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WEBINAR

FIRESIDE CHAT WITH
SUPERINTENDENT ADRIENNE A. HARRIS OF THE
NEW YORK DEPARTMENT OF FINANCIAL SERVICES

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PROCEEDINGS

MR. KLEIN: Good morning. My name is Aaron Klein. I'm a Senior Fellow in Economic Studies at the Brookings Institution. And it's my great privilege and pleasure to welcome you here today to join myself and New York's Department of Financial Services Director, Adrienne Harris, for this fireside chat.

I want to thank all of you for deciding to share your love of financial regulation with Superintendent Harris and I on this Valentine's morning. There's a lot to love about financial regulation and a lot to love about the different topics and concepts we're going to discuss today, in a wide-ranging conversation that I believe is Director Harris' first major public Washington address since being confirmed only a few weeks ago.

It is my great privilege and pleasure to welcome Director Harris, who assumed her office several months earlier and was recently confirmed by the New York State Senate. As director of Financial Services for the State of New York, Superintendent Harris has an amazingly powerful portfolio and set of responsibilities ranging from state-chartered banks, financial institutions, money transmitters, and, yes, insurance companies. Look, I'm a proud Marylander and I would point out that in the 18th century the city of Baltimore was briefly larger and competed with the city of New York to be America's preeminent center of commerce and finance. Unfortunately, Maryland threw its lot in with the federal government waiting for a series of infrastructure, at that time called internal improvements, in a network of canals. The state of New York decided to go it alone and not wait for Washington to solve their problems and built a little canal that stretched their entire state out to Erie. And as proud and as much as I love Maryland, I think it's pretty fair to say that New York has become the global dominance of not just rich dominance in America, but globally of financial services, which gives Superintendent Harris a power and authority to impact the financial regulatory world that's really first among equal among all states and all state banking and insurance commissioners. And in that way, I think Director Harris, you're uniquely poised to share a vision that's going to impact not just the state of New York, but frankly the country and to a large degree the world.

So thank you very much for joining us here today.

MS. HARRIS: Thanks so much for having me, Aaron.

MR. KLEIN: Well, look, let's dive right into this because it's pretty chilly here, but let's heat up the conversation. You know, because I first met you in Washington over a decade ago and you were coming into join the Obama administration when I was in the Treasury Department. And then, you know, you kind of rocketed through the Administration with senior roles at the Treasury Department, the National Economic Council — in fact, the last time I believe you graced the Brookings' stage you were a member of the National Economic Council. And you've had many opportunities since then in Washington, in the private sector, in academia, where you had a distinguished time at the University of Michigan. You could have gone anywhere. Why did you choose New York and why did you decide to become the superintendent and the director for the Department of Financial Services in New York?

MS. HARRIS: Yeah. Well, thanks again, Aaron for having me. It's always so good to spend time with you. And as you know, we go back a long way and we talk about financial regulation all the time, so I really value the dialogue that you and I have had over the years.

But I will tell you, for me, coming back to New York was a little like coming back to my roots. Before I came to the Obama Administration I lived in New York longer than I lived anywhere else. I started my career here. I went to law school and business school here. And I have a long family history in New York as well. My mother grew up in the Bronxdale housing projects, which are now the Sotomayor housing projects. My grandfather, after he came back from the Army, was a red cap in Penn Station for many decades. So it was a little bit like a homecoming for me. And I think, as you mentioned, New York is the financial capital of the world, and DFS in my view has the potential to be the preeminent global financial regulator. As you mentioned, we regulate banks, not just state chartered, but we actually regulate 17 of the G-SIBS here out of DFS. We regulate insurers, including some of the largest in the world, digital currency, companies, money transmitters, mortgage servicers, student loan servicers, debt collectors, and pharmacy benefit managers, among other entities. So it really is a wide scope that we have here. And I think at the state level we have the ability to be very nimble and to really push the envelope when we think about financial regulation and how we want the financial system to look. So for me, coming back and leading this Department was really a great opportunity to make some real lasting change.

And I will say too, just lastly, I mean I had the honor of serving the Nation's first black president and I'm very deeply honored to be serving the first female governor of New York, Governor Hochul.

MR. KLEIN: Well, that is a fantastic set of things. I can share with you my mom grew up in Jackson Heights, Queens and my aunt lives in the same house that she and my mom grew up in. I mean she is the little old lady, Jewish lady in Jackson Heights. And as I visited her and my uncle in that neighborhood over my entire life, I've seen Queens go all sorts of different ways.

MS. HARRIS: Yeah.

MR. KLEIN: And, in point of fact, you know that when you have New York in your family, it never leaves you in that way. And that background gives you an amazing viewpoint into what the city and the state have gone through. So that makes a lot of sense. But you were only confirmed a few weeks ago, but you joined DFS in September. Why don't you walk us through what you've been doing since you first arrived?

MS. HARRIS: Yeah, yeah. So we've been really busy here and I'm privileged because there's a great team of people here at DFS. I'm very privileged to work with all of them.

One of the first things we did is we established a first in the nation standalone climate division here at DFS. And we do a ton of work with other states, internationally with the federal regulators, but to establish that first in the nation standalone climate division I think was a huge accomplishment. That team has already issued climate guidance for our regulated insurers. And we'll have some banking guidance soon to follow. But as you know, this is a real issue of our time and there's a real role for financial services providers here. So I think that was one huge thing that we were able to do.

