IBM

USE CASE TITLE : AI-EBPL-FRAUD DETECTION IN FINANCIAL TRANSACTIONS

INSTITUTION : THANGAVELU ENGINEERING COLLEGE

TEAM LEADER : THABASREE.B-312623104701

TEAM MEMBER-1 : PAVITHRA.M-312623104028

TEAM MEMBER-2 : UMA RAJESWARI.B-312623104048

TEAM MEMBER-3 : VINITHA.P-312623104049

TEAM MEMBER-4 : GAYATHRI.B-312623104013

DEPARTMENT : BE.COMPUTER SCIENCE AND ENGINEERING(CSE)

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INTRODUCTION

Fraud detection in financial transactions is a critical aspect of maintaining the integrity and security of financial systems. With the rise of digital transactions, the risk of fraudulent activities has increased, making it essential for financial institutions to implement robust fraud detection mechanisms.

"AI doesn't just respond to threats—it anticipates them, analyzing patterns and anomalies in real time to stop fraud before it happens."

DEFINITION

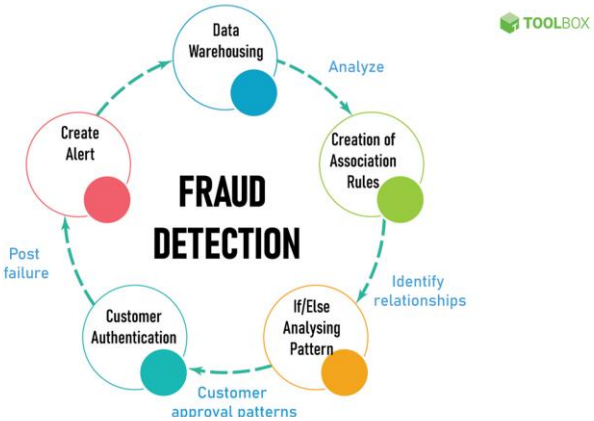
Fraud detection systems utilize advanced algorithms and machine learning techniques to identify and flag suspicious transactions. These systems analyze vast amounts of data, including transaction history, user behavior, and other relevant factors, to detect patterns that may indicate fraudulent activity.

HOW IT WORKS?

- ***Data Collection:*** Gathering data from various sources, including transaction records, user profiles, and external data sources.
- ***Data Analysis:*** Using machine learning algorithms to analyze the collected data and identify patterns that may indicate fraudulent activity.
- ***Risk Scoring:*** Assigning a risk score to each transaction based on the analysis, with higher scores indicating a higher likelihood of fraud.
- ***Alert Generation:*** Generating alerts for transactions with high risk scores, which are then reviewed by fraud analysts

BENEFITS

- ***Enhanced Detection Precision:***
  AI systems analyze vast amounts of transaction data in real-time, identifying subtle patterns and anomalies that traditional methods might miss. This leads to more accurate fraud detection and fewer false positives.
- ***Adaptive Learning Capabilities:***
  AI models continuously learn from new data, adapting to evolving fraud tactics. This dynamic learning process allows systems to detect emerging fraud schemes more effectively.
- ***Cost Efficiency:***
  By automating fraud detection processes, AI reduces the need for extensive manual reviews, leading to significant cost savings for financial institutions.



FEATURES

- ***Real-Time Anomaly Detection:***
  AI systems continuously monitor transactions, instantly identifying unusual patterns such as sudden large purchases or transactions from unfamiliar locations, enabling immediate intervention.
- ***Behavioral Biometrics:***
  By analyzing unique user behaviors-like typing speed, mouse movements, and navigation patterns-AI can detect anomalies that may indicate unauthorized access, even if login credentials are correct.
- ***Predictive Analytics:***
  AI leverages historical transaction data to forecast potential fraudulent activities, allowing financial institutions to proactively prevent fraud before it occurs

EXAMPLES

- ***Mastercard:***
  Utilizes AI to analyze over 159 billion transactions annually, increasing fraud detection rates by up to 300% and reducing false declines by 22%.
- ***HSBC:***
  Implemented an AI system that processes 1.35 billion transactions monthly, reducing false positives by 60% and detecting two to four times more suspicious activities.
- ***Commonwealth Bank of Australia (CBA):***
  Introduced an AI-powered alert and investigation management system that creates visual maps of interconnected suspicious activities, enhancing the detection and investigation of financial crimes.

