PROJECT REPORT

(Project Term August-December 2021)

Credit Card fraud Detection

Submitted by

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Course Code INT246

Under the Guidance of

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DECLARATION

We hereby declare that the project work entitled ("Credit Card Fraud Detection") is an authentic record of our own work carried out as requirements of Project for the award of B.Tech degree in CSE from Lovely Professional University, Phagwara, under the guidance of Dr.Sagar Pande, during August to November 2020. All the information furnished in this project report is based on our own intensive work and is genuine.

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CERTIFICATE

This is to certify that the declaration statement made by this group of students is correct to the best of my knowledge and belief. They have completed this Project under my guidance and supervision. The present work is the result of their original investigation, effort, and study. No part of the work has ever been submitted for any other degree at any University. The Project is fit for the submission and partial fulfilment of the conditions for the award of B. Tech degree in CSE from Lovely Professional University, Phagwara.

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ACKNOWLEDGEMENT

We would like to express our gratitude towards the University, Mentor (Dr. Sagar Pande) and Udemy for providing the guidance for this Project and Machine Learning, which also helped us in doing a lot of homework and learning. As a result, we came to know about so many new things. So, we are thankful to them.

Moreover, we would like to thank our friends who helped us a lot whenever we got stuck in some problem related to our course. We are thankful to have such a good support of them as they always have our back whenever we need.

Also, we would like to mention the support system and consideration of our parents. Without them we would never have learned. I have taken efforts in this project. However, it would not have been possible without the kind support and help of many individuals and organizations. We would like to extend our sincere thanks to all of them

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Abstract

It is vital that credit card companies can identify fraudulent credit card transactions so that customers are not charged for the items that they did not purchase. Such problems can be tackled with Data Science and its importance, along with Machine Learning, cannot be overstated. This project intends to illustrate the modelling of a dataset using machine learning with Credit Card Fraud Detection. The credit card fraud detection problem includes modelling past credit card transactions with the data of the one that turned out to be fraud.

This model is then used to recognize whether a new transaction is fraudulent transaction or not. Our objective here is to detect hundred percent of the fraudulent transactions while minimizing the incorrect fraud classifications. Credit Card Fraud Detection is a typical sample of classification. In this process, we have focused on analysing and pre-processing datasets as well as the deployment of the multiple anomaly detection algorithm such as Logistic regression, k-NN, artificial neural network any many more algorithm the PCA transformed Credit Card Transaction Data.

It is important that credit card companies can recognize fraudulent credit card transactions so that the customers are not charged for items that they did not purchases.

INTRODUCTION

'Fraud' in credit card transactions is unauthorized and unwanted usage of an account by someone other than the owner of that account. Necessary prevention measures can be taken to stop this abuse and the behaviour of such fraudulent practices can be studied to minimize it and protect against similar occurrences in the future.

In other words, Credit Card Fraud can be defined as a case where a person uses someone else's credit card for personal reasons while the owner and the card issuing authorities are unaware of the fact that the card is being used.

Fraud detection involves monitoring the activities of populations of users to estimate, perceive or avoid objectionable behaviour, which consist of fraud, intrusion, and defaulting. This is a very relevant problem that demands the attention of communities such as machine learning and data science where the solution to this problem can be automated. This problem is particularly challenging from the perspective of learning, as it is characterized by various factors such as class imbalance. The number of valid transactions far outnumber fraudulent ones. Also, the transaction patterns often change their statistical properties over the course of time. These are not the only challenges in the implementation of a real-world fraud detection system, however.

In real world examples, the massive stream of payment requests is quickly scanned by automatic tools that determine which transactions to authorize.

Machine learning algorithms are employed to analyse all the authorized transactions and report the suspicious ones. These reports are investigated by professionals who contact the cardholders to confirm if the transaction was genuine or fraudulent. The investigators provide feedback to the automated system which is used to train and update the algorithm to eventually improve the fraud-detection performance over time.

About dataset

- The dataset contains transactions made by credit cards in September 2013 by European cardholders.
- This dataset presents transactions that occurred in two days, where we have 492 frauds out of 284,807 transactions.
- The dataset is highly unbalanced, the positive class (frauds) account for 0.172% of all transactions.
- It contains only numerical input variables which are the result of a PCA transformation. Unfortunately, due to confidentiality issues, we cannot provide the original features and more background information about the data. Features V1, V2, … V28 are the principal components obtained with PCA, the only features which have not been transformed with PCA are 'Time' and 'Amount'. Feature 'Time' contains the seconds elapsed between each transaction and the first transaction in the dataset. The feature 'Amount' is the transaction Amount, this feature can be used for example-dependant cost-sensitive learning. Feature 'Class' is the response variable, and it takes value 1 in case of fraud and 0 otherwise.
- Given the class imbalance ratio, we recommend measuring the accuracy using the Area Under the Precision-Recall Curve (AUPRC). Confusion matrix accuracy is not meaningful for unbalanced classification.

Acknowledgements

The dataset has been collected and analysed during a research collaboration of Worldline and the Machine Learning Group (http://mlg.ulb.ac.be) of ULB (Université Libre de Bruxelles) on big data mining and fraud detection.
More details on current and past projects on related topics are available on https://www.researchgate.net/project/Fraud-detection-5 and the page of the DefeatFraud project

Please cite the following works:

Andrea Dal Pozzolo, Olivier Caelen, Reid A. Johnson and Gianluca Bontempi. Calibrating Probability with Undersampling for Unbalanced Classification. In Symposium on Computational Intelligence and Data Mining (CIDM), IEEE, 2015

Dal Pozzolo, Andrea; Caelen, Olivier; Le Borgne, Yann-Ael; Waterschoot, Serge; Bontempi, Gianluca. Learned lessons in credit card fraud detection from a practitioner perspective, Expert systems with applications,41,10,49154928,2014, Pergamon

Dal Pozzolo, Andrea; Boracchi, Giacomo; Caelen, Olivier; Alippi, Cesare; Bontempi, Gianluca. Credit card fraud detection: a realistic modeling and a novel learning strategy, IEEE transactions on neural networks and learning systems,29,8,3784-3797,2018,IEEE

Dal Pozzolo, Andrea Adaptive Machine learning for credit card fraud detection ULB MLG PhD thesis (supervised by G. Bontempi)

Carcillo, Fabrizio; Dal Pozzolo, Andrea; Le Borgne, Yann-Aël; Caelen, Olivier; Mazzer, Yannis; Bontempi, Gianluca. Scarff: a scalable framework for streaming credit card fraud detection with Spark, Information fusion,41, 182-194,2018,Elsevier

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Analytics, 5,4,285-300,2018,Springer International Publishing

Bertrand Lebichot, Yann-Aël Le Borgne, Liyun He, Frederic Oblé, Gianluca Bontempi Deep-Learning Domain

Adaptation Techniques for Credit Cards Fraud Detection, INNSBDDL 2019: Recent Advances in Big Data and Deep Learning, pp 78-88, 2019

Fabrizio Carcillo, Yann-Aël Le Borgne, Olivier Caelen, Frederic Oblé, Gianluca Bontempi Combining Unsupervised and Supervised Learning in Credit Card Fraud Detection Information Sciences, 2019

Yann-Aël Le Borgne, Gianluca Bontempi Machine Learning for Credit Card Fraud Detection - Practical Handbook

PLAN FOR THE PROJECT

The main objective of the project on credit card fraud detection system is to manage the details of the credit card, transactions, datasets, files, prediction. It manages all the information about the credit card. The purpose of the project is to build a program that reduce the manual work for managing the credit card, transactions.

Function

- It tracks all the information of Transactions.
- It deals with monitoring the information.
- Predict If the customer is going to get scammed and warned them.
- Integration of all records of Prediction.

Problem Statement

In case of the existing system the fraud is detected after the fraud is done and is detected after the complaint of the holder. And so, the card holder faced a lot of trouble before the investigation is completed. And all the transaction is maintained in a log, we need to maintain to maintain a huge data, and now a day's lot of online purchase are made so we don't know the how the person is using the credit card online, we just capture the IP address for the verification purpose. So, there need help from the cybercrime to investigate the fraud. To avoid the entire above disadvantage, we propose the system to detect the fraud in a best and easy way.