We also proposed regulation adding transparency to small business lending. So that's working its way through the comment process. We brought an enforcement action to enforce our mental health parity laws here in New York. We had some insurers who were not living up to the requirement and not complying with the law hereso we brought an enforcement action against the them. And I'm particularly proud of that action, because not only were we able to levy penalties against them for their past bad behavior, but we could require remediation so that they could be better going forward. And, in that case, we were able to get restitution and put money back in New Yorkers' pockets. So that was I think a great enforcement action that we were able to bring. And there's lots of other things that we've done where — I mean we regulate cybersecurity and we have great cyber regulation here. So we're working on updating and improving that. So it's been a busy few months for sure.

MR. KLEIN: Well, that's tremendous. I mean just to riff off that for a second. I mean mental health parity is very important. I've been doing some work on financial health and its relationship to physical health. We put out a paper through this grant series written by Lisa Servan and Nina Adu (phonetic) from Penn, and they made this great point in some of their research and analysis that they said physical health doesn't stop at the neck. We have this whole healthcare system that's set up from here down, right. And if you have problems with your mouth, dental problems, oh, that's not covered. Psychological problems, oh, that's a different thing. Vision, oh. And it's kind of this crazy world where like somehow your health ends at your neck even though, right, it's all up here at the end.

MS. HARRIS: Yeah.

MR. KLEIN: And not to mention the stress and other aspects. So what you're doing in mental health parity, I really commend you.

I know small business has been a passion of yours.

MS. HARRIS: Yes.

MR. KLEIN: And I've seen many friends of mine who've engaged in small businesses. You know, we have this weird system where somehow if you personally guarantee a product it's still a business product.

MS. HARRIS: Right. Mm-hmm.

MR. KLEIN: Which to me has always escaped my mind. If you stand behind it, shouldn't you be regulated as a person. I mean aren't I dealing with you as a person if you're putting your personal collateral and credit in front of you.

MS. HARRIS: Yeah, yeah. Absolutely. Yes.

MR. KLEIN: And then the other thing I hear from you is not only have you done insurance stuff on climate, but insurance stuff — there's climate banking stuff coming. Is that what I kind of heard you say?

MS. HARRIS: Yeah, yeah. We're working on that now, so you'll see that come later this year.

MR. KLEIN: Yeah? Anything else you want to share on that? That will catch a lot of attention, because it's a big issue.

MS. HARRIS: Yeah. And listen, I think it's important because with so many issues when we're talking about financial services, they are border-less, right, so we want to make sure that we're a leader but that we're not getting completely disjointed from what's happening in other states internationally or at the federal level. So the team here really does tremendous work coordinating across the board so that we can move these issues forward, but not be so out of step with other regulators as to be at cross purposes with them.

So more to come on that for sure.

MR. KLEIN: Well, that's important. And I have been noting that you've been assembling a staff of very, very talented people from across the financial services, regulatory, and industry spectrum. And you're to be really congratulated for bringing such a strong team to bear.

You know, you have vast oversight. I mean you're going — you know, climate, banking, insurance, health. As we head into this third year of the pandemic, can you talk about how your oversight of financial service companies has evolved as this pandemic has gone through? What are the implications for consumers and small businesses?

MS. HARRIS: Yeah. Well, and it's important to me because so much of the talk around the pandemic has been about how it's revealed inequities, right. But if you're a person of color, an immigrant, right, you're working class, you know that the pandemic didn't reveal anything, right. Those groups know that these inequities have been there all along and the pandemic exacerbated them. But it didn't reveal them, it didn't create them.

I'm actually the first person of color to lead DFS, the combined banking and insurance departments, because prior to 2010 they were separate departments in New York. The first woman of color. So I really see my job not bringing us back to pre-pandemic, because for a lot of people things weren't that good then either. My job is really is really to set financial services on a course so that the system is fairer for everyone and more sustainable, as we were just talking about climate change.

So, for me, the events of the last few years, whether we're talking about the murder of George Floyd, the pandemic, they've brought this attention to inequities in our society and that gives me the opportunity to really re-examine how we do everything. And I think I can bring my lived experience, as a woman of color, now leading this department and with a new focus on equity, bring those things together to bring a new perspective to financial regulation. And we've already done a number of things in this regard. We're a leader in the nation in health, which is so important in light of the pandemic. So we made permanent rules that provided coverage parity, not just for video visits, but for audio only visits. And then Governor Hochul proposed payment parity for telehealth as part of her executive budget. And we're right smack in the middle of our budget process now in New York. The mental health parity requirements we just spoke about.

And we've got a great enforcement division here at DFS. And I think DFS historically has been very well known for the big dollar bank cases that it's brought. I recently brought a very large case for BSA/AML violations against a bank. But really in my mind being able to reorient that enforcement work so that it's more focused on kitchen table issues I think is going to be a really important stamp I can put on this Department.

So we recently brought an enforcement action against an insurer that wasn't paying out life insurance policies that were mostly taken out by people of color. And there wasn't a huge settlement, but we were able to make sure that beneficiaries for these life insurance policies got paid out when their loved ones died, some of them as a result of the pandemic. And that's I think really important work for our enforcement team to be doing.

MR. KLEIN: You know, it's hard, because you talk about virtual and everything is changed from this pandemic. But you're spot on that what hasn't changed is the underlying situation. Police brutality existed long before George Floyd was murdered and that was caught on video. And many other incidents were not caught on video and frankly have been conveniently buried and swept under the rug.

And as you point out, the press and the media may chase large dollar amounts, but sizes of fines don't necessarily correlate with their impact in changing behavior or their impact in actually creating restitution.

