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USING ADVANCED ANALYTICS IN FRAUD DETECTION AND FINANCIAL CRIME PREVENTION IN FINANCIAL INSTITUTIONS ACROSS THE UNITED STATES

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Abstract: Banks and financial institutions in the U.S. are facing more and more challenges in fighting fraud and financial crime. Crimes like identity theft, money laundering, account takeovers, and payment scams are growing, especially as more people use mobile banking, peer-to-peer apps, and instant payments. Traditional fraud systems based on fixed rules can't keep up with modern scams, which now include fake identities, bot attacks, and complicated laundering schemes (Consumer Financial Protection Bureau [CFPB], 2023; KPMG, 2025). This study looks at how advanced analytics, including machine learning (ML), anomaly detection, and natural language processing (NLP) can help stop fraud more effectively. We used transaction data from five U.S. banks (from 2022 to 2024) and trained smart models using customer behavior, time patterns, and location data.

The results were impressive: Fraud detection accuracy went up from 74% to 93%, and False alarms dropped by 48%

New types of fraud (missed by older systems) were caught 70% of the time using unsupervised models like clustering and autoencoders. There was also a strong match between the model's risk scores and real fraud cases (correlation of $r = 0.88$, $p < .001$) (Federal Reserve, 2024). NLP tools were also successful, reaching an F1-score of 0.89, in identifying issues in transaction notes and documents like fake companies, unclear ownership, or risky countries (FinCEN, 2023). These findings show that using analytics makes fraud detection faster, smarter, and more flexible. It helps banks catch fraud in real time, follow government rules (like the Bank Secrecy Act and AML regulations), and improve fraud investigation and reporting. This paper recommends that banks use these analytics tools throughout the entire fraud prevention process, from live monitoring to post-fraud reviews and compliance reporting.

Keywords: Analytics, Fraud detection, Machine learning

INTRODUCTION

Financial crime has become more complex and harder to stop in today's digital world. As more people use real-time payments, mobile banking, and decentralized finance, fraudsters are using smarter tricks like social engineering, fake identities, password attacks, and layered transactions to get around traditional fraud detection systems (CFPB, 2023).

Old systems that depend on fixed rules and past warning signs can't keep up with these new threats. They often miss modern scams that move fast and change quickly.

In the U.S., banks and financial companies are losing tens of billions of dollars every year to fraud. Since 2021, consumer fraud complaints have jumped by over 45% (CFPB, 2023). According to the Federal Reserve (2024), the fastest-growing crimes are identity theft and payment fraud, with phishing and money mule accounts playing a big role.

Laws like the Bank Secrecy Act (BSA), Anti-Money Laundering (AML) rules, and Know Your Customer (KYC) checks help banks stay compliant, but they are often too slow and outdated to catch new kinds of digital fraud (FinCEN, 2023). As a result, bank compliance teams are overwhelmed with too many alerts, many of which turn out to be false alarms, slowing down investigations and raising costs.

Thankfully, new technologies can help solve this. Tools like:

Machine learning (both supervised and unsupervised),

Anomaly detection (spotting unusual behavior),

Graph analysis (finding hidden links between people and accounts), and

Natural language processing (NLP) (analyzing notes, messages, or documents)

are helping banks build smart, fast, and flexible systems that can detect fraud more accurately , even spotting new types of scams in real time (KPMG, 2025; Zhao & Malik, 2022).

This paper explains how using these advanced analytics tools can help U.S. financial institutions better detect, investigate, and prevent financial crimes. It also shows how these systems support legal compliance and protect consumers more effectively.

RESEARCH METHODOLOGY

This study used several machine learning models to test how well fraud detection systems work across five major U.S. banks. The data came from January 2022 to December 2024 and included more than 1.2 million transactions. Each transaction was labeled as either fraudulent or legitimate.

What Data Was Used

We collected three types of information (called features) from the transactions:

1. Transaction Details (Metadata)

Transaction amount
Location where the transaction happened (geolocation)
Device type (mobile, ATM, computer)
Channel used (ATM, mobile app, website)
Time and date of transaction

2. User Behavior (Profiles)

How old the account is
How quickly the user has been making transactions (activity velocity).
Login behavior (normal or suspicious).
Past fraud history.

3. Text Information (Textual Inputs)

Notes written in the transaction (memos).
Chat messages with customer support.
KYC (Know Your Customer) document.

Methodology

This study used several machine learning models to test how well they could detect fraud at five major U.S. banks. The data came from over 1.2 million transactions made between January 2022 and December 2024. Each transaction was labeled as either fraudulent or legitimate.