The old manual system was suffering from a series of drawbacks. Since whole of the system was to be maintained with hands the process of keeping, maintaining, and retrieving the information is very lengthy. The records were never used to be in a systematic order. There used to be lots of difficulties in associating any transactions with a particular context. If any information was to find required it would have to go through the different registers, documents there would never exist anything like report generation.

For this reason, we have provided features present system partially automated, existing system is quite laborious.

Concepts And Frameworks used

These are the following concept and frameworks are used in the project.

- NumPy
- Pandas
- Matplotlib
- Scikit-Learn
- Supervised Learning (Classification)
- Logistic Regression
- K-Nearest Neighbours(K-NN)
- Naive bayes
- Decision Tree Classification
- Random Forest Classification
- ANN

Numpy

NumPy is a Python library used for working with arrays. It also has functions for working in domain of linear algebra, fourier transform, and matrices. NumPy was created in 2005 by Travis Oliphant. It is an open source project and you can use it freely. NumPy stands for Numerical Python. In Python we have lists that serve the purpose of arrays, but they are slow to process. NumPy aims to provide an array object that is up to 50x faster than traditional Python lists. The array object in NumPy is called ndarray, it provides a lot of supporting functions that make working with ndarray very easy. Arrays are very frequently used in data science, where speed and resources are very important.

Pandas

Pandas is an open-source, BSD-licensed Python library providing high-performance, easy-to-use data structures and data analysis tools for the Python programming language. Python with Pandas is used in a wide range of fields including academic and commercial domains including finance, economics, Statistics, analytics, etc.

Matplotlib

Matplotlib is a comprehensive library for creating static, animated, and interactive visualizations in Python. Matplotlib makes easy things easy and hard things possible

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SCIKIT-LEARN (SKLEARN)

Scikit-learn (Sklearn) is the most useful and robust library for machine learning in Python. It provides a selection of efficient tools for machine learning and statistical modelling including classification, regression, clustering, and dimensionality reduction via a consistence interface in Python. This library, which is largely written in Python, is built upon NumPy, SciPy and Matplotlib.

It was originally called *scikits.learn* and was initially developed by David Cournapeau as a Google summer of code project in 2007. Later, in 2010, Fabian Pedregosa, Gael Varoquaux, Alexandre Gramfort, and Vincent Michel, from FIRCA (French Institute for Research in Computer Science and Automation), took this project at another level and made the first public release (v0.1 beta) on 1st Feb. 2010.

Rather than focusing on loading, manipulating, and summarising data, Scikit-learn library is focused on modelling the data. Some of the most popular groups of models provided by Sklearn are as follows −

Supervised Learning algorithms − Almost all the popular supervised learning algorithms, like Linear Regression, Support Vector Machine (SVM), Decision Tree etc., are the part of scikit-learn.

Unsupervised Learning algorithms − On the other hand, it also has all the popular unsupervised learning algorithms from clustering, factor analysis, PCA (Principal Component Analysis) to unsupervised neural networks.

Clustering − This model is used for grouping unlabelled data.

Cross Validation − It is used to check the accuracy of supervised models on unseen data.

Dimensionality Reduction − It is used for reducing the number of attributes in data which can be further used for summarisation, visualisation, and feature selection.

Ensemble methods − As name suggest, it is used for combining the predictions of multiple supervised models.

Feature extraction − It is used to extract the features from data to define the attributes in image and text data.

Feature selection − It is used to identify useful attributes to create supervised models.

Open Source − It is open-source library and commercially usable under BSD license.

SUPERVISED LEARNING

Supervised learning is the types of machine learning in which machines are trained using well "labelled" training data, and on basis of that data, machines predict the output. The labelled data means some input data is already tagged with the correct output.

In supervised learning, the training data provided to the machines work as the supervisor that teaches the machines to predict the output correctly. It applies the same concept as a student learns in the supervision of the teacher.

Supervised learning is a process of providing input data as well as correct output data to the machine learning model. The aim of a supervised learning algorithm is to find a mapping function to map the input variable(x) with the output variable(y).

In the real-world, supervised learning can be used for Risk Assessment, Image classification, Fraud Detection, spam filtering, etc.

How Supervised Learning Works?

In supervised learning, models are trained using labelled dataset, where the model learns about each type of data. Once the training process is completed, the model is tested on the basis of test data (a subset of the training set), and then it predicts the output.

The working of Supervised learning can be easily understood by the below example and diagram:

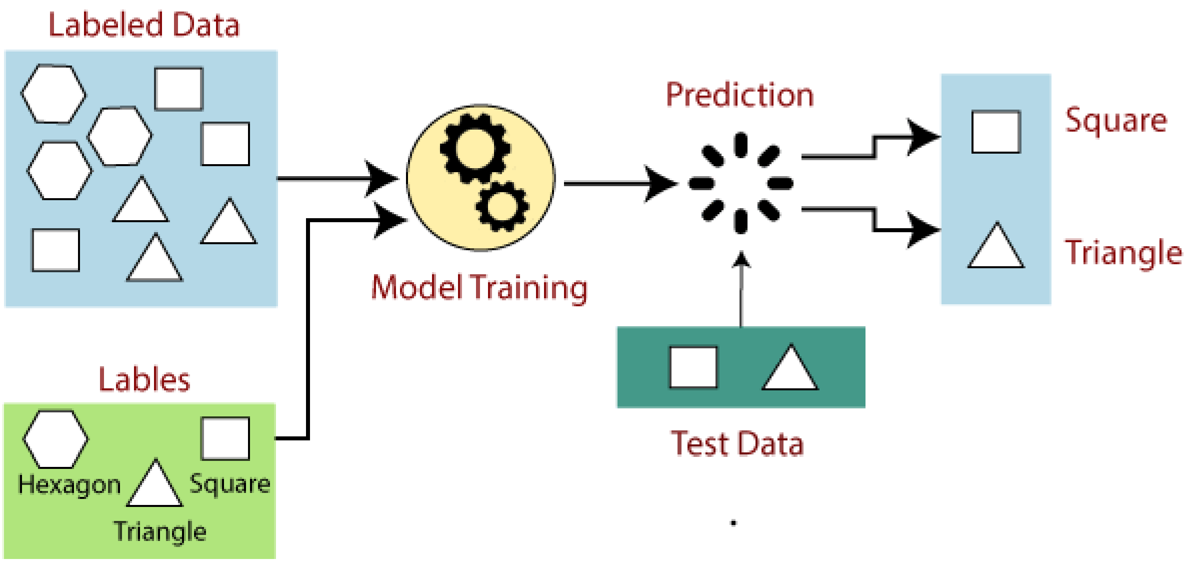


Fig 4.1

Suppose we have a dataset of different types of shapes which includes square, rectangle, triangle, and Polygon. Now the first step is that we need to train the model for each shape.

- If the given shape has four sides, and all the sides are equal, then it will be labelled as a Square.
- If the given shape has three sides, then it will be labelled as a triangle.
- If the given shape has six equal sides, then it will be labelled as hexagon.

Now, after training, we test our model using the test set, and the task of the model is to identify the shape.

The machine is already trained on all types of shapes, and when it finds a new shape, it classifies the shape on the bases of a number of sides and predicts the output.

Steps Involved in Supervised Learning:

- First Determine the type of training dataset
- Collect/Gather the labelled training data.
- Split the training dataset into training dataset, test dataset, and validation dataset.
- Determine the input features of the training dataset, which should have enough knowledge so that the model can accurately predict the output.
- Determine the suitable algorithm for the model, such as support vector machine, decision tree, etc.
- Execute the algorithm on the training dataset. Sometimes we need validation sets as the control parameters, which are the subset of training datasets.
- Evaluate the accuracy of the model by providing the test set. If the model predicts the correct output, which means our model is accurate.