And I commend you for focusing on the insurance issue. You know, ever since I've been in Washington, whenever something every comes about small dollar liquidity, pay day lending, the story you are always told reflexively is what happens when somebody living paycheck to paycheck has their car breakdown now, right. I've thought long and hard about this because the data shows that is not what drives people to small dollar credit.

Number one what drives them is a fluctuation of income. What drives them is not a fluctuation of expense. It's much more likely my hours were reduced, my kid was home sick and I missed a day, I had some sort of emergency with a parent, my office shut down. I remember once my office was shutting down four hours early for a three day a weekend and I went to tell a temporary –– an administrative assistant of mine who was on a temporary detail and he was crestfallen when I said we're closing at noon on a Friday of a three day weekend. And I'm like, dude, like we're all excited. He goes, you're on salary.

MS. HARRIS: Right.

MR. KLEIN: For me, I just lost a tenth of my weekly income on a shock on a Friday afternoon. What am I going to do?

MS. HARRIS: Yeah, right.

MR. KLEIN: And that really got me thinking. When you flip the script and you go from income, which is the number one driver to expense, you know the number one driver of expense which makes people need to borrow money? It is not a car repair, it is a death in the family and a funeral. Funerals are crazy expensive.

MS. HARRIS: Yeah, absolutely.

MR. KLEIN: And they can't wait and they are sudden. And when your aunt or uncle or your cousin asks you to pitch in, right, that family dynamic. But why? Why in Washington do we not talk about funerals? I have come to the belief that we talk about –– because we all drive cars and we've all had these unexplained car expenses and we pay them. But wealthier people don't have to worry about paying for their parents' funeral because their parents have an estate that covers it.

MS. HARRIS: Yeah, exactly.

MR. KLEIN: And you get this total crazy disconnect. So when you talk about bringing your lived experience, you know, it is so much –– it is just eye opening, to me at least, because the –– we have conversations built on a policy reality that affects one group of Americans that then try to solve problems based on that for another group, and that's not their problems.

MS. HARRIS: Right. Yeah. That's exactly right. And I think this life insurance cases is such a good example. I mean we think about how Covid disproportionately impacted people of color where the deaths were really born into your point about funerals, people can't go to work, their small businesses are shut down, right, and these people weren't getting the benefits that their loved ones had paid for. And usually those expenses do go to things like funeral costs, right. So to make sure that the beneficiaries of these policies could get the benefits that their loved ones had paid for and to make sure that these companies will do better going forward, right, to your point, not large fines under the insurance law, but it really makes a difference for people in their everyday lives.

So really thinking about enforcement through that lens and thinking about regulation through that lens and policy making, right. What are the things that really impact New Yorkers on the ground every day in their day-to-day lives and how do we problem solve for that.

MR. KLEIN: Yeah. Well, let's talk about another problem solve, because we've talked about this for a long time and I think we have this huge problem with America's payment system. That somebody got paid on Friday or Saturday, they deposited the check, it's Valentine's Day, you've got to send your kid to school with valentines. I sent mine, my one that was lucky enough to be allowed in the school today. And like you have to buy them over the weekend, you have to have your box of chocolates, your roses, whatever people are bringing to the table today, right. You can't say well, look, I'll have your valentine tomorrow when the check clears.

MS. HARRIS: Right.

MR. KLEIN: But we have a system designed that your deposit isn't going to be available to you for a while and as a result large overdraft fees are — you know, billions are lost in overdraft fees, check cashing, pay day lending. My own research has found 70 percent of people who go to check cashers have bank accounts, right. You've got to ask yourself, this is not a — check cashing is not about the unbanked.

MS. HARRIS: Yes.

MR. KLEIN: It is about people with bank accounts.

MS. HARRIS: Yeah.

MR. KLEIN: So what are you guys? I mean I understand you don't operate the automatic clearing house system that the Federal Reserve has failed to update for a decade plus, relative to other countries in the world, but what is DFS going to do about this problem? Because you just said you want to solve problems for real people, and I got one for you.

MS. HARRIS: Yeah, no, absolutely. And, look, as you said, you and I have talked about this. As long we've known each other, right, the problems created by the slow payment system — if you get paid on the first and your bills are due on the first but you can't get your money for two, three days later, that's a problem. And of course people are then going to go to check cashers or pay day lenders to get that liquidity. So while it's important that people have bank accounts, I think as policy makers we have to realize that's not the be all end all, right. Providing people with the liquidity they need is important. At the same time, these services that provide liquidity are very often predatory.

So I'll tell you, actually just today we're announcing some work on check cashers. In New York, historically the check cashers get a yearly fee increase. So this came to my desk a few weeks ago and they said we're going to increase the fee for check cashers and I just I said why. Why do we need to increase the fee for check cashers? They make maybe arguably too much of a fee, right, on consumers just to have access to their own money and, to your point, even when they have a bank account.

So I started to ask a lot of questions, right. And the methodology in New York historically has been that the check cashing fees get raised with CPI. And it's the general CPI. And we all know what's been happening to CPI and inflation with the pandemic. And so I just started to ask more questions about it. Why is this the methodology. And like so many things, right, the more questions I asked the less it seemed to make sense. And so I just kept pulling the thread. Is this the right measure, is this really what we want to do. It turns out that the CPI methodology was set in 2005 and nobody has really taken a look at it since, right. I mean nearly 20 years. It's 2022, so data analytics has changed, the data we use to assess our economy has changed. We've had the dot com boom, the 2008 financial crisis, and now the pandemic. The world is completely different than it was in 2005, certainly financial services is.

