The Economic Club of New York

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Adrienne Harris
Superintendent
New York State
Department of Financial Services

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Moderator: H. Rodgin Cohen
Senior Chair, Sullivan and Cromwell LLP

Introduction

President Barbara Van Allen

Good afternoon and welcome to the 734th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. The Economic Club is known as the nation's leading nonpartisan forum for discussions on social, economic, and political issues. And we've had more than 1,000 prominent guests appear before the Club over more than the last half century and have established a strong tradition of excellence which continues up to today.

In 2020, the Club launched its first-ever Equity and Inclusion programming, and it continues through today. And this work has not been done by the Club alone. We would like to give special thanks to corporate partners – BlackRock, Mastercard, PayPal, S&P Global and Taconic Capital – as well as many members and speakers and subject matter experts that are now and will continue to be engaged in this work.

We'd like to extend a warm welcome to students from Mercy University and the Gabelli School of Business at Fordham, who are joining us virtually today, as well as a few members of our largest-ever class of 2023 Fellows – a select group of diverse, rising, next-gen business thought leaders. As a reminder, applications for this annual program, the 2024 Fellows Class, are now available on the Club's website. So we encourage you to consider, those members in the room, sponsoring a rising thought leader for that program.

It's my honor today to welcome our special guest, Adrienne Harris. Adrienne was nominated to lead the New York State Department of Financial Services by Governor Hochul in 2021 and confirmed by the New York State Senate in 2022. She began her career as an Associate at Sullivan & Cromwell here in New York City representing several U.S. and non-U.S.-based corporations in various forms of litigation and regulatory matters, before accepting a position at the U.S. Department of the Treasury under President Obama.

While at the Treasury Department, Adrienne served as a Senior Advisor to both Acting Deputy Secretary and Under Secretary for Domestic Finance, and Deputy Secretary. Her work ranged from financial reform efforts to identifying solutions to the student loan crisis, analyzing the nexus between foreign investment and national security, and working to promote financial inclusion and health in communities all across the country.

Following her time at the Treasury Department, she joined the White House, where she was appointed as Special Assistant to the President for Economic Policy, as part of the National Economic Council. In this role , she managed the financial services portfolio, which included developing and executing strategies for financial reform and the implementation of Dodd-Frank, consumer protections for the American public, cybersecurity and housing finance reform priorities.

After leaving the White House in 2017, she went on to serve as General Counsel and Chief Business Officer at States Title, now DOMA. Prior to being nominated, she also served as a Professor and as Faculty Co-Director of the Gerald R. Ford School of Public Policy's Center on Finance, Law, and Policy at the University of Michigan, as well as Senior Advisor at the Brunswick Group in Washington, D.C.

The format today will begin with some opening remarks from Adrienne, followed by a conversation in which we're honored to have Rodge Cohen, Senior Chair of Sullivan & Cromwell and former Club Trustee, as our moderator. Time permitting, we will take questions from those in the room. As a reminder, this conversation is on the record. We do have media both in the room and online. Without further ado, if you all join me in welcoming Adrienne to the stage.

Opening Remarks by Adrienne Harris

Good afternoon. Thank you for that kind introduction, Barbara. And thank you to all of you for the warm welcome at The Economic Club of New York. In preparing for today, I thought a lot about the mission of this group, and I thought about others who have spoken at your events. So many wonderful, great people, including legends, heroes, and innovators.

And I sat in my office, a little nervous, thinking about what it means to be great. Thankfully, I'm surrounded by a lot of inspiration as my office has a 270-degree view of the harbor, including the Statue of Liberty, and inside, a wall filled with images that inspire me, including photos from my time at the White House, a picture of the fearless girl when she's facing the charging bull on Wall Street, and a canvas of Lewis Hamilton's helmet from 2020, when he tied Michael Schumacher for the most World Championships in F1 history, although Lewis had more wins.

I thought about great New Yorkers and how many of them benefitted from diverse life experiences. Teddy Roosevelt, a wealthy but sickly Manhattanite, returning from his time as a rancher, "rugged, bronzed, and in the prime of his health" according to a New York reporter. And he himself said that if he had never left New York politics to go to the ranch, he would have never become president.

Take Jay Z, born and raised in the Marcy Housing Projects, he leveraged his street smarts in the business world to independently produce albums, grow businesses, and become the first hip-hop artist to become a billionaire. After surviving poverty and violence, business seemed easy, "This ain't no tall order, this is nothing to me. Difficult takes a day. Impossible takes a week. I do this in my sleep. I sold kilos of coke; I'm guessing I can sell CDs. I'm not a businessman, I'm a business man. Let me handle my business."

So what do the Economic Club mission and Teddy Roosevelt and HOV have to do with financial regulation? Typically I would say nothing, it may be a bit of a stretch. Except to say, first, financial regulation is an area shockingly lacking in a diversity of backgrounds and perspectives. And despite being the first person of color to sit in my seat, I'm actually not talking about race, so much as I'm talking about diverse experiences. And second, but perhaps relatedly, financial regulation is an area where there's very little innovation. In general, regulatory bodies recycle the same ideas and the same ways of doing business. At DFS now, we're seeking to change that.

