10.48047/jocaaa.2024.33.08.80

Agentic AI-Enabled Fraud Prevention: Multi-Agent Collaboration Models for Real-Time Threat Detection and Response in Digital Banking

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Abstract

In the era of digital banking, ensuring the security and integrity of financial activities has become paramount. Financial frauds, particularly in online banking and credit card transactions, pose serious threats to the global economy and the financial well-being of individuals. Billions are lost annually due to fraudulent activities, highlighting the need for more robust detection mechanisms. Bank account fraud differs from other financial deceptions in its methods, impacts, and detection challenges. The consequences for the victim can be long-lasting, both financially and emotionally. Understanding and mitigating these threats requires thorough research.

The extensive use of the internet is continuously drifting businesses to incorporate their services in the online environment. One of the first spectra to embrace this evolution was the banking sector. Since then, internet banking has been offering ease and efficiency to customers in completing their daily banking tasks. The ever-increasing use of Internet banking and the large number of online transactions increased fraudulent behavior. This presents a serious problem and a definite reason why more advanced solutions are desired to protect financial service companies and credit card holders.

Therefore, efficient fraud detection techniques are needed to protect banks, credit card companies, and account holders from financial loss and identity theft. Among the different types of transactions processed nowadays, electronic funds transfers made in the form of Internet banking account transactions are preferred by users worldwide. These transactions are performed online and require a user to log into their respective bank accounts via the Internet. Transactions can be generated from a customer's bank account only after proper logging in. Failure to successfully log in will block the customer from using internet banking services. However, remote banking fraud happens after proper log-in and sensitive pieces of information from the account holder are stolen by executing a carnal web browser or phishing server. With substantial internet transaction volume, this class of fraud has become highly lucrative, raising unprecedented losses.

Keywords: Agentic AI, Fraud Detection, Multi-Agent Systems, Digital Banking Security, Real-Time Threat Detection, Collaborative AI Models, Autonomous Agents, Financial Cybersecurity, AI-Driven Fraud Prevention, Behavioral Anomaly Detection, Distributed Intelligence, Threat Response Automation, Adaptive Risk Management, Secure Transaction Monitoring, Explainable AI (XAI) in Finance.

1. Introduction

The rapid adoption of digital banking has transformed the financial services industry, offering customers convenience, accessibility, and reduced transaction costs. However, the digitization of banking services has also expanded the threat landscape for financial crimes, which led to a rise in increasingly sophisticated fraud attacks targeting the financial sector. The threat of fraud has drawn the attention of regulators, who see its prevention and detection as essential for the survivability of the financial services industry. The restriction of fraud-related fines and requirements for monitoring suspicious transactions has placed a heavy burden on financial organizations. Anti-money laundering and fraud detection systems adopted by financial organizations have their foundation in statistical models, rules-based systems, and machine learning classification benchmarks.

Despite the extensive literature on banking fraud detection, detecting accounts with a fraud attempt is only a small subproblem of fraud detection. Account fraud detection is extremely prevalent yet unraveling effective methods to deal with it has not been as prolific of research in recent years. Existing studies on fraud detection are heuristic methods of learning classifiers mostly on synthesized datasets. With the proliferation of social media and online activities, huge records of user behaviors can be collected to improve detection effectiveness via classification or graph analytics. However, user privacy is compromised as these logs usually involve sensitive attributes. There is thus a strong demand for low-cost privacy-preserving account fraud detection mechanisms.

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In this study, three important questions in fraud detection are addressed: First, is it possible to detect accounts with only a few observations? Second, is it applicable to detect potentially fraudulent activities without sensitive features? Third, how to ensure user privacy while developing a fraud detection service for an organization? To tackle these issues, a generative modeling framework is first established, which leverages historical observations of activities of accounts to build a Probabilistic Latent Block Model that can be used to generate additional records for a fraud detection model. To protect client privacy while building the generative model, a federated learning framework is developed for multiple clients to collaborate on modeling without sharing private data. To mitigate threats against adversarial attacks, a robust Bayesian framework is studied, where a collection of vulnerability prior distributions are learned, which are then used to calculate attack-aware detection priors. The experimental results show that, in terms of making the most of information from limited records and effectively suppressing sensitive information on recommended content, the proposed scheme can yield much higher fraud detection performance compared with existing methods.

1.1. Background and Significance

Fraud detection has become a necessity in the ever-growing industry of banking and Internet finance, where online transactions continue their vigorous growth. The widespread access and increased acceptance of online banking have also increased the number of fraudulent activities. The propensity of such activities is not only threatening the financial success of credit institutions but also incredibly harmful to customers as most of the time monetary theft incites an emotional toll. Fraud prevention is a branch of investigation and securities sector dealt with by forensic accountants, private investigators, and experts in law enforcement. This reinforcement is not only costly but still holds the risk of loss. The best solution methodology is always minimizing fraud and theft to the utmost. Consequently, this labor-intensive process is in its unsuitable form compared to the high rate of transactions. It should be automated to a considerable extent using computer systems, software, advanced analysis, and an immense capacity for parallelism and storage.

Digitalization ease of transactions brought an increase in fraudulent operations. Being a profitable target for money laundering, terrorist financing, fraud attempts, and loss of reputation, the banking sector invests a lot in preventing such activities. One of the first commercial uses of fraud detection systems was anticipated 50 years ago with the winter sporting event in the US. The purpose was to detect odd wagering behavior and undercover betting rules with more offensive schemes. Ever since new technologies and machine learning capabilities have been orchestrated along with the sophistication of threats. To differentiate financial fraud types, money laundering schemes attempt to conceal any traces of illegal incomes whereas terrorist financing schemes tend to lure money directors to legit bank accounts. Nevertheless, credit/debit card frauds represent the majority of banking losses. As a different challenge, such financial deception attempts are passive to conceal a lifestyle from creditors or obligations. Easier to carry as low aspirations and less inclination to become violent, payments vanish into the virtual realm of the internet. Tighter regulations and usage costs discard transactions of lower significance for fraudsters. Consequently, they return to lower purchase indulgences or first usage of payment cards since they are hardly missed until very late.

Fig 1: Agentic AI in Fraud Detection & Prevention.

2. Understanding Fraud in Digital Banking

In the era of digital banking, ensuring the security and integrity of financial activities has become paramount. Due to the advancement of technology with the advent of Internet banking, credit cards, online transactions, and e-commerce, the finance industry has been rapidly evolving and offering ease and efficiency to customers in completing their daily banking tasks. Digital banking, particularly online banking, is the most complex yet widely used banking channel and has acted as a catalyst for other banking instruments such as credit cards. Due to the widespread use and flexibility of online services, this type of fraud presents a serious threat to the global economy, the trustworthiness of financial institutions, and the financial well-being of individuals. Billions are lost every year due to fraudulent activities in banking and credit lending agencies. Online banking and credit cards provide convenience, but they can be misused by criminals to commit fraud. Moreover, the network of online services is exponentially increasing, creating danger zones for fraudulent behaviors that put the lifecycle of a customer's financial existence at risk. Therefore, there is a

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pressing need for more robust detection mechanisms. Bank account fraud is a severe form of financial deception that differs from others in its methods, impacts, and detection challenges. Unlike its counterparts, bank account fraud is committed through unnoticeable modes of operation, such as unauthorized funds transfer, account takeover, and identity theft that lead to the misuse of legitimate funds.

This type of fraud is even more dangerous because its consequences for the victim are long-lasting, both financially and emotionally. Hence, understanding and mitigating such profound threats requires thorough investigation and research, underpinned by a rich and diverse dataset. In the quest to develop a bank account fraud detection system, an ML-based system is frequently adopted for its high aptitude in training systems to deliver precise predictions based on data inputs. However, one challenge with the centralized model is that different banks often face diverse fraudulent behavior, and this may hinder their ability to spot new fraudulent behaviors.

