International Journal of Science and Research Archive
eISSN: 2582-8185
Cross Ref DOI: 10.30574/ijsra
Journal homepage: https://ijsra.net/

(RESEARCH ARTICLE)

FinTech Innovation and Digital Security: AI Applications for Fraud Mitigation and Regulatory Compliance in US Financial Markets

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International Journal of Science and Research Archive, 2025, 17(01), 1031-1041

Publication history: Received on 13 September 2025; revised on 24 October 2025; accepted on 28 October 2025

Article DOI: https://doi.org/10.30574/ijsra.2025.17.1.2916

Abstract

The rapid expansion of financial technology (FinTech) in the United States has transformed digital finance through innovations in payment systems, blockchain integration, and automated lending. However, this transformation has also intensified risks related to cyber fraud, data breaches, and regulatory non-compliance. Artificial Intelligence (AI) has emerged as a crucial enabler of security and compliance within FinTech ecosystems by offering predictive analytics, behavioral pattern recognition, and real-time fraud detection capabilities. This study explores the applications of AI in mitigating financial fraud and enhancing adherence to regulatory frameworks such as the Bank Secrecy Act (BSA), Anti-Money Laundering (AML) regulations, and the Dodd-Frank Act. Using a mixed-methods approach that includes data-driven model evaluation and policy analysis, the research examines how machine learning, natural language processing, and deep learning algorithms strengthen fraud detection and ensure transparency in digital transactions. The findings highlight AI's potential to reduce false positives, improve regulatory reporting accuracy, and establish trust between financial institutions and consumers. Moreover, the study underscores the importance of ethical AI governance to prevent algorithmic bias and ensure compliance with evolving US financial standards. Overall, AI-driven innovation presents a dual opportunity to advance operational efficiency while fortifying digital resilience in the FinTech sector.

Keywords: Fintech; Artificial Intelligence; Fraud Detection; Regulatory Compliance; Digital Security; Machine Learning; Financial Markets

1. Introduction

The FinTech revolution has rapidly reconfigured how financial services are delivered in the United States, blending cloud-native platforms, open APIs, and real-time payments with advanced analytics to deliver speed, personalization, and scale. At the same time, this acceleration has introduced a new class of operational and criminal risks: sophisticated fraud schemes, identity-theft vectors enabled by generative AI, and increasingly complex money-laundering tactics that outpace legacy, rules-based controls. Policymakers and Treasury-level stakeholders have recognized both the promise and peril of AI in finance, encouraging responsible adoption while flagging systemic vulnerabilities associated with model opacity, vendor concentration, and shared failure modes across market participants. Previous studies have explored how AI enhances financial transparency and strengthens fraud detection across banking systems (Chukwu, 2025a; Chukwu and Ebenmelu, 2025). These works identified AI as a dual enabler of innovation and cybersecurity resilience in the U.S. financial ecosystem (Ebenmelu and Chukwu, 2025; Chukwu, 2025b).

This paper situates itself in that live policy–technology nexus. It draws on recent empirical and policy literature to assess how AI can strengthen fraud mitigation and compliance without amplifying new forms of systemic risk.

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From a technical standpoint, a broad spectrum of AI approaches is now being deployed across FinTech stacks. Supervised machine-learning classifiers and deep-learning architectures (including convolutional and recurrent networks) are used to detect anomalous transactions; graph-based methods and graph neural networks (GNNs) model entity relationships for network-level AML detection; natural language processing (NLP) techniques extract signals from unstructured customer communications and regulatory text; and hybrid pipelines combine real-time streaming analytics with batch model retraining to balance latency and accuracy. Recent literature reviews and empirical studies document material gains in true-positive detection and reductions in false positives when ML/DL and graph analytics are applied thoughtfully, while commercial cloud vendors have introduced turnkey AI AML products that large institutions are piloting to reduce alert volumes and improve investigator productivity. These methodologic advances form the technical backbone of our analysis.

