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# New approach to credit scoring supported by AI and PSD2

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> [Introduction](#)

> [AIS licence](#)

> [Comment](#)

## Introduction

During the past few years, most major Croatian banks have turned to artificial intelligence (AI) solutions for their credit scoring methods in addition to traditional methods. Besides being significantly more time-efficient, AI-based credit scoring uses more data to provide an individualised credit score and helps banks assess clients' credit risk more accurately.

AI-based credit scoring analyses additional parameters that the traditional credit scoring methods miss out on or do not have access to, such as:

- employment opportunities;
- future ability to earn in addition to spending habits; and
- credit history.

In addition, AI algorithms may also predict a client's future financial behaviour, as well as where the money from credit placement will be spent and how it will be returned.

All stakeholders may benefit from the AI-based credit scoring method. AI-based credit scoring helps customers in need of credit get wider access to credit products. It also helps banks expand their client base by approving loans for applicants who would be declined by traditional screening methods.

## AIS licence

None of the above would be possible without the second EU Payment Services Directive (PSD2). In Croatia, a PSD2 account information service (AIS) licence is required in order to carry out these services – namely, to access and retrieve a potential client's bank account data kept by banks and other financial institutions, with the client's consent.

AIS licences are issued by the Croatian National Bank, while the process of their issuance is regulated by the Payment System Act.<sup>(1)</sup>

A registered account information service provider may be a natural person or legal person pursuing a business activity registered in Croatia that has obtained a decision issued by the Croatian National Bank regarding the entry in the register of payment service providers and electronic money issuers.

The Croatian National Bank will issue a decision on the entry in the register of payment service providers and electronic money issuers if it assesses, based on the application and the submitted documentation, that all the conditions (prescribed by the Payment System Act) have been met.

Legal entities may provide an account information service (eg, AI-based credit scoring) only after that payment service has been entered as a business activity in the corresponding register (ie, the company register or crafts register).

## Comment

AI-based credit scoring is just one of many examples of financial and technological innovations supported by the PSD2, which brought benefits to all stakeholders and accelerated business processes in Croatia.

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## Endnotes

(1) *Official Gazette* No. 66/2018, 114/2022.