

CREDIT CARD FRAUD DETECTION

A PROJECT REPORT

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ABSTRACT

Credit card frauds are easy and friendly targets. E-commerce and many other online sites have increased the online payment modes, increasing the risk for online frauds. Increase in fraud rates, researchers started using different machine learning methods to detect and analyse frauds in online transactions. The main aim of the paper is to design and develop a novel fraud detection method for Streaming Transaction Data, with an objective, to analyse the past transaction details of the customers and extracts the behavioural patterns. Where cardholders are clustered into different groups based on their transaction amount. Then using sliding window strategy, to aggregate the transaction made by the cardholders from different groups so that the behavioural pattern of the groups can be extracted respectively. Later different classifiers are trained over the groups separately. And then the classifier with better rating score can be chosen to be one of the best methods to predict frauds. Thus, followed by a feedback mechanism to solve the problem of concept drift. In this paper, we worked with European credit card fraud dataset.

INTRODUCTION

Nowdays, online payment methods have been used widely as effect of the quicks increase in non-cash electronic transaction. Credits cards are one of the electronic payments method A credit card is a thins rectangular shapepiece of plastics or metals released by a bank or financial services company to a customers (cardholder) to facilitate payment to a supplier of goods and service. It is based on the consumers. The cards issuer (usually a bank) open an accounts, which is generally circlings, and contributes a line of credit to the users. Which the users can use to make a payments. With a card- based payments reporting for approximately 51% of transactions. [1], [2], [3]. Despite the advantages of electronic payments, credit card companies are experiences an increase in card fraud with the beginning of many new technologies. Scammers are smart sufficient to takes advantage of excuses and always try to steal data using new technologies like Skimming and phishing. There are occurrence when a website is designed to match a legitimate sites and victims enter personal information such as password, user name, and credit card informations The fraudster send out a major number of emails that direct victims to their bogus websites. The e-mails seems to be from company such as AOL, PayPal banks and eBay, and they ask the victims to log their personal informations in order to resolve issues." The fraudsters earnings by theftthe victim's identities and then theft their money [4]. Credit card fraud caused a heavy financial loss from card frauds. According to a 2017 US Payments Forum reports, criminals have shifted their focus to movements involving CNP transactions as chip cards security has improved [5]. The estimated financials loss of credit cards fraud credit cards fraud worldwide in 2018 rose to \$24.26 million [6] 2018 rose to \$24.26 million [6]. By 2019, the worldwide frauds losse had accounted for US \$27 billion accordings to PR Newswire Association LLC [7] Moreover, it is estimated that it will surpass around \$30 billion by 2020 [8]. Activation procedures have all contributed to a reduction in the effect of fraud. Merchants are putting programs in place to help prevent credit card fraud. although, more safety measures must be taken to prevent frauds [4]. Fraudulent transactions are well detected with the help of (ml) Machine Learning algorithms that have a high processing or computing powers and the ability to handle large datasets. which is a promising way to reduce credit cards frauds [9], [10]. This paper includes seven ections. Section II summarizes brief previous studies. Sections III the approache by which the basic studie were systematically chosen are offered. In sections IV. Several popular credit cards fraud detection methods have been riefed. Section V. presented a comparison of various fraud detection methods. Section IV. Summarizes results and discussion. Finally section VII. Presented conclusion and future scope.

Credit Card Fraud

Fraud according to the Organization of Certified are defined as any malicious or deliberate acts of depriving another of ownerships or money through wiliness, cheating, or other unfair means [11]. The unauthorized procedure of CC or information destitute of owners data is called add the full name and then the abbreviations CCF. The different CCF trick applications & behaviors are related to two groups of frauds. Specify the first group and the second group. When app frauds occurs, fraudsters apply for new cards from the bank or provide it to companies that use false or other information. A customer can file multiple applications with a single usuals of describes (named duplicate fraud), or a different customers with similar describes (named identity fraud). Instead, there are practically four main types of behavioural frauds: stolen/lost cards, mail thefts, fake cards, & current cardholder does not exist' frauds. When a stolen / lost card fraud occurs, fraudsters steals a credit cards or get lost card. Mail theft frauds when a fraudster receives personal details from a bank in the mail before a credit cards or original card holder. Fake & Card Holders Frauds & credit cards descriptions are not presented. In past, remote communications can be done using card details via mail, phone or internet. Second, (where is first) fake cards are created on cards data" explain more here [12].

