

# A Review on Various Techniques and Approaches for Credit Card Fraud Detection

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## Abstract

During the last few years, the credit card system has been widely used as a process to initiate the global economy to develop significantly. A credit card providers has been issued millions of credit cards to their customers. While issuing credit cards to any wrong customers that can be a very crucial factor of a financial crisis. This paper presents an organized analysis and a survey of data mining methods and their applications in the credit card process. Our work focuses on data mining methods applied specifically in the credit card process which helps to emphasize much wider areas. Hence, this survey can be very useful for any credit card provider to choose an appropriate solution for their problem as well as for the researchers to have a comprehensive review of the literature in this area.

**Keywords**— *data mining; credit card; New customer selection; fraud detection; Customer relationship management; repayment prediction.*

## I. INTRODUCTION

In recent years, the rapid increase in using credit cards for making the purchase has caused a huge amount of data. These data can be useful for examine the pattern of the consumption behaviors of the customers. The credit card providers have been interested in planning the default risk of a credit card holder. Negative risk arising from the behaviors of customer which can lead to a big loss of money. Hence, the credit card providers need to use data mining methods for predicting and classifying customers more effectively.

Therefore, data mining is a very important technique for each and every activity of the credit card process. For example, it can be used for classifying good customers or bad customers which is totally based on their application information and, also, detecting a misuse of a credit card based on purchase information of a customer. The efficiency of predicting the goodness or badness of an applicant can reduce credit risk of a credit card providers. While, if the provider make any wrong decision by providing credit cards to bad customers, it will result in big loss of revenue and liquidity. This credit risk issue can leads to the financial crisis of the world economy.

Due to a huge amount of available data, process analysis in the credit card activity need to rely on data mining methods for its effectiveness and efficiency. Basically, data mining is process of extracting the patterns from the data. It helps to combine the method which is used to statistical, machine learning and database in order to extract and identify useful data from a lot of database [8], [12], and [15].

Recently, there have been various works which helps to reviewing the applications of data mining methodology in the banking sector. In [18] the authors have studied data mining used in various activities in the banking sector, i.e., customer relationship management, fraud detection, marketing and risk management. This work did not investigate precisely on the credit card process and, therefore, data mining methods employed in such a manner is not obvious. Another survey of data mining applications in banking has been presented in [14] in which the concept of knowledge discovery in database method (KDD) was also discussed. Whereas, they didn't indicate the credit card process. In additional, there are surveying works concerning for particular areas of the credit card method such as fraud detection [8], [9], [12], [19] and credit scoring for customer's application [6]. With respect to be more specific survey which can be for credit card providers and researchers in this area, we have investigated research on data mining applications in main activities of the credit card methods.

## II. ANALYSIS ACTIVITY IN CREDIT CARD PROCESS

In this section, we categorize the credit card fraud detection process into 3 main activities; fraud detection, new customer selection and customer relationship management (CRM).

### A. Fraud Detection Activity:

There are various kinds of fraud including credit card fraud, telecommunication fraud, computer intrusion, bankruptcy fraud, Theft fraud or counterfeit fraud, application fraud and behavioral fraud. It has separated fraud into two categories: application based fraud and behavioral fraud [7].

The application fraud refers to a fraudsters situation where a fraud a steals one's information or provides false information when applying for a credit card from a provider [18]. The behavioral fraud mean any type of abuses of a credit card by a fraud, for example, using a stolen credit card or counterfeit one.

Usually data mining techniques are used to search patterns of fraud as well as to classify customer behaviors as either fraudulent or non- fraudulent.

Data mining methodology is very important for fraud detection method. This is due to its computation performance on huge data. In additional, those methods need to have high precision results and low cost computation.

### **B. New Customer Selection Activity:**

The aim of the new customer selection activity is to provide a qualified application to hold new credit card that can profit the problem. Credit card providers verify credit's applicant and approve the credit card into good customer group or non-risk group that these groups can score more than threshold that is defined by data mining which using the history of payment data of customers and default rate and other specifics. Credit card providers analyzed the attributes on the applicant. Hence, the credit scoring models use to illustrate the risk and support decision making the selection of new customers. This application allow credit card providers increase profit and reduce credit risk. Data Mining has been used to manage credit scoring by choosing the attributes that contribute to indicate a low risk for approve the new cardholder.