Types of supervised Machine learning Algorithms:

Supervised learning can be further divided into two types of problems:

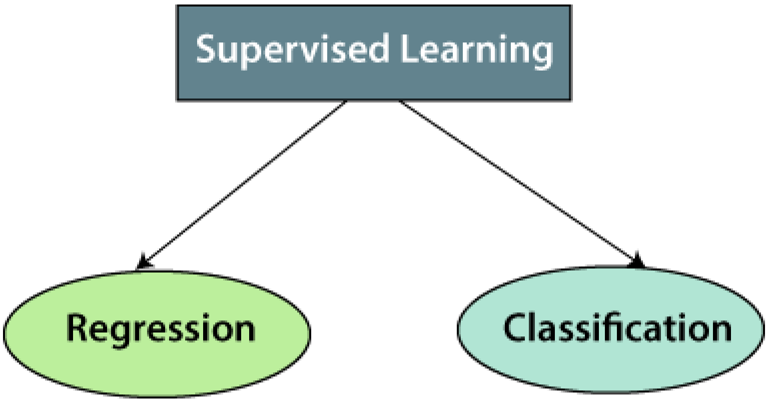


Fig 4.2

1. Regression

Regression algorithms are used if there is a relationship between the input variable and the output variable. It is used for the prediction of continuous variables, such as Weather forecasting, Market Trends, etc. Below are some popular Regression algorithms which come under supervised learning:

- Linear Regression
- Regression Trees
- Non-Linear Regression
- Bayesian Linear Regression
- Polynomial Regression

2. Classification

Classification algorithms are used when the output variable is categorical, which means there are two classes such as Yes-No, Male-Female, True-false, etc.

Spam Filtering,

- Random Forest
- Decision Trees
- Logistic Regression
- Support vector Machines

Logistic Regression

- Logistic regression is one of the most popular Machine Learning algorithms, which comes under the Supervised Learning technique. It is used for predicting the categorical dependent variable using a given set of independent variables.
- Logistic regression predicts the output of a categorical dependent variable. Therefore the outcome must be a categorical or discrete value. It can be either Yes or No, 0 or 1, true or False, etc. but instead of giving the exact value as 0 and 1, it gives the probabilistic values which lie between 0 and 1.
- Logistic Regression is much similar to the Linear Regression except that how they are used. Linear Regression is used for solving Regression problems, whereas Logistic regression is used for solving the classification problems.

- In Logistic regression, instead of fitting a regression line, we fit an "S" shaped logistic function, which predicts two maximum values (0 or 1).
- The curve from the logistic function indicates the likelihood of something such as whether the cells are cancerous or not, a mouse is obese or not based on its weight, etc.
- Logistic Regression is a significant machine learning algorithm because it has the ability to provide probabilities and classify new data using continuous and discrete datasets.
- Logistic Regression can be used to classify the observations using different types of data and can easily determine the most effective variables used for the classification. The below image is showing the logistic function:

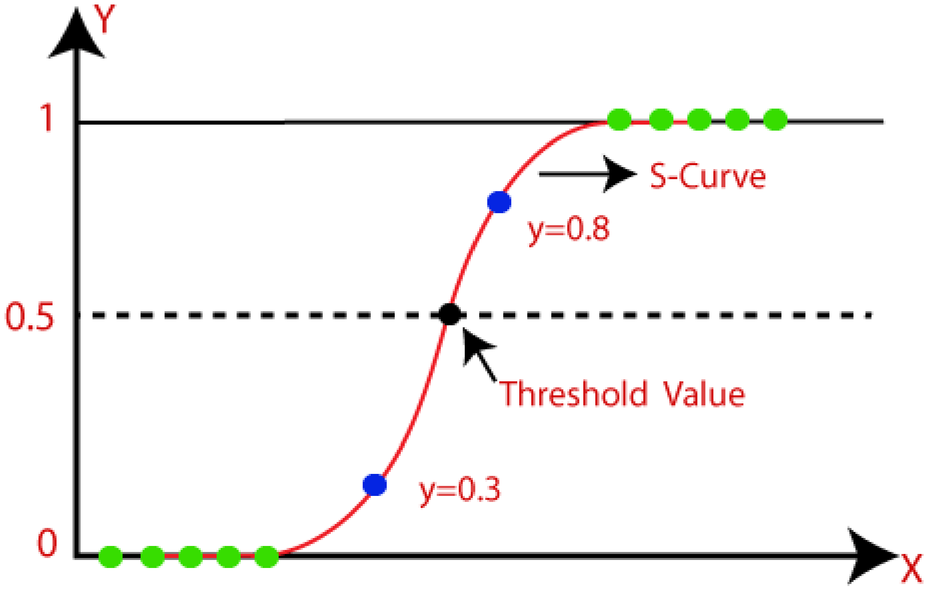


Fig 4.3

Logistic Function (Sigmoid Function):

- The sigmoid function is a mathematical function used to map the predicted values to probabilities.
- It maps any real value into another value within a range of 0 and 1.
- The value of the logistic regression must be between 0 and 1, which cannot go beyond this limit, so it forms a curve like the "S" form. The S-form curve is called the Sigmoid function or the logistic function.
- In logistic regression, we use the concept of the threshold value, which defines the probability of either 0 or 1. Such as values above the threshold value tends to 1, and a value below the threshold values tends to 0.

Assumptions for Logistic Regression:

- The dependent variable must be categorical in nature.
- The independent variable should not have multi-collinearity.

Logistic Regression Equation:

The Logistic regression equation can be obtained from the Linear Regression equation. The mathematical steps to get Logistic Regression equations are given below:

- We know the equation of the straight line can be written as:

$$y= b_0 + b_1x_1 + b_2x_2 + b_3x_3 + \cdots + b_nx_n$$

- In Logistic Regression y can be between 0 and 1 only, so for this let's divide the above equation by (1-y):

$$\frac{y}{1-y}\text{; 0 for y= 0, and infinity for y=1}$$

- But we need range between -[infinity] to +[infinity], then take logarithm of the equation it will become:

$$\boldsymbol{log\left[\frac{y}{1-y}\right] = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + \cdots + b_nx_n}$$

The above equation is the final equation for Logistic Regression.

Type of Logistic Regression:

On the basis of the categories, Logistic Regression can be classified into three types:

- Binomial: In binomial Logistic regression, there can be only two possible types of the dependent variables, such as 0 or 1, Pass or Fail, etc.
- Multinomial: In multinomial Logistic regression, there can be 3 or more possible unordered types of the dependent variable, such as "cat", "dogs", or "sheep"
- Ordinal: In ordinal Logistic regression, there can be 3 or more possible ordered types of dependent variables, such as "low", "Medium", or "High".

K-Nearest Neighbour(KNN)

- K-Nearest Neighbour is one of the simplest Machine Learning algorithms based on Supervised Learning technique.
- K-NN algorithm assumes the similarity between the new case/data and available cases and put the new case into the category that is most similar to the available categories.

- K-NN algorithm stores all the available data and classifies a new data point based on the similarity. This means when new data appears then it can be easily classified into a well suite category by using K- NN algorithm.
- K-NN algorithm can be used for Regression as well as for Classification but mostly it is used for the Classification problems.
- K-NN is a non-parametric algorithm, which means it does not make any assumption on underlying data.
- It is also called a lazy learner algorithm because it does not learn from the training set immediately instead it stores the dataset and at the time of classification, it performs an action on the dataset.
- KNN algorithm at the training phase just stores the dataset and when it gets new data, then it classifies that data into a category that is much similar to the new data.

The K-NN working can be explained on the basis of the below algorithm:

- Step-1: Select the number K of the neighbors
- Step-2: Calculate the Euclidean distance of K number of neighbors
- Step-3: Take the K nearest neighbors as per the calculated Euclidean distance.
- Step-4: Among these k neighbors, count the number of the data points in each category.
- Step-5: Assign the new data points to that category for which the number of the neighbor is maximum.
- Step-6: Our model is ready.