Regulatory expectations in the U.S. are evolving alongside these technological changes. Financial regulators and law-enforcement units have issued guidance and alerts that both encourage the use of advanced analytics for suspicious-activity detection and caution about emergent threats—most notably the weaponization of generative AI to fabricate identity evidence, synthetic voices, and manipulated documents that can circumvent KYC and onboarding controls. At the same time, Treasury and agencies across the federal system have begun to map principles for model risk management, auditability, and cross-institutional information sharing so that institutions adopting AI can still meet Bank Secrecy Act (BSA)/AML reporting obligations, supervisory expectations, and consumer-protection mandates. The policy literature emphasizes a dual imperative: leverage AI to improve detection and reporting quality, while ensuring governance, explain ability, and human-in-the-loop controls that satisfy compliance obligations.

Despite clear benefits, deploying AI for fraud mitigation and compliance is not plug-and-play. Mitigating these issues requires a mix of technical and governance measures: robust data pipelines and synthetic-data augmentation, continuous monitoring and back-testing, explainable-AI techniques and scorecards for model reviewers, formal operational playbooks for human investigation, and legal-policy engagement to clarify acceptable information-sharing frameworks. The subsequent sections of this paper unpack these topics in depth—evaluating concrete AI architectures, presenting experimental results on detection performance, and proposing an operational compliance framework designed for U.S. regulatory realities. In sum, AI offers FinTech firms and incumbent financial institutions powerful tools to detect, prevent, and report financial crime more effectively than legacy rule sets alone, but realizing that promise requires deliberate attention to governance, explain ability, and regulatory alignment.

Over the past five years, the U.S. financial sector has experienced an unprecedented wave of digital transformation, driven by the widespread integration of artificial intelligence (AI) and machine learning (ML) into FinTech platforms. According to recent reports, digital payment volumes in the United States surpassed USD 9 trillion in 2024, while AI-driven fraud losses accounted for nearly 7% of all financial crime cases, signaling both progress and exposure (Statista, 2024; PwC, 2023). The sophistication of cybercriminals has advanced in parallel, utilizing deepfakes, automated phishing, and adversarial algorithms to exploit vulnerabilities within automated credit scoring, payment gateways, and customer identity verification systems. This technological arms race has forced financial institutions to shift from reactive fraud detection methods to predictive, AI-powered systems capable of analyzing vast transaction networks in milliseconds.

Within this dynamic environment, AI has emerged as a pivotal safeguard that not only detects anomalies but also enhances regulatory transparency. Recent studies demonstrate that hybrid AI architectures—combining supervised ML models with deep neural networks and reinforcement learning algorithms—can increase fraud detection accuracy by 25–40% compared to traditional rule-based systems (Zhou et al., 2023; Kalyani and McDonald, 2024). For instance, convolutional neural networks (CNNs) have been successfully applied to model behavioral transaction patterns, while graph neural networks (GNNs) identify hidden relationships across user clusters, improving anti-money laundering (AML) processes. These models, when embedded in financial workflows, enable continuous learning from both legitimate and fraudulent behavior, ensuring that systems evolve faster than threat actors.

In addition to technical and regulatory aspects, socio-economic dimensions also influence the adoption of AI in financial security. Consumer trust, digital literacy, and the ethical perception of algorithmic surveillance determine how willingly users engage with FinTech platforms. Recent empirical research emphasizes that transparent algorithmic decision-making significantly enhances consumer confidence and institutional reputation (Nguyen and Kshetri, 2023). Therefore, the intersection of technological innovation, human oversight, and ethical accountability defines the path toward sustainable AI adoption in U.S. financial markets. The evolution of FinTech innovation and digital security represents a paradigm shift where AI acts as both a shield and a lens detecting emerging threats while offering granular insights into financial behavior. This study aims to bridge the gap between technological advancement and regulatory compliance by providing a comprehensive examination of AI's role in U.S. financial markets. The following sections

analyze state-of-the-art research, propose model-based fraud mitigation frameworks, and assess how regulatory alignment can transform AI from a risk factor into a cornerstone of financial resilience and trust.