### **C. CRM:**

Customer Relationship Management (CRM) is used to make relationship between card-holder and credit card provider to select a target customer and predicts card-holder churn using data mining which helps to find the pattern of the credit card holder's behavior that expense by their credit card which improve customer loyalty and retention [17]. The most important reason of CRM activity is that the cost of retention exist customer is lower than a new customer [10]. Data mining was applied clustering [13] and classification.

## **III. LITERATURE SURVEY**

Tanmay Kumar Behera [1], have proposed a novel approach towards credit card fraud detection in which the fraud detection is done in three phases. The first phase does the initial user authentication and verification of card details. If the check is successfully cleared, then the transaction is passed to the next phase where fuzzy cmeans clustering algorithm is

applied to find out the normal usage patterns of credit card users based on their past activity.

V.Mareeswari [2], proposed a solving business problems in banking sectors are done mostly by contribution of Data Mining. Better targeting, acquiring new customers, and fraud detection in credit cards, fraudulent transactions can be done by Data mining techniques.

Mohd Avesh Zubair Khan [3], presents a survey of various techniques used in credit card fraud detection mechanisms and Hidden Markov Model (HMM) in detail. HMM categorizes card holder's profile as low, medium and high spending based on their spending behaviour in terms of amount. A set of probabilities for amount of transaction is being assigned to each cardholder. Amount of each incoming transaction is then matched with card owner's category, if it justifies a predefined threshold value then the transaction is decided to be legitimate else declared as fraudulent. Existing fraud detection system may not be so much capable to reduce fraud transaction rate.

Mahesh Singh [4], focused on Luhn algorithm is widely used on the Internet to validate of credit card numbers, but this algorithm suffers from weaknesses, as confirmed by tests.

Jaba Suman Mishra [5], present the necessary theory to detect fraud in credit card transaction processing using a Hidden Markov Model. If an incoming credit card transaction is not accepted by the Hidden Markov Model with sufficiently high probability, it is considered to be fraudulent. At the same time, author try to ensure that genuine transactions are not rejected. Author show how HMM helps to obtain high fraud coverage combined with a low false alarm rate.

E.W.T. Ngai [9], this paper presents a review of — and classification scheme for — the literature on the application of data mining techniques for the detection of financial fraud. Although financial fraud detection (FFD) is an emerging topic of great importance, a comprehensive literature review of the subject has yet to be carried out. This paper thus represents the first systematic, identifiable and comprehensive academic literature review of the data mining techniques that have been applied to FFD. 49 journal articles on the subject published between 1997 and 2008 was analyzed and classified into four categories of financial fraud (bank fraud, insurance fraud, securities and commodities fraud, and other related financial fraud) and six classes of data mining techniques (classification, regression, clustering, prediction, outlier detection, and visualization). The findings of this review clearly show that data mining techniques have been applied most extensively to the detection of insurance fraud, although corporate fraud and credit card fraud have also attracted a great deal of attention in recent years. In contrast, we find a distinct lack of research on mortgage fraud, money laundering,

and securities and commodities fraud. The main data mining techniques used for FFD are logistic models, neural networks, the Bayesian belief network, and decision trees, all of which provide primary solutions to the problems inherent in the detection and classification of fraudulent data. This paper also addresses the gaps between FFD and the needs of the industry to encourage additional research on neglected topics, and concludes with several suggestions for further FFD research.

Guoxun Wang [10] ,Nowadays, with increasingly intense competition in the market, major banks pay more attention on customer relationship management. A real-time and effective credit card holders' churn analysis is important and helpful for bankers to maintain credit card holders. In this research we apply 12 classification algorithms in a real-life credit card holders' behaviors dataset from a major commercial bank in China to construct a predictive churn model. Furthermore, a comparison is made between the predictive performance of classification algorithms based on Multi-Criteria Decision Making techniques such as PROMETHEE II and TOPSIS. The research results show that banks can choose the most appropriate classification algorithm/s for customer churn prediction for noisy credit card holders' behaviors data using MCDM.