Suppose we have a new data point and we need to put it in the required category. Consider the below image:

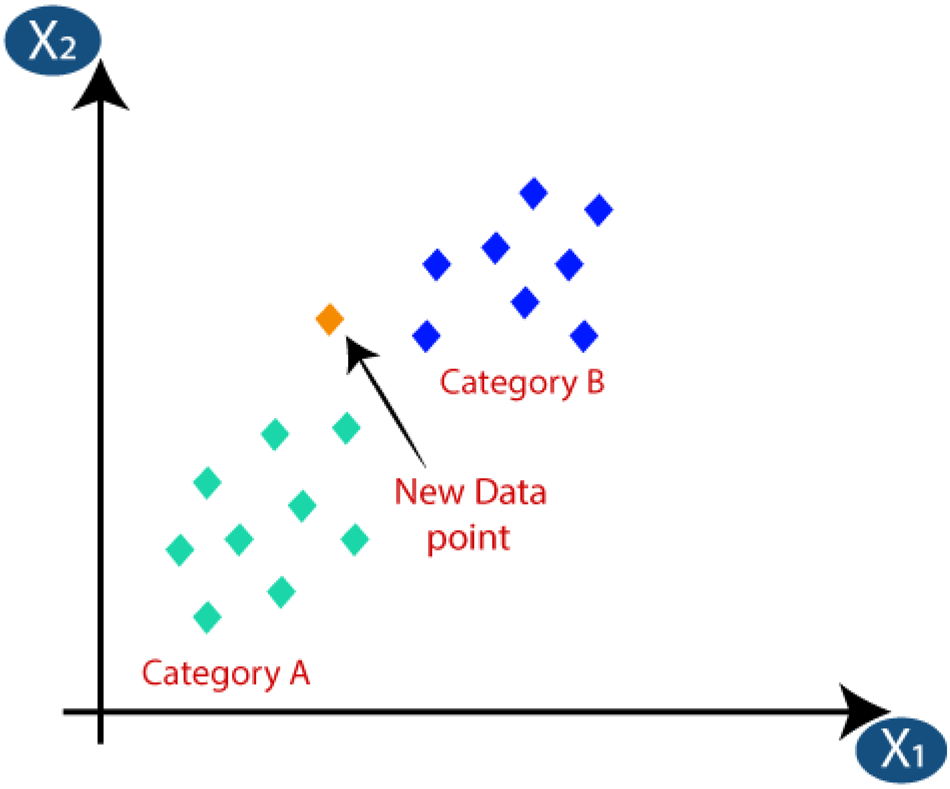


Fig 4.4

- Firstly, we will choose the number of neighbors, so we will choose the k=5.
- Next, we will calculate the Euclidean distance between the data points. The Euclidean distance is the distance between two points, which we have already studied in geometry. It can be calculated as:

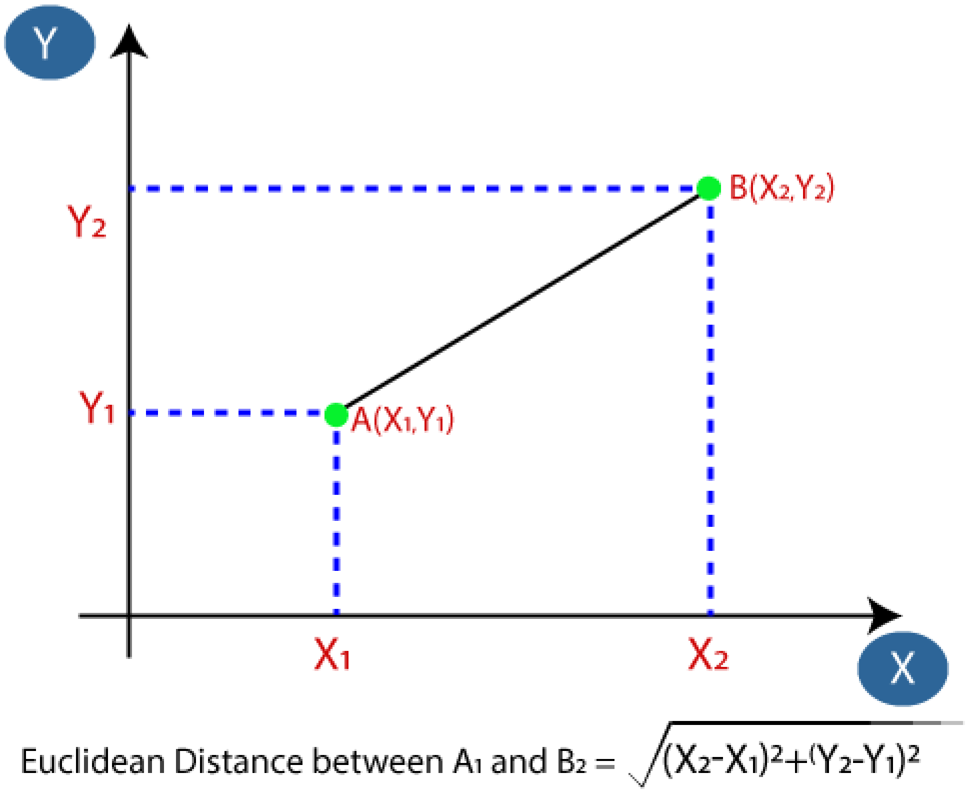


Fig 4.5

- By calculating the Euclidean distance we got the nearest neighbors, as three nearest neighbors in category A and two nearest neighbors in category B. Consider the below image:

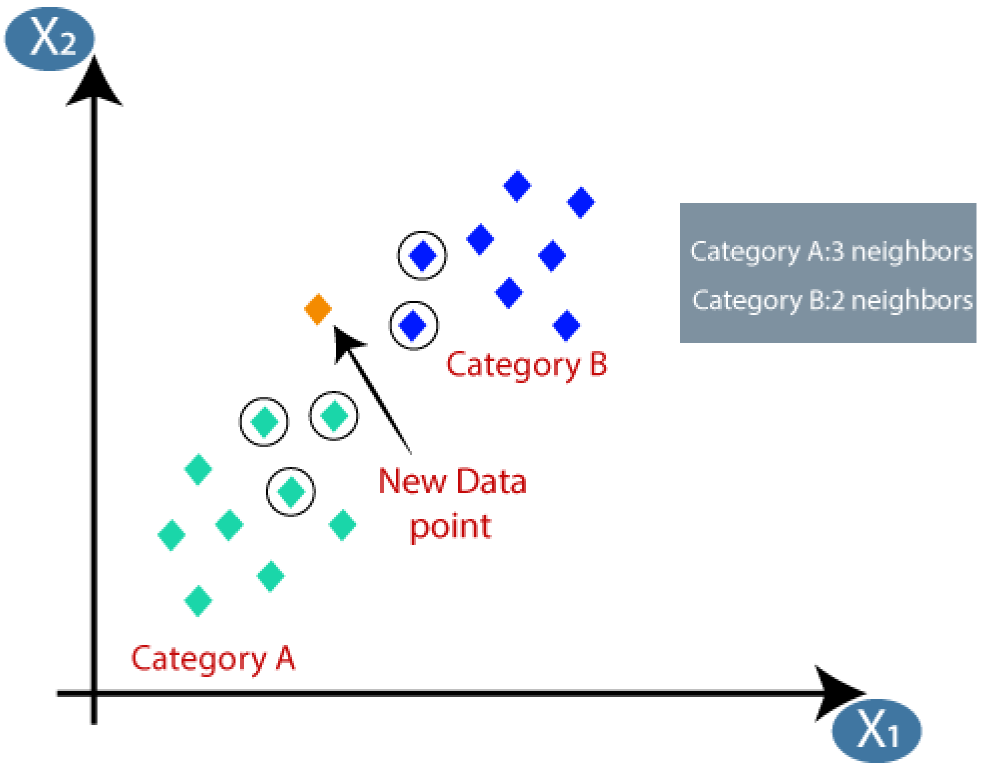


Fig 4.6

- As we can see the 3 nearest neighbours are from category A, hence this new data point must belong to category A.

NAÏVE BAYES

- Naïve Bayes algorithm is a supervised learning algorithm, which is based on Bayes theorem and used for solving classification problems.
- It is mainly used in *text classification* that includes a high-dimensional training dataset.
- Naïve Bayes Classifier is one of the simple and most effective Classification algorithms which helps in building the fast machine learning models that can make quick predictions.
- It is a probabilistic classifier, which means it predicts on the basis of the probability of an object.
- Some popular examples of Naïve Bayes Algorithm are spam filtration, Sentimental analysis, and classifying articles.

Bayes' Theorem:

- Bayes' theorem is also known as Bayes' Rule or Bayes' law, which is used to determine the probability of a hypothesis with prior knowledge. It depends on the conditional probability.

- The formula for Bayes' theorem is given as:

$$P(A|B)=\frac{P(B|A)P(A)}{P(B)}$$

Were,

P(A|B) is Posterior probability: Probability of hypothesis A on the observed event B.

P(B|A) is Likelihood probability: Probability of the evidence given that the probability of a hypothesis is true.

P(A) is Prior Probability: Probability of hypothesis before observing the evidence.

P(B) is Marginal Probability: Probability of Evidence.