My interest in financial services developed because in the early years of my career working at Sullivan & Cromwell, came during the Great Financial Crisis. I learned a lot during that time, most of it from Rodge. But two things have stuck with me to this day. First, I learned that if you understand financial services, you can understand everything else that happens in the economy. There's no industry that can function without a healthy functioning financial services industry at its foundation.

Second, I learned about the importance of the interconnectedness between industry and government. Without those two sectors coming together, there's no way to solve the most urgent and intractable problems we face, whether in financial services or other industries. These lessons shaped my career as I moved back and forth between the public and private sector, between New York, D.C., San Francisco, from big law to Treasury and the White House, a startup founder, academia, board member, and now financial regulator. But most importantly, they inform how I do my job as Superintendent.

DFS oversees 3,000 financial services institutions, including 120 foreign banks and 17 G-SIBs, life, health and P&C insurers, debt collectors, license lenders, mortgage lenders and servicers, student loan servicers, pharmacy benefits...(Audio issue)...state or federal, with specific authority to oversee virtual currencies. Together, the institutions we represent, or that we regulate, represent over, or nearly $10 trillion in assets.

When I arrived at the Department just over two years ago, the agency was known as a lone wolf prosecutor's office famous for little transparency and process, but large fines. At the same time, post-Financial Crisis, financial regulation had become political fodder for officials on either end of the ideological spectrum. The zeal for headlines left the department without proper investment in human capital, technology, or process management. Vacancies were high and morale was low.

The Department was operating on Lotus Notes and five payment systems. There was a four-year backlog of extraordinary dividends for insurance companies and no way to track how long any particular regulatory action took. There was no process for strategic planning of any sort, whether for policy, human capital resources, or how to leverage our over $500 million budget.

So I spent the first few months trying to get my arms around these issues and the risks, and then created a framework to try and address them. The framework is what I call the Three P's: Policy, Process, and People.

On Policy, I made known that going forward all policy would be data-driven. Our objective is to prove that a financial regulator can protect consumers and markets while also helping to grow a robust and thriving marketplace where people want to do business. And we would be more focused on kitchen table issues, those things that the everyday New Yorker would understand and that would help them trust that their government was working for them.

For Process, I told stakeholders that DFS would be a transparent process-driven organization. We set KPIs. We measure progress. We build knowledge management. And we improve governance so that we could be a more efficient and effective organization.

And then I articulated my view that neither our policy nor process goals could be achieved without the third P, People. We had to attract and retain the best talent. We re-crafted our mission statement and established four core values – equitable, transparent, innovative, and collaborative. We set a North Star for our objectives and how we go about accomplishing them.

We still have a lot of work to do but I am very proud to report the progress we have made in my just over two years as Superintendent. On Policy, we've promulgated 26 new regulations, including setting a more modern fee structure for check cashing and amending our nation-leading cybersecurity regulations. We've issued 55 pieces of regulatory guidance, including eight on crypto and stablecoin. We've implemented 70 new amendments in the banking, insurance, and financial services law.

But I will note in many cases we promulgated regulations or made amendments that streamlined compliance or modernized requirements to meet 21st century objectives while also reducing compliance burden. For example, we tailored the requirements in our updated cybersecurity rules to account for the many types and sizes of businesses we regulate and we rewrote a decades-old requirement on required vacation time for bank executives that did not reflect how people work since the invention of the smartphone. And perhaps, one of my proudest accomplishments, we have secured over $277 million in restitution for New Yorkers, mostly through resolving their complaints.

On Process, we cleared the four-year backlog of extraordinary dividends but that was far from the only backlog I encountered when I came in. And so to address this, I've implemented what I call a 60-day list to track every filing in the Department that is over 60 days old. I'm proud to report that this year we have cleared more than 11,000 filings in our banking and insurance divisions alone. Not only that, but we finally parted ways with Lotus Notes, no small feat. And we are in the midst of a complete technology overhaul, implementing a CRM data warehouse and productivity tools across the enterprise.

But to do all this and more, I needed, as I said, people. So I spent a good part of those first few months engaged in a risk-based analysis of our human capital needs and created a five-year strategy to fully staff the agency. While you'd be hard-pressed to ever find a government agency that isn't asking for more resources, I took a slightly different approach. My risk-based analysis allowed us to identify and describe the risks that could befall the financial industry and therefore the city and state of New York if DFS did not have adequate staffing. I then took that analysis to all of our stakeholders – industry, consumer advocates, and elected officials – to make the case that full staffing for DFS wasn't just in our interest, but in everybody's interest.

