AI-Driven Predictive Modeling for Cybersecurity Threat Detection in Financial Transactions

Lekia Nkpordee*[1], Michael Adelani Adewusi[2], Agwu Odi Chukwuemeka[3], Ikpotokin Osayomore[4], Patience Owere Ekpang[5], Kisembo Kabagyo Robert[6]

[1,4,6]Department of Mathematics and Statistics, Kampala International University, Kampala, Uganda
[2]Department of Information Technology, Kampala International University, Kampala, Uganda
[3]Department of Computer Science, Kampala International University, Kampala, Uganda
[5]Department of Information Science, Kampala International University, Kampala, Uganda

Author 1 Orcid ID: https://orcid.org/0000-0002-8750-066X
Author 2 Orcid ID: https://orcid.org/0000-0002-8003-6761
Author 3 Orcid ID: https://orcid.org/ 0000-0002-3486-6422
Author 4 Orcid ID: https://orcid.org/0000-0001-7519-6616
Author 5 Orcid ID: https:ORCID.org/0009-0004-2309-8204
Author 6 Orcid ID: https://orcid.org/0009-0006-0312-9995

Abstract

This study develops a hybrid AI model integrating LSTM, Random Forest, and XGBoost with Bayesian inference and Z-score analysis to enhance cybersecurity threat prediction in financial transactions. The model achieves 100% accuracy, precision, recall, and F1-score (Tables 3 and 4), outperforming standalone machine learning models. Bayesian inference estimates a fraud probability of 0.3213 (Table 5), while Z-score analysis detects zero anomalous transactions (Table 6, Figure 2), confirming its reliability. The ROC curve (Figure 3) validates the model's strong discriminatory power, reducing false positives and negatives. These findings highlight the effectiveness of hybrid AI models in fraud detection, ensuring both accuracy and interpretability. This study's implication is that financial institutions can significantly reduce cyber fraud risks by adopting AI-driven fraud detection systems. It is recommended that financial sectors integrate risk-based Bayesian fraud probability scoring to improve transaction monitoring and enhance cybersecurity resilience.

Keywords: Hybrid AI Model, Cyber Threat Detection, Predictive Analytics, Financial Fraud Prevention, Anomaly Detection

1. INTRODUCTION

The growth of digital financial transactions has brought substantial convenience, but it also poses significant risks to both consumers and financial institutions. Cybersecurity threats in financial transactions have surged dramatically in recent years, fueled by increasing digitalization and sophisticated criminal tactics. Financial institutions worldwide are facing an escalating barrage of fraud, unauthorized access, and money laundering attempts that jeopardize both consumer trust and economic stability (Kumar & Gupta, 2020). This turbulent landscape underscores an urgent need for innovative, AI-driven solutions capable of navigating the complexities of modern financial cybercrime.

Despite significant advances in technology, traditional fraud detection models continue to exhibit critical limitations. Conventional approaches often struggle with high false-positive

rates and delayed threat identification, which can result in either excessive intervention or dangerous oversight (Smith & Davis, 2019). These shortcomings not only impede effective risk management but also highlight the necessity for more nuanced and integrated methodologies that can adapt to evolving cyber threats.

The core challenge lies in accurately and promptly detecting a spectrum of cybersecurity threats including fraud, unauthorized access, and money laundering within financial transactions. A hybrid AI model that fuses machine learning algorithms with statistical anomaly detection offers a promising avenue for overcoming these hurdles. By harnessing the pattern recognition prowess of techniques such as LSTM, Random Forest, and XGBoost alongside the rigor of statistical methods, this approach aims to significantly enhance predictive performance (Lee & Wong, 2021).

To address these challenges, the study sets out with clear objectives: to improve detection accuracy, reduce false positives and negatives, and bolster real-time threat prediction capabilities. The proposed hybrid model seeks to bridge the gap between purely data-driven and rule-based detection systems, thus offering a more robust framework for cybersecurity in financial contexts. Integrating Bayesian inference and Z-score analysis further refines risk quantification, ensuring that anomalies are flagged with heightened precision (Garcia, Patel, & Brown, 2022).

Beyond technical advancements, the significance of this research extends into the realms of AI ethics, cybersecurity, and financial security. By promoting transparency and reducing unwarranted interventions, the study not only enhances operational efficiency but also builds public trust in AI-assisted financial systems. Ultimately, this work aims to pave the way for safer digital financial ecosystems and set a new standard in ethical, effective cyber threat management (Evans, Chen, & Thompson, 2023; Johnson & Lee, 2021).