2.1. Types of Fraud

The essence of money transfer is trust in the transaction partner. Financial fraud refers to any illicit act that misappropriates or misuses money without obtaining the full consent of the owner. As the online banking environment captures customer engagement and market share, fraud attacks increase. Misuse of the digital banking platform attributes leads to financial fraud. Five types of fraud are detected: screen scraping, SIM swap, device ID spoofing, phishing-based account takeover, and transaction manipulation.

Screen scraping fraud occurs when fraudsters take hastily constructed and inadequately studied fake phone applications that mimic the original application of a target bank. The victim downloads the imitation app, which is retrospective free of charge and offers product benefits outside the services of the real app. Fraudsters use the FI’s trust to gather all sensitive personal and account transaction information. The victim often does not notice that they have become a subject of the scam and provides all the necessary information for conducting illicit transactions.

Another fraud case is SIM swapping. In this instance, the fraudster persuades the mobile carrier to transfer the victim's phone number to another SIM card. The new SIM is then inserted into the fraudster's mobile device. When the victim logs into the online banking application, he performs an authentication step requiring one-time passwords (OTPs) sent to the victim's phone number. Instead of going to the victim's phone, the OTPs are received by the fraudster, who can initiate illegitimate transactions.

Device ID spoofing is another tactic. When multi-factor authentication is used, information about the mobile device must be captured as an extra layer of security to identify the device that engages in the session. The aggregates of multiple mobile device parameters are unique for each mobile device and are known as device IDs. When device ID spoofing fraud occurs, fraudsters capture the target's device ID using available methods and transactional proxies. The captured device ID is filled into the parameters set by a kernel on the fraudster's device. For this reason, the fraudster's device appears to be the victim's device, which confuses the fraud detection system.

2.2. Impact of Fraud on Financial Institutions

In the era of digital banking, the security and integrity of people's financial activities are paramount. The move to a cashless society, while convenient, has also spurred various fraudulent activities and scams reminiscent of classic plots by conmen. Financial frauds pose serious threats to the global economy, trustworthiness, and affordability of financial institutions, as well as the financial well-being of individuals. Losses due to financial frauds in the UK alone topped £1.3 billion in the year 2021, where £4.6 billion consisted of authorized push payment (APP) scams. According to the same report, account takeover fraud losses soared to £1.3 billion (+5%), while online banking scams remained at record-high levels of £532 million. This growing phenomenon has captured the interests of the public, researchers, and regulatory forces, leading to rigorous research by financial institutions in combating and identifying fraud.

Fraudulent schemes or financial fraud can be defined as intentional illegal methods or practices to obtain financial gain. Financial fraud is a broad term encompassing many crimes and is also a cause of pressing concern for many social and economic structures. Financial fraud affects the industry from the aspect of lost income, which may then lead to loss of faith in the industry as a whole, reduced stock prices, dropped trustworthiness, and potential business closure. The economy can suffer from financial fraud that destabilizes national and international markets and affects the cost of living. Today’s electronic banking infrastructure is subject to different financial fraud schemes that exploit a bank’s connection to an account holder or user and attempt to transfer funds illicitly. However, bank account fraud is a distinct form of financial deception. Fraud schemes often employ fabricated documents to apply for accounts through which money is gleaned. Possible fakes or guises, and sometimes the energy and motivation to imagine new ones after each foiled attempt, shift the responsibility for loss. One major impact of the fraud is that the victim of the scheme suffers a loss. The burden of proof sits with the

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victim; standard banking regulations state that if someone provides the correct account number and code, the transfer is deemed authorized. Financial institutions are liable to ensure safe transactions. But an account may be new, or cameras fail, or employees feel overwhelmed or are the wrong race, class, or gender, causing them to be dealt with more harshly.

Equ 1: Fraud Probability Score (FPS).

$$\mathrm{FPS}_i = \sigma\left(\sum_{j=1}^{n} w_j \cdot f_{ij}\right)$$

- f_{ij} = Feature j of transaction i (e.g., amount, location, time)
- w_j = Weight learned by the agent model
- σ = Sigmoid function to scale output between 0–1
- **Purpose**: Estimates the likelihood that transaction i is fraudulent.

3. AI and Machine Learning in Fraud Detection

The usage of Artificial Intelligence (AI) and Machine Learning (ML) technology has gained significant popularity in recent years. AI and ML technology continuously evolve, proving their abilities in different areas of decision-making and automating monotonous tasks commonly performed by humans. With age, as more and more data becomes available and computing architectures become cheaper, the ability of AI systems to tackle even more complex problems continues to grow. However, this heightened accessibility raises critical concerns about the understanding and reliability of AI and ML models deployed by real-world companies. As more and more AI agents are in control of crucial services such as communication, banking, and self-driving cars, it becomes necessary to inspect these models further to understand how they make predictions. It is necessary to account for the decisions made to ensure one party's liability and to ensure that AI agents cannot be manipulated. In recent years, more attention has been given to understanding AI agents (AI transparency) and protecting the data they can access (ML privacy).

Fraud has always been a disturbing menace, and it is exacerbated by the advancement of new technology. The development of platforms and channels that can be used to trade financial instruments has also amplified the avenues for fraudulent behavior. As a result, there is constantly something new to invest in, and at the same time, there is always something new to scam on in the form of fraudulent devices. The advancement of technology has resulted in the rise of new types of fraud, such as mobile telecommunications scams and computer breaches, which have outgrown academic and regulatory understanding. Fraud has always received scholarly attention, but awareness of new forms of fraud is lacking. The nature of fraudulent behavior has been the subject of substantial scholarly attention and understanding. The theoretical basis of this work stems from the work of Cressey and the ‘fraud triangle.’ The framework identifies three factors that lead an individual to commit fraud: the incentive or pressure to commit fraud, the presence of an opportunity to commit fraud, and the rationalization by the perpetrator that justifies the fraudulent action.

Fig 2: AI/ML Improve Fraud Detection.

3.1. Overview of AI Technologies

To enhance services and organize operations, banks are gradually transitioning to integrate emerging digital technology solutions. As the revolution of banking technology progresses, banks must adopt cutting-edge technology solutions that can assist them in achieving their objectives. New banking consumer behavior has emerged as a result of digital banking. Customers are becoming more self-sufficient and require immediate banking solutions. They expect banks to enable rapid responses to queries with tailored recommendations or offers. They prefer omnichannel service and expect banks to merge online and physical services seamlessly. In addition to sophisticated online banking service requirements, they expect digital banking service providers to provide a higher level of security against bank-related fraud.

AI is a branch of FinTech specializing in the intelligence of machines. Many banks are starting to integrate FinTech into their services because customers want more choices, flexibility, and control over banking. The financial sector is an area where AI and FinTech can offer banks improved

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efficiency and costs. The impacts and challenges of AI in retail banking have not yet been investigated in depth. A few examples of the different roles that AI is playing in the banking sector include Robo-advisors, which analyze and assess customers' risk profiles, and provide Asset Management recommendations. AI-enabled virtual banking assistants or chatbots, communicate with clients through text or speech and answer their queries by using Natural Language Processing. AI can suggest proactive offers based on customer behavior. AI models can darken money-laundering schemes. AI converts a huge volume of financial data into knowledge.