And by engaging that diverse set of stakeholders with data leveraged to showcase our aligned incentives, I was able, with the help of the legislature and my boss, the governor, to get the agency fully funded for the first time in its history. As a result, we have hired 315 new team members and promoted 281 existing team members. I hired the first-ever CTO. We created the first-ever Data Governance Office. I created a Climate Division. And elevated our operational components like budgeting, procurement, facilities and HR by creating an executive role to lead these functions. But we still have much more to do.

And there's so much more I could tell you about, including what we've accomplished in the last two years. At DFS, I always say, we have a team that really, really punches above its weight. But even with these accomplishments done and dusted, I still spend time thinking about what's next, and how do we do more, and how do we move faster?

There's no new mission statement or set of operating principles that will make this happen without something more. The problems we deal with are too complex. They are intractable. They have myriad stakeholders with varying incentives and objectives. So there had to be a culture change, a new way of doing business, a new approach. We could no longer accept that's just the way things are or that's the way we've always done it. We had to change the way we operate.

So now for everything we do we begin with the end in mind. What are we trying to accomplish? Why is it important? What is our measure of success? Then we address how we get there – every step with no detail too small, listing who is responsible and what's their deadline. The team really loves that, by the way. We also determine who we need to engage, industry, elected officials, advocates, academics, other regulators. And then we determine what additional resources we need for each step of the journey. And all of this goes into a single project plan.

I'm sure this all sounds relatively obvious to the people in this room, but I assure you it is a new way of thinking at DFS. But novelty aside, the approach is important for several reasons. First, knowing the "why" helps the team stay focused and motivated. We're not just writing a regulation for the sake of a regulation for example. We're changing an arcane and punitive fee structure for check cashers to take into account the economic realities of consumers. Or we're getting rid of fingerprinting requirements that are a huge hassle and cost for small businesses yet aren't needed for the requisite background checks or for any other regulatory purpose as far as I can tell.

Having a project plan provides transparency and accountability so that everybody knows their own role and they know the role of their teammates. And having a robust and inclusive engagement strategy is perhaps the most important element. I talked at the start about the importance of bringing a unique perspective to financial regulation, but time again I found that the key to our success has been hearing from lots of diverse and conflicting perspectives. It has helped us find new, creative solutions to our most intractable problems. But it requires a lot of work.

Every action we take requires a bespoke engagement strategy consisting of precise stakeholder mapping and choreography, who we engage and when, what are their interests, incentives, and motivations? How can we help them to support us or how do we neutralize them if they're our opponents? And this all requires extra time, both in the planning stages and in execution, but it's worth it.

It builds the Department's credibility, because it allows us to demonstrate a transparent, balanced, data-driven approach to the work. And that credibility then enables us to do more. It enables us to consult, for instance, with both Democrats and Republicans in D.C. where DFS is now viewed as the honest broker. It means that our stakeholders trust us, even when they don't agree with us. And it means that we produce better work overall because learning through engagement makes us nimble and innovative.

When I look back over the accomplishments of the last two years, I'm always taken aback by the sheer volume and magnitude of what the team has accomplished. And when I look ahead, I'm excited about what's yet to come as we continue our mission to prove that financial regulation, when balanced and evidence-based, can protect consumers and markets while helping to grow a robust economy.

Now, I imagine this is maybe a slightly different speech than most policymakers give when they come before you, maybe starting with the Jay Z quotes. We'll talk more about policy and regulation during the fireside chat. But to me, just as important as sharing with you all the work that we do is sharing with you our way of working. It's a demonstration, I think, of what atypical and diverse perspectives can do when brought to bear on hard problems.

I told you a bit about the amazing view from my office. Incidentally, when I took the job, the governor told me that my office was better than hers, which was really a super awkward conversation to have with your new boss. But the view of the Statue of Liberty reminds me of the awesome responsibility that my team and I have, and it inspires me. Ironically though, over the last two years, I've found that the best way for me to honor that symbol and fulfill that responsibility is to step away from it. To come down from the Ivory Tower and meet our stakeholders where they are, whether legislators in the Capitol building, a community group in a recreational center in Buffalo, consumers at the State Fair in Syracuse, which I require my executive team to attend each year, and the fried pickles are mandatory, or business and civic leaders in a room like this.

This requirement, this need, this desire to engage is the most valuable tool we have at DFS. The engagement makes for better inputs and that makes for better outputs to the benefit of all New Yorkers. With that, I look forward to having a fireside chat with my friend and mentor, Rodge Cohen, and engaging in conversation with all of you. Thank you.

Conversation with Adrienne Harris

H. RODGIN COHEN: So, Adrienne, let me join Barbara in thanking you so much for being with us today. I do want to start with two unscripted comments, and then we'll turn to the more scripted questions. I think, first, your remarks demonstrate how critical it is to all of us, for all of us, for the country, that we can attract our very best to public service. And the ability to move seamlessly, as you have done, federal, state, public service and the private sector, it's a testament to you, but it's also critical to all of us. And the second, the DFS is actually a relatively recent phenomenon. There used to be the Banking Department, the Treasury Department. And I think it was a very sound idea. But as your remarks demonstrated, an idea without implementation is a failure waiting to happen. So thank you for that.