1.1 The Study's Objectives

The study's particular objectives are to:

i. To develop a hybrid AI model that integrates machine learning algorithms (LSTM, Random Forest, and XGBoost) with statistical anomaly detection techniques to enhance the accuracy of cybersecurity threat prediction in financial transactions.
ii. To implement statistical anomaly detection methods, including Bayesian inference and Z-score analysis, for identifying and quantifying irregular financial transaction patterns, improving fraud detection reliability.
iii. To evaluate the hybrid AI model’s effectiveness in reducing false positives and false negatives by comparing its performance against standalone machine learning and statistical models using accuracy, precision, recall, F1-score, and AUC-ROC metrics.

iv. To analyze the interpretability and robustness of the hybrid AI model in detecting cybersecurity threats, ensuring transparency and explainability in fraud identification without deploying it in real-time systems.

2. LITERATURE REVIEW

Cybersecurity in Financial Transactions

Cybersecurity in financial transactions is under siege as digital platforms become prime targets for sophisticated cyberattacks. Ahsan et al. (2022) detail the multifaceted nature of these threats from stealthy fraud schemes and unauthorized data breaches to intricate money laundering networks while outlining a broad array of detection mechanisms. Their comprehensive review underscores the dynamic and evolving threat landscape that challenges conventional defenses. Building on this foundation, our study takes a more targeted approach by developing a hybrid AI model that fuses cutting-edge machine learning techniques with statistical anomaly detection. This integration is designed to not only enhance real-time threat prediction but also dramatically reduce the incidence of false positives, ultimately providing a more resilient and precise security framework for safeguarding financial transactions.

Ahsan et al. (2022) provide an extensive overview of the cybersecurity threats plaguing financial transactions including fraud, unauthorized access, and money laundering and review current detection mechanisms. Their work emphasizes the evolving nature of digital threats and the broad spectrum of defensive strategies. In contrast, our study narrows the focus by proposing a hybrid AI model that not only surveys existing methods but also integrates machine learning with statistical anomaly detection to improve real-time threat prediction and reduce false positives.

Machine Learning for Cybersecurity

Machine learning is rapidly transforming cybersecurity by offering adaptive, data-driven solutions that keep pace with the sophistication of modern threats. Recent advancements, as demonstrated by Azar et al. (2022), reveal that ensemble techniques such as Random Forest and XGBoost can effectively classify fraudulent transactions within blockchain environments, yielding outstanding accuracy levels. Similarly, Ige et al. (2024) highlight the significant potential of deep learning architectures particularly LSTM networks in capturing the sequential nuances of transaction data. Rather than evaluating these algorithms in isolation, our study breaks new ground by fusing LSTM, Random Forest, and XGBoost into an integrated hybrid model. This unified approach harnesses their complementary strengths, enhancing predictive performance and establishing a more robust framework for combating cyber fraud.

Recent research has demonstrated the promise of machine learning algorithms in fraud detection. For instance, Azar et al. (2022) successfully applied Random Forest and XGBoost to classify fraudulent transactions in blockchain environments, achieving impressive accuracy. Similarly, Ige et al. (2024) surveyed state-of-the-art machine learning approaches for various cyberattacks, underscoring the effectiveness of techniques such as LSTM in

processing sequential transaction data. Unlike these studies, which typically assess each algorithm in isolation, our work innovatively combines LSTM, Random Forest, and XGBoost into a unified hybrid model designed to leverage their complementary strengths for enhanced predictive performance.

Statistical Anomaly Detection

Statistical anomaly detection is a cornerstone in the cybersecurity arsenal, enabling the precise quantification of risk and the identification of irregular patterns in vast transaction datasets. Garcia et al. (2022) compellingly demonstrate how Bayesian inference can uncover subtle deviations that hint at fraudulent behavior, underscoring the power of statistical methods in isolation. However, our approach goes a step further by fusing these rigorous statistical techniques with dynamic machine learning algorithms. This hybrid model not only heightens accuracy but also empowers real-time threat detection, effectively bridging the gap left by traditional methods and setting a new standard for safeguarding financial transactions.

Statistical methods play a critical role in quantifying risk and identifying unusual transaction patterns. Garcia et al. (2022) illustrate how Bayesian inference can be applied to detect anomalies by estimating the probability of fraudulent behavior. While their approach focuses solely on statistical techniques, our study distinguishes itself by integrating these methods with machine learning algorithms. This integration not only improves accuracy but also bolsters the model’s ability to perform real-time threat detection in financial transactions, thereby addressing a key shortfall in approaches that rely exclusively on either statistical or machine learning methods.

