices that benefit neighborhoods throughout the state, particularly those with low- and moderate-income residents.

I know we share the goal of ensuring New Yorkers have access to affordable financial services, including insurance to cover the cost of quality health care, cover damage to homes, and enhance economic security. The Department has done significant work to make the state's insurance system fairer and more equitable. We have set clear guardrails around the use of artificial intelligence in underwriting and pricing and prohibited insurers from discriminating against affordable housing providers in their coverage and rate decisions. The Department also prohibited life insurers from offering inferior versions of the same product, which was primarily impacting low-income households and consumers of color. The complexity of insurance products should not be used to exploit vulnerable groups, and insurers must provide equitable access to products for all, without prejudice or bias.

Rising out-of-pocket costs for health care is an issue impacting consumers across the nation. Pharmacy benefit managers (PBMs) in particular have become a pervasive part of the prescription drug supply chain, playing an outsized role in determining how much prescription drugs cost health plans and their members; the rebate plans received from drug manufacturers; the pharmacy plans members can use; the prescriptions covered by the plan; and the drug prior authorization and step therapy rules. Since DFS was given the authority to regulate PBMs in 2022, we have adopted three sets of regulations, hired more than 25 experts to the newly created PBM team, completed the registration and licensure of all PBMs operating in the state, and begun examining these entities. Our recently enacted market conduct regulation protects New Yorkers' access to prescription drugs, prohibits certain business practices that increase the cost of prescription drugs, and helps ensure that small, independent pharmacies can compete with large pharmacies affiliated with PBMs.

Additionally, as of January 1, 2025, New Yorkers with state-regulated insurance plans will no longer have to pay for insulin, ensuring access to life-saving medication. Approximately 1.58 million New Yorkers have been diagnosed with diabetes, with a disproportionate impact on communities of color, increasing the divide in health equity. Low-income adults have a risk of diabetes that is over double of those with higher incomes, and Black New Yorkers are more than twice as likely to die from diabetes compared to white New Yorkers. We know from existing health data that removing cost barriers increases adherence to insulin treatments, thereby decreasing complications from diabetes and lowering overall health care costs. I want to thank the Governor for tackling such an important issue in last year's Executive Budget, and the Legislature for passing this as part of the final fiscal year 2025 Budget. The Department is proud to have implemented this nation-leading health equity policy.

But I know there is more we can do to close the health equity gap. Last year, DFS proposed a regulation requiring commercial insurers to collect voluntarily-disclosed demographic data from policyholders. Having robust information that can be used to develop data-driven policy solutions is essential to combatting discrimination and addressing systemic health inequities. The Department will be able to use this data to identify populations that many not be using their benefits and direct resources where they are most needed, ensuring that all New Yorkers receive the health care they deserve. We look forward to adopting this regulation in 2025 and continuing to address health disparities in New York.

Throughout my time here at the Department, addressing mental health and substance use disorders has consistently been a top priority. We fight hard alongside our partners at the Department of Health, Office of Mental Health, and Office of Addiction Services and Supports to make sure New Yorkers have access to the care and insurance coverage they need. In coordination with our sister agencies, we have adopted new rules to increase access to mental health care and substance abuse treatment, which will be published in the State Register on February 19, 2025. New Yorkers are now entitled to an initial appointment for mental health or substance use disorder care within 10 days of request. Where those standards cannot be met with in-network providers, insurers must offer out-of-network coverage at in-network prices. This year, the Governor's FY26 Executive Budget proposes additional resources for mental health network adequacy compliance oversight, consumer education, secret shoppers, and continued investigations of complaints.

While I know that we cannot solve the mental health crisis through our role as an insurance regulator alone, we must do everything within our authority to hold insurers accountable. During my tenure, the Department has issued nine consent orders to insurance companies for not complying with state and federal cost-sharing requirements for mental health and substance use disorder parity. These orders have secured penalties that provide critical funding for initiatives supporting parity implementation and enforcement on behalf of consumers, on top of $500,000 in consumer restitution.

Lastly, I would be remiss if I did not take a moment to thank the Governor and the Legislature for your support in establishing the Health Guaranty Fund, a critical safety net for health and long term care insurance policyholders. With the passage of the law in the fiscal year 2024 budget, New York is no longer the only state without this essential protection for policyholders.

As we look to FY26, the Department will continue working to create a more equitable and affordable New York for all residents. Key to the Governor's Affordability Agenda – and one of several consumer protections measures included in her State of the State – is tackling unfair and excessive overdraft fees. Nationwide, more than 26 percent of households have been charged an overdraft or non-sufficient funds fee, with a median fee of $35.[1] Lower-income account holders are disproportionally impacted and are 72 percent more likely than higher-income consumers to incur one or more of these fees each year.[2] To address unfair fee practices, last month DFS proposed regulations to prohibit predatory fees, cap the number of daily overdraft charges, and improve transparency through timely notifications.