So let me turn to the questions. I know that in addition to the 3,000 institutions and the almost $10 trillion in assets you're directly responsible for, in your spare time, I guess, you sit on the board of the Conferences of State Bank Supervisors and as a designated member of FSOC. So it's very large portfolio. What do you see? You've talked about the challenges; you mentioned the future. What do you see as your principal challenges ahead?

ADRIENNE HARRIS: Yes, the challenges are many. I think the big thing we think about, again, is just how we execute such a broad mission with the resources we have and with some of the operational work that we have to do. That was a surprise to me coming in the door and it really does represent one of our biggest challenges given the mandate, given that we are a regulator that is both local and deal with very New York issues, but also a global regulator just by virtue of the institutions that we regulate.

And so being able to span that diversity of responsibilities while building an institution that will be sustainable and be able to do that into the future really is a challenge. But then, of course, we're dealing with all the substantive challenges of the day. I mean I certainly did not expect I would have another banking crisis in my career, so this spring was, you know, was an event for sure. We're doing a lot now around homeowners' insurance and climate change and how we keep rates low for consumers but make sure that insurance companies are safe and sound and can continue to write policies here in New York. So balancing the breadth and the operational pieces with the really challenging policy issues of the day keeps us busy.

H. RODGIN COHEN: I'll say. So you mentioned the banking crisis. Barbara, in her introductory remarks, noted you cut your teeth on the Great Financial Crisis. And everybody thought, Dodd-Frank and the implementing regulations, that it was all in the distant rearview mirror, and it turned out not to be. So you were involved obviously as the regulator for Signature. Walk through the circumstances that in your view led to the failure of Signature. And more importantly, looking ahead, what do you do to prevent future failures? What did you do and are you doing to avoid those very substantial deposit outflows at banks other than those that failed?

ADRIENNE HARRIS: Well, it feels a little silly for met to opine on this with you sitting here. But, you know, you and I talk about these themes often. I think for that weekend, the thing that I think really took us all by surprise was just the speed with which that all happened. I think even when you think back to the Great Financial Crisis, larger, but maybe slower to unwind, versus seeing Silvergate self-liquidate on a Thursday, SVB sort of Thursday to Friday, Signature, Friday to Saturday. And there were 20 other banks around the country probably that we were all looking at and to see the deposits, you know, in Signature's case, 20% of deposits flow in four hours, starting on that Friday evening, you know, is really tough to sort of get your mind around. In the moment, you're just reacting.

I think, for us, a couple of things. One, I would say my relationships, we talked about engagement, my relationship with you, with private sector actors, with folks in D.C. to be able to make the phone calls and understand everybody's point of view, to engage with people on the solutions and invoking the systemic risk exception, to be able to talk to potential acquirers, all of that in that weekend, but those relationships and that engagement was so, so critical, I think, to the success of stemming the tide of that crisis.

But I think what I took from it was sort of what we try to make DFS all about. And when we talk about the virtues of being a state regulator, part of that is our nimbleness. So now when we look at this crisis and what we can learn from it, so much of it is about, some of it is about regulations, right? Some of it is about are there new rules that need to be put on the books. And there's lots of healthy debate going on now about that exact question.

But for me, I thought a lot as well about the operations. So when you think about the bank examination process, if we want to examine a bank for the year-ending 2020, that exam will take place probably early in 2021. To write the exam report probably takes most of 2021, and then we're sending our findings to the bank, late 2021 or early 2022, and then they have some time to remediate. And it's just not consistent with a 21st century economy where you can withdraw money in large amounts from your smartphone on the New York subway in the time it takes for the doors to open and close. These things just don't match up. So we wrote our report about Signature just as the other regulators wrote reports about all the banks and talked about how do we make the examination process faster and tighten that feedback loop? How do we modernize that?

One of the other things that came out of that weekend was the bank, when we were asking for data about the value of its collateral and what it can pledge to the Fed, and all of this is stuff I testified about and is in our report, the inability for them to produce reliable data. In one instance telling us that some of their collateral was worth $5 billion and less than 12 hours later had revised that estimate down to $500 million. That makes a big difference in how you think about going about saving an institution. So we started to work on operational stress testing by doing the tabletop exercises with our institutions so that they can produce that data more quickly.

We've written new escalation procedures so that when a bank has substandard ratings on their exams year after year after year, who needs to know? How do you take that information out from the line staff and elevate it to the executive? So, for me, they're not only the policy lessons and how we think about liquidity in a 21st century economy, but also it comes back to how do we regulators operate and is it equipped?