Working of Naïve Bayes' Classifier:

Working of Naïve Bayes' Classifier can be understood with the help of the below example:

Suppose we have a dataset of weather conditions and corresponding target variable "Play". So, using this dataset we need to decide that whether we should play or not on a particular day according to the weather conditions. So, to solve this problem, we need to follow the below steps:

1. Convert the given dataset into frequency tables.
2. Generate Likelihood table by finding the probabilities of given features.
3. Now, use Bayes theorem to calculate the posterior probability.

DECISION TREE

Decision Tree is a Supervised learning technique that can be used for both classification and Regression problems, but mostly it is preferred for solving Classification problems. It is a tree-structured classifier, where internal nodes represent the features of a dataset, branches represent the decision rules, and each leaf node represents the outcome.

In a Decision tree, there are two nodes, which are the Decision Node and Leaf Node. Decision nodes are used to make any decision and have multiple branches, whereas Leaf nodes are the output of those decisions and do not contain any further branches.

The decisions or the test are performed based on features of the given dataset.

It is a graphical representation for getting all the possible solutions to a problem/decision based on given conditions.

It is called a decision tree because, like a tree, it starts with the root node, which expands on further branches and constructs a tree-like structure.

To build a tree, we use the CART algorithm, which stands for Classification and Regression Tree algorithm.

A decision tree simply asks a question and based on the answer (Yes/No), it further split the tree into subtrees.

Below diagram explains the general structure of a decision tree:

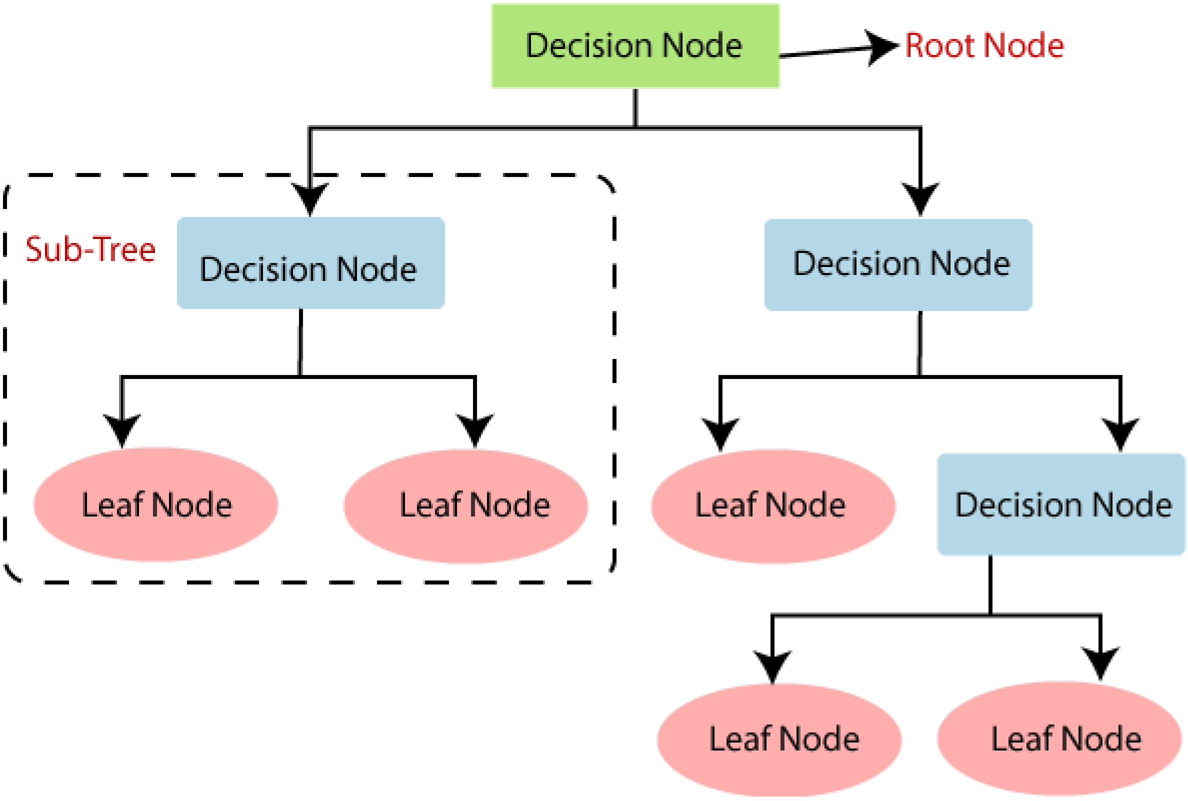


Fig 4.7

RANDOM FOREST

Random Forest is a popular machine learning algorithm that belongs to the supervised learning technique. It can be used for both Classification and Regression problems in ML. It is based on the concept of ensemble learning, which is a process of *combining multiple classifiers to solve a complex problem and to improve the performance of the model.*

As the name suggests, *"Random Forest is a classifier that contains a number of decision trees on various subsets of the given dataset and takes the average to improve the predictive accuracy of that dataset."* Instead of relying on one decision tree, the random forest takes the prediction from each tree and based on the majority votes of predictions, and it predicts the final output.

The greater number of trees in the forest leads to higher accuracy and prevents the problem of overfitting.

The below diagram explains the working of the Random Forest algorithm:

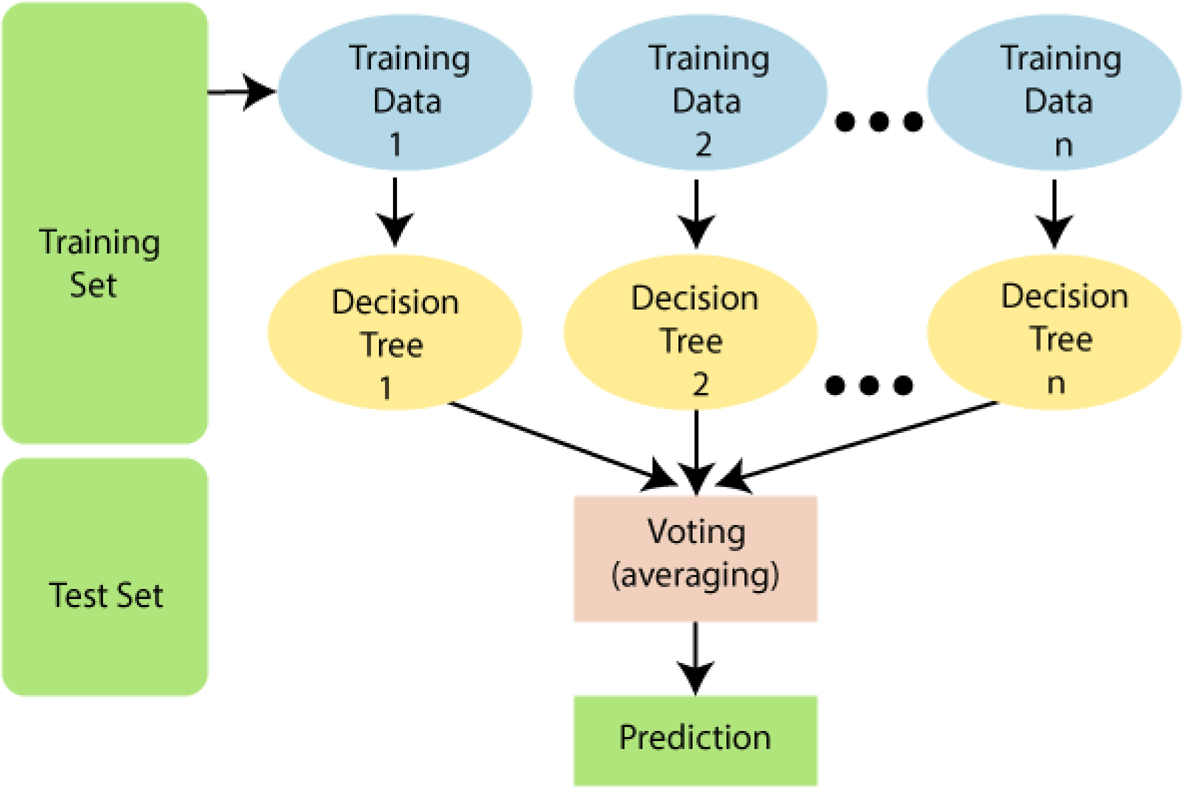


Fig 4.8

ARITIFICIAL NEURAL NETWORKS (ANN)

The term "Artificial Neural Network" is derived from Biological neural networks that develop the structure of a human brain. Similar to the human brain that has neurons interconnected to one another, artificial neural networks also have neurons that are interconnected to one another in various layers of the networks. These neurons are known as nodes.