Credit Card Fraud Detection

Service make electronic payments more easy, seamless, adequate, and simple to use; however, we must not overlooks the losses associated with electronic commerce. company and banks to use them offer good security solutions. To address these issues, but fraudster's delicate techniques evolves over time. As a result, it is criticals to improving detections and preventions method's [7]. It is critical to understand the mechanisms for carrying a frauds in order to fight the fraud effectively. The gadget for identifying credit score card fraud depend upon on the fraud manner itself [13]. To accomplish this, provides the transactions details to the verification segment which will classify them as either fraud or non-fraud. If it classified as fraudulents, it will be refused. Otherwise, the transaction is accepted [14]. Fraud detections methods such as statistical data analysis and artificial intelligence can be used to differentiate between the two. AI method's consist of data mining that used to detects frauds, which can classify, groups and modules data to search through millions of transactions to find patterns and detect frauds. (ML)Machine learning is a methods for automatically detecting fraud characteristics. One technique of dealing with frauds is through both prevention and detections. Fraud detection and prevention's primary goal is to tell difference between legitimate and fraudulent transactions and to prevents fraudulent action. Using historical data, the user's pattern and behaviors are analysed to verify if a transaction is fraudulent or not. When the systems fails to detects and prevents fraudulent activities, fraud detection takes over. [15]. In supervised fraud detection systems, new transactions are classified as fraudulent or authentic based on descriptions of deceptive and legitimate activities, whereas outliers' transactions are identified as prospective fraudulent transactions in unsupervised fraud detection systems. A point by-point dialogue between supervised and unsupervised machine learning techniques can be discovered. Diversity of research have been conducted on several methods to solve the problems of credit cards fraud detection. These approaches include, ANN, K-means Clustering, DT, etc.[16].

Frauds type in Card-based transactions

1) Physical Cards Fraud in most POS (point of sale) transactions, as it is essential that the customer's must have to be physically presenting the cards to the merchants to carry out the transactions. There are chances that the cardholders cards can be stolen and misuse by fraudsters without the cardholder knowledge. 2) Virtual Card Fraud: In most Online shopping transaction there are no need for a physical card and instead we use the Card Numbers, CVV number ,and Expiry Date, to perform the transactions. Fraudsters can steal this details and they can use it to perform fraudulent online transactions [17].

2. LITERATURE REVIEW

Prajal Save et al. [18] have proposed a model based on a decision tree and a combinations of Luhn's and Hunt's algorithms. Luhn's algorithm is used to determine whether incoming transactions are fraudulent or not. It validates credit card numbers via the input, which is the credit card number. Address Mismatch and Degrees of Outlierness are used to assess the deviation of each incoming transaction from the customer's normal profile. In the final step, the general belief is strengthened or weakened using Bayes Theorems, followed by recombination's of the calculated probability with the initial belief of frauds using an advanced combination heuristic. Vimala Devi. J et al. [19] To detect counterfeit transactions, three (ML) machine-learning algorithms were presented and implemented. There are many measures used to evaluate the performances of classifier or predictors such as the Vector Machine, Random Forest, and Decision Tree. These metrics are either prevalence-dependent or prevalence-independent. Furthermore, these techniques are used in credit card fraud detection mechanisms, and the results of these algorithms have been compared. Popat and Chaudhary [20] supervised algorithms were presented: Deep learning, Logistic Regression, Naive Bayesian, Support Vector Machine (SVM), Neural Network, Artificial Immune System, K-Nearest Neighbour, Decision Tree, Data Mining, Fuzzy logic based System, and Genetic Algorithm are some of the techniques used. Credit card fraud detection algorithms identify transactions that have a high probability of being fraudulent's. We compared (ml) machine-learning algorithms to prediction, clustering, and outlier detection. Shiyang Xuan et al. [21] For training the behavioral characteristics of credit card transaction the Random Forests classifier was used. The following types are used to train the normal and fraudulent's behavior feature: Random forest based on random trees and random forest based on CART. To assess the model's effectiveness, performance measures are computed. Dornadula and Geetha S. [5] Using the Sliding-Window method, the transactions were aggregated into respective groups, some feature from the window were extracted to find customer's behavioral patterns. Features such as the maximum amount, the minimum amount of a transaction, the average amounts in the windows and even the time elapsed are available. Sangeeta Mittal et al. [22] To evaluate the underlying problems, some popular machine learning algorithms in the supervised and unsupervised categories were selected. A range of supervised learning algorithm from classical to latest, have been considered. These include tree-based algorithms, classical and deep neural networks, hybrid algorithms and Bayesian approaches. The effectiveness of (ml) machine-learning algorithms in detecting credit card fraud has been assessed. On various metrics, a number of popular algorithms in the supervised, ensemble, and unsupervised categories were evaluated. It is concluded that unsupervised algorithms handle datasets skewness better and thus performs well through all metrics absolutely and in comparison to other techniques. Deepa and Akila [17] For frauds detection, different algorithms like Anomaly Detection Algorithm, K-Nearest Neighbor, Random Forest, K-Means and Decision Tree were used. Based on a given scenario, presented several techniques and predicted the best algorithms to detect deceitful transactions. To predict the fraud results, the systems used various instructions and algorithms to generate the Frauds score for that certain transactions. Xiaohan Yu et al. [23] have proposed a deep network algorithm for fraud detection. A deep neural network algorithm for detecting credit cards frauds was described in the papers. It has described the neural network algorithm approach as well as deep neural network application. The preprocessing method's and important loss for resolving data skew problems in the datasets. Siddhant. Bagga et al. [24] presented many techniques for determining whether a transaction is real or fraudulent. Evaluated and compared the accomplishments of 9 techniques on data of credit cards fraud, including logistic regression, KNN, RF, quadrant discriminative