H. RODGIN COHEN: I think your emphasis on the supervision is absolutely right, that that is probably more important than the regulation. So let me turn to a different area. You mentioned digital assets. And, as you mentioned, New York, the DFS has been the true leader. So how have you been approaching this portfolio? And more broadly, you've been able to achieve certain objectives. Washington has been able to achieve, as best as I can tell, nothing. And whether it's Congress or the various governmental, federal governmental agencies, so how do this come out? How do digital assets ultimately fit into the broader ecosystem?

ADRIENNE HARRIS: Well, first, I would say I am very eager to have a federal partner, right? It's great to be leading in this space. We have a ton of expertise and a great team, but when you're talking about borderless instruments, right, you want others in the game with you helping to regulate and supervise this space. So we are eager for a federal partner here.

But, for us, we've had regulation on the books since 2015, the most robust regulatory framework in this space. But I think to your point, Rodge, unless it can be operationalized and implemented, it doesn't mean a whole heck of a lot. When I came in, you know, we had a handful of people in the virtual currency unit. We're now up to over 60 professionals that all they do all day and all night is think about virtual assets. It's the largest virtual currency unit of any regulator in the world, and we continue to build that.

We've done eight pieces of regulatory guidance, so the first guidance on stablecoin which requires one-to-one backing. For every stablecoin, you have to have a dollar off- chain. It requires T+ 2 redemption time. It requires public attestations of the reserve mix. All of these things that nobody had done before. We've had market manipulation guidance, capitalization guidance. We have the most conservative and robust capitalization requirements anywhere.

My favorite example is, it was public that FTX was seeking to get a license in New York. They did not. I think it's the only state in the country where they could not legally do business. And when you look at the losses to consumers, you see that New York escaped largely unscathed versus California where they've now copied the New York framework and are starting to put that in place because their losses were 1000X what we saw here.

So the framework really has stood up between hiring the expert team, adding the transparency to the regulations through these eight pieces of guidance that we've done. We don't allow for rehypothecation in any number of things. We have robust controls for conflicts of interest. And then when we have to, we use our enforcement tools as well. We brought a $100 million case against Coinbase. We brought a $30 million case against Robinhood. We oversaw, I think, the first unwinding of, or the first approach on Binance was us requiring that Paxos cease minting BUSD. And then we saw other regulators around the world follow suit vis-a-vis Binance.

So we really have leveraged all of our tools from regulation, supervision, examination, and enforcement to lead in this space. And now, as I said, I'm hopeful, I remain optimistic that there will be bills coming through Congress. But what you see with the House Financial Services bills, for instance, is that they're modeled off of New York and Chairman McHenry has said as much. The California bills were modeled after New York. The Illinois bills are modeled after New York. A lot of what's happening in the UAE is modeled after New York. So we're going to keep pushing there. But I'm, again, hopeful that we'll have more partners to supervise and oversee this space.

H. RODGIN COHEN: I think that makes absolute sense. A lot of what has been accomplished elsewhere in regulation is the federal-state partnership rather than as antagonists. So let me turn to another area where the DFS under your leadership has really been an innovator, and that is cybersecurity. And I wonder if, you've got a new proposal out, I wonder if you could explain what that is about, where you see regulation going, because the pervasive and extraordinarily, increasingly extraordinary sophistication of cyber criminals, it's really quite disturbing.

ADRIENNE HARRIS: Yes, well, just in the last week, right, the Industrial Bank. We just finalized our cybersecurity regulation, amended. It was first done, promulgated in 2017. But to your point, six years in the cybersecurity world might as well be 100 years. So much has changed in that space. So in this updated regulation we've done a number of things. We're more prescriptive and have more robust requirements around governance, the role of executives and boards. The regulation now speaks to ransomware, which really was not the same level of thing that it is now, six years ago when the regulation was originally put in place. So we require reporting of ransomware payments. There's much more in there about business continuity, disaster recovery and business continuity, more requirements there.

But we've also done a lot more work to tailor the regulation because, on the one hand we regulate G-SIBs and we're the group-wide supervisor for AIG and MetLife. On the other hand, we regulate insurance producers that have two people in the office. So how you write a regulation that crosses these industries and the size and complexity of different institutions is really a challenge. And so we did a lot of work engaging with stakeholders to figure out how do we tailor this so that everybody has the most robust cybersecurity possible without overburdening the two-person insurance producer shop? Even though they might be the weak link into a system, how do find that balance? And I think that's reflected in the new reg.

H. RODGIN COHEN: That balance point is really important as is your reference to ICBC. Now it was an affiliate, a broker dealer, but the interconnectedness of the financial system if the cyber criminals can penetrate almost anywhere, the repercussions can be extraordinary.

So another problem, this one where it's bank, but not only bank-oriented, is the much higher interest rate environment. When you took office, the fed funds rate was probably best described as nominal. And today, it's over 5. So how are you administering the oversight of banks and all the other companies in your portfolio who are potentially really exposed? And what about the future here in terms of supervision and regulation?

ADRIENNE HARRIS: Yes, it is a really challenging one because of the diversity of institutions that we oversee as you mentioned. On the banking side, the speed with which the rates rose presents lots of problems as we saw in March and we continue to see. So how we think about our banks' liquidity and other things in this environment presents a real challenge.