To mitigate damage from bank-related frauds, essential decisions are to be made in real time, and bank fraud detection is not an exception. With the worldwide increase of fraudulent transactions that need to be identified for the welfare of both banks and their clients, banks invest heavily in establishing advanced systems to get ahead of the hackers. In a data-based world, they relied on data to prevent bank account fraud. Nonetheless, bank datasets not only hold confidential data but also present imbalanced datasets on the banks' databases, where fraudulent instances are less ubiquitous than legitimate ones. As the realization of fully decentralized applications with secure data handling and communications is still far ahead, this study aims to model a basic architecture to secure sensitive consumer information while offering an automated banking fraud detection mechanism.

3.2. Machine Learning Algorithms for Fraud Detection

Fraud detection in the banking sector is a domain of growing interest. Banks attempt to ensure that transactions are executed by cardholders and help guard against unintentional policy violations or criminal transactions. Fraud detection prevents a loss of funds or financial information by credit card issuers and financial institutions over time. Regulatory organizations enforce severe fines and criminal charges for consumer data breaches or violations. Fraud detection seeks to identify data patterns that differ from confirmed frauds and flag these transactions for further investigation after being labeled as fraud. The banking sector plays a major role in everyone's life. When you share your credit card details with a corrupt person, this leads to online fraud, phishing, and spamming. So, it's very imperative to analyze the effect of credit card fraud. They are classified as insurance fraud, credit card fraud, accounting fraud, etc., which results in financial loss to the customers or banks. High-value transaction in unusual locations or merchants needs additional verification. Traditional methods use rule-based systems to discover fraud practices by identifying known fraud cases prior but not focusing on dire situations. The existence of extreme imbalance of negative and positive instances, with only 0.016% of fraudulent transactions. The current traditional systems use around 400 different methods to validate a transaction. The algorithms require to addition of more scenarios physically and can't detect uncorrelated relationships. When you provide an input of highly unbalanced data to the ML, your model becomes partial towards the actual dataset. Fraud can also be seen as a black sheep. There are certain hidden and subtle events in the behavior of a user that can still indicate probable fraud. By using ML, it's easy to create algorithms to process big data sets with different variables, by which it's then easy to identify the concealing correlations between the behavior of the user and the fraudulent actions. Major financial institutions are already using ML technology to tackle fraudsters. It's the best of both worlds, to use the latest technology in the area of one's expertise. The objective of this project is to reduce the number of incorrect declines in merchant payments. The clients' loss is around 9 billion $ per year.

4. Multi-Agent Systems: An Overview

Multi-agent systems (MASs) have garnered significant attention in a range of applications, and many researchers have investigated the benefit of easily integrating different types of agents into a single model for system development. With increasingly complicated systems it is often impossible to produce solutions using classical, monolithic methods, as rapid changes in complexity and/or quantity would necessitate far more CPU time and memory than are available. As a consequence, alternate, agent-based solutions capable of decomposition into parallel subsystems with smaller numbers of interactions have become more attractive. Multiagent environmental systems established latterly have elicited attention from various fields. In producing intelligent devices, such as for reasoning with incomplete information and elementary mathematical 'thinking', an agent environment enabling a mixture of different types of agents is beneficial. Exploration of the artificial life field has produced interesting, flocking organisms with swarming behavior. Consideration of diffusing agents results in chemical simulation platforms. Agent-based solutions also provide new insight into economic issues and simulate various phenomena. MASs, understood as virtual worlds populated by a large number of autonomous agents with independently-defined behaviors, have been employed for modeling biological and socioeconomic phenomena.

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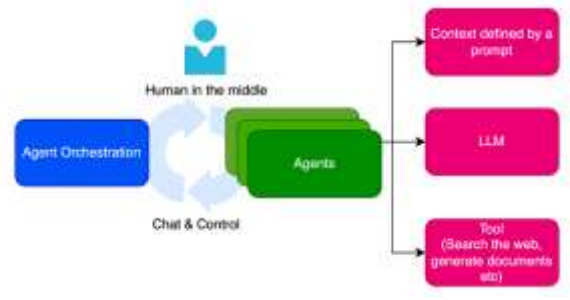

Fig 3: Multi-Agent System.

In multi-agent systems, the complexity and unpredictability of real-world situations often require specialized problem solvers (agents) to cooperate to find solutions beyond their capabilities. When there is more than one agent, we deal with a multi-agent system. On the other hand, Agent-based models are useful in modeling complex, nonlinear systems and are generalizations of analytical models, especially when the system consists of numerous interacting autonomous objects. These special classes of computer simulation models called agent-based models (ABM) have recently been widely used in studies of various real-world systems, such as traffic, ecology, social systems, and networks. The agent-based concept enhances the performance of biometric systems and the detection of inappropriate behavior. This work proposes a complementary approach using the agent-based paradigm for simulation to analyze interactions between the authenticator and the authenticated.

4.1. Definition and Characteristics

Fraud detection has been around for decades. The high growth of the e-commerce and online payment market and the huge increase in the amount of payment data make it a challenging task. Fraud detection deals with classifying data into legitimate or fraudulent instances. The identifying characteristics of a fraudulent transaction differ from the usual ones. Fraudsters tend to manipulate frauds which makes the identifying patterns change periodically. The determinants of legitimate transactions dominate the activity of legitimate customers at some point in time, while at different times or after different transactions, fraudulent and legitimate customer activity is different. Detecting fraud through manual methods is slow, time-consuming, and expensive. Hence, an automatic fraud detection system model becomes necessary that responds to fraudulent actions quickly. Moreover, since financial markets change fast, a fraud detection system model must adapt to the changes in data distributions. The bank established a series of transaction details, details concerning deposits and withdrawals, transactions for each account, details concerning checks clearance, a record of giving accounts to customers, and financial transactions and balance data. All of these series can be treated as user behaviors, potentially disclosing user habits. Complicated behaviors induce deep user relationships.

Fraud detection methods were developed before relying on traditional data mining methods. Proposed converting account behaviors into graphs and proposed a novel path-based fraud detection method. They unfolded fraud detection as an unsupervised network anomaly detection task. An unsupervised network anomaly detection method that captures transaction context is used. First, the transactions of the account are converted into directed weighted graphs. Second, a novel fraud detection mechanism is proposed based on a multi-weight path co-occurrence hash mechanism. A novel path feature is generated by exploring co-occurrence paths, which captures the structural information of similar paths in terms of both direction and weight. This can be compactly stored and stored in hashes of a variant hash value length. Finally, locality-sensitive hashes (LSH) are used for real-time fraud detection in large financial transaction scenarios. Such path-based fraud detection methods demonstrate better performance than graph-based approaches.

Focused on the detection of bank frauds using a data-driven approach. Though a considerable number of methods exist that can detect and monitor fraudulent activities, most of them focus on the preparation of the model rather than capturing the behavior of the data itself. In this research paper, a comprehensive approach is described that continuously monitors and adapts to the data. Also, extensive experiments on a data set encompassing a complete time frame where frauds occurred are presented, such that necessarily representative and enough data is used to prepare and evaluate the fraud detection model.