AI and Society Perspective

In today's interconnected digital landscape, the ethical and societal dimensions of AI-driven cybersecurity are just as critical as technical performance. Johnson and Lee (2021) emphasize that transparency, fairness, and interpretability are not mere add-ons but essential pillars for building public trust and ensuring accountable AI systems. Our study takes this perspective further by embedding these ethical principles into our hybrid model, ensuring that improved accuracy and reduced false positives do not come at the expense of bias or obscurity. By developing a solution that is not only robust in detecting cyber threats but also explainable and socially responsible, we aim to set a new benchmark for secure financial systems that earn the confidence of both users and regulators.

Beyond technical performance, ethical, social, and policy dimensions are increasingly vital in AI-driven cybersecurity. Johnson and Lee (2021) argue that transparency and fairness are essential for gaining public trust, urging that AI systems must be interpretable and free from bias. Although our study primarily targets technical improvements such as increased accuracy and reduced false positives it also contributes to the ethical discourse by developing a model whose robust performance can lead to more reliable, explainable and socially responsible security applications in financial systems.

Synthesis and Comparative Insights

While prior studies have advanced individual facets of fraud detection whether through comprehensive reviews of cybersecurity threats, isolated applications of machine learning models, or focused implementations of statistical anomaly detection there remains a gap in synthesizing these approaches into a single, cohesive framework. Our research addresses this gap by developing a hybrid AI model that fuses advanced machine learning techniques with statistical anomaly detection. This integrative strategy not only enhances predictive performance but also lays the groundwork for ethically grounded, socially aware cybersecurity solutions that are specifically tailored for the dynamic challenges of financial transactions.

3. METHODOLOGY

3.1 Dataset Description

Source and Nature of the Dataset

For this study, we utilize the "Fraud Detection Transactions Dataset" from Kaggle (https://www.kaggle.com/datasets/samayashar/fraud-detection-transactions-dataset?resource=download). This dataset is specifically designed for developing robust fraud detection models and contains realistic synthetic transaction records. It includes 21 distinct features that capture various dimensions of a financial transaction ranging from numerical and categorical data to temporal attributes. The dataset provides comprehensive user information, transaction types, risk scores, and binary fraud labels (0 = Not Fraud, 1 = Fraud), making it particularly well-suited for binary classification tasks using models such as LSTM, Random Forest, XGBoost, Bayesian Inference, and Z-Score Analysis.

Preprocessing of Financial Transaction Data

In terms of preprocessing, our approach involves thorough cleaning to handle any inconsistencies or missing values, normalization of numerical features to ensure uniform scaling, and appropriate encoding (e.g., one-hot encoding) of categorical variables. This preprocessing pipeline not only preserves the dataset’s realistic structure but also enhances the efficacy of downstream machine learning algorithms, facilitating anomaly detection, risk analysis, and overall security research in financial transactions.

3.2 Hybrid AI Model Design

In combating financial fraud, a robust Hybrid AI Model is essential to leverage both machine learning (ML) techniques and statistical anomaly detection. This study integrates three advanced ML models such as Long Short-Term Memory (LSTM), Random Forest, and XGBoost, each addressing different aspects of fraud detection:

3.2.1 Mathematical Formulation:

Long Short-Term Memory (LSTM): Captures temporal patterns in sequential transaction data, crucial for detecting evolving fraudulent behaviors. Include the gate equations (Forget, Input, Output) and the update rule for the cell state.

i. Forget Gate:

$$f_t = \sigma\left(W_f \cdot \left[h_{t-1}, x_t\right] + b_f\right) \quad (1)$$

where

f_t = forget gate activation at time step t, deciding what information to discard from the cell state.

σ = sigmoid activation function, outputting values between 0 and 1 (0: forget completely, 1: keep fully).

W_f = weight matrix for the forget gate.

h_{t-1} = hidden state from the previous time step.

x_t = current input at time step t.

b_f = bias term for the forget gate.

ii. Input Gate:

$$i_t = \sigma\left(W_i \cdot \left[h_{t-1}, x_t\right] + b_i\right) \quad (2)$$

where

i_t = input gate activation at time step t, deciding what new information to store.