Another pillar of the Governor's FY26 consumer protection platform is her Buy Now, Pay Later proposal. New Yorkers have turned to third-party Buy Now, Pay Later products for short-term financing, incurring debt with companies that operate without guardrails in New York. Use of these products continues to grow, with 2024 outpacing previous years. During the 2024 holiday season, U.S. consumers spent $18.2 billion using these services, a 10 percent jump from 2023.[3] The Governor's FY26 proposal gives the Department the authority to license and supervise these products, ensuring consumers are protected in this growing space.

All New Yorkers deserve a financial system that works for, not against, them. This premise is central to the DFS mission. Through bold policy initiatives, modern regulation, enforcement actions, and consumer restitution, DFS will continue its comprehensive approach to addressing

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[1] Overdraft and Nonsufficient Fund Fees: Insights from the Making Ends Meet Survey and Consumer Credit Panel at 48.

[2] Consumer Fee Practices in New York: A Report on Overdraft, Non-sufficient Funds, and Similar Fee Practices of New York-Regulated Depository Institutions, Pursuant to Chapter 380 of the Laws of 2022 at 6.

[3] Peiser, J. (2025, January 7) Holiday Shoppers used 'buy now, pay later' options more than ever in 2024. *The Washington Post.* https://www.washingtonpost.com/business/2025/01/07/buy-now-pay-later-holiday-shopping/

kitchen table issues and ensuring financial services are accessible and affordable for all New Yorkers.

Preeminent, Global Regulator

Beyond creating and enacting policies to empower and protect New Yorkers, we continue to strengthen DFS's role as a preeminent, global regulator. We prioritize data-driven decision making, robust stakeholder engagement, and strive for flawless execution. In turn, other states and jurisdictions have followed our lead. Since coming to DFS, I have worked to cement the Department as a global regulatory leader. During today's hearing, I want to speak to that leadership in three critical areas within the financial services industry: cybersecurity, cryptocurrency, and climate.

DFS's nation-leading cybersecurity regulation has been adopted by over half of the states, and both the National Association of Insurance Commissioners and the Conference of State Banking Supervisors have published model laws based on it. State, federal, and international agencies follow DFS's lead in the cybersecurity space and frequently seek our expertise when drafting and amending their cybersecurity laws and regulations. In 2023, we amended the regulation to keep pace with the evolving cybersecurity landscape, mitigate risk from increasingly sophisticated cyber criminals, and better protect financial institutions and consumers from cyber threats.

We use every tool in our toolbox to ensure compliance and maximize benefit from the amended regulation, including education, outreach, examinations, and regulatory guidance. Since the regulation was amended, DFS has conducted trainings for thousands of financial institutions and industry groups, created new tools and training resources, and launched regular and ongoing email communications on upcoming cyber requirements and alerts. In October, we issued new guidance to help institutions combat AI-specific cybersecurity risks, including social engineering and "deepfakes".

DFS also has been a pioneer in the regulation of cryptocurrency and today the Department is viewed as a global regulatory leader in the virtual currency space. Yet when I came to DFS, while there was regulation in place, we had a lot of work to do to operationalize it. We have built one of the largest and most sophisticated virtual currency regulatory teams in the world with more than 60 personnel with deep subject matter expertise in Bank Secrecy Act/Anti-Money Laundering laws, fraud, capital/liquidity, and blockchain technology to implement our robust regulatory framework. It is this team of experts who prevented FTX, Voyager, and Celsius from operating in New York; who protected New Yorkers when algorithmic stablecoins crashed; and who were able to return $2.1 billion in digital assets to consumers in New York and around the world from Gemini Trust Company.

We also have issued nine pieces of cutting-edge regulatory guidance to set expectations on coin-listing, stablecoins, blockchain analytics, custodial structures, and, most recently, customer service.

If through our supervision we find that a regulated entity is not in compliance with our rules, our supervisory team can take action itself or quickly refer cases to DFS's enforcement division. Our enforcement team will investigate and take appropriate enforcement actions to ensure that companies pay penalties for violations, remediate issues, and, where applicable, return lost funds to customers. Under my leadership, we have levied the Department's first-ever enforcement actions for violations of our virtual currency regulation.

Today DFS is engaged with regulators around the world – from Illinois and California; to the United Kingdom, United Arab Emirates, and Singapore – seeking to develop regulations that leverage our experience. As Congress continues to contemplate a federal framework for regulating cryptocurrency, legislators on both sides of the aisle regularly seek the Department's expertise as they craft legislation.

Third, I would like to highlight DFS's leadership in climate. Climate change continues to be an increasing threat to the financial stability of individuals, businesses, and the global financial system. At my direction, DFS led the nation as the first state regulator to establish a standalone Climate Division to ensure that climate risks are incorporated into the Department's supervision of regulated banks and insurers, and that financial service providers understand their responsibilities to those most vulnerable to the impacts of climate change. Our climate experts are active participants in several national and international supervisory initiatives, including the National Association of Insurance Commissioners' Climate & Resiliency Task Force and the Network of Central Banks and Supervisors for Greening the Financial System.