4.2. Applications in Financial Services

Financial fraud has always been a major threat to banks and the banking system, security, and trust in digital banking have drawn considerable attention in recent years. With the development of advanced intelligent technology, banks are increasingly adopting Machine Learning (ML) and artificial intelligence to build intelligent risk prevention systems to identify the characteristics of suspicious behaviors based on transaction data. However, it is observed that the authors do not consider the explainability when developing the risk prevention systems. As a result, the situation has occurred that surveillance systems produce black-box decisions and customers have no idea about the reasons for being tagged as a fraudulent transaction. Based on the explainability, transparency, and privacy levels, two intelligent agent-enabled processing architectures are proposed to deal with

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this challenge. These systems first perform a knowledge extraction process and build an explainable risk prevention agent in an online manner. Together with the level of transparency of the explainable risk prevention agent, provenance and model reflectability are introduced, enabling a high level of explainability for AI processing in the structure. The power of the proposed intelligent processing agents is verified through a case study showcasing their usefulness in bank fraud detection research and implementation. Online banking payment systems are widely adopted and their security is becoming increasingly important. With the significant prevalence of online banking payment systems, fraud risk has also emerged. The existing financial fraud detection systems mainly enhance the system security with privacy leakage threats. To overcome these issues, a federated hybrid processing agent-enabled financial fraud detection system is proposed. This intelligent agent system is composed of federated aggregation agents, machine learning training agents, financial fraud detection agents, and traffic light agents. The negligibly small privacy leakage is guaranteed through the proposed agent-enabled architecture. Moreover, the trade-off between efficiency and accuracy is independent of the threshold value of update counts. Furthermore, it achieves a significant accuracy gain with high levels of efficiency on the comparative models through a comprehensive case study.

5. Collaboration Models in Multi-Agent Systems

This section will look at the agent-based collaboration model for security prevention scenarios originating from an AI-enabled multi-agent system in the digital banking domain.

The multi-agent banking system (MBAS) implements collaboration among agents to achieve various tasks. This model used in this research is extended for fraud detection based on real-time alerts from data repositories on the banking system's activity—representing spontaneous events. Collaboration models are an essential part of multi-agent systems because they outline the interactions, coordination, cooperation, and synchronous behavior among the agents. AI-enabled multi-agent systems should have collaboration models to deal with security events that may roam through the banking system, including misconfigurations or fraud, without human operators' intervention. Hence, collaboration among groups of agent systems should be pre-programmed or configured into the agents.

A collaboration model is a high-level task-oriented specification describing how agents work together to achieve particular goals. The collaboration model provides all the necessary atomic units; however, it may remain up to the agents to determine how to accomplish the individual tasks. The roles in the collaboration model are abstract; the execution of the collaboration can take many forms. The use of human-child-friendly language is intended to make it possible for human-challenged people to utilize multi-agent systems and their collaboration coordination. The collaboration model represents with familiar preparation devices what the roles do in their task domains. Each of the devices consists of several operator symbols corresponding to the basic and implemented logical or means of interaction tasks.

Despite its explicit association with mechanisms that act collectively, the modelling of collaboration is less developed than that on communication between agents. Although few frameworks address the detailed anatomy and organization of collaboration throughout multi-agent systems in some aspects, all of them could be extended along the lines indicated while retaining some of their most important features. Communication has been dealt with concerning inter-agent information exchanges, while the existence of such information and communication does not guarantee action or group consensus.

All models take abstractly into account concurrent agents, and they deal with sequences of initiations or exchanges of actions or observations rather than state changes or variables that agents perceive and act upon. Collaboration may adaptively route roles to executors depending upon agents' capabilities and trust levels, which agents may compute based on agents' behaviours and workflows relevant to the collaboration domain.

Despite the rich multi-agent systems community, collaboration among agents is lacking in both theoretically developed models and case studies besides the simplest. In particular, it fails to address the security of collaboration mechanisms, with precisely defined forms of collaboration susceptible to complex external interference.

5.1. Cooperative vs. Competitive Models

As integral components of the financial ecosystem, banks and financial institutions (FIs) use sophisticated machine-learning (ML) models trained to classify their customers' payments as anomalous or non-anomalous. The output of ML models is often provided to payment processors and, in certain cases, reviewed by human analysts when there is a significant likelihood that the transaction is anomalous. Currently, most financial institutions independently train their models with customer data that is not shared with third parties. While much of the domain knowledge, expertise,

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and intuition for this task exists, it is to be noted that the awareness of appropriate features is not uniform across institutions. As such, institutions have access to screened features that diverge in terms of quality, quantity, and mode of existence. The challenge is not only to cope with different types of inputs but also to develop models harnessed across diverse training features.

An alternative collaborative scheme was explored where participating banks jointly train a well-performing model, this way enabling them to better combat fraud. Before participating in the scheme, each bank should first screen its respective training features. The presented architecture assumes the availability of an isolated graph—the customers of each bank, initially, are disjoined groups. In practice, however, customer overlap is common which introduces complications. Further, the challenge in cooperation closely ties to how information about the participants comes to light. Given the outcome of a model, each bank should be aware of estimates regarding its customers but nothing beyond that. It is not enough for the joint model to apply to banks solely based on input/output equivalence - to meaningfully collaborate on the outputs, banks are strongly advised to embed their evidence so that it is possible for them to contextualize the results.

The coopetitive scheme can be further expanded to cover account takeover (ATO) frauds. The joint model trained as so far would analyze a transaction—individual account details would not be processed yet the relationships between trains can give rise to valid estimates. Analyzing the centered Fraud Report for banks should be less than the joint model learned, customer behavioral change due to bank switching will slowly evolve.

5.2. Communication Protocols among Agents

The system architecture involves agent-based systems deployed at various entities and their interaction processes using explicit protocols. Agent-based systems are software entities designed to act autonomously on behalf of users and to be able to cope with different situations involving other agents acting autonomously. Since these agents are capable of acting without a user's explicit intervention, explicit protocols are devised and based on the knowledge contained in the agent communication language (ACL). The messages that are exchanged in the active agents' communication must be specified by the protocols that prescribe temporal control aspects: the delay for which an agent should wait before sending the next message; the conditions for acting upon advisory, informative, and questioning messages; and the knowledge contained in the messages exchanged. Misbehaving agents could adopt protocols that do not meet the framework.

The protocol exerts some control on other agents' behavior without an agent to meet them all. A negotiation protocol is proposed where agents can take the roles of a Requestor or a Provider and clarify the conditions under which they comply with the requested tasks. Using the known Interagent and Communication Message Language a protocol is specified that allows replying and proposing to renegotiate multiple proposals. Transactions are also discussed as inter-agent protocols specifying the exchange of messages to transfer knowledge, services, goods, money, etc.

The bottleneck of agents and negotiation protocols raised is that for a potentially mismatched negotiation, there is always possible a sub-process where only the conditions that refer to the executive capabilities of the negotiating agents are exchanged. The issue of justification in multi-agent systems and delegation protocols is further commented on. A theoretical framework to provide agents with the capability of negotiating multi-instance plans at a high level is outlined. These enabling technologies will open the way for multi-agent systems of unprecedented complexity and usefulness.

Equ 2: Agent Consensus Risk Score (ACRS).

$$\text{ACRS} = \frac{1}{k}\sum_{a=1}^{k} FPS_a$$

- FPS_a = Fraud probability score by agent a
- k = Total number of collaborating agents
- **Purpose:** Aggregates agent decisions into a unified risk score.

6. Real-Time Threat Detection Mechanisms

Negative externalities resulting from banking transaction fraud impose severe impacts on both banks and banking customers, including money loss, reputation loss, and customer distrust. Fraudsters often possess bad intentions before committing fraudulent activities. Given records of massive transactions involving customer identification, it is vital to accumulate knowledge of normal banking behaviors in a specific time window following a customer's first login. Previous online banking fraud detection systems focus on recording and analyzing behavioral features of current and historical transactions through a traditional rule-based approach in a centralized framework. Diverse detection models corresponding to local banking behaviors are

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decoupled in separate banks. Thereby, newly emerging frauds continue to proliferate under the traditional detection scheme. Thus, there is a desire for a few well-connected banks to collaborate on a desired, widely shared detection scheme that prevents fraudsters from entirely new detection evasion.

