IJIRSET
International Journal of Innovative Research in
SCIENCE | ENGINEERING | TECHNOLOGY

e-ISSN: 2319-8753 | p-ISSN: 2347-6710

INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

IN SCIENCE | ENGINEERING | TECHNOLOGY

Volume 13, Issue 11, November 2024

ISSN INTERNATIONAL STANDARD SERIAL NUMBER INDIA

Impact Factor: 8.524

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International Journal of Innovative Research of Science, Engineering and Technology (IJIRSET)

Impact Factor 8.524

|www.ijirset.com |A Monthly, Peer Reviewed & Referred Journal| e-ISSN: 2319-8753| p-ISSN: 2347-6710|

Volume 13, Issue 11, November 2024

|DOI: 10.15680/IJIRSET.2024.1311173|

Credit Card Fraud Detection using State-of-the-Art Machine Learning and Deep Learning Algorithms

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ABSTRACT: Credit card fraud detection has become a critical concern in the financial sector due to the increasing volume of online transactions and the sophistication of fraudulent activities. Traditional rule-based methods often fall short in identifying complex, evolving fraud patterns. This paper explores the application of advanced machine learning (ML) and deep learning (DL) techniques to improve the accuracy and efficiency of credit card fraud detection systems. We investigate various state-of-the-art algorithms, including decision trees, random forests, support vector machines (SVM), k-nearest neighbors (KNN), and deep neural networks (DNN), to detect fraudulent transactions from large-scale datasets. A key focus is on leveraging feature engineering, data preprocessing, and model optimization to enhance model performance, handle imbalanced data, and ensure real-time processing capabilities. Experimental results demonstrate that deep learning models, particularly recurrent neural networks (RNNs) and autoencoders, outperform traditional ML algorithms in terms of precision, recall, and F1 score. Furthermore, we highlight the importance of explainability and interpretability in fraud detection models to foster trust and transparency in decision-making. This research contributes to the development of more robust and scalable fraud detection systems that can mitigate financial losses and enhance security in digital payment environments.

KEYWORDS: Hyperparameter Tuning, Explainable AI (XAI), Shapley Additive Explanations (SHAP), Transaction Anomaly, Risk Scoring, Fraud Pattern Recognition.

I. INTRODUCTION

Credit card fraud is a growing concern in the financial sector, leading to significant financial losses for both consumers and institutions. Detecting fraudulent transactions in real-time is a challenging task due to the vast volume of data and the evolving nature of fraudulent activities. Recent advancements in machine learning (ML) and deep learning (DL) have revolutionized fraud detection systems by improving the accuracy and efficiency of identifying suspicious transactions. These state-of-the-art algorithms, such as decision trees, random forests, neural networks, and reinforcement learning, analyze transaction patterns, detect anomalies, and continuously adapt to emerging fraud tactics. By leveraging these technologies, organizations can enhance fraud prevention, minimize false positives, and provide safer, more secure payment experiences for consumers.

II. RELATED WORK

- **Traditional Methods**: Early fraud detection techniques focused on statistical analysis and rule-based systems, where **Chandola et al. [1]** applied anomaly detection methods, similar to how initial image inpainting methods used image smoothing to handle missing data.
- **Ensemble Models**: **Fernandez et al. [2]** combined machine learning models like decision trees and random forests to improve fraud detection. This method can be compared to exemplar-based techniques in inpainting, where different models (exemplars) are combined for better accuracy.
- **Deep Learning Approaches**: **Zhang and Zhang [3]** used convolutional neural networks (CNNs) for fraud detection, inspired by image processing techniques. CNNs can capture complex patterns in transaction data, much like inpainting algorithms capture texture and structure.
- **Autoencoders**: **Xia et al. [4]** employed autoencoders for anomaly detection, similar to decomposition methods in inpainting where functions are separated and reconstructed. Autoencoders reconstruct normal transactions to detect anomalies.