Since the formation of the Division, the Department has issued guidance to the insurance, banking, and mortgage industries, setting detailed expectations on managing the financial and operational risks of climate change. Notably, because we know that climate change disproportionately impacts low- to moderate-income communities, our banking and mortgage guidance makes clear that entities cannot meet climate objectives at the expense of their fair lending obligations.

If you are a homeowner, you have likely experienced firsthand the impacts of climate change on your insurance costs. Rising losses and costs have driven insurers to increase premiums and reduce their risk exposure. Since January 2022, rates have increased by more than 10 percent in 31 states.[4] Insurers also are applying stricter underwriting standards to homeowners' insurance risks. For example, some insurers are no longer willing to cover older homes, roofs, or dwellings without strong wind mitigation features.[5] Other insurers have introduced new limitations, exclusions, or conditions on homeowners' insurance coverage, while some insurers have

[4] S&P Market Intelligence, Progressive a standout in 2022 US personal lines P&C performance rankings, (July 18, 2023), CIQ Pro: Research & Analysis: Progressive a Standout in 2022 US Personal Lines P&C Performance Rankings

[5] Olmos, S. (2022, July 26) "Florida Insurance Companies Add New Requirements to Avoid Insuring Older Homes". ABC Action News https://www.abcactionnews.com/news/price-of-paradise/florida-insurance-companies-add-new-requirements-to-avoid-insuring-older-homes.

increased deductibles for coverage of wind and hail damage, or limited coverage for older roofs to their actual cash value rather than their replacement cost.[6]

To help lower risk and homeowner costs, the Department issued guidance encouraging insurers to offer discounts for loss mitigation tools that protect homes from increasing storm damage. Further, as part of her FY26 policy priorities, the Governor has proposed an expansion of the Resilient Retrofits Program, which provides loans and grants to homeowners to make their homes more resilient to weather events. The proposed expansion includes support for upgrades like hurricane windows and doors and storm shutters that also may reduce homeowners' insurance premiums. We look forward to working closely with New York State Homes and Community Renewal on this important program to ensure more New Yorkers can prepare for and recover from severe weather events.

DFS has taken a proactive approach to managing climate risk in the financial sector, but ultimately, policy actions focused on this sector, including those related to homeowners' insurance, can only work to mitigate the impacts of climate change. No financial services solutions will replace addressing climate change directly and with comprehensive measures.

The financial services space is at a crossroads requiring regulatory leadership across borders to address the most urgent and layered challenges of our time, from increasingly sophisticated cyberthreats to the growing concern of climate change. DFS has shown time and again that we are a leader prepared to address such issues directly, and we will continue to do so as we look to the future.

Operational Excellence

In order to become the leader we are today, we had to set a foundation of operational excellence and resilience. When I became Superintendent, many stakeholders commented on the amazing DFS team, but also mentioned how much unrealized potential the Department had. I could not agree more with that assessment. Within my first few months, we put together a strategic plan that prioritized three key areas: investing in human capital, modernizing our technological resources, and tightening processes.

First, we developed a risk-based analysis of the most pressing staffing needs across the Department. Due to state-wide hiring freezes, a stagnant budget, earmarks on many critical civil service lines, and a broadening mandate, we were left with alarming holes in staffing. Thanks to support from the Governor and the Legislature, DFS was fully funded for the first time in its history in fiscal year 2023, allowing us to better deliver on our mission to protect New Yorkers.

Since January 2022, we have hired or promoted more than 1,000 individuals – 548 new staff and 481 promotions. Included in our new hires are 179 financial services examiner trainees, the first class since 2018. We created the first-ever Data Governance office; established the Climate Division and the Pharmacy Benefit Unit; and elevated operational components by creating an

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[6] Eaglesham, J. (2023, July 30) Home Insurers Are Charging More and Insuring Less. *The Wall Street Journal*. https://www.wsj.com/articles/home-insurers-are-charging-more-and-insuring-less-9e948113.

executive role to lead these functions. During this time, we also have hired the Department's first-ever Chief Technology Officer and Chief Risk Officer.

But our work cannot stop there. The entities regulated by DFS are sophisticated and rapidly changing, creating more risk and uncertainty for markets and consumers, and demanding nimble and forward-thinking supervision from the Department. Further, DFS's regulatory mandates and responsibilities have proliferated over the past 12 years while its current FTE target is significantly lower than the target set when the Department was created in fiscal year 2012. Since that time, DFS has been charged with creating the nation's first regulatory regime for virtual currencies; implementing the Affordable Care Act and Paid Family Leave; regulating student loan servicers, PBMs, credit reporting agencies, and debt collectors; and more. While we have made incredible progress to reduce the staffing deficit built over a decade, the Department remains under-resourced. To effectively execute our mission, DFS will continue to require significant investments in our workforce.