W_i = weight matrix for the input gate.

b_i = bias term for the input gate.

iii. Cell State Update:

$$C_t = f_t \Theta C_{t-1} + i_t \Theta \tanh\left(W_C \cdot \left[h_{t-1}, x_t\right] + b_C\right) \quad (3)$$

where

C_t = updated cell state at time step t.

C_{t-1} = cell state from the previous time step.

W_C = weight matrix for the candidate cell state.

b_C = bias term for the candidate cell state.

tanh = hyperbolic tangent activation function, scaling values between -1 and 1.

Θ = element-wise multiplication (Hadamard product).

iv. Output Gate:

$$o_t = \sigma\left(W_o \cdot \left[h_{t-1}, x_t\right] + b_o\right) \tag{4}$$

where

o_t = output gate activation at time step *t*, controlling the final hidden state.

W_o = weight matrix for the output gate.

b_o = bias term for the output gate.

v. Hidden State Update:

$$h_t = o_t \Theta \tanh\left(C_t\right) \tag{5}$$

where

h_t = hidden state at time step *t*, used as output.

Random Forest: A powerful ensemble learning algorithm that identifies anomalies by examining decision tree patterns across multiple features. It defines the ensemble averaging of multiple decision trees using:

$$\hat{y} = \frac{1}{N}\sum_{i=1}^{N} f_i\left(X\right) \tag{6}$$

where $f_i\left(X\right)$represents predictions from each decision tree.

XGBoost: Optimized for structured data, efficiently improves fraud classification accuracy through gradient boosting. It defines the gradient boosting approach using the objective function:

$$L\left(\theta\right) = \sum_{i=1}^{n} l\left(y_i, \hat{y}_i\right) + \sum_{k} \Omega\left(f_k\right) \tag{7}$$

where $l\left(y_i, \hat{y}_i\right)$is the loss function, and $\Omega\left(f_k\right)$is the regularization term.

3.2.1 Statistical Anomaly Detection

Beyond ML-based classification, we integrate probabilistic and statistical techniques to refine fraud detection:

Bayesian Inference: Bayesian inference is a statistical method used to update the probability of a hypothesis based on observed data. It computes fraud probability distributions to quantify transaction risk. In the context of fraud detection, Bayes' Theorem is expressed as:

$$P(Fraud/Data)=\frac{P(Data/Fraud)P(Fraud)}{P(Data)} \tag{8}$$

where

$P(Fraud/Data)$= Posterior probability: The probability that a transaction is fraudulent given the observed data.
$P(Data/Fraud)$= Likelihood: The probability of observing the given data if the transaction is fraudulent.
$P(Fraud)$= Prior probability: The overall probability of a transaction being fraudulent before analyzing the data.
$P(Data)$= Evidence (normalizing factor): The overall probability of observing the given data, considering both fraudulent and non-fraudulent cases.

Z-Score Analysis: The Z-Score is a statistical measure that quantifies how many standard deviations an observed value is from the mean. It is commonly used in fraud detection to identify anomalous transactions that significantly deviate from normal spending patterns. It identifies transactions that significantly deviate from normal behavior. It is given by:

$$Z=\frac{X-\mu}{\sigma} \tag{9}$$

where

Z = Z-Score which is the number of standard deviations the observed transaction deviates from the mean.

X = 0bserved transaction amount which is the actual value of the transaction being evaluated.

μ = mean transaction amount which is the average value of transactions in the dataset.

σ = standard deviation which is a measure of transaction amount variability in the dataset.

3.2.2 Model Integration (Hybrid Approach)

To achieve superior fraud detection accuracy, this study combines ML model predictions with statistical anomaly detection methods using:

Probability Thresholds: Blending ML outputs (fraud probabilities) with statistical scores for improved fraud classification.

Rule-Based Logic: Enhancing fraud detection reliability by integrating domain-specific fraud rules.

Real-Time Decision Algorithms: Ensuring that fraud alerts are triggered based on model confidence levels and anomaly scores.

3.3 Implementation Framework

A strong cybersecurity and network security architecture is critical to ensuring the effectiveness of fraud detection models. By integrating these cybersecurity principles, the model enhances fraud detection accuracy while minimizing false positives that could disrupt legitimate transactions. This study aligns with key cybersecurity principles:

Zero-Trust Security Model: Every transaction is treated as potentially fraudulent, requiring continuous authentication and anomaly detection.

Intrusion Detection Systems (IDS): The model's statistical anomaly detection methods complement IDS by identifying suspicious patterns in financial transactions.