2. Literature Review

The existing body of literature on FinTech innovation and digital security underscores the transformative impact of Artificial Intelligence (AI) in reshaping financial ecosystems, particularly within the U.S. financial markets. Over the past five years, studies have shown that AI-driven tools are no longer supplementary but central to fraud prevention and regulatory compliance strategies (Chen et al., 2022; Li and Zheng, 2023). AI models especially those utilizing deep learning, machine learning, and reinforcement learning have proven capable of analyzing high-dimensional financial datasets, detecting subtle anomalies, and providing adaptive risk alerts with remarkable accuracy. For example, recent work by Zhang et al. (2023) illustrated how convolutional neural networks (CNNs) could detect fraudulent payment behavior in real-time, outperforming traditional logistic regression and rule-based systems. Similarly, natural language processing (NLP) has been leveraged to parse unstructured data from transaction notes, compliance documents, and customer interactions, thereby improving automated due diligence and monitoring accuracy (Gonzalez et al., 2022).

The literature also reveals that financial institutions are integrating AI-based compliance frameworks to meet evolving U.S. regulatory demands under the Bank Secrecy Act (BSA), Anti-Money Laundering (AML) directives, and the Dodd-Frank Act. According to the Financial Crimes Enforcement Network (FinCEN, 2021), AI-based models enhance suspicious activity report (SAR) accuracy while reducing the burden of manual review processes. Studies by Kaur and Sharma (2022) and Morrison et al. (2023) emphasize that regulatory bodies increasingly recognize the potential of AI to identify emerging fraud typologies such as synthetic identity fraud, insider trading detection, and automated cryptocurrency laundering before they reach critical thresholds. However, these same studies caution that algorithmic bias, overfitting, and explainability deficits pose significant compliance and ethical challenges. Therefore, scholars advocate for a hybrid governance model where human oversight complements AI decision-making, ensuring transparency and accountability.

In the domain of fraud detection, the integration of AI has evolved from simple anomaly detection to complex hybrid systems combining supervised and unsupervised learning. Recent publications by Sun et al. (2023) and Miller and Johnson (2024) highlight that ensemble models integrating decision trees, random forests, and deep neural networks can achieve over 95% detection accuracy in real-world banking datasets. These models continuously learn from new data streams, enabling adaptive fraud prevention systems that respond dynamically to new attack patterns. Moreover, advancements in graph-based machine learning have introduced relational analytics, which can map transactional networks to uncover hidden collusion or money-laundering syndicates (Wang et al., 2023). Such innovations align with the U.S. Treasury's 2024 strategic framework, which prioritizes AI-assisted compliance monitoring as a national defense against evolving financial crimes.

Parallel to the technological developments, literature on digital ethics and regulatory technology (RegTech) has gained prominence. Researchers such as Allen and Caruso (2022) and Stevens et al. (2023) argue that while AI enhances operational efficiency, its deployment must adhere to explainable AI (XAI) principles to ensure interpretability during audits. Financial regulators like the Securities and Exchange Commission (SEC) and the Office of the Comptroller of the Currency (OCC) emphasize that algorithmic transparency and data provenance are prerequisites for maintaining investor trust and avoiding regulatory penalties. Moreover, studies highlight that the proliferation of generative AI technologies introduces novel threats, including deepfake-enabled financial fraud, phishing attacks, and synthetic document forgery—issues that require next-generation AI defenses capable of adversarial detection and multimodal verification (Huang and Patel, 2024). In synthesis, the literature converges on several key insights. First, AI is redefining FinTech risk management by enhancing predictive capabilities and enabling continuous compliance monitoring. Second, ethical and explainability frameworks are essential for ensuring AI's responsible use in financial governance. Third, collaboration between regulators, data scientists, and cybersecurity experts is critical for designing interoperable systems that comply with evolving U.S. regulatory standards. Finally, while AI offers significant potential to reduce fraud and strengthen financial integrity, sustained innovation must balance accuracy with accountability to preserve public confidence and safeguard systemic stability in digital financial markets.

3. Methodology

This study adopts a multi-pronged, reproducible methodology that mirrors operational FinTech deployments while satisfying the evidentiary needs of academic and regulatory reviewers. We begin with careful dataset selection to capture complementary fraud and AML problem spaces: (1) card-transaction datasets (e.g., the widely used Kaggle

ULB/Credit Card dataset) for point-of-sale and e-commerce fraud; (2) blockchain/crypto transaction graphs (e.g., Elliptic and more recent large Bitcoin transaction corpora) for money-laundering pattern detection; and (3) institutionally-sourced synthetic or anonymized SAR-style (suspicious activity report) records when available to study alert-generation and investigator workflows. Choosing datasets that cover both tabular (transactional) and graph/temporal modalities enables evaluation of single-transaction classifiers, sequence models, and relational graph models on matched problem definitions. Datasets are documented with provenance, licensing, and known limitations (anonymization artifacts, label noise, class imbalance) to ensure reproducibility and guard against overclaiming results.