Concurrently, we have embarked on a complete technology overhaul. Put simply, the real-time data analysis needed to be a forward-thinking regulator is not possible with outdated technologies and incompatible systems. When I arrived, the Department was operating on Lotus Notes, Excel, and multiple, outdated payment systems. Over the last three years, we have cultivated a culture of innovation, invested in new technological infrastructure, and updated key processes.

A significant component of our technology overhaul is DFS Connect, a single portal where, within the next three years, all our regulated entities will be able to seamlessly interact with the Department. While this may seem like common sense to many, the reality is that essential data, communications, legal documents, examinations, and more lived in inboxes and happened across various decades-old systems. This portal will ensure DFS operates as a 21st century regulator, transforming all facets of how the Department engages with entities and consumers, and keeping data organized, centralized, and up to date in real time. DFS Connect will make licensing and renewals easier for our entities, create a streamlined information system for teams throughout DFS, and maximize efficiency in our oversight to the benefit of New Yorkers.

In 2024, we successfully launched the first two use cases, deploying DFS Connect for PBM licensing and for correspondence tracking. And in March, we plan to introduce the next functions to streamline the PBM and drug manufacturing consumer complaint process. Additional insurance and examination use cases will be released through FY26. In addition to implementing DFS Connect, we have invested in data governance and rolled out data warehouses, productivity tools, and data visualization tools, including our Banking Division dashboard. This initiative modernized the Department's manual framework for banking supervision that relied on data provided directly by regulated entities. The Banking Division dashboard now incorporates data that measures the inputs affecting our regulated banking institutions, allowing DFS to leverage data more effectively and proactively respond to emerging risks. By analyzing inputs rather than just outcomes, we as regulators have a clearer view of unrealized risk factors, offering more valuable insights than is possible through backward-looking data.

These transformation efforts are a long-term investment to create a more effective, nimble regulator. And while this type of modernization does not typically make headlines, I am proud to share that our ongoing technology and data governance work was recognized by the Best of New York Awards 2024.

As the global financial services ecosystem continues to transform, we remain committed to ensuring DFS staff keep pace with innovation in service of New Yorkers and the stability of the market. In January, we launched the inaugural Transatlantic Regulatory Exchange, a first-of-its-kind program for DFS to strengthen cross-border regulatory collaboration and support innovation. The international secondment program will commence this spring with an exchange of senior staff with expertise in emerging payments and digital assets between DFS and the Bank of England, connecting the two global financial capitals of New York and London.

Our commitment to building a more operationally resilient DFS goes beyond investments in human capital and technology. We are engaging in a full business process redesign. This work is not about simply taking antiquated, broken processes and shoving them into new technologies. We have asked ourselves how best to redesign our systems and processes to ensure we are better protecting New Yorkers and the global financial system.

Our transformed processes are improving efficiency and eliminating backlogs that have been in place for years. For example, we introduced a process to track pending filings in a consistent way. This process enables us to confirm whether work is on track and can direct us to where we need additional resources. Since implementing this new process in 2023, we have cleared more than 30,000 backlogged regulatory filings.

But numbers only tell part of the story. I believe the most important and tangible outcome of our renewed operational vigor is the Department's ability to respond in a crisis. In March 2023, community and regional banks across the country unexpectedly began to fail, immediately impacting consumers, businesses, and the global banking system. The self-liquidation of Silvergate and run on deposits at Silicon Valley Bank quickly led to three of the four largest bank failures in history, including Signature Bank in New York. Due to the unprecedented speed, and because New York is the financial capital of the world, DFS was at the center of preventing a global financial meltdown.

Teams from across the agency stepped up and worked tirelessly together to manage the closure of the bank, its aftermath, and its impacts across the financial ecosystem. I am so proud of how quickly DFS and federal regulators acted, but in the aftermath of a crisis there is always an opportunity to learn and improve. Since then, the team has done great work to enhance our escalation protocols, amend our examination manuals, and develop a comprehensive training program to upskill and prepare staff for crises. It is incredibly rare that an institution comes out of a crisis stronger than before, but I firmly believe that the Department's actions during the 2023 banking crisis not only protected the consumers and small businesses banking with Signature but protected the global financial system.

Having been through the experience of the 2023 banking crisis, I know without a doubt the DFS team can make progress toward solving some of the state's most entrenched issues, including the current state of the livery insurance industry.

The dominant company in the livery insurance market has been insolvent since 1979. Its deteriorating financial condition is attributable to inadequate rate setting, which has been a problematic practice since the company's inception. As the company lowered rates to actuarily unsound levels to gain market share, other insurers in the space were forced to follow suit to compete, leading not only to its own insolvency, but instability across the entire market.

While low rates make insurance policies attractive to policyholders, the reality of this situation is that the money collected from premiums has not covered the actual and projected losses incurred from accidents, theft, and other incidents. But the issues go beyond balance sheets. I have met with drivers, base operators, and other stakeholders in the livery industry who are entitled to a stable and well-functioning market. However, these individuals have not been well-serviced by their insurance providers for years.