So I said well let's really take a hard look at this. So we just put in place today an emergency reg that would freeze the maximum check cashing fee at the levels last set by my predecessor while we explore new methodology for setting check cashing fees in New York. So we're going to propose a reg. It will go out for notice and comment under the State APA laws and we'll get feedback from consumer groups, from industry, from academics, right, from all the stakeholders about whether or not this is the right methodology. And it will go through the whole regulatory process and then we'll propose a final — or then we'll have a final reg at some point. But it's just one example of how I think this DFS and under the leadership of this governor, right, we're just going to take a hard look at the way things have been done because honestly, Aaron, it's just one way we can think about the impact on New Yorkers and make sure that financial services is really working for them today and into the future. We have to ask these hard questions and re-examine the status quo.

MR. KLEIN: Well, that's huge. I mean, Dr. Harris, you're saying that absent you pulling on this thread and putting out this emergency reg, kind of the autopilot system set up decades ago would have just jacked up prices by 7.5 percent — or 7 percent roughly, because the price of rental cars and used cars had — and there's some supply chain disruptions, and maybe some structural inflation — I'm not claiming to have known the answer — but that New Yorkers who would have cashed a check under this old system would have seen their prices go up 7 percent? Not that the risk because of the system has gone up, right? Not that, you know, for the 20 — 1 in 4 Americans got their first stimulus payment in a check or debit card.

MS. HARRIS: Mm-hmm.

MR. KLEIN: Right. Ninety five percent of American households have bank accounts. And Uncle Sam couldn't find your bank account —

MS. HARRIS: Right.

MR. KLEIN: — and sent you a paper check in the mail. And some research from the Financial Health Network — which I know you — one of the many boards and agencies where you shared your wisdom over the years that Brookings published — showed that 66 million dollars of emergency Covid aid stimulus in the first round, not just the second round, but that first $1,400 check, $66 millions they estimated went to check cashers. That's real money.

MS. HARRIS: Yeah.

MR. KLEIN: And that would have been 7 percent higher this year, right, even though Uncle Sam's stimulus check isn't any riskier or more expensive for the check casher.

So you're saying you put that in today?

MS. HARRIS: Yeah. Today we — the emergency reg becomes effective and then we're going to start the engagement with all the stakeholders to talk about their new methodology before we then propose a new reg.

MR. KLEIN: Well, I mean that is a real impact. And I applaud you for putting that out there, for engaging in a notice and public comment, the Administrative Procedures Act, that APA that you reference. You guys have one in New York that somewhat parallels —

MS. HARRIS: Yes, we have a state APA.

MR. KLEIN: — what we have to do in Washington. But you still can — you know, you — it sounds like you're prepared to use your authority to aggressively challenge the status quo in assumptions.

MS. HARRIS: Yeah, absolutely

MR. KLEIN: While simultaneously working through an open process —

MS. HARRIS: Yup.

MR. KLEIN: — with all stakeholders?

MS. HARRIS: Absolutely.

MR. KLEIN: Is that what Director Harris is going to be for the next — do you guys have terms in New York or is it —

MS. HARRIS: Yeah, I mean as long as I've got the privilege of having this job, that's the way we're going to do business, is we're going to ask hard questions and really make sure the financial system is working for the people that it's intended to serve. And to your point, we can do so engaged in a transparent process around the regs that we put forward and then the work that we do.

So, yes, that's what you can expect from this DFS.

MR. KLEIN: Well, I mean that's a big deal because a lot of other folks would say, hey, look, we're going to let this 7 percent increase get passed on to you, you know, check casher person, who's disproportionately of color, lower income, in a liquidity constrained environment, poorly served by the existing financial system, while we study maybe in the future we'll start lowering. But you're taking a different approach, right. You're saying, no, no, no, no, no, we're stopping this right now while we think about it.

MS. HARRIS: Yes. Absolutely.

MR. KLEIN: Saving people real money.

MS. HARRIS: Yeah. Absolutely. Absolutely.

MR. KLEIN: Well, let's up the ante then and say — in 2021 last year in New York expanded the Community Reinvestment Act, also known as CRA, although I'm in a little bit of an acronym war because sometimes — you know, one of my favorite numbers is

17,626, it's the number of possible 3 letter acronyms — 26 cubed, right. Yet somehow CRA, even in our little fin reg world, right, CRA can be credit rating agencies —

MS. HARRIS: Right.

MR. KLEIN: — Credit Reform Act, right. But the Community Reinvestment Act, that's going to be our CRA for this conversation. You know, New York expanded it to include non-bank mortgage lenders, becoming only the third state in America to do that.

MS. HARRIS: Yeah.

MR. KLEIN: What is your strategy to build on that capacity in New York fair lending? What's your advice for regulators in Washington who are talking about revamping the nation's CRA? If you can answer this in two parts, right, what are you doing in New York —

MS. HARRIS: Yeah.

MR. KLEIN: — and what is that New York wisdom that you want to impart on the group of folks here in DC who are thinking about how to start restructuring CRA nationally?

MS. HARRIS: Yeah. Well, I think double clicking on the non-bank lenders, because we know — I think it's 68 percent of mortgages nationwide are done by non-bank entities. Now, that was not the case, right, pre-financial crisis, but increasingly we see the non-bank lenders making mortgages. And so for us in New York, expanding the CRA to cover those entities just made a ton of sense. So I was so grateful that the legislature passed and Governor Hochul signed the law to expand our CRA, as you said, making us the third state to do so. And now we can hold these non-bank lenders to the same fair lending standards that we hold banks to, which I think is a huge, huge advancement.