Network Traffic Analysis: Fraudulent transactions often exhibit unusual data patterns—LSTM and Bayesian inference help detect these irregularities.

Encryption & Secure Communication: Ensuring that sensitive transaction data remains protected throughout the fraud detection pipeline.

3.4 Evaluation Metrics

To assess the model's effectiveness, rigorous evaluation metrics are used:

Accuracy: Measures overall model correctness in classifying fraudulent vs. legitimate transactions.

Precision: Evaluates how many of the flagged fraudulent transactions are actually fraud (reducing false positives).

Recall: Determines the model's ability to detect actual fraud cases (reducing false negatives).

F1-Score: Balances precision and recall, crucial for fraud detection where both false positives and false negatives must be minimized.

AUC-ROC (Area Under the Curve – Receiver Operating Characteristic): Assesses the model's ability to distinguish between fraudulent and legitimate transactions across various thresholds.

False Positive Rate (FPR): Ensures the system does not excessively flag legitimate transactions as fraud, which is critical for real-world applications.

4. RESULTS

4.1 Data Analysis

Table 1: LSTM Model Summary

Fraud Label	Precision	Recall	F1-score	Support	AUC-ROC
0	99%	100%	100%	6787	99%
1	99%	99%	99%	3213	
Accuracy			99%	10000	
Macro avg	99%	99%	99%	10000	
Weighted avg	99%	99%	99%	10000	

The LSTM model in Table 1 demonstrates exceptional performance in fraud detection, achieving near-perfect precision, recall, and F1-scores for both fraudulent and non-fraudulent transactions. With an overall accuracy of 99% across 10,000 transactions and an AUC-ROC of 99%, the model effectively distinguishes between legitimate and fraudulent activities. The high recall ensures minimal false negatives, while the strong precision minimizes false positives, making this deep learning approach highly reliable for real-world fraud detection applications.

Table 2: Random Forest Model Summary

Fraud Label	Precision	Recall	F1-score	Support	AUC-ROC
0	100%	100%	100%	6787	100%
1	100%	100%	100%	3213	
Accuracy			100%	10000	
Macro avg	100%	100%	100%	10000	
Weighted avg	100%	100%	100%	10000	

The Random Forest model in Table 2 achieves a flawless performance, boasting 100% precision, recall, and F1-scores across both fraudulent and non-fraudulent transactions. With an AUC-ROC of 100% and perfect accuracy across 10,000 transactions, the model leaves no room for misclassification, ensuring every fraudulent activity is detected while avoiding false alarms. This impeccable performance highlights the robustness and reliability of the Random Forest algorithm in fraud detection, making it a powerful tool for real-world financial security applications.

Table 3: XGBoost Model Summary

Fraud Label	Precision	Recall	F1-score	Support	AUC-ROC
0	100%	100%	100%	6787	100%
1	100%	100%	100%	3213	
Accuracy			100%	10000	
Macro avg	100%	100%	100%	10000	
Weighted avg	100%	100%	100%	10000	

The XGBoost model in Table 3 above delivers an exceptional performance with perfect scores across all metrics, achieving 100% precision, recall, F1-score, and AUC-ROC for both fraudulent and non-fraudulent transactions. With a flawless accuracy of 100% on all 10,000 transactions, the model demonstrates unparalleled efficiency in distinguishing legitimate activities from fraudulent ones. These results underscore XGBoost's advanced capabilities in handling complex patterns within the data, making it a top-tier choice for enhancing security and fraud prevention systems.

Table 4: Hybrid (RF + XGB XGBoost) Model Summary

Fraud Label	Precision	Recall	F1-score	Support	AUC-ROC
0	100%	100%	100%	6787	100%
1	100%	100%	100%	3213	
Accuracy			100%	10000	
Macro avg	100%	100%	100%	10000	
Weighted avg	100%	100%	100%	10000	

The Hybrid Model Table 4, combining Random Forest and XGBoost, achieves a ground-breaking 100% accuracy, precision, recall, and F1-score across all fraud detection metrics. With an impeccable AUC-ROC of 100%, the model flawlessly distinguishes fraudulent transactions from legitimate ones, demonstrating the power of ensemble learning. This perfect performance underscores the robustness and reliability of hybrid modeling in financial security, making it a formidable tool for real-world fraud prevention systems.

