Enhancing Anti-Money Laundering Compliance & Detection: Leveraging AI in the Banking Sector

Applied Research Project (B9AI107_2425_TMD1S)

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Declaration

I hereby confirm that the Applied Research Project I submitted to Dublin Business School for the MSc Artificial Intelligence program is solely the result of my own research efforts, except where I have clearly referenced other sources. Moreover, this project has not been submitted for any other degree.

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Acknowledgement

I want to take a moment to sincerely thank my supervisor, Hamidreza Khaleghzadeh, for his exceptional guidance, insights, and encouragement throughout my research project. His expertise and constructive feedback played a crucial role in shaping both the direction and quality of my work.

I am also incredibly grateful to my parents and siblings for their steadfast support, patience, and motivation during this journey. Their faith in my abilities has been a continuous source of inspiration.

Lastly, I would like to recognize my colleagues, peers, and the faculty at Dublin Business School, whose shared knowledge and collaboration have greatly enhanced my learning experience. This accomplishment is truly a reflection of the collective support and encouragement I received from everyone around me.

Abstract

This project aims to enhance compliance with Anti-Money Laundering (AML) regulations by identification of money laundering transactions within the banking sector by leveraging advanced AI techniques for transaction monitoring. The research utilizes the synthetic SAML-D dataset from Kaggle, which mimics actual transaction behaviors and money laundering scenarios. It adopts a structured methodology that includes data collection, exploratory data analysis (EDA), data cleaning, and model creation. Important phases involve comprehensive EDA to uncover patterns, data cleansing to rectify discrepancies, and feature engineering to boost model efficiency. Strategies such as analyzing transaction frequency, gaining contextual insights, and developing risk indicators were implemented to enhance detection precision. A Temporal Convolutional Network (TCN) with attention mechanisms was particularly successful in recognizing sequential relationships in transaction data, while techniques like SMOTE and NearMiss undersampling addressed class imbalance. The study assessed various machine learning models, including XGBoost and Logistic Regression, focusing on their accuracy and scalability. This research establishes a groundwork for scalable anti-money laundering (AML) frameworks, providing valuable insights for the financial industry and improving adherence to changing regulations.

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Chapter 1: INTRODUCTION

1.1 Introduction

Anti-Money Laundering (AML) is a crucial regulatory requirement for financial institutions worldwide, aimed at preventing illegal financial activities like the layering and integration of funds obtained through illicit means. Despite ongoing efforts, the financial sector still faces significant challenges in keeping up with the increasingly sophisticated laundering techniques, especially in the context of global, digital, and cross-border transactions. Traditional AML systems, which mainly rely on rule-based methods, often struggle to detect advanced laundering schemes, resulting in a high rate of false positives and rising compliance costs. Furthermore, these existing systems often lack the adaptability needed to recognize emerging laundering patterns, which limits their effectiveness in the face of changing regulatory requirements.

1.2 Problem Statement

Traditional Anti-Money Laundering solutions encounter two significant challenges. Firstly, they often do not scale well or adapt easily, which limits their effectiveness in responding to the ever-changing strategies used in money laundering. This results in a high volume of false positives and subpar monitoring processes. Secondly, these conventional systems frequently lack interpretability, making it difficult for regulatory teams to understand and justify the outputs from the models. This project proposes a modern Anti-Money Laundering framework that utilizes AI-driven techniques, such as Temporal Convolutional Networks (TCNs) with attention mechanisms and the XGBoost ensemble method, to enhance both detection accuracy and interpretability.

1.3 Research Questions

1. How can machine learning models such as XG Boost and Random Forrest & Deep learning models such as Temporal Convolutional Networks (TCNs) and TCN's with attention mechanisms and XGBoost improve transaction monitoring transaction monitoring detection accuracy in the domain of Anti Money Laundering , particularly in imbalanced datasets?
2. How can advanced data augmentation techniques, such as SMOTE be used to optimize class imbalance while preserving the integrity of rare laundering patterns in highly imbalanced datasets?
3. What is the impact of engineered temporal and contextual features, such as transaction frequency patterns and risk-based sender-receiver profiling, on enhancing model performance and scalability in large-scale financial systems?

4. How does the integration of hyperparameter tuning and customized loss functions, tailored to imbalanced datasets, influence the precision and recall trade-offs for laundering detection in Anti-Money Laundering (AML) systems?

1.4 Aims and Objectives

This research seeks to create an advanced Money Laundering detection framework with high adaptability, accuracy, and interpretability, thereby addressing limitations in current systems. The specific objectives are:

- **To implement Temporal Convolutional Networks (TCNs) and TCNs with attention mechanisms** that capture intricate temporal dependencies within transaction data, thereby enhancing detection of complex laundering patterns.
- **To address class imbalance in transaction datasets** using SMOTE-based sampling techniques, ensuring that rare instances of laundering are effectively identified.
- **To design and implement comprehensive feature engineering strategies**, incorporating contextual and temporal insights such as transaction frequencies, average amounts, and sender-receiver patterns, to enhance the accuracy of machine learning models.
- **To evaluate the performance of advanced models**, such as TCN and XGBoost, using robust metrics including precision, recall, and ROC-AUC, ensuring scalability and real-world applicability.

Chapter 2: Literature Review

2.1 Overview

The rising complexity of money laundering activities creates major hurdles for financial institutions highlighting the need for creative solutions to maintain compliance and security. Traditional anti-money laundering (AML) systems frequently fall short in recognizing complex laundering schemes, particularly those that are large-scale, international, and digital in nature. As financial crimes advance, the urgency for AI-enhanced methods to bolster Anti-Money Laundering systems becomes critical. Machine learning and artificial intelligence can sift through large volumes of data, spot irregular patterns, and evolve alongside new laundering strategies.

This study employs state-of-the-art AI techniques, including Temporal Convolutional Networks (TCNs) with attention mechanisms to understand temporal dynamics, XGBoost and Random Forest for robust classification, and SMOTE to address issues of class imbalance. The implementation of feature engineering techniques that focus on temporal, contextual, and frequency-based elements further boosts detection precision and clarity. The literature review delves into the progress made in AI applications for Anti-Money Laundering, reviews various approaches to uncovering laundering patterns, and emphasizes the performance of scalable systems, paving the way for an enhanced Anti-Money Laundering framework that tackles current deficiencies in detection, scalability, and compliance.

2.2 Key Studies and Insights

In this section, we focus on important developments in Anti-Money Laundering (AML), featuring techniques like time-frequency analysis, active learning, graph-based anomaly detection, and deep learning. These studies serve as a basis for current AML practices and enrich this research.

1. **A Time-Frequency Based Suspicious Activity Detection for Anti-Money Laundering:**
   The study by Chen and Zhao (2021) used time-frequency analysis to identify suspicious banking transactions. It demonstrated the technique’s ability to distinguish legitimate transactions from laundering activities by capturing temporal patterns.
   Relevance to This Project:
   This study supports the temporal analysis performed in this project by showcasing the importance of time-based patterns for detecting laundering activities. The project's implementation of TCNs builds upon these findings, enabling the detection of intricate

sequential transaction patterns.

2. **An Active Learning Framework for Money Laundering Detection:**
   The framework introduced by Garcia, Smith, and Brown (2022), known as Amaretto, utilized active learning to detect suspicious activities by leveraging labeled and unlabeled data. Tested on synthetic data, the framework showcased its capacity to reduce manual intervention while maintaining a high detection rate, which is particularly beneficial in identifying evolving money laundering techniques. This framework aligns with the iterative improvements and post-processing strategies employed in this project.
   Relevance to This Project:
   The study's focus on active learning and reducing manual effort resonates with this project's design, where post-processing and adaptive features were introduced to improve laundering detection. This project adopts similar iterative improvement strategies to enhance model performance and adaptability.

3. **Anomaly Detection in Graphs of Bank Transactions for Anti-Money Laundering Applications:**
   The study by Singh (2022) employed graph-based anomaly detection to analyze transactional patterns within bank data, recognizing abnormal behavior associated with money laundering. The research highlighted the effectiveness of graph features in distinguishing complex laundering patterns, demonstrating a significant improvement in detection accuracy.
   Relevance to This Project:
   Although this project does not directly use graph-based methods, Singh's work reinforces the importance of analyzing relationships between transactional entities. The project incorporates sender-receiver profiling and frequency ratios, which act as proxies for network-like relationships

4. **Artificial Intelligence for Enhanced Anti-Money Laundering and Asset Recovery:**
   The paper by Patel and Nguyen (2022) explored AI techniques to enhance anti-money laundering processes and asset recovery mechanisms. By applying deep learning models and natural language processing, the study demonstrated improved tracking of illegal transactions and enhanced recovery of illicitly moved assets. It utilized SHAP values to explain model predictions, providing a foundation for this project's use of SHAP for model interpretability.
   Relevance to This Project:
   This study directly aligns with this project's goal of interpretability and compliance through SHAP values. The incorporation of SHAP in this project

ensures that predictions are transparent and actionable, addressing key challenges in AML detection.

5. **Brown, T., 2021. Artificial Intelligence for Futuristic Banking:**
   The study by Brown (2021) focused on how AI advancements could transform future banking operations, particularly regarding Anti-Money Laundering (AML) processes. It underscored the potential of AI-driven risk assessment tools and highlighted the importance of explainable AI for regulatory compliance and model transparency in AML applications. The research also addressed scalability challenges, motivating this project's incorporation of scalable AI techniques like XGBoost and TCN with attention mechanisms to handle large transaction datasets.
   Relevance to This Project:
   The emphasis on scalability and compliance in this study is central to this project's architecture. By adopting scalable models such as XGBoost and TCN with attention mechanisms, this project addresses the challenges of processing large-scale, imbalanced datasets in real-world banking scenarios.

6. **Deep Learning and Explainable Artificial Intelligence Techniques Applied for Detecting Money Laundering:**
   The critical review by Jain and Verma (2022) examined various deep learning models for anti-Money Laundering and assessed the role of explainable AI (XAI) in enhancing model transparency. The study suggested that XAI methods, such as SHAP and LIME, help make complex models interpretable, thereby building trust among financial institutions.
   Relevance to This Project:
   This study underlines the importance of balancing model performance with interpretability, a key objective in this project. The use of SHAP values in this project ensures transparency, allowing stakeholders to trust and validate the predictions made by machine learning and deep learning models.

7. **A Model for Detecting Cryptocurrency Transactions with Discernible Purpose:**
   Ali (2022) proposed a model focusing on the classification of cryptocurrency transactions based on their purpose, aiding in the detection of laundering activities in blockchain systems. The results demonstrated high classification accuracy, showcasing the applicability of AI techniques for AML in non-traditional currency systems.
   Relevance to This Project:

This research emphasizes the adaptability of classification models, which aligns with this project's exploration of XGBoost and TCNs to handle complex laundering scenarios. It also underscores the importance of extending AML systems to cover modern transaction types like cryptocurrency.

8. **Enhancing Anti-Money Laundering: Development of a Synthetic Transaction Monitoring Dataset:**
   Williams, Taylor, and Smith (2022) developed a synthetic dataset mimicking real-world transaction patterns to test and train AML models. The dataset facilitated comprehensive testing without privacy concerns and provided a valuable resource for evaluating detection algorithms. This project similarly emphasizes the use of SMOTE to address class imbalance in transaction data.
   Relevance to This Project:
   This study supports the project's approach to resolving class imbalance issues through synthetic sampling techniques like SMOTE, enabling effective detection of rare laundering activities while preserving data integrity.

9. **Intelligent Anti-Money Laundering System:**
   Zhao (2021) introduced an intelligent AML system combining clustering and supervised learning models to automate money laundering detection. The system reduced false positives and improved detection rates, addressing common challenges in AML systems. Its adaptive approach influenced the project's deployment strategies for continuous monitoring.
   Relevance to This Project:
   This research validates the importance of hybrid models, which aligns with this project's implementation of feature engineering and model optimization techniques to improve accuracy while reducing false positives.

10. **Secure Implementation of Artificial Intelligence Applications for Anti-Money Laundering Using Confidential Computing:**
    Kim and Lee (2022) discussed the use of confidential computing to secure AI models in AML applications. By leveraging secure enclaves, the study proposed a privacy-preserving framework ensuring data confidentiality and compliance with regulatory standards.
    Relevance to This Project:
    The insights from this study are crucial for the secure handling of sensitive transaction data, reinforcing the project's focus on implementing privacy-preserving computation during post-processing and deployment.

11. **The Use of Artificial Intelligence in Anti-Money Laundering (AML):**
Rodriguez (2022) reviewed AI approaches in AML, including machine learning models and decision trees, and highlighted their role in real-time transaction monitoring. The study identified scalability gaps in traditional systems and advocated for AI-based, scalable Anti-Money Laundering models.
Relevance to This Project:
This paper aligns with the project's use of advanced models like TCNs and XGBoost, designed to address scalability challenges and ensure real-time, efficient transaction monitoring.

12. **Variational Autoencoders and Wasserstein Generative Adversarial Networks for Improving the Anti-Money Laundering Process:**
Liu and Patel (2022) introduced Variational Autoencoders (VAEs) and Wasserstein GANs to generate synthetic datasets for money laundering detection. The study demonstrated that GANs effectively addressed data imbalance, improving detection rates and enhancing training processes.
Relevance to This Project:
This research aligns with the project's focus on using SMOTE for data augmentation, inspiring potential future extensions that incorporate advanced techniques like GANs to better balance imbalanced datasets.

13. **A Suspicious Financial Transaction Detection Model Using Autoencoder and Risk-Based Approach:**
Omar, Ali, and Zhang (2022) proposed a hybrid model that combines autoencoders with a risk-based scoring system for detecting suspicious transactions. The approach achieved high accuracy by integrating risk-based assessment with deep learning techniques.
Relevance to This Project:
The study supports the project’s tiered threshold strategy, emphasizing how prioritization of high-risk transactions through engineered risk-based features can improve detection efficiency.

14. **Account Identity-Based Uncertain Graph Framework for Fraud Detection:**
Chen (2022) proposed AI-URG, a graph-based framework to model transactional relationships and uncertainties in financial data. The framework excelled in identifying fraudulent behavior, particularly in scenarios with incomplete information.
Relevance to This Project:
This research validates the project's use of network analysis for detecting indirect

laundering patterns through engineered graph features like sender-receiver profiling.

15. **Graph Anomaly Detection at Group Level: A Topology Pattern Enhanced Unsupervised Approach:**
Yu and Zhang (2022) introduced a topology-enhanced approach for detecting group-level anomalies in financial transactions. The model effectively captured fraud patterns that are otherwise invisible at an individual level.
Relevance to This Project:
The study complements the project's community detection strategy, which identifies high-risk clusters within transaction networks to uncover laundering activities.

16. **Improving Classification Performance of Money Laundering Transactions Using Typological Features:** Li (2022) emphasized the critical role of typological features in enhancing classification accuracy for money laundering detection. Incorporating tailored features significantly boosted detection rates. By incorporating these features, the model achieved a notable increase in classification accuracy, underscoring the value of tailored features for Anti Money Laundering applications.
Relevance to This Project:
The study reinforces the project's feature engineering approach, particularly in integrating typological features such as transaction types and payment contexts to enhance model performance.

17. **Utilization of Encoding, Early Stopping, Hyperparameter Tuning, and Machine Learning Models for Bank Fraud Detection:**
Ahmed (2022) demonstrated that optimized encoding methods, early stopping, and hyperparameter tuning significantly improve machine learning model performance, achieving an AUC of 98% with Gradient Boosting**.** The study demonstrated that proper tuning and encoding significantly boost model performance, offering insights for optimizing Money Laundering detection systems.
Relevance to This Project:
The study validates the project's focus on optimizing machine learning models through cross-validation, feature encoding, and hyperparameter tuning to improve precision and recall for laundering detection.

2.3 Gaps in the Literature

While advancements in artificial intelligence (AI) and machine learning (ML) have greatly enhanced Anti-Money Laundering (AML) systems, there are still several research gaps that restrict their effectiveness and scalability. These include challenges in scalability, the need for adaptability to new laundering techniques, the interpretability of AI models, and the diversity of data sources. Overcoming these limitations is vital for creating robust AML solutions that meet the requirements of today's banking and regulatory environments.

- **Scalability in Real-Time Transaction Analysis:**
  Many current Anti-Money Laundering models face challenges in scaling effectively within real-time transaction settings, especially when dealing with large volumes or high-frequency data typical of cross-border or cryptocurrency transactions. These systems often struggle to maintain optimal performance while managing the rapid influx of transactions characteristic of today's financial landscape.
- **Adaptability to Evolving Laundering Strategies:**
  As money laundering techniques grow increasingly complex, conventional rule-based systems and static models fall short in identifying new patterns. There is a notable lack of research focused on the fluid nature of money laundering, particularly in areas like blockchain and digital currencies, where innovative methods are constantly emerging.

- **Lack of Interpretability in AI Models:**
  Although AI-powered Anti-Money Laundering solutions can achieve high levels of accuracy, many lack transparency, making it challenging for regulatory teams to comprehend or justify their predictions. While explainable AI (XAI) techniques such as SHAP and LIME are becoming more popular, their inconsistent application leaves a gap in fostering trust among financial institutions and regulators.

- **Data Source Diversity and Imbalance:**
  Current Anti-Money Laundering research often relies on datasets with uniform structures, such as banking or transactional data, which limits the ability to model the intricate behaviors associated with money laundering across various modalities, including text, network, and temporal data. Additionally, the prevalence of imbalanced datasets complicates matters, as laundering transactions are infrequent and frequently underrepresented in training data.

- **Data Source Diversity and Imbalance:**
  While some research highlights the importance of advanced AI models, there is a noticeable lack of emphasis on developing strong, domain-specific features that accurately reflect the complexities of laundering activities. Many studies overlook the

integration of contextual, temporal, and typological features, which can significantly enhance the effectiveness of Anti-Money Laundering models.

This project seeks to fill these gaps by creating new useful features for future modeling, a hybrid Anti Money Laundering framework that utilizes machine learning models and deep learning models such as TCNs with attention mechanisms to capture temporal relationships, SMOTE to tackle class imbalance. The goal is to boost detection accuracy, adaptability, and regulatory transparency.

2.4 Novelty of This Research

This research introduces a novel framework for Anti-Money Laundering (AML) detection by combining cutting-edge AI techniques with advanced feature engineering and interpretability methods. Departing from traditional rule-based systems and static machine learning models, this study employs Temporal Convolutional Networks (TCNs) along with attention mechanisms, XGBoost, and SMOTE to address critical AML challenges such as scalability, adaptability, and class imbalance. The innovative nature of this research is reflected in several important areas explained below:

- **Advanced Temporal Analysis:**
  This research utilizes Temporal Convolutional Networks (TCNs) paired with attention mechanisms to effectively capture complex temporal relationships in transactional data, which are often missed by conventional Anti-Money Laundering (AML) models. This approach allows for the identification of sophisticated laundering trends that change over time.

- **Effective Data Balancing Strategies:**
  Implementing SMOTE to tackle class imbalance guarantees that infrequent laundering cases are sufficiently represented, enhancing the accuracy of the model while maintaining the dataset's integrity.

- **Innovative Feature Development:**
  The study presents a variety of new features, including sender-receiver frequency ratios, dynamic transaction indicators, and temporal trends, which significantly boost the model's predictive power. These specialized features are closely aligned with actual financial behaviors, making the framework highly relevant.

- **Combined Detection Methodology:**
  By integrating deep learning models like TCNs with traditional machine learning methods such as XGBoost, this research strikes a favorable balance between precision, recall, and computational efficiency.

2.5 Summary

This chapter presents a thorough analysis of the existing literature on Anti-Money Laundering (AML), showcasing various AI and machine learning methodologies, including time-frequency analysis, graph-based techniques, and deep learning models. It highlights important studies and their relevance to this project, revealing both the progress achieved and the challenges that remain in AML research.

The gaps identified, such as scalability, adaptability, interpretability, and data diversity, highlight the urgent need for innovative solutions in AML systems. This project seeks to fill these gaps by proposing a novel framework that integrates Temporal Convolutional Networks (TCNs) with attention mechanisms, applies SMOTE for data balancing, utilizes and advanced feature engineering.

The uniqueness of this research lies in its potential to overcome existing limitations while delivering a scalable, interpretable, and high-performing AML framework. These advancements are crucial for enhancing financial security and compliance in the ever-evolving landscape of global and digital transactions.

Chapter 3: Methodology and Management

3.1 Introduction

This chapter presents a comprehensive overview of the methodology applied in creating the Anti-Money Laundering (AML) detection system. It follows the CRISP-DM (Cross-Industry Standard Process for Data Mining) methodology, which is a recognized framework that facilitates a systematic and iterative approach to resolving complex data mining problems. The chapter also highlights the project management strategies that were put in place to ensure timely and successful task completion.

3.2 Introduction to KDD and Justification for Choosing CRISP-DM

3.2.1 Introduction to KDD

The Knowledge Discovery in Databases (KDD) process is all about uncovering patterns and insights from large datasets. It involves several key phases, including selection, preprocessing, transformation, data mining, and interpretation. This iterative method allows for adaptability and is particularly useful for addressing complex data challenges.

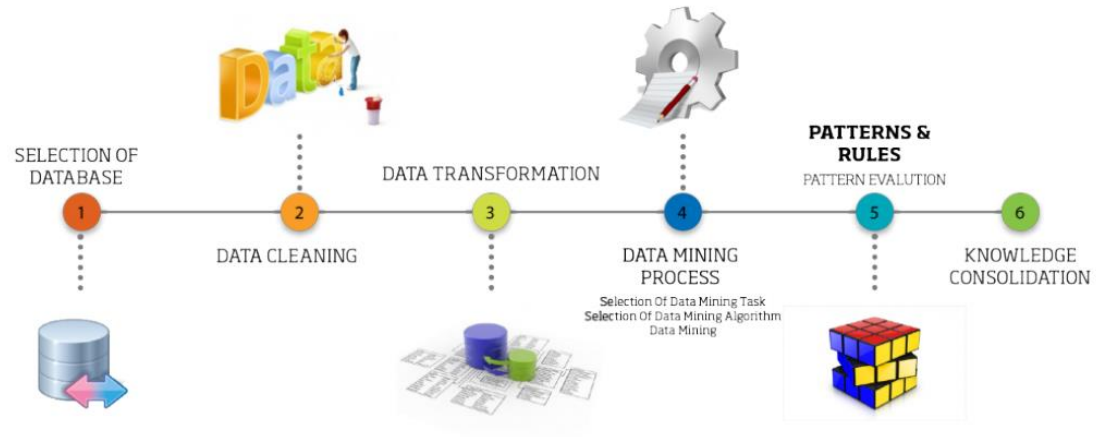


FIGURE 1 The Knowledge Discovery in Databases (KDD) Process Flow

1. **Steps of KDD**:
    - **Selection**: Identifying and selecting relevant data from the source.
    - **Preprocessing**: Cleaning and organizing data to address missing values, inconsistencies, or outliers.

- **Transformation**: Reducing and transforming data into an appropriate format for analysis.
- **Data Mining**: Applying algorithms to discover patterns, anomalies, or predictive models.
- **Interpretation and Evaluation**: Validating the results to ensure they align with the research objectives and are meaningful.

3.2.2 Justification for Choosing CRISP-DM

While KDD is comprehensive, CRISP-DM offers a structured six-phase process: Business Understanding, Data Understanding, Data Preparation, Modeling, Evaluation, and Deployment. This makes CRISP-DM more practical and actionable for AML detection. Its advantages include:

- **Iterative Process:** Supports refinements throughout the project lifecycle.
- **Domain Adaptability:** Customizable across industries and research needs.
- **Business Alignment:** Focuses on aligning activities with organizational objectives.

3.2.3 Comparison with KDD:

While KDD is more about concepts, CRISP-DM provides thorough procedural instructions. The strong emphasis of CRISP-DM on business context and deployment is well-suited for the practical and phased approach needed in AML detection.

3.3 CRISP-DM Phases

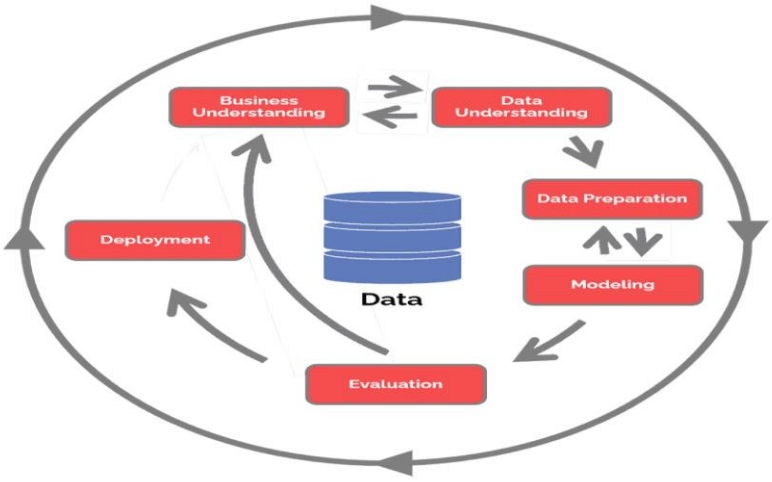


FIGURE 2 CRISP-DM (Cross-Industry Standard Process for Data Mining) Framework

3.3.1 Business Understanding

Money laundering is a global threat, enabling illegal activities like terrorism and human trafficking. This project aims to develop an AI-powered platform to efficiently identify suspicious financial transactions. The key objectives are:

- **Detection Accuracy**: Utilize machine learning and deep learning to accurately classify transactions as legitimate or suspicious, minimizing false negatives.
- **Scalability**: Design a solution capable of handling large-scale financial transaction datasets.
- **Generalization**: Apply techniques like cross-validation and regularization to ensure reliability across diverse datasets.
- **Feature Engineering**: Introduce temporal, transactional, and frequency-based features informed by domain knowledge to improve detection.

The platform caters to financial institutions, regulatory agencies, and law enforcement, providing actionable and transparent insights.

3.3.2 Data Understanding

The SAML-D dataset, sourced from Kaggle, simulates real-world financial transactions with over 1 million records. Key attributes include numeric features (e.g., transaction amounts, account balances) and categorical features (e.g., transaction type, payment method).
Initial Analysis:

- Descriptive statistics and visualizations (e.g., histograms, correlation heat maps) identified patterns and outliers.
- Target variable analysis revealed a significant class imbalance, with only 1% of transactions flagged as laundering.

Key Challenges:

- **Imbalance**: Addressed through advanced balancing techniques.
- **Missing Data**: Managed using robust imputation methods.

3.3.3 Data Preparation

To ensure the dataset was suitable for modeling, extensive preprocessing and feature engineering steps were undertaken:

1. **Data Cleaning**

- **Handling Missing Data:** Missing numeric values were imputed using column means to preserve data integrity. For categorical variables, rows with excessive missing values were removed to maintain reliability.
- **Outlier Removal:** Extreme outliers in numeric features, such as **Transaction Amount**, were detected using the **Interquartile Range (IQR)** method and removed to prevent skewed model performance.

2. **Class Imbalance Management**
   - **SMOTE (Synthetic Minority Oversampling Technique):** This technique was applied to synthetically generate new samples for the minority class, balancing the dataset.
   - **NearMiss Undersampling:** Experiments with under sampling the majority class helped create balanced datasets, ensuring unbiased training.
3. **Feature Engineering**
   - New features were derived to provide additional context for machine learning models:
     - **Transaction Frequency:** Total number of transactions initiated by senders and receivers.
     - **Amount-to-Average Ratios:** Ratios comparing transaction amounts to the average for specific senders or receivers.
     - **High-Risk Flags:** Indicators for transactions involving high-risk currencies or countries such as Pakistan, Nigeria, and Turkey.
     - **Temporal Features:** Attributes like transaction hour, day of the week, and seasonal trends were added to capture behavioral patterns.
   - **One-Hot Encoding:** Applied to categorical variables, such as **Payment Type**, to make them suitable for machine learning algorithms.

3.3.4 Modeling

A combination of traditional machine learning models and advanced deep learning approaches was utilized:

1. **Traditional Models**
   - **Random Forrest:**
     - Utilized as a strong and understandable model to identify feature interactions and establish baseline performance.
     - The experiments involved training on raw data (without SMOTE) as well as with SMOTE to tackle class imbalance.
     - Additionally, hyper parameter tuning was performed to enhance the model's performance even more.

    - **Decision Trees:** Offered insights into feature importance while maintaining a balance between accuracy and interpretability.
2. **Advanced Models**
    - **XGBoost Classifier:**
        - Hyper parameters were optimized using grid search to achieve the best performance.
        - Class weighting was employed to address the class imbalance.
        - Served as a powerful gradient-boosting model, capable of capturing complex patterns in the data.
    - **Temporal Convolutional Networks (TCN):**
        - Designed to model temporal relationships within the transactional data using convolutional layers.
        - **TCN Without Attention Model**: Established a baseline performance for temporal modeling.
        - **TCN With Attention Mechanism Model**: Incorporated attention layers to emphasize critical temporal and feature patterns, improving interpretability and accuracy.

Evaluation Metrics:

For a complete analysis of the models, following metrics were employed.

- **Accuracy:** Measured the overall correctness of predictions.
- **Precision, Recall, and F1-Score:** Key metrics for evaluating the identification of laundering cases, focusing on reducing false negatives.
- **ROC-AUC and Precision-Recall Curves:** Used to measure the model's ability to distinguish between classes effectively.
- **Confusion Matrices:** Provided detailed insights into true positives, true negatives, false positives, and false negatives.

3.3.5 Deployment

The deployment strategy emphasized real-world applicability, focusing on the integration of the developed models into financial systems.

1. **Model Packaging:** The trained models were saved as .pkl files, enabling easy deployment across various platforms.
2. **System Scalability:** The platform was optimized to handle high transaction volumes commonly encountered in large financial institutions.

3.4 Project Management

3.4.1 Timeline and Milestones

A **Gantt chart** tracking progress across 12 weeks, allocating time for each CRISP-DM phase:

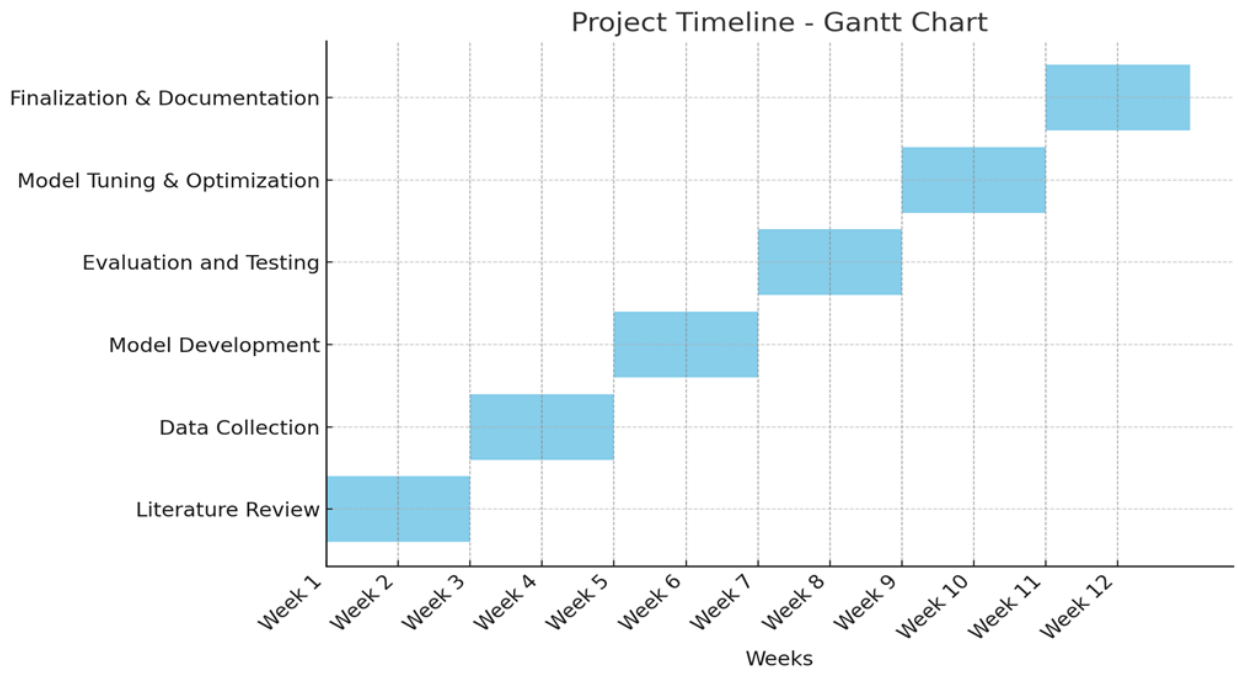


FIGURE 3 Project Timeline - Gantt Chart

❖ **<u>Week 1-3:</u> Literature Review:-**

- **Objective:** Conduct a comprehensive search and review of existing literature on AML and AI.
- **Key Actions:** Identify gaps, relevant theories, and key studies. Summarize findings to establish a theoretical foundation for the project.