IC. Yeh [11], this research aimed at the case of customers' default payments in Taiwan and compares the predictive accuracy of probability of default among six data mining methods. From the perspective of risk management, the result of predictive accuracy of the estimated probability of default will be more valuable than the binary result of classification - credible or not credible clients. Because the real probability of default is unknown, this study presented the novel "Sorting Smoothing Method" to estimate the real probability of default. With the real probability of default as the response variable (Y), and the predictive probability of default as the independent variable (X), the simple linear regression result ( $Y = A + BX$ ) shows that the forecasting model produced by artificial neural network has the highest coefficient of determination; its regression intercept (A) is close to zero, and regression coefficient (B) to one. Therefore, among the six data mining techniques, artificial neural network is the only one that can accurately estimate the real probability of default. 2007 Elsevier Ltd. All rights reserved.

L. Delamaire [12], Fraud is one of the major ethical issues in the credit card industry. The main aims are, firstly, to identify the different types of credit card fraud, and, secondly, to review alternative techniques that have been used in fraud detection. The sub-aim is to present, compare and analyze recently published findings in credit card fraud detection. This article defines common terms in credit card fraud and highlights key statistics and figures in this field. Depending on the type of fraud faced by banks or credit card companies, various measures can be adopted and implemented. The

proposals made in this paper are likely to have beneficial attributes in terms of cost savings and time efficiency. The significance of the application of the techniques reviewed here is in the minimization of credit card fraud. Yet there are still ethical issues when genuine credit card customers are misclassified as fraudulent.

R. Roselin [13], Consumer financing have become increasingly important in the private sector for the last two decades. With the new reforms in the banking sector, the marketing of financial products has become very competitive, creating a need for strategizing the marketing efforts. This study investigates the shift of consumers towards the use of plastic money, with emphasis on credit cards. A survey of consumers holding one or no credit card was used for data collection. Variables related to demographics such as age, income level and gender have also been taken into consideration. Data mining techniques are useful to analyses the customer behavior. Prediction is done using the relevant data set taken from the database on the basis of the attributes. Classification and Clustering algorithms are used to analyses customer behavior towards credit card. Based on our observations, suggestions have also been made for managers to refine the target market.

**TABLE I.** Shows comparison between various existing approaches and its limitation

Ref. No.	Method Used	Data Source	Approach	Strength	Limitation
1	Fuzzy clustering and neural network.	any benchmark datasets	Proposed a novel credit card fraud detection system based on the integration of two approaches that is fuzzy clustering and neural network.	Proposed approach reduce the misclassification rate based on the attributes transaction amount, type of items purchased and time of transaction.	Does not evaluate time gap between transaction
2	Hybrid Support Vector Machine method	Credit card datasets	Author proposed new algorithm along with the existing algorithm. Scalability issues, extreme imbalanced class systems.	Author proposed the efficiency in scalability by updating the evaluation of data.	-
3	Hidden Markov Model (HMM)	10 transaction user data set	Author proposed an HMM in detection of credit card fraud. In this modelled the sequence of transactions in credit card processing using an HMM.	The proposed system detects of the fraud use of the card is found much faster.	There is no experiment for incoming transaction.
4	Luhn algorithm and K-Means.	transactional databases	Author included the operations performed to validate the Credit card number. It will be done as a combination of Luhn algorithm and K-Means.	Problems with uniform as well as the problems with non-uniform distribution of data points are better addressed by proposed algorithm.	Require to confirm the number of clusters which will improve the efficiency of Credit card fraud detection system.
5	HMM	transactional databases	Proposed an application of HMM in credit card fraud detection keeping in view the current Indian Market.	Author found that more than 85% transactions are genuine and very low false alarms which is about 8% of the total number of transactions.	No experiment for large scale dataset

#### IV. CONCLUSION

This paper has been presented a survey on various data mining algorithms in the credit card process which involve fraud detection, the new customer selection, the customer relationship management and the repayment. We have researched on various research work mainly from Google Scholar and we selected the criteria as credit card and the various activities in credit card process.

Basically, classification and prediction assignment are very important in the credit card process. Therefore, data mining has been choose to use in every activity of the credit card process by the credit card provider. Therefore, more importantly there are many credit card providers are interested in finding methods which can be help them to reduce cost as well as increase profit. This survey has found that there has been three important features that helps to make decision models more accurate. They contain an organized analysis, an appropriate selection of data set and a suitable time period of data-set.

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