You know, also last year we proposed regulation that would amend our CRA to support minority and women-owned business, as we've been able to do that. And then also last year we included in the CRA financing activities that support climate resiliency.

So I think there's a lot of ways we can use this tool. I know folks in the federal regulators have been looking at this for a long time and I have been engaged in conversation with them, so I'm excited to see what proposals come out of the federal regulators. And it's always good to be engaged in conversations with them. But we're going to keep pushing that here in New York so that we have robust fair lending, whether we're talking about mortgages, small businesses, so that we can think about climate. We know that it's disproportionately low-income communities and communities of color that are impacted by climate change. So thinking about how CRA can speak to those issues I think is also an incredibly important thing that we're doing here.

And then I'll also say we've engaged our CDFIs and MDIs here in New York, right. They're such important institutions, as you know, and as you and I have talked about for underserved communities. So one of the first things I did was to convene our state chartered CDFIs and MDIs here in New York and just talk about what are the things that I can do as a regulator that this team at DFS can do to make life easier for these institutions that are serving these important communities. And one example is, again, going back to old rules that came about decades ago, you're familiar, Aaron, with the vacation rule, right, in banking that requires bankers to take two weeks off, completely disconnected from their institutions. It is a rule that was put in place in 1996 in New York. And it serves an important public policy purpose, which was to weed out fraud being conducted by bankers, right, inside their institutions. But when we were talking to our smaller institutions, they said look, I'm a small MDI, I'm a small CDFI, to be — and I'm the CEO, to be disconnected from my small bank for two weeks really is an operational hurdle and it really makes it hard to do business.

So we issued an RFI, request for information, to say well is there a way we can achieve the same policy goals of rooting out fraud inside banks but without making it so hard for CDFIs, MDIs, and other small institutions to do the work of serving their communities.

So and these are just examples of ways I think regulation can really meet people where they are and help to make the financial system fairer and more sustainable.

MR. KLEIN: I mean the story you tell there, right, 1996 is a different world, right. There isn't broad based email throughout all this situation, right. Nobody is carrying with them, right. This is more information in your pocket, more computing power in your pocket, than probably many of the servers that the financial institutions were operating on for the entire bank. And as you described, MDIs, minority owned depository institutions, right?

MS. HARRIS: Yeah.

MR. KLEIN: And the community development financial institutions, CDFIs, which can take kind of an amalgamous set of shapes between banks, credit unions, non-bank lenders, state chartered. There's all sorts of different legal entities that these things can structure, but some of these rules that were put in place decades ago aren't really great fits.

I mean let me ask you, there's kind of a theory about those type of institutions, that they do a fantastic job at serving the underserved and that's they're kind of core and their mission in their community. And there's also kind of the reality that large institutions also serve a lot of underserved people.

MS. HARRIS: Yeah.

MR. KLEIN: And as we've gotten to this messed up place in America where about half of the country, plus or minus, lives paycheck to paycheck, right, and about half the country is a member of a large financial –– you know, one of the top banks I think –– the top ten banks or so have about half the 50 to 70 percent of the customer base. I mean there's a lot of different ways that people are reaching folks.

MS. HARRIS: Yeah, absolutely. And I think –– you know, one of the things we often talk about is, to your point, I mean the large institutions serve lots of people. The often have better technology than some of the small institutions. They have the scale that allows them to market and maybe operate more easily, deal with compliance a little bit more easily than small institutions. And so making sure that the regulation is right sized so that consumers have a choice, right. You can bank with your local small credit union, your small bank and MDI that maybe reflects some of your cultural values, right, whatever it may be, but making sure that New Yorkers and consumers more broadly have that choice is incredibly important. And regulation has a real role to play there.

MR. KLEIN: No, it's — people say well, you know — people forget that banking in between states was functionally impossible do to until the 1990s.

MS. HARRIS: Yeah.

MR. KLEIN: It's not too long before your vacation act that federal banking regulation was removed to reduce barriers between interstate banking. I'm personally teaching a class this spring and like the students there, you know, what do you mean there wasn't a bank — what do you mean I couldn't go anywhere and see the same big five banks.

MS. HARRIS: Right.

MR. KLEIN: it was like no, actually, it was illegal to have — functionally implausible to have branches between Maryland and Pennsylvania.

MS. HARRIS: Yeah.

MR. KLEIN: Look, we've gotten a bunch of questions in on a variety of topics. I encourage people to engage with #NYDFS on Twitter. And one of the questions that came through the audience, several of them, but there was one in particular from somebody at Bloomberg, and it was very focused on Bitcoin and BitLicensing. And I remember when a couple of your predecessors ago spoke at a Washington speech and unveiled what became the first in the nation BitLicense. And had we all been wise enough to put our entire life saving at Bitcoin at the beginning of that speech and to sell at one of the multiple peaks of the market, which has been incredibly choppy, right. But crypto has kind of gone mainstream in a way in the last 12-24 months, that at least it surprised me and let some of the crypto enthusiasts say I told you so a couple of times. But even in New York, right, I think your new Mayor Adams took his first paycheck in Bitcoin? Is that right?

MS. HARRIS: Yeah, yeah.

MR. KLEIN: I know Miami Mayor Suarez, who I've co-authored with, has done that. I think a few of the athletes are trying to put that in their contract. For anybody who watched the Superbowl last night, it was constant crypto. My nine-year-old was like, there's a QR code bouncing around the TV, what is it, what is it. And like I opened my phone and, right, boom crypto. Whatever.

MS. HARRIS: Yeah, yeah.

MR. KLEIN: So like New York was first out of the gate with this Bitcoin and the BitLicense.