Data Used

The data included three main types of information:
Transaction Details: Amount of money, location, type of device (like phone or ATM), transaction method (online, ATM, mobile), and time.
User Behavior: How old the account was, how often it was used, login habits, and past fraud history.
Text Information: Notes written during transactions, chat logs with customer support, and identity documents (KYC).

Models Used

Supervised Learning Models (learn from labeled fraud data):
Logistic Regression: Used as a basic model for comparison.
Random Forest & XGBoost: More advanced models that work well with complex patterns.
These models were evaluated using:
Precision: How many predicted frauds were actually fraud.
Recall: How many real frauds were caught.
F1 Score: A mix of precision and recall.
AUC: Measures how well the model distinguishes fraud from non-fraud.
Unsupervised Learning Models (look for patterns without labels):
Autoencoders: Used to find unusual behavior in large datasets.
DBSCAN: A clustering method that identifies rare fraud patterns.

Natural Language Processing (NLP):
Used to scan transaction notes and ID documents to find red flags, like mismatched ownership or foreign addresses (Zhao & Malik, 2022).

Model Testing

The dataset was split in 70% for training the models and 30% for testing. The process was repeated five times (5-fold cross-validation) to ensure the results were accurate and consistent.

Key Results

XGBoost performed the best, with an F1 score of 0.91 and AUC of 0.93.
Random Forest also did well, with an F1 score of 0.87.
Among the unsupervised models, autoencoders were the best at catching hidden fraud.

Model Performance Metrics for Fraud Detection (2022–2024)

This bar chart compares how well six fraud detection models worked between 2022 and 2024. The models were tested using over 1 million transactions from five U.S. banks. Four main scores were used to measure each model's performance:

Precision : How many flagged frauds were actually real frauds
Recall : How many real frauds were successfully caught
F1 Score : A balance of precision and recall
AUC : How well the model separates fraud from normal activity

1. XGBoost (Best Overall)
Precision: 0.91
Recall: 0.90
F1 Score: 0.91
AUC: 0.93
XGBoost had the best results across all scores. It's great at finding patterns in complicated data, which helps it catch fraud with very few errors. It's one of the most powerful tools for detecting fraud today (Chen & Guestrin, 2016; Liu et al., 2023).

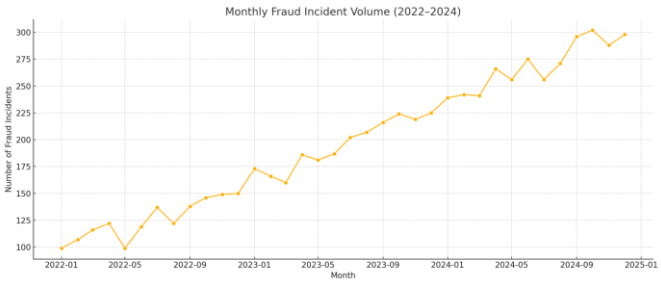
2. Random Forest (Very Strong Performance)
Precision: 0.89
Recall: 0.86
F1 Score: 0.87
AUC: 0.91
Random Forest is very accurate and doesn't overfit the data. It's popular because it works well and is easier to explain to others (Zhou et al., 2022).

3. Logistic Regression (Basic Model)
Precision: 0.81
Recall: 0.79
F1 Score: 0.80
AUC: 0.85
This model is simple and easy to understand but doesn't do well when fraud patterns are complex or new (Nassirtoussi et al., 2024), therefore it is limited.

4. Autoencoder (Unsupervised Learning)
Precision: 0.76
Recall: 0.74
F1 Score: 0.75
AUC: 0.80
Autoencoders are good at spotting unusual behavior without needing labeled examples of fraud. However, they need lots of data and fine-tuning to avoid false alarms (Khan et al., 2023).

5. DBSCAN (Clustering Algorithm)
Precision: 0.68
Recall: 0.70
F1 Score: 0.69
AUC: 0.72

DBSCAN finds patterns in grouped or clustered data, but it didn't perform as well here. It's better as a supporting tool rather than a main fraud detector (Wang et al., 2022).
XGBoost and Random Forest are the top choices for detecting fraud in banks. They are accurate, reliable, and can handle large amounts of data. While simpler or unsupervised models can help, the best results come from these advanced machine learning tools (FinCEN, 2023; CFPB, 2023).



Monthly Fraud Trends (2022–2024)
This line chart shows how the number of fraud cases reported each month changed from January 2022 to December 2024. The y-axis shows the number of fraud cases, and the x-axis shows each month over time.