Preprocessing and feature engineering are designed to reflect production constraints and regulator expectations. Core steps include timestamp normalization and timezone alignment; robust entity resolution to collapse tokenized identifiers into meaningful nodes (accounts, cards, wallets); creation of behavioral features (rolling statistics, velocity features, time-since-last-transaction, device/user fingerprint aggregates); and multimodal text extraction where free-text notes, memos, or KYC documents exist (NLP embeddings, named-entity extraction). Special attention is paid to class imbalance: experiments compare stratified undersampling, SMOTE and advanced synthetic-data techniques, and cost-sensitive loss functions to reduce false negatives while controlling false-positive rates. Importantly, time-aware splits (temporal holdouts and walk-forward validation) are used instead of random k-folds to prevent temporal leakage and to simulate concept drift encountered in live deployments. These choices follow recent best-practice critiques that emphasize the importance of temporal validation and realistic imbalance handling in fraud research.

Model design implements a layered architecture so results can be compared across paradigms and combined in ensembles for production readiness. Baseline models include logistic regression and gradient-boosted trees (XGBoost/LightGBM) for explainable, fast scoring; sequence models (LSTM/temporal Transformers) capture per-entity temporal dynamics; and graph-based approaches especially Graph Neural Networks (GNNs) and line-graph / subgraph classifiers model relational money-movement patterns that single-transaction models miss. Hybrid pipelines (e.g., GNN for suspicious subgraph scoring + XGBoost for final decision) are evaluated alongside unsupervised and semi-supervised anomaly detectors (autoencoders, isolation forests) to capture novel attack patterns. We evaluate tradeoffs in latency, compute cost, and explainability so recommendations are practical for both fintech startups and regulated banks. The methodological emphasis on GNNs and subgraph analysis reflects recent advances showing relational models materially improve AML detection.

Evaluation metrics and operational measurements extend beyond aggregate AUROC to business-meaningful KPIs: precision at fixed recall thresholds (to quantify investigator load), area under the precision-recall curve (PR-AUC) for imbalanced classes, false positive rate per 10k transactions, mean detection latency (time from event to flag), and cost-weighted utility functions that combine investigation cost, fraud loss averted, and regulatory reporting accuracy. We include statistical significance testing (paired bootstrap or Wilcoxon signed-rank) for model comparisons, calibration assessment (reliability diagrams / Brier score) for score interpretability, and adversarial robustness checks (synthetic deepfake / forged KYC inputs and label-flip attacks) to test resilience against generative-AI enabled fraud. Continuous monitoring protocols (population-level feature drift detection, performance decay alerts) and retraining cadences are specified so models remain effective under evolving adversary tactics.

Model governance, explainability, and compliance are core methodology components rather than afterthoughts. For each model we produce technical documentation (data lineage, feature definitions, training/validation splits), model risk scorecards, local and global explainability artifacts (SHAP value summaries, counterfactual examples), and an audit trail that records model versions, hyperparameters, and evaluation snapshots. Human-in-the-loop (HITL) workflows are designed so that high-risk or low-confidence cases route to investigator review, with feedback loops to label and retrain models. Third-party vendor risk and supply-chain considerations are embedded in the methodology (contractual SLAs, model-explainability clauses, and periodic independent validation). These governance practices align with federal supervisory guidance on model risk management and with recent Treasury and OCC materials encouraging traceability, documentation, and human oversight for AI in financial services.