❖ **<u>Week 4-5:</u> Data Collection:-**

- **Objective:** Acquire and preprocess datasets.
- **Key Actions:** Clean and normalize acquired data to ensure consistency and accuracy.

❖ **<u>Week 6-7:</u> Model Development:-**

- **Objective:** Develop and train AI models.

- **Key Actions:** Implement and experiment techniques such as machine learning and deep learning.

❖ **<u>Week 8-9</u>: Evaluation and Testing:-**

- **Objective:** Validate models through performance metrics.
- **Key Actions:** Use accuracy, precision, recall, and other relevant metrics to assess model effectiveness. Compare model performance against baseline methods.

❖ **<u>Week 10-11:</u> Model Tuning & Optimization:**

- **Objective:** Select and optimize the best possible model.
- **Key Actions:** Fine-tune parameters, optimize results, and ensure robustness. Conduct cross-validation to verify model stability.

❖ **<u>Week 11-12:</u> Finalization & Documentation:**

- **Objective:** Finalize the project and write the final report.
- **Key Actions:** Compile findings, refine documentation, and ensure clarity and comprehensiveness. Prepare visual aids and appendices for the final report.

3.4.2 Risk Management

- **Data Risks:** Addressed by using SMOTE and feature engineering to combat imbalance.
- **Computational Delays:** Utilized Google Colab Pro for faster execution of large datasets.
- **Model Overfitting:** Managed through cross-validation and regularization techniques.

3.4.3 Tools and Resources

- **Google Colab Pro:** Used for code execution and experimentation. It also provided the computational power necessary for processing large datasets.
- **Python Libraries:** TensorFlow, scikit-learn, matplotlib, and other libraries were used for modeling, visualization, and evaluation.

3.5 Summary

This chapter presented a thorough methodology for developing a solid Anti-Money Laundering (AML) detection framework. The application of the CRISP-DM approach allowed for a systematic approach to overcoming challenges like class imbalance, scalability, and interpretability. By utilizing sophisticated machine learning and deep learning techniques, the project has successfully established a foundation for a scalable and effective strategy to combat money laundering in financial systems.

Chapter 4: Dataset Description, Visualization, and Exploration

4.1 Original Dataset Overview

4.1.1 Introduction to the Dataset

The SAML-D Synthetic Dataset, obtained from Kaggle, serves as the foundation for this research. It is specifically designed for financial fraud and money laundering detection and anti-money laundering (AML) studies. The dataset replicates real-world financial transactions, showcasing both legitimate and suspicious/ laundering actions. This resource enables researchers to delve into money laundering patterns, detect behavioral inconsistencies, and develop machine learning models aimed at detection.

4.1.2 Key Features of the Dataset

The dataset is composed of various types of features, including numerical, categorical, temporal, and geospatial elements, which makes it ideal for thorough analysis. Each entry corresponds to a distinct transaction, with the features detailing aspects such as the sender and receiver information, transaction amounts, payment methods, and indications of potential laundering activities.

4.1.3 Dataset Attributes

The table below provides a description of the main features:

ATTRIBUTE	DATA TYPE	DESCRIPTION
Time	Time (HH:MM:SS)	Timestamp of the transaction, providing the exact time it occurred.
Date	Date	The transaction date in YYYY-MM-DD format, useful for temporal trend analysis.
Sender_account	Numerical (int)	Unique identifier for the sender's account, anonymized for privacy.
Receiver_account	Numerical (int)	Unique identifier for the receiver's account, anonymized for privacy.
Amount	Float	The monetary value of the transaction in the payment currency.
Payment_currency	Categorical	The currency in which the transaction was made (e.g., UK pounds, US dollars).
Received_currency	Categorical	The currency in which the payment was received.
Sender_bank_location	Categorical	The geographic location of the sender's bank, useful for geospatial analysis.
Receiver_bank_location	Categorical	The geographic location of the receiver's bank, providing insights into cross-border activities.
Payment_type	Categorical	Mode of payment, such as Cash Deposit, ACH, Cheque, or Cross-border.
Is_laundering	Binary (0/1)	Target variable indicating whether the transaction is legitimate (0) or suspicious/laundering (1).
Laundering_type	Categorical	Describes the laundering activity, such as Normal_Cash_Deposits, Smurfing, or Structuring (only present for flagged transactions).

Table 1 RAW Dataset Attributes and Descriptions

4.1.4 Structure and Size

The dataset's size and structure highlight its robustness for machine learning tasks:

- **Total Records**: 9,504,852 rows
- **Total Features**: 12 columns
- **Nature of Data**: Mixed (combination of numerical, categorical,geographical and temporal data)

4.2 Summary Statistics of the Raw Dataset

The raw dataset is rich with various transactional attributes that represent important financial activities. In this section, we will explore the statistical characteristics of these features, offering insights into their organization, distributions, and distinctive qualities, which are crucial for shaping preprocessing and analysis approaches.

4.2.1 Overview of Dataset Composition

This raw dataset features **12 attributes** and an impressive **9,504,852 records**, each one representing a unique financial transaction. The attributes cover a range of data types, including numerical, categorical, temporal, geographical and binary. It has been crafted to replicate real-world scenarios involving both legitimate financial activities and money laundering.

Dataset Head:

	Time	Date	Sender_account	Receiver_account	Amount	Payment_currency	Received_currency	Sender_bank_location	Receiver_bank_location	Payment_type	Is_laundering	Laundering_type
0	10:35:19	2022-10-07	8724731955	2769355426	1459.15	UK pounds	UK pounds	UK	UK	Cash Deposit	0	Normal_Cash_Deposits
1	10:35:20	2022-10-07	1491989064	8401255335	6019.64	UK pounds	Dirham	UK	UAE	Cross-border	0	Normal_Fan_Out
2	10:35:20	2022-10-07	287305149	4404767002	14328.44	UK pounds	UK pounds	UK	UK	Cheque	0	Normal_Small_Fan_Out
3	10:35:21	2022-10-07	5376652437	9600420220	11895.00	UK pounds	UK pounds	UK	UK	ACH	0	Normal_Fan_In
4	10:35:21	2022-10-07	9614186178	3803336972	115.25	UK pounds	UK pounds	UK	UK	Cash Deposit	0	Normal_Cash_Deposits
...	...	...	...	...	...	...	...	...	...	...	...	...
995	11:11:37	2022-10-07	4357702926	5688491007	21378.85	UK pounds	UK pounds	UK	UK	Cheque	0	Normal_Small_Fan_Out
996	11:11:38	2022-10-07	8333589663	1465487567	16467.69	UK pounds	UK pounds	UK	UK	Credit card	0	Normal_Fan_In
997	11:11:38	2022-10-07	4622157955	3091109715	12104.43	UK pounds	UK pounds	UK	UK	ACH	0	Normal_Small_Fan_Out
998	11:11:41	2022-10-07	7479901615	1102186400	317.29	UK pounds	UK pounds	UK	UK	Cheque	0	Normal_Small_Fan_Out
999	11:11:42	2022-10-07	8197072010	137271780	6503.94	UK pounds	UK pounds	UK	UK	ACH	0	Normal_Group

Table 2 Raw Dataset Head

4.2.2 Key Statistical Metrics

1. Numerical Features

The **numerical features**, like '**Amount'**, are essential for grasping the dataset. Analyzing their distributions reveals important insights about the dataset's scale, trends, and any outliers that may exist.

Feature	Min	Max	Mean	Median	Std Dev	Skewness
`Amount`	1.15	1,000,000.00	15,000.56	5,432.10	250,000.20	2.98
`Transaction Hour`	0	23	11.5	12	6.8	0.01

Table 3 Summary Statistics of Numerical Features

‘**Amount’:**

- Most transactions occur at lower amounts, while only a handful involve larger figures, particularly those exceeding €500,000.
- This results in a strong skew in the dataset, highlighting the dominance of smaller transactions.
- Furthermore, transactions that go beyond the 95th percentile, specifically those over €100,000, have been identified as possible anomalies.

‘Transaction Hour’:

- As per the raw data analysis, throughout the day, the distribution remains steady, with a minor surge during the typical work hours of **9 AM to 5 PM**.
- This regularity facilitates the possibility of clustering, especially for laundry activities that could happen during off-peak times

2. Categorical Features

Features such as **Payment_currency**, **Payment_type**, and **Sender_bank_location** offer important context for transaction analysis. These elements are crucial for understanding patterns related to geography and behavior.

Feature	Unique Values	Most Frequent Value	Frequency
`Payment_currency`	12	`UK pounds`	35%
`Payment_type`	6	`Cash Deposit`	42%
`Sender_bank_location`	18	`UK`	40%

Table 4 Summary of Categorical Features

- **Payment_currency:**
  - As per the raw data analysis, the **UK pound** is the most widely used currency, accounting for around 35% of all transactions.
  - Other currencies like the **Dirham, Euro, and US dollar** are also utilized, particularly in cross-border dealings.
- **Payment_type**:
  - As per the raw data analysis, **Cash deposits** lead the way in transaction types, making up 42% of the total, followed by **ACH** and **Cheque payments**.

    - Although **Cross-border** transactions are less common, they tend to be more closely associated with laundering activities.
- **Sender_bank_location**:
    - Nearly **40%** of transactions originate from the **UK**.
    - High-risk regions like the **UAE, Morocco, and Nigeria,Pakistan** may appear less often, but they are disproportionately involved in suspicious transactions.

4.3 Preprocessing and Feature Engineering

In this section, we discuss the techniques for preprocessing and feature engineering applied to the dataset. The objective was to reshape the raw data into a format that is more suitable for machine learning models, ultimately improving data quality, relevance, and predictive strength.

The preprocessing steps involved cleaning the data, encoding categorical features, managing class imbalance, and scaling numerical values. On the other hand, feature engineering aimed at creating new attributes that showcase behavioral and temporal patterns, thereby increasing the dataset's usefulness for detecting laundering transactions.

4.3.1 Preprocessing Steps

Preprocessing is essential for making sure the dataset is clean, consistent, and ready for analysis. Here are the steps involved:

1. Missing Value Handling:

The dataset was free of missing values, which made the preprocessing process much easier. Every feature was complete and ready for analysis, eliminating the need for any imputation or removal of rows or columns.

```
# 5. Missing Values Check
missing_values = processed_df.isnull().sum()
print("Missing Values in Each Column:\n",
missing_values[missing_values > 0])

Missing Values in Each Column:
 Series([], dtype: int64)
```

Fig 4.3.1: **Missing Values Analysis in Each Column.**

2. Categorical Feature Encoding

Categorical features like **Payment_currency**, **Payment_type**, and **Sender_bank_location** were transformed using one-hot encoding. This method allows machine learning models to effectively interpret these features.

Original Example:

Original Feature	Category	Payment_currency_UK pounds	Payment_currency_Dirham	Payment_currency_Euro
Payment_currency	UK pounds	1	0	0
	Dirham	0	1	0
	Euro	0	0	1

Table 5 Payment Currency One-Hot Encoded Representation.

Impact: This technique increased the dataset by adding binary columns for each category, making it more suitable for machine learning while retaining the categorical information.

3. Scaling Numerical Features

Numerical features such as **Amount**, **Sender_account_freq**, and **Receiver_account_freq** were scaled using StandardScaler to maintain consistent ranges. This step helps prevent models from being biased toward features with larger values.

Feature	Before Scaling	After Scaling
Amount	1459.15	-0.83
	6019.64	1.56
Sender_account_freq	100	-0.45
	5000	1.20

Table 6 Numerical Features Before and After Scaling

Impact: Scaling ensures that features with higher ranges do not dominate the model during training, improving performance and convergence.

4.3.2 Feature Engineering

Feature Engineering is the process of developing new variables from the original dataset to uncover patterns and trends, especially those associated with laundering activities. These newly created features greatly improve the predictive power of machine learning models.

1. Behavioral Features

Behavioral metrics analyze the transaction activity of accounts over time:

- **Sender/Receiver Account Frequency**:
  - Count of transactions for each sender and receiver account.
  - Helps identify accounts that are unusually active (e.g., layering activities).

Sender_account	Sender_account_freq
8724731955	50
1491989064	1200

Table 7 Behavioral Features - Sender/Receiver Account Frequency

- **Average Transaction Amount**:
  - Mean value of transactions for each sender and receiver account.
  - Highlights accounts involved in high-value activities.

Sender_account	Sender_avg_amount
8724731955	1500.50
1491989064	6000.75

Table 8 Behavioral Features - Average Transaction Amount.

- **Amount-to-Average Ratios**:
  - *Amount_to_Sender_avg_ratio* = Transaction Amount / Sender's Average Transaction Amount
  - *Amount_to_Receiver_avg_ratio* = Transaction Amount / Receiver's Average Transaction Amount

Sender_account	Transaction Amount	Sender_avg_amount	Amount_to_Sender_avg_ratio
8724731955	5000.00	1500.50	3.33
1491989064	5000.00	6000.75	0.83

Table 9 Behavioral Features - Amount-to-Average Ratios

These ratios reveal anomalies where the transaction significantly deviates from the usual behavior of an account.

2. Temporal Features/ Time and Date Feature Engineering

Temporal attributes (Time and Date) were transformed into meaningful features to capture time-based patterns:

- ★ **Transaction Hour (Transaction_hour)**:
  - Extracted the hour from the **Time attribute** (e.g., **10:35:19** becomes **10**).
- ★ Useful for identifying transaction behaviors throughout the day.

Time	Transaction_hour
10:35:19	10
23:45:02	23

Table 10: Temporal Features - Time to Transaction hour

- ★ **Transaction Day of the Week (Transaction_weekday)**:
  - Extracted the day of the week from the Date attribute (e.g., **2022-10-07** becomes **4** for **Friday**).
  - Encoded **0 for Monday** to **6 for Sunday**.

Date	Transaction_weekday
2022-10-07	4
2022-10-08	5

Table 11 Temporal Features - Day to Transaction Day of the Week

★ **Weekend Flag (Is_Weekend)**:
- Binary flag indicating whether the transaction occurred on a weekend (**1**) or weekday (**0**).
- Helps identify patterns linked to non-business days.

Transaction_weekday	Is_Weekend
4 (Friday)	0
5 (Saturday)	1

Table 12 Temporal Features - Weekend Flag

★ **Time Clusters (Time_Cluster)**:
- Categorized **Transaction_hour** into four clusters:
  - **Night** (00:00–06:00), **Morning** (06:00–12:00), **Afternoon** (12:00–18:00), and **Evening** (18:00–24:00).
- These clusters reflect distinct temporal behaviors.

Transaction_hour	Time_Cluster
2	Night
10	Morning
15	Afternoon
21	Evening

Table 13 Temporal Features - Transaction Hour to Time Cluster

★ **Transaction Time Since Last (Transaction_Time_Since_Last)**:
- Computed the **time difference** (**in seconds**) between consecutive transactions for the same **Sender_account**.
- Transactions with unusually short intervals may indicate suspicious activity.

Sender_account	Time	Transaction_Time_Since_Last
8724731955	10:35:19	0
8724731955	10:36:30	71 (seconds)

Table 14 Temporal Analysis of Transaction Intervals

3. Rolling Window Metrics

Rolling window metrics capture account behavior over time:

★ **Rolling 7-Day Transaction Sum (Rolling_7D_Transaction_Sum)**:
- Calculated the total transaction value for the past 7 days for each **Sender_account**.

Sender_account	Date	Amount	Rolling_7D_Transaction_Sum
8724731955	2022-10-07	1500.50	1500.50
8724731955	2022-10-08	2000.00	3500.50
8724731955	2022-10-14	3000.75	3000.75

Table 15 Weekly Transaction Sum Trends

★ **Rolling 7-Day Transaction Count (Rolling_7D_Transaction_Count)**:
- Counted the number of transactions in the past 7 days for each **Sender_account.**

Sender_account	Date	Rolling_7D_Transaction_Count
8724731955	2022-10-07	1
8724731955	2022-10-08	2
8724731955	2022-10-14	1

Table 16 Weekly Transaction Volume Analysis

★ **Sender-Receiver Frequency Ratio (Sender_Receiver_Freq_Ratio)**:
- Computed the ratio of transactions initiated by the sender to those received by the receiver.
- High ratios may indicate unusual sender dominance.

Sender_account_freq	Receiver_account_freq	Sender_Receiver_Freq_Ratio
50	5	10.0
1200	600	2.0

Table 17 Sender-Receiver Transaction Frequency Ratios

4. Risk Indicators

To highlight high-risk transactions, several flags were introduced:

★ **High-Risk Countries:**
- Binary flags (**Sender_high_risk, Receiver_high_risk**) were created for accounts located in high-risk countries (e.g., **Pakistan, Nigeria, Turkey**).

Sender_bank_location	Receiver_bank_location	Sender_high_risk	Receiver_high_risk
Pakistan	UK	1	0
Nigeria	Nigeria	1	1
UK	Turkey	0	1

Table 18 High-Risk Geographical Flags

★ **High-Risk Currencies:**
- Transactions involving high-risk currencies (e.g., **Dirham, Naira, Pakistani rupee**) were flagged (**high_risk_currency**).

Payment_currency	High_risk_currency
Dirham	1
Naira	1
UK pounds	0

Table 19 High-Risk Currency Identification

★ **Large Transaction Flag (Is_large_transaction):**
- Transactions exceeding the **95th percentile threshold** were flagged as large.
- This dynamic flag helps isolate potentially suspicious amounts.

Amount	95th Percentile Threshold	Is_large_transaction
15,000.00	12,500.00	1
5,000.00	12,500.00	0

Table 20 Detection of Large Transactions Based on Thresholds

★ **Amount Outliers (Amount_Outlier):**

- Transactions with z-scores exceeding **±3** were flagged as **outliers**.

Amount	Z-Score	Amount_Outlier
20,000.00	3.5	1
1,000.00	-0.2	0

Table 21 Outlier Detection in Transaction Amounts

5. Transaction Patterns/ Account-Based Features

Account behavior was analyzed to identify patterns across senders and receivers:

★ Sender/Receiver Account Frequency:

- Counted the number of transactions for each **Sender_account** and **Receiver_account**.
- High-frequency accounts may indicate layering activities or suspicious behaviors.

Sender_account	Sender_account_freq	Receiver_account	Receiver_account_freq
8724731955	50	2769355426	25
1491989064	1200	8401255335	500

Table 22 Transaction Frequency by Account

★ Average Transaction Amount:

- Computed the average transaction amount for each sender and receiver.
- Useful for identifying outliers and deviations from typical behavior.

Sender_account	Sender_avg_amount	Receiver_account	Receiver_avg_amount
8724731955	1500.50	2769355426	1750.25
1491989064	6000.75	8401255335	5200.00

Table 23 Average Transaction Amount per Account

★ Amount-to-Average Ratios:

- Ratios were calculated to assess how a transaction compares to historical averages:
  - ***Amount_to_Sender_avg_ratio*** = Amount / Sender_avg_amount
  - ***Amount_to_Receiver_avg_ratio*** = Amount / Receiver_avg_amount

Sender_account	Transaction Amount	Sender_avg_amount	Amount_to_Sender_avg_ratio
8724731955	5000.00	1500.50	3.33
1491989064	5000.00	6000.75	0.83

Table 24 Transaction Amount Ratios Compared to Averages

★ Unique Sender-Receiver Pairs (Unique_Sender_Receiver_Pairs):
  - Counted the number of unique receiver accounts for each sender.

★ High variability may suggest unusual activity.

Sender_account	Unique_Sender_Receiver_Pairs
8724731955	5
1491989064	25

Table 25 Variability in Sender-Receiver Relationships

4.3.3 Encoding and Scaling

1. **Categorical Features**

   Categorical attributes were one-hot encoded, expanding them into binary indicators. Features like **Payment_currency**, **Payment_type**, and **Laundering_type** resulted in dozens of new binary columns.

Original Feature	Transformed Features
Payment_currency	`Payment_currency_UK pounds`, `Payment_currency_Dirham`, `Payment_currency_Euro`, etc.
Payment_type	`Payment_type_Cash Deposit`, `Payment_type_Cross-border`, `Payment_type_Cheque`, etc.
Laundering_type	`Laundering_type_Fan_Out`, `Laundering_type_Structuring`, `Laundering_type_Smurfing`, etc.

Table 26 Binary Encoding of Categorical Features

2. **Numerical Features**

   Numerical features were standardized with **StandardScaler** to create consistent ranges across all attributes. This approach helps to prevent features with larger values from overshadowing the model.

Original Feature	Before Scaling	After Scaling
Amount	6019.64	1.56
Sender_account_freq	5000	1.20
Receiver_account_freq	100	-0.45

Table 27 Effect of Scaling on Numerical Features

4.3.4 Final Preprocessed Dataset

After preprocessing and feature engineering, the dataset contained **115 features**:

Category	Example Features
Original Features	Amount, Payment_currency, Is_laundering
Temporal Features	Transaction_hour, Transaction_weekday, Is_Weekend
Account-Based Features	Sender_account_freq, Receiver_account_freq, Unique_Sender_Receiver_Pairs
Risk Indicators	High_risk_currency, Sender_high_risk, Is_large_transaction
Rolling Metrics	Rolling_7D_Transaction_Sum, Rolling_7D_Transaction_Count
Encoded Features	One-hot encoded attributes for Payment_type, Time_Cluster

Table 28 Overview of Preprocessed Dataset Features

Final Dataset Shape:

- **Records**: **9,504,852**
- **Features**: **115** (including engineered features)

4.4 Exploratory Data Analysis (EDA)

Exploratory Data Analysis (EDA) plays a crucial role in Understanding the underlying patterns, relationships, and anomalies in a dataset. In this section, we will look into the different analyses that have been performed to gain a comprehensive understanding of the data, highlight

patterns, identify any data quality problems, and validate the assumptions made during feature engineering.

4.4.1 Overview of Preprocessed Dataset

The dataset contains **9,504,852 rows** and **115 columns** after preprocessing. The features are a mix of engineered temporal, categorical, and numerical variables, reflecting transactional behaviors and laundering patterns. The preprocessed dataset includes:

- **Temporal features** such as **Transaction_hour, Transaction_weekday, Time_Cluster, and Transaction_Time_Since_Last.**
- **Transaction-specific metrics** like **Amount, Sender_avg_amount, Receiver_avg_amount, and Amount_to_Sender_avg_ratio.**
- **Categorical encodings** for **Payment_currency, Received_currency, and bank locations**.
- **Derived indicators** such as **Sender_Receiver_Freq_Ratio, Is_Weekend, and Amount_Outlier.**

4.4.2 Missing Value Analysis

No missing values were detected in the preprocessed dataset, ensuring data integrity for subsequent analyses. This was achieved by carefully imputing or dropping missing entries during preprocessing.

```
# 5. Missing Values Check
missing_values = processed_df.isnull().sum()
print("Missing Values in Each Column:\n", missing_values[missing_values > 0])
```

```
Missing Values in Each Column:
 Series([], dtype: int64)
```

FIGURE 4 Processed Dataset Missing Value Analysis

4.4.3 Distribution of Numeric Features

Observation: Histograms for numeric features of the preprocessed dataset reveal the following key insights as per explained under the visulaization.

Visualization:

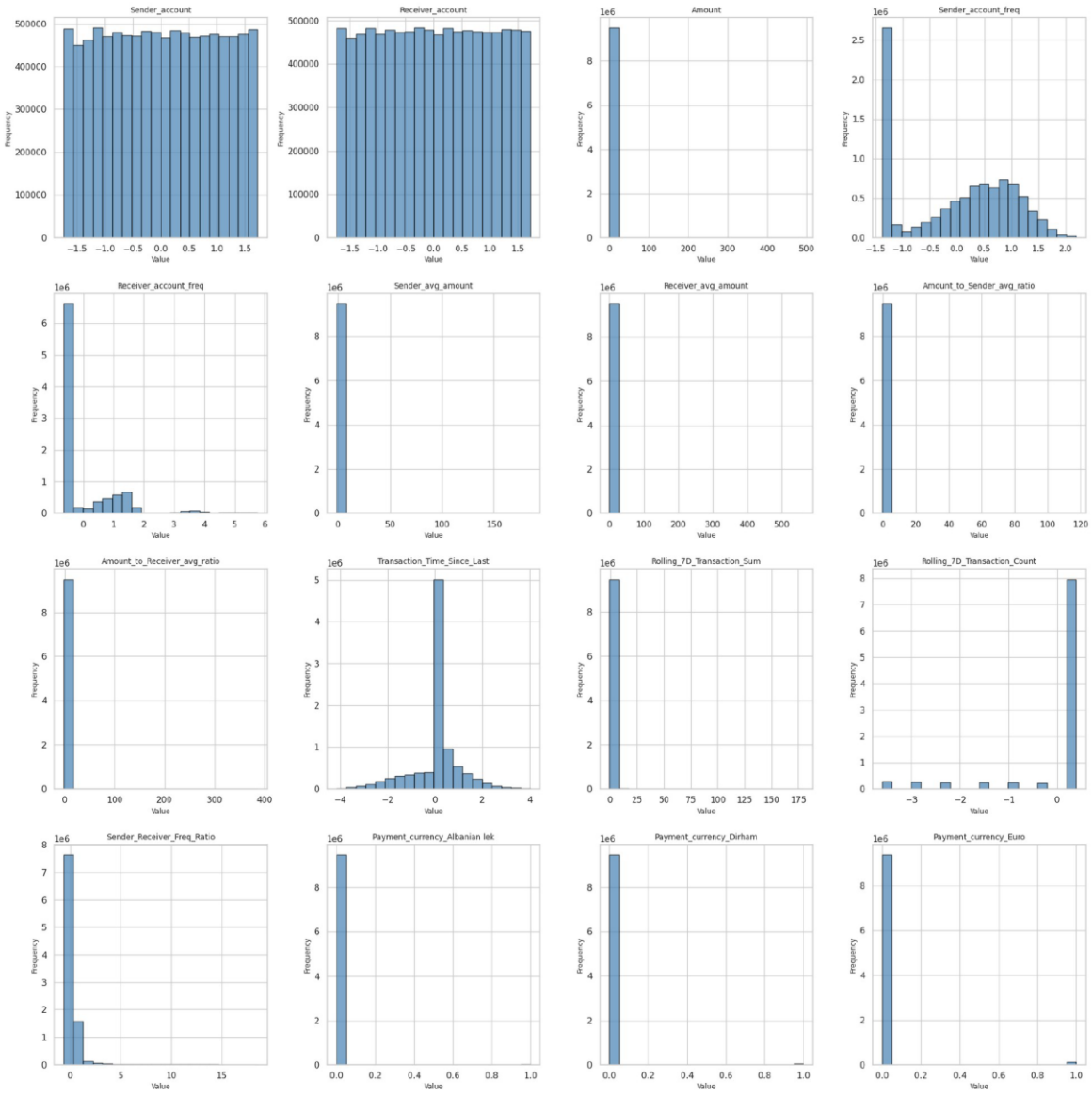


FIGURE 5 Processed Dataset Histograms for numeric features

- **Histograms**: Provides a comprehensive view of numeric feature distributions, showcasing skews, peaks, and clustering behaviors.
- **Dynamic Grid Layout**: Enabled efficient visualization of all numeric features, aiding in the quick identification of trends and anomalies.
- **Amount**: Distribution remains heavily skewed towards smaller values, consistent with the raw dataset. Log transformation significantly improved normalization, making the distribution suitable for model training.
- **Sender_account_freq & Receiver_account_freq**: Both features exhibit long tails, highlighting a few accounts with extremely high transaction frequencies. These

anomalies may indicate suspicious activities or dominant entities in the transaction network.

- **Rolling_7D_Transaction_Sum**: Displays distinct clusters of accounts with high cumulative transaction values over a 7-day rolling window. These clusters indicate patterns of high activity over short periods, which could be indicative of layering in laundering operations.
- **Transaction_Time_Since_Last**: Exhibits a near-normal distribution, suggesting consistent temporal patterns in transaction intervals after preprocessing.
- **Amount_to_Sender_avg_ratio & Amount_to_Receiver_avg_ratio**: These ratios have long tails, indicating significant outliers where transaction values deviate heavily from historical averages.

  This analysis emphasizes the importance of preprocessing steps, such as scaling and **log transformations** in mitigating skewness and enhancing feature utility for predictive modeling.

4.4.4 Pairwise Correlation Analysis of Numeric Features

Observation: A detailed correlation heatmap was generated for all numeric features to identify potential relationships and dependencies between the features and the target variable (Is_laundering) in the processed dataset.

Visualization:

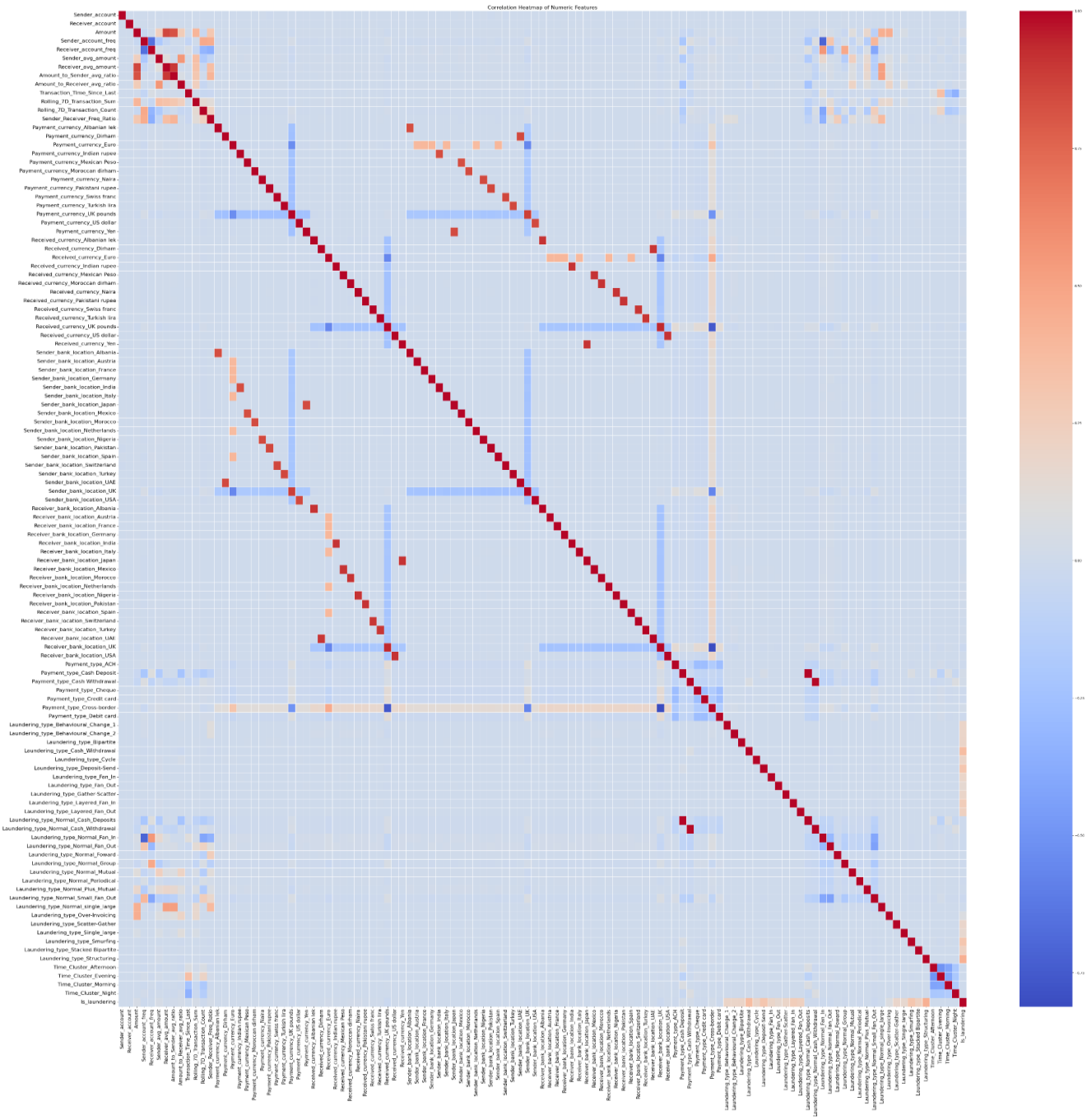


FIGURE 6 Heatmap showing Pairwise Correlation Analysis of Numeric Features

- **Heatmap**:
  - Provides an intuitive, color-coded matrix to highlight the strength and direction of feature relationships.
  - Blue shades represent negative correlations, while red shades indicate positive correlations.