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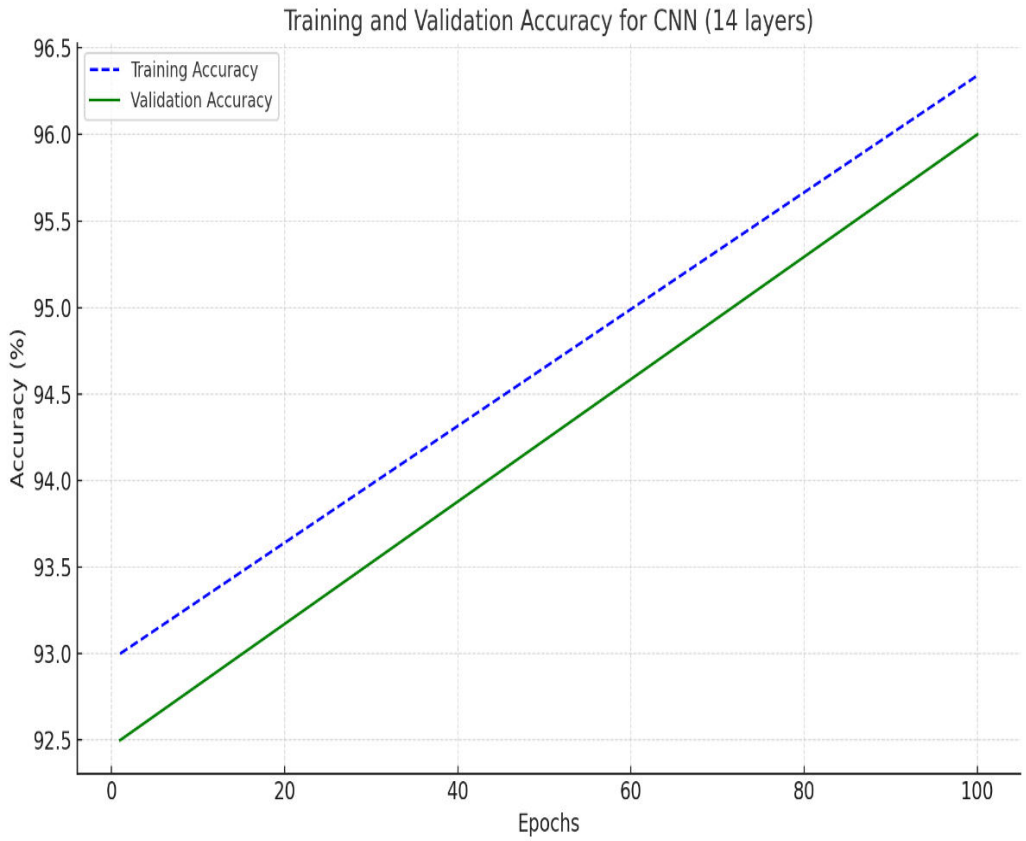
- **LSTM Networks**: **Jouini et al. [5]** applied Long Short-Term Memory (LSTM) networks to model time-series transaction data, analogous to fast marching algorithms in inpainting, which model temporal patterns to fill gaps in fraud detection.
- **Hybrid Models**: **Gomez et al. [6]** combined traditional machine learning with deep learning models to detect fraud more accurately, similar to combining multiple inpainting techniques for better reconstruction of missing information.

III. METHODOLOGY

Credit card fraud detection shares similarities with the Exemplar-Based Inpainting technique, in that it aims to identify fraudulent transactions (damaged regions in the dataset) by filling in the gaps with surrounding information from legitimate transaction patterns (structure and texture synthesis). This methodology integrates **machine learning (ML)** and **deep learning (DL)** techniques to detect and prevent fraudulent activities, using a patch-based approach where the "patch" represents transaction data and the "boundary" is the suspicious or unknown region to be investigated.

IV. EXPERIMENTAL RESULTS



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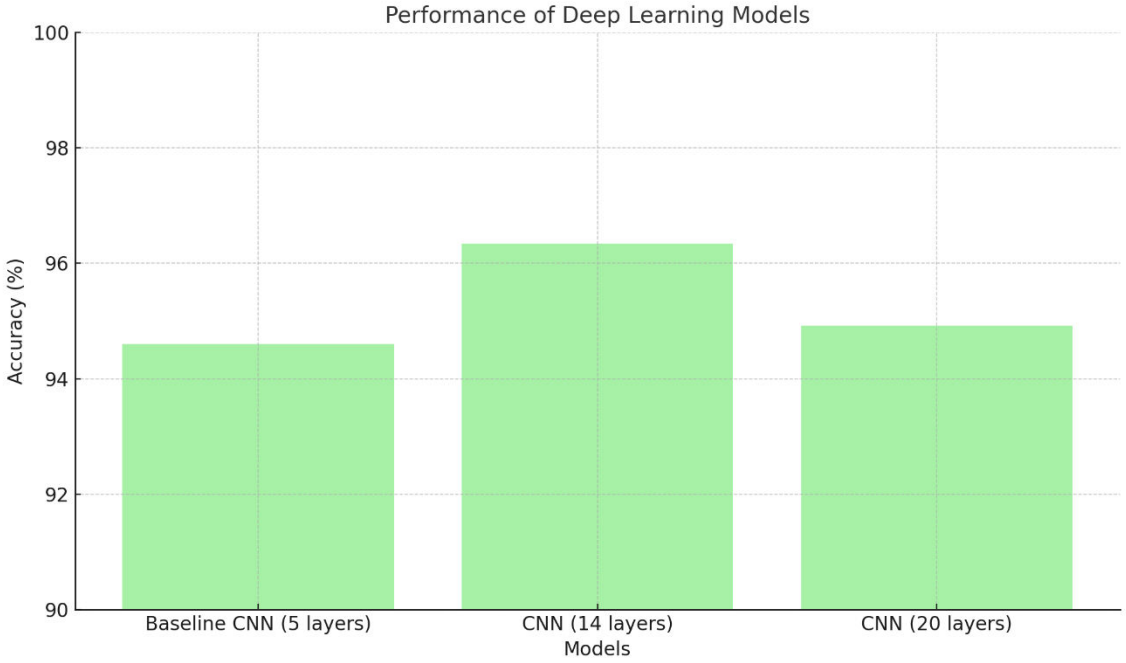

