Bilenkin550_Term_Project_Milestone_1

March 31, 2025

Finding Patterns in Credit Card Transactions to Detect Fraud

Today, credit cards have become an essential part of our daily lives, offering a convenient way to purchase goods and services. Instead of carrying large amounts of cash, consumers can simply use a single credit card to make transactions. Whether by swiping, inserting, or tapping against a contactless reader, making a payment has never been easier.

However, with the growing adoption of credit cards, fraudulent activities have also increased. Fraudsters can use stolen credit card information to make unauthorized purchases, often without the cardholder realizing it until it's too late. These fraudulent transactions lead to significant financial losses for banks and credit card issuers.

By leveraging big data from credit card transaction histories, banks can identify patterns and correlations associated with fraudulent activities. Machine learning models can analyze various features, such as transaction location, merchant category, purchase amounts, and unusual spending behaviors, to detect potential fraud. More importantly, predictive analytics can help banks assess the risk of issuing credit cards to individuals who may have a high likelihood of committing fraud.

Implementing machine learning-based fraud detection not only helps banks minimize financial losses but also enhances security for both consumers and merchants. A robust fraud prevention system ensures that legitimate transactions are processed smoothly while fraudulent attempts are blocked in real-time. As a result, customers can feel more secure using their credit cards, and merchants can conduct transactions with greater confidence.

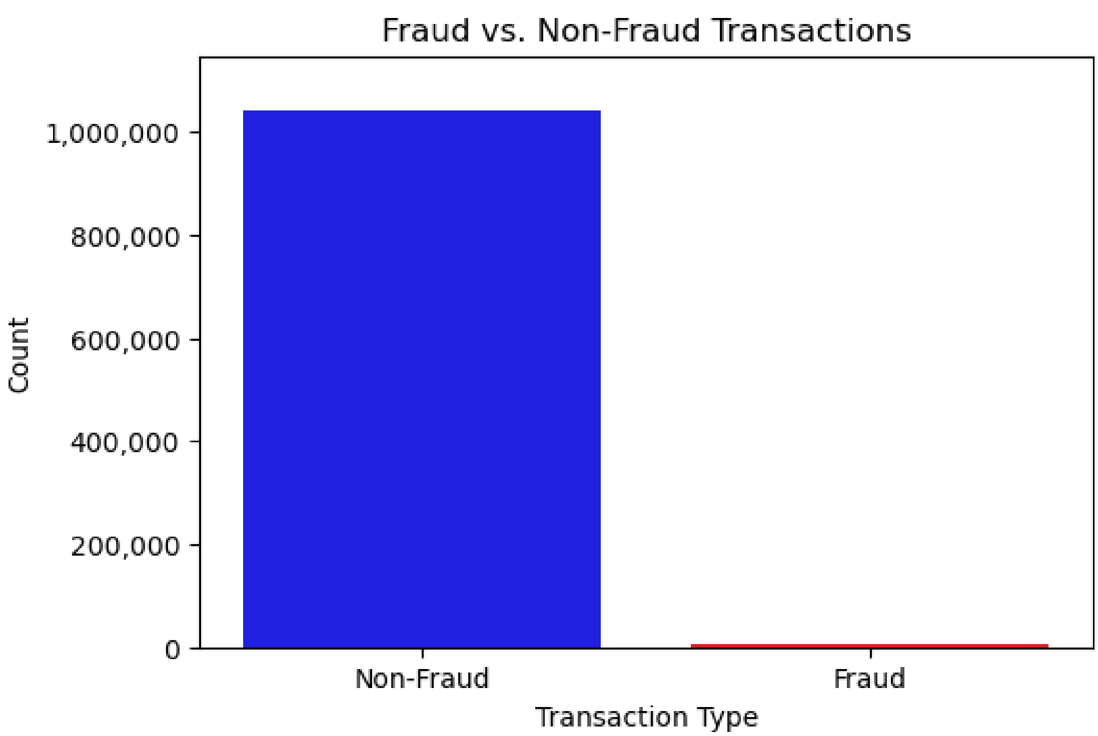
Banks can take preventive actions by freezing suspicious transactions, sending alert messages to cardholders, or implementing stricter verification processes.