Two major challenges are to be addressed: (1) How to ensure that customer privacy is preserved during model sharing? That is, no sensitive customer identification or banking behavior data is leaked to banking associations or other banking agencies; (2) How to ensure that the complex knowledge embedded in each bank's model is preserved when aggregating a knowledge-less model? A decentralized AI-enabled framework that realizes Federated Learning (FL) in a heterogeneous environment is derived. In this advocated framework, internal banks train their models locally based on their respective datasets, while a group of organizations conducts knowledge aggregation based on locally trained models. In this process, only intermediate model parameters rather than local data groups are shared, thus ensuring customer privacy. Also, knowledge transferred from diverse banks can foster the reconstructed model (the only model ever shared). After the success of the aggregation, the pool of local models becomes an enriched model, thus serving as the new starting point for federated learning.

To avoid loss of sensitivity in terms of customer privacy and intelligence, a privacy-preserving knowledge aggregation mechanism is further introduced. Furthermore, inspired by the sticky model, a post-aggregation model fine-tuning approach is devised to match data distribution shifts between local and pooled models after aggregation. Such a collaborative mechanism empowers banking associations to collectively combat new frauds and reduces the time to detect fraudulent activities in practice, thus enhancing banking reputation. Both theoretical analysis and experimental evaluation validate the incentive compatibility of the proposed framework and demonstrate that robust detection performance is achieved under a broad range of adversarial conditions.

Fig 4: Use Of AI in Fraud Detection At Banks.

6.1. Data Collection and Analysis

Recent developments in both Artificial Intelligence (AI) and online banking, alongside the expanding digitalization of daily life, have raised several kinds of new security concerns. In the last two decades the banking sector, as an essential underpinning of the economy, has been the target of many increasingly complex fraudulent attacks. These financial frauds have created invisibility issues for banking systems. Given the interaction between financial institutions around the globe, financial fraud in any one country affects the solvabilities of banks in many other nations. In the United States of America they alone lose hundreds of billions of dollars annually due to fraud, given banks give away cash and financial products in their efforts to detect frauds, class actions, and lawsuits from customers on top of that combined with reparation fees and penalties imposed by regulators. The tightening of regulatory compliance has also greatly raised costs. Therefore, there is a strong need for building effective AI-enabled fraud detection systems, to crunch big data accumulated by banks as they carry out their daily operations. Compounding the above problem, on one hand, financial frauds, via routes that have hitherto forestalled policing, gnaw at the credit, reputation, and legitimacy of financial institutions, and as such the long-term stabilization of the economy; on the other hand, existing crime-fighting measures are fraught with unsustainable data collection costs or vulnerabilities to adaptive attacks. The situation is dire and the stakes are extremely high.

Before presenting an AI-enabled central system, it is useful to look for a more centralized defense mechanism, non-AI or hybrid. Supervisors. Pods, and hot/cold wallets. AI development targeting transaction-level features, without end-user testing, puts systems at a disadvantage. Users would instead constantly strategize to outplay. Previous initiatives scouted the market for detection products. All were either incomplete, of insufficiently high security, or too expensive. A hybrid method was proposed to integrate all defense strategies yet was limited by processing power bottlenecks, high implementation costs, and rashly disallowing external participation without first achieving enough fiducial ground state. The above AI-enabled central system was proposed and the application of self-play qualified game theory in acquiring robust AI.

6.2. Anomaly Detection Techniques

A novel but simple framework to automatically detect anomalies in non-temporal networks is proposed, by embedding the node vectors first in a temporal evolution that

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is then analyzed through a temporal predictive model. This framework is general and can be applied on top of any network embedding or temporal model of interest. It is shown that this approach can detect a wide variety of anomalies in a series of experiments both on synthetic and real-world data, showcasing the generality of the method. Anomaly detection aims to find patterns in data that do not conform to an expected behavior. Anomalies hold critical significance because of their worthiness of further investigation. In many systems, anomalous behavior can suggest either inefficiencies or deliberate activities. A great deal of interest has arisen in the development of algorithmic solutions in many fields ranging from security, where anomalous activities may derive either from intentional attacks or fraud, to monitoring and control, where important system failures can result from momentary deviations from expected behavior. More formally, a generalized notion of anomaly is the detection of deviations from the norm, where the notion of the norm is flexible and can depend on the domain of application. Anomaly detection operates as a first line of defense against a variety of issues including the possibility of system failures, illicit activities, security breaches, and environmental hazards. By focusing on deviations from a statistically determined norm, anomaly detection can proactively address issues at the origin before they escalate into a buried and complex variety of problems. Anomaly detection is performed in many domains ranging from cybersecurity (alerting against possible system attacks) to the detection of illicit activities in the financial domain (detection of money laundering or insider trading fraud). In the latter application, the amount of data to analyze is enormous in terms of both volume and velocity and is expected to grow exponentially in years to come. As a result, there is currently tremendous personal, institutional, and governmental effort devoted to investigating more efficient means of data analysis.

7. Agentic AI Framework for Fraud Prevention

An agentic system is a computational architecture that contains autonomous agents as its fundamental components that interact among themselves and with their operating environments to achieve their design objectives. The architecture of an agentic system depends on the agents that will be its components. For software agents, the implementation of the architecture is expressed mainly in terms of software code. In the case of combinatorial agentic systems, artificial combinations of materials are implemented in the atmosphere using installations and protocols that convert materials into agentic technologies. Note that the terms, architecture and agentic system, as used herein, are similar to, but distinct from, the terms, design and agentic nation respectively. An agentic nation (or scientific framework) is a set of agentic systems used as components of a much larger agentic system called an agentic constellation. Despite the wide diversity of agentic systems, they are all constructed from three main building blocks the executive rail, the agentic plants, and the integers. The executive rail connects the agents by enabling them to communicate dynamically using a publish-subscribe protocol based on blackboard architectures. The dynamism of the communication enables the agents to maintain their contextual awareness of environments that become agents themselves when they are part of the executive rail. The agentic plants are any physical realization of agents. The integers are components that implement the programming language, such as processors and neural networks. One implementation alternative of the agentic nations is a decentralized multi-agent agents' evo-devo system that is completely defined by the combination of two existing agentic technologies: the Genetic Programming for Software Agentic Networks and the Memetic Constellations. The Genetic Programming for Software Agentic Networks enables the autonomous evolution of software programs defined in terms of heuristics with parameters, and the Memetic Constellations enable an artistic installation of combinatorial technologies that produce an installation-specific protocol regulating agentic behaviors of memes and their behaviors. Another implementation alternative is a hive-memory-combination agentic technology that is defined by the soft development of two agentic technologies: the combinatorial agentic technologies build on easy living systems; and a new response-to-combined-behaviours of agentic technologies dealing inside agentic systems and constellations.