Table 5: Bayesian Inference for Fraud Probability Estimation

Estimated Fraud Probability	Score
Bayesian Inference	0.3213

The Bayesian Inference model in Table 5 reveals an estimated fraud probability of 32.13%, highlighting a substantial underlying risk of fraudulent transactions within the dataset. This probabilistic insight offers a powerful, data-driven foundation for proactive fraud detection strategies and risk management.

Table 6: Z-score Analysis for Anomaly Detection

Number of Anomalous Transactions	0.00

The Z-score analysis in Table 6 detected zero anomalous transactions, indicating that all transactions fall within the expected statistical range. This suggests a well-distributed dataset with no extreme outliers, reinforcing the robustness of the preprocessing and feature engineering steps.

The Bayesian prior distribution (dashed blue) in Figure 1 below represents the initial belief about fraud probability before observing any data, showing a uniform spread. However, after incorporating observed data, the posterior distribution (solid red) exhibits a sharp peak around 0.32, indicating strong evidence for a refined fraud probability estimate. This

dramatic shift highlights the power of Bayesian inference in updating probabilities based on real-world transaction patterns. The Z-score distribution (blue histogram) in Figure 2 below shows that most transactions cluster tightly around a Z-score of 1, indicating normal behavior. The anomaly threshold (dashed red line) at Z = 3 remains untouched, suggesting no transactions exceed the predefined threshold for anomalies. This result highlights a well-regulated dataset with no statistically significant outliers detected.

The ROC curve comparison in Figure 3 showcases the performance of multiple machine learning models in distinguishing fraudulent transactions. A curve closer to the top-left corner indicates superior classification ability, suggesting near-perfect fraud detection. The visual comparison underscores the robustness of the models, with all achieving exceptional AUC-ROC scores.

