International Research Journal of Engineering and Technology (IRJET) e-ISSN: 2395-0056
Volume: 13 Issue: 04 | Apr 2026 www.irjet.net p-ISSN: 2395-0072

A Hybrid AI Framework for Proactive Fraud Detection and Cyber-Threat Intelligence in Real-Time Banking Systems

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Abstract - *The modern banking sector faces an escalating onslaught of sophisticated cyber-fraud and coordinated attacks, including authorized push payment (APP) fraud and AI-generated social engineering, which routinely bypass conventional, rule-based detection systems. These legacy systems generate excessive false positives, lack contextual awareness, and are inherently reactive, leading to significant financial losses and erosion of customer trust. This paper proposes a novel, hybrid AI framework that synergistically integrates deep learning, graph analytics, and real-time threat intelligence to transition from reactive fraud blocking to proactive threat mitigation. The proposed architecture is built upon three core pillars: a Real-Time Deep Behavioral Analytics Engine using a Dual-LSTM Autoencoder for anomaly detection in transaction sequences and user behavior, a Dynamic Graph Neural Network (GNN) that models complex temporal relationships between entities (accounts, devices, IPs) to uncover organized fraud rings, and an AI-Powered Threat Intelligence Hub that employs Transformer-based NLP (e.g., fine-tuned BERT, RoBERTa) to ingest and correlate unstructured data from security feeds, dark web sources, and encrypted messaging platforms. The framework's efficacy is validated through a large-scale industrial case study with a multinational bank, processing over 1.2 billion transactions monthly. Results demonstrate a 52% improvement in fraud detection rate, a 67% reduction in false positives, and an 8x faster identification of emerging threat patterns compared to the incumbent system. We further discuss implementation challenges, including data privacy-preserving techniques like Federated Learning and the critical need for model explainability (XAI) using SHAP and LIME to meet regulatory compliance (e.g., GDPR, PSD2). This work substantiates that a deeply integrated, multi-modal AI approach is paramount for constructing resilient and intelligent digital banking ecosystems.*

Key Words: AI in Finance, Fraud Detection, Graph Neural Networks, Threat Intelligence, Anomaly Detection, Behavioural Biometrics, Explainable AI (XAI), Real-Time Analytics.

1. INTRODUCTION

The digital transformation of the global banking industry, accelerated by the rise of real-time payment rails like UPI and FedNow, has unlocked unprecedented convenience but has simultaneously expanded the attack surface for malicious actors. Financial institutions now contend with a complex threat landscape featuring real-time payment fraud, application fraud, account takeover (ATO) attacks, and sophisticated, AI-generated social engineering schemes such as deepfake audio for vishing (voice phishing) [1]. The global cost of fraud is projected to exceed $40 billion annually, underscoring the critical need for advanced defensive systems [2]. Traditional Fraud Detection Systems (FDS), which rely predominantly on static rules and supervised learning models trained on historical data, are fundamentally ill-equipped to counter these evolving, adaptive threats [3]. Their limitations are threefold: (a) High False Positive Rate (FPR), which degrades customer experience and incurs high operational costs for manual review, often exceeding 80% of alert volumes; (b) Inability to Detect Novel Attacks, as they lack generalized behavioral understanding and fail to identify zero-day fraud; and (c) Siloed Analysis, where transaction monitoring is disconnected from broader cyber-threat contexts and relational analysis [4].

Artificial Intelligence (AI) and Machine Learning (ML) present a paradigm shift, enabling systems to learn complex, non-linear patterns and adapt to new fraud signatures in near real-time [5]. While prior research has explored isolated AI applications—such as using Isolation Forests for point anomaly detection [6] or Recurrent Neural Networks (RNNs) for sequence modeling [7]—a holistic framework that unifies behavioral anomaly detection, relational graph analysis, and external threat intelligence into a single, proactive defense loop remains a significant research and operational gap. Furthermore, the advent of Large Language Models (LLMs) introduces both a new attack vector and a powerful tool for defense, a duality that must be addressed [8].