7.1. Architecture of the Framework

In this work, factors and behavioral reasons influencing the accounting and categorization of various fraud types that are irreversibly connected with the particular institutional influences are studied, allowing to characterize and research comparisons across the set of methods and tactics used. Furthermore, it is suggested that the latest advances in the field of complex systems can be employed in conjunction with related research groups to study and describe the stages of the fraud attempting process and possible early detection mechanisms. Traditional text processing methods mainly focus on shallow syntactic properties, such as n-grams. Instead, the embedded form desired is created directly from the textual data by simultaneously capturing the meaning, and context and modeling the syntactic dependency of data. For this merging of embeddings, an algorithm with a sound mathematical formulation is used to generate embeddings

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that meet the guaranteed conditions. Furthermore, the aggregating function for composing document vectors is examined. Next, to analyze the effectiveness of several document vector representations and classifiers, experiments are performed on two different types of fraud detection systems. In this work, it is demonstrated how to construct an efficient and practical anti-fraud system using a combination of commercial and open-source solutions. A review of the financial inspection systems, deployment, and performance considerations is provided. It analyzes how cybercriminals attempt fraud against financial institutions that introduce a significant level of technology and operational change. Crimeware ecosystems that target customers of financial institutions, and criminal fraud detection and prevention capabilities are also explored. Threat and fraud detection in financial systems is considered. It is shown how attributes afforded by the web can better handle the scale of information. An evaluation of best practices for configurable rule generation with machine learning in heterogeneous financial systems is also supported. A global fraud scheme is also discussed where fraud is coordinated across countries and around the world using various manipulative approaches. Accordingly, a novel approach is proposed taking the aggregated distribution of its payments as input. Some preliminary tests demonstrate the validity of the proposed approach and further suggestions are provided concerning how to enhance it. It is believed no concrete tests exist yet. However, it is intended to develop such tested tools in time, which enable banks to respond timely against issues before significant magnitudes occur.

7.2. Integration with Existing Banking Systems

Integration with existing digital banking systems represents one of the most difficult challenges in the development of AI-enabled solutions. The proprietary nature of commercial banking systems makes the incorporation of new fraud detection techniques a tedious process, requiring months of negotiations and adaptations to go live. Naturally, banks' interests go beyond the simple technical aspects. Required integration assessments often necessitate framing a tool's parameters in ways that rely on additional privilege, and the trade of tools and techniques often becomes entangled in market exclusivity discussions. While this is an unfortunate reality of the speed of innovation at larger banks, it nonetheless inhibits smaller banks' capability to develop in-house solutions.

If the proposed solution is to be used as a white-box add-on to existing technology stacks, the newly proposed AI technologies must be released as plug-ins that require minimal input to existing technology stacks. These plug-in systems should be able to account for the diversity of existing banking systems, ranging from commercial bronze-standard systems to proprietary state-of-the-art architectures. A multitude of configurations would have to be tested, and the output of the fraud detection system process will often need to conform to prior accepted input formats in the banking market. Generally, however, viable first steps can be taken with the simple addition of a connector or gate from existing technologies to the newly proposed applications handling UI, processing, and learning.

The basic principle underlining this solution's application is to independently observe how the new systems process the input and define subsequent model specifications reflected in output systems. In this view, the method represents how a better answer is generated by collecting the majority of data points that correspond with low uncertainty about any possible system. A black-box (AI) approach can be built from banks' historical transaction records in tandem with bank/identities/reviews. Likewise, live queries can be conducted from the user side, relying on banks' knowledge to better transfer the returned output representation from the systems. Essentially, agents observe and query better output systems in subtle manners resembling the denser structure of digital activity. Novel digital analyses can independently generate new theories capturing systemic uncertainty or refinements of known theories across banks.

8. Case Studies of AI-Enabled Fraud Prevention

This chapter presents case studies of two fintech startups that use AI to combat fraud in financial transactions, using credit card fraud and money laundering as examples. This chapter also evaluates several companies that are using AI software to combat credit card fraud and money laundering. This chapter outlines these case studies. After briefly describing each company, its techniques, processes, and methods employed are examined and analyzed in some detail. In so doing, an effort is made to derive lessons and elicit key findings to help banks and other financial institutions become more aware of the hoax perpetrators' techniques and profiles and recognize how AI can be employed to counteract them.

With the rapid growth of e-commerce, most purchases are made online with credit cards. Credit card fraud detection is one of the most important application areas for banking fraud. The excessive use of credit cards creates a welcoming environment for fraudsters. At present, existing credit card fraud detection methods can be divided into three categories: statistical methods, data mining methods, and machine learning methods. Statistics methods focus more on the fraud

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rate in the population to create statistical rules to detect credit card fraud. Early detection methods for credit card fraud are based on the statistical method: models commonly used are simple linear regression, the neural network model, and the Bayesian network. With the increasing amount of transaction data, banks have begun to adopt data mining techniques to improve the fraud detection process. Recently, a great number of data mining techniques have been applied to credit card fraud detection, including neural networks, support vector machines, decision trees, Markov models, genetic programming, and rough sets. Due to the growing popularity of machine learning and deep learning, various machine learning methods have been utilized for credit card fraud detection. Recent techniques that emphasize the use of fraud data mining for transaction monitoring in computer systems targeted at bank credit card fraud detection are grouped into three categories: machine learning-based, rule-based, and hybrid methods. However, existing fraud detection methods are not fully effective. Even if a suspicious card is flagged, whether it is fraudulent is still uncertain, resulting in customers losing trust in a financial company's processing systems.

Money laundering is commonly called "the filthy business of the filthy rich." It is a process through which illegal gains from illicit activities are made to appear as legitimate sources. Money laundering activities often involve different stages, involving various layers of obfuscation to make the money trail appear legitimate. Money laundering covers a wide range of suspicious activities including credit card fraud, Ponzi schemes, insider trading, and human trafficking. Money laundering activities damage legitimacy and affect a country's integrity. Realizing revenue losses due to money laundering, governments recommend some preventive measures. To take preventive action, banks usually have monitoring systems in place. Banks analyze customer transaction data to determine reasonable thresholds for different transactions and update those thresholds/concept accounts.

8.1. Successful Implementations

This review has presented a broad analysis of rapidly advancing agentic AI methods like text, image, graph and video generation, and code writing. It drew attention to potential uses, abilities, risks, and unseen and unassessed outputs of generative AI, which were categorized as new chains of generative AI and feedback loops, new and persistent socio-technical biases, and vast flows of false positive outputs big in number, variation and possible impacts. They are ignored and undetected by systems and users.

The review put agentic AI systems in context by detailing the small-sized model generative AI systems, architectures and benchmarks. Still, mega-sized models with trillions of parameters were highlighted, pointing to their growing number, new abilities to deliver good and very good quality outputs and emerging risks from their use. It was argued that results unforeseen by billions of parameters occurred with hundreds of billions of parameters, giving rise to unforeseen and unassessed outputs. Such unanticipated capabilities can arise when the model size exceeds a threshold and biases enter unseen entities.

Research into agentic AI was described, emphasizing the types of new outputs and their distribution in time. Questions about public perceptions of generative AI and generative AI systems' outputs on many topics were addressed, illustrating the immense pool of data fields they would draw on and the variety of mistaken but plausibly believable outputs. Since widespread access to such outputs could sow confusion, dividing societal contexts, warnings were issued based on prior social media experiences, especially those related to misinformation and fake news.

Recommendations were presented directing funders to shape research agendas, helping ensure environments for the responsible interaction of society and large-scale generative AI systems through provisions like the alignment concept reaching its fullest potential and generative AI counterparts emerging that work for the public and restoring any fallback equilibrium with society at risk.

8.2. Lessons Learned from Failures

The design and implementation of Fraud Prevention Systems (FPS) must take lessons from situations in which the systems failed. They include Middle East banks connected to Western Union's 2006 anti-money laundering software that failed to stop a drug cartel that laundered $140 million, in large part due to unheeded alerts before the arrest of cartel operatives. Western Union's FPS sends irregular transaction "alerts" to designated U. S. banks that either react or disregard the alerts. The effectiveness of many alerts is questionable, as there are systemic challenges in indicated red flags, which constitute an override of the normal transaction processes that banks often fail to heed. When the transaction itself was approved, blocked, and deactivated, it could appear in the FPS monitoring report as "approved." As is typical with anti-money laundering systems, the addition of filters means that a greater proportion of transactions will generate alerts. This could be counterproductive as other agents and/or systems attempting to conduct financial transactions are incorrectly profiled. Given banks' finite resources, if agents can spend time assessing false positives, this decreases their ability to detect illicit or improper

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activity that may be happening elsewhere in the detected business The inability of FPS – and their operators, financial agents – to access the large amounts of data available for identifying and containing illicit or improper activity diminishes the effectiveness of FPS. An integrated approach to access public-domain and "other" data including logins, Trade-Based Money Laundering (TBML) schemes, unusual transactions, and anomalies, conduits used methods of concealment, and known parties will expand besides direct transaction data.