On the other hand, with insurance companies it's a bit of a different story. On the one hand, the higher rates mean they think their investment portfolios have done pretty well and they enjoy the fruits of that. But it also makes it challenging as we're setting rates. And when you see inflation and replacement costs and all of these things go up, especially the face of climate change, and we're tasked with setting rates, as I noted so that our insurance companies can be safe and sound but also keeping costs down for consumers, the interest rate environment makes that a little challenging.

So we have similar industries, both of which we are charged with overseeing that has different responses or reactions to the interest rate environment. But I think again this speaks to the virtue of being a state regulator and one that has this breadth, and you mentioned I sit on FSOC. And we, you know, we talk not only about banks, but insurance companies and other risks. So to be able to come to that discussion having all of that stuff in my portfolio, but being maybe a little closer to ground level when it comes to supervision and working with and engaging with our companies, I think we bring a different perspective to those conversations in terms of the challenges and opportunities in changing interest rates. And we can be more nimble in thinking about our supervision and how we work with companies to manage a very challenging macroeconomic and geopolitical...

H. RODGIN COHEN: If there is a single area which you will find on the front-page day after day after day, whether the *Wall Street Journal* or the *FT* or any business publication, and even non-business such as the *New York Times*, it's AI. So talking about challenges, this is all coming at you and everybody. How do you see the regulation, particularly in the financial space?

ADRIENNE HARRIS: Yes, you know, this is another one where I think being a state regulator and being nimble is really helpful. I was heartened to see the President's EO and I think especially when he was talking about those sections that talk about financial, the financial industry and they talk about market manipulation and cybersecurity. Of course, those are the same things we look at. But our ability to move more quickly, I think, is really going to benefit us. And for us, we think about both artificial intelligence as a regular and the guardrails we want to put around our regulated institutions, but also how we use it ourselves as a tool to oversee the marketplace.

So, for our regulated entities, we're now working on guidance for all of our insurance companies – life, health, and P&C, around the use of AI in underwriting and pricing and really laying out not just the guardrails to protect against discrimination and some of those things, but what are the opportunities here for insurance companies? And how can we engage around those topics? How do we expect to examine around some of those topics?

Internally, we're using it, or starting to use it in a lot of ways. We're working now to put a chatbot on the website, which, you know, for a lot of mature organizations, you're like, we've had a chatbot for a long time. But, you know, for us, when you think about all the rules and the guidances and things that live on our website, one's ability to file a complaint, the ability to use an AI chatbot, and I've gotten the opportunity to play with it, and go on the website and ask a sort of complicated question about financial regulation and get taken right to the answer is really valuable.

We're also doing some work with AI around climate. I created the Climate Division. It's obviously an issue for insurance and for banking. And we're looking at, you know, SUNY Albany has this treasure trove of weather data. It's like weather all across the state every five minutes for the last 50 years.

Taking that, looking at insurance data, looking at redlining data, and putting all those data sets on top of one another to say, well, what are we going to see in the marketplace when it comes to climate change and those communities that are disproportionately affected by climate change because they're typically LMI communities, communities of color? How do we think about redlining and insurance premiums and one's ability to get insurance, and climate change and resiliency and safety and soundness? What are the things that we can learn using AI to look at all this data and have insights that as humans, you know, we just couldn't draw on our own? So that's a project that I'm very excited about.

H. RODGIN COHEN: You know I do think it's interesting, I was watching, I'll put in a plug for what I think was one of the greatest movies ever, The Best Years of our Lives. And there's a terrific scene where Fredric March comes back from the war and is a banker makes a loan where his collateral, when he's questioned, is character. I wonder how AI; would AI have enabled that loan to have been made.

I do want to make sure we have a few minutes at least for questions from everyone here. But one last one at least from me, and that is you had mentioned how essential financial services is for the economy, which I fully agree. But it is also even more essential perhaps for New York City, which is the center of the financial universe. So how do you think about this and really advancing New York as the financial capital of the world?

ADRIENNE HARRIS: Yes, and it's something I spend a lot of time thinking about and talking with the governor about. For me, it does come back to that engagement. If you have a regulator who doesn't understand how regulations have to be implemented at the institutions and just says here's a new requirement with no eye toward the challenges of that implementation or doesn't engage and understand how the interest rate environment is affecting things, and is just focused on enforcement and fines, certainly the industry will go to other places where that is not the case. So there are a lot of other factors that make New York attractive or maybe even less attractive.

But for what's in my bailiwick, my interest is making sure that consumers know that they can trust the financial services that they count on and that our regulated entities know that there's an open door and a real promise of engagement and intellectual honesty when they're dealing with their financial regulators. So that when new requirements are being put in place, we all understand that it's in the best interest of the companies, of the system, and of the city and state. But it is a real challenge.