This paper makes the following key contributions:

a) Propose a novel, hybrid AI architectural framework for proactive fraud detection and threat intelligence, detailing its end-to-end data flow and model interactions, specifically designed for the low-latency requirements of real-time banking.
b) Provide a deep technical analysis of its core components: a Dual-LSTM Autoencoder for behavioral profiling, a Temporal Graph Neural

Network (TGNN) for dynamic relational analysis, and a Transformer-based NLP engine for real-time threat intelligence correlation from structured and unstructured sources.

c) Present robust empirical validation through a 12-month industrial case study with a multinational bank, quantifying performance gains in detection rate, false positives, and threat discovery speed with compelling statistical significance.

d) Discuss production challenges, including data privacy, model explainability, adversarial machine learning, and computational scalability, and outline a future research agenda toward decentralized, causal inference-based, and quantum-resistant security systems.

2. Related Works

The application of AI in financial security has evolved through several stages, each addressing specific limitations of its predecessor. Early systems (pre-2010) employed supervised learning algorithms like Logistic Regression, Decision Trees, and Support Vector Machines (SVMs) to classify transactions as fraudulent based on hand-engineered features [9]. While effective against known patterns, their performance degrades rapidly with evolving fraud tactics and they are inherently incapable of detecting novel attack vectors.

Unsupervised and semi-supervised learning methods like Autoencoders and Isolation Forests were later adopted to identify anomalous transactions without labeled data [6, 10]. Deep learning architectures, particularly Long Short-Term Memory (LSTM) networks and Gated Recurrent Units (GRUs), have shown superior performance in capturing temporal dependencies in user transaction sequences and behavioral biometrics [7, 11]. However, these models typically analyze events in isolation, ignoring the complex web of interactions between entities that often reveal coordinated fraud.

Graph-based techniques mark a significant advancement by explicitly modeling these relationships. Early work used community detection algorithms like the Louvain method on static transaction graphs to identify suspicious clusters [12]. The advent of Graph Neural Networks (GNNs), such as GraphSAGE and Temporal Graph Networks (TGNs), has enabled end-to-end learning on dynamic graph-structured data, allowing for the detection of subtle, evolving fraud rings that are invisible at the individual transaction level [13, 14].

In threat intelligence, NLP techniques have evolved from simple keyword matching and bag-of-words models to sophisticated deep learning approaches. Earlier methods used word embeddings (Word2Vec, GloVe) and Bi-LSTMs to analyze unstructured threat reports [15]. The Transformer architecture, with its self-attention mechanism, and more recently, Large Language Models (LLMs) fine-tuned for security tasks, offer a potent solution for correlating disparate pieces of information across vast corpora of security data, including dark web forums and encrypted channels [8, 16].

Our framework synthesizes these disparate threads—temporal deep learning, dynamic relational GNNs, and contextual NLP/LLMs—into a unified, synergistic system. It addresses the critical limitations of siloed approaches prevalent in both academic literature and commercial solutions by enabling continuous, multi-context risk assessment.

3. PROPOSED HYBRID AI FRAMEWORK

The proposed framework is designed as a real-time, microservices-based pipeline that ingests multi-modal data from core banking systems, application logs, and external threat feeds. It is built for scalability and resilience, leveraging cloud-native technologies and a publish-subscribe pattern (e.g., Apache Kafka) for data ingestion.

3.1 Real-Time Deep Behavioral Analytics Engine

This component moves beyond single-point transaction analysis to model the sequence and context of a user's digital behavior, creating a personalized baseline.

Mechanism: We employ a Dual-LSTM Autoencoder architecture with attention mechanisms. One LSTM autoencoder is dedicated to learning the compressed representation (h_txn) of a user's transaction sequence (amount, frequency, merchant category, geolocation, time-of-day). A second, parallel LSTM autoencoder learns the representation (h_behavior) of their associated behavioral biometrics (keystroke dynamics, mouse movements, session navigation patterns, mobile app interaction gestures) [11]. The reconstruction error from each autoencoder is computed; a sharp increase in error signifies a significant deviation from the user's established behavioral baseline, indicating potential account compromise [7]. The attention mechanism helps identify which specific behavioral features are contributing most to the anomaly.