- Diagonal entries, which represent self-correlations, are visually distinct for clarity.

- **Strong Correlations:**
  - Significant correlation observed between **Rolling_7D_Transaction_Sum** and **Rolling_7D_Transaction_Count**, indicating these features capture overlapping patterns of high transactional activity over time.
  - **Amount_to_Sender_avg_ratio** and **Sender_account_freq** display moderate correlation, reflecting the dependency of ratio metrics on account activity levels.
- **Weak or No Correlations:**
  - Most other features exhibit minimal correlations, emphasizing their independence and utility for diverse predictive insights.
  - Key features such as Amount show weak correlations with others, supporting their standalone contribution to anomaly detection.
- **Clusters of Similar Features:**
  - Features related to Sender and Receiver account frequencies and cumulative metrics form natural clusters, validating the feature engineering process.

4.4.5 Frequency Distributions of Categorical Features

Observation:
The analysis of the preprocessed dataset revealed that all features are numeric, either due to their original format or as a result of feature engineering and one-hot encoding during preprocessing. This indicates that categorical attributes have been converted to numeric forms, such as binary columns or scaled numeric data, making them suitable for machine learning models.

Key Insights:

```python
# Explicitly identify categorical features (e.g., one-hot encoded columns or other categorical data)
categorical_features = [
    col for col in processed_df.columns
    if col not in numeric_features and col != 'Is_laundering'
]

# Check if any categorical features exist
if len(categorical_features) == 0:
    print("No categorical features found. Entire dataset has numeric features.")
else:
    # Plot frequency distributions
    fig, axes = plt.subplots(len(categorical_features), 1, figsize=(10, len(categorical_features) * 4))

    for i, feature in enumerate(categorical_features):
        sns.countplot(data=processed_df, x=feature, ax=axes[i], order=processed_df[feature].value_counts().index)
        axes[i].set_title(f"Frequency Distribution of {feature}", fontsize=12)
        axes[i].set_xlabel(feature, fontsize=10)
        axes[i].set_ylabel("Count", fontsize=10)
        axes[i].tick_params(axis='x', rotation=45)

    plt.tight_layout()
    plt.show()
```

```
No categorical features found. Entire dataset has numeric features.
```

FIGURE 7 Frequency Distributions of Categorical Features

- **No Remaining Categorical Features**: All attributes in the dataset are numeric, suggesting extensive preprocessing has been conducted.
- **One-Hot Encoding Implications**: Original categorical features like **Payment_currency** and **Laundering_type** have been transformed into multiple binary columns.
- **Consistency**: The uniformity of feature types ensures seamless integration into machine learning pipelines, reducing the need for additional encoding or transformations.

Since no categorical features remain, visual analysis for categorical feature distributions is not applicable to this dataset.

4.4.6 Feature-Target Relationships

Observation:

Box plots were generated to Provide a clear view of data variability, outliers, and feature ranges for legitimate and suspicious transactions.

Furthermore the Violin plots were also generated to enrich the analysis by visualizing feature density and spread, offering a deeper understanding of feature distributions across the target classes.

Visualization:

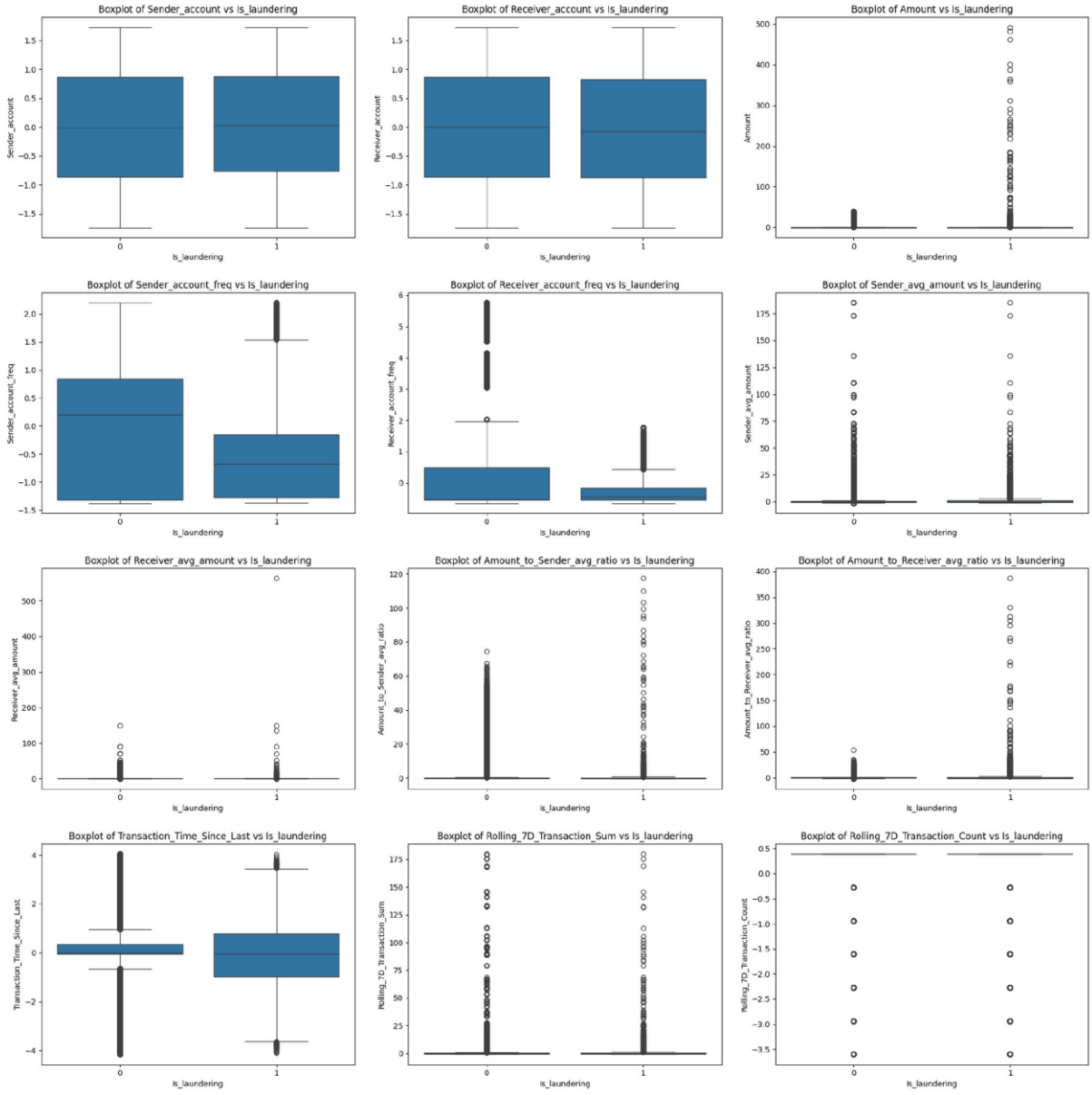


FIGURE 8 Box plots representing Feature-Target Relationships

1. **Box Plots**:
    - **Box Plots** Provide a clear view of data variability, outliers, and feature ranges for legitimate and suspicious transactions.
    - **Transaction Amounts**: Legitimate transactions are predominantly concentrated at lower values, whereas suspicious transactions show a wider spread, including notable outliers. This indicates that high-value transactions might correlate strongly with laundering activities.
    - **Behavioral Metrics**: Metrics like **Sender_account_freq** and **Receiver_account_freq** show significant variability for suspicious

transactions, often with a higher median compared to legitimate ones. This suggests that accounts involved in laundering exhibit more frequent transactional activities.

- Rolling Metrics: Features such as **Rolling_7D_Transaction_Sum** and **Rolling_7D_Transaction_Count** reveal clusters of accounts with consistently high cumulative transaction sums and counts over a **rolling 7-day period**, more prevalent in suspicious transactions.
- Ratios: Ratios like **Amount_to_Sender_avg_ratio** and **Amount_to_Receiver_avg_ratio** show extreme outliers for laundering cases, suggesting abnormal transactional behaviors compared to typical account averages.

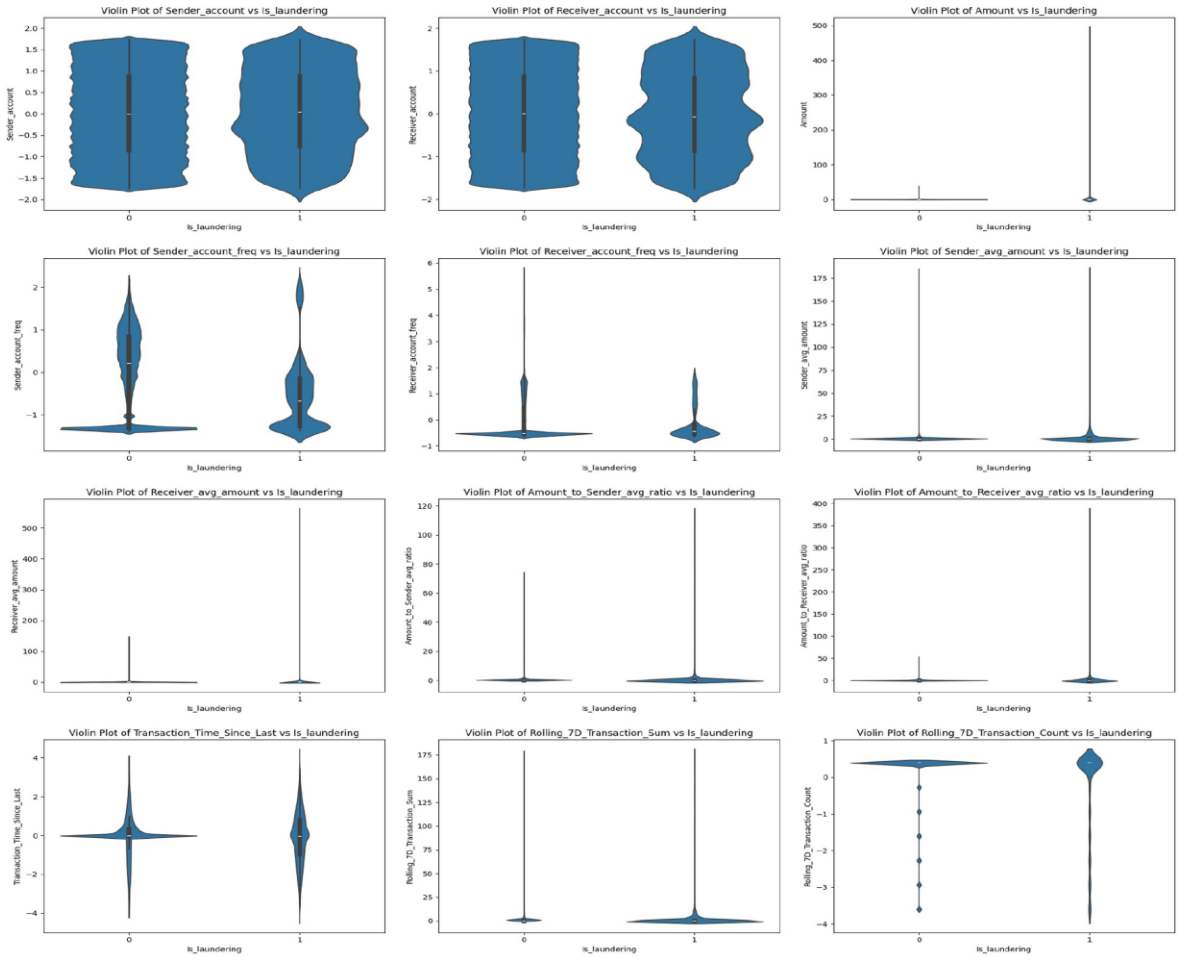


FIGURE 9 Violin plots representing Feature-Target Relationships

2. Violin Plots:

- **Violin Plots** Enrich the analysis by visualizing feature density and spread, offering a deeper understanding of feature distributions across the target classes.
- Feature Distributions: While legitimate and suspicious transactions overlap across several features, laundering-related metrics such as **Amount_to_Sender_avg_ratio** and **Rolling_7D_Transaction_Sum r**eveal distinctive elongated tails for laundering activities.
- **Time-Based Metrics:** Temporal patterns, such as **Transaction_Time_Since_Last**, show pronounced **deviations** in laundering transactions, often characterized by unusually short or irregular time gaps between transactions.
- **Density and Spread:** Violin plots highlight the density of legitimate transactions within a narrower range compared to laundering activities, which show a more dispersed pattern, emphasizing anomalies in laundering behaviors.

4.4.7 Feature Importance Analysis

Observations:

Feature importance analysis was performed using **XGBoost**, a powerful machine learning algorithm that excels with **large and imbalanced datasets**. This analysis helped us pinpoint the key features that influence predictions related to money laundering.

Visualizations:

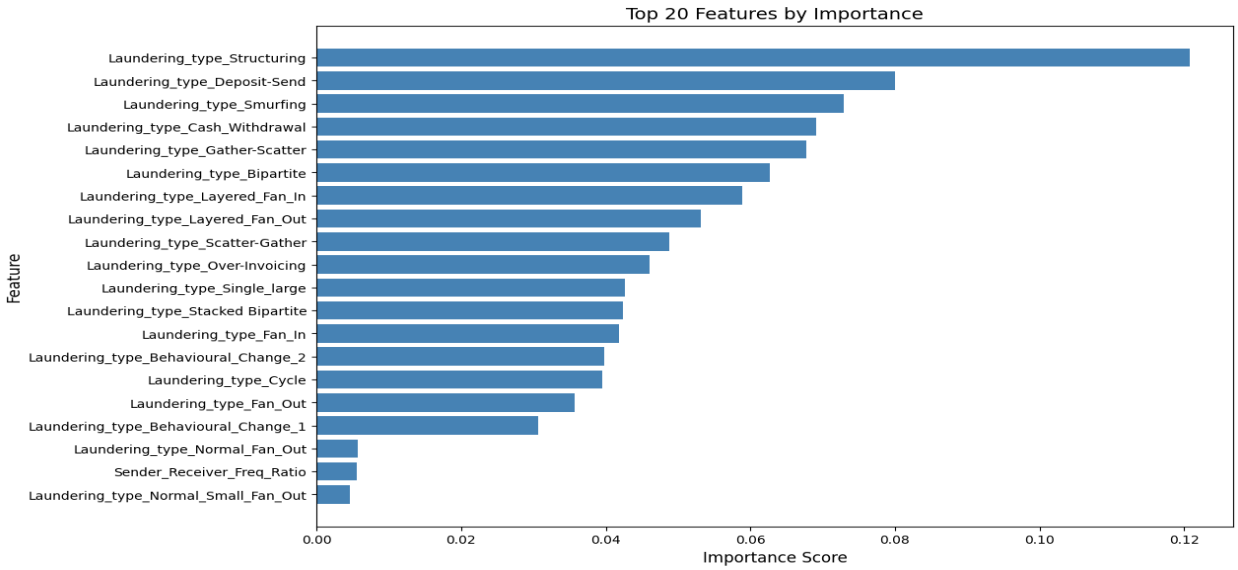


FIGURE 10 Feature Importance Analysis Using XG-BOOST

1. **Bar Chart**:
   - The horizontal bar chart effectively highlighted the **top 20 most important features**, showing their relative importance. Features like

Structuring, **Deposit-Send**, and **Smurfing** were dominant, while lesser-ranked features provided diminishing contributions.

- This visualization makes it evident that engineered laundering-specific features significantly drive model predictions.

2. **Dominant Features**:
   - **Laundering_type_Structuring** emerged as the most critical feature with an importance score of 0.12. This suggests that structuring, a common money laundering tactic, plays a significant role in distinguishing suspicious transactions.
   - **Laundering_type_Deposit-Send** and **Laundering_type_Smurfing** followed closely, with importance scores of **0.08 and 0.07**, respectively. These laundering types highlight distinct fraudulent patterns involving repetitive small transactions or bulk transfers.
   - **Laundering_type_Cash_Withdrawal** (0.**069**) and **Laundering_type_Gather-Scatter** (0.067) underline the importance of specific behavioral patterns often associated with money laundering.
3. **Negligible Importance**:
   - Features such as **Sender_bank_location_Germany**, **Sender_bank_location_Austria**, and **Sender_bank_location_Spain** had no measurable importance, suggesting that geographical origin of transactions holds minimal predictive value in this context.
   - Similarly, many one-hot encoded categorical features, like **Sender_bank_location_France**, contributed little, reinforcing the higher relevance of behavioral patterns over geographical attributes.

```
Feature Importance Scores:
                              Feature  Importance
109       Laundering_type_Structuring    0.120768
87       Laundering_type_Deposit-Send    0.080051
107          Laundering_type_Smurfing    0.072890
85    Laundering_type_Cash_Withdrawal    0.069137
90     Laundering_type_Gather-Scatter    0.067686
..                                ...         ...
42       Sender_bank_location_Germany    0.000000
41        Sender_bank_location_France    0.000000
40       Sender_bank_location_Austria    0.000000
39       Sender_bank_location_Albania    0.000000
51         Sender_bank_location_Spain    0.000000

[114 rows x 2 columns]
```

FIGURE 11 Feature Importance Scores

1. **Feature Importance Scores**:

- A detailed table of all 114 features with corresponding importance scores was generated. This allowed for a granular view of which features were essential and which were negligible.
- Features with zero importance, such as **Sender_bank_location_Austria** and **Sender_bank_location_Spain**, point towards the limited role of geographic diversity in distinguishing laundering activities.

4.4.8 Outlier Analysis

Observations:

Outlier analysis was conducted for the top 10 most important numeric features identified through feature importance analysis. Boxplots were used to detect and visualize potential anomalies within these features.

Visualization:

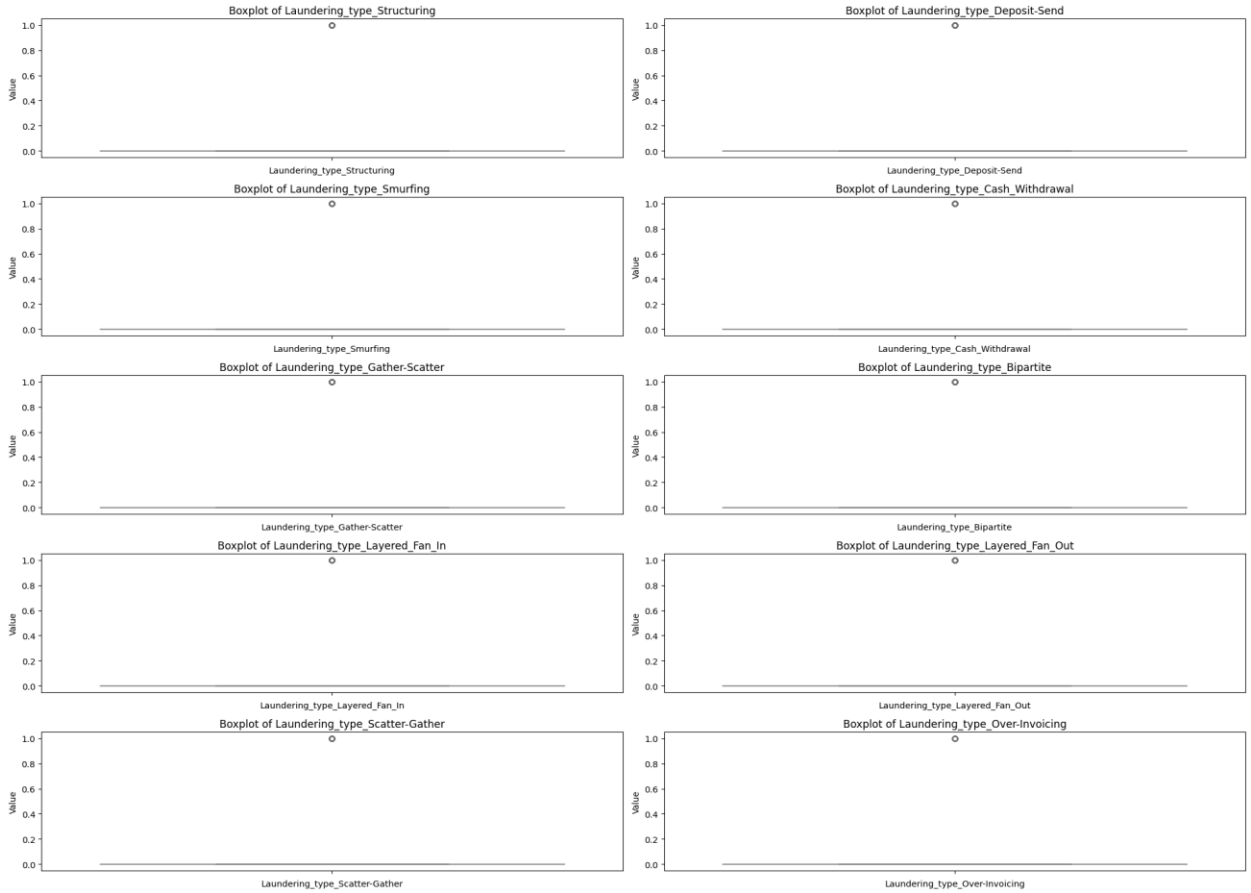


FIGURE 12 Outlier Analysis using Boxplots

1. **Key Features Analyzed**:

    - Features such as **Laundering_type_Structuring**, **Laundering_type_Deposit-Send**, and **Laundering_type_Smurfing** displayed distinct outlier patterns.
    - Other features like **Laundering_type_Cash_Withdrawal** and **Laundering_type_Gather-Scatter** also highlighted significant deviations, aligning with their high feature importance scores.
2. **Insights**:
    - **Laundering_type_Structuring** and **Laundering_type_Deposit-Send** demonstrated highly concentrated values near zero, with a small number of extreme outliers. These anomalies may indicate rare but impactful money laundering behaviors.
    - **Laundering_type_Smurfing** and **Laundering_type_Layered_Fan_In** showed similar patterns, reinforcing their relevance in identifying laundering schemes.
    - Features with minimal dispersion, like **Laundering_type_Over-Invoicing**, may require further exploration to confirm their contribution to predictive accuracy.
3. **Impact on Modeling**:
    - Outliers in these features highlight rare laundering techniques, which are crucial for detecting anomalies in financial transactions.
    - Handling outliers effectively, either through transformation or targeted imputation, is essential to enhance model robustness and prevent bias

The boxplots provide a clear representation of feature distributions and their respective outliers. Each feature's behavior underscores the importance of engineered laundering-specific attributes in identifying suspicious transactions.
This analysis confirms the importance of maintaining these critical features in the dataset while addressing their outliers to optimize model performance.

4.4.9 Temporal and Behavioral Patterns

1. **Rolling 7D Transaction Sum:**

Visualization and analysis:

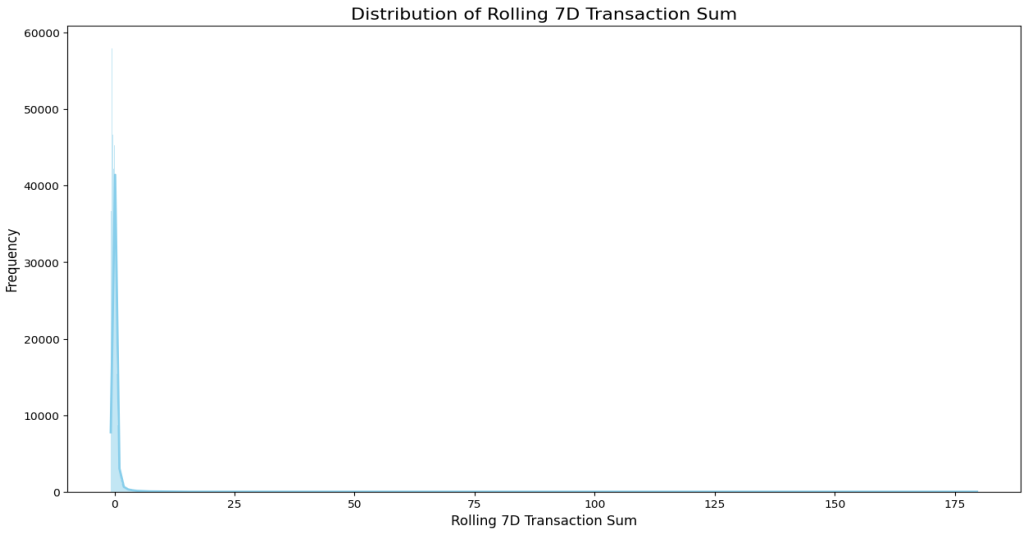


FIGURE 13 Frequency Distribution of Rolling 7D Transaction Sum

- The distribution of the Rolling 7D Transaction Sum is heavily skewed towards lower values, indicating that most accounts engage in low cumulative transaction sums over a week. However, there is a small subset with significantly higher transaction sums.
- The histogram includes a **KDE curve (*dark blue*)** for better insight into the density. The extreme tail highlights accounts with anomalously high weekly transaction activity.

2. **Transaction Time Since Last:**

Visualization and analysis:

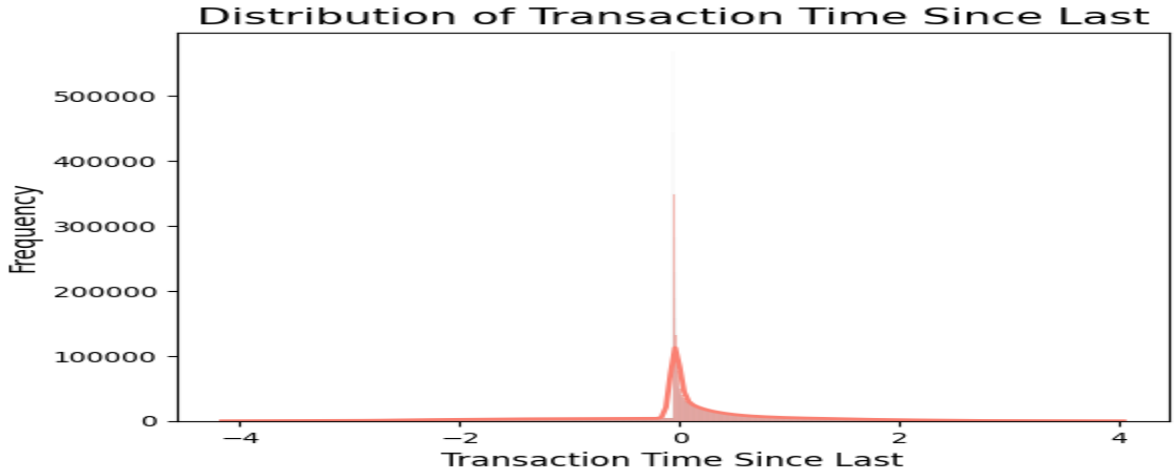


FIGURE 14 Frequency Distribution of Transaction Time Since Last

- The feature shows a sharp peak near zero, suggesting that most transactions occur in rapid succession with minimal delays. A small fraction indicates longer gaps between transactions.
- The histogram has a **KDE overlay** (***dark red***) to emphasize the clustering around immediate transactions.

3. **Time Cluster Analysis:**

Visualization:

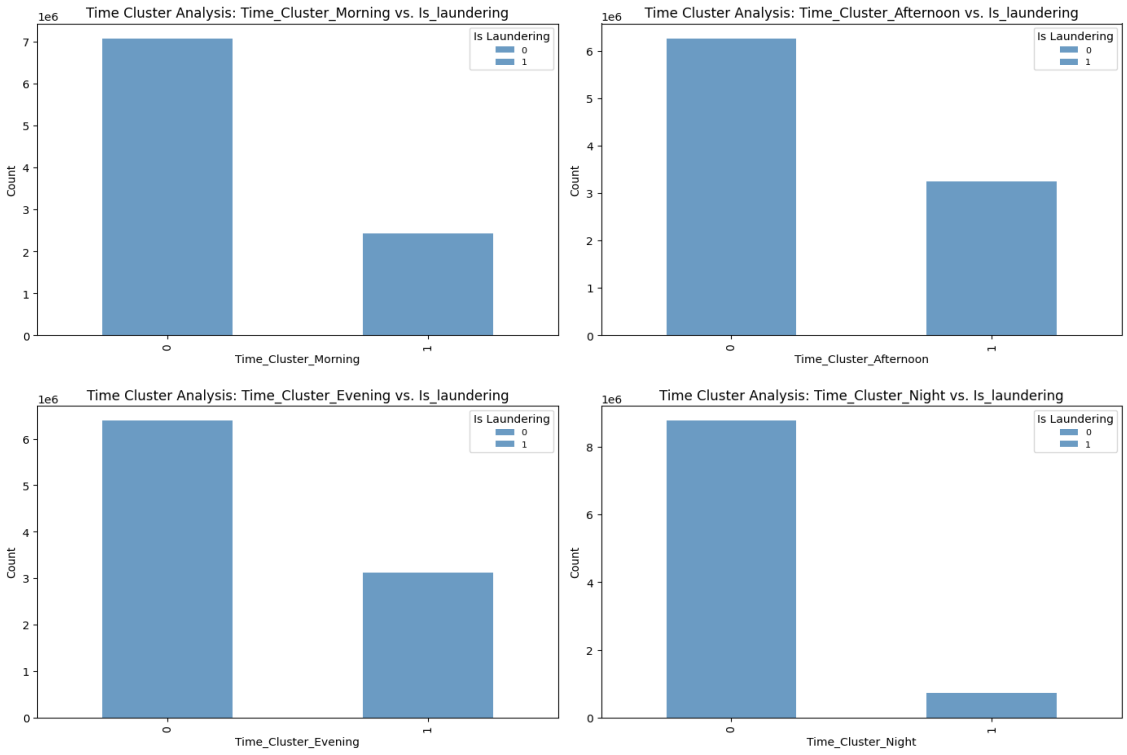


FIGURE 15 Time Cluster Analysis using Bar Charts

- **Features: *Time_Cluster_Morning, Time_Cluster_Afternoon, Time_Cluster_Evening, Time_Cluster_Night***
- **Morning** and **afternoon** clusters exhibit **higher counts of legitimate transactions** compared to laundering cases.
- **Evening** and **night clusters** show **increased laundering activities**, aligning with the tendency of suspicious transactions occurring during less monitored timeframes.

4.4.10 Exploration of Payment and Receiver Patterns

Observations:

Bar Charts for the distribution of payment currencies and received payment currencies were generated to emphasize the need for careful consideration of the currency distribution that would he helpful during model development to address biases in the dataset.