MS. HARRIS: Mm-hmm.

MR. KLEIN: I'm assuming the mayor was paid by somebody who was appropriately licensed — let's hope so.

MS. HARRIS: Yeah, yeah.

MR. KLEIN: You talk about your background and the vision that you're bringing here, but I mean I know of you as one of the preeminent minds thinking about financial technology, thinking about the future. You've thought a lot about kind of crypto from all sorts of angles and now you have a regulatory role to play in that.

MS. HARRIS: Yeah, yeah.

MR. KLEIN: What's your crypto vision here?

MS. HARRIS: Yeah. Well, you're right. I mean I've been thinking about it and working on these issues for a long time. We stood up a distributed ledger task force in the White House when I was there and that was sort of early days as these things go. But you're right, one of my predecessors in 2015 created the BitLicense as the first in the nation, but 7 years ago in virtual currency time, it might as well be 700 years in virtual currency time. I mean the space has just, as you said, become mainstream. We're talking about stable coins and DeFi and NFTs, right, no longer are we just talking about Bitcoin.

So we still have the BitLicense. We're doing a lot of work to modernize the process. I think if I'm being perfectly candid, one of the complaints of industry is that it just takes too long to get a BitLicense. So to your point about talent, we're bringing in a load of new talent to staff up that unit appropriately so that we can operate more efficiently and turn those licenses much faster, but without of course sacrificing the regulatory rigor that that space demands. So making sure, you know, the AML/BSA standards are there for that space. When we think about stable coins, make sure the reserving is done properly, make sure consumer notifications are done well. And so we're not going to sacrifice any of the rigor, but there are operational efficiencies I think that we can add to that process to make it go faster.

And then, as you said, I mean there's so many new technologies, so much advancement coming in that space. And for me it's important that DFS really be at the forefront of that. So we're going to be working much more with industry and other stakeholders making sure we're staying abreast of developments, offering guidance to our regulated institutions to make sure that they understand they should come and talk to us. I think this is a part of what's always been important to me from my time in the White House to now, is making sure there really is engagement between us as a regulator and industry and consumer advocates to make sure we're getting to the right answer.

But folks are going to be hearing much more from us around virtual currency and distributed ledger technology going forwards. So it's going to be an exciting time here.

MR. KLEIN: Well, I really like how you separate those two things because I mean I just got some feedback on a grant proposal and it was kind of DeFi and this or that. And you say, you know, distributed finance, right. That's like a concept, right. Block chain and distributed ledger technology, those are to some degree computing concepts, to some degree accounting concepts. They've gotten mixed up with crypto.

MS. HARRIS: Right.

MR. KLEIN: Which is a different kind of currency concept and trading concept and the two can be paired together or not, right. You can run a crypto not on a block chain and you can run a block chain to solve a lot of problems that have nothing to do with a currency.

MS. HARRIS: Yes.

MR. KLEIN: And it's refreshing to hear somebody in a position of power acknowledge that distinction intellectually in her framework to start off, because too often people kind of much the two together.

MS. HARRIS: Yeah, absolutely. But in New York, as you mentioned, I mean they were first out with the BitLicense. We've had more virtual currency investment here in New York than in Silicon Valley. So we are the global center of financial services and we're going to maintain that mantel in part through staying abreast of innovation like this.

MR. KLEIN: Well, I mean let me — you know — I mean do you have an idea on where all of this stuff is headed? I mean you talk to different people and some people are like we're going to be transacting a significant amount of our life in virtual currency and in the metaverse and all sorts of different places, and other people I think are drawing parallels to — was it pets.com was the — or netscape had the most Superbowl ads in 2000 or something?

MS. HARRIS: Yeah.

MR. KLEIN: I mean where do you see all this stuff shaking out?

MS. HARRIS: Yeah, I mean I think it's hard to know, right. I was talking with a colleague not too long ago and we were talking about imagine 20 some odd years ago and somebody just like you held up your phone, somebody said you were going to download these apps and book your plane tickets and do your banking and talk to your friends on the other side of the world all this with tiny device, we never could have imagined that a few decades ago. And I think the distributed ledger and virtual currency space is sort of the same, right. It's just we don't even know — we're just sort of at the tip of the iceberg here — where this technology will take us. And there's so many use cases I think within finance, but also to your point, outside of virtual currency and outside of the financial world as we think about new web protocols, we think about data and data ownership. So I think there's a lot of real room for important innovation here. But it will be important that as policy makers we're working hard to keep up with the innovation, making sure consumers and markets are staying safe without front running and hampering the innovation at the same time.

And as you know — we've talked about this a lot over the years — it's a hard balance to strike.

MR. KLEIN: No, it is, but I think having somebody in your position with your background and your knowledge base is really immensely valuable. For those of us of a certain generation, we remember President Bush 41, who actually I think history looks more and more kindly on his administration and his policies, was widely ridiculed at a supermarket when he went because he hadn't actually seen a checkout scanner for a very long time. And this kind of caught him up in one of those — it was a meme before there were memes, it went viral before things went viral, right. And it was used to display him as being out of touch with the technological advancements.

But bar code scanning, which for those of us even older, remember a time when the supermarket person had to check — one, there was a person who checked you out, right— that's how old it — and two, that person like was putting in numbers, not with an optical scanner.

MS. HARRIS: Yeah.

MR. KLEIN: Now you go to China and QR codes is the next generation of bar code or how people are moving money. Money is appearing in these digital concepts.