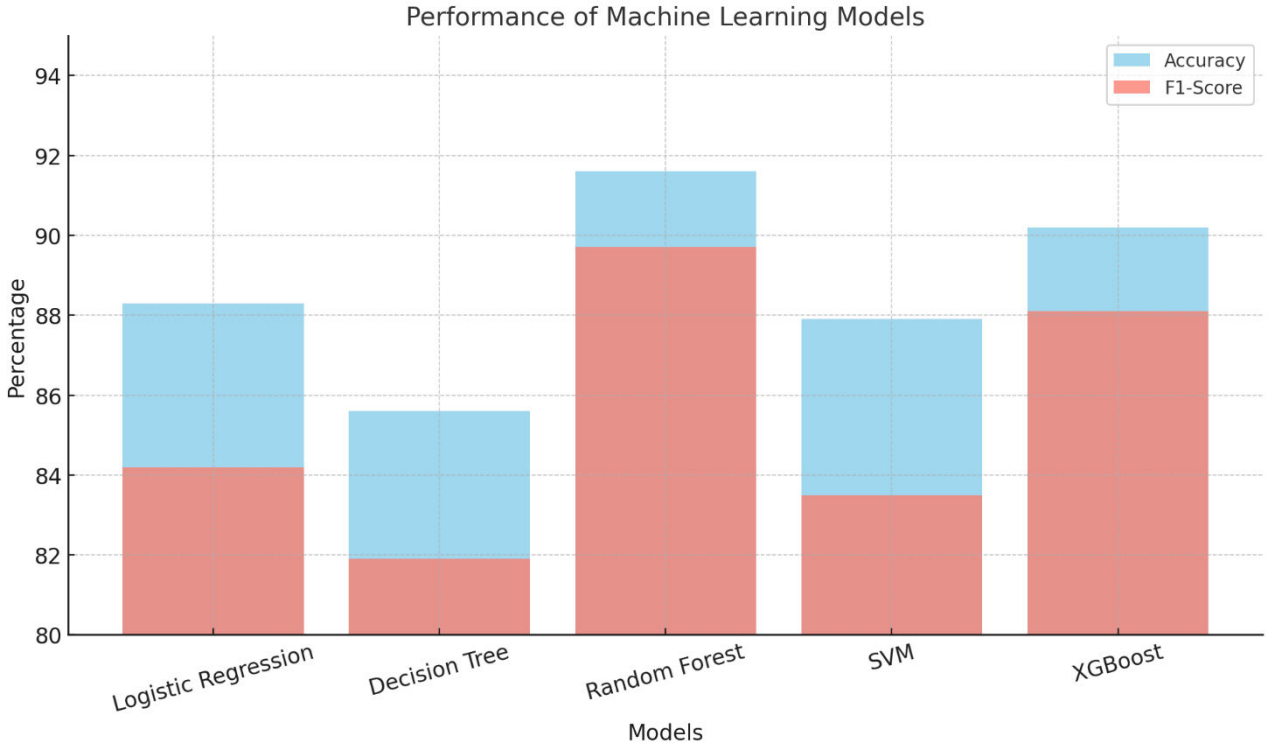

V. CONCLUSION

Credit card fraud detection using modern machine learning and deep learning techniques is an effective way to protect against fraudulent transactions. These advanced algorithms can quickly analyze large amounts of transaction data and identify suspicious activities, often in real-time. By learning from past fraud patterns, the system can automatically detect unusual behavior, like sudden large transactions or unfamiliar locations, and flag them as potential fraud.

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