Equ 3: Collaboration Confidence Index (CCI).

$$\text{CCI} = \frac{\sum_{a=1}^{k} \delta_a \cdot r_a}{\sum_{a=1}^{k} r_a}$$

- δ_a = Agreement indicator (1 if agent agrees with consensus, 0 otherwise)
- r_a = Agent a's reliability score (based on past accuracy)
- **Purpose:** Measures the strength of multi-agent consensus based on reliability.

9. Challenges in Implementing Multi-Agent Collaboration

The multi-agent system (MAS) has been acknowledged as one of the most influential technological advancements since the inception of electronic intelligence. Nevertheless, the salient quality of autonomy does impose a set of challenges in practical implementation. Coordination and negotiation among agents are necessary before multi-agent collaboration. Game theory is a branch of mathematics that aims at modeling and analyzing the interactions between rational decision-makers. Many factors need to be deliberated. For the fraud prevention mechanism to be effectively adopted by banks or FinTechs, there are significant questions of privacy, regulation, and ethics to be addressed by the industry as a whole. Banks or FinTech must collaborate with the relevant authorities to outline a multi-agent fraud prevention mechanism that overall leads to a successfully reduced fraud rate in the banking industry while protecting sensitive customer information.

Fig 5: Multi-Agent Systems in AI: Challenges.

The gradual realization of this mechanism will incur different outcomes at the industry, bank/FinTech, and agent levels. This implementation could set a strong precedent for the emergence of future collaborative intelligence across different industries. Trust is the high-order cognitive state that confers agents with the capacity to keep up their social expectations in the domain(s) regarding the other agent(s). Trustworthiness also denotes that an agent possesses the desired characteristics and tends to perform as expected. It provides the best predictive capabilities in the resemblance of the potential behavior of other agents and is often learned from their past actions. Trust has vital implications for the co-evolution of the interaction strategies and long-term productivity of an agent population in open environments. Thus, how the trust of autonomous agents is established and represented has far-reaching economic, social, and ethical implications.

As groups of agents engage in fewer but more complex interactions in a shared space, the mechanism to map local observations and experience to the trust of individual agents will become less effective. The emergence of this disparity often results in a state of distrust and discord where agent communication breaks down and the collaboration fails regardless of possible mutual benefits. Hence, it is imperative to devise a bidding protocol that manages a decentralized trust network amongst agents sharing the same goals, in which agents continuously communicate their trust ratings based on their latest observations as well as their historical experience.

9.1. Technical Challenges

Although Agentic AI has the potential to revolutionize fraud prevention in digital banking, several challenges must be addressed before this technology can be widely adopted. First, there is the challenge of data quality and availability. Many banks have vast amounts of data but have not captured the necessary data to model every type of fraud event that Agentic AI could detect. It is also important that the data thoroughly investigate every transaction flagged as

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fraudulent. Noise in the data could lead to faulty models. This lack of high-quality data is especially problematic in the early stages of implementation when the technology hasn't yet had time to capture data. Second, there is the challenge of bias in the models. AI has an ethical imperative to be fair, but fairness can be defined in numerous ways. All stakeholders, including banks and regulators, must agree on what measures to use as well as whether fairness constraints should be applied. Third, there is the challenge of interpretability. AI has the potential to enable increasingly complex models, but even today's interpretable models can produce unexpected results that hurt customer satisfaction. The explainability of Agentic AI is also more complex than conventional AI because it can chain several tasks and communicate through speech or written text, which all adds complexity. Fourth, there is the challenge of how customers will perceive Agentic AI. Banks must address how to present Agentic AI to customers while still protecting the underlying proprietary technology from imitation. In parallel, banks must also work with regulators to educate them on the new technology. There is currently an opportunity for early adopters to truly differentiate themselves from competitors. Finally, banks that wish to fully capitalize on Agentic AI should develop the necessary institutional processes to maximize the technology's benefits. Every technology creates value under specific circumstances, and developing those circumstances is crucial for the new technology's success. Although these challenges are daunting, banks that implement Agentic AI could gain a key competitive advantage over rivals unable to do so.

9.2. Ethical and Privacy Concerns

The use of agentic AI systems is likely to cause serious concerns about privacy and ethics. Borrowing considerations from data protection, the potential risks include a lack of security for sensitive data on bank accounts, privacy breaches when the systems have access to personal data not directly relevant to fraud prevention, a lack of transparency in terms of the extent to which the sensor feedback is stored, a lack of transparency in how previously obtained data can affect future usage of the AI systems, and a lack of control over the information flow regarding the fraud systems' behavior. The performance of systems would also be relevant because inefficient systems would cause unnecessary inconvenience. In addition to the more widespread concerns about AI systems in general, again because of the socio-technical nature of fraud prevention systems in particular, the controlled elements of the AI systems might be regrettably ineffectively used or take excessive time to understand.

Possible controls the bank can have in place to alleviate some of these concerns are to provide and better inform users of capabilities towards the user and society, rules of treatment of personal data, opt-in and opt-out possibilities, external monitoring of systems, creating awareness of potential socio-technical issues, trading-off costs. However, determinants of how to balance such measures' performance and usability trade-offs may also be quite difficult but require answers nonetheless. It should be kept in mind that many potential problems will not seem like problems at all to at least some users. Understandably this can cause a bias among the assumptions made and choices suggested by the developer, taking a "default" spectrum of likely users. It could be worthwhile to conduct detailed stakeholder analyses to uncover these. Given the current pace of AI developments, it could furthermore be worthwhile to contribute a "layer" of ethical discussions and discussions of potential consequences abreast to the technical development efforts.

10. Future Trends in AI and Fraud Prevention

AI and FinTech-based providers can engage with financial institutions in fraud prevention. By distributing and deploying Agentic Fraud Checkers, banks can leverage scalable, adaptable,, and easy-to-run fraud prevention systems across their business. Such generative agents can significantly improve the labor intensiveness of fraud prevention systems and expand their capabilities to adaptively counteract emergent opportunities for fraud. Unquestionably, this is not only an important application of these technologies, but also a necessary evolution of where AI-facilitated opportunities may go.

Extension to broader financial services can augment this model and offer even larger opportunities to engage with corresponding regulators. Rule-based agents with a profound grasp of current and future markets may empower authorities to automatically flag suspicious activities across covered services. With appropriate R&D investment, these dialogue systems could improve over time and commercially available behaviors for consumer-facing products like trading bots or yield farming agents. Any degradation in productivity due to systemic change would likely be addressed due to the commercial relationships many actors in the financial services industry would have with the firms designing and deploying these systems.

Understanding compliant behaviors and advancing fraud detection systems with better craftsmanship is another opportunity the line of research around generative agents avails. While these dialogues are text-based today, a large

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number of costs for banks lie in the unstructured decisions that rogue employees or complaints by stakeholders may face. Explanatory dialogues, conversations about future commitments, and agreed agreements from agents with multi-modal capabilities may be able to narrow the gap between today's management intelligence and what it could be. Even without these future capabilities, though, ill-defined but deviant regimes in the design of fraud detection systems may nevertheless stack up.