And so I think you're very wise to kind of bring the frame of you don't know what you don't know. But what's your regulatory philosophy about how to balance that set of innovation, right, and the value that can provide to working people? Particularly as it relates to crypto, where I've been stunned by the data that shows so much more minority ownership of crypto.

MS. HARRIS: Yeah.

MR. KLEIN: I was looking at one survey that had blacks owning crypto at more than twice the rate of whites. Now, some of that is teased out by age, right.

MS. HARRIS: Right, yeah.

MR. KLEIN: But then you compared like that to money market and mutual funds, which are an analogous financial instrument to some degree than stable coins, right.

MS. HARRIS: Yeah.

MR. KLEIN: One that's been repeatedly bailed out by America's central bank and treasury department, crisis after crisis where the owners are much older, much wealthier, much whiter than crypto.

MS. HARRIS: Yeah, yeah.

MR. KLEIN: How do you — what's the — what are the guiding principles here?

MS. HARRIS: Yeah. I mean for me it really all comes back to engagement. And I know it sounds maybe a little Pollyanna, but I think when you have a regulator or a policy maker that's talking to industry, what are you trying to do with this technology, where would you like to take it. But you're also talking to advocates, you're talking to other regulators nationally, internationally, right, and we're all talking about the objectives we're trying to achieve. So a company many come in and have certain business objectives and there may be ways a regulator can help them achieve that. But they're then of course subject to constraints around consumer protection, right, market protection. But having that open dialogue I think really makes a big difference so that we all can sort of sing from the same song sheet, as it were, and know that we're headed in that direction.

And that's one thing I used to do when I spent time in the private sector is I would go and spend time with the regulators and say, look, here's what we're trying to do, but we of course want to be in bounds when we think about consumer protection, when we think about markets. So let's work together for achieving these goals. And I think with technology we think about notice to consumers, for example, right. It's never really been easier to provide notice to consumers because you can provide it to them in the palm of their hand, right, and make it available in different languages, different type face and sizes. So how do we use technology to help meet those consumer protection ends. And it's the same way these technology companies want to use it to meet business goals. But it really comes down to having a very candid and open conversation with the stakeholders to get that done.

MR. KLEIN: Yeah, no, I — you're spot on, right. We have a disclosure regime predicated on eight and a half by eleven, right, and a reality where people live at three and a half — was it three and a half by five — I forget. It depends on the size of your phone, right? But like a piece of paper versus a phone. And we have these convoluted schemes.

On the basis of that openness, I'm just going to read to you two comments that came in over the transom during this and then as we turn to the next question.

The first has to do with apparently Bermuda's issuing some licenses to insurers to use insurance policies with policy limits in crypto, asking if that's combining the crypto and the insurance angle.

A second one coming in from the New York RL Coalition, talking about how consumer advocates have long worked with your office to maintain strong usury caps and keep predatory lending out of New York, flagging for you, how you plan to work on those efforts, including litigation and other areas there and enforcement you've described.

And as you think about those things that have come through, what I also want to talk about here is something you've done, which I know is near and dear to your heart, which you mentioned earlier, which has to do with diversity guidance to regulated entities. And as you pointed out, being the first woman of color to hold this position, and as I would be remiss not to point out that we are in Black History Month, and this is a time in America where we need to pay particular attention to some of these different questions as it relates to diversity and inclusion, you know, you issued some guidance to regulated entities and subsequently you've collected some information and you've stated already that you plan to publish aggregate corporate management and board diversity statistics.

MS. HARRIS: Yeah.

MR. KLEIN: But what do you see more broadly as DFS's responsibility regarding the employee diversity of those entities that you regulate?

MS. HARRIS: Yeah, absolutely. Well, as you noted, it's an issue that's near and dear to my heart. We need to make sure that these institutions — that their leadership, whether it's the C-suite, the boards, and their employee ranks, are reflecting the communities that they serve. New York is an incredibly diverse place and so equally the financial institutions that serve this population should be diverse. So we're collecting this data and we'll be publishing it, as you noted, in aggregate form.

We also recently put in place DEI continuing education requirements for insurance producers. So as people are going out and talking about insurance products with different communities, we want them to be educated and have some cultural competency and have diversity in their ranks as they're talking about different insurance products with the diverse communities of New York. So that's incredibly important.

But I think when we think about the diversity within our regulated entities, it's got to be genuine diversity and inclusion. So I think a lot of work has been done previously around having diversity offices in the private sector and even in the public sector. It's incredibly important and there's still a lot of work to do there. But beyond that, the other diverse leaders in these organizations that own P&L, right, that own a business line, that are product people, that those are — they're designing products with diverse populations in mind, right, that are kicking the tires on the algorithms so that we can work to eliminate bias in algorithmic decision making that's happening inside financial institutions.

So it's really more than just about head count, although that's of course important, but really making sure diversity of thought and inclusion of different types of thought permeates the product development and all the divisions inside our regulated institutions is going to be something we're working very hard to do here.

MR. KLEIN: Yeah, no, that is incredibly important and powerful. I mean people kind of say, oh, you're just collecting information and publishing aggregate information, what does that do. But information can really change I think and have a profound impact. I'll give you a couple of examples that spring to mind, right. One, you know, a Dr. Christopher Brummer at Georgetown collected some very powerful information on where financial regulators come from and kind of the pipeline sets of issues —

MS. HARRIS: Yeah, yeah.

MR. KLEIN: — as to how the lack of diversity in the pipeline then reflects and plays up. Which is exactly the point that you're making —

MS. HARRIS: Yup.

MR. KLEIN: — regarding who's — not just who's running your diversity office, but who's running the key elements of business.

MS. HARRIS: Right.