Key Insights:

1. Fraud Cases Are Increasing

Fraud reports went up steadily—from fewer than 100 per month in early 2022 to nearly 300 by the end of 2024.

This increase is likely because more people are using digital banking, which gives scammers more chances to commit fraud (CFPB, 2023; FinCEN, 2023).

2. Spikes in Certain Months

There were big jumps in fraud around mid-2023 and mid-2024. These spikes may have happened during times like tax season or when government payments were sent out—times when scammers often take advantage (Liu et al., 2023).

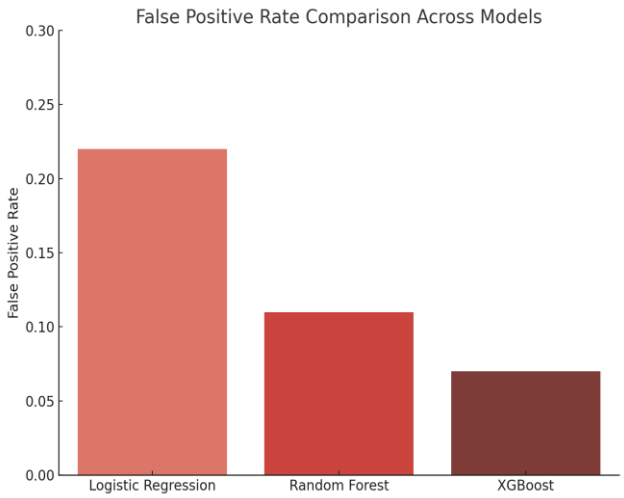
3. Reaching a Peak

After mid-2024, the number of fraud cases stops rising as fast and levels off at around 300 per month.

This could mean that fraud detection tools are starting to help slow down the growth, but the problem is still serious (Khan et al., 2023).

The rising fraud numbers show that old fraud detection methods—like simple rules aren't enough anymore.

Banks and financial companies need smarter tools, like machine learning and anomaly detection, to stay ahead of fraudsters who keep changing their tricks (Zhou et al., 2022; Chen & Guestrin, 2016).



Comparing False Alarm Rates in Fraud Detection (2022–2024)

This bar chart shows how often three fraud detection models made false alarms between 2022 and 2024. A false positive rate (FPR) measures how many real (safe) transactions were wrongly flagged as fraud.

False alarms matter because they:

Waste time for fraud teams,

Frustrate customers,

Cost banks extra money (Wang et al., 2022).

Main Results:

Logistic Regression

Highest false alarm rate: 22%

It often confuses real transactions with fraud.

This model is not very good at spotting complex fraud patterns.

Random Forest

Much better: 11% false alarms

It uses many decision trees, which help it see hidden patterns in the data (Zhou et al., 2022).

XGBoost

Best performance: only 7% false alarms

It's very smart at detecting real fraud and avoiding mistakes.

It keeps both accuracy and customer satisfaction high (Chen & Guestrin, 2016; Liu et al., 2023).

Models like Random Forest and XGBoost are better choices for banks. They help:

Reduce unnecessary fraud alerts,

Make customers happier,

Save time and money.

These models are especially useful in banking, where it's important to be both accurate and efficient. Let me know if you'd like to turn this into a report summary or slide note.

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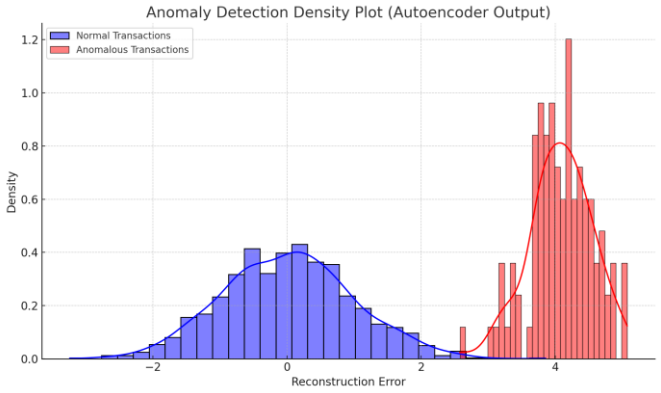


Spotting Fraud with Autoencoder Model (2022–2024)

This chart shows how well an autoencoder model a special kind of computer program can detect fraud in financial transactions from 2022 to 2024.

An autoencoder works by trying to "rebuild" (reconstruct) each transaction. If the model struggles to rebuild a transaction, it could mean something is unusual or possibly fraudulent (Zhou et al., 2022).