RESEARCH METHODOLOGY

Systematic literature review, for example, are a type of methodology, which conducts a literature reviews on a specific topic, could be used to detect frauds. A systematic reviews primary goals in this context is to identify, evaluates, and Interprets the available studies in the literature that address the Author's research questions. A secondary goal is to identify research gap and opportunities in the area of interests. In this papers, we attempted to walk through the activities proposed by Kitchenham: analysis preparation, execution, and reporting in iterations. [28].

Selection of rudimentary Studies

To highlights primary research for selection, keywords were passed to the search engine then they were chosen to enhance the development of researches that wishes to aid in answering the study question. The only Boolean factors that could be used were AND and OR. (machine-learning OR Artificial intelligence) AND —fraud detection were the search terms. IEEE Explore Digital Library was one of the platforms looked into.

- Google Scholar

- Elsevier- Science Direct

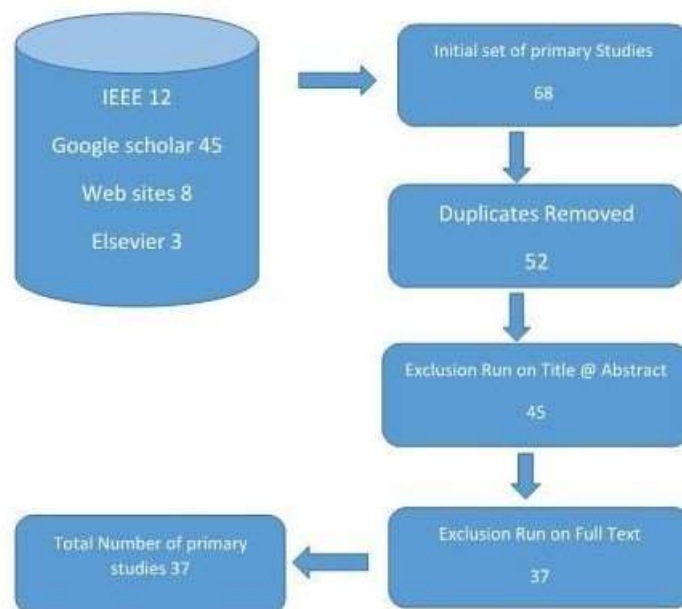
According on the search platform's the title keywords, and abstract were all searched for. On March 28, 2021, we conducted the search and we went over all of the previous studies. The outcomes of these search refined using the criteria described in Section 3.2, resulting in a collections of result that could be run.

Inclusion and Exclusion Criteria

Modern technological fraud detections, Case studies, research and comment on how to improve existing mechanism's by creating a hybrids approach could all be considered for inclusion in this SLR. Papers must be reads and writes in the English language. Any Google Scholar findings and tested for submissions as if Google Scholars has the ability to re-turn lower-grade papers. This SLR will only accepts the most recent version of a samples.