[62]:
```
import pandas as pd

# Loading dataset
file_path = r"C:\Users\maxim\OneDrive\Desktop\BU\DSC 550\Term␣
↪Project\credit_card_transactions.csv"
df = pd.read_csv(file_path)
```

1. Fraud vs. Non-Fraud Transactions Count (Bar Chart)

[63]:
```
import matplotlib.pyplot as plt
import seaborn as sns
from matplotlib.ticker import FuncFormatter

# Counting fraud vs. non-fraud transactions
```

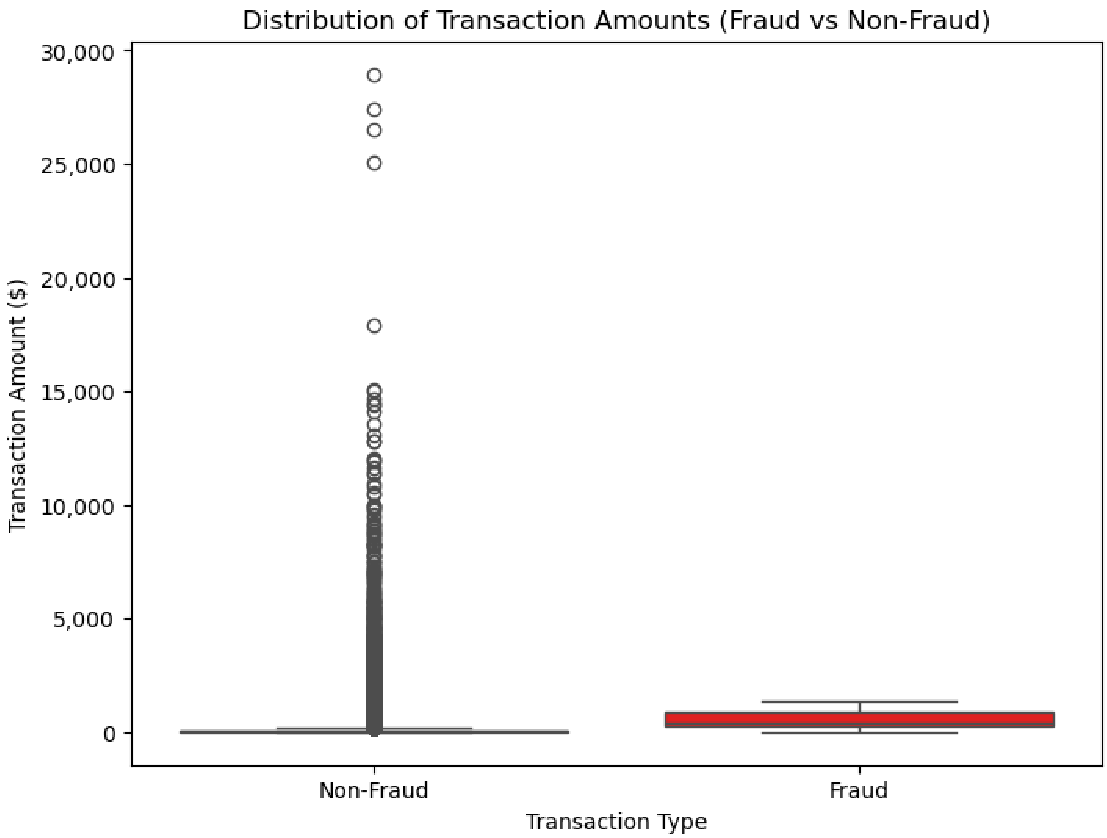
```
fraud_counts = df['is_fraud'].value_counts()

# Converting fraud labels to readable text
fraud_labels = {0: "Non-Fraud", 1: "Fraud"}

# Plotting the graph
plt.figure(figsize=(6, 4))
sns.barplot(x=fraud_counts.index.map(fraud_labels), y=fraud_counts.values,␣
↪palette=["blue", "red"], hue=fraud_counts.index, legend=False)

# Setting y-axis limits to make the fraud bar visible
plt.ylim(0, max(fraud_counts.values) * 1.1)  # Adjusting the upper limit to␣
↪make fraud visible

# Formating y-axis labels with commas for better readability
def comma_format(x, pos):
    return f'{int(x):,}'

plt.gca().yaxis.set_major_formatter(FuncFormatter(comma_format))

# Labeling and titling the graph
plt.xlabel("Transaction Type")
plt.ylabel("Count")
plt.title("Fraud vs. Non-Fraud Transactions")
plt.show()
```