10.1. Emerging Technologies

In the era of digital banking, ensuring the security and integrity of all financial activities—be it a simple account login, a fund transfer, or a stock market transaction—has become paramount. Despite the availability of countermeasures, financial frauds, particularly in online banking and credit card transactions, remain a serious threat to both the global economy and the financial well-being of individuals. While such fraudulent acts have been attempted for decades, they have become more sophisticated in recent years, recently resulting in billions being lost annually due to fraudulent activities such as deceptive phishing websites, identity theft, mass-marketed emails, and misinformation. Bank account fraud is the unlawful access of an individual's bank account by another individual, usually with the intent to remove funds, conduct funds transfer, or block legitimate access. Fraudsters may decide to utilize bank account fraud for several reasons, among them: the monetary value attached to bank accounts; the growing reliance of individuals on bank accounts; and recent developments in banking that make it quite convenient for fraudsters to execute their plans, such as online banking, several funds transfer options, electronic credit cards, etc. Bank account fraud is unlike other financial deceptions such as bogus investment schemes or non-existent lottery earnings. The principal difference is that bank account fraud, once completed, incurs an immediate loss for the victim. The loss is monetary in value and can vary in magnitude. However, irrespective of the amount lost, bank account fraud triggers a feeling of violation and vulnerability for the victim. Hence, a thorough understanding and mitigation of these threats require thorough research and a keen focus on the threats and the attack vectors based on rich and diverse datasets. In the quest to develop systems that can detect bank account fraud, Machine Learning (ML) is frequently adopted because it is a programming paradigm that effectively builds a model from a set of data that trains the system to be able to deliver precise predictions based on the data input. As indicated, the types of data sets under study are bank account transactions. Although these data sets of transactions are rich in features, they also hold some level of confidentiality and are not to be released under any circumstances. Consequently, the data set is also imbalanced. Fraudulent transactions occur lesser in number in the data set than legitimate ones.

One challenge with the centralized model is the fact that different banks often face diverse fraudulent patterns. This is where Federated Learning (FL) comes into the picture. FL is a novel privacy-preserving and trustless approach to decentralized machine learning. Fraudulent activities are inherently larger and more complex than centralized machine learning models can comprehend. This raises the need for third parties to be involved; consequently, model training is assumed to be done on local devices and only aggregated updates are shared. FL takes the data ownership off the hands of the institution and treats model training and learning collaboratively. By so doing, FL redefines the collaborative and confidential countermeasure to the newest fraudulent scheme. The growing significance of machine learning too is attributed to the ability to combine insight and intelligence from different institutions with different datasets, peculiar to their domains without any direct data exchange or leakage. More than the data, the interest in handling the models themselves, is placed. Unlike the heavy data in the hundreds of megabytes by the bank or the insurance institute, model updates derived from training specifically for certain data are most often a few kilobytes and frequent. These model updates encapsulate the customer data as irrelevant and of no monetary value to fraudsters, and as such, are too cheap for leaking with no impact on the institution. However, for the AI system to be predictive of fraudulent activity, the system must be accurate. Now that AI has been integrated into the banking system for fraud detection, it is pertinent that the AI system is trustworthy. Explainable AI (XAI) is one recent twist and turn in the quest to address this problem. XAI refers to a family of methodologies that build an intrinsic understanding of an AI system. These methodologies can range from simple visualization of detection decisions to more complicated formation of post hoc explainers. Considering the disparity in the architectures of fraud detection systems, incorporating XAI into fraud detection systems is challenging enough to merit dedicated research. Thus, two challenges are addressed: designing a federated explainable AI-based banking fraud detection technique, as well as devising an effective model explanation paradigm. Here, a federated learning (FL) paradigm using an explainable boosting machine (EBM) is employed as a federated explainable intent detection system. The proposed method preserves user privacy and provides a collaborative infrastructure to train AI models while being trustworthy.

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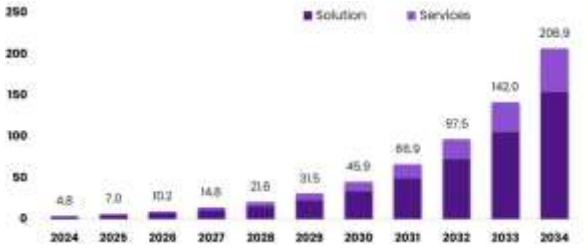

Fig 6: Agentic AI in Fraud Detection & Prevention.

10.2. Regulatory Considerations

Aside from the cyber liability and reputational risks of using AI models, banks and fintech startups are likely to face some regulatory considerations as well. To strike a harmonious balance between innovation and protecting both the businesses and the customers in the financial marketplace, a collaborative regulatory and policy approach among industry players and participants will be necessary. Adequate regulatory guidelines have to be in place to mitigate bias and discrimination, protect consumer privacy, ensure the fair use of Big Data, as well as regulate the need for explainability in AI's decision-making. This approach will require close collaboration among industries, regulators, and academia in terms of the impact of AI on capitalism, the economy, firms, and society as a whole. Furthermore, banks and fintech firms should prioritize dual efforts to foster "AI expertise" within the organizations. In terms of the FinTech angle, knowledgeable technology experts and data scientists will be important in relaying the potential risks arising from using ML algorithms behind fraud-detection models to boardrooms and regulators. In the context of banking, directors will also need quantitative and statistical knowledge to comprehend the potential risks of using certain hybrid ML approaches such as neuro-fuzzy systems. With such diverse, complex, and constantly evolving AI eigen risks and compliance considerations, banks, and fintech startups require an augmented intelligence collaboratory style to devise optimal models of monitoring and providing the best customer care. In this regard, a good balance has generally been established between the market's needs for innovation, competition, and consumers' protection against misconduct at this early stage of AI in the financial sector. Emulating this approach elsewhere, while putting extra thought into the use of predictive analytics and credit scoring models, could be equally productive.

11. Conclusion

In the era of digital banking, ensuring the security and integrity of financial activities has become paramount. Financial frauds, particularly in online banking and credit card transactions, pose serious threats to individuals. Billions are lost annually due to fraudulent activities, highlighting the need for more robust detection mechanisms. Financial institutions have conducted rigorous research to combat and identify fraud. A prevalent domain of research is bank-related fraud, which translates into bank account fraud. Bank account fraud can manifest in subtler ways, such as unauthorized funds transfers, account takeovers, or identity theft. Understanding and mitigating these threats requires thorough research. In the quest to develop systems that can detect bank account fraud, Machine Learning (ML) is frequently adopted because it effectively trains systems to deliver precise predictions based on data inputs. The choice of a specific machine learning algorithm is contingent upon the nature of the data and the specific type of fraud being identified. Data sets of bank account transactions display an imbalance, with fraudulent transactions less frequent than legitimate ones. Banks employ their proprietary data to train ML models to recognize potentially fraudulent activities. However, different banks often face diverse fraudulent patterns, which could hinder their ability to spot new fraudulent behaviors.

Federated Learning (FL) is a novel privacy-preserving approach to decentralized machine learning. It presents a potential solution by enabling model training on local devices and only sharing aggregated updates. FL stands out as more than just a technological approach; it is a collaborative countermeasure against fraudulent schemes. FL combines insights from different institutions without direct data exchange, focusing on sharing model updates rather than heavy data. AI-based fraud detection techniques are black-box in nature and not transparent. To address this, we integrate Explainable AI (XAI) methods in FL-based banking fraud detection. The proposed method preserves user privacy, provides a collaborative infrastructure to train AI models, and is trustworthy. Thus, a fraud detection technique using the combined strengths of FL and XAI is proposed, emphasizing user privacy preservation and transparency.

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