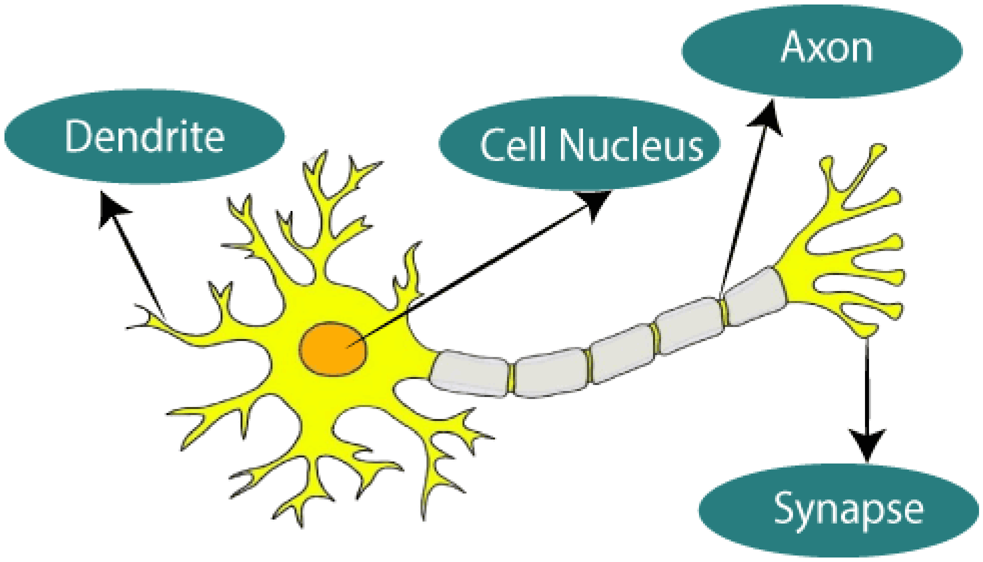


Fig 4.9

The given figure illustrates the typical diagram of Biological Neural Network.

The typical Artificial Neural Network looks something like the given figure.

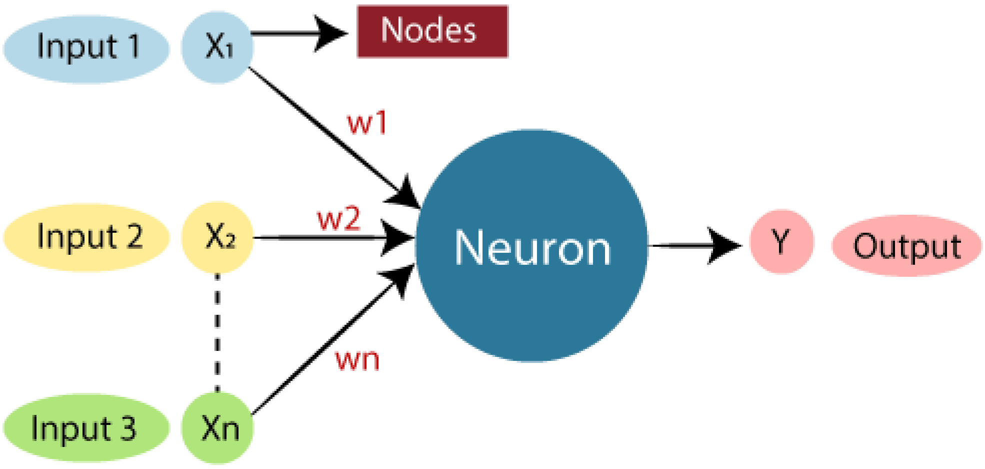


Fig 4.10

Dendrites from Biological Neural Network represent inputs in Artificial Neural Networks, cell nucleus represents Nodes, synapse represents Weights, and Axon represents Output.

Relationship between Biological neural network and artificial neural network:

Biological Neural Network	Artificial Neural Network
Dendrites	Inputs
Cell nucleus	Nodes
Synapse	Weights
Axon	Output

An Artificial Neural Network in the field of Artificial intelligence where it attempts to mimic the network of neurons makes up a human brain so that computers will have an option to understand things and make decisions in a human-like manner. The artificial neural network is designed by programming computers to behave simply like interconnected brain cells.

There are around 1000 billion neurons in the human brain. Each neuron has an association point somewhere in the range of 1,000 and 100,000. In the human brain, data is stored in such a manner as to be distributed, and we can extract more than one piece of this data when necessary, from our memory parallelly. We can say that the human brain is made up of incredibly amazing parallel processors.

We can understand the artificial neural network with an example, consider an example of a digital logic gate that takes an input and gives an output. "OR" gate, which takes two inputs. If one or both the inputs are "On," then we get "On" in output. If both the inputs are "Off," then we get "Off" in output. Here the output depends upon input. Our brain does not perform the same task. The outputs to inputs relationship keep changing because of the neurons in our brain, which are "learning."

The architecture of an artificial neural network:

To understand the concept of the architecture of an artificial neural network, we must understand what a neural network consists of. To define a neural network that consists of a large number of artificial neurons, which are termed units arranged in a sequence of layers. Let's us look at various types of layers available in an artificial neural network.

Artificial Neural Network primarily consists of three layers:

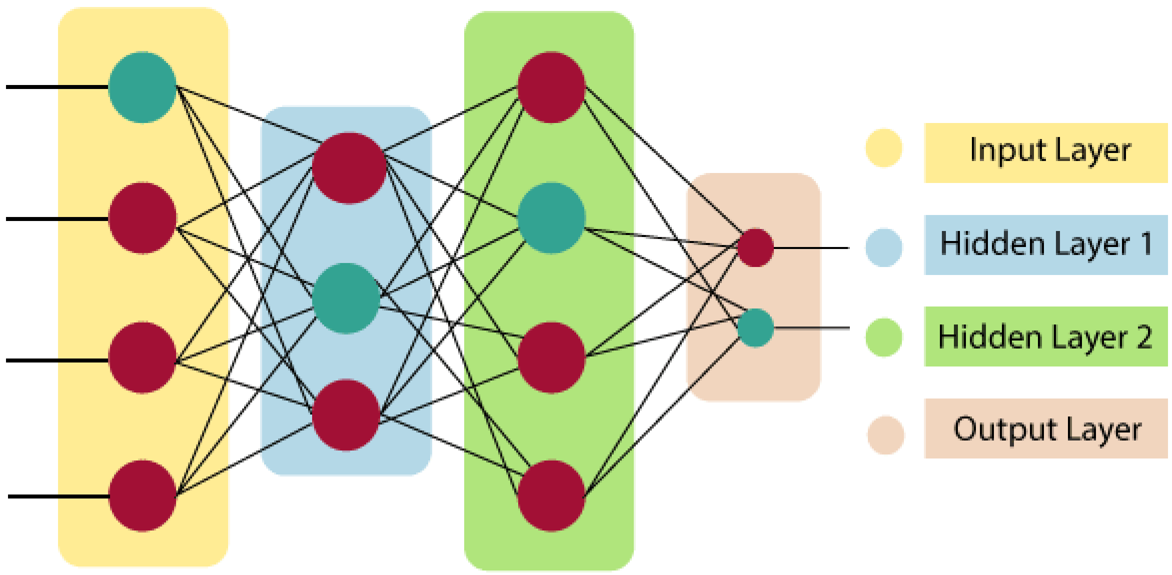


Fig 4.11

Input Layer:

As the name suggests, it accepts inputs in several different formats provided by the programmer.

Hidden Layer:

The hidden layer presents in-between input and output layers. It performs all the calculations to find hidden features and patterns.

Output Layer:

The input goes through a series of transformations using the hidden layer, which finally results in output that is conveyed using this layer.

The artificial neural network takes input and computes the weighted sum of the inputs and includes a bias. This computation is represented in the form of a transfer function.

$$\sum_{i=1}^{n} Wi * Xi + b$$

It determines weighted total is passed as an input to an activation function to produce the output. Activation functions choose whether a node should fire or not. Only those who are fired make it to the output layer. There are distinctive activation functions available that can be applied upon the sort of task we are performing.

How do artificial neural networks work?