Visualizations:

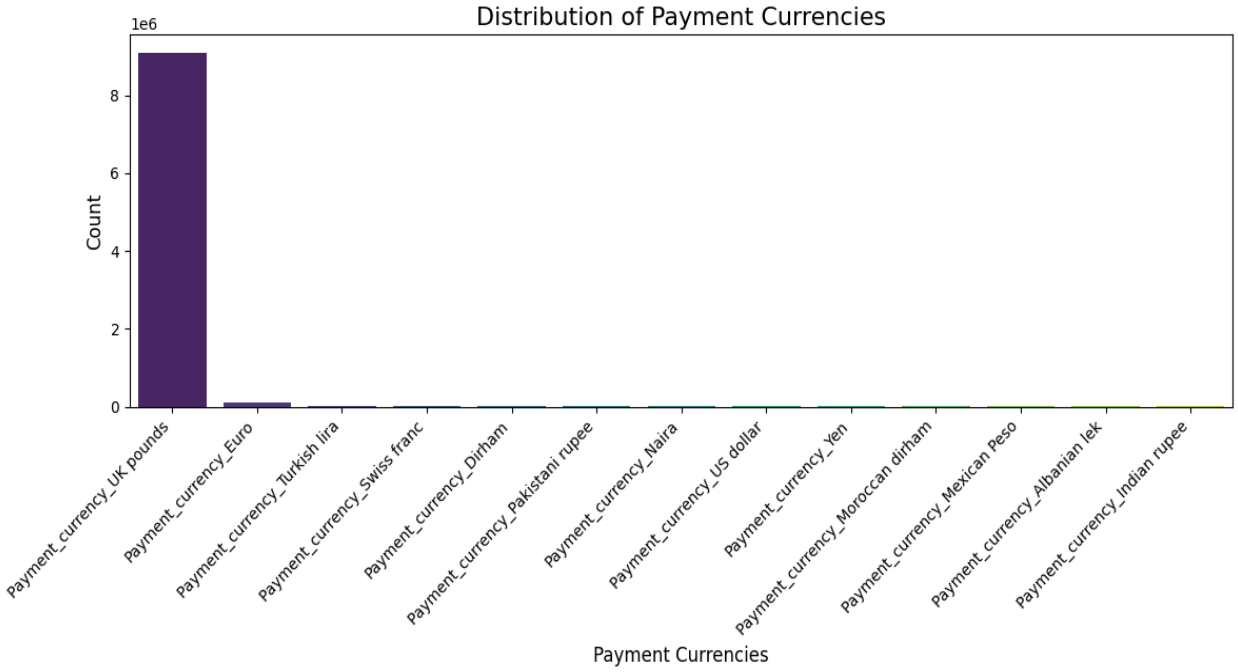


FIGURE 16 Frequency Distribution of Payment Currencies (Bar Chart)

Payment Currencies:

- The bar chart highlights the dominance of UK pounds and reveals the minimal representation of other currencies.
- The distribution of payment currencies is dominated by **UK pounds**, followed by a marginal presence of **Euro** and other currencies like **Pakistani Rupee**, **Dirham**, and **Naira**.

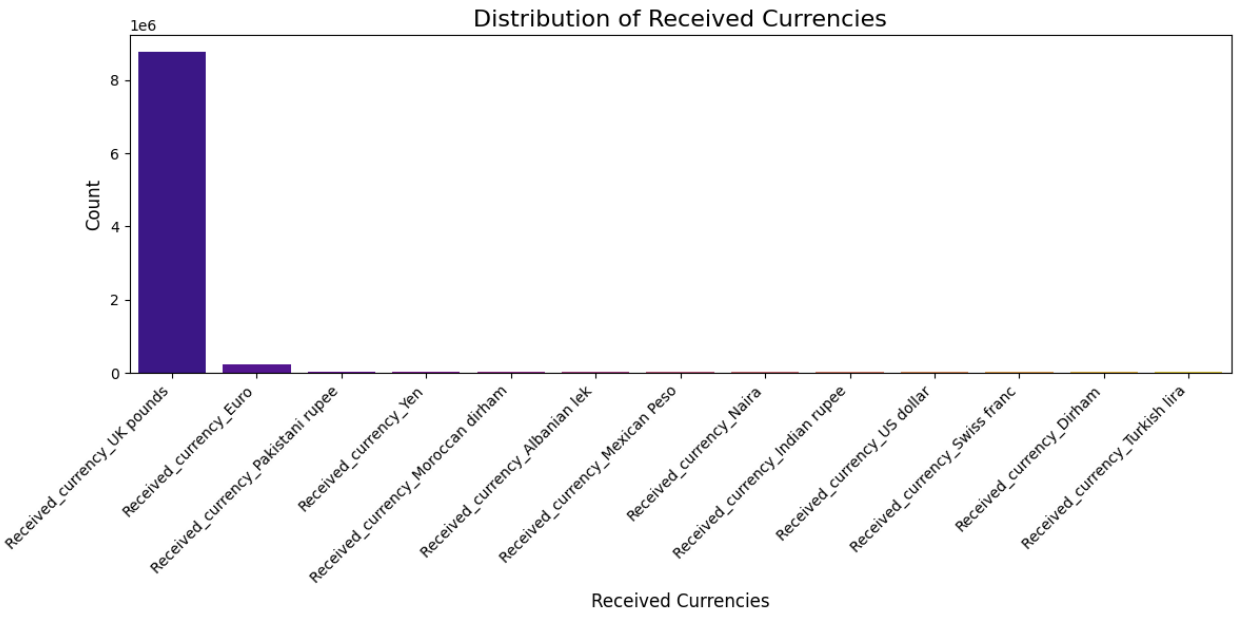


FIGURE 17 Frequency Distribution of Received Currencies (Bar Chart)

Received Currencies:

- This bar chart mirrors the pattern of payment currencies, reinforcing the significant disparity in currency usage.
- Similar to payment currencies, **UK pounds** overwhelmingly lead the distribution, with **Euro** as a distant second.
- Other currencies, such as **Pakistani Rupee**, **Dirham**, and **Naira**, also appear but with significantly lower frequencies.

4.4.11 Laundering Proportions Across Payment Currencies:

Observations:
Bar chart was generated for Laundering Proportions Across Payment Currencies to highlight the disproportionate laundering activity associated with the majorly acquired currency and the minimal impact of other currencies.
These observations provide critical guidance for currency-specific risk assessment and the development of targeted anomaly detection frameworks.

Visualizations:

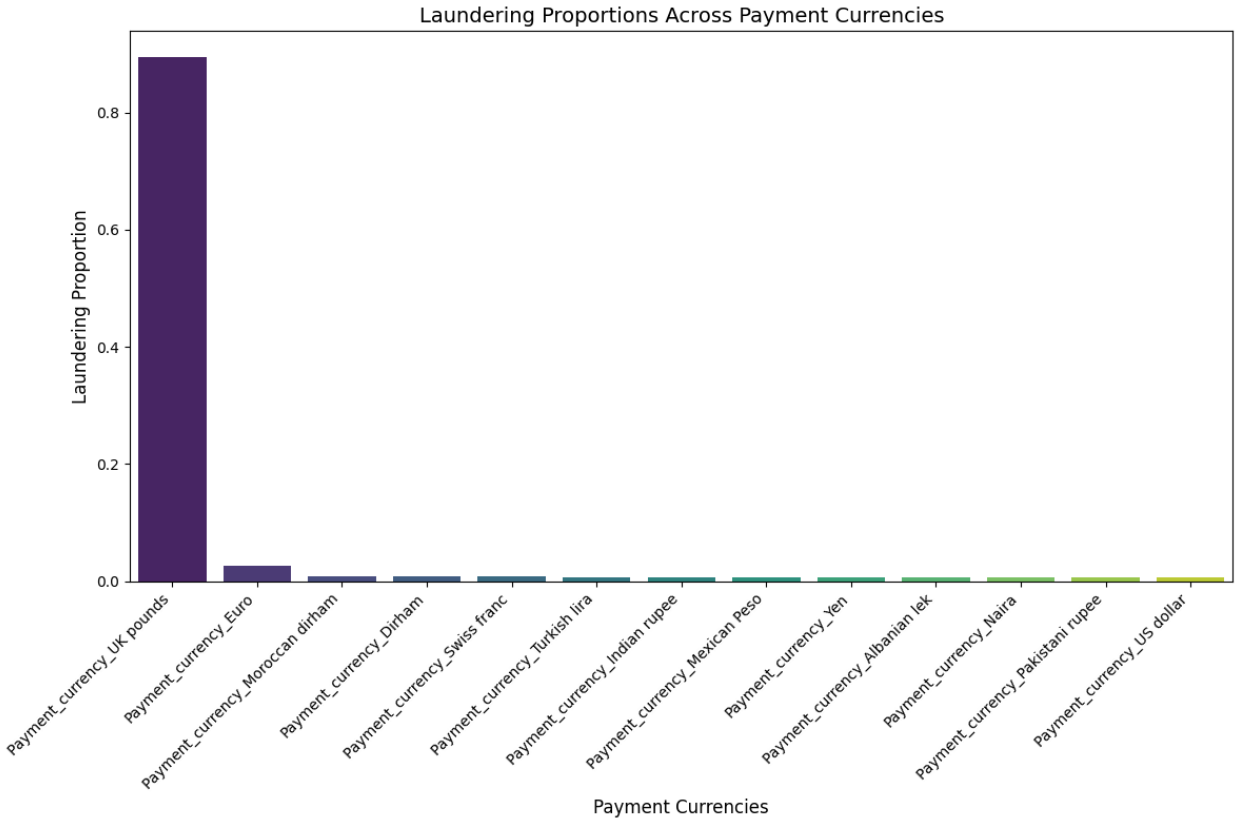


FIGURE 18 Bar Chart of Laundering Proportions Across Payment Currencies

- **Dominance of UK Pounds**:
  UK pounds exhibit an overwhelming dominance in laundering proportions, far surpassing any other currency in the dataset. This highlights the heightened risk associated with transactions involving UK pounds.
- Marginal Presence of Other Currencies:
  Currencies like Euros, Moroccan Dirham, Swiss Franc, and Turkish Lira show marginal proportions of laundering activity. These currencies appear to play a less significant role in laundering transactions within the dataset.

4.4.12 Receiver Currency Laundering Analysis

Observations:
Bar charts for Distribution of receiver currencies and Laundering proportions across receiver currencies was generated to figure out how laundering activity varies significantly across different currencies.

Visualizations:

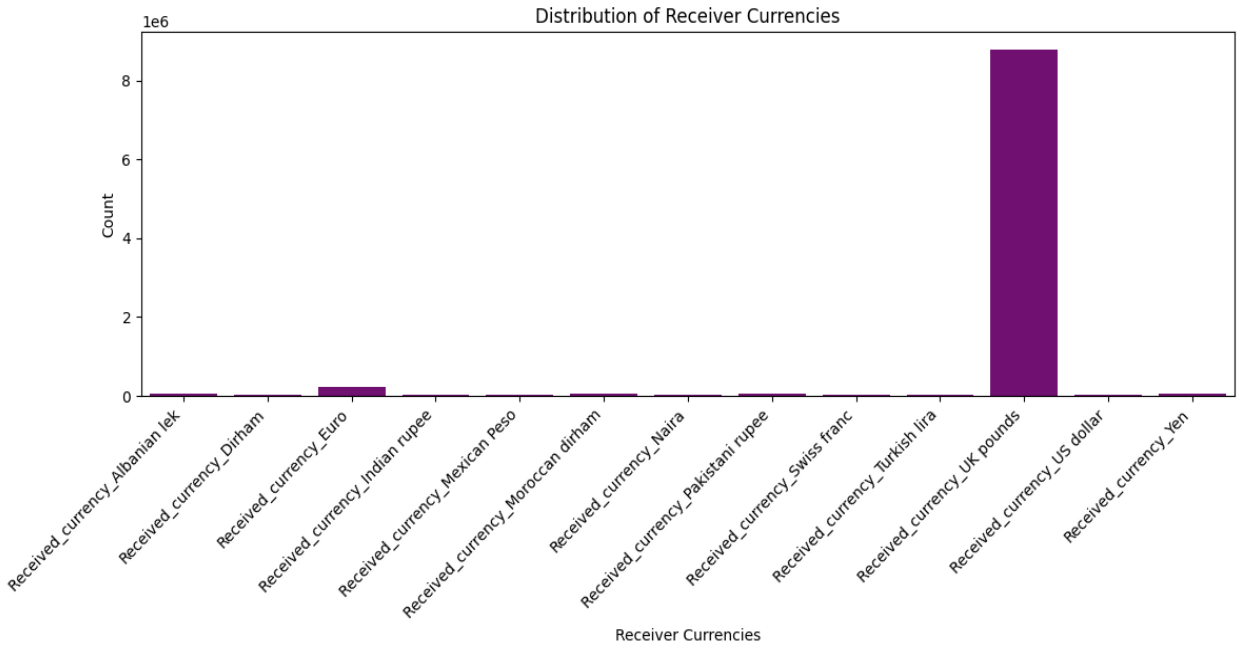


FIGURE 19 Bar Chart of Distribution of Receiver Currencies

Bar Chart for Distribution of Receiver Currencies:

- Clearly illustrates the dominance of UK pounds and the negligible presence of other currencies.
- The distribution of receiver currencies is overwhelmingly dominated by UK pounds.
- Euro appears as a distant second, followed by minimal representation of currencies like the Pakistani rupee, Dirham, and Naira.
- This pattern closely mirrors the distribution of payment currencies, indicating a strong regional or transactional bias in the dataset.

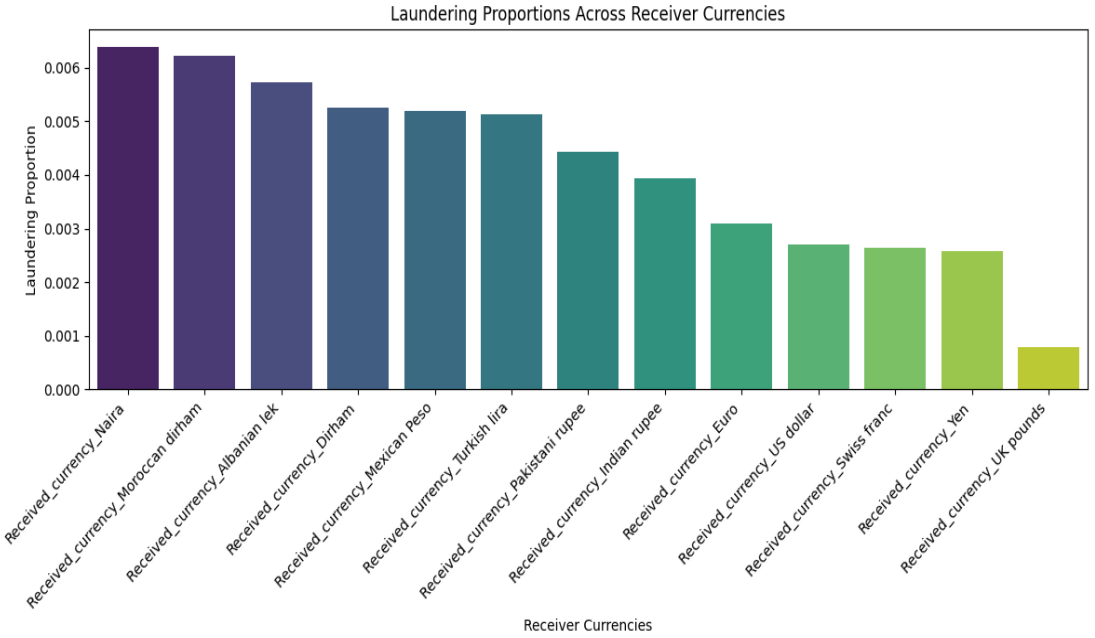


FIGURE 20 Bar chart of Laundering proportions across Receiver Currencies

Bar Chart for Laundering Proportions:

- Highlights how laundering activity varies significantly across different currencies, with niche currencies showing higher proportions of laundering.
- The highest laundering proportions are observed for currencies like the Naira, Moroccan Dirham, and Albanian Lek, all exceeding 0.6%.
- UK pounds, while being the most frequent, exhibit a relatively low laundering proportion, suggesting that laundering activities might favor less common currencies.

4.4.13 Exploration of Transaction Amount Patterns

Observations:

We will explore transaction amount trends to reveal possible insights into laundering activities. By looking at the distribution, outliers, and connections with laundering labels, our goal is to spot trends and anomalies. We'll use techniques like log scaling to improve clarity and prepare our models for analysis.

Visualizations:

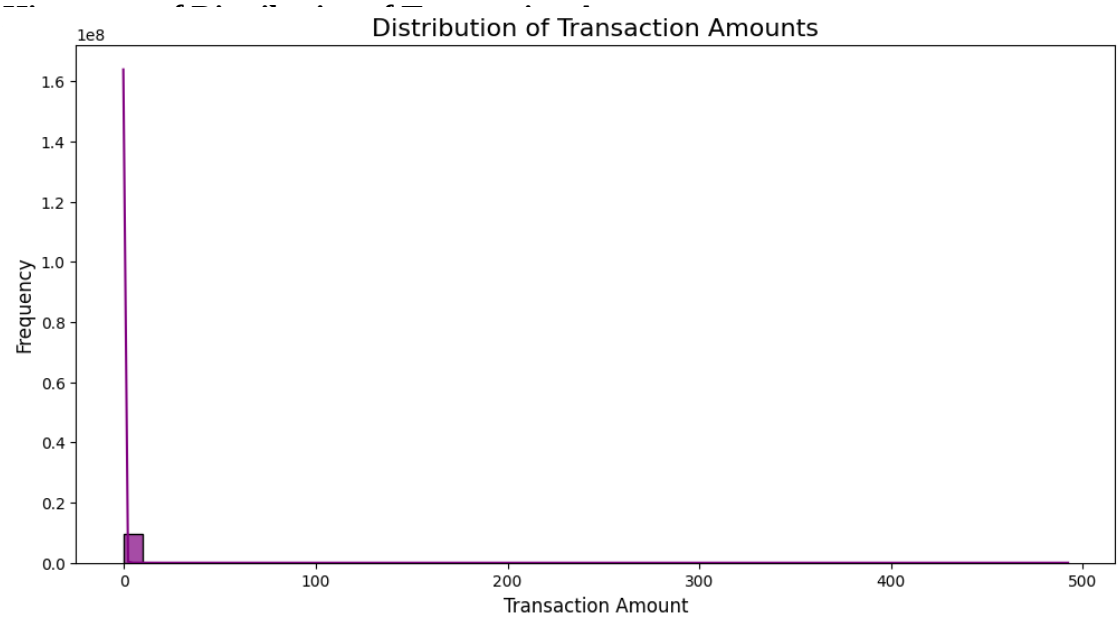


FIGURE 21 Histogram of Transaction Amounts

- The histogram highlights the skewed distribution of transaction amounts.

2. **Boxplot of Transaction Amounts**:

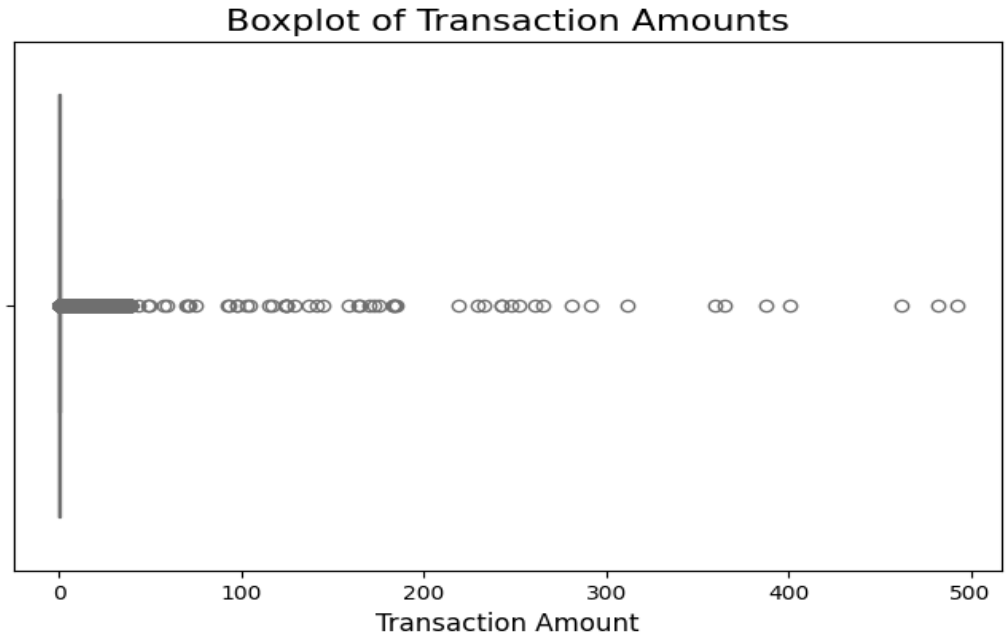


FIGURE 22 Boxplot of Transaction Amounts

- **Boxplot and Violin Plot for Laundering Analysis**:

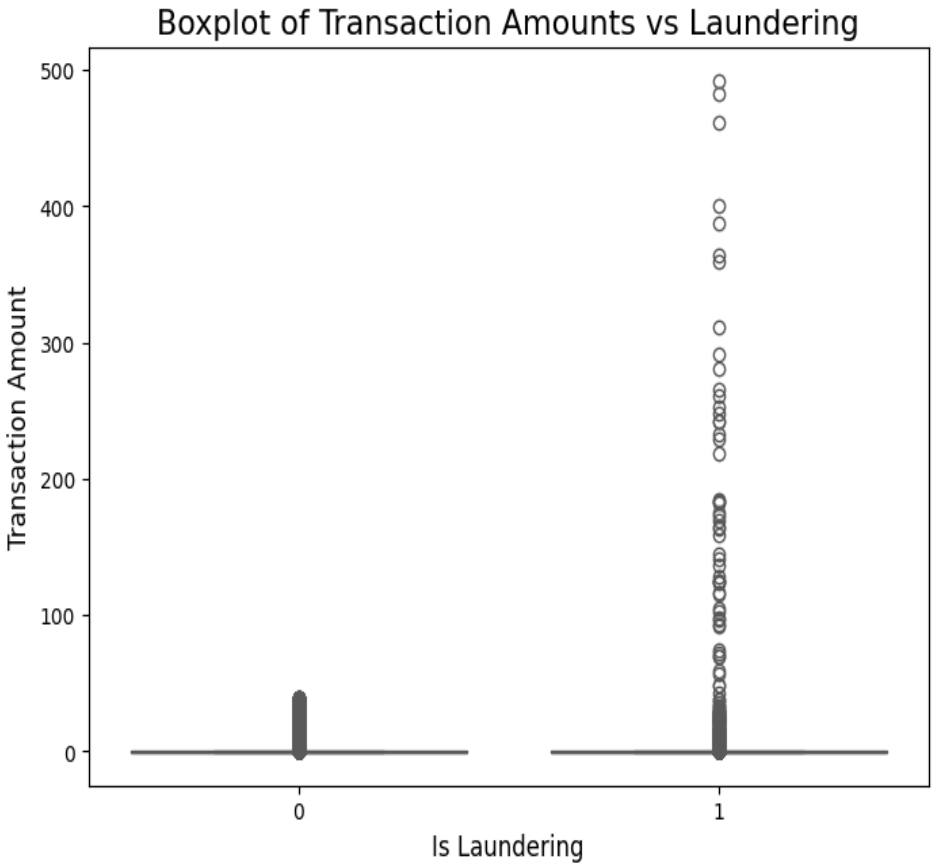


FIGURE 23 Boxplot of Transaction Amounts vs target variable

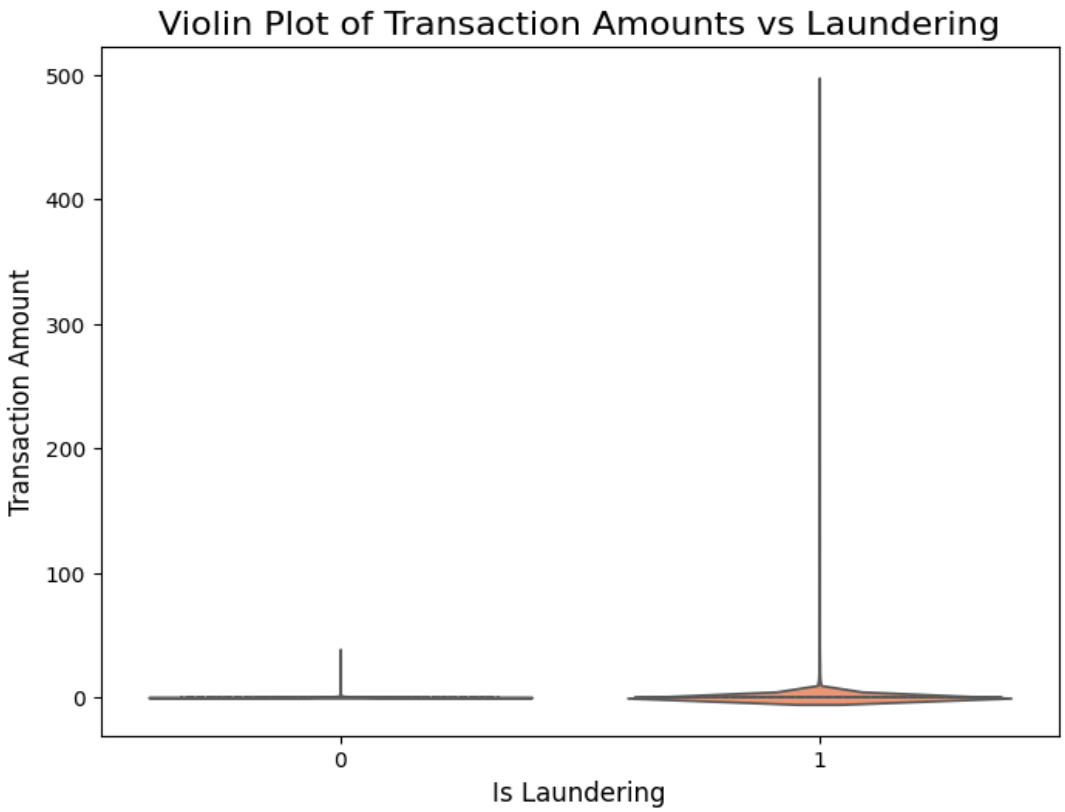


FIGURE 24 Violin plot of Transaction Amounts vs target variable

- These boxplots and violin plots visualizes outliers in the upper range of the dataset.
- These plots highlight the distribution of transaction amounts for laundering (Is_laundering = 1) and non-laundering transactions.

2. **Log-Transformed Distribution**:

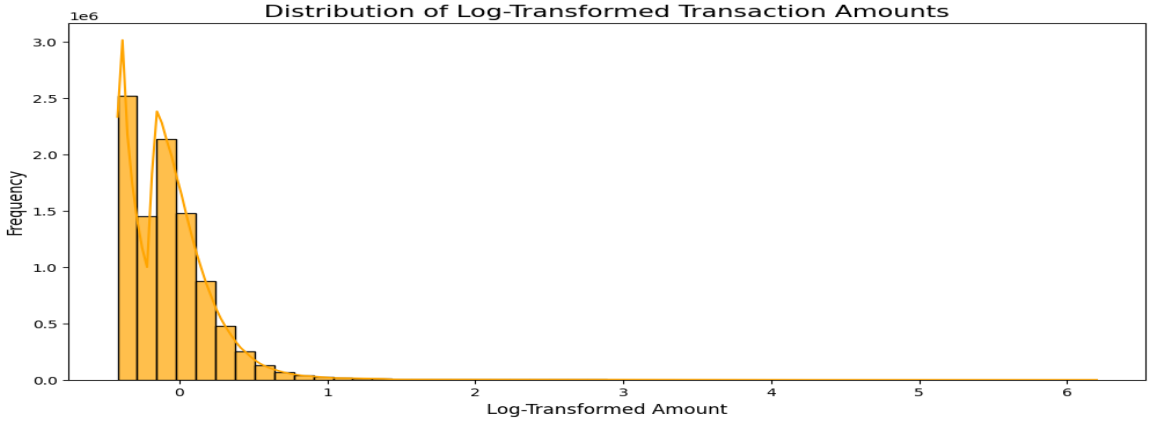


FIGURE 25 Log-Transformed Distribution using Line Plots

- The histogram of log-transformed amounts demonstrates how normalization reduces skewness.

3. **Summary of High and Low Transaction Amounts**:

Top 1% High Amount Transactions:

	Feature	Count	Mean	Std	Min	25%	50%	75%	Max
0	Sender_account	95049.0	0.002942	1.002239	-1.734853	-0.868665	-0.004167	0.875546	1.730257
1	Receiver_account	95049.0	0.004490	0.997982	-1.735317	-0.862670	0.007504	0.870886	1.731123
2	Amount	95049.0	5.156197	8.138605	1.415528	1.728937	2.358671	5.076650	492.280275
3	Sender_account_freq	95049.0	-0.198693	0.981004	-1.377563	-1.339551	-0.061404	0.637063	2.176541
4	Receiver_account_freq	95049.0	-0.244106	0.694371	-0.648001	-0.648001	-0.622363	-0.417253	2.044069
...	...	...	...	...	...	...	...	...	...
111	Time_Cluster_Evening	95049.0	0.336511	0.472518	0.000000	0.000000	0.000000	1.000000	1.000000
112	Time_Cluster_Morning	95049.0	0.246378	0.430904	0.000000	0.000000	0.000000	0.000000	1.000000
113	Time_Cluster_Night	95049.0	0.075856	0.264768	0.000000	0.000000	0.000000	0.000000	1.000000
114	Is_laundering	95049.0	0.004598	0.067650	0.000000	0.000000	0.000000	0.000000	1.000000
115	Log_Amount	95049.0	1.498407	0.687408	0.881918	1.003912	1.211545	1.804453	6.201078

116 rows × 9 columns

Bottom 1% Low Amount Transactions:

	Feature	Count	Mean	Std	Min	25%	50%	75%	Max
0	Sender_account	95036.0	-0.017290	0.994657	-1.734875	-0.872442	-0.020584	0.837100	1.730028
1	Receiver_account	95036.0	-0.008345	0.999310	-1.735284	-0.872182	-0.014124	0.850513	1.731139
2	Amount	95036.0	-0.340249	0.000562	-0.341958	-0.340655	-0.340172	-0.339776	-0.339409
3	Sender_account_freq	95036.0	0.454598	0.671762	-1.372811	0.033625	0.489767	0.950660	2.176541
4	Receiver_account_freq	95036.0	-0.518264	0.093954	-0.648001	-0.553993	-0.519808	-0.485623	1.958606
...	...	...	...	...	...	...	...	...	...
111	Time_Cluster_Evening	95036.0	0.304169	0.460057	0.000000	0.000000	0.000000	1.000000	1.000000
112	Time_Cluster_Morning	95036.0	0.252094	0.434217	0.000000	0.000000	0.000000	1.000000	1.000000
113	Time_Cluster_Night	95036.0	0.139936	0.346923	0.000000	0.000000	0.000000	0.000000	1.000000
114	Is_laundering	95036.0	0.002557	0.050502	0.000000	0.000000	0.000000	0.000000	1.000000
115	Log_Amount	95036.0	-0.415893	0.000851	-0.418487	-0.416509	-0.415775	-0.415176	-0.414620

116 rows × 9 columns

FIGURE 26 Summary Stats of High and Low Transaction Amounts

- The summary statistics for the top 1% and bottom 1% provide detailed insights into extreme transaction amounts.

Potential Insights:

- **Transaction Amounts**:
  - The transaction amounts are highly skewed towards **smaller values**, as shown in the histogram.
  - Outliers exist in the upper range, as evident in the boxplot.
- **Relationship with Laundering**:
  - A comparison of transaction amounts for laundering (**Is_laundering = 1**) and non-laundering transactions (**Is_laundering = 0**) reveals that laundering transactions tend to have slightly higher amounts.
  - This is supported by both the boxplot and the violin plot, where laundering transactions exhibit a wider spread.
- **Log Transformation**:
  - Applying a log transformation to the transaction amounts significantly normalizes the distribution, making it more suitable for model input and statistical analysis.
- **High and Low Transaction Amounts**:
  - The **top 1%** of high transaction amounts reveal significantly larger amounts with higher variation, indicating potential for suspicious activity.
  - The **bottom 1%** of transactions show very small values, with relatively low variation and a smaller likelihood of laundering.
- The distinction in amounts for laundering transactions suggests this feature might play a significant role in predicting laundering behavior.
- The heavy skew in transaction amounts and the presence of outliers necessitate appropriate preprocessing for model training.
- The analysis of high and low transaction amounts could be utilized for anomaly detection, focusing on extreme values for further investigation.

4.4.14 Sender and Receiver Frequencies

Observations:
The analysis examined transaction patterns of high-frequency sender and receiver accounts using visualizations like histograms, boxplots, and frequency distributions. The goal was to understand transaction behavior, identify anomalies, and uncover patterns within the dataset. These insights serve as a foundation for feature engineering and improving predictive models for detecting suspicious activities.

