

Limitations of Automated Credit Assessment Procedures – Lessons from a Recent Court Decision

In a recent ruling, the Court of Justice of the European Union (CJEU) declared that individuals subject to automated credit rating procedures are entitled to receive a clear and detailed explanation of the decision made about them. The case, C-203/22, involved an automated assessment conducted by the Austrian credit rating agency Dun & Bradstreet. The Court clarified that decision-making processes must be transparent, and individuals must be able to understand the data and reasoning behind evaluations concerning them.

The background of the case involved an Austrian mobile service provider that rejected a customer's contract application solely based on an automated credit scoring system provided by Dun & Bradstreet Austria. The customer, however, was not properly informed about the data or criteria used in their assessment. The Austrian court found that the credit rating agency had violated the GDPR by failing to provide "meaningful information" about the logic and mechanism of the automated decision-making process. In a preliminary ruling procedure, the CJEU interpreted the relevant EU legal provisions and confirmed that, under the GDPR, individuals have the right to understand the decision-making process.

According to the Court's decision, in order to ensure transparency in credit rating procedures, companies must inform individuals about what personal data was used and how this data influenced the decision. The CJEU emphasized that merely providing a technical description of the algorithm is not sufficient; the explanation must be concise, transparent, and genuinely comprehensible in illustrating how the decision-making process operates.

The complexity of automated decision-making processes does not exempt companies from their obligation to provide justification. However, this right is not unlimited. If disclosure of the information would compromise trade secrets or intellectual property, the organization may withhold it. In such cases, the relevant supervisory authority or court must be given access to the information to evaluate the balance between conflicting rights.

This decision has direct implications for domestic legal practice. As automated credit assessments and other automated data processing systems become increasingly common in the financial and service sectors, it is especially important for individuals subject to credit rating to be aware of their rights. Credit rating systems in Hungary, such as the Central Credit Information System operated by BISZ Zrt., or other market-based automated evaluations, function similarly and may now require greater transparency in light of the CJEU's decision.

The ruling also confirms that if a bank or other financial institution rejects a credit application solely based on an automated decision-making mechanism, the customer has the right to receive a detailed explanation of the reasoning behind that decision. This explanation must include which personal data influenced the outcome and under what circumstances a different result might have been reached. If the customer does not receive satisfactory information, they have the right to file a complaint with the National Authority for Data Protection and Freedom of Information (NAIH) in Hungary.



KOVÁCS RÉTI SZEGHEŐ
ÜGYVÉDI IRODA

From the perspective of Hungarian legal practice, this judgment is expected to lead to increased transparency in credit rating procedures. Financial institutions and credit rating providers must review their data processing practices to ensure compliance with GDPR and to provide appropriate information to affected individuals. For customers, the decision offers a clear legal foundation to demand justification for adverse decisions based on automated processing and to seek redress if necessary.

In conclusion, the CJEU ruling clearly reinforces the rights of individuals affected by automated decision-making and stresses that credit rating agencies cannot hide behind a lack of transparency. As more Hungarian customers encounter automated credit assessment systems, it is vital to be aware of the rights they hold and the steps they can take to understand the basis of decisions that affect them.