PROS AND CONS

PROS

- Real-time, scalable detection.
- Significantly reduces false

CONS

- Risk of biased or poor-quality data.
- High implementation and maintenance

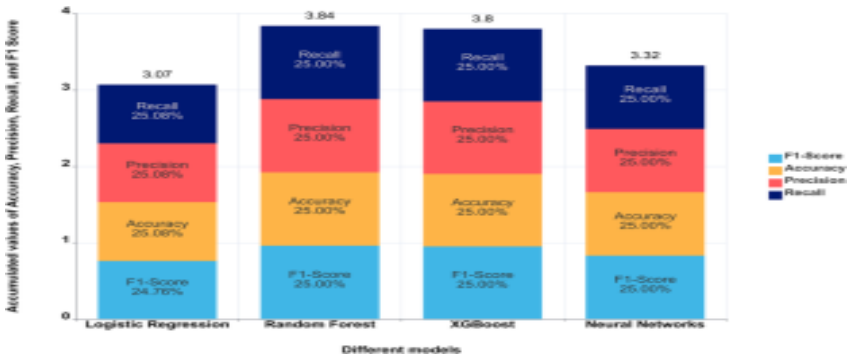
METRICS

- ***False Positive Reduction:*** HSBC's AI system reduced false positives by 60%, allowing for more accurate fraud detection.
- **Increased Detection Rates:** Mastercard's generative AI doubled detection rates of compromised cards and reduced false declines by up to 200%.

TOOLS AND TECHNOLOGIES

- ***Machine Learning Algorithms:*** Utilized to analyze transaction patterns and detect anomalies.
- ***Natural Language Processing (NLP):*** Analyzes unstructured data such as emails and chat logs for signs of fraudulent behavior.
- ***Explainable AI (XAI):*** Ensures that AI decisions can be understood and traced by humans, enhancing transparency and trust.

GRAPH REPRESENTATION



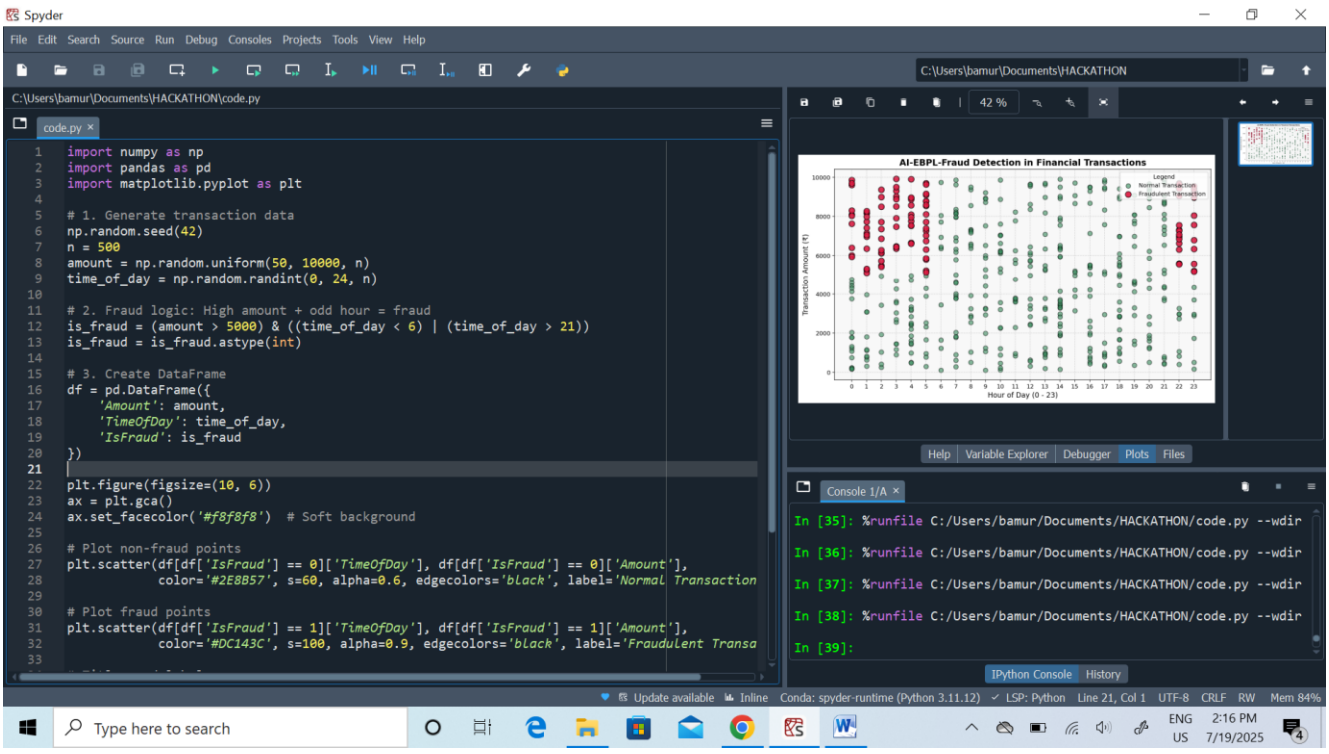
- ***Title****: Comparison of Fraud Detection Rates Before and After AI Integration*
- ***Description****:* This bar chart illustrates the fraud detection rates of various financial institutions before and after implementing AI-powered systems. The bars represent detection rates, while the line indicates the percentage improvement achieved through AI adoption.