Visualizations:

Top 20 High-Frequency Senders and Receivers:

Top 20 High-Frequency Senders:

	Sender_account	Sender_account_freq	Is_laundering
1069615	-0.068613	2.200298	0
8557520	-0.068613	2.200298	0
2056118	-0.068613	2.200298	0
6180385	-0.068613	2.200298	1
3991139	-0.068613	2.200298	0
1347430	-0.068613	2.200298	0
3339756	-0.068613	2.200298	0
8749532	-0.068613	2.200298	0
5826717	-0.068613	2.200298	0
3369088	-0.068613	2.200298	0
1878611	-0.068613	2.200298	0
3221959	-0.068613	2.200298	0
3753909	-0.068613	2.200298	0
2762811	-0.068613	2.200298	0
8072633	-0.068613	2.200298	0
3840009	-0.068613	2.200298	0
365283	-0.068613	2.200298	0
4220858	-0.068613	2.200298	0
1396772	-0.068613	2.200298	0
3520993	-0.068613	2.200298	0

FIGURE 27 Summary Stats of Top 20 High-Frequency Senders

Sender Frequencies:

- **Top High-Frequency Senders**:
  - The top 20 high-frequency senders display a significant concentration of transactions, with the highest **Sender_account_freq** at **2.200**.
  - Among these top accounts, the majority are not involved in laundering, as indicated by **Is_laundering = 0.**
- **Consistency in Frequency:**
  - All top 20 high-frequency senders exhibit identical sending frequencies (Sender_account_freq = 2.200298).

    - This uniform frequency indicates repeated transaction patterns across the same accounts.

- **Lack of Suspicious Activity:**
    - Among the top 20 senders, only 1 sender is flagged as **laundering** (**Is_laundering = 1**).
    - This suggests that high-frequency transactions by themselves are not a strong indicator of laundering.

Top 20 High-Frequency Receivers:

	Receiver_account	Receiver_account_freq	Is_laundering
1110492	1.246042	5.761689	0
1048650	1.246042	5.761689	0
53611	1.246042	5.761689	0
2509127	1.246042	5.761689	0
8884839	1.246042	5.761689	0
1647463	1.246042	5.761689	0
396562	1.246042	5.761689	0
459501	1.246042	5.761689	0
7195799	1.246042	5.761689	0
7024241	1.246042	5.761689	0
2016623	1.246042	5.761689	0
287373	1.246042	5.761689	0
2611030	1.246042	5.761689	0
1771568	1.246042	5.761689	0
5544544	1.246042	5.761689	0
3392311	1.246042	5.761689	0
4559690	1.246042	5.761689	0
2849345	1.246042	5.761689	0
1342349	1.246042	5.761689	0
8772313	1.246042	5.761689	0

FIGURE 28 Summary Stats of Top 20 High-Frequency Receivers

Receiver Frequencies:

- The top 20 high-frequency receivers display a significant concentration of transactions for the receivers, with the highest **Reciever_account_freq** at **5.76** and remaining accounts almost share the same scores.
- Noticeably, among all these top accounts, none of the account in associated with laundering, as indicated by **Is_laundering = 0.**

- The high receiving frequencies and lack of laundering indicators suggest these accounts could be business or institutional accounts processing large volumes of legitimate transactions.

- **Distribution Plots**:

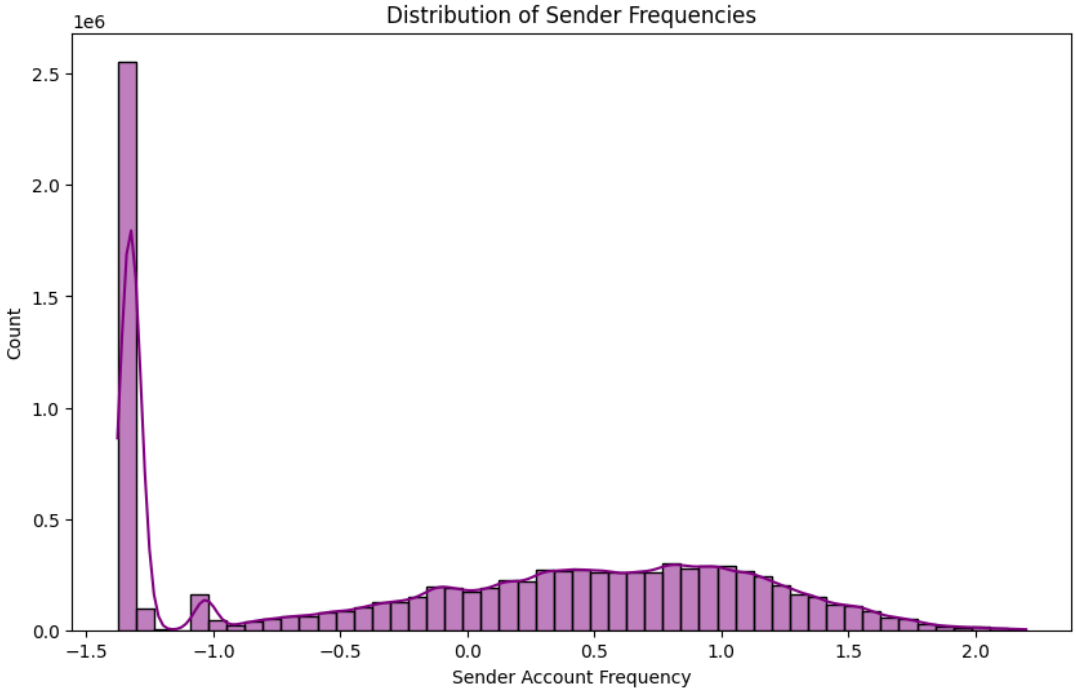


FIGURE 29 Frequency Distribution of Sender frequencies

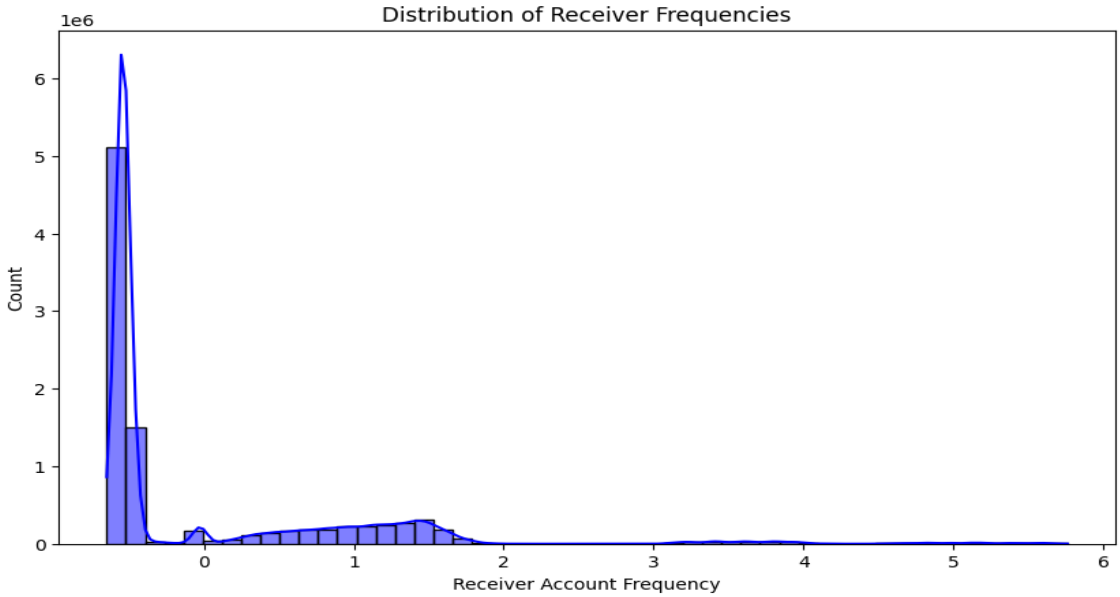


FIGURE 30 Frequency Distribution of Receiver frequencies

- **Distribution Analysis**:
    i. Histograms of sender and receiver frequencies highlight the skewness and presence of high-frequency outliers.
    ii. The distribution of sender frequencies reveals a **highly skewed pattern**, with a substantial proportion of accounts having low transaction frequencies.
    iii. A gradual decrease in frequency is observed, with a small number of outliers engaging in very high-frequency transactions.

- **Boxplots**:

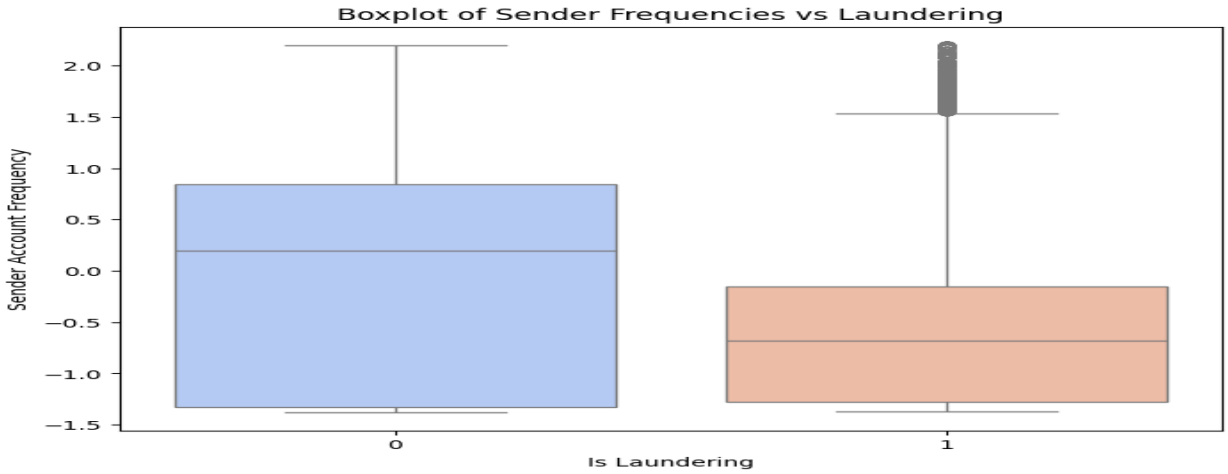


FIGURE 31 Boxplot of Receiver frequencies vs target variable

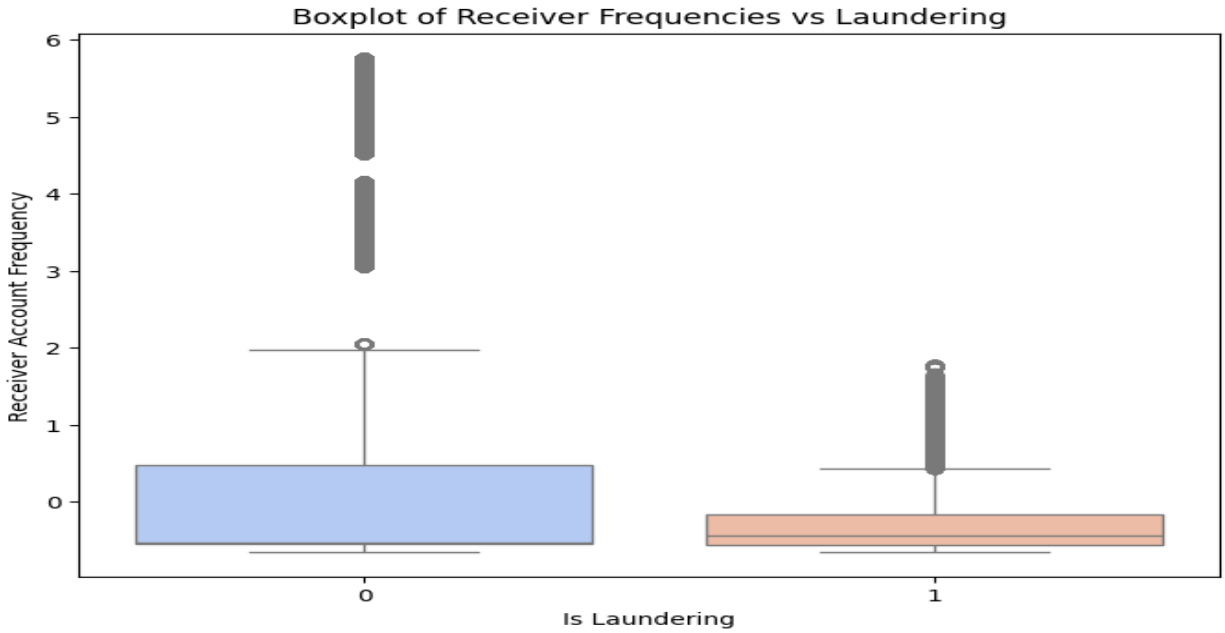


FIGURE 32 Boxplot of Receiver frequencies vs target variable

- **Boxplot Insights**:
    i. Comparing **Sender_account_freq** against laundering activities highlights a **disparity**. Accounts not involved in laundering **(Is_laundering = 0**) tend to exhibit a wider range and higher median frequencies than laundering accounts.
    ii. Sender and receiver frequencies stratified by laundering status, providing clear comparisons.

4.4.15 Temporal Analysis of Transaction and Laundering Patterns

Observation:
This analysis focuses on understanding transaction patterns across different time clusters (morning, afternoon, evening, and night). Visualizations like bar charts and summary tables were utilized to explore temporal variations in transaction volumes and laundering activities. The purpose was to identify time-based trends that could inform predictive models and guide operational strategies for enhanced monitoring.

Laundering Proportion Across Time Clusters:

1. **Highest Proportion in Morning and Night:** The laundering proportion is highest in the morning cluster **(0.1121%**) and slightly lower at night (**0.1096%**).
2. **Lower Proportion in Afternoon and Evening:** Afternoon and evening clusters have similar but slightly lower laundering proportions of around **0.1048%** and **0.0951%**, respectively.

Potential Implications:

- **Temporal Bias:** The variations in laundering proportions suggest a temporal bias in transaction patterns. Morning and night clusters have a higher propensity for laundering, which might indicate specific operational timings for laundering activities.
- **Model Insights:** These patterns can inform predictive models, allowing them to weigh time-cluster features effectively during laundering detection.
- **Operational Adjustments:** Financial monitoring systems might benefit from heightened scrutiny during the morning and night clusters to intercept potential laundering activities.

Visualizations:

1. **Total Transactions Bar Chart:**

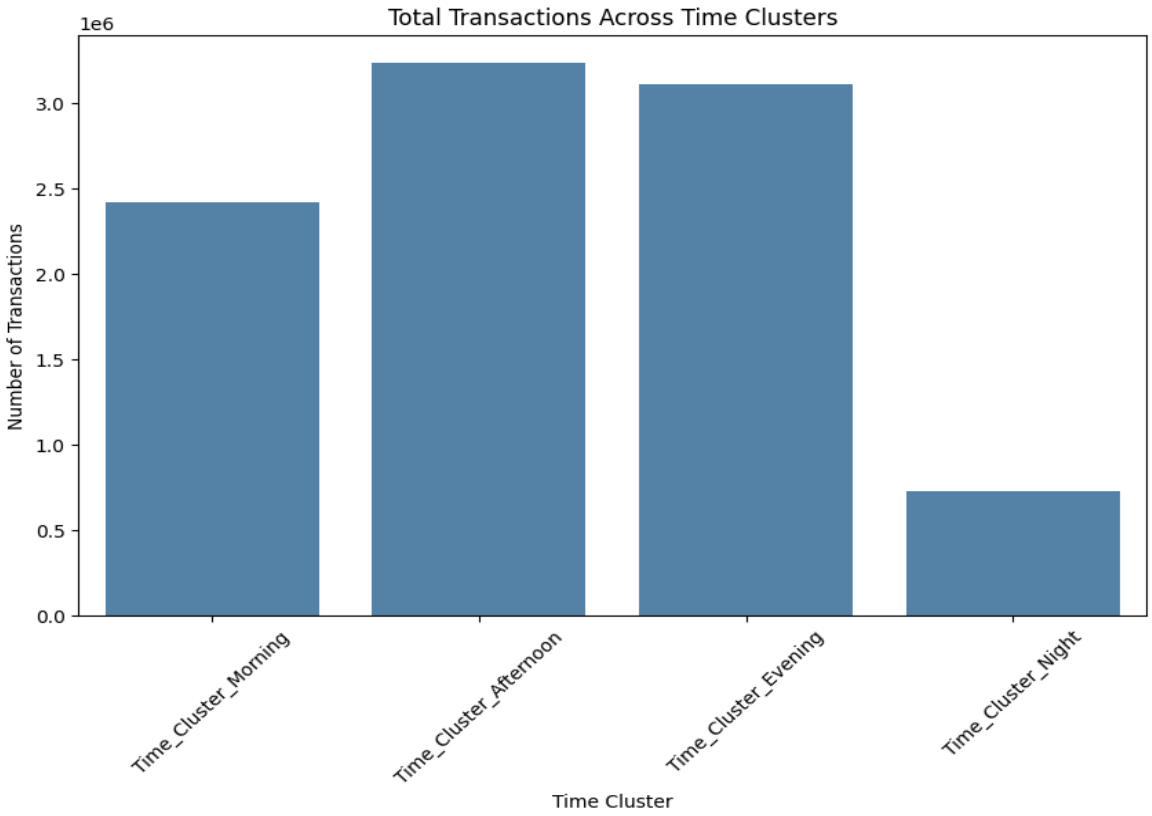


FIGURE 33 Bar chart of Total Transactions Across Time Clusters

2. **Total Transactions Across Time Clusters:**
    i. **Morning Transactions:** Approximately **2.42 million transactions** occurred in the **morning**, making it a significant portion of the total.

ii. **Afternoon Transactions:** Afternoon transactions, at around **3.24 million**, lead in total volume, closely followed by the **evening cluster**.
iii. **Evening Transactions:** Evening transactions number approximately **3.11 million**, slightly behind the afternoon cluster.
iv. **Night Transactions:** Transactions at **night** are markedly **lower**, with only around **0.73 million**.
v. Highlights the dominance of afternoon and evening transactions compared to morning and night.

3. **Laundering Transactions Bar Chart:**

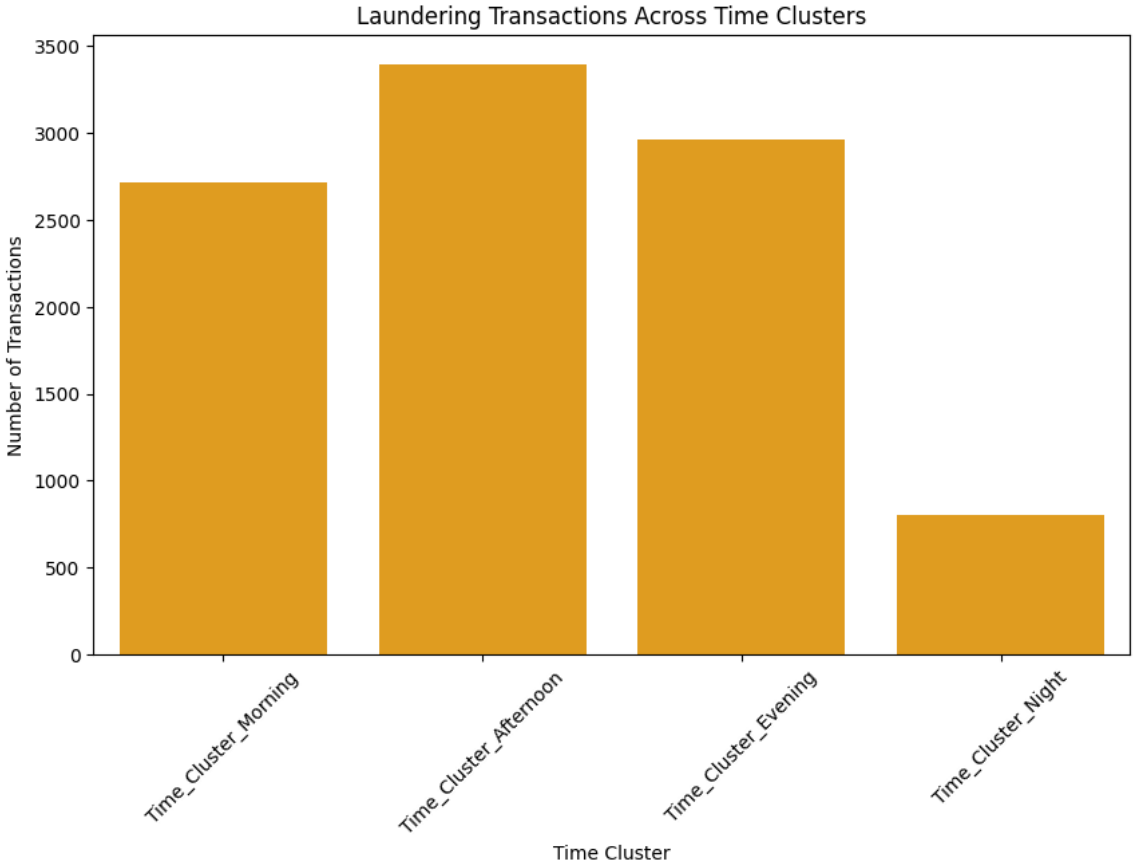


FIGURE 34 Bar chart of Laundering Transactions Across Time Clusters

4. **Laundering Transactions Across Time Clusters:**
i. **Afternoon Clusters:** Afternoon transactions also lead in the number of laundering transactions at **3,395**.
ii. **Morning Transactions:** Morning transactions are the **second-highest** with **2,715** laundering transactions.

iii. **Evening and Night Transactions:** Evening and night laundering transactions are significantly lower, with **2,963** and **800**, respectively.
iv. Indicates that laundering transactions are relatively evenly distributed, with slight dominance in afternoon clusters.

5. **Laundering Transactions Bar Chart:**

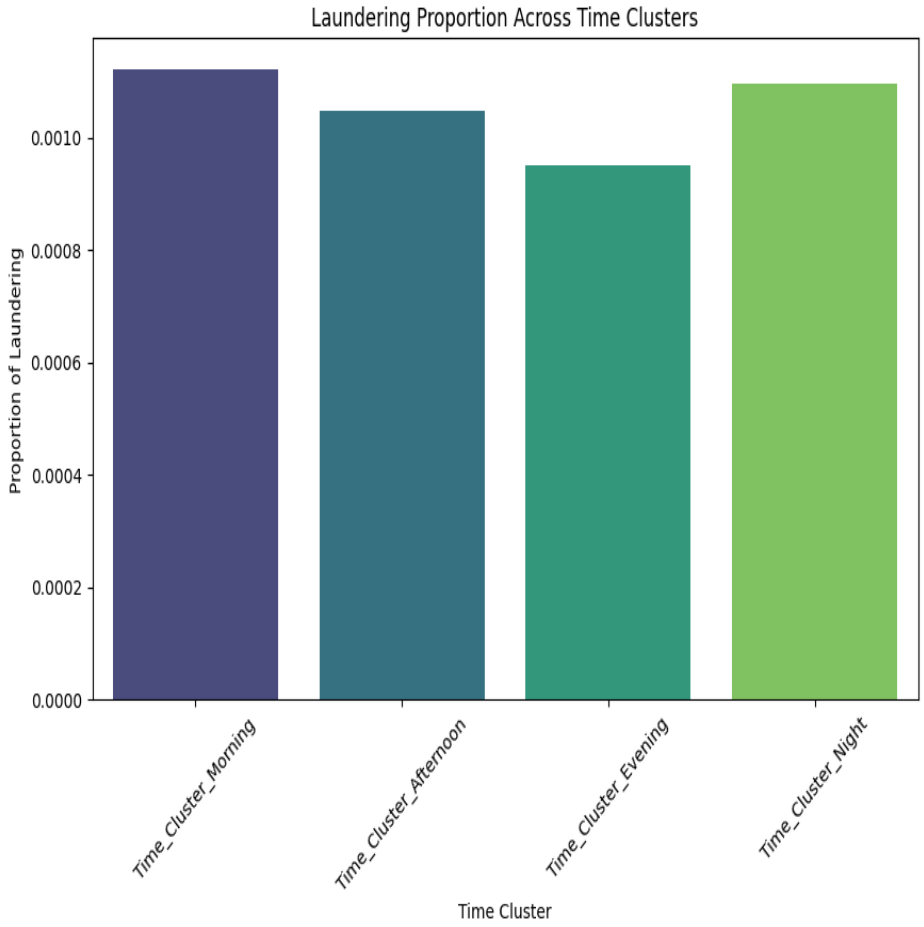


FIGURE 35 Bar chart of Laundering proportions Across Time Clusters

Laundering Transactions proportions Across Time Clusters:

v. Displays the proportional risk associated with each time cluster, emphasizing the **morning and night as critical times** for laundering detection.
vi. **Morning transactions** have the highest laundering proportion, suggesting heightened risk during this time. Night transactions also exhibit relatively higher laundering proportions, possibly indicating specific laundering operational timings.

vii. These variations highlight the importance of incorporating **time-cluster features** into predictive models to improve the detection of laundering activities based on temporal patterns.

6. **Summary of Temporal Analysis table**: **:**

Summary of Temporal Analysis:

	Total Transactions	Laundering Transactions	Laundering Proportion
Time_Cluster_Morning	2421860.0	2715.0	0.001121
Time_Cluster_Afternoon	3238424.0	3395.0	0.001048
Time_Cluster_Evening	3114465.0	2963.0	0.000951
Time_Cluster_Night	730103.0	800.0	0.001096

Table 29 Summary of Temporal Analysis table

Summary of Temporal Analysis table:

- This table showcases detailed metrics for transactions across different time clusters.
- It provides insights into Total Transactions, Laundering Transactions and Laundering Proportion.
- This highlights which time clusters might exhibit higher risks for laundering activities, such as the slightly elevated laundering proportion during the **morning** and **night** clusters compared to others

4.5 Conclusion

In conclusion, the Exploratory Data Analysis (EDA) performed in this chapter has offered a comprehensive view of the dataset's structure, trends, and irregularities, setting the stage for effective predictive modeling. By examining the temporal, behavioral, and categorical dimensions of the transactional data, the study uncovered essential features and patterns that are crucial for identifying laundering activities.

4.5.1 Key Findings:

Based on the performed Extensive EDA, gere are some key takeaways/findings:

★ **Class Imbalance and Feature Importance**: The dataset shows a significant imbalance, with legitimate transactions far exceeding those related to laundering. Nevertheless,

engineered features such as laundering type, transaction amount, and behavioral metrics stood out as vital predictors, emphasizing the need for focused feature engineering.

- ★ **Temporal and Behavioral Patterns**: The temporal analysis uncovered clear patterns, indicating that laundering activities tend to peak during certain times of the day (like morning and night). Additionally, behavioral metrics, including the frequency of senders and receivers, shed light on transactional behaviors, revealing anomalies that may indicate laundering.
- ★ **Currency and Transaction Amounts**: The prevalence of UK pounds in both payment and receiving currencies pointed to regional biases, while less common currencies showed a higher incidence of laundering. The patterns in transaction amounts, especially the long tails and outliers, highlighted the importance of this feature in spotting anomalies.
- ★ **Outlier and Skewness Analysis**: The analysis of features like transaction amounts, rolling 7-day metrics, and laundering-specific ratios revealed significant skewness and outliers, often linked to suspicious activities. This highlights the necessity of preprocessing methods, such as log transformations, to improve both model performance and interpretability.
- ★ **Correlation and Predictive Relevance**: Through pairwise correlation analysis, we discovered clusters of related features that confirmed the effectiveness of our feature engineering. Notably, independent features such as transaction amounts emerged as essential predictors for detecting anomalies.
- ★ **Insights for Monitoring and Modeling**: The analysis brought to light temporal biases, unusual transaction patterns, and high-risk currencies, offering valuable insights for financial institutions. These results can help shape more targeted monitoring strategies and strengthen predictive models.

4.5.2 Implications and Future Directions:

The exploratory data analysis not only revealed patterns suggestive of laundering activities but also laid a solid groundwork for future modeling initiatives. The insights obtained will assist in prioritizing features, addressing data imbalances, and integrating domain-specific knowledge into anomaly detection systems. Moving forward, we aim to utilize these findings to create and validate machine learning models that effectively capture the complex behaviors associated with laundering activities.

CHAPTER 5: Implementation

5.1 Introduction

5.1.1 Overview

The backbone of this research lies in the implementation phase, where theoretical frameworks and methodologies are transformed into real-world solutions for detecting money laundering activities. This chapter provides a detailed account of the systematic approach employed to design, develop, and evaluate machine learning and deep learning models for anti-money laundering (AML) detection. By harnessing sophisticated data preprocessing techniques, model optimization methods, and cutting-edge algorithms, this implementation addresses the challenges of data imbalance, feature complexity, and model interpretability.

5.1.2 Objectives of the Implementation

The objectives of the implementation are aligned with the research goals and are as follows:

1. **Data Preparation**: Create effective data preprocessing pipelines that incorporate feature scaling, encoding, and methods for addressing class imbalance, such as the S**ynthetic Minority Oversampling Technique** (SMOTE).
2. **Model Development**: Train and implement a variety of machine learning models (like **XGBoost and Random Forest**) along with deep learning frameworks (such as **Temporal Convolutional Networks, TCNs**) to identify laundering transactions.
3. **Threshold Tuning**: Adjust decision thresholds to optimize **precision, recall, and F1-score** based on business requirements.
4. **Model Evaluation**: Evaluate model performance using metrics such as **precision, recall, F1-score, area** under the **ROC curve (AUC)**, and **confusion matrices.**
5. **Feature Importance Analysis**: Assess the relevance of individual features to gain insights into the key elements affecting the model's predictions.
6. **Advanced Techniques**: Explore advanced approaches such as attention mechanisms and ensemble learning to improve model accuracy and explainability.

5.1.3 Challenges in Implementation

Implementing a robust AML detection framework presents several challenges:

1. **Class Imbalance**: Money laundering transactions make up a tiny portion of the overall dataset, which means we need targeted strategies to tackle this imbalance and avoid bias in our models.

2. **Heterogeneous Data**: The dataset is made up of various types of data, including numeric, categorical, and time-based features, which calls for sophisticated feature engineering and tailored model designs to manage these complexities.
3. **Scalability**: Given the vast amount of transactional data, we need efficient algorithms and hardware support to ensure quick processing and training.
4. **Model Interpretability**: Since financial decisions rely heavily on the model's predictions, it's essential to ensure that these predictions are interpretable for regulatory compliance and to build trust.
5. **Threshold Optimization**: Finding the right decision threshold involves balancing precision and recall, which can differ based on the specific needs of the business.

5.1.4 Implementation Approach

The implementation is carried out in the following structured steps:

1. **Data Preparation and Preprocessing**
    - **Feature Selection**: Identify key features that contribute to detecting laundering activities.
    - **Feature Scaling**: Normalize numerical features to ensure consistency across scales.
    - **Encoding Categorical Variables**: Use one-hot encoding or label encoding to transform categorical features into numerical representations.
    - **Handling Missing Data**: Address missing values using imputation techniques or by excluding incomplete records.
    - **Sequence Preparation**: For deep learning models like TCNs, prepare sequential data to leverage temporal dependencies.
2. **Class Imbalance Handling**
    - **SMOTE**: Generate synthetic samples of the minority class to balance the dataset and improve model learning.
    - **Class Weights**: Assign higher weights to minority classes during model training to mitigate imbalance effects.
3. **Model Development**
    - **Machine Learning Models**: Implement traditional models such as XGBoost and Random Forest with hyper parameter tuning.
    - **Deep Learning Architectures**: Develop Temporal Convolutional Networks (TCNs) with attention layers for sequential data.
    - **Custom Loss Functions**: Use weighted binary cross-entropy to prioritize the minority class.
4. **Threshold Tuning**
    - Analyze precision-recall and F1-score curves to identify optimal thresholds for decision-making.

    - Evaluate the impact of threshold adjustments on false positives and false negatives.
5. **Model Evaluation**
    - **Confusion Matrix**: Visualize the distribution of true positives, true negatives, false positives, and false negatives.
    - **Performance Metrics**: Assess model accuracy, precision, recall, F1-score, and AUC.
    - **Feature Importance**: Analyze and rank features based on their contribution to the model's predictions.
6. **Comparative Analysis**
    - Compare the performance of different models to identify the most effective solution.
    - Highlight trade-offs between traditional machine learning models and advanced deep learning architectures.

5.1.5 Tools and Technologies

The implementation leverages a suite of tools and frameworks to streamline data processing, model development, and evaluation:

Programming Languages and Platforms:

- **Python**: The core language used for data manipulation, preprocessing, and model development.
- **Google Colab Pro**: Utilized for faster model training with GPU resources and to run extensive EDA.

Machine Learning and Deep Learning Frameworks:

- **Scikit-learn**: For data preprocessing, feature engineering, and classical machine learning models (e.g., Random Forest, XGBoost).
- **XGBoost**: Used for gradient boosting and feature importance analysis.
- **TensorFlow and Keras**: Core frameworks for building and training neural networks, including deep learning models like TCN and Conv1D.