I get very, very competitive when I hear people talking about Miami and Texas. I will say, just on crypto, you know, there was a lot of scuttlebutt when I came in about how the crypto regulation in New York was going to drive everybody away and there was going to be this race to the bottom. And like, isn't this the worst thing possible. And, in fact, what we've seen is the opposite.

In 2021, almost half of private investment in crypto companies was in New York-regulated entities. And that's because there's a transparency and an even-handedness and an evidence-based approach that draws industry. So I use that as the model as I think about keeping companies here with the things I can do through my portfolio.

H. RODGIN COHEN: Terrific. So I'd like to open it up, and we have the mike at the back.

QUESTION: I'm Ron ___. I run a broker-dealer. And the very last sentence you ___. You know, regulatory environment has been not that good for banks or even broker-dealers. Specifically regulated banks. There's 150-year institution, have left with trillion dollar ___. I don't think that's a proud moment for you.

ADRIENNE HARRIS: But they haven't left under my watch, I will tell you that. And some of them who have left and flipped their charters to OCC charters are talking about coming back.

QUESTION (Continued): But individuals are leaving, the talent is leaving, and they talk about regulation. You know, there's other factors too, housing.

ADRIENNE HARRIS: I think, so when we talk to our regulated entities, a lot of them say taxes, cost of living, right? There are all these other factors. I think New York is known for conservatism in regulation. But there's, as I said, there's a lot of those requirements we've modernized. One that I'm very proud of, in the life insurance industry we have this thing that New York has had forever and ever called the Special Considerations Letter, which is reserving requirements over and above for the standard reserving requirements.

I stood up a working group that over the course of eight months, industry and our team at DFS plugged away on every last detail to make sure that the conservatism in the SCL was warranted and not over-burdensome. So we always welcome feedback from people about our regulations, but I think what is most helpful is not, this regulation is terrible and hard, but you could change it this way and still accomplish your public policy objectives and it would be less burdensome for us. So the more specific that engagement is, the better.

QUESTION (Continued): Trust me, nobody listens to us on the business side.

ADRIENNE HARRIS: Well, we don't regulate broker-dealers, unfortunately, but it is helpful feedback.

QUESTION (Continued): Another question is what are your expectations from the banks regarding sustainability? Are you expecting any reporting requirement? Because like, you know, that's been kind of front and center.

ADRIENNE HARRIS: It's a big topic, yes. So we've proposed climate guidance for our banks. We've done it for insurance as well. And we've proposed for our banks. We took in several hundred comments. What you'll see from our banking climate guidance is it's very focused on safety and soundness. It is not at all about the industries you bank or don't bank or investment portfolios. It is strictly about safety and soundness and operational resiliency.

My favorite example is put the generator on the roof maybe, not in the basement. Think about where your servers live, right? Those things. And we are, once we finalize that guidance, we'll not be sort of implementing examination, timelines. It is meant to be a set of best practices for people to start weaving into their risk management frameworks the same way they think about other risks.

H. RODGIN COHEN: If I could just pick up on the point you made in an earlier comment. There are two types of regulation. I'm going to put them in two buckets. One is regulation for safety and soundness, and the other is regulation to accomplish political objectives. And I think any financial institution would infinitely prefer the former to the latter.

ADRIENNE HARRIS: So do I.

H. RODGIN COHEN: Other? Yes...

QUESTION: Thank you. It's very insightful. You were talking about the FSOC member agencies and the G-SIBs and all your life being a regulator. How much of an oversight, from your point at the DFS, is continuously enforced on FBOs, foreign banking organizations, operating on ___? Not the G-SIBs but the FBOs, do you still have the control, who are operating in New York?

ADRIENNE HARRIS: Yes, so we regulate a number of the foreign branches, some of the rep offices. So we have that oversight usually in conjunction with the Fed. So we'll alternate our exam years, work with them. But whenever we put a new requirement in place, especially when it comes to the FBOs, we try our very best to harmonize with the home country or home jurisdiction regulator.

So in the proposed climate guidance for instance, you see where we specifically call out the FBOs and we say where your home jurisdiction has climate rules, those rules control. We are explicitly sort of de-conflicting. The same with the cybersecurity regulations where we've gone to great lengths to harmonize or to say where you have regulations at the group level or at the parent level, you have controls there, you have personnel there, that can be used for the branch, for the rep office, for the affiliate that we oversee. So we really try very hard to not just add unnecessary layers for compliance-sake.

QUESTION (Continued): In the last few years, I've just followed, only the OCC or the FSOC member agencies had an oversight on FBOs. But DFS, I'm glad to hear that you have also. Thank you.

H. RODGIN COHEN: Other? Yes...

QUESTION: Thank you for your remarks. They were really great. Mike Held. I used to be at the Federal Reserve Bank of New York. We probably were in a room or two together in the past. A question for you around big tech. Recently, the CFPB came out with some guidance. We see a lot of large technology companies looking at money transmitter licenses so the states get involved. I'm curious how you think about the risks presented by big tech as they get more into financial services.