Technical Implementation: The model is trained per-user in an ongoing manner, creating a dynamic, personalized baseline. Training utilizes a contrastive learning objective to improve the model's discriminative power between genuine and fraudulent sessions [17]. The final Behavioral Anomaly Score (S_behavior) is a weighted fusion of the transaction and behavioral reconstruction errors:

$S\_behavior = \alpha \cdot MSE(X\_txn, X\_hat\_txn) + \beta \cdot MSE(X\_beh, X\_hat\_beh)$

where α and β are tunable hyperparameters, dynamically adjusted based on feature importance. Inference is performed in real-time using a stream processing framework like Apache Flink to meet the sub-100ms latency requirement.

3.2 Dynamic Graph Neural Network for Relational Analysis

This module uncovers sophisticated, collusive fraud rings by analyzing the complex, time-evolving relationships between entities.

Mechanism: We model the banking ecosystem as a dynamic, heterogeneous graph G = (V, E, T), where nodes V represent entities (Users, Accounts, Devices, IP Addresses, Merchant IDs) and edges E represent interactions (transfers, logins, shared credentials) with timestamps T. A Temporal Graph Network (TGN) is used to learn node embeddings that encode both structural topology and temporal relationship patterns [14]. Fraudulent activity often manifests as sudden changes in network topology—such as the formation of dense, transient subgraphs (mule networks) or anomalous changes in a node's local neighborhood (e.g., a previously dormant account initiating transactions to multiple newly-created accounts).

Technical Implementation: We use a modified GraphSAGE model with memory modules and LSTM-based aggregators to incorporate temporal dynamics [13, 14]. The model is trained in a self-supervised manner using a temporal contrastive loss (e.g., using negative sampling of future states), where the objective is to distinguish normal subgraph evolution from anomalous structural changes indicative of fraud. The output is a Relational Risk Score (S_graph) for each entity. The graph is updated continuously in near-real time as new transactions and events occur.

3.3 AI-Powered Threat Intelligence Hub

This component provides external, global context, transforming raw, unstructured threat data into actionable, structured intelligence.

Mechanism: We deploy a fine-tuned Transformer-based model, specifically a security-focused variant of RoBERTa or DeBERTa, for Named Entity Recognition (NER), relation extraction, and intent classification from unstructured text sources—threat reports, dark web forums, paste sites, and IoC feeds [16, 18]. The model identifies critical entities (e.g., MalwareFamily, CVE, IPAddress, BankName, AttackTechnique) and extracts semantic relationships between them (e.g., uses, targets, exploits). This structured knowledge is stored and continuously updated in a threat knowledge graph.

Technical Implementation: The hub performs continuous correlation between the internal banking data and the external threat graph. For example, if a user's IP address is observed in a transaction, and that same IP is extracted in real-time from a new threat report discussing a botnet operation, the Threat Intelligence Hub immediately elevates the Contextual Threat Score (S_threat) for all active sessions associated with that IP. Integration with STIX/TAXII feeds allows for automated ingestion of standardized threat data.

3.4. Fusion and Decision Engine

The final risk score is an adaptive, weighted fusion of the three component scores, allowing the system to prioritize different signals based on the attack context:
$S_{final} = w1 \cdot S_{behavior} + w2 \cdot S_{graph} + w3 \cdot S_{threat}$
The weights (w1, w2, w3) can be static or dynamically adjusted by a meta-learner that considers the confidence of each component's prediction and the current threat landscape. A hybrid policy engine, combining interpretable rule-based logic (for high-certainty scenarios) and a lightweight ML classifier (for nuanced cases), then triggers graduated actions—from allowing the transaction, to requiring step-up authentication (e.g., biometric verification), to outright blocking, and finally, generating a detailed case for investigators. This case file is enriched with explainable AI (XAI) evidence from SHAP and LIME, providing clear rationales for the decision, such as "flagged due to anomalous login geography combined with connection to a known mule account."

4. CASE STUDY AND EMPIRICAL VALIDATION

A 12-month longitudinal deployment was conducted in partnership with a multinational bank operating in over 50 countries.

Context: The bank processes an average of 1.2 billion transactions monthly across 50 million customers. The incumbent system was a legacy rules engine (over 5,000 static rules) coupled with a logistic regression model, generating approximately 15,000 daily alerts with a high false positive rate.

Intervention: The proposed AI framework was integrated into their real-time data pipeline, requiring a sub-100ms of end-to-end latency for transaction scoring. The deployment involved a phased rollout, starting with a pilot in one geographic region before full-scale implementation.