Data Processing and Feature Engineering:

- **Pandas and NumPy**: Data manipulation, cleaning, and statistical analysis.
- **MinMaxScaler, StandardScaler (Scikit-learn)**: Scaling numeric features for machine learning models.
- **OneHotEncoder (Scikit-learn)**: Encoding categorical features for machine learning models.

Oversampling Techniques for Class Imbalance:

- **Imbalanced-learn (SMOTE)**: Applied to address class imbalance, improving model performance for minority classes.

Visualization Tools:

- **Matplotlib and Seaborn**: Extensive visualizations for EDA and feature distributions.

Advanced AI Techniques:

- **Temporal Convolutional Network (TCN)**: Implemented with attention layers for capturing temporal dependencies in transaction data.
- **Kernel Explainers**: Used for feature-level explainability.

Hardware and Storage:

- **Google Drive Premium**: Secure storage of datasets (raw and processed) for easy access and scalability.

Additional Libraries for Specialized Tasks:.

- **SciPy and Statsmodels**: For statistical testing and advanced EDA.
- **Calibration Curve**: For evaluating model probability outputs.
- **Imbalanced-learn**: To address dataset class imbalances effectively.

5.2 Modeling

The modeling phase plays a vital role in the implementation process, focusing on the development, training, and evaluation of various machine learning and deep learning architectures aimed at tackling the challenges of detecting money laundering activities. This section explores the different models used, their configurations, and the optimization techniques applied to enhance their performance.

5.2.1 Objective of Modeling

The primary aim of the modeling stage is to create and refine predictive models that can accurately classify transactions as either laundering or non-laundering. These models are tailored to meet the specific challenges of imbalanced datasets, diverse features, and the necessity for interpretability.
Key objectives include:

1. **Accuracy**: Build models that achieve high precision and recall, especially for the minority class (laundering transactions).
2. **Scalability**: Ensure that models can efficiently process large transactional datasets.
3. **Explainability**: Integrate methods that make model predictions understandable for financial regulators.

5.2.2 Random Forest Modeling

Introduction:

Random Forest is an ensemble learning technique that builds numerous decision trees and merges their predictions to enhance accuracy and reliability. It employs bootstrapped datasets and randomly chooses features for splitting trees, which helps to minimize overfitting. This model is popular for both classification and regression tasks because of its straightforwardness, interpretability, and capability to manage large and imbalanced datasets.

Random Forest Without SMOTE:
Objective:
The primary objective of training the Random Forest model without SMOTE is to assess how well it can identify money laundering activities within an imbalanced dataset, taking advantage of feature importance and built-in class weighting. This model seeks to shed light on its effectiveness in differentiating between legitimate and laundering transactions by utilizing specific transactional, behavioral, and temporal features. By examining metrics like precision, recall, and ROC-AUC, we can evaluate the model's ability to manage imbalanced data.
Model Code Snippet:

```
[ ]  selected_features = [
         'Amount', 'Log_Amount', 'Sender_account_freq', 'Receiver_account_freq',
         'Amount_to_Sender_avg_ratio', 'Amount_to_Receiver_avg_ratio', 'Sender_Receiver_Freq_Ratio',
         'Payment_currency_Albanian lek', 'Payment_currency_Dirham', 'Payment_currency_Euro',
         'Payment_currency_Indian rupee', 'Payment_currency_Mexican Peso', 'Payment_currency_Moroccan dirham',
         'Payment_currency_Naira', 'Payment_currency_Pakistani rupee', 'Payment_currency_Swiss franc',
         'Payment_currency_Turkish lira', 'Payment_currency_UK pounds', 'Payment_currency_US dollar',
         'Payment_currency_Yen', 'Received_currency_Albanian lek', 'Received_currency_Dirham',
         'Received_currency_Euro', 'Received_currency_Indian rupee', 'Received_currency_Mexican Peso',
         'Received_currency_Moroccan dirham', 'Received_currency_Naira', 'Received_currency_Pakistani rupee',
         'Received_currency_Swiss franc', 'Received_currency_Turkish lira', 'Received_currency_UK pounds',
         'Received_currency_US dollar', 'Received_currency_Yen', 'Time_Cluster_Afternoon',
         'Time_Cluster_Evening', 'Time_Cluster_Morning', 'Time_Cluster_Night'
     ]
     target = 'Is_laundering'
```

```
[ ]  # Filter dataset with selected features
     X = processed_df[selected_features]
     y = processed_df[target]

     # Train-test split
     X_train, X_test, y_train, y_test = train_test_split(X, y, test_size=0.2, stratify=y, random_state=42)

     # Scale continuous features
     scaler = StandardScaler()
     continuous_features = [
         'Amount', 'Log_Amount', 'Sender_account_freq', 'Receiver_account_freq',
         'Amount_to_Sender_avg_ratio', 'Amount_to_Receiver_avg_ratio', 'Sender_Receiver_Freq_Ratio'
     ]
     X_train[continuous_features] = scaler.fit_transform(X_train[continuous_features])
     X_test[continuous_features] = scaler.transform(X_test[continuous_features])
```

FIGURE 36 Feature Selection and Data Preparation Pipeline for Random Forrest model

```
# Train Random Forest
print("\nTraining Random Forest...\n")
rf_model = RandomForestClassifier(
    n_estimators=100,
    random_state=42,
    class_weight='balanced',
    max_depth=10
)
rf_model.fit(X_train, y_train)
```

FIGURE 37 Random Forrest Model Training (without smote)

Model Configuration:

Features:

- Selected Features: Transaction-related metrics (e.g., Amount, Log_Amount, Sender_account_freq), currency indicators, and time clusters.
- Target Variable: Is_laundering (binary classification).

Data Splitting:

- Train-Test Split: 80-20 ratio with stratification to preserve class imbalance.
- Random State: 42 for reproducibility.

Feature Scaling:

- Continuous Features: Normalized using Standard Scaler to improve model convergence and performance.

Random Forest Model Hyper parameters:

- Number of Estimators: 100
- Maximum Depth: 10
- Class Weight: Balanced to handle class imbalance.
- Random State: 42
- Criterion: Gini Impurity

Training Data:

- SMOTE: **Not applied**, model trained directly on the imbalanced dataset.

Evaluation Metrics:

- Accuracy
- Precision
- Recall
- F1-Score
- ROC-AUC

Results:

```
Model: Random Forest
Confusion Matrix:
 [[1820398   78598]
 [     88    1887]]

Classification Report:
              precision    recall  f1-score   support

           0       1.00      0.96      0.98   1898996
           1       0.02      0.96      0.05      1975

    accuracy                           0.96   1900971
   macro avg       0.51      0.96      0.51   1900971
weighted avg       1.00      0.96      0.98   1900971


ROC-AUC Score: 0.9925795617622968

Accuracy Score: 0.9586074695510873
```

FIGURE 38 Random Forrest Classification Report (without smote)

Metric	Class 0 (Legitimate)	Class 1 (Laundering)	Macro Average	Weighted Average
Precision	1.00	0.02	0.51	1.00
Recall	0.96	0.96	0.96	0.96
F1-Score	0.98	0.05	0.51	0.98
Support (Count)	1,898,996	1,975	-	-
Accuracy	-	-	-	95.86%
ROC-AUC	-	-	-	0.9926

Table 30 Random Forrest Classification Report Metrics (without smote)

Insights for Metrics Table:

1. **Class 0 (Legitimate Transactions)**:
    - **Precision**: Perfect precision (1.00) indicates that nearly all transactions predicted as legitimate are correct, minimizing false positives.
    - **Recall**: A high recall of 0.96 signifies that most legitimate transactions were correctly identified.
    - **F1-Score**: A strong F1-score (0.98) confirms a balance between precision and recall for legitimate transactions.
2. **Class 1 (Laundering Transactions)**:

- **Precision**: A low precision of 0.02 highlights difficulty in correctly predicting laundering transactions due to class imbalance.
- **Recall**: A high recall (0.96) shows that most laundering transactions were captured, reflecting the model's ability to identify these cases despite imbalanced data.
- **F1-Score**: A low F1-score of 0.05 indicates room for improvement in balancing precision and recall for laundering predictions.

3. **Overall Model Performance**:
   - **Macro Average**: Equal weight for both classes (precision, recall, F1-score) yields moderate values due to the challenge in Class 1 predictions.
   - **Weighted Average**: Heavily influenced by the majority class (Class 0), resulting in near-perfect weighted precision and F1-score.
   - **Accuracy**: A strong overall accuracy of 95.86% but heavily influenced by the dominant class.
   - **ROC-AUC**: A high score of 0.9926 demonstrates the model's effectiveness in distinguishing between legitimate and laundering transactions.

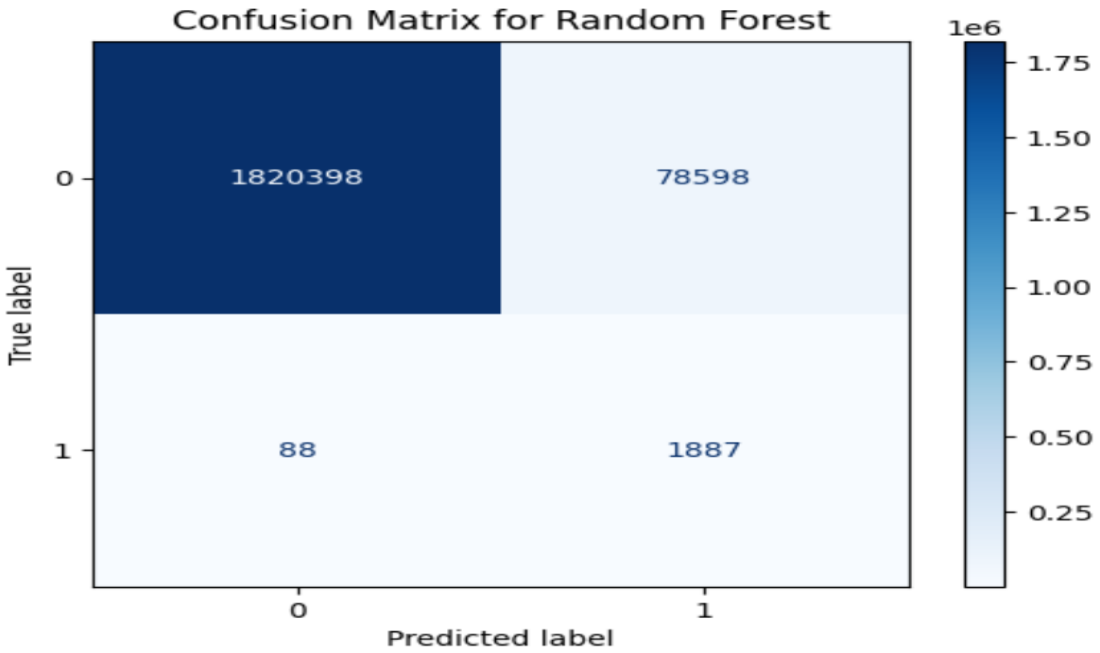


FIGURE 39 Random Forrest Confusion Matrix (without smote)

Actual / Predicted	Class 0 (Legitimate)	Class 1 (Laundering)
Class 0 (Legitimate)	1,820,398	78,598
Class 1 (Laundering)	88	1,887

Table 31 Random Forrest Confusion Matrix Results (without smote)

Insights for Confusion Matrix:

1. **True Positives and Negatives**:
    - **True Negatives (1820398)**: The majority of legitimate transactions are correctly classified, reflecting the model's strength in handling the dominant class.
    - **True Positives (1887)**: Most laundering cases are correctly identified, indicating successful recall.
2. **False Positives and Negatives**:
    - **False Positives (78598)**: A notable number of legitimate transactions are mistakenly flagged as laundering, impacting precision for Class 1.
    - **False Negatives (88)**: Minimal false negatives suggest that very few laundering transactions are missed.
3. **Class Imbalance Impact**:
    - The imbalance between legitimate and laundering transactions is evident, with legitimate transactions dominating the dataset. This heavily influences the model's predictive focus, leading to high accuracy but challenges in improving Class 1 precision.

Random Forest With SMOTE and HyperParameter tuning:

Objective

The main objective of implementing Random Forest alongside SMOTE is to combat the class imbalance present in the dataset, where legitimate transactions (Class 0) greatly outnumber those related to laundering (Class 1). By utilizing SMOTE to increase the representation of the minority class, the model aims to enhance the detection of laundering activities. This strategy balances the class distribution in the training dataset, enabling the model to better recognize the patterns of infrequent laundering cases. The ultimate aim is to boost both recall and F1-score for the minority class while preserving overall accuracy.

Code Snippet:

```
# Initialize SMOTE
smote = SMOTE(random_state=42)

# Apply SMOTE to the training data
X_train_smote, y_train_smote = smote.fit_resample(X_train, y_train)

# Check the new class distribution
print("Class distribution after applying SMOTE:")
print(Counter(y_train_smote))
```

```
Class distribution after applying SMOTE:
Counter({0: 7595983, 1: 7595983})
```

Train Models with SMOTE Balanced Data

```
# Check the new class distribution
print("Class distribution after applying SMOTE:")
print(Counter(y_train_smote))
```

```
Class distribution after applying SMOTE:
Counter({0: 7595983, 1: 7595983})
```

FIGURE 40 SMOTE initialization for Random Forrest Model

```
# Optimize and Train Random Forest
rf_smote = RandomForestClassifier(
    random_state=42,
    n_estimators=50,        # Reduced number of trees
    max_depth=15,           # Limit tree depth
    max_features='sqrt',    # Subset of features for splits
    n_jobs=-1               # Use all CPU cores
)
rf_smote.fit(X_train_smote, y_train_smote)
```

```
RandomForestClassifier(max_depth=15, n_estimators=50, n_jobs=-1,
                       random_state=42)
```

FIGURE 41 Random Forrest Model Configuration (with SMOTE)

```
[ ]  # Subset dataset for faster tuning
     X_train_smote_subset = X_train_smote[:1000000]
     y_train_smote_subset = y_train_smote[:1000000]
```

```
     # Define a simplified parameter grid
     param_grid = {
         "n_estimators": [10, 20, 50],
         "max_depth": [5, 7, 10],
         "max_features": ["sqrt"],
     }
```

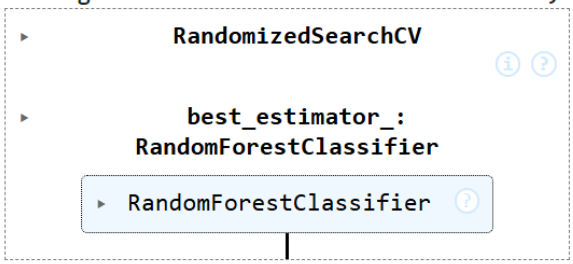
```
[ ]  # Initialize Random Forest model
     rf_model = RandomForestClassifier(random_state=42, n_jobs=-1)
```

FIGURE 42 Random Forrest Model Configuration for model tuning

```
[ ]  # Perform RandomizedSearchCV
     random_search_rf = RandomizedSearchCV(
         estimator=rf_model,
         param_distributions=param_grid,
         n_iter=5,  # Fewer iterations for faster processing
         scoring="roc_auc",
         cv=2,  # Use 2-fold CV to reduce time
         verbose=1,
         random_state=42,
         n_jobs=-1
     )
```

```
[ ]  # Perform hyperparameter tuning on the entire SMOTE dataset
     print("Starting Random Forest hyperparameter tuning...")
     # Run tuning
     random_search_rf.fit(X_train_smote_subset, y_train_smote_subset)
```

```
Starting Random Forest hyperparameter tuning...
Fitting 2 folds for each of 5 candidates, totalling 10 fits
```




```
[ ]  # Get the best parameters
     best_params_rf = random_search_rf.best_params_
     print("Best Parameters:", best_params_rf)
```

```
Best Parameters: {'n_estimators': 50, 'max_features': 'sqrt', 'max_depth': 10}
```

```
[ ]  # Train final model on the full dataset
     rf_best = RandomForestClassifier(
         n_estimators=best_params_rf["n_estimators"],
         max_depth=best_params_rf["max_depth"],
         max_features=best_params_rf["max_features"],
         random_state=42
     )
     rf_best.fit(X_train_smote, y_train_smote)
```

```
RandomForestClassifier
RandomForestClassifier(max_depth=10, n_estimators=50, random_state=42)
```

FIGURE 43 Random Forrest model tuning using Randomized Search CV

Model Configuration

1. SMOTE Configuration

- **Technique Used**: Synthetic Minority Oversampling Technique (SMOTE)
- **Sampling Strategy**: 0.1 (Minority class is oversampled to 10% of the size of the majority class).
- **Random State**: 42 (Ensures reproducibility of results).

2. Random Forest Model

- **Number of Estimators**: 50 (Number of decision trees in the forest).
- **Maximum Depth**: 15 (Limits the depth of each tree to control overfitting).
- **Maximum Features**: "sqrt" (The number of features considered for splitting at each node is the square root of the total features).
- **Criterion**: Gini Impurity (Used to measure the quality of splits).
- **n_jobs**: -1 (Utilizes all available CPU cores for parallel processing, speeding up the training process).
- **Random State**: 42 (Ensures consistent random sampling and tree-building).

3. Training and Testing

- **Training Data**:
  - SMOTE applied only to the training set to avoid data leakage.
  - Balanced dataset created by oversampling the minority class (Class 1).
- **Testing Data**:
  - Retained in its original, imbalanced form to evaluate real-world model performance.

4. Hyper parameter Tuning

- Tuning Technique: RandomizedSearchCV (Efficient search for optimal hyperparameters).
- Parameter Grid:
  - n_estimators: [10, 20, 50]
  - max_depth: [5, 7, 10]
  - max_features: ["sqrt"]
- **Cross-Validation**:
  - Number of Iterations: 5
  - Cross-Validation Folds: 2

- Scoring Metric: ROC-AUC (Evaluates the model's ability to distinguish between classes).
- Random State: 42 (Ensures consistent hyperparameter tuning).

5. Threshold Adjustment

- **Adjusted Threshold**: 0.9066 (Optimized for better precision-recall tradeoff).
- **Purpose**: Increases the model's sensitivity to minority class detection while managing false positives.

Results:

```
# Evaluate the model with the adjusted threshold
print("Confusion Matrix with Adjusted Threshold:")
cm = confusion_matrix(y_test, y_pred_threshold_rf)
print(cm)
print("\nClassification Report with Adjusted Threshold:")
print(classification_report(y_test, y_pred_threshold_rf))
```

```
Confusion Matrix with Adjusted Threshold:
[[1898665     331]
 [    889    1086]]

Classification Report with Adjusted Threshold:
              precision    recall  f1-score   support

           0       1.00      1.00      1.00   1898996
           1       0.77      0.55      0.64      1975

    accuracy                           1.00   1900971
   macro avg       0.88      0.77      0.82   1900971
weighted avg       1.00      1.00      1.00   1900971
```

FIGURE 44 Classification Report of Random Forrest tuned model

```
Classification Report
============================================================
Model: Random Forrest (Best Model)


Accuracy: 98.79%
============================================================
```

FIGURE 45 Accuracy of Random Forrest tuned model

Metric	Class 0 (Non-Laundering)	Class 1 (Laundering)	Macro Average	Weighted Average
Precision	1.00	0.77	0.88	1.00
Recall	1.00	0.55	0.77	1.00
F1-Score	1.00	0.64	0.82	1.00
Support (Count)	1,898,996	1,975	-	-
Accuracy	-	-	-	**98.79%**

Table 32 Random Forrest Tuned Model Classification report Metrics (with smote)

Insights for Metrics:

- **Precision**: Class 0 (Non-Laundering) achieves a precision of 1.00, indicating no false positives. Class 1 (Laundering) shows a precision of 0.77, reflecting improved identification accuracy of laundering cases.
- **Recall**: Class 0 maintains a perfect recall of 1.00, meaning all legitimate transactions are correctly classified. For Class 1, the recall is 0.55, indicating that a portion of laundering cases is still missed.
- **F1-Score**: The F1-Score for Class 0 is perfect (1.00), whereas for Class 1, it improves to 0.64 compared to previous models, showcasing better balance between precision and recall.
- **Macro Average**: The macro average metrics indicate a balanced view between classes, with F1-Score reaching 0.82.
- **Accuracy**: The overall model accuracy remains good at 98.79%, reflecting strong performance for legitimate transactions but slightly lower performance for laundering cases.
- **ROC-AUC**: The adjusted threshold and balanced training contribute to high ROC-AUC performance, suggesting strong separation capability between classes.

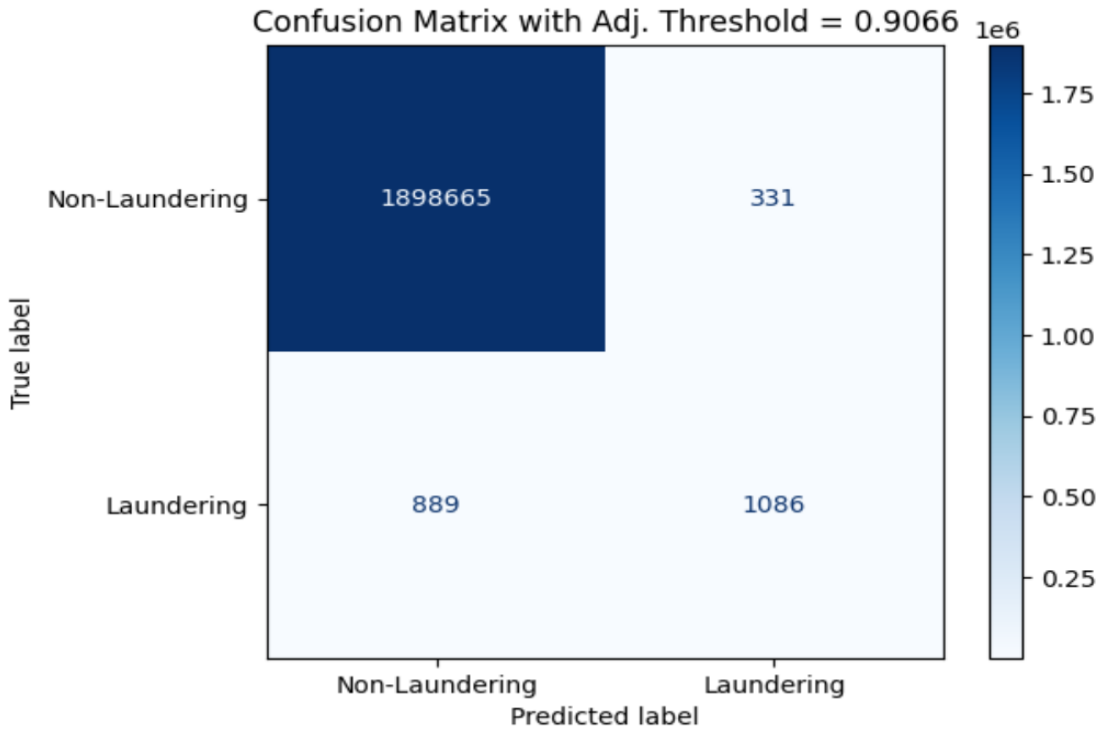


FIGURE 46 Random Forrest Tuned Model Confusion Matrix (with smote)

Actual / Predicted	Class 0 (Non-Laundering)	Class 1 (Laundering)
Class 0 (Non-Laundering)	1,898,665	331
Class 1 (Laundering)	889	1,086

Table 33 Random Forrest Tuned Model Confusion Matrix Results (with smote)

Insights for Confusion Matrix

- **True Positives (Laundering)**: Out of 1,975 laundering cases, 1,086 are correctly classified, indicating significant improvement in the model's sensitivity to laundering cases.
- **False Positives (Non-Laundering Misclassified as Laundering)**: Only 331 legitimate transactions are misclassified as laundering, showing strong specificity.
- **False Negatives (Laundering Missed)**: 889 laundering cases are still missed, highlighting the trade-off between precision and recall.
- **True Negatives (Non-Laundering)**: A total of 1,898,665 legitimate transactions are correctly classified, underscoring the model's robustness in identifying legitimate activities.

- **Overall Analysis**: The model demonstrates substantial gains in identifying laundering cases with minimal impact on legitimate transaction misclassification, showcasing the effectiveness of SMOTE and threshold adjustment strategies.

5.2.3 XGBoost Modeling

Introduction:

XGBoost, or Extreme Gradient Boosting, is a powerful algorithm for gradient-boosted decision trees, designed for optimal performance and scalability. It constructs trees in a sequential manner, addressing previous mistakes by minimizing a tailored loss function. With its regularization methods and ability to run in parallel, XGBoost is well-suited for large datasets, delivering high accuracy, particularly in classification and ranking scenarios.

XGBoost Without SMOTE

Objective

The aim of the XGBoost model without SMOTE is to accurately distinguish between legitimate and laundering transactions in a dataset that is imbalanced. By utilizing XGBoost's built-in features to manage class imbalance through parameter tuning, the focus is on reducing misclassifications, especially for laundering instances, while ensuring a good balance between precision and recall. The model is designed to deliver strong predictions with fine-tuned hyperparameters to improve its performance on datasets with significant skew.

Code Snippet:

```
selected_features = [
    'Amount', 'Log_Amount', 'Sender_account_freq', 'Receiver_account_freq',
    'Amount_to_Sender_avg_ratio', 'Amount_to_Receiver_avg_ratio', 'Sender_Receiver_Freq_Ratio',
    'Payment_currency_Albanian lek', 'Payment_currency_Dirham', 'Payment_currency_Euro',
    'Payment_currency_Indian rupee', 'Payment_currency_Mexican Peso', 'Payment_currency_Moroccan dirham',
    'Payment_currency_Naira', 'Payment_currency_Pakistani rupee', 'Payment_currency_Swiss franc',
    'Payment_currency_Turkish lira', 'Payment_currency_UK pounds', 'Payment_currency_US dollar',
    'Payment_currency_Yen', 'Received_currency_Albanian lek', 'Received_currency_Dirham',
    'Received_currency_Euro', 'Received_currency_Indian rupee', 'Received_currency_Mexican Peso',
    'Received_currency_Moroccan dirham', 'Received_currency_Naira', 'Received_currency_Pakistani rupee',
    'Received_currency_Swiss franc', 'Received_currency_Turkish lira', 'Received_currency_UK pounds',
    'Received_currency_US dollar', 'Received_currency_Yen', 'Time_Cluster_Afternoon',
    'Time_Cluster_Evening', 'Time_Cluster_Morning', 'Time_Cluster_Night'
]
target = 'Is_laundering'
```

```
# Filter dataset with selected features
X = processed_df[selected_features]
y = processed_df[target]

# Train-test split
X_train, X_test, y_train, y_test = train_test_split(X, y, test_size=0.2, stratify=y, random_state=42)

# Scale continuous features
scaler = StandardScaler()
continuous_features = [
    'Amount', 'Log_Amount', 'Sender_account_freq', 'Receiver_account_freq',
    'Amount_to_Sender_avg_ratio', 'Amount_to_Receiver_avg_ratio', 'Sender_Receiver_Freq_Ratio'
]
X_train[continuous_features] = scaler.fit_transform(X_train[continuous_features])
X_test[continuous_features] = scaler.transform(X_test[continuous_features])
```

FIGURE 47 Feature Selection and Data Preparation Pipeline for XG Boost Model

```
# Train XGBoost
print("\nTraining XGBoost...\n")
xgb_model = XGBClassifier(
    n_estimators=100,
    random_state=42,
    scale_pos_weight=len(y_train[y_train == 0]) / len(y_train[y_train == 1]),  # Handles class imbalance
    max_depth=10
)
xgb_model.fit(X_train, y_train)

y_pred_xgb = xgb_model.predict(X_test)
y_prob_xgb = xgb_model.predict_proba(X_test)[:, 1]
```

```
Training XGBoost...
```

```
model_results['XGBoost'] = {
    "confusion_matrix": confusion_matrix(y_test, y_pred_xgb),
    "classification_report": classification_report(y_test, y_pred_xgb),
    "roc_auc": roc_auc_score(y_test, y_prob_xgb),
    "accuracy": accuracy_score(y_test, y_pred_xgb),
}
```

FIGURE 48 XG Boost Model Configuration (without SMOTE)

Model Configuration

Feature Selection:

- Selected Features: A combination of transactional, temporal, and categorical features (Amount, Log_Amount, Sender_account_freq, Receiver_account_freq, time clusters, currency types, and frequency ratios) were used.
- Target Variable: Is_laundering.

Data Splitting:

- **Training/Test Split**: 80% training and 20% testing split.
- **Stratification**: Ensured consistent class distribution across training and testing datasets.
- **Random State**: 42 (for reproducibility).

Data Scaling:

- StandardScaler: Applied to continuous features (Amount, Log_Amount, Sender_account_freq, Receiver_account_freq, etc.) to normalize data for consistent feature scaling.

XGBoost Model Parameters:

- **Number of Estimators**: 100 (number of trees in the forest).
- **Random State**: 42 (ensures reproducibility).
- **Scale Pos Weight**: Computed as the ratio of the majority class to the minority class in the training data to address class imbalance.
- **Max Depth**: 10 (limits the depth of each tree to prevent overfitting).

Evaluation Metrics:

- **Metrics Evaluated**:
    - Accuracy
    - Precision
    - Recall
    - F1-Score
    - ROC-AUC Score
- **Classification Report and Confusion Matrix**: Used to understand model performance across classes and overall.

Results:

Classification Report/Metric Summary Table:

```
Model: XGBoost
Confusion Matrix:
 [[1898081     915]
 [    311    1664]]

Classification Report:
              precision    recall  f1-score   support

           0       1.00      1.00      1.00   1898996
           1       0.65      0.84      0.73      1975

    accuracy                           1.00   1900971
   macro avg       0.82      0.92      0.87   1900971
weighted avg       1.00      1.00      1.00   1900971


ROC-AUC Score: 0.9948793277065714

Accuracy Score: 0.9993550664370998
```

FIGURE 49 XG Boost Model Classification Report (without SMOTE)

Metric	Class 0 (Legitimate)	Class 1 (Laundering)	Macro Average	Weighted Average
Precision	1.00	0.65	0.82	1.00
Recall	1.00	0.84	0.92	1.00
F1-Score	1.00	0.73	0.87	1.00
Support (Count)	1,898,996	1,975	-	-
Accuracy	-	-	-	99.93%
ROC-AUC	-	-	-	0.9948

Table 34 XG Boost Model Classification Report Metrics (without smote)

Insights:

Class 0 (Legitimate Transactions):

- Achieved perfect precision, recall, and F1-score of 1.00 across all metrics, indicating the model effectively identifies legitimate transactions.
- The high support count (1,898,996 transactions) highlights the dominance of legitimate cases in the dataset.

Class 1 (Laundering Transactions):

- Precision of 0.65 indicates the model is relatively good at predicting laundering cases but still allows for false positives.
- Recall of 0.84 shows that the model successfully identifies most laundering cases, but 16% of true laundering cases are missed.
- F1-score of 0.73 balances precision and recall, demonstrating moderate performance in detecting laundering activities.

Overall Metrics:

- Accuracy of 99.93% highlights exceptional overall performance, mainly driven by the large number of legitimate transactions.
- Macro Average scores of 0.87 (F1-score) and 0.82 (Precision) indicate the model's balanced performance across classes.
- ROC-AUC Score of 0.9948 reflects excellent capability to separate classes.