SAMPLE CODE

```
import numpy as np
import pandas as pd
import matplotlib.pyplot as plt

np.random.seed(42)
n = 500
amount = np.random.uniform(50, 10000, n)
time_of_day = np.random.randint(0, 24, n)

is_fraud = (amount > 5000) & ((time_of_day < 6) | (time_of_day > 21))
is_fraud = is_fraud.astype(int)

df = pd.DataFrame({
    'Amount': amount,
    'TimeOfDay': time_of_day,
    'IsFraud': is_fraud
})

plt.figure(figsize=(10, 6))
ax = plt.gca()
ax.set_facecolor('#f8f8f8')

plt.scatter(df[df['IsFraud'] == 0]['TimeOfDay'], df[df['IsFraud'] == 0]['Amount'],
```

```
        color='#2E8B57', s=60, alpha=0.6, edgecolors='black', label='Normal Transaction')


plt.scatter(df[df['IsFraud'] == 1]['TimeOfDay'], df[df['IsFraud'] == 1]['Amount'],
        color='#DC143C', s=100, alpha=0.9, edgecolors='black', label='Fraudulent Transaction')
plt.title('AI-EBPL-Fraud Detection in Financial Transactions', fontsize=15, weight='bold')
plt.xlabel('Hour of Day (0 - 23)', fontsize=12)
plt.ylabel('Transaction Amount (₹)', fontsize=12)
plt.xticks(range(0, 24))
plt.grid(True, linestyle='--', alpha=0.5)
plt.legend(title='Legend', fontsize=10, loc='upper right')
plt.tight_layout()
plt.show()
```

SCREENSHOT



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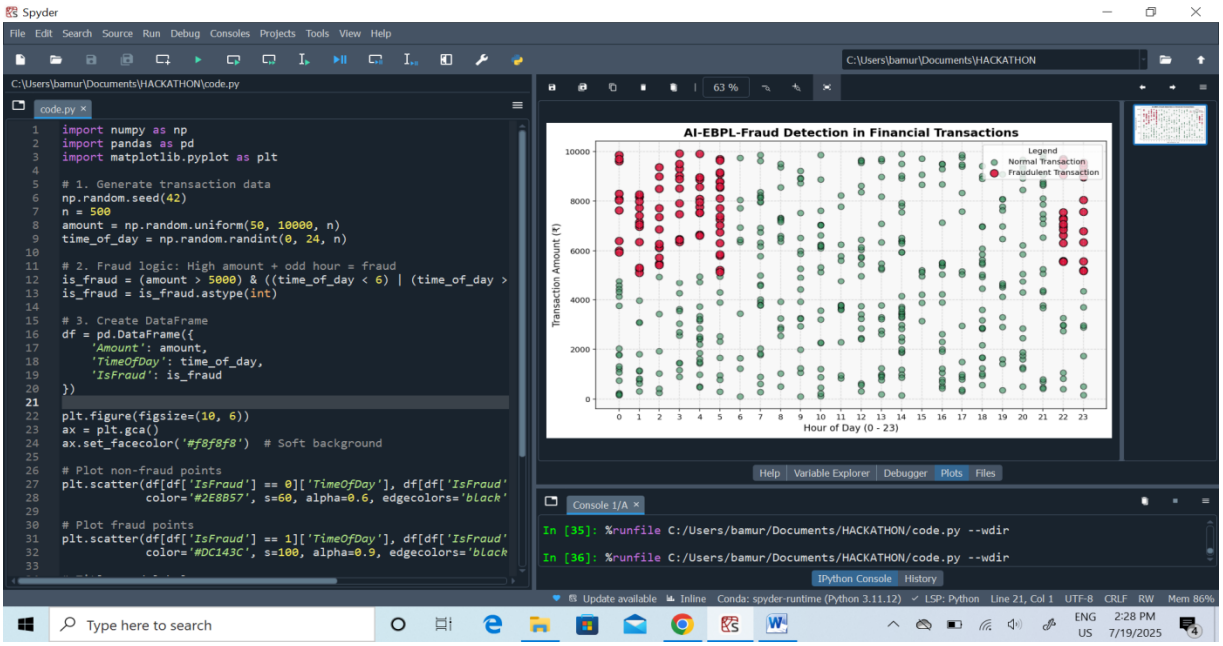

CONCLUSION

AI-powered fraud detection delivers **real-time, predictive protection** by continuously analyzing transaction behavior, network patterns, and anomalies across massive data streams. Its adaptive machine learning and graph-based capabilities significantly improve accuracy, drastically reduce false positives, and enable institutions to act swiftly on suspicious activity . By automating fraud detection workflows, financial organizations cut operational costs and elevate customer trust while handling fraud losses more efficiently . Still, implementation success depends on addressing challenges like data imbalance, model explainability, and privacy—solutions that increasingly involve federated learning and transparent AI design.