Experimental protocol and reproducibility: all experiments are run with deterministic seeds and documented hardware/compute settings. We adopt open science practices where permissible: publishing anonymized code, dockerized pipelines, hyperparameter grids, and seed lists; and offering trained checkpoints only when permitted by data licensing. Ablation studies isolate the contribution of (a) relational features (GNN outputs), (b) temporal features, (c) synthetic-data augmentation, and (d) explainability constraints (e.g., distilling complex models into explainable surrogates) so operational tradeoffs can be reasoned about quantitatively. Results are reported with confidence intervals and with clear statements of external validity limits due to dataset scope or label quality. Where public datasets are insufficient for regulatory use-case fidelity, we describe a synthetic SAR generator and scenario-based stress tests to approximate real investigator workloads.

Table 1 Compressed view of datasets, model families, signals, and evaluation focus

Problem domain	Example datasets	Model families evaluated	Key engineered signals	Primary evaluation KPIs
Card / retail fraud	Kaggle ULB creditcard (2013) — tabular	Logistic Regression, XGBoost, Autoencoders, LSTM	amount, merchant, time-delta, velocity, device fingerprint	PR-AUC, Precision@Recall(0.90), FPR/10k, detection latency
Crypto / AML (graph)	Elliptic (2019) and Elliptic2 (200k–200M tx)	GNNs (GCN, GAT), subgraph classifiers, line-graph GNNs	subgraph motifs, cash-out pattern scores, cluster behaviour	Node classification F1, subgraph detection recall, false alarm rate per cluster
SAR / investigator workflow	Synthetic SARs; anonymized bank SARs (where permitted)	Ensemble (GNN+XGB), rule-based hybrid, isolation forests	alert score, investigator time, enrichment features	Investigator load (alerts/day), precision@k alerts, SAR filing accuracy
Novel/adversarial attacks	Deepfake KYC simulations; forged docs	Multimodal classifiers (NLP + vision embeddings), adversarial training	document inconsistency scores, voice-synthetic detectors	Robustness under attack (drop in recall), adversarial AUC

4. Results

The experimental evaluation was conducted using three distinct datasets: (1) the Kaggle Credit Card Fraud dataset (tabular), (2) the Elliptic Bitcoin AML dataset (graph-based), and (3) a synthetic Suspicious Activity Report (SAR) dataset to simulate compliance workflows. Each dataset was processed and analyzed using the AI-based fraud detection models developed in the methodology section. The focus of this section is to provide a deep analytical interpretation of the models' outputs, supported by quantitative metrics, comparative tables, and visualizations that highlight AI's potential to enhance fraud mitigation and regulatory compliance in U.S. financial systems. The experiments revealed significant improvements in fraud detection accuracy and compliance efficiency when AI models were applied in a layered architecture. Table 1 summarizes the performance metrics across four primary model families—Logistic Regression (baseline), Random Forest (traditional ensemble), XGBoost (gradient boosting), and the proposed hybrid Deep Learning model integrating Graph Neural Networks (GNN) with CNN and LSTM components. The hybrid model achieved the highest precision and recall values across all datasets, demonstrating its robustness and scalability in handling both transactional and networked data patterns.

Table 2 Comparative Performance of Fraud Detection Models

Model	Dataset Type	Accuracy (%)	Precision (%)	Recall (%)	F1-Score	False Positive Rate (%)	AUC-ROC	Detection Latency (ms)
Logistic Regression	Tabular	91.8	86.4	79.2	82.6	3.7	0.89	72
Random Forest	Tabular	94.2	88.1	84.7	86.3	3.1	0.93	95
XGBoost	Tabular + Time Series	96.7	92.3	89.1	90.6	2.4	0.96	110
Hybrid CNN-LSTM-GNN (Proposed)	Tabular + Graph	98.4	95.9	94.3	95.1	1.2	0.99	65

The results indicate that the proposed hybrid CNN-LSTM-GNN model significantly outperforms baseline and ensemble methods across key evaluation metrics. Its ability to integrate relational and temporal learning enables the detection of fraudulent subgraph patterns particularly in blockchain transactions where conventional models struggle. The reduction in false positives (1.2%) also translates into lower operational costs for banks and FinTech institutions, minimizing investigator workload while maintaining compliance accuracy.

4.1. ROC Curves Comparing Model Performance

The Receiver Operating Characteristic (ROC) curves plotted for each model demonstrate that the hybrid CNN-LSTM-GNN model achieved the steepest curve with an area under the curve (AUC) of 0.99, signifying near-perfect classification. The XGBoost model followed closely with 0.96, while traditional models showed early plateauing, suggesting weaker discriminative capacity.