ADRIENNE HARRIS: Yes, I mean I think it's sort of an interesting challenge we face when you think about activity-based versus entity-based regulation and how the U.S. framework differs from the European framework for instance, right? So it's something we think a lot about. The money transmission space is the exact right space where we come into this. And we do, we have some of the big tech companies, right? Alibaba, others are regulated entities.

So we spend a lot of time thinking, especially for some of the foreign companies, about data and data localization and the sharing of PII between our regulated entities and a parent company. We spend a lot of time coordinating with other states sometimes who don't have as robust regulations. Montana, for instance, doesn't have a money transmitter law. Massachusetts' money transmitter law still talks about telegrams, which I didn't find out myself. The commissioner told me.

But for us, as we think about our requirements and having that extra conservatism sometimes in New York, when you're talking about something, for money transmission, it's not as if one of these companies is going to have a set of compliance standards for New York and then lower compliance standards in Montana. We really think of it as how do you make the company level up so that everywhere they're operating, they're meeting New York standards. But I think for us, I talk with Director Chopra quite a lot around this issue, and others, and how we manage the risk. And, of course, it's something that FSOC, right, as we think about tech companies' payments, all these things, he's very focused on as well.

H. RODGIN COHEN: So I think we have time for one more question.

QUESTION: (Inaudible – not on microphone)

ADRIENNE HARRIS: No, it's really interesting. As I mentioned, we have virtual asset authority and our authority doesn't depend on the definitions that are now very much up for debate, right? What's the security, what's not? We just, we have our authorities there. I think what we are going to see is less interest in crypto going forward and more interest in tokenized assets generally. And this is not a novel viewpoint. I think lots of people share this view.

When we regulate this space, we have the ability to do it through what's called the BitLicense, or we can do it through our Limited Purpose Trust Charter. Right now, if you look at our licensees, there are more BitLicensees than there are trust companies. I expect that will start to shift as more people think less about crypto per se, more about tokenized assets. And we'll see more and more traditional players get in the space, less sort of the crypto natives.

And the analogy I always like to use is when you think about Amazon 20+ years ago when they sold books, and somebody would have said to you it's going to be AWS, and a small business lender, and a TV content creator, you would have been like, they sell books, you know, let's not get ahead of ourselves, like they sell books. I think crypto and virtual assets are sort of in that same phase where a lot of people are looking at crypto and going what's the usefulness here?

But there's so much more to come, I think, in the coming decades, especially around asset tokenization and cross-border transactions and all those things that we just can't foresee. So I'm excited for that future, but I think all the more reason to have a nimble regulator who can keep up with those developments and have a transparent approach to putting guardrails, but allowing for some of that activity and innovation to take place.

COMMENT: Real estate.

ADRIENNE HARRIS: Yes, for real estate assets certainly.

H. RODGIN COHEN: So I was told, when Barbara asked me to moderate, she said, within reason, I don't care what you say so long as you end on time. So, Barbara...

PRESIDENT BARBARA VAN ALLEN: Well, thank you both. It's really an honor to host you today. It was a really insightful conversation, and we really appreciate it. And you've done a lot of incredible turnarounds there. So thank you for that.

I'm pleased to report that we have a number of additional great speakers coming up. And as always, we encourage our members to invite guests. We're back the Monday after Thanksgiving, November 27th, for a luncheon with General David Petraeus, the Former Director of the CIA. He'll be in a conversation with Marie-Josee-Kravis. And we'll have another luncheon that Wednesday, the 29th, with Ray Kelly. Now he is CEO of Guardian Group and, of course, we all know him as the Former Police Commissioner of New York City. Actually the longest serving, even under, I guess, a couple of different mayors consecutively. I think he's also the only police commissioner that went from cadet to commissioner in the history of New York. On November 30th, we have a webinar with Bill Lewis, a Trustee on our board, and he is, of course, a Partner at Apollo, and we're excited about that.

In December, we'll have our year-end dinner, and we'll be hosting Bill Gates, who will receive the Peter G. Peterson Leadership Award, and we hope many of you will be there. That's an exciting time for us. We'll honor our Fellows as well as the winners of the Innovation and Social Impact Challenge. The judging is now underway and we'll be actually giving out First, Second, and Third Prizes, third place prizes. So this will be our second year of having that challenge and it's been a great success.

And then well close out, I believe, I always say that, I never know who is going to call, but December, the 11th, Club member Brad Jacobs, the Chair of XPO Logistics, will be speaking. And then we'll have our Member Holiday Reception, which is complementary, that same evening. That again is December, the 11th.

So, lastly, I would like to take a moment to recognize those of our members of the Centennial Society who are in the room today as their contributions continue to provide the financial backbone for all of the programming that we do. So thank you to all that are watching us virtually, and we hope we'll see you soon. And for those in the room, please enjoy your lunch. And everyone, have a wonderful Thanksgiving.