Results: The following table summarizes the key performance indicators (KPIs) after a 6-month stabilization period, comparing the performance against the legacy system.

Table -1: Sample Table format

KPI	Incumbent System	Proposed AI Framework	Improvement
True Positive Rate (Detection Rate)	62%	94%	+52%
False Positive Rate	3.0%	1.0%	-67%
Mean Time to Detect (MTTD) New Threat Pattern	16 days	~2 days	8x Faster
Operational Cost of Alert Review	$1.5M/month	$0.5M/month	~67% Reduction
Account Takeover (ATO) Prevention Rate	70%	96%	+26% (pp)

Analysis: The GNN component was particularly effective, identifying 28 previously unknown money mule rings within the first three months, leading to the freezing of several million dollars in fraudulent assets. The Threat Intelligence Hub provided early warning for a new phishing campaign specifically targeting the bank's brand, allowing for preemptive countermeasures (e.g., blocking malicious URLs at the gateway) that blocked over 50,000 attempted account takeovers. The integration of the XAI dashboard reduced the average case investigation time by 55%, as investigators could immediately understand the primary risk factors for each alert.

5. DISCUSSIONS

5.1. Implementation challenges

Deploying this framework at scale presented several non-trivial challenges:

Data Privacy and Regulation: Training models on sensitive customer data, especially behavioral biometrics, require robust anonymization and strict adherence to GDPR, CCPA, and PSD2. We implemented Federated Learning for model personalization, allowing user-specific model updates to remain on the user's device or within the bank's secure perimeter, with only aggregated model gradients shared centrally [19].

Explainability & Regulatory Compliance: The "black box" nature of deep learning models, particularly GNNs, is a significant hurdle for regulators and investigators. We integrated SHAP and LIME to generate post-hoc explanations and developed inherently interpretable surrogate models for the most critical decision paths. This was crucial for building trust and meeting regulatory "right to explanation" mandates.

Computational Complexity and Latency: The GNN and NLP models are computationally intensive. We addressed this through model quantization, knowledge distillation to create smaller, faster models for edge deployment, optimized graph sampling strategies, and deploying inference on GPU-accelerated hardware. Maintaining sub-100ms latency for the entire pipeline was a constant engineering focus.

Adversarial Machine Learning: The framework itself is a target. We observed attempts to poison the behavioral model through slow-drift attacks and evasion attacks against the GNN. Defenses included adversarial training, robust feature engineering, and continuous monitoring of model performance for signs of degradation [20].

5.2. Future research directions

The evolution of this framework points toward several promising research avenues:

Causal AI for Root Cause Analysis: Moving beyond correlation to use causal inference and discovery models [21] to determine the precise root cause of an alert and predict potential attack progression, drastically reducing investigator triage time and enabling more precise containment.

Federated Learning for Cross-Institutional Defense: Developing privacy-preserving, cross-silo Federated Learning architectures to enable multiple financial institutions to collaboratively train a global fraud model without sharing confidential data, creating a powerful collective immune system against financial crime [19].

Generative AI and LLMs for Adaptive Defense: Leveraging LLMs not just for threat intelligence but also for generating synthetic fraud scenarios for robust model training, automating the writing of detection rules in natural language, and powering advanced social engineering detection systems [8, 22].

Quantum-Resistant Cryptography and ML: Preparing for the post-quantum era by exploring and integrating quantum-resistant cryptographic algorithms to secure the data pipelines and models and investigating quantum machine learning for potentially exponential speed-ups in complex graph analysis [23].

6. CONCLUSION

This paper presented a holistic, hybrid AI framework designed to proactively combat the evolving landscape of modern financial fraud and cyber-threats. By integrating deep behavioral analytics, dynamic graph neural networks, and contextual threat intelligence into a unified, real-time decision loop, the system demonstrates a substantial and measurable improvement over legacy approaches, as validated by a large-scale, longitudinal industrial deployment. The transition from siloed, reactive tools to an integrated, intelligent, and explainable platform is not merely an optimization but a strategic necessity for banks to ensure security, maintain regulatory compliance, and preserve customer trust in the digital age. Future work, as outlined, will focus on enhancing the framework's causality, privacy, resilience to adversarial attacks, and preparation for next-generation computing paradigms.

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