Artificial Neural Network can be best represented as a weighted directed graph, where the artificial neurons form the nodes. The association between the neurons outputs and neuron inputs can be viewed as the directed edges with weights. The Artificial Neural Network receives the input signal from the external source in the form of a pattern and image in the form of a vector. These inputs are then mathematically assigned by the notations x(n) for every n number of inputs.

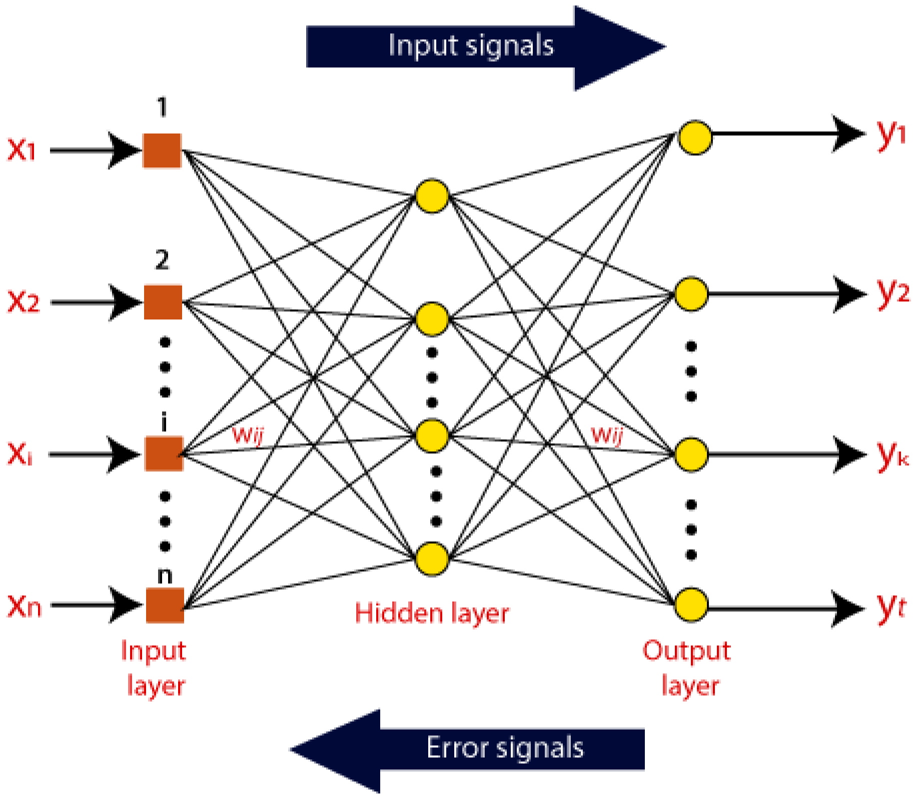


Fig 4.12

Afterward, each of the input is multiplied by its corresponding weights (these weights are the details utilized by the artificial neural networks to solve a specific problem). In general terms, these weights normally represent the strength of the interconnection between neurons inside the artificial neural network. All the weighted inputs are summarized inside the computing unit.

If the weighted sum is equal to zero, then bias is added to make the output non-zero or something else to scale up to the system's response. Bias has the same input, and weight equals to 1. Here the total of weighted inputs can be in the range of 0 to positive infinity. Here, to keep the response in the limits of the desired value, a certain maximum value is benchmarked, and the total of weighted inputs is passed through the activation function.

The activation function refers to the set of transfer functions used to achieve the desired output. There is a different kind of the activation function, but primarily either linear or non-linear sets of functions. Some of the commonly used sets of activation functions are the Binary, linear, and Tan hyperbolic sigmoidal activation functions. Let us look at each of them in details:

Binary:

In binary activation function, the output is either a one or a 0. Here, to accomplish this, there is a threshold value set up. If the net weighted input of neurons is more than 1, then the final output of the activation function is returned as one or else the output is returned as 0.

Sigmoidal Hyperbolic:

The Sigmoidal Hyperbola function is generally seen as an "S" shaped curve. Here the tan hyperbolic function is used to approximate output from the actual net input. The function is defined as:

F(x) = (1/1 + exp(-????x))

Where ???? is considered the Steepness parameter.

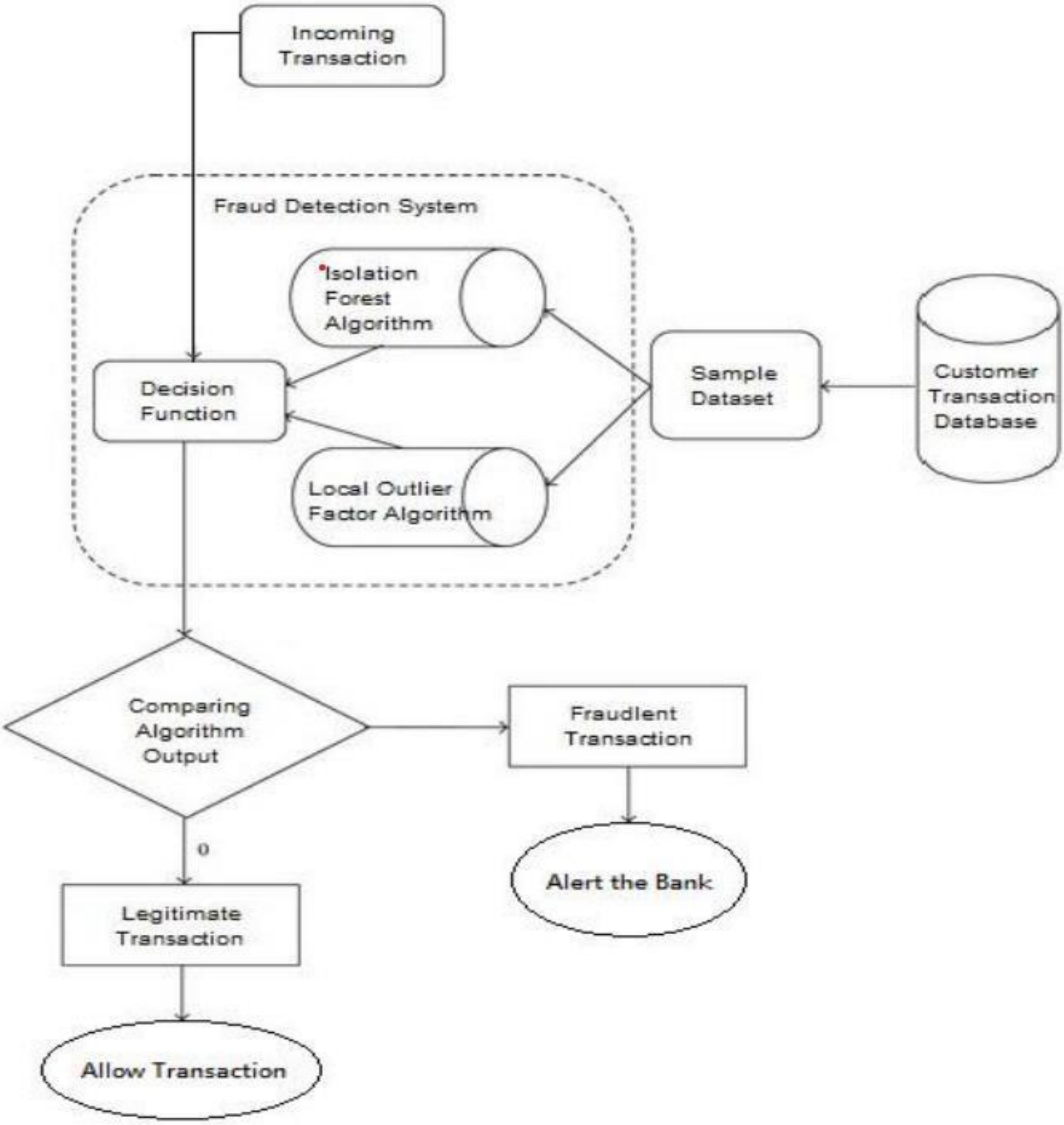


Fig 4.13

Working of the project

Import all the libraries exp- NumPy for mathematical operation, matplotlib for the graph pandas for the document manipulation, scikit-learn for machine learning models, etc

Upload the dataset i.e., credit.csv

Divide the dataset into dependent variable y and independent variable X

Apply feature scaling in the amount column

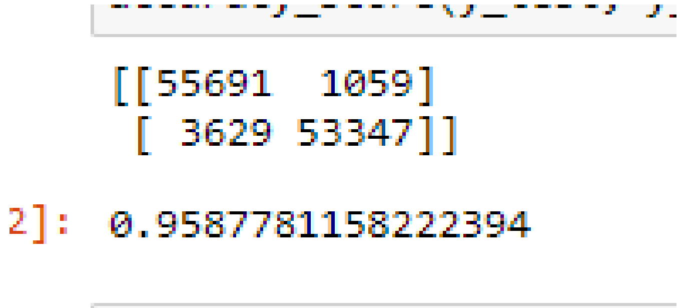
Divide dataset into training set and test set by 8:2 ratio.