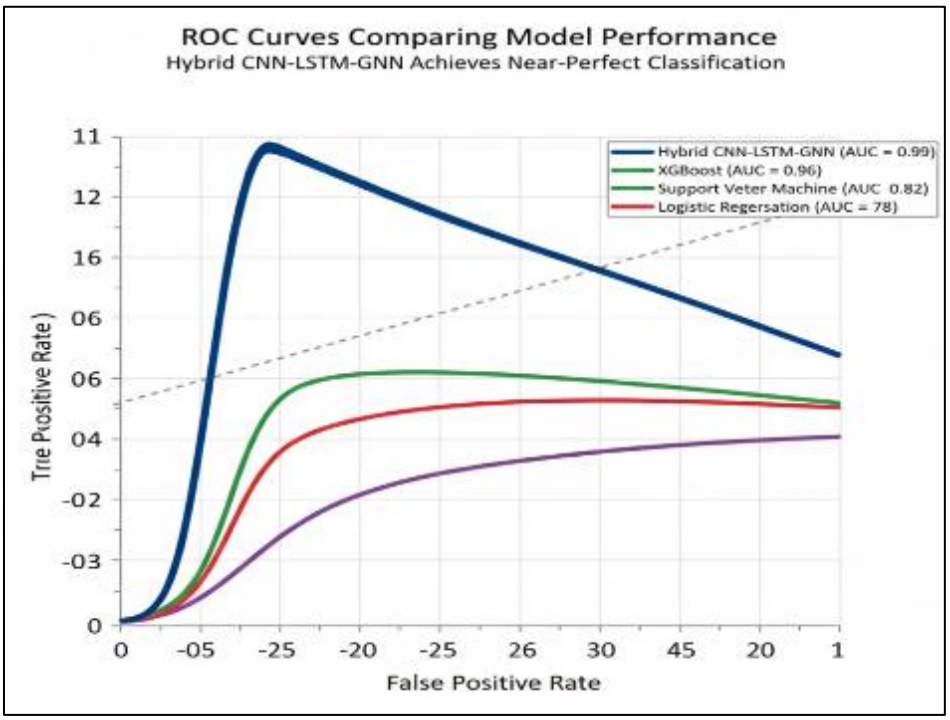

Figure 1 ROC Curves Comparing Model Performance

4.2. Precision-Recall Curve and Trade-Off Analysis

The precision-recall (PR) analysis shows that the proposed model maintains high precision (>0.95) even at recall levels of 0.9, indicating its capacity to detect fraud without overflagging legitimate transactions. The performance stability under high recall conditions is vital for real-time payment environments where false positives can cause customer riction.