Explanation: “The Fraud vs. Non-Fraud Transactions” bar chart shows the number of Non-Fraud (higlighted in blue) and Fraud (highlighted in red) tranactions in the dataset, with count displayed on the left y-axis. As seen in the chart, the majority of transactions (over 1 million) are Non-Fraud, with a significantly smaller number being Fraud. This indicates that fraud is a relatively rare occurrence in the dataset.

2. Transaction Amounts by Fraud vs Non-Fraud (Box Plot):

[64]:
```python
# Plotting Transaction Amounts by Fraud vs Non-Fraud
plt.figure(figsize=(8, 6))
sns.boxplot(x="is_fraud", y="amt", data=df, hue="is_fraud", palette=["blue",␣
↪"red"], legend=False)

# Converting 0 and 1 to "Non-Fraud" and "Fraud"
plt.xticks(ticks=[0, 1], labels=["Non-Fraud", "Fraud"])

plt.xlabel("Transaction Type")
plt.ylabel("Transaction Amount ($)")
plt.title("Distribution of Transaction Amounts (Fraud vs Non-Fraud)")

# Format the y-axis with commas for readability
plt.gca().yaxis.set_major_formatter(plt.FuncFormatter(lambda x, loc: f'{x:,.
↪0f}'))

plt.show()
```