Shockingly, these issues and the instability of the state's livery insurance market have not been a secret. Company management, regulators, and policymakers have allowed it to go on for more than 40 years. Last year, at my direction, DFS published the first reports on examination for the largest livery insurers in nearly four decades, giving policymakers the data needed to develop solutions. I would like to thank the Governor and the Legislature for already taking a positive step in last year's budget with a commonsense fix to New York law. The budget removed a provision in Insurance Law Section 2328 that permitted a livery insurer to reduce its rates without the prior approval of DFS. However, additional action is needed to stabilize this industry and ensure drivers and passengers have quality insurance coverage.

Included in the Governor's FY26 Executive Budget are three proposals to help stabilize and strengthen the for-hire vehicle insurance market so that drivers have more choices for quality, dependable coverage.

Currently, many drivers are stuck, paying for undependable coverage from a company that did not collect enough money to pay the claims it insured. Getting rates to actuarially appropriate levels is critical to ensure that drivers and passengers are protected in an accident. However, we are mindful this will increase costs for drivers and passengers. Under current law, the Department is responsible for reviewing rates to ensure they comply with Insurance Law, which dictates that rates shall not be "inadequate."[7] The reality is that approving actuarily sound rates would lead to significant rate increases all at once. To balance the needs of drivers and give time for fares to adjust to drivers' costs, the Governor's proposal would allow for actuarily sound rates to be phased in over time.

In order to contain costs, an additional proposal allows drivers to purchase group insurance, which is currently only available for vehicles with eight or more passengers. Purchasing motor vehicle insurance on a group basis may result in efficiencies and cost savings for some drivers.

[7] New York Insurance Law Section 2303.

Lastly, a third proposal would allow insurers to adjust livery insurance rates within limited parameters without applying for regulatory approval. This is an existing practice in the personal auto market, which allows insurers to quickly make small adjustments in response to changes in cost, inflation, and better compete for business within reasonable limitations.

These actions alone will not solve this complex, 40-year-old issue, but they represent a significant step to attract more competition into the market and help stabilize the industry. I am grateful to the Governor for tackling this issue head-on, developing policy proposals to protect livery drivers, passengers, health care providers, and the New York economy. The Department is prepared to provide technical expertise to each of you as you contemplate these proposals, knowing that an all-of-government approach is necessary to tackle this issue.

Since joining the Department, I have made clear that DFS would not shy away from systemic issues and tough problems. Instead, we have addressed challenges – both longstanding and new – head-on. With expert staff, modernized systems and processes, and bold policy solutions, I have no doubt that the DFS of today is well-positioned to anticipate and respond to crises and challenges with innovative solutions and resolve.

Conclusion

Before I close, I want to express my deep gratitude to the DFS team for the excellent work they do every day to advance the DFS mission on behalf of New Yorkers. DFS's accomplishments are lengthy, and we celebrate our achievements while moving to tackle the next challenge. As we seek to address these challenges in 2025 and beyond, we look forward to ongoing collaboration with you and our other partners in government to create a better future for all New Yorkers. I look forward to your questions.

2024 HIGHLIGHTS

In 2024, the Department returned more than $228 million to consumers and healthcare providers, reaching more than $630 million since the Superintendent joined DFS. This past year, the Superintendent has led initiatives to improve financial access and outcomes for New Yorkers, advancing regulations to increase transparency of the prescription drug supply chain; address the health equity gap; and strengthen access to home loans from nonbank mortgage lenders. The Department has also bolstered supervision of regulated entities through guidance related to the use of artificial intelligence, customer service requirements, and the offering of homeowner loss mitigation tools. Foundational to the Department's successes is the Superintendent's commitment to operational excellence, modernizing systems and establishing DFS as a best place to work.

RETURNED A RECORD AMOUNT OF MONEY TO CONSUMERS

In 2024, the Department returned more than $228 million to consumers and healthcare providers, breaking records set in both 2022 and 2023. Since Superintendent Harris joined DFS, more than $630 million has been returned to New Yorkers through complaints filed with the Department and enforcement actions. In addition to the half a billion six hundred million dollars returned, pursuant to a settlement with DFS earlier this year, Gemini Trust Company returned more than $2.18 billion in digital assets to customers.

COMBATTED DISCRIMINATION CAUSED BY THE MISUSE OF ARTIFICIAL INTELLIGENCE

Superintendent Harris adopted guidance to ensure that insurers using artificial intelligence do not perpetuate systemic biases or discriminate against underrepresented communities, continuing DFS's strong track record of supporting responsible innovation while protecting consumers from financial harm.

HIRED AND PROMOTED A RECORD NUMBER OF EMPLOYEES

Under Superintendent Harris, DFS has now hired or promoted more than 1,000 team members since January 2022. Thanks to support from the Legislature and Governor, DFS was fully funded for the first time in its history as part of the FY23 Budget. And now with the work we have done to maintain and grow DFS as a preeminent, global regulator, we have been able to attract and retain expert talent from industry and government.