Selection Result

The primary keyword searches against the pick platforms yielded 68 studies. After duplicate studie were removed, this was reduced to 52. After the procedures of the survey through the implication/exception criteria, there were 45 papers left to read. The 45 papers have been read in their entirety, after applying the inclusion and exclusion criteria a second time 37 papers remained. As a results SLR will comprise 37 papers intotal, as illustrated in the diagrams below:-

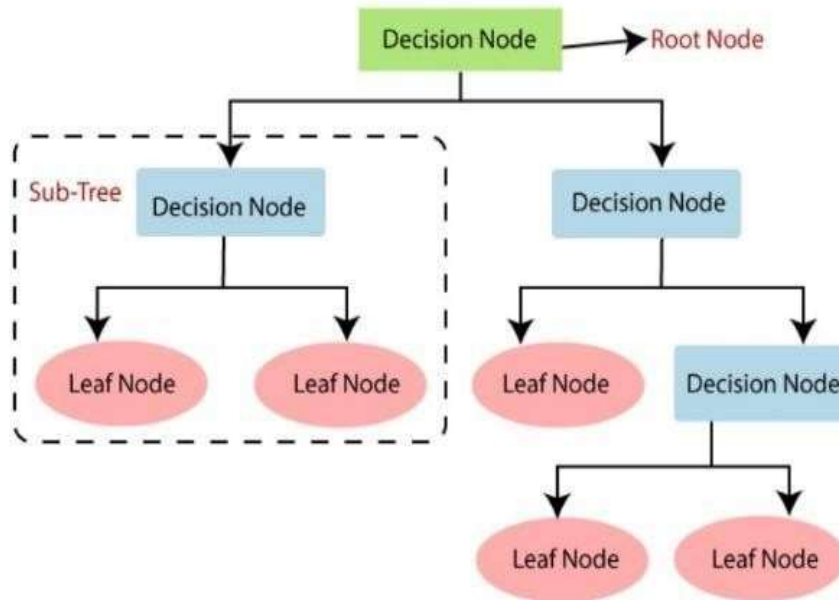


Paper Attrition during Processing

CREDIT CARD FRAUD DETECTION TECHNIQUES

Decision tree

A supervised learning methodology, graphical representations of possible solution's to choices based on certain situation's [29] As in Figure and it is a tree-structured lassifier. It starts with a roots node where inside nodes represent the features of a datasets, branches symbolize the decision instructions and each leaf node represents the results. In decision tree and they have the purpose of deciding and communicating respectively. A decision tree plainly asks a questions and then divide it into sub trees based on the answers. Although DT can solve classifications and regression problems. it is most commonly used to solve classification problems. To find the datasets classes, the algorithm searches at the top of the tree. It compares the root Trait with the record attribute and follow the offshoot on way to the next node, which it calculate depending on the relations [30].



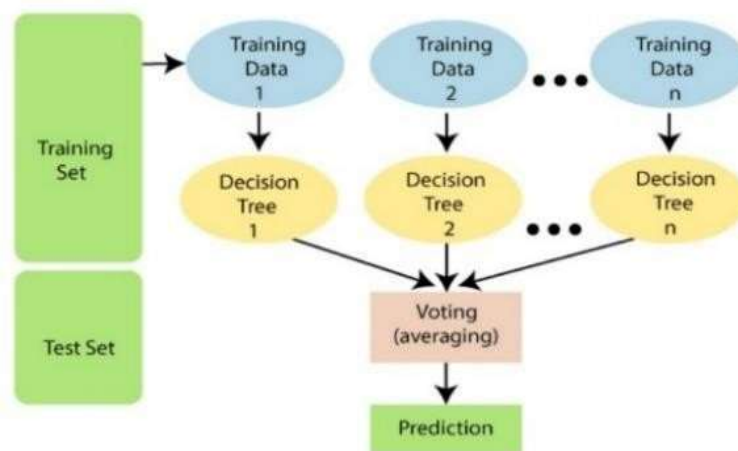
General structure working of DT

Step Working Of Decision Tree

In the first phase, starts with S , which is the root node and includes the entire datasets. Second, discovers the best Trait in the datasets using the Attribute Selection Measure. When the node can't be categorized, in that time the final node is called a foliate node. Based on the labels, the root node is extra subdivided into the decisions node and one leaf node. In the end the nodes is divided into two leaves .