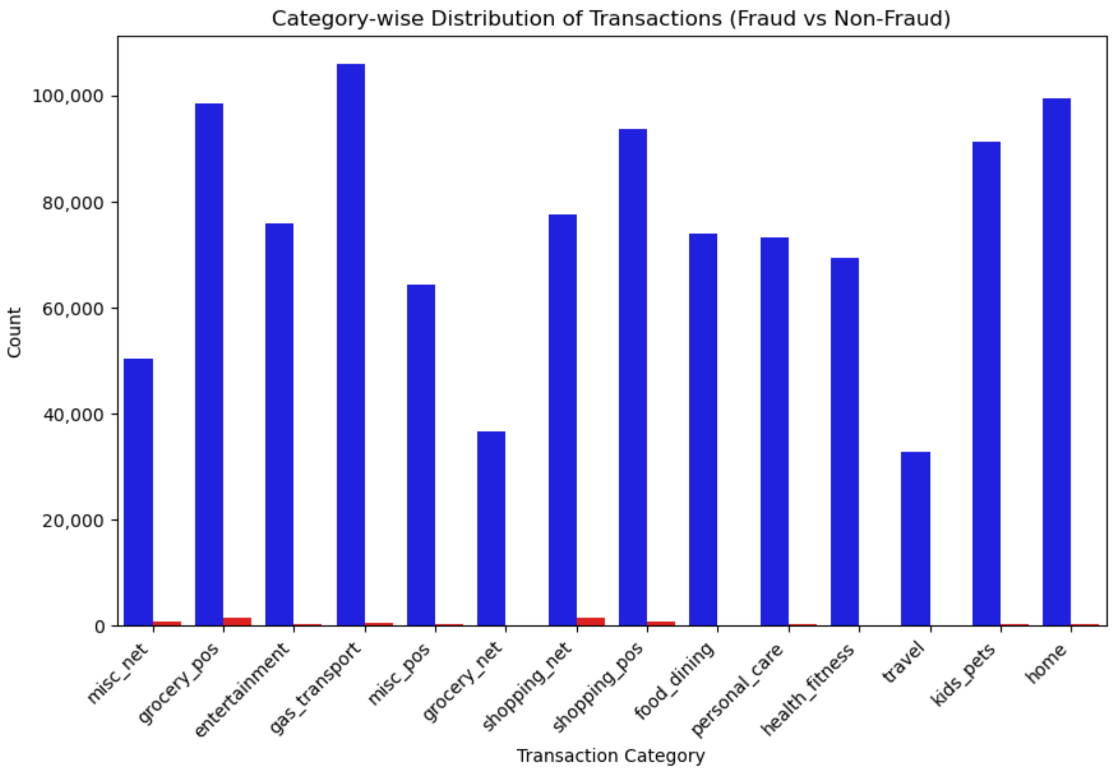


Explanation: The "Distribution of Transaction Amounts (Fraud vs Non-Fraud)" graph compares the transaction amounts of Non-Fraud and Fraud transactions in the dataset. The graph shows the transaction amounts on the y-axis and the transaction type (Non-Fraud or Fraud) on the x-axis. As shown, Non-Fraud transactions vary widely, ranging from 1 to 28,948.90 dollars. In contrast, Fraud transactions are generally smaller, ranging from 1.18 to 1,371.81 dollars. This suggests that fraudsters tend to make smaller credit card transactions, possibly hoping that small amounts will go unnoticed by banks.

Category-wise Distribution of Transactions

[65]:
```
import matplotlib.pyplot as plt
import seaborn as sns

# Plotting Category-wise Fraud vs Non-Fraud Distribution
plt.figure(figsize=(10, 6))
sns.countplot(x="category", hue="is_fraud", data=df, palette=["blue", "red"],␣
 ↪legend=False)

# Labeling and rotating the x-axis ticks
plt.xlabel("Transaction Category")
plt.ylabel("Count")
```

```
plt.title("Category-wise Distribution of Transactions (Fraud vs Non-Fraud)")
plt.xticks(rotation=45, ha='right')  # Adjusting the horizontal alignment for␣
 ↪better readability

# Formating the y-axis with commas for readability
plt.gca().yaxis.set_major_formatter(plt.FuncFormatter(lambda x, loc: f'{int(x):
 ↪,}'))

plt.show()
```



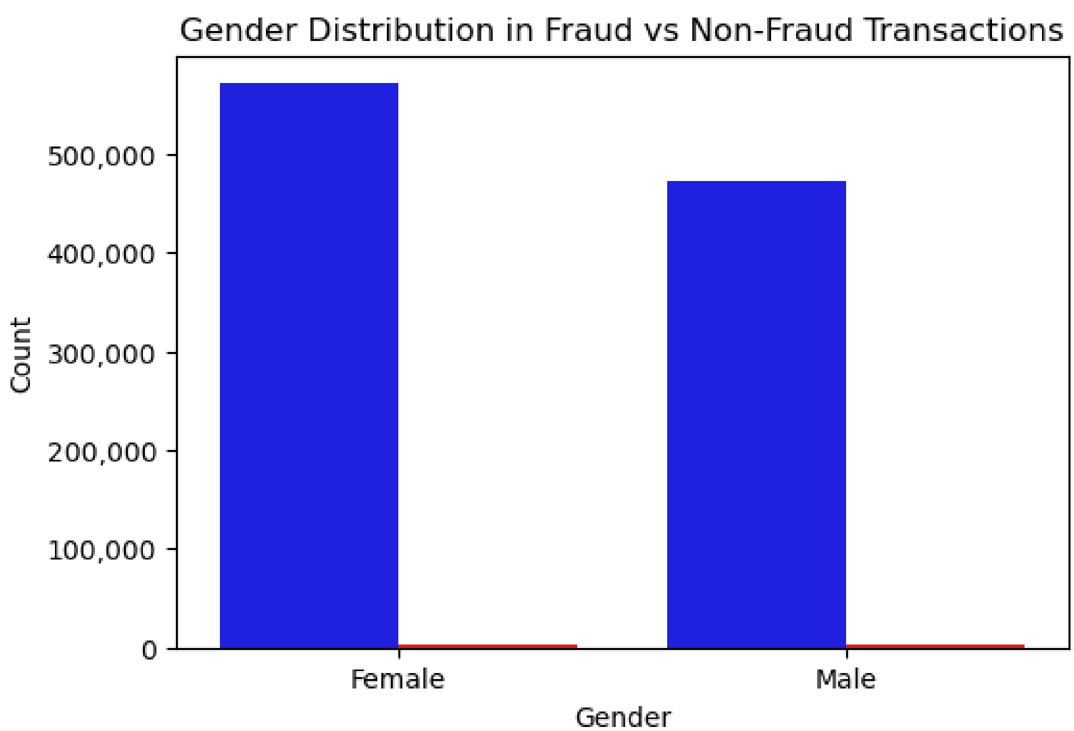
Explanation: The "Category-wise Distribution of Transactions (Fraud vs Non-Fraud)" graph shows transactions by category for both Non-Fraud and Fraud. It separates transactions by each category and indicates whether fraud occurred online or at the point of sale. For example, the red bar for misc_net shows online fraud transactions, while the red bar for misc_pos shows fraudulent transactions that occurred at the point of sale.