Balance the dataset.

Apply different models and calculate the accuracy.

RESULTS

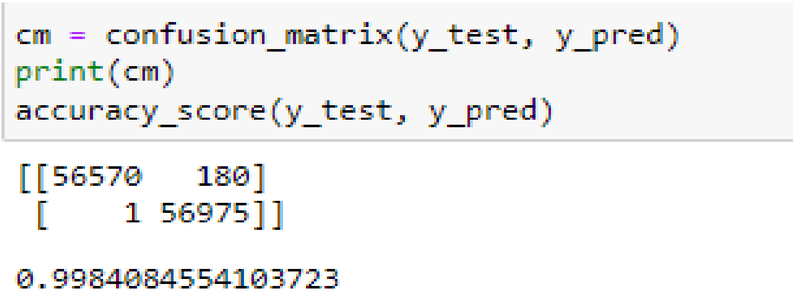
We used 80 percent of the dataset to train the model and 20 percent dataset to test the predicted values. We used Logistic Regression, K-Nearest Neighbours(K-NN), Naive bayes, Decision Tree Classification, Random Forest Classification and ANN and achieved the following accuracy using confusion matrix.



```
[[55691  1059]
 [ 3629 53347]]

2]:  0.958778158222394
```

Logistic Regression

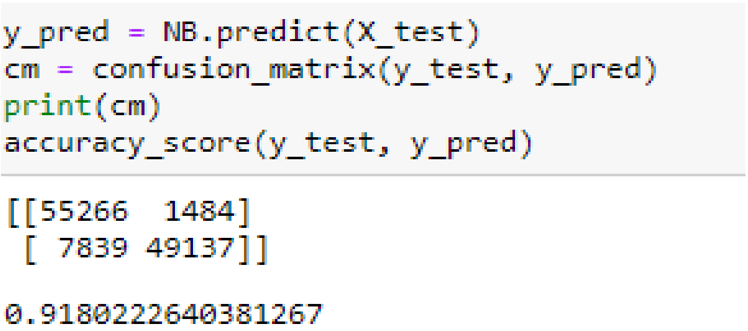


```
cm = confusion_matrix(y_test, y_pred)
print(cm)
accuracy_score(y_test, y_pred)
```

```
[[56570   180]
 [    1 56975]]

0.9984084554103723
```

K-Nearest Neighbours

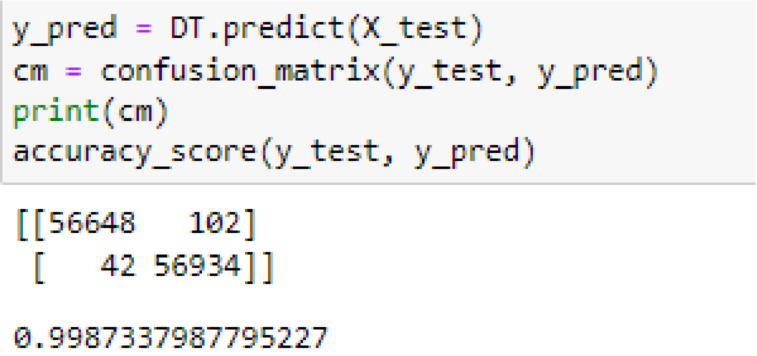


```
y_pred = NB.predict(X_test)
cm = confusion_matrix(y_test, y_pred)
print(cm)
accuracy_score(y_test, y_pred)
```

```
[[55266  1484]
 [ 7839 49137]]

0.9180222640381267
```

Naive bayes

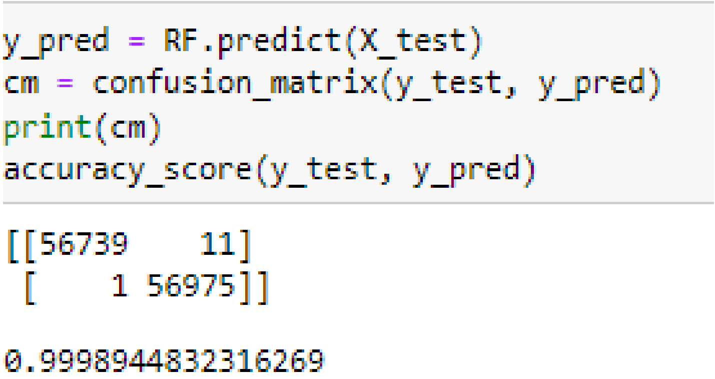


```
y_pred = DT.predict(X_test)
cm = confusion_matrix(y_test, y_pred)
print(cm)
accuracy_score(y_test, y_pred)
```

```
[[56648   102]
 [   42 56934]]

0.9987337987795227
```

Decision Tree Classification

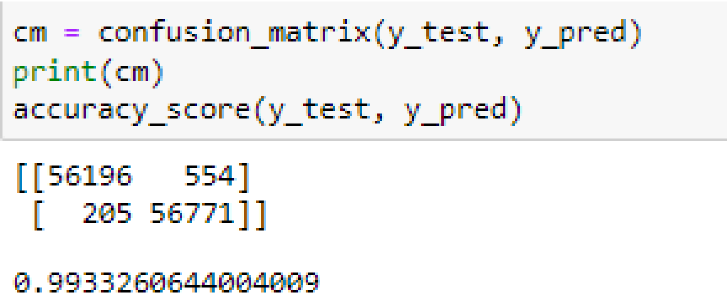


```
y_pred = RF.predict(X_test)
cm = confusion_matrix(y_test, y_pred)
print(cm)
accuracy_score(y_test, y_pred)
```

```
[[56739    11]
 [    1 56975]]

0.9998944832316269
```

Random Forest Classification



```
cm = confusion_matrix(y_test, y_pred)
print(cm)
accuracy_score(y_test, y_pred)
```

```
[[56196   554]
 [  205 56771]]

0.9933260644004009
```

Artificial Neural Network

CONCLUSION

Credit card fraud is without a doubt an act of criminal dishonesty. This article has listed out the most common methods of fraud along with their detection methods and reviewed recent findings in this field. This paper has also explained in detail, how machine learning can be applied to get better results in fraud detection along with the algorithm, pseudocode, explanation its implementation and experimentation results. While the algorithm does reach over 99.6% accuracy, its precision remains only at 28% when a tenth of the data set is taken into consideration. However, when the entire dataset is fed into the algorithm, the precision rises to 33%. This high percentage of accuracy is to be expected due to the huge imbalance between the number of valid and number of genuine transactions.

Since the entire dataset consists of only two days' transaction records, it's only a fraction of data that can be made available if this project were to be used on a commercial scale. Being based on machine learning algorithms, the program will only increase its efficiency over time as more data is put into it.

FUTURE ENHANCEMENTS

While we couldn't reach out goal of 100% accuracy in fraud detection, we did end up creating a system that can, with enough time and data, get very close to that goal. As with any such project, there is some room for improvement here.

The very nature of this project allows for multiple algorithms to be integrated together as modules and their results can be combined to increase the accuracy of the result. This model can further be improved with the addition of more algorithms into it. However, the output of these algorithms needs to be in the same format as the others. Once that condition is satisfied, the modules are easy to add as done in the code. This provides a great degree of modularity and versatility to the project.

More room for improvement can be found in the dataset. As demonstrated before, the precision of the algorithms increases when the size of dataset is increased. Hence, more data will surely make the model more accurate in detecting frauds and reduce the number of false positives. However, this requires official support from the banks themselves.

Programme

https://github.com/himanshu18701/creditcard.git

Dataset

https://www.kaggle.com/mlgulb/creditcardfraud?select=creditcard.csv