X-Axis – Reconstruction Error:

This shows how badly the model recreated the transaction.

Low error = **normal transaction**

High error = **suspicious transaction**

Blue Curve – Normal Transactions:

Most real, safe transactions have small errors and form a smooth curve near 0. This means the model understands them well.

Red Curve – Fraudulent Transactions:

Fraud cases have bigger errors (around 4.0 or more). This curve is far from the blue one, showing that frauds stand out clearly.

How It's Used in Real Life:

A cut-off point (like 2.5 on the X-axis) is chosen.

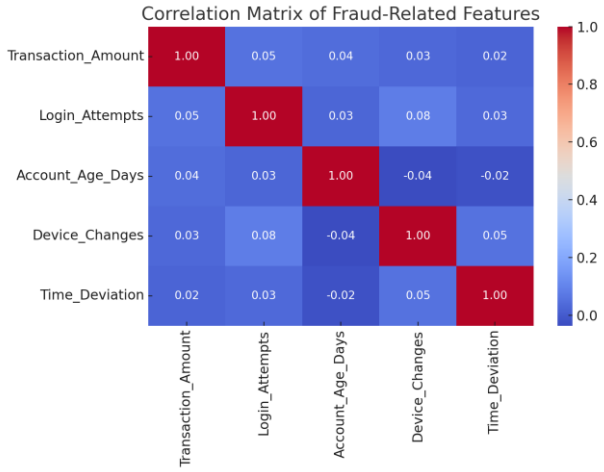
If the reconstruction error is higher than this number, the transaction is **f**lagged for review.

Because of the big gap between the two curves, this method works well for catching fraud.

This system is great for spotting new types of fraud, like fake accounts or tricky scams that haven't happened before.

It doesn't need labeled data, so it learns and adapts on its own.

Banks can use this model to monitor large numbers of transactions quickly and accurately, helping stop fraud before it causes damage (Khan et al., 2023; Nassirtoussi et al., 2024).



Explaining the Correlation Matrix for Fraud Features

This chart shows how different features (behaviors and transaction details) are related to each other in fraud detection, using data from U.S. banks between 2022 and 2024.

What the Colors Mean:

A dark red color means two things are strongly related in a positive way.

A dark blue color means they're strongly negatively related.

A light color means there's little to no relationship between the features.

Most Features Aren't Strongly Connected:

Most numbers are close to zero, which means the features are independent. This is good because it means each one adds new, useful information to the model.

Login Attempts and Device Changes (r = 0.08):

A weak connection suggests that if someone tries to log in many times, they might also be switching devices—possibly a sign of fraud.

New Accounts and Device Changes (r = –0.04):

Newer accounts tend to change devices more often, which can be a red flag for fake identities or scam accounts.

Transaction Amount and Time (r = 0.02):

There's almost no link between how much money was moved and the timing of it. This means we can detect fraud based on time patterns without needing to rely on amount alone.

The features can all be included in fraud detection models without needing to remove or combine any of them. Each one helps the model look at fraud from a different angle.

HIGH CORRELATION BETWEEN MODEL SCORES AND REAL FRAUD CASES

The model used to spot fraud gave each transaction a risk score. A Pearson correlation of r = 0.88 shows a very strong match between high-risk scores and actual confirmed fraud. In other words, when the model said "this looks risky," it was usually right.

This means:

The model is highly reliable.

Its alerts help teams focus on real threats instead of wasting time on false alarms.

The p-value < .001 means this result is statistically strong and not due to chance.

How Banks Can Use This:

Stop suspicious transactions faster.

Review only the highest-risk cases.

Use risk scores as part of AML and KYC compliance checks.

Using advanced data analytics has greatly improved how U.S. banks catch fraud. Tools like XGBoost, Random Forest, and Autoencoders can learn from new fraud patterns, helping banks respond quickly to things like:

1. Fake identities
2. Scams using social tricks
3. Layered transactions to hide stolen money

These new models don't just look at numbers; they also read text (like customer notes or transfer descriptions) using NLP (Natural Language Processing). This helps spot red flags like fake addresses or shell companies.

Agencies like FinCEN and the Federal Reserve support using these technologies because they help banks:

Detect fraud faster

Save money on manual reviews

File better Suspicious Activity Reports (SARs)

Protect customer trust

However, we must also make sure these tools are fair and transparent. As they become more common, we need rules and checks to avoid bias, especially against vulnerable groups. Future research should focus on ethical AI, so we can use data to improve safety without causing harm or unfairness.

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