In line with the common belief that fraudulent credit card transactions mostly happen online, the graph partly validates this. We can see that for misc_net, fraudulent transactions (highlighted in red) are slightly higher than for misc_pos. The same trend is observed for shopping_net vs. shopping_pos, with the red bar for shopping_net being marginally higher than for shopping_pos.

However, the data for grocery_net contradicts this assumption. No fraud was detected online (grocery_net), while all fraudulent transactions occurred at the point of sale (grocery_pos). This is counterintuitive to the common belief that fraud mostly occurs online.

Gender Distribution in Fraud vs Non-Fraud Transactions

[66]:
```python
# Plot: Gender Distribution in Fraud vs Non-Fraud Transactions
plt.figure(figsize=(6, 4))
sns.countplot(x="gender", hue="is_fraud", data=df, palette=["blue", "red"],␣
↪legend=False)

# Replace 'F' with 'Female' and 'M' with 'Male'
gender_labels = {'F': 'Female', 'M': 'Male'}
plt.xticks(ticks=[0, 1], labels=[gender_labels.get(x, x) for x in df['gender'].
↪unique()])

# Format the y-axis with commas for readability
plt.gca().yaxis.set_major_formatter(plt.FuncFormatter(lambda x, loc: f'{int(x):
↪,}'))

# Labels and title
plt.xlabel("Gender")
plt.ylabel("Count")
plt.title("Gender Distribution in Fraud vs Non-Fraud Transactions")
plt.show()
```



Explanation: The “Gender Distribution in Fraud vs Non-Fraud Transactions” graph shows the number of fraudulent transactions made by females and males. On the y-axis, the graph counts the number of transactions made by each gender, while the x-axis shows the gender. An interesting insight from the dataset is that the number of fraudulent transactions is nearly the same for both genders. However, it is evident that a higher number of Non-Fraud transactions were made by females. Given that, one might expect more fraudulent transactions from females due to the higher overall transaction count. Despite this, the graph suggests that males are more prone to commit credit card fraud.

Overview/Conclusion:

By conducting graphical analysis, I've gained several insights from the dataset. For instance, I initially believed that there would be a much higher number of fraudulent credit card transactions, but the data revealed that fraud is actually quite minimal, amounting to only a few thousand dollars. Additionally, the analysis showed that males tend to commit more credit card fraud.

Furthermore, the data partially supports the common belief that more fraudulent transactions occur online than at the point of sale. From the visualizations, we can see that the highest credit card fraud occurred in the "grocery_pos" and "shopping_net" categories. This suggests that in the "grocery_pos" category, fraudsters went to physical stores and used stolen cards to make purchases, while in the "shopping_net" category, fraudsters made purchases online.

Finally, the transaction amount graph highlighted that fraudulent transactions tend to involve smaller amounts, with the highest being $1,371.81. This could suggest that fraudsters prefer to purchase cheaper items, possibly hoping that banks won't notice the fraud because of the smaller transaction sizes.