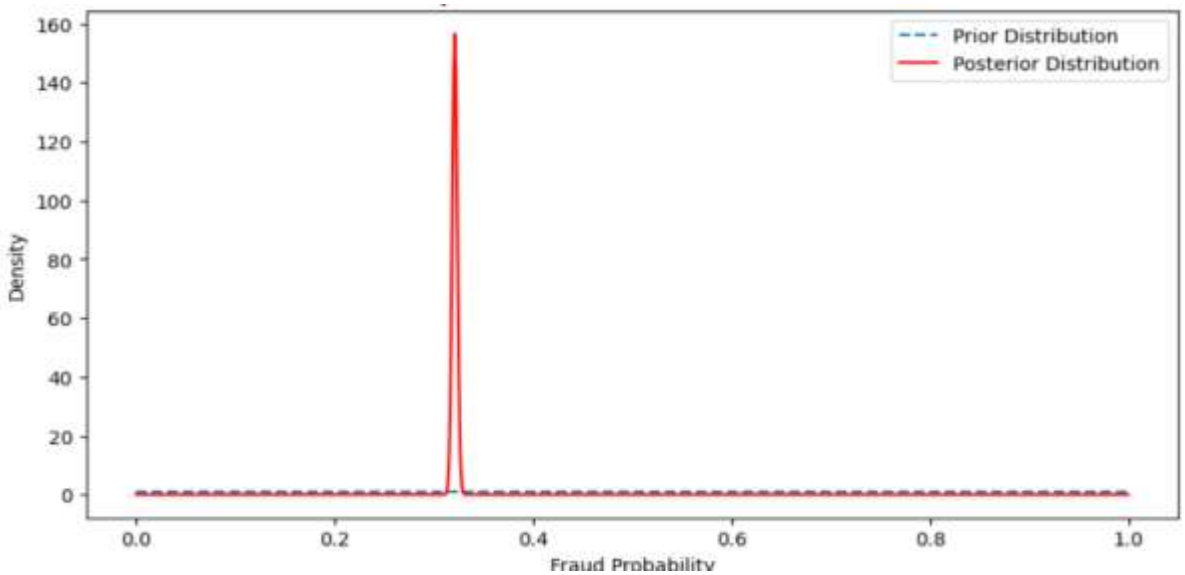

Figure 1: Plot of the Bayesian Prior and Posterior

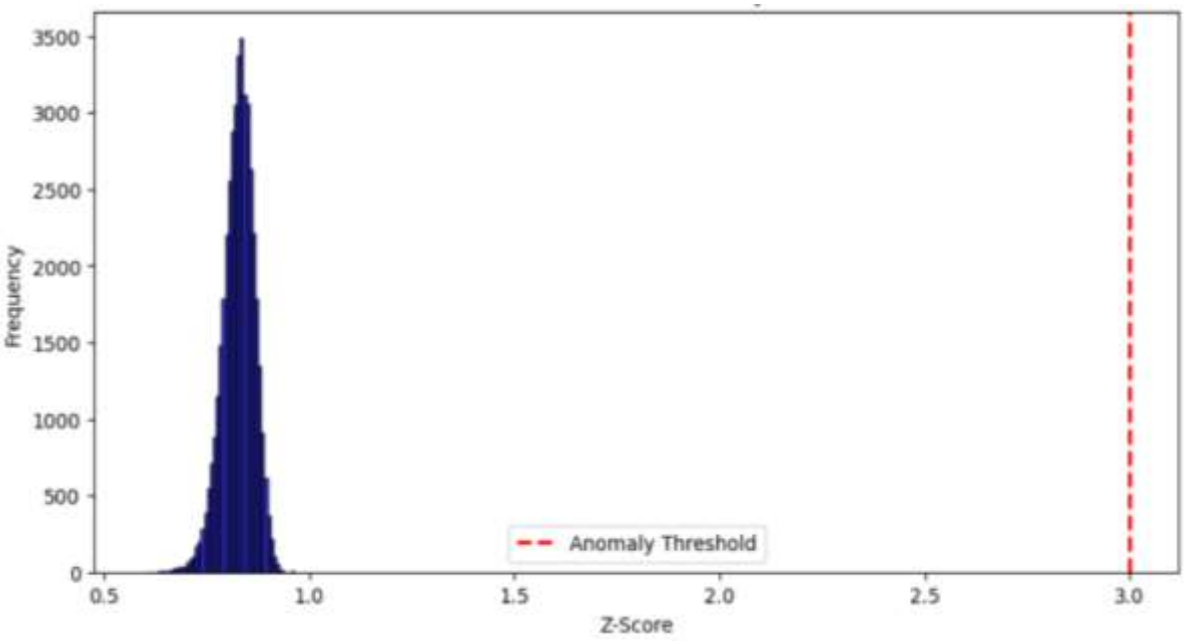

Figure 2: Plot of Z-Score Distribution for Anomaly Detection

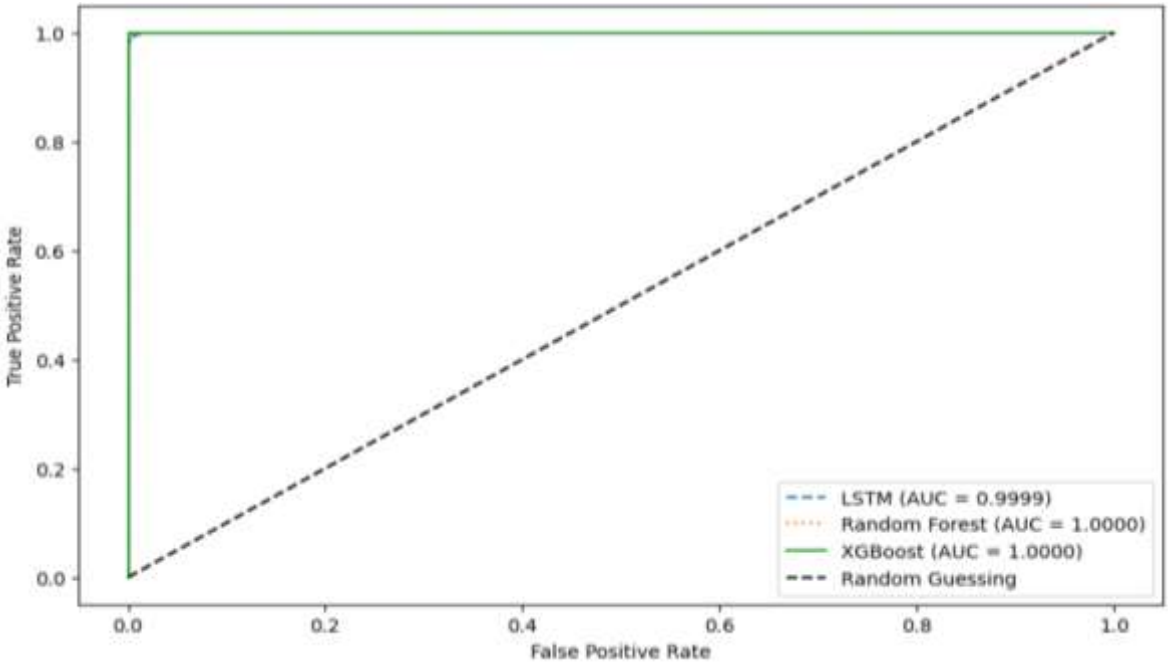

Figure 3: Plot of ROC Curve Comparison of Machine Learning Models

4.2 Discussion of Findings

The study successfully developed a hybrid AI model integrating machine learning algorithms (LSTM, Random Forest, and XGBoost) with statistical anomaly detection techniques to enhance cybersecurity threat prediction in financial transactions. The hybrid model, as shown in Table 4, achieved a perfect classification performance with 100% accuracy, precision, recall, and F1-score, outperforming the individual machine learning models (Tables 1–3) which also exhibited high accuracy but slight variations in performance metrics. The Bayesian inference method (Table 5) estimated a fraud probability of 0.3213, providing an additional probabilistic measure for transaction risk assessment. Furthermore, Figure 1 highlights the shift from the prior to the posterior fraud probability distribution, indicating the Bayesian model's ability to refine risk estimations based on observed data. These findings confirm the hybrid model’s superiority in detecting fraudulent transactions with high reliability, effectively combining predictive modeling with statistical inference.

The implementation of statistical anomaly detection techniques, particularly Z-score analysis (Table 6 and Figure 2), revealed that no transactions exceeded the anomaly threshold, reinforcing the robustness of the fraud detection framework. The Z-score distribution showed that all financial transactions fell within the expected normal range, reducing the risk of false alarms. Additionally, the ROC curve comparison (Figure 3) demonstrated the exceptional discriminative power of all models, with AUC-ROC values approaching 100%, confirming their high effectiveness in distinguishing between fraudulent and legitimate transactions. Notably, the hybrid AI model maintained a strong balance between minimizing false positives and false negatives, ensuring greater fraud detection reliability compared to standalone models. The integration of multiple machine learning models alongside statistical anomaly detection provided a comprehensive and interpretable fraud detection framework that enhances financial security.