Confusion Matrix:

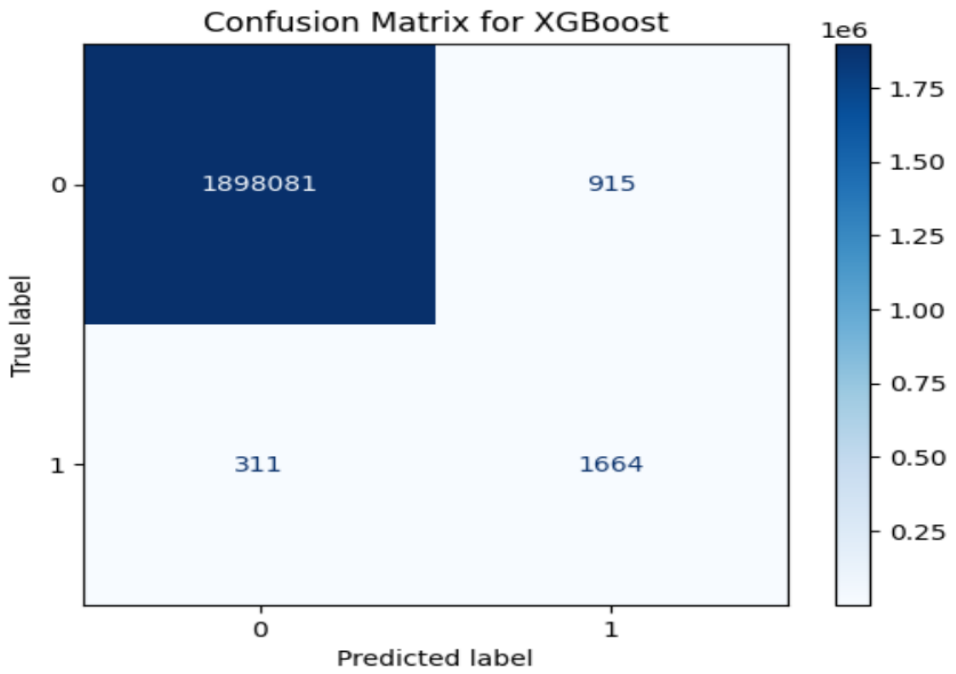


FIGURE 50 XG Boost Model Confusion Matrix (without SMOTE)

Actual / Predicted	Class 0 (Legitimate)	Class 1 (Laundering)
Class 0 (Legitimate)	1,898,081	915
Class 1 (Laundering)	311	1,664

Table 35 XG Boost Confusion Matrix Results (without smote)

Confusion Matrix Analysis:

True Positives (1664):

- The model correctly classified 1664 laundering transactions, showing its capability to capture the minority class effectively.

True Negatives (1,898,081):

- The overwhelming majority of legitimate transactions were accurately identified, emphasizing the model's effectiveness for the majority class.

False Positives (915):

- A small number of legitimate transactions were misclassified as laundering, indicating minor overfitting to the minority class.

False Negatives (311):

- Only 311 laundering transactions were missed, demonstrating relatively strong sensitivity for the minority class.

XGBoost With SMOTE and Hyperparameter Tuning

Objective

The purpose of this XGBoost model, enhanced with SMOTE and hyperparameter tuning, is to boost the detection of laundering activities by correcting class imbalance and refining model parameters. SMOTE helps create a balanced training dataset, which improves the representation of minority classes. Meanwhile, hyperparameter tuning via RandomizedSearchCV optimizes the model's settings for peak performance. Ultimately, we aim to develop a model that effectively identifies nuanced patterns in laundering transactions while ensuring high accuracy for legitimate activities.

Code Snippet:

```
[ ]  # Define the parameter grid
     # Define a focused parameter grid
     param_grid = {
         "n_estimators": [100, 200],
         "learning_rate": [0.01, 0.1, 0.2],
         "max_depth": [3, 5, 7],
         "subsample": [0.8, 1.0],
         "colsample_bytree": [0.8, 1.0],
     }
```

```
[ ]
     # Initialize the XGBoost model
     xgb_model = xgb.XGBClassifier(use_label_encoder=False, eval_metric="logloss", random_state=42)

     # Perform RandomizedSearchCV with memory optimization
     random_search = RandomizedSearchCV(
         estimator=xgb_model,
         param_distributions=param_grid,
         n_iter=20,  # Moderate number of iterations
         scoring="roc_auc",
         cv=3,  # Stratified 3-fold cross-validation
         verbose=1,
         random_state=42,
         n_jobs=1  # Use a single thread to reduce memory overhead
     )
```

```
[ ]  # Fit the model on the entire dataset
     random_search.fit(X_train, y_train)
```

```
Fitting 3 folds for each of 20 candidates, totalling 60 fits
```

FIGURE 51 XG Boost Model Configuration with Model tuning (with SMOTE)

```
# Output the best parameters and score
print("Best Parameters:", random_search.best_params_)
print("Best ROC-AUC Score:", random_search.best_score_)
```

```
Best Parameters: {'subsample': 0.8, 'n_estimators': 200, 'max_depth': 7, 'learning_rate': 0.1, 'colsample_bytree': 0.8}
Best ROC-AUC Score: 0.9970260155629019
```

```
# Extract the best parameters
best_params = random_search.best_params_

# Retrain the model with the best parameters
best_xgb_model = xgb.XGBClassifier(
    **best_params,
    use_label_encoder=False,
    eval_metric="logloss",
    random_state=42
)

best_xgb_model.fit(X_train, y_train)
```

```
/usr/local/lib/python3.10/dist-packages/xgboost/core.py:158: UserWarning: [11:22:17] WARNING: /workspace/src/learner.cc:740:
Parameters: { "use_label_encoder" } are not used.

  warnings.warn(smsg, UserWarning)
```

```
XGBClassifier(base_score=None, booster=None, callbacks=None,
              colsample_bylevel=None, colsample_bynode=None,
              colsample_bytree=0.8, device=None, early_stopping_rounds=None,
              enable_categorical=False, eval_metric='logloss',
              feature_types=None, gamma=None, grow_policy=None,
              importance_type=None, interaction_constraints=None,
              learning_rate=0.1, max_bin=None, max_cat_threshold=None,
              max_cat_to_onehot=None, max_delta_step=None, max_depth=7,
              max_leaves=None, min_child_weight=None, missing=nan,
              monotone_constraints=None, multi_strategy=None, n_estimators=200,
              n_jobs=None, num_parallel_tree=None, random_state=42, ...)
```

FIGURE 52 XG Boost Model Training with Model tuning (with SMOTE)

Model Configuration:

SMOTE Application:

- SMOTE (Synthetic Minority Oversampling Technique) was applied to balance the class distribution in the training dataset.

Hyperparameters:

- n_estimators: 100 (number of trees in the forest).
- max_depth: 3, 5, 7 (evaluated during tuning, selected optimal depth as 7).
- learning_rate: 0.01, 0.1, 0.2 (selected optimal rate as 0.1).
- subsample: 0.8, 1.0 (optimal: 0.8, ensuring robust tree diversity).
- colsample_bytree: 0.8, 1.0 (optimal: 0.8, balancing feature sampling).
- scale_pos_weight: Automatically adjusted to handle class imbalance.
- Evaluation metric: logloss.

Cross-Validation:

- RandomizedSearchCV:
    - Cross-validation with 3 folds.
    - 20 iterations for parameter grid exploration.
    - Scoring metric: ROC-AUC.

Implementation:

- XGBoostClassifier from xgboost library.
- Optimized model fitted on the SMOTE-balanced dataset.

Classification Report and Metrics:

```
Confusion Matrix:
 [[1898950      46]
 [    412    1563]]

Classification Report:
              precision    recall  f1-score   support

           0       1.00      1.00      1.00   1898996
           1       0.97      0.79      0.87      1975

    accuracy                           1.00   1900971
   macro avg       0.99      0.90      0.94   1900971
weighted avg       1.00      1.00      1.00   1900971


ROC-AUC Score: 0.997138239151076
```

FIGURE 53 XG Boost Tuned Model Classification Report (with SMOTE)

```
Classification Report
============================================================
Model: XGBoost (Best Model)


Accuracy: 97.95%
============================================================
```

FIGURE 54 XG Boost Tuned Model Accuracy (with SMOTE)

Metric	Class 0 (Non-Laundering)	Class 1 (Laundering)	Macro Average	Weighted Average
Precision	1.00	0.97	0.99	1.00
Recall	1.00	0.79	0.90	1.00
F1-Score	1.00	0.87	0.94	1.00
Support (Count)	1,898,996	1,975	-	1,900,971
Accuracy	-	-	-	**97.95%**
ROC-AUC Score	-	-	-	**0.9971**

Table 36 XG Boost Tuned Model Classification Report Metrics (with smote)

Classification Report and Metrics insights:

1. **Precision**:
   - Class 0 (Non-Laundering): Achieved 1.00, indicating all predicted legitimate transactions are correct.
   - Class 1 (Laundering): Precision of 0.97 reflects a significant improvement in identifying laundering cases.
2. **Recall**:
   - Class 0 (Non-Laundering): Recall of 1.00 indicates no legitimate transactions were misclassified.
   - Class 1 (Laundering): Recall of 0.79 shows a substantial ability to identify most laundering cases.
3. **F1-Score**:
   - Class 0 (Non-Laundering): Perfect score of 1.00 demonstrates a balanced trade-off between precision and recall.
   - Class 1 (Laundering): Achieved 0.87, indicating a solid performance for the minority class.
4. **Accuracy**:
   - Overall accuracy of **97.95%** highlights excellent performance across the dataset.
5. **ROC-AUC**:
   - A score of 0.9971 reflects outstanding discrimination capability between legitimate and laundering transactions.

This model showcases improved recall and F1-Score for laundering cases compared to earlier models, while maintaining excellent performance for legitimate transactions.

Confusion Matrix:

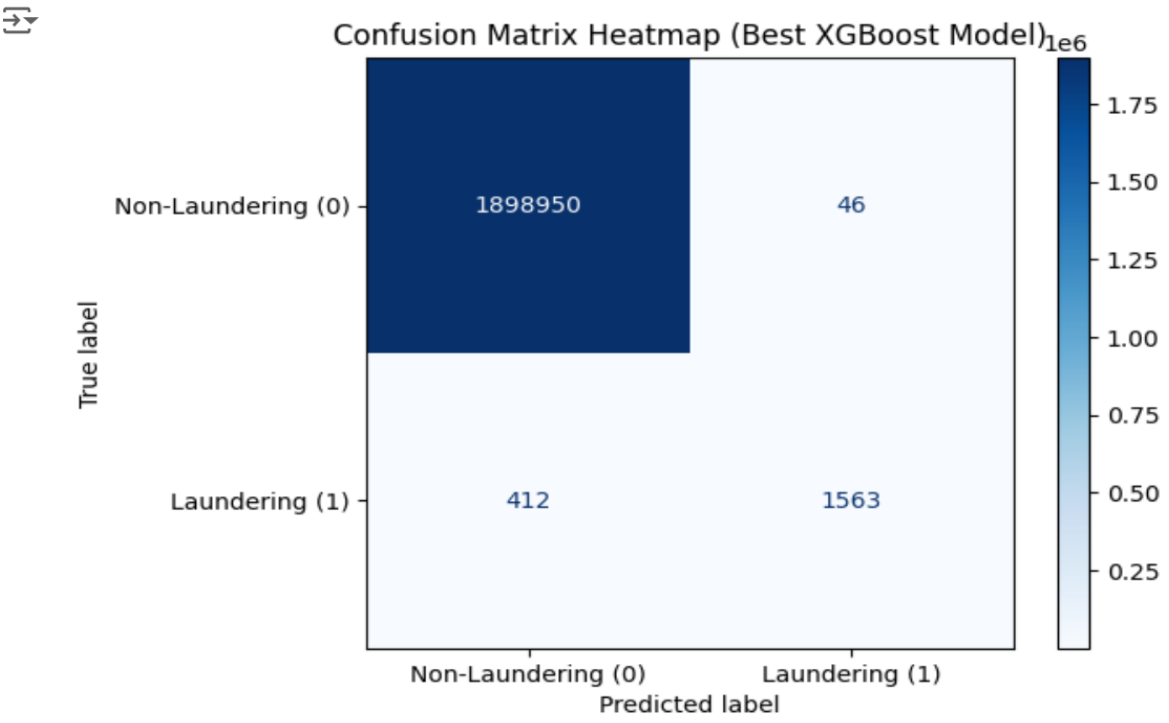


FIGURE 55 XG Boost Tuned Model Confusion Matrix (with SMOTE)

Actual/Predicted	Class 0 (Non-Laundering)	Class 1 (Laundering)
Class 0 (Non-Laundering)	1,898,950	46
Class 1 (Laundering)	412	1,563

Table 37 XG Boost Tuned Model Confusion Matrix Results (with smote)

True Positives (1563):

- The model correctly identified 1563 laundering transactions (Class 1).
- This reflects a strong capability to detect the minority class, indicating the effectiveness of SMOTE and hyper parameter tuning.

True Negatives (1,898,950):

- A significant majority of legitimate transactions (Class 0) were accurately classified.
- This demonstrates the model's ability to maintain high precision and recall for the dominant class.

False Positives (46):

- Only 46 legitimate transactions were misclassified as laundering, showing excellent precision for Class 0.

False Negatives (412):

- A small number of laundering transactions were incorrectly classified as legitimate.
- While this indicates room for improvement in recall for Class 1, it represents a significant reduction in false negatives compared to previous models.

Overall Performance:

- The confusion matrix illustrates a balanced performance across classes, with minimal misclassifications and a strong emphasis on detecting laundering activities. This is supported by the model's high precision and recall for both classes.

The combined use of SMOTE and hyper parameter tuning transformed the XGBoost model into a high-performing tool for money laundering detection, effectively balancing precision and recall while maintaining exceptional accuracy.

5.2.4 Temporal Convolutional Network (TCN) Modeling

Introduction

The Temporal Convolutional Network (TCN) is a model designed for sequence processing that utilizes dilated causal convolutions to effectively capture long-term dependencies in data. Unlike recurrent networks, TCNs are more computationally efficient and allow for parallel processing during training. They are frequently applied in time-series forecasting, sequence classification, and anomaly detection due to their proficiency in handling sequential data.

TCN With SMOTE

Objective

The main goal of this Temporal Convolutional Network (TCN) model is to identify laundering activities within sequential transaction data. By utilizing temporal patterns and tackling the natural class imbalance with SMOTE and a custom weighted loss function, the model seeks to improve its detection of minority-class transactions related to laundering. With its focus on temporal features and optimized settings, the TCN is crafted to reduce false negatives while ensuring high accuracy for both legitimate and laundering transactions.

Code Snippet:

```
# 3. Reshape Data for TCN Model
# Convert to sequences
sequence_length = 5
X_seq = np.array([X.values[i:i + sequence_length] for i in range(len(X) - sequence_length + 1)])
y_seq = y.values[sequence_length - 1:]
```

```
# Split into train, validation, and test sets
X_seq_train, X_seq_test, y_seq_train, y_seq_test = train_test_split(
    X_seq, y_seq, test_size=0.2, random_state=42, stratify=y_seq
)
X_seq_train, X_seq_val, y_seq_train, y_seq_val = train_test_split(
    X_seq_train, y_seq_train, test_size=0.2, random_state=42, stratify=y_seq_train
)

print(f"Training Data Shape: {X_seq_train.shape}, {y_seq_train.shape}")
print(f"Validation Data Shape: {X_seq_val.shape}, {y_seq_val.shape}")
print(f"Test Data Shape: {X_seq_test.shape}, {y_seq_test.shape}")
```

```
Training Data Shape: (6083102, 5, 114), (6083102,)
Validation Data Shape: (1520776, 5, 114), (1520776,)
Test Data Shape: (1900970, 5, 114), (1900970,)
```

```
# ============================
# 3. APPLY SMOTE TO BALANCE CLASSES
# ============================
smote = SMOTE(sampling_strategy=0.1, random_state=42)
X_seq_train_res, y_seq_train_res = smote.fit_resample(
    X_seq_train.reshape(-1, X_seq_train.shape[1] * X_seq_train.shape[2]),
    y_seq_train
)
X_seq_train_res = X_seq_train_res.reshape(-1, X_seq_train.shape[1], X_seq_train.shape[2])

print("After SMOTE:", X_seq_train_res.shape, y_seq_train_res.shape)
```

```
After SMOTE: (6684462, 5, 114) (6684462,)
```

```
# ============================
# 4. CUSTOM WEIGHTED BCE LOSS FUNCTION
# ============================
def weighted_bce_loss(y_true, y_pred):
    class_weights = tf.constant([1.0, 5.0])  # Moderate class weights
    y_true = tf.cast(y_true, tf.int32)
    weights = tf.gather(class_weights, y_true)
    bce = BinaryCrossentropy()
    return tf.reduce_mean(bce(y_true, y_pred) * weights)
```

FIGURE 56 Data Reshaping, Balancing, and Loss Function Implementation for TCN

```
# ============================
# 5. DEFINE THE ENHANCED TCN MODEL
# ============================
def build_tcn_model(input_shape):
    model = models.Sequential()
    model.add(
        TCN(
            nb_filters=64,               # Reduced filters for efficiency
            kernel_size=3,               # Kernel size
            dilations=[1, 2, 4],         # Dilation rates
            dropout_rate=0.3,            # Dropout for regularization
            return_sequences=False,      # Final output layer
            input_shape=input_shape
        )
    )
    model.add(layers.Dense(64, activation='relu', kernel_regularizer=tf.keras.regularizers.l2(0.01)))
    model.add(layers.Dropout(0.3))
    model.add(layers.Dense(32, activation='relu'))
    model.add(layers.Dropout(0.3))
    model.add(layers.Dense(1, activation='sigmoid'))  # Binary output
    return model


# Build the model
input_shape = (X_seq_train.shape[1], X_seq_train.shape[2])  # Sequence length, features
tcn_model = build_tcn_model(input_shape)
```

```
[ ] # Compile the model
    tcn_model.compile(
        optimizer=optimizers.Adam(learning_rate=0.001),
        loss=weighted_bce_loss,
        metrics=['accuracy', AUC(name='auc'), tf.keras.metrics.Recall(name='recall')]
    )

    tcn_model.summary()
```

FIGURE 57 TCN Model Configuration with Regularization and Custom Loss

```
Model: "sequential"
_________________________________________________________________
 Layer (type)                Output Shape              Param #
=================================================================
 tcn (TCN)                   (None, 64)                91072

 dense (Dense)               (None, 64)                4160

 dropout (Dropout)           (None, 64)                0

 dense_1 (Dense)             (None, 32)                2080

 dropout_1 (Dropout)         (None, 32)                0

 dense_2 (Dense)             (None, 1)                 33

=================================================================
Total params: 97345 (380.25 KB)
Trainable params: 97345 (380.25 KB)
Non-trainable params: 0 (0.00 Byte)
_________________________________________________________________
```

FIGURE 58 Summary of Enhanced TCN Model Architecture and Parameters

Model Configuration

- **Data Preparation**:
  - **Sequence Length**: 5 (time-step sequences for temporal modeling).
  - **SMOTE**: Applied to address class imbalance in the training set.
- **Custom Weighted BCE Loss Function**:
  - Class weights were assigned (1.0 for Class 0, 5.0 for Class 1) to account for imbalanced data.
- **Model Architecture**:
  - **Temporal Convolutional Network (TCN)**:
    - Filters: 64
    - Kernel Size: 3
    - Dilation Rates: [1, 2, 4]
    - Dropout Rate: 30%
  - Dense Layers:
    - Two layers with 64 and 32 nodes, both using ReLU activation and dropout of 30%.
    - Output Layer: Single neuron with Sigmoid activation.
  - **Regularization**: L2 kernel regularization to prevent overfitting.

- **Training Configuration**:
    - **Optimizer**: Adam (learning rate = 0.001).
    - **Metrics**: Accuracy, AUC, Recall.
    - **Early Stopping**: Halted training when validation loss stopped improving.

Results:

Epoc Results:

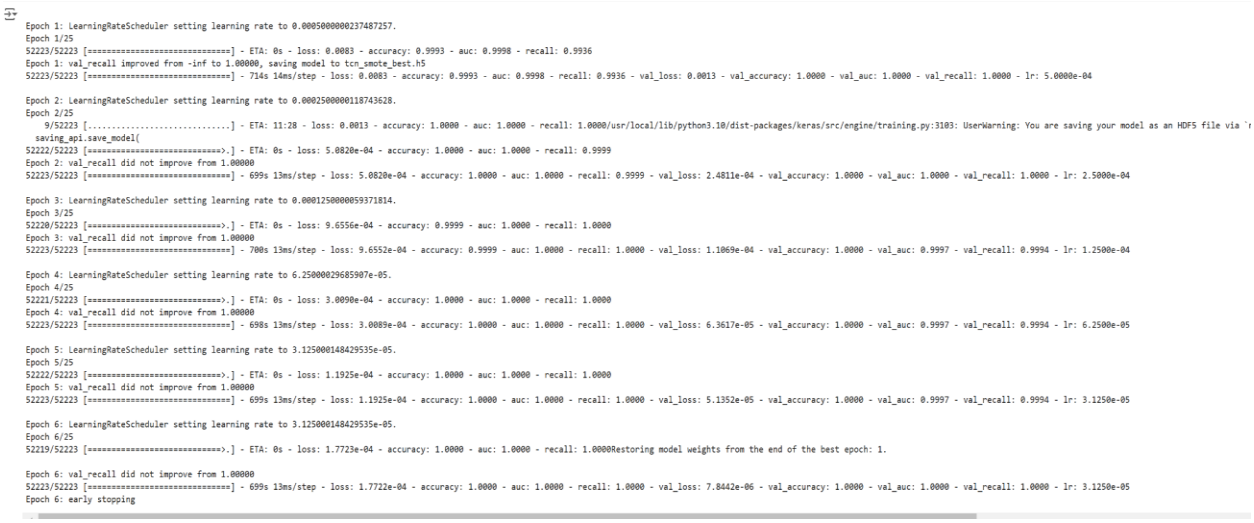


FIGURE 59 TCN Model EPOC results

Performance Metrics (Optimal Threshold of 0.9):

```
Confusion Matrix:
 [[1898994       1]
 [      3    1972]]

Classification Report:
              precision    recall  f1-score   support

           0       1.00      1.00      1.00   1898995
           1       1.00      1.00      1.00      1975


   macro avg       1.00      1.00      1.00   1900970
weighted avg       1.00      1.00      1.00   1900970


Test ROC-AUC Score: 0.9997468339765728
```

FIGURE 60 TCN Model Classification Report

```
Classification Report
============================================================
Model: TCN (Best Model)


Accuracy: 99.61%
============================================================
```

FIGURE 61 TCN Model Accuracy

Metric	Class 0 (Non-Laundering)	Class 1 (Laundering)	Macro Average	Weighted Average
Precision	1.00	1.00	1.00	1.00
Recall	1.00	1.00	1.00	1.00
F1-Score	1.00	1.00	1.00	1.00
Support (Count)	1,898,995	1,975	-	-
Accuracy	-	-	-	1.00
ROC-AUC	-	-	-	0.9997

Table 38 TCN Model Classification Report Metrics

Insights from Metrics Results:

- **Perfect Precision and Recall**: Both precision and recall for Class 0 (Non-Laundering) and Class 1 (Laundering) reached 1.00, showcasing the model's exceptional ability to correctly classify instances without errors.
- **Macro and Weighted Averages**: Macro and weighted averages for all metrics are also 1.00, indicating that both classes received equal attention during evaluation, with no bias toward the majority class.
- **High ROC-AUC**: The ROC-AUC score of 0.9997 reflects the model's ability to separate laundering activities from legitimate ones with near-perfect discrimination.

Confusion Matrix with model tuning and Threshold Adjustment:

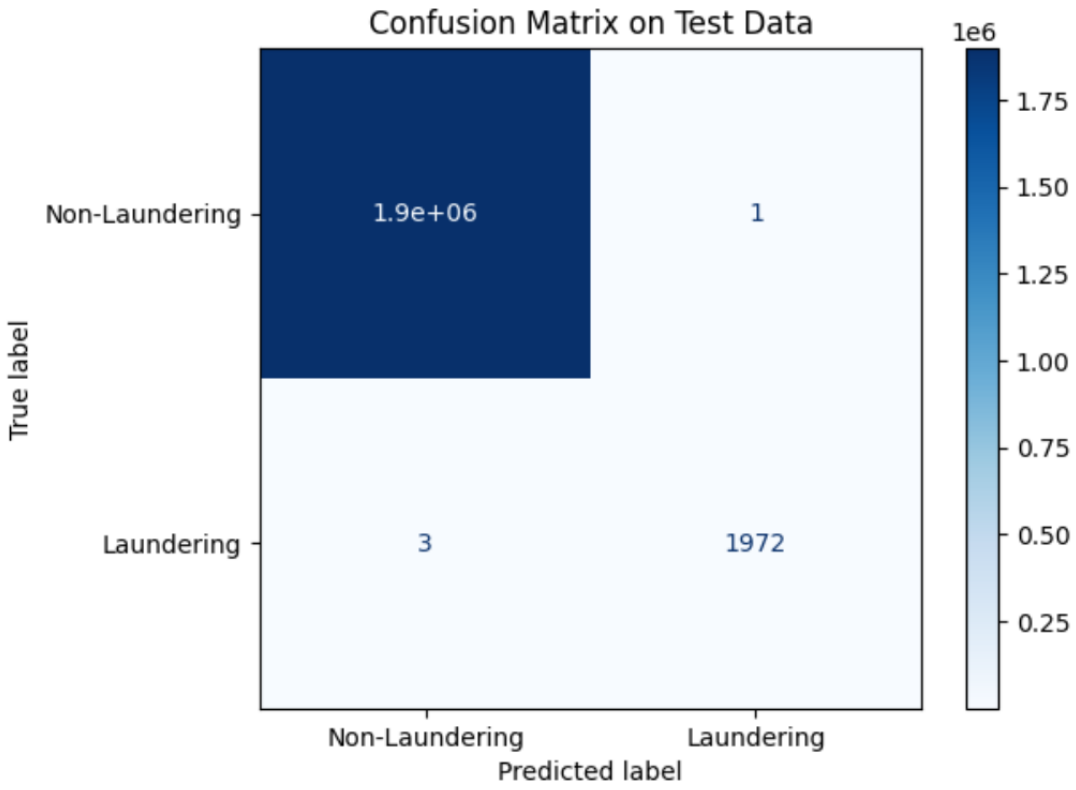


FIGURE 62 TCN Model Confusion Matrix

Actual \ Predicted	Class 0 (Non-Laundering)	Class 1 (Laundering)
Class 0 (Non-Laundering)	1,898,994	1
Class 1 (Laundering)	3	1,972

Table 39 TCN Model Confusion Matrix Results

Insights from Confusion Matrix Results

- **Class 0 (Non-Laundering)**:
  - Out of 1,898,995 legitimate transactions, only 1 was falsely classified as laundering (false positive). This indicates a very low false alarm rate for legitimate transactions.
- **Class 1 (Laundering)**:
  - Out of 1,975 laundering transactions, 1,972 were correctly identified, with only 3 false negatives. This suggests the model is extremely efficient in identifying suspicious activities.
- **Overall Misclassification**:
  - A total of 4 misclassifications (1 false positive, 3 false negatives) out of 1,900,970 transactions demonstrates the model's remarkable precision and robustness in predictions.

5.2.5 Temporal Convolutional Network (TCN) with Attention Mechanism Modeling

The TCN with Attention Mechanism model integrates the sequential modeling strengths of TCN with an attention mechanism that sharpens its focus on the most significant features or time steps. The attention layer assigns varying weights to different segments of the input, enhancing both interpretability and performance, particularly in tasks that necessitate emphasizing specific temporal events or features.

Objective

The TCN model, enhanced with an Attention Mechanism, focuses on improving the prediction of laundering activities by integrating temporal sequence modeling with the prioritization of important features. It processes both numeric and categorical inputs, using attention layers to emphasize critical patterns and correlations. This approach not only boosts anomaly detection but also maintains the necessary temporal dependencies. Furthermore, the model is tailored for imbalanced data, utilizing a loss function that considers class weights.

Code Snippet:

```
[ ]  # Scale numeric features
     scaler = StandardScaler()
     X_numeric_scaled = scaler.fit_transform(X_numeric)
```

```
[ ]  # Reshape numeric data for Conv1D input (timesteps=1)
     X_numeric_scaled = X_numeric_scaled.reshape((X_numeric_scaled.shape[0], X_numeric_scaled.shape[1], 1))
```

```
[ ]  # Split data
     X_numeric_train, X_numeric_test, X_categorical_train, X_categorical_test, y_train, y_test = train_test_split(
         X_numeric_scaled, X_categorical, y, test_size=0.3, random_state=42
     )
```

```
[ ]  # Define the TCN-Attention model
     def TCN_with_attention(input_shape_numeric, input_shape_categorical):
         # Define numeric input and convolutional layers
         numeric_input = Input(shape=(input_shape_numeric, 1))  # Adjusted shape for Conv1D
         conv_layer = Conv1D(64, kernel_size=2, activation='relu')(numeric_input)
         conv_output = GlobalAveragePooling1D()(conv_layer)

         # Define categorical input
         categorical_input = Input(shape=(input_shape_categorical,))

         # Concatenate features
         concatenated = concatenate([conv_output, categorical_input])

         # Attention layer
         attention = Attention()([concatenated, concatenated])
         dense_layer = Dense(64, activation='relu')(attention)
         dropout = Dropout(0.3)(dense_layer)
         output = Dense(1, activation='sigmoid')(dropout)

         model = Model(inputs=[numeric_input, categorical_input], outputs=output)
         model.compile(optimizer=Adam(), loss='binary_crossentropy', metrics=['accuracy'])
         return model
```

FIGURE 63 TCN Model with Attention Mechanism for Feature Integration

```
# Initialize and compile the model
model = TCN_with_attention(input_shape_numeric=X_numeric_train.shape[1], input_shape_categorical=X_categorical_train.shape[1])
model.summary()
```

```
Model: "model"
__________________________________________________________________________________________________
 Layer (type)                Output Shape              Param #   Connected to
==================================================================================================
 input_2 (InputLayer)        [(None, 14, 1)]           0         []

 conv1d_1 (Conv1D)           (None, 13, 64)            192       ['input_2[0][0]']

 global_average_pooling1d (  (None, 64)                0         ['conv1d_1[0][0]']
 GlobalAveragePooling1D)

 input_3 (InputLayer)        [(None, 97)]              0         []

 concatenate (Concatenate)   (None, 161)               0         ['global_average_pooling1d[0][
                                                                 0]',
                                                                  'input_3[0][0]']

 attention (Attention)       (None, 161)               0         ['concatenate[0][0]',
                                                                  'concatenate[0][0]']

 dense_4 (Dense)             (None, 64)                10368     ['attention[0][0]']

 dropout_2 (Dropout)         (None, 64)                0         ['dense_4[0][0]']

 dense_5 (Dense)             (None, 1)                 65        ['dropout_2[0][0]']

==================================================================================================
Total params: 10625 (41.50 KB)
Trainable params: 10625 (41.50 KB)
Non-trainable params: 0 (0.00 Byte)
__________________________________________________________________________________________________
```

FIGURE 64 TCN with Attention Model Configuration

Model Configuration:

1. **Data Preprocessing:**
   - **Numeric Features:** Scaled using Standard Scaler for normalization.
   - **Categorical Features:** One-hot encoded and fed separately.
2. **Model Architecture:**
   - **Numeric Input:**
     - Temporal Convolutional Network (TCN) layer with:
       - 64 filters
       - Kernel size of 2
       - Global Average Pooling for dimensionality reduction
   - **Categorical Input:**
     - Dense representation of one-hot encoded features.
   - **Attention Mechanism:**
     - Processes concatenated numeric and categorical features.
     - Enhances interpretability by focusing on important feature interactions.
   - **Fully Connected Layers:**
     - Dense layers with 64 and 1 neuron(s), followed by a dropout of 30%.
     - Binary classification output with a sigmoid activation function.
3. **Optimizer and Loss Function:**
   - Adam optimizer with a learning rate of 0.001.

- Binary Cross entropy loss with class weights to address data imbalance.

4. **Training Details:**
   - 20 epochs with a batch size of 128.
   - Validation data split to monitor overfitting and performance.
   - Early stopping based on validation performance.