MR. KLEIN: Right?

MS. HARRIS: Yeah.

MR. KLEIN: A second piece of research that Brookings Center on Regulation and Markets recently published from Peter Conti-Brown and Kaleb Nygaard from Yale, talked about the diversity or lack thereof at Federal Reserve regional banks. They're the ones who flagged the Kansas City Federal Reserve Regional Bank — didn't integrate its board of directors until 1993.

MS. HARRIS: Yeah.

MR. KLEIN: You know, the Kansas City Fed's been in the news a lot and I think it's important to understand. You know, even Congress — Congress required diversity for the Fed boards and they were just ignored. I mean this is — sometimes you can't legislate this issue.

I did my own work about six years ago where I found that there had not been a single black or Latino president of one of the 12 federal reserve regional banks in American history. In fact, America had a black president, right, the 44th president of the U.S. was black. There have been over 100 some odd of these 12 regional banks, which had only been in existence just about over 100 years, right, and not a single one of them had. And now, with your former colleague from the University of Michigan's announcement the other day from Boston, there have now been two —

MS. HARRIS: Yeah, yeah.

MR. KLEIN: — black presidents put on among the 12 federal reserve regional presidents when only 6 years ago — and I did my research — I couldn't find a single instance. In fact, only one of the 12 banks had ever even had nonwhite person as president and now I think we're going to have 3 of the 12 have somebody of color sitting at once.

So when you're collecting this data and publishing it, it can have profound implications. What type of implications would you — if you're in my shoes and in your shoes four or five years from now and you see this data, you know, what kind of changes are you looking for?

MS. HARRIS: Yeah. I mean I think the data is incredibly important because we need a baseline by which to measure improvements that we hope to see. And so that's what this data will serve as, is really that first look at where our regulated institutions are today and then we'll have something to measure against, right. And then we can compare that to how well these institutions are serving a diverse population and hopefully draw some correlations there.

But this is just our first step and there will be much more to come after we collect and publish this data as we think about, again, product development and what we see come out of these institutions.

MR. KLEIN: You keep mentioning data. It sounds like you're regulating more on the basis of fact than ideology.

MS. HARRIS: Yes, absolutely. That's absolutely right. And part of my hope for DFS now is that we can build up more technological and data capabilities so that we are really making policy and making regulations based on data and on fact and using the tools that we have today in the 21st century to do so.

MR. KLEIN: Yeah. Well, I mean that feels like a real important contribution and look in. You know, we're coming up on the end of the hour and I suspect even in a work from home environment, many people may want to dip off for a special lunch, this being the 14th, so I want to kind of bring this conversation to a close, but I want to talk about what your priorities are and what your accomplishments are because this is the onset, this is the start of the Director Harris era. And all good stories have beginning, middles, and ends. But at the beginning it's always nice to have a little foreshadowing, right. Tell the audience, where is this story ending?

And so as you sit back in the beginning of this era, what kind of foreshadowing do you want to give the audience about what your priorities are and what you hope to accomplish as superintendent?

MS. HARRIS: Yeah. Well, I think for me really these early months are about laying a foundation around policy, process, and people.

So for policy it is really is establishing a new norm, like we're doing with the check cashers, like we're doing with the RFI on the vacation rule. Making sure that policy and regulation can protect consumers and markets and make New York a great place to do business and cement our place as the financial capital of the world and lead through collaboration as we make policy.

On process it's really about operation excellence, right. Without sacrificing the regulatory rigor, but making sure that we can turn around applications quickly when people have them, that we're staying abreast of current trends and new technologies. So having that process, really operate well, and setting this institution up to be able to do that going into the future is incredibly important.

And then, finally, sort of where we started this conversation, is around people. I really want DFS to be the best place to work, right. When people think about coming to work in financial services they think about DFS and we really are hiring. Just a shameless plug, people should go to DFS.ny.gov/careers or human-resources@DFS.ny.gov. We really want to build. We have a stellar team here already, but I'm looking to bring in the most talented and wonderful people we can to accomplish our goals going forward.

MR. KLEIN: Well, I can say with the experience of working with you is a joy. And the energy and enthusiasm, the knowledge in facts, and as you described earlier, from your historical roots going back generations in New York, you're looking out and putting the interests of people —

MS. HARRIS: Yes.

MR. KLEIN: — coupled with data and policy above the status quo.

MS. HARRIS: Yes, absolutely.

MR. KLEIN: Right. I'm deeply moved by your new announcement today of putting a pause and not just letting these check cashing fees ratchet up on auto pilot. And I encourage — I look forward to hearing the rest of this story as it unfolds. Even as a proud Marylander, I'd be remiss not pointing out that you guys not only took the capital of the U.S. economic system, but you also took the then Baltimore, Orioles and moved them to New York that became the New York Yankees. And, in point of fact, New York is leading the way on a lot of these things and I think the people and residents of New York, from my family still in New York to all the rest, are incredibly fortunate to have you as the director and I look forward to continuing this conversation as your agenda unfolds, because you've laid out an ambitious set of things from climate to insurance, mental health to check cashing, Bitcoin and crypto to diversity and inclusion through the service.

So I really thank you on behalf of Brookings, the Center on Regulation and Markets, for sharing your time, your thoughts, your wisdom with us and look forward to continued engagement in the years ahead.

MS. HARRIS: Likewise. Thanks so much for having me, Aaron.

MR. KLEIN: Great. Well, thank you everybody. Go enjoy, celebrate. Thank you for sharing your love of financial regulation with Brookings and have a wonderful rest of your Valentine's Day.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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