Beyond model performance, the study also analyzed the interpretability and robustness of the hybrid AI system to ensure transparency in cybersecurity threat detection. The Bayesian posterior distribution (Figure 1) provided an intuitive way of understanding fraud probability, while the Z-score approach (Figure 2) facilitated anomaly detection without relying solely on machine learning predictions. These statistical insights enhance model explainability, making it more transparent for financial analysts and cybersecurity experts to interpret results. Additionally, by comparing different models (Tables 1–4) and performance metrics, the study underscores the necessity of a hybrid approach in fraud detection, ensuring both high accuracy and reliability while mitigating algorithmic bias. Overall, the findings validate the hybrid AI model's potential as a robust, interpretable, and highly effective solution for cybersecurity threat prediction in financial transactions.

5. Conclusion

This study successfully developed a hybrid AI model that integrates machine learning algorithms (LSTM, Random Forest, and XGBoost) with statistical anomaly detection techniques, significantly enhancing cybersecurity threat prediction in financial transactions. The model demonstrated 100% accuracy, precision, recall, and F1-score (Tables 3 and 4), outperforming standalone machine learning models. Bayesian inference estimated a fraud probability of 0.3213 (Table 5), while Z-score analysis detected no anomalous transactions (Table 6, Figure 2), reinforcing the model's reliability in identifying financial fraud. The ROC curve (Figure 3) confirmed the hybrid model's exceptional discriminatory power, ensuring minimal false positives and false negatives. Moreover, the integration of Bayesian and Z-score techniques improved interpretability, making the fraud detection system transparent and robust. These findings underscore the effectiveness of a hybrid AI-driven approach in strengthening cybersecurity measures within financial systems.

In line with the specific objectives and the results obtained from the data analysis in this study, the following recommendations were made:

1. Financial institutions should implement hybrid AI models combining machine learning and statistical anomaly detection techniques to enhance fraud detection accuracy. The model's perfect classification performance (Table 4) suggests its potential in reducing financial losses due to cyber threats.
2. Banks and payment processors should incorporate Bayesian inference techniques to assign probability scores to suspicious transactions (Table 5). This approach enables dynamic risk assessment, allowing financial analysts to prioritize high-risk transactions for further investigation.
3. Cybersecurity teams should regularly update and monitor AI-driven fraud detection systems while utilizing interpretable models like Z-score anomaly detection (Table 6, Figure 2) to improve transparency. Ensuring explainability in AI decisions will increase trust and compliance with regulatory standards in financial fraud prevention.

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