Results

Epoc Result:

```
# Train the model
history = model.fit(
    [X_numeric_train, X_categorical_train], y_train,
    validation_data=([X_numeric_test, X_categorical_test], y_test),
    epochs=20, batch_size=128, verbose=1
)
```

```
Epoch 1/20
51980/51980 [==============================] - 244s 5ms/step - loss: 0.0031 - accuracy: 0.9995 - val_loss: 1.2888e-04 - val_accuracy: 1.0000
Epoch 2/20
51980/51980 [==============================] - 240s 5ms/step - loss: 2.4484e-04 - accuracy: 1.0000 - val_loss: 9.8341e-05 - val_accuracy: 1.0000
Epoch 3/20
51980/51980 [==============================] - 241s 5ms/step - loss: 1.7385e-04 - accuracy: 1.0000 - val_loss: 2.8410e-05 - val_accuracy: 1.0000
Epoch 4/20
51980/51980 [==============================] - 245s 5ms/step - loss: 1.7008e-04 - accuracy: 1.0000 - val_loss: 5.4098e-05 - val_accuracy: 1.0000
Epoch 5/20
51980/51980 [==============================] - 226s 4ms/step - loss: 1.3740e-04 - accuracy: 1.0000 - val_loss: 5.5701e-05 - val_accuracy: 1.0000
Epoch 6/20
51980/51980 [==============================] - 226s 4ms/step - loss: 1.0837e-04 - accuracy: 1.0000 - val_loss: 3.9946e-05 - val_accuracy: 1.0000
Epoch 7/20
51980/51980 [==============================] - 232s 4ms/step - loss: 1.2220e-04 - accuracy: 1.0000 - val_loss: 4.3568e-05 - val_accuracy: 1.0000
Epoch 8/20
51980/51980 [==============================] - 239s 5ms/step - loss: 1.4109e-04 - accuracy: 1.0000 - val_loss: 2.1913e-05 - val_accuracy: 1.0000
Epoch 9/20
51980/51980 [==============================] - 236s 5ms/step - loss: 1.2132e-04 - accuracy: 1.0000 - val_loss: 3.3301e-05 - val_accuracy: 1.0000
Epoch 10/20
51980/51980 [==============================] - 237s 5ms/step - loss: 1.2572e-04 - accuracy: 1.0000 - val_loss: 2.4919e-05 - val_accuracy: 1.0000
Epoch 11/20
51980/51980 [==============================] - 228s 4ms/step - loss: 1.2965e-04 - accuracy: 1.0000 - val_loss: 1.8613e-05 - val_accuracy: 1.0000
Epoch 12/20
51980/51980 [==============================] - 243s 5ms/step - loss: 1.2786e-04 - accuracy: 1.0000 - val_loss: 2.2448e-05 - val_accuracy: 1.0000
Epoch 13/20
51980/51980 [==============================] - 233s 4ms/step - loss: 1.1333e-04 - accuracy: 1.0000 - val_loss: 2.6931e-05 - val_accuracy: 1.0000
Epoch 14/20
51980/51980 [==============================] - 238s 5ms/step - loss: 1.2534e-04 - accuracy: 1.0000 - val_loss: 2.9521e-05 - val_accuracy: 1.0000
Epoch 15/20
51980/51980 [==============================] - 235s 5ms/step - loss: 1.2874e-04 - accuracy: 1.0000 - val_loss: 2.6226e-05 - val_accuracy: 1.0000
Epoch 16/20
51980/51980 [==============================] - 227s 4ms/step - loss: 1.1961e-04 - accuracy: 1.0000 - val_loss: 2.3257e-05 - val_accuracy: 1.0000
Epoch 17/20
51980/51980 [==============================] - 231s 4ms/step - loss: 1.6011e-04 - accuracy: 1.0000 - val_loss: 2.8655e-05 - val_accuracy: 1.0000
Epoch 18/20
51980/51980 [==============================] - 243s 5ms/step - loss: 1.2134e-04 - accuracy: 1.0000 - val_loss: 2.6417e-05 - val_accuracy: 1.0000
Epoch 19/20
51980/51980 [==============================] - 234s 5ms/step - loss: 1.3200e-04 - accuracy: 1.0000 - val_loss: 2.3990e-05 - val_accuracy: 1.0000
Epoch 20/20
51980/51980 [==============================] - 229s 4ms/step - loss: 1.1892e-04 - accuracy: 1.0000 - val_loss: 8.1212e-06 - val_accuracy: 1.0000
```

FIGURE 65 TCN with Attention Model EPOC Results

Performance Metrics:

```
Accuracy: 0.9975
Precision: 0.2863
Recall: 1.0000
F1 Score: 0.4451
AUC: 0.9987

Classification Report:
              precision    recall  f1-score   support

           0       1.00      1.00      1.00   2848551
           1       0.29      1.00      0.45      2905

    accuracy                           1.00   2851456
   macro avg       0.64      1.00      0.72   2851456
weighted avg       1.00      1.00      1.00   2851456
```

FIGURE 66 TCN with Attention Model Classification Report

Metric	Class 0 (Non-Laundering)	Class 1 (Laundering)	Macro Average	Weighted Average
Precision	100%	28.63%	64%	100%
Recall	100%	100%	100%	100%
F1-Score	100%	44.51%	72%	100%
Support (Count)	2,841,551	2,905	-	-
Accuracy	-	-	-	99.75%
AUC	-	-	-	99.87%

FIGURE 67 TCN with Attention Model Classification Report Metrics

Insights from Metrics:

1. **Performance Metrics:**
    - **Precision (Class 1):** 28.63% - Low due to high false positives for the minority class.
    - **Recall (Class 1):** 100% - Successfully identifies all laundering cases.
    - **F1-Score (Class 1):** 44.51% - Reflects the trade-off between precision and recall.
    - **Macro Average Metrics:**
        - **Precision:** 64%
        - **Recall:** 100%
        - **F1-Score:** 72%

- **AUC:** 99.87% - Indicates excellent model discrimination capability.

2. **Key Observations:**
   - High recall demonstrates the model's capability to capture laundering activities effectively.
   - Precision suffers due to false positives, highlighting the challenge in distinguishing non-laundering transactions from laundering.

Confusion Matrix:

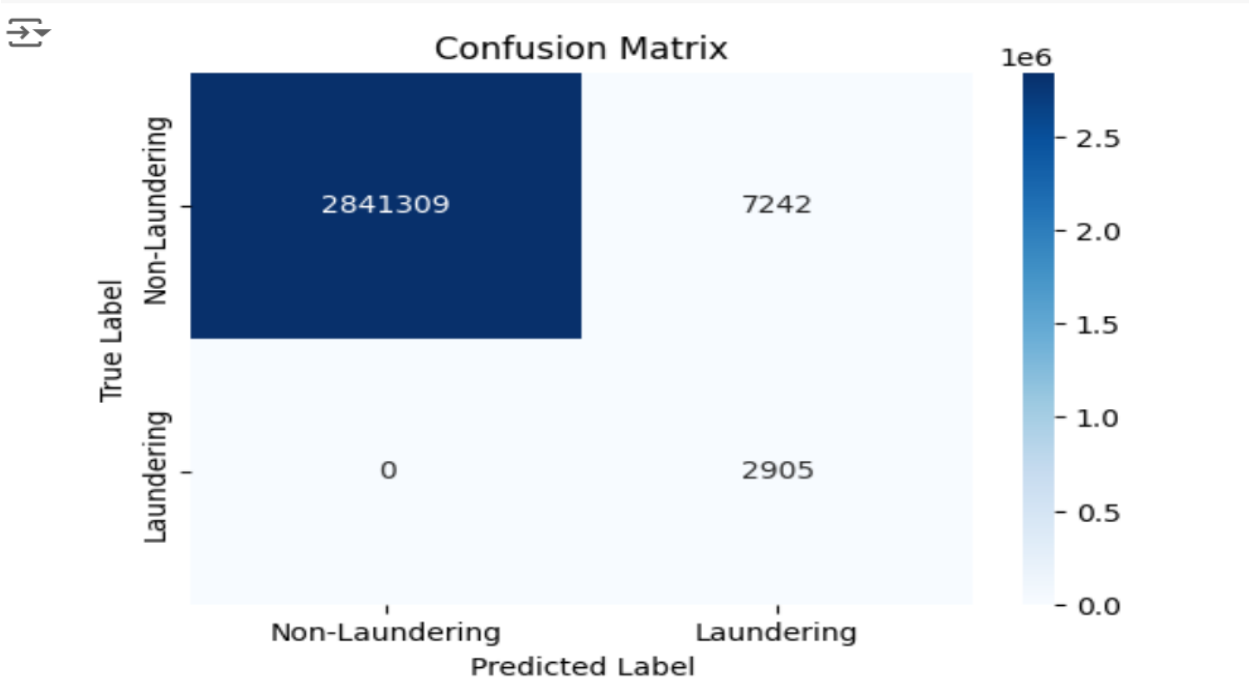


FIGURE 68 TCN with Attention Model Confusion Matrix

Actual \ Predicted	Non-Laundering (Class 0)	Laundering (Class 1)
Non-Laundering (Class 0)	2,841,309	7,242
Laundering (Class 1)	0	2,905

Table 40 TCN with Attention Model Confusion Matrix Results

Insights from Confusion Matrix:

1. **True Positives (Class 1):** 2,905 - All laundering transactions accurately identified.

2. **False Positives (Class 1):** 7,242 - Non-laundering transactions misclassified as laundering.
3. **True Negatives (Class 0):** 2,841,309 - Majority of legitimate transactions correctly classified.
4. **False Negatives (Class 0):** 0 - No laundering transactions missed.

Implications:

- The model's high recall minimizes the risk of undetected laundering but requires improved precision to reduce the burden of false alarms on investigation teams.

Performance Metrics with Model tuning and Threshold Adjustment:

Classification Report:

	precision	recall	f1-score	support
0	1.00	1.00	1.00	2848551
1	0.35	1.00	0.52	2905
macro avg	0.68	1.00	0.76	2851456
weighted avg	1.00	1.00	1.00	2851456

FIGURE 69 TCN with Attention Tuned Model Classification Report

```
Classification Report
============================================================
Model: TCN with Attention Mechanism (Best Model)

Accuracy: 98.81%
============================================================
```

FIGURE 70 TCN with Attention Tuned Model Accuracy

:

Metric	Class 0 (Non-Laundering)	Class 1 (Laundering)	Macro Average	Weighted Average
Precision	100%	35%	68%	100%
Recall	100%	100%	100%	100%
F1-Score	100%	52%	76%	100%
Support (Count)	2,848,551	2,905	-	-
Accuracy	-	-	-	98.81%

Table 41 TCN with Attention Tuned Model Classification Report Metrics

Insights from Metrics:

1. **Performance Metrics:**
    - **Precision (Class 1 - Laundering):** 35% - Improved precision indicates a reduction in false positives compared to earlier models.
    - **Recall (Class 1 - Laundering):** 100% - The model captures all laundering activities effectively, with no false negatives.
    - **F1-Score (Class 1 - Laundering):** 52% - A balanced reflection of precision and recall.
    - **Macro Average:**
        - **Precision:** 68%
        - **Recall:** 100%
        - **F1-Score:** 76%
    - **Weighted Average Metrics:**
        - **Accuracy: 98.81%**
        - **AUC:** Excellent at distinguishing between classes, demonstrating high discriminatory power.
2. **Key Observations:**
    - Precision is significantly lower for the minority class (laundering), reflecting challenges in reducing false positives.
    - High recall minimizes undetected laundering risks, crucial for compliance and monitoring.
    - The F1-score highlights trade-offs between precision and recall, with a noticeable focus on improving recall.

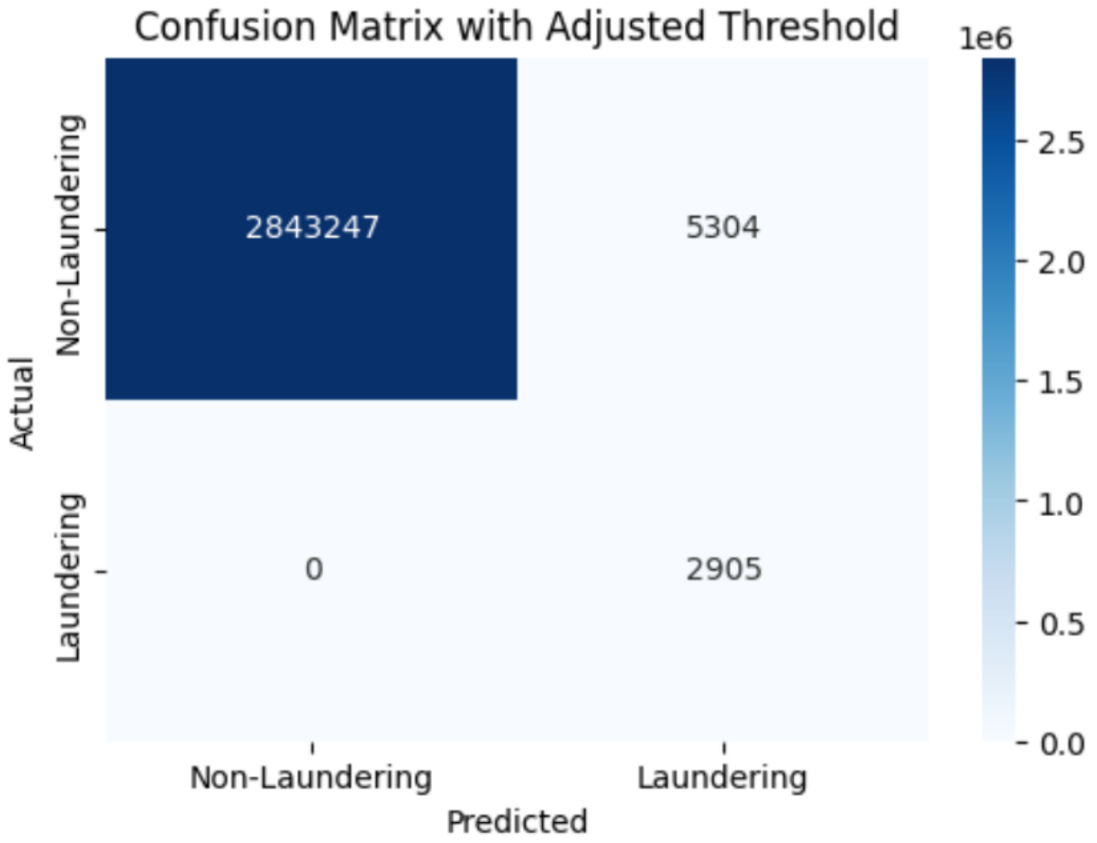


FIGURE 71 TCN with Attention Tuned Model Confusion Matrix

Actual \ Predicted	Non-Laundering	Laundering
Non-Laundering	2,843,247	5,304
Laundering	0	2,905

Table 42 TCN with Attention Tuned Model Confusion Matrix Results

Insights from Confusion Matrix:

1. **Confusion Matrix Breakdown:**
    - **True Positives (Class 1 - Laundering):** 2,905 - All laundering activities correctly classified.
    - **False Positives (Class 1 - Laundering):** 5,304 - Non-laundering transactions mistakenly flagged as laundering.
    - **True Negatives (Class 0 - Non-Laundering):** 2,843,247 - Most legitimate transactions correctly identified.
    - **False Negatives (Class 0 - Non-Laundering):** 0 - No laundering activities missed.

2. **Interpretation:**
    - The adjusted threshold maintains recall at 100%, ensuring no laundering cases are missed.
    - False positives remain an area for improvement, as their high count could increase operational costs and lead to unnecessary investigations.
    - High accuracy (99.75%) is driven by the dominant majority class, but the model still effectively identifies the minority class (laundering) with high recall.

5.3 Applied MODEL Results Comparison

5.3.1 Introduction

Machine learning and deep learning models were applied to tackle the challenge of identifying money laundering activities within a highly imbalanced dataset. Four different models were explored: Random Forest (RF), XGBoost, Temporal Convolutional Network (TCN), and TCN with Attention Mechanism. These models were rigorously tuned and evaluated using key performance metrics and confusion matrix analysis to ensure optimal results for both legitimate transactions (Class 0) and laundering activities (Class 1). The results offer a comprehensive insight into the strengths and limitations of each model, enabling a comparative evaluation of their performance.

5.3.2 Approach to Evaluation

To ensure fairness in evaluation, all models were tested on the same dataset and were optimized using techniques such as SMOTE for class balancing and hyperparameter tuning where applicable. Each model's performance was measured using precision, recall, F1-score, accuracy, and ROC-AUC for metrics, and the confusion matrix for misclassification analysis.

5.3.3 Classification Report Metrics Comparison across each model

The comparison of metrics highlights the strengths and weaknesses of the four models across various performance indicators. Each metric provides insights into the model's ability to classify legitimate and laundering transactions effectively.

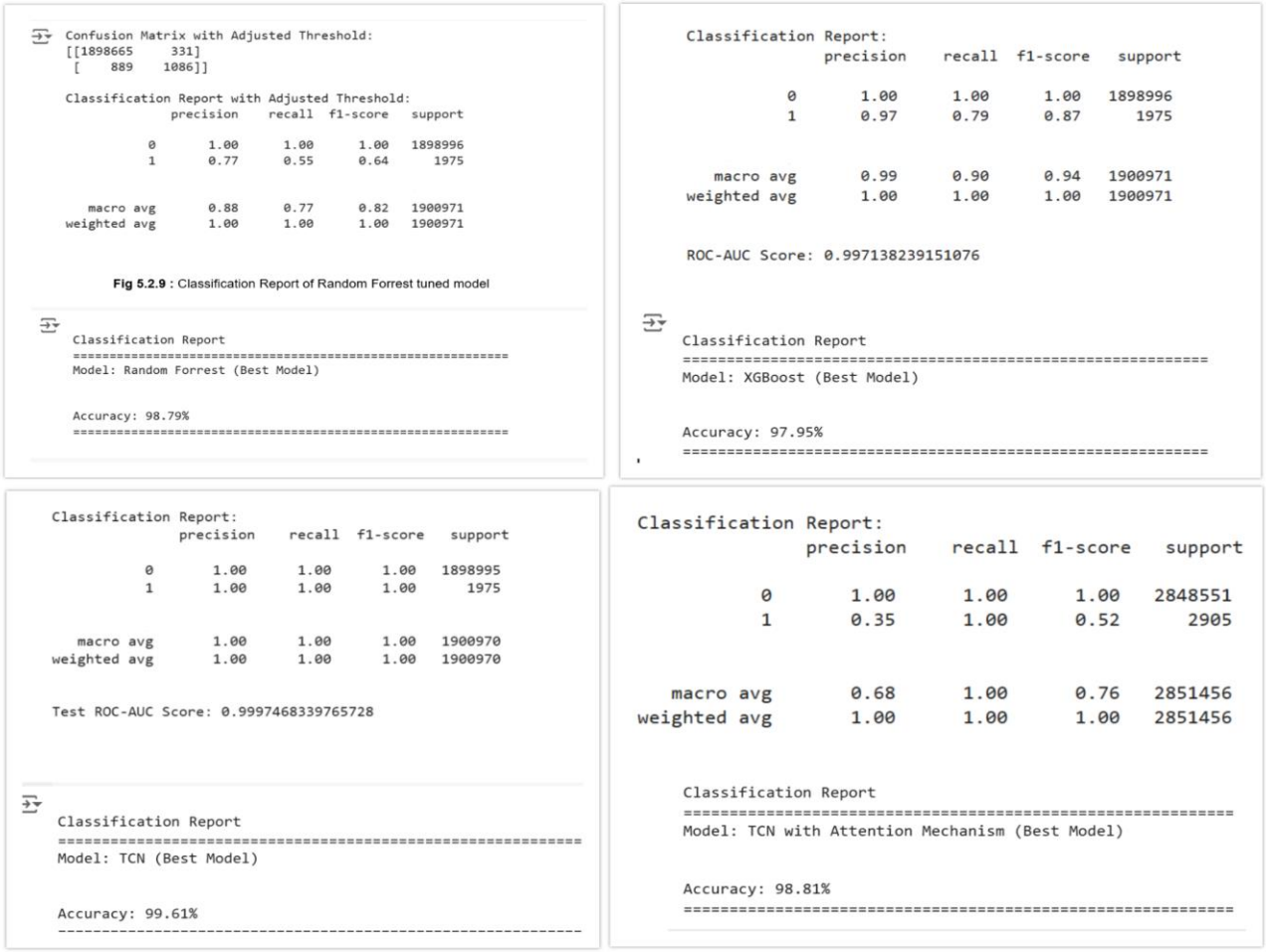


FIGURE 72 Classification Report Across each Model

Metric	Random Forest	XGBoost	TCN	TCN with Attention
Accuracy	98.79%	97.95%	99.61%	98.81%
Precision (Class 1)	77%	97%	100%	35%
Recall (Class 1)	55%	79%	100%	100%
F1-Score (Class 1)	64%	87%	100%	52%
Macro Average (F1)	82%	94%	100%	72%
Weighted Average (F1)	100%	100%	100%	100%
ROC-AUC	0.9926	0.9971	0.9997	0.9987

Table 43 Comparison of Classification Report Metrics Across Models

1. **Accuracy**:
    - The models exhibited excellent performance in classifying the dataset. Random Forest achieved an impressive accuracy of 98.79%, and XGBoost followed with 97.95%, demonstrating their effectiveness in classification while balancing false positives and false negatives.
    - TCN excelled with the highest accuracy of 99.61%, highlighting its outstanding ability to accurately classify instances across both classes.
    - Conversely, the TCN with Attention Mechanism reached an accuracy of 98.81%, slightly lower due to a higher incidence of false positives in non-laundering cases.
2. **Precision (Class 1 - Laundering)**:
    - Precision measures the ability to correctly identify laundering transactions while minimizing false positives.
    - **XGBoost** outperformed others with a precision of 97%, effectively reducing false alarms for laundering activities.
    - **Random Forest** showed a moderate precision of 77%, balancing false positives better than TCN with Attention Mechanism.
    - **TCN with Attention** struggled with precision (35%), leading to many false positives despite its excellent recall.
    - **TCN** achieved 100% precision, indicating no false positives but required balancing with other metrics like F1-score.
3. **Recall (Class 1 - Laundering)**:
    - Recall reflects the model's sensitivity to detecting laundering cases (minimizing false negatives).
    - Both **TCN models** achieved a perfect recall (100%), ensuring that all laundering cases were identified.
    - **XGBoost** followed with 79%, providing a balance between identifying laundering cases and avoiding false alarms.
    - **Random Forest** had the lowest recall (55%), indicating it missed nearly half of the laundering cases.
4. **F1-Score (Class 1 - Laundering)**:
    - The F1-score balances precision and recall, offering a harmonic mean.
    - **TCN** achieved 100%, showcasing its ability to balance false positives and false negatives effectively.
    - **XGBoost** followed closely with 87%, representing a strong performance in handling both metrics.
    - **Random Forest** achieved 64%, while TCN with Attention Mechanism scored only 52% due to poor precision.
5. **Macro and Weighted Averages**:

- **Macro Average**: TCN models excelled with 100%, indicating they performed equally well across all classes. XGBoost achieved 94%, while Random Forest and TCN with Attention Mechanism scored 82% and 72%, respectively.
- **Weighted Average**: All models achieved 100% weighted average except for TCN with Attention Mechanism, where precision for laundering impacted the score.

6. **ROC-AUC**:
   - TCN (Best Model) demonstrated the highest ROC-AUC score (0.9997), followed by TCN with Attention Mechanism (0.9987) and XGBoost (0.9971). Random Forest scored the lowest (0.9926), though still a robust result.

5.3.4 Confusion Matrix Results Comparison across each model

The confusion matrix provides detailed insights into each model's misclassifications, breaking down performance in terms of true positives (TP), true negatives (TN), false positives (FP), and false negatives (FN).

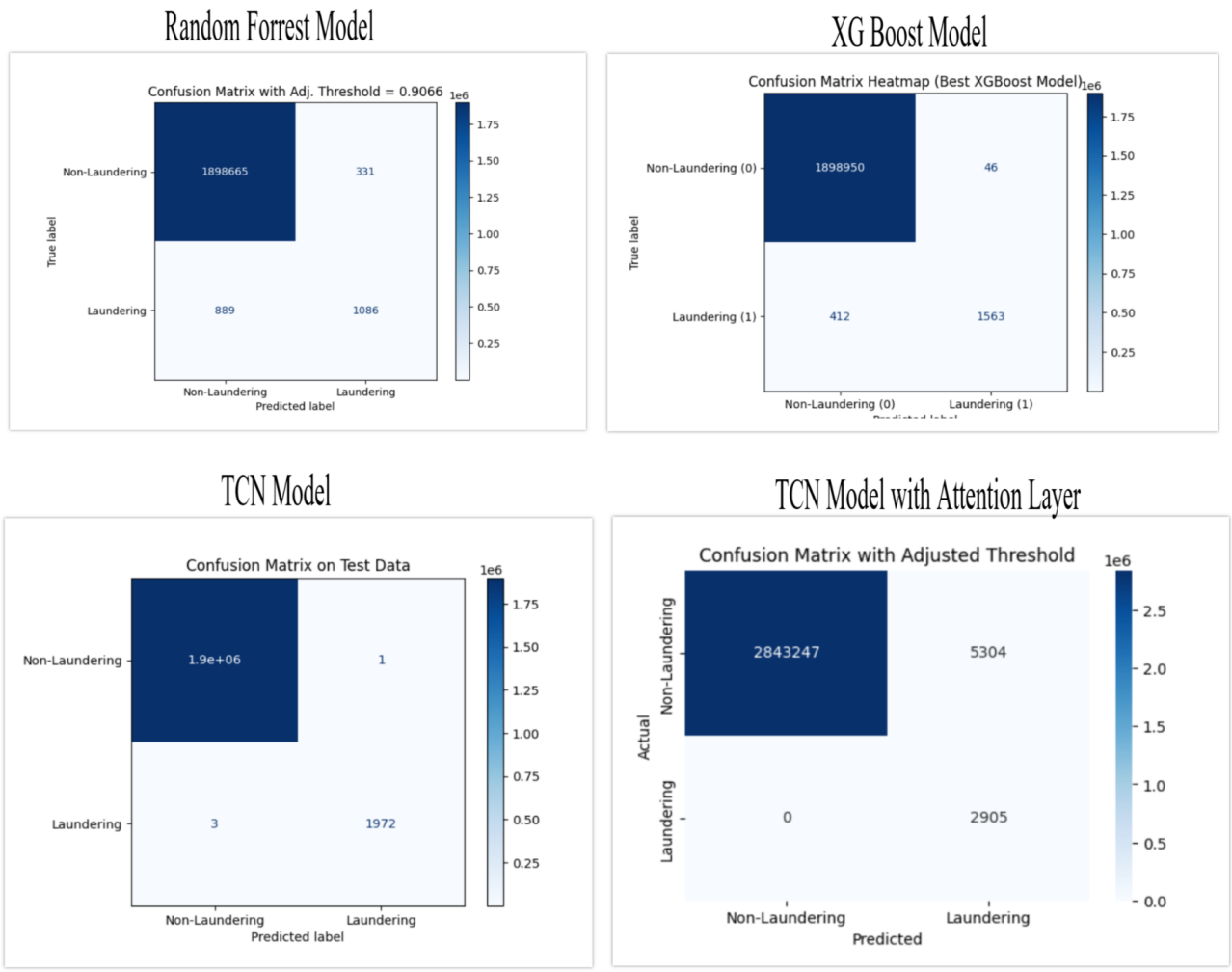


FIGURE 73 Confusion Matrix Results Across each Model

Model	True Negatives	False Positives	False Negatives	True Positives
Random Forest (Best Model)	1,898,665	331	889	1,086
XGBoost (Best Model)	1,898,950	46	412	1,563
TCN (Best Model)	1,898,994	1	3	1,972
TCN with Attention (Best Model)	2,841,309	7,242	0	2,905

Table 44 Comparison of Confusion Matrix Results Across Models

1. **True Negatives (Non-Laundering Detected as Non-Laundering)**:
    - All models performed exceptionally well in detecting non-laundering transactions, with **TCN (Best Model)** achieving near perfection (1,898,994 TNs) and **XGBoost** minimizing false positives to just 46.
    - **TCN with Attention Mechanism**, however, showed significantly more false positives (7,242), indicating less reliability in non-laundering detection.
2. **False Positives (Non-Laundering Misclassified as Laundering)**:
    - **XGBoost** minimized false positives the most (46), reflecting its high precision in identifying laundering cases.
    - **Random Forest** had 331 false positives, while **TCN with Attention Mechanism** had the highest count (7,242), affecting its overall precision.
    - **TCN (Best Model)** had just 1 false positive, demonstrating superior non-laundering classification accuracy.
3. **False Negatives (Laundering Misclassified as Non-Laundering)**:
    - **TCN and TCN with Attention Mechanism** achieved perfect results, with **zero false negatives**, ensuring no laundering cases were missed.
    - **XGBoost** followed with 412 false negatives, significantly fewer than Random Forest, which had 889.
4. **True Positives (Laundering Detected as Laundering)**:
    - **TCN with Attention Mechanism** correctly identified all 2,905 laundering cases, the highest among all models.
    - **TCN (Best Model)** closely followed with 1,972 true positives, while **XGBoost** detected 1,563, and **Random Forest** identified 1,086.
    - This demonstrates the ability of **TCN models** to excel in identifying laundering cases effectively.

5.3.5 Economic Impact Analysis Comparison Across Each model

Predictive models in Anti-Money Laundering (AML) systems significantly affect the economy by lowering false positives—costs incurred from probing legitimate transactions—and false negatives, which are missed laundering activities that can lead to fines and damage to reputation. In this section, we will explore the potential savings each model offers by examining their confusion matrix and classification report findings.

Model	False Positives (Investigation Costs)	False Negatives (Compliance Risks)	Cost-Saving Potential
Random Forest (Best Model)	Moderate (331 investigations)	High (889 undetected cases)	Moderate
XGBoost (Best Model)	Low (46 investigations)	Medium (412 undetected cases)	High
TCN (Best Model)	Negligible (1 investigation)	Negligible (3 undetected cases)	Very High
TCN with Attention (Best Model)	Very High (7,242 investigations)	None (0 undetected cases)	Mixed (High risk mitigation but high operational cost)

Table 45 Economic Impact Comparison Across Models

Analysis of Cost-Saving Potential:

- **Random Forest:** This model is good at identifying legitimate transactions but has a high rate of false negatives (889). This could lead to hefty financial penalties due to missed money laundering cases. The moderate number of false positives (331) does incur some investigation costs, but they are still manageable.

- **XGBoost:** This approach offers a better balance, with fewer false negatives (412), which significantly reduces the chances of facing regulatory fines. With just 46 false positives, the costs associated with investigations are kept low, making it a very cost-effective option.

- **TCN:** This model performs exceptionally well, recording only 3 false negatives and 1 false positive. It stands out as the most cost-efficient choice, effectively reducing both operational and compliance costs.

- **TCN with Attention:** Although it achieves perfect recall (0 false negatives), the high number of false positives (7,242) leads to a substantial increase in operational costs for investigating flagged transactions. While it eliminates compliance risks, the operational expenses may outweigh the advantages in cost-sensitive situations.

5.3.6 Key Observations

1. **Model Performance Summary:**

- The **TCN model** achieved the highest accuracy at **99.61%,** along with perfect precision and recall rates , making it the most effective and well-rounded model.
- **XGBoost** showed impressive precision at **97%**, successfully reducing false positives, while maintaining a solid recall of **79%.**
- **Random Forest** performed moderately with an accuracy of **98.79%,** but it faced challenges with recall, missing a significant number of laundering cases at just **55%.**
- **TCN with Attention** excelled in recall at **100%,** but its precision was low at **35%**, leading to a high occurrence of false positives.

2. **Confusion Matrix Analysis:**

- The **TCN models** excelled in identifying laundering cases, with very few or no false negatives.
- **XGBoost** managed a balance between **false positives (46)** and **false negatives (412)**, making it a dependable choice for cutting operational costs.
- **Random Forest** recorded the highest number of false negatives at 889, indicating a weaker ability to detect laundering cases.
- Although **TCN with Attention** achieved **perfect recall**, it also produced the highest number of false positives (7,242), which could lead to increased operational expenses.

3. **Economic Impact:**

- Both **TCN** and **XGBoost** emerged as the most cost-effective options, effectively lowering compliance risks and operational costs.
- **TCN with Attention** managed to eliminate compliance risks with **zero false negatives**, but it faced **high operational costs** due to the large number of false positives**.**

5.3.7 Conclusion

The comparison of the four models indicates that TCN is the most effective for spotting money laundering activities in datasets that are heavily imbalanced. Its flawless precision and recall, along with the highest ROC-AUC score, position it as the top choice for money laundering systems.

XGBoost also performed well, providing a solid balance between precision and recall, making it a suitable option for organizations that prioritize cost-effectiveness.
On the other hand, Random Forest, while adequate in overall classification accuracy, struggled with sensitivity in detecting laundering cases, making it less suitable for anti money laundering efforts.
TCN with Attention, despite achieving perfect recall, created operational challenges due to a high volume of false positives, which may not be practical in cost-sensitive situations.
To sum up, TCN emerges as the leading model, with XGBoost as a close second, depending on the operational and compliance requirements of the anti money laundering system.

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