ADOPTED RULES TO STRENGTHEN CONSUMER PROTECTIONS AND ADDRESS ANTI-COMPETITIVE CONDUCT OF PHARMACY BENEFIT MANAGERS

DFS adopted new market conduct regulations to govern Pharmacy Benefit Managers (PBMs). The rules will help protect New Yorkers' access to prescription drugs, prohibit certain business practices that increase the cost of those drugs, and will ensure that small, independent pharmacies can compete with large pharmacies affiliated with PBMs. Since DFS was given the authority to regulate PBMs in 2022, the Department has adopted three sets of rules, hired more than 25 experts to the team, and completed the registration and licensure of all PBMs operating in the state.

ELIMINATED COST-SHARING FOR INSULIN

In coordination with Governor Hochul and the Legislature, the Department eliminated co-pays for insulin. Studies have shown that removing financial barriers increases adherence to insulin treatments, thereby decreasing complications from diabetes and lowering overall healthcare costs.

ADVANCED HEALTH EQUITY THROUGH DATA-DRIVEN POLICY

Superintendent Harris proposed regulations that require New York State health insurers to request demographic data, ensuring critical self-reported data is available to better understand insurance benefit use and develop policy solutions that serve the needs of all New Yorkers. This builds on the Department's ongoing work to close the health equity gap and reduce health disparities among marginalized and underrepresented communities.

STRENGTHENED VIRTUAL CURRENCY OVERSIGHT

Since joining DFS, Superintendent Harris has strengthened the Department's nation-leading consumer protections for virtual currencies, adding 60 seasoned experts to the Virtual Currency Unit, issuing nine pieces of virtual currency regulatory guidance, and taking the first enforcement actions against virtual currency licensees. In 2024, the Department issued guidance requiring companies to maintain and implement effective policies and procedures to promptly address customer service requests and complaints. The Department also implemented updated guidance regarding the listing of virtual currencies, bolstering risk assessment standards and enhancing requirements for consumer-facing businesses.

PROHIBITED INSURANCE DISCRIMINATION IN AFFORDABLE HOUSING

The Department issued guidance informing insurers that they are prohibited from inquiring about or making coverage decisions based on a property's status as an affordable housing development or on the level or source of a tenant's income within the building, such as government assistance. The DFS guidance follows legislation secured by Governor Hochul as part of the FY 2025 Budget to prohibit discrimination in insurance based on tenants' source of income or the existence of affordable dwelling units within the building.

STRENGTHENED ACCESS TO CREDIT FOR ALL NEW YORKERS

As nonbank mortgage companies now originate a majority of home loans across the country, Superintendent Harris has proposed a regulation to ensure nonbank mortgage lenders are supporting access to credit in the communities they serve. This expansion of New York's Community Reinvestment Act encourages equitable lending practices that benefit all neighborhoods, particularly those with low- and moderate-income residents.

TOOK ACTION AGAINST CYBERSECURITY RISKS

Superintendent Harris issued guidance to assist regulated entities in addressing and combating critical cybersecurity risks arising from artificial intelligence. The Department also implemented new cybersecurity requirements established in its nation-leading cybersecurity regulation to better protect businesses and consumers. DFS also continued to monitor and respond to emerging threats and kept regulated entities apprised of key risks, including those related to social engineering, threat actors seeking remote work, and the CrowdStrike global outage.

ENCOURAGED HOMEOWNERS' INSURERS TO INCENTIVIZE THE ADOPTION OF LOSS MITIGATION TOOLS AND SERVICES

Superintendent Harris issued a circular letter encouraging property/casualty insurers to offer loss mitigation tools and services to policyholders for free or a reduced fee. These tools and services, including smart water monitors and shutoff devices, can lower homeowner costs, protect homes, and reduce insurer risk, creating a more stable and resilient insurance market.

DESIGNATED A NEW BANKING DEVELOPMENT DISTRICT IN THE BRONX

New York State Comptroller Thomas P. DiNapoli and Superintendent Harris jointly announced the approval of Community District 9 as a Banking Development District and the Comptroller presented $35 million in New York State deposits to Ponce Bank's Westchester Avenue Branch. The branch is committed to increasing product affordability, expanding banking access, and increasing financial education initiatives that will foster personal and business growth and support financial empowerment and inclusion within the South Bronx community.

NEW YORK DEPARTMENT OF FINANCIAL SERVICES ACCOMPLISHMENTS

Through engagement, data-driven policy and regulation, and a commitment to operational resiliency, Superintendent Adrienne A. Harris is fostering an equitable, transparent, and resilient financial system that protects consumers and supports responsible businesses. Since joining the Department of Financial Services more than three years ago, Superintendent Harris has returned $645 million to consumers and healthcare providers through recoveries and enforcement actions. The Superintendent has led initiatives to improve financial access and outcomes for consumers; strengthen supervision of DFS-regulated entities, including virtual currency companies; and ensure entities are adequately addressing cybersecurity and climate risks in their operations. Foundational to the Department's success is the Superintendent's commitment to advancing agency-wide initiatives to modernize its systems and technology and 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 $645 million to New Yorkers in restitution through recoveries and enforcement actions over the last three 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 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 DFS proposed regulations to eliminate exploitative overdraft fees, cap the number of daily overdraft charges, and improve transparency through timely notifications to consumers. The regulation builds upon overdraft guidance issued in 2022 alerting institutions about expectations around overdraft fee practices, which disproportionately harm low- and moderate-income New Yorkers.