Random Forest

Random Forest classifiers finds decision trees in a subsets of the data and then aggregates their details to that to get the full datasets predictive powers. Rather than relying on a single decision tree. The RF take the predictions from each tree and forecasts the final outputs based on the majority votes of forecasts. Using a huge number of trees in the forest improves precisions and eliminates the issues of over fitting. It predicts output with high precisions, and it runs efficiently even with large datasets. It can also keeps accuracy when large proportions of data is lost. RandomForest can handle both classification and regression task. It can handle large datasets with high dimensionality. It improves the models accuracy and avoids the overfitting problems. We use two-step training techniques in the process of tree-based Random Forest: First, we generate the random forest by mixing N tree together, and then we estimate for each of the trees we generate in the first phase [31]. An ensemble algorithms employs the "random forest" artificial intelligence techniques. Because it avert over fitting by averaging the results this approach outperforms single decision tree. Random Forest is an ensemble of diverse tree, similar to Gradient Boosted Tree, but unlike GBT, RF tree grow in parallel. Random Forest have a lot of uncorrelated trees. Because various trees are trained in parallel, the overall model diminishes a large numbers of variances. Random Forest treat each trees as a separate classifiers that has been trained on resampled data. As a results of employing this this learn strategy and divide, the models overall learning ability are increased [10], [32].



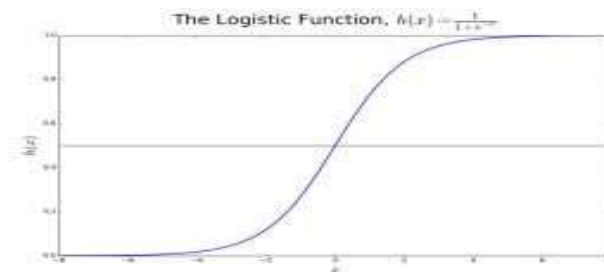
General structure working of the RF

The Random Forest Working Step

These steps illustrate Figure above; in the first step, choose (K) as data points at random from the drill sets. Second, constructs the DT linked with the chosen data points (Subsets). Following that select the digit (N) for the numbers of decision trees you wish to construct. Then, duplicate Steps 1 and 2. Finally, discover the predictions of each decision trees for new data point and assigns the modern data point to the category that receives most votes. Clarify how RF work by using the following scenario: Assume you have a datasets with a variety of fruites images. As outcome, RF classifiers will be given this datasets. Each decision tree is given a portion of the datasets to deal with. When a new data point occur's, the Random Forest classifier predicts the conclusion based on the majority of outcome's

Logistic Regression

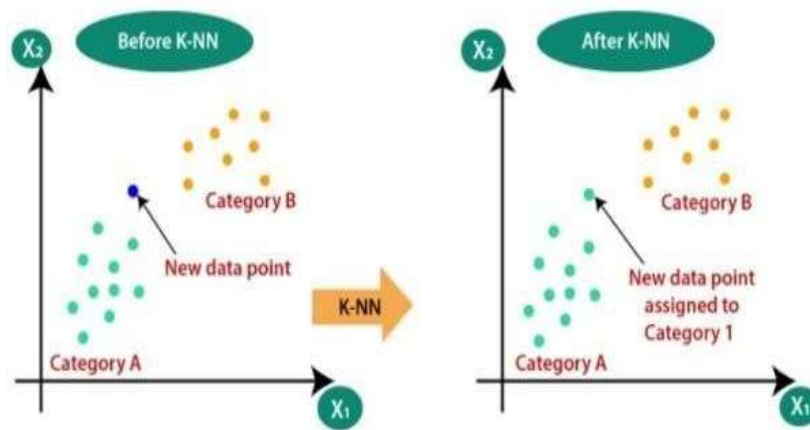
An algorithm that can be used for both regression and classification task but it is most commonly used for classification. Logistic Regression is used to predicts categorical variables using dependent variables. Consider two classes, and a new data point is to be checked to see which class it belongs to. The algorithms then compute probability values ranging between (0) and (1). Logistic Regression employs a more complex cost functions, this cost functions is known as the Sigmoid Function or Logistic Function. [33]. LR also does not requires independent variables to be linearly related, nor does it require equal variances within each groups, making it a less stringent statistical analysis procedure. As a results, logistic regression was used to predicts the likelihood of fraudulent credit cards [34]. Clarify the working of LR through the following scenario, The default variables for determining whether a tumor is malignant or not is $y = 1$ (tumor malignant) the x variable could be a measurement of the tumors, such as its size. The logistic functions convert the x -values of the dataset's various instance's into a range of 0 to 1. The tumor is classified as malignant if the probability exceeds 0.5. (As indicated by the horizontal line). As shown in the figure below:



K -Nearest Neighbor

A simple, easy-to-implements supervised machine-learning technique that uses categorized input

data to develop function that gives a suitable outputs when given additional unlabelled data. Both classifications and regression problem's can be solved with the k-nearest neighbors (KNN) algorithms, which is quick and straight forward to apply. Uses labeled data to teach a functions that generates an acceptable performancesor new data. In the K-Nearest Neighbor algorithms, the resemblance between the new cases and the cases that are already categorized is calculated. Once the new case is placed in a categorys that is most comparables to the available ones it is applied to all remaining case in that groups. In an analogous fashion, KNN organizes all accessibles data and categorizes new points depending on how similar they are. This describes anytime new data emerge it is just a matter of fitting a K-N classification scheme to it. The algorithm is very straightforward and uncomplicated to put into practice. If a modeldoes not needs to be built so some parameters and expectations may be tuned, it is unnecessary. The algorithms get's significantly slower as predictors/independentvariables increase [36]. As shown in the figure below:

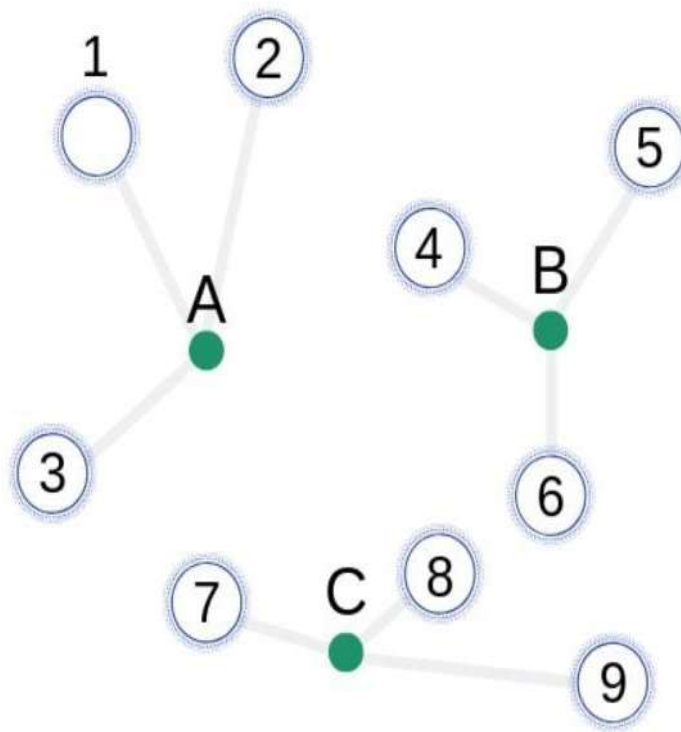


General structure working of the K-NN

Decide on the numbers of neighbors in the first phase (K). Define the Euclidean distance amidst K neighbors then locates K closest neighbors using the measured Euclidean distance. Count the numbers of data points in every group between this KN in a subsequent phases, then assign the modern data points to the collection with the most neighbors. Finally, our paradigm is finished. Consider the following scenario: We have an image of two animals: a cat and a dog, and we want to identify which one the picture represents. As a result, the KNN can be utilized as a methods for the definition because it is based on a likeness measures. Our KNN will look for similarities between the latests data set and the photos of animals, and classify it based on most analogous attributes.

K-means Clustering

Because of its simplicity and effectiveness, it is the most widely used unsupervised learning methodology. By calculating the mean distances between data points, this method allocates points to groups. It then repeats this process in order to improve the accuracy of its categorization over time [37]. The K-Means in the figure below are explained via the following steps. To determine the number of clusters, choose K. Then choose K location or centroid at random. (It could be something different from the incoming datasets.) In the following step Assign each data point to the centroid that is closest to it, forming the preset K clusters. Then calculate the variance and reposition each cluster's centroid. Repeat the third step, reassigning each point to the cluster's modern nearest centroid. Steps to finish, If there is a reassignment, go to step 4, otherwise, move to FINISH. The model is finished.



General structure working of the K-MC

To explain how K-MC works. Consider the following situation: If hospital wishes to establish Care Wards. K-means Clustering will divide these high-risk locations into clusters and establish a cluster centre for each cluster which will be the location of the Emergency Units. These cluster centres are each cluster's centroid, located at a minimum distance from all of the cluster points, as a result the Emergency Unit will be located at a minimum distance from all accident-prone places within a cluster.

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