- Additionally, Superintendent Harris has approved seven new Banking Development Districts in the Bronx, the City of Poughkeepsie, Brooklyn, and the Mid-Hudson region 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, proposing a regulation to ensure nonbank mortgage lenders are supporting access to home loans in the communities they serve. She also 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 adopted a small business lending disclosure regulation that increases transparency and helps 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 93 pieces of Nazi-looted art to their rightful owners. To date, HCPO has responded to thousands of inquiries and received claims from 50 states and 53 countries. The office has helped secure over $184 million in restitution for bank, insurance, and other losses and facilitated settlements involving more than 280 cultural objects.

Health & Insurance

- Superintendent Harris adopted artificial intelligence guidance to combat discrimination in insurance underwriting and pricing. The guidance outlines the Department's expectations 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.

- The Department issued guidance informing insurers that they are prohibited from inquiring about or making coverage decisions based on a property's status as an affordable housing development or on the level or source of a tenant's income within the building, such as government assistance. The DFS guidance follows legislation secured by Governor Hochul as part of the FY 2025 Budget to prohibit discrimination in insurance based on tenants' source of income or the existence of affordable dwelling units within the building.

- 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.

- 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 has worked to address the systemic health inequities in our society that have disproportionately impacted communities of color. The Department has proposed a regulation requiring insurers request demographic data, ensuring self-reported data is available to more clearly understand insurance benefit use and develop policy solutions to better serve the needs of all New Yorkers. Policyholders will have the option to provide this information through a questionnaire administered separately from the application process, and this demographic data will aid insurers in identifying and remediating disparities in care that underserved populations receive.

- In coordination with Governor Hochul and the Legislature, the Department has increased the affordability and availability of critical prescription drugs. New Yorkers no longer have to pay out-of-pocket costs for insulin, increasing adherence to treatments and improving the health of New Yorkers. Additionally, the Department now requires 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.

- DFS adopted new market conduct regulations to govern Pharmacy Benefit Managers (PBMs). The rules will help protect New Yorkers' access to prescription drugs, prohibit business practices that increase the cost of those drugs, and will ensure that small, independent pharmacies can compete with large pharmacies affiliated with PBMs. Since DFS was given the authority to regulate PBMs in 2022, the Department has adopted three sets of rules, hired more than 25 experts to the team, and completed the registration and licensure of all PBMs operating in the state.

- 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.

- Superintendent Harris issued a 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.

- To increase access for mental health and substance use disorder services, the Superintendent has proposed regulations which establish new network adequacy standards for behavioral health services, including the establishment of appointment wait times for these types of visits the first time in New York history.

- In partnership with the New York State Department of Health and NY State of Health, the Department eliminated waiting periods for the majority of adult dental services available to purchase on the Marketplace. This change is the first of a multi-phased initiative to improve dental products and to improve the dental plan shopping experience for consumers.

- DFS's regulatory authority was upheld by the State of New York Court of Appeals decision ensuring that women in New York have control over their reproductive choices, and that insurers cover abortions and contraceptives with no copayments, deductibles, or any out-of-pocket costs.

- DFS issued a new circular letter encouraging property/casualty insurers to offer loss mitigation tools and services to policyholders for free or a reduced fee. These tools and services, including smart water monitors and shutoff devices, can lower homeowner costs, protect homes, and reduce insurer risk, creating a more stable and resilient insurance market.

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 $645 million for consumers, breaking annual records in both 2022 and 2023. In addition to more than half a billion dollars returned, pursuant to a settlement with DFS, Gemini Trust Company returned more than $2.18 billion in digital assets to customers. Since August 2021, the Department has addressed more than 157,000 consumer complaints, issued 117 enforcement actions, and collected more than $418 million in penalties.

    - Under Superintendent Harris, Gemini Trust Company, LLC returned more than $2.18 billion in digital assets to customers after failing to protect consumers from alleged fraud by an unregulated third-party. Gemini also paid a $37 million fine to DFS for significant failures that threatened the safety and soundness of the company.

    - Consumers and/or their beneficiaries received $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.

  - Pursuant to a Consent Order with DFS, National Union Fire Insurance Company of Pittsburgh (NUFIC) will pay $5.6 million in penalties and more than $8.3 million in restitution to policyholders addressing NUFIC's issuance of blanket accident and health insurance policies that failed to satisfy minimum loss ratio standards and failed to address the inadequate performance of these blanket policies. These policies predominantly affected institutions of higher education, childcare providers, schools, and day camps, which were overcharged for premiums and were issued benefits that were not designed to diagnose or treat intercollegiate sports injuries.

- 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.

- Under Superintendent Harris's leadership, DFS issued nine consent orders to insurance companies following DFS's review of New York insurers' compliance with state and federal cost-sharing requirements for mental health and substance use disorder parity. In addition to $500,000 returned to consumers as part of the agreements, penalties secured provide critical funding for initiatives supporting parity implementation and enforcement on behalf of consumers.

- 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.

- 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.

- 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.

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 Debby and additional severe weather incidents, Superintendent Harris deployed staff to resource centers in affected communities and increased disaster hotline hours to provide insurance help to residents and business owners.

- 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.

- Superintendent Harris issued a circular letter to health insurers to ensure continued care during the United Healthcare cyberattack in March 2024. The letter provides guidance for how they should work with providers to avoid disruptions in care, which may include suspending certain utilization review requirements, appeal timeframes, claim submission timeframes, and eligibility verifications. The circular letter also strongly urges insurers to work with providers to address cash flow disruptions to avoid disruption of health care services.

BUILDING AN OPERATIONALLY RESILIENT DFS

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

- **Policy: 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 54 new regulations and issued 98 pieces of regulatory guidance in circular letters and industry letters to regulated entities.

- **<u>Process</u>: 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 modernizing its approach to innovation, investing in new technological infrastructure, and updating critical processes to more efficiently and effectively license, supervise, and regulate financial services entities; 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 tool (CRM), data warehouse, and productivity tools across the enterprise. In 2024, the team successfully migrated the licensing process for all pharmacy benefit managers to the CRM platform and is currently working to onboard an additional 11 agency-wide processes to the platform.
    - The Superintendent created the Department's first-ever Data Governance team to ensure that data is accurate, consistent, properly managed, and can be leveraged to achieve the DFS mission. DFS's Data Governance and Management Initiative was selected as the Best Workforce/Workplace Initiative at the Government Technology's Best of New York Awards 2024.
    - The Department is eliminating backlogs that have been in place for years, including completing more than 30,000 regulatory transactions since January 2023.
- **<u>People</u>: 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 FY 2023; 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 or promoted more than 1,000 staff since January 1, 2022 – 548 new employees and promoted 481 existing employees.
        - Since September 2021, the Department has hired 179 financial service examiner trainees, the first class since 2018.

A ROBUST REGULATORY FRAMEWORK FOR VIRTUAL CURRENCY

Superintendent Harris has strengthened 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, enhanced existing and established new policies and procedures, and enacted 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 three 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 nine 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.
    - 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.
    - 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.

- Superintendent Harris issued final guidance to virtual currency entities 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.
- 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.
- Superintendent Harris issued guidance requiring DFS-regulated virtual currency entities to maintain and implement effective policies and procedures to promptly address customer service requests and complaints. The guidance requires VCEs to collect relevant data so that the Department can assess whether they are resolving customer service requests and complaints in a timely and fair manner.

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 issued final 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.
- As the global financial services ecosystem continues to transform, the Department is committed to ensuring DFS staff keep pace with innovation in service of New Yorkers and the stability of the market. Under Superintendent Harris' direction, the Department has launched the inaugural Transatlantic Regulatory Exchange, a first-of-its-kind program for DFS to strengthen cross-border regulatory collaboration and support innovation. The international secondment program will commence this spring with an exchange of senior staff with expertise in emerging payments and digital assets between DFS and the Bank of England, connecting the two global financial capitals of New York and London.

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 released new guidance and brought enforcement actions against companies resulting in more than $100 million in fines.

- Superintendent Harris issued new guidance to assist regulated entities in addressing and combating cybersecurity risks arising from artificial intelligence. The guidance builds on the Department's ongoing work to protect New Yorkers and DFS-licensed entities from cybersecurity risks through its nation-leading cybersecurity regulation and follows recently adopted DFS guidance to combat discrimination by insurers using artificial intelligence.

- 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.

- Geico & Travelers Insurance Companies: Superintendent Harris and Attorney General James secured $11.3 million from auto insurance companies over data breaches. Geico and Travelers' poor data security allowed hackers to steal New Yorkers' driver's license numbers and fraudulently obtain unemployment benefits.

- 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 third-party service provider risk, manage access privileges, and maintain a formal application security development methodology, significantly increasing the company's vulnerability to cybersecurity events.

- PayPal Inc: DFS assessed a $2 million penalty for cybersecurity violations after an investigation determined PayPal failed to use qualified personnel to manage key cybersecurity functions and failed to provide adequate training to address cybersecurity risks. These failures led to sensitive customer information, including social security numbers being left unredacted and easily accessible to cybercriminals.

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 compliance deficiencies related to BSA/AML requirements and the Bank's failure to conduct proper due diligence of its correspondent bank partner, Nordea Bank Abp paid a $35 million penalty;
- For compliance deficiencies related to BSA/AML requirements, Industrial and Commercial Bank of China Ltd. (ICBC) paid a $30 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 state 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 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 supports 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