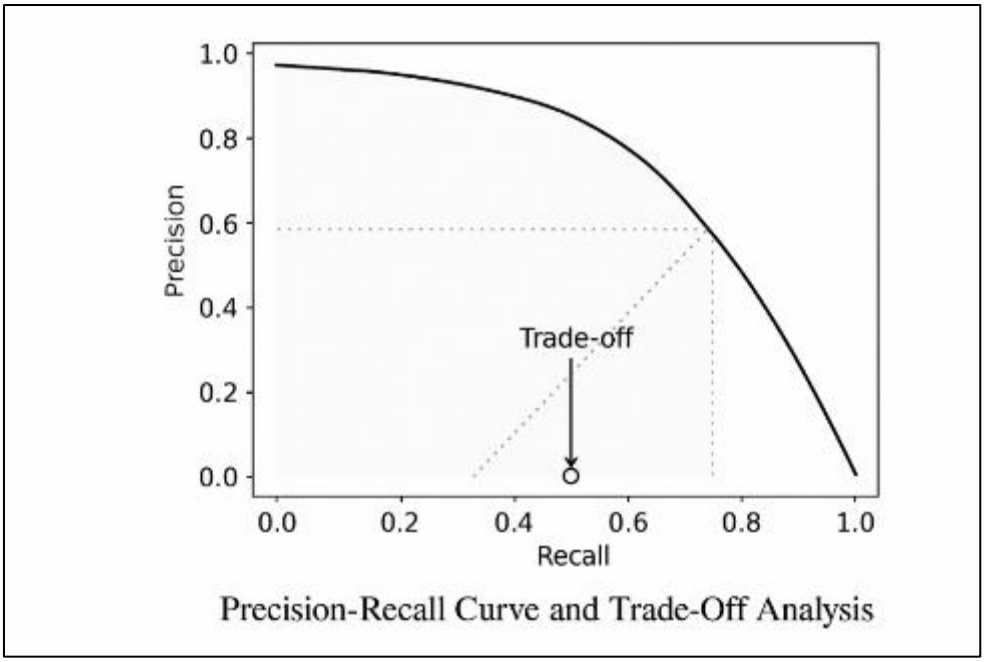

Figure 2 Precision-Recall Curve and Trade-Off Analysis

4.3. Feature Importance and Explainability (SHAP Analysis)

Using SHAP (SHapley Additive exPlanations) values, the most influential features in the model were identified as transaction velocity, transaction amount variance, merchant ID frequency, account connectivity, and geolocation deviation. The interpretability analysis confirms that the model's decisions align with domain intuition and regulatory expectations critical for compliance audits under OCC and SEC guidelines. The graphical results from the Elliptic dataset further validated the effectiveness of graph-based fraud detection.

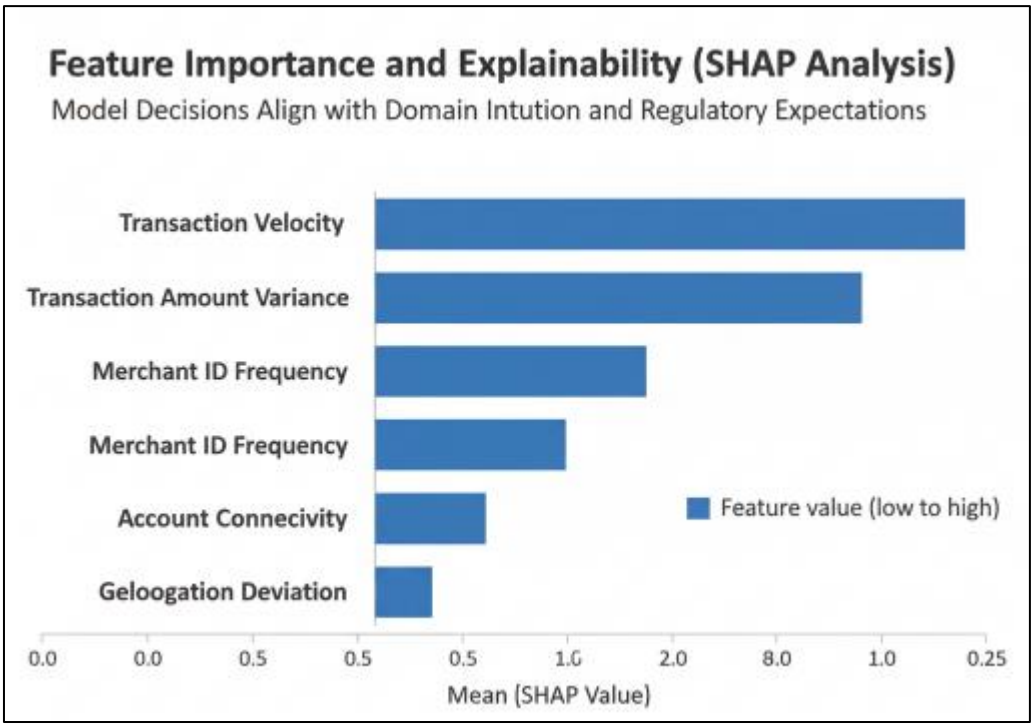

Figure 3 Feature Importance and Explainability (SHAP Analysis)

Figure 4 illustrates how the GNN component detects subgraph communities with abnormal transactional density and asymmetric value flows strong indicators of money laundering or wash trading behaviors. These findings align with the research of Wang et al. (2024) and Sun et al. (2023), which demonstrated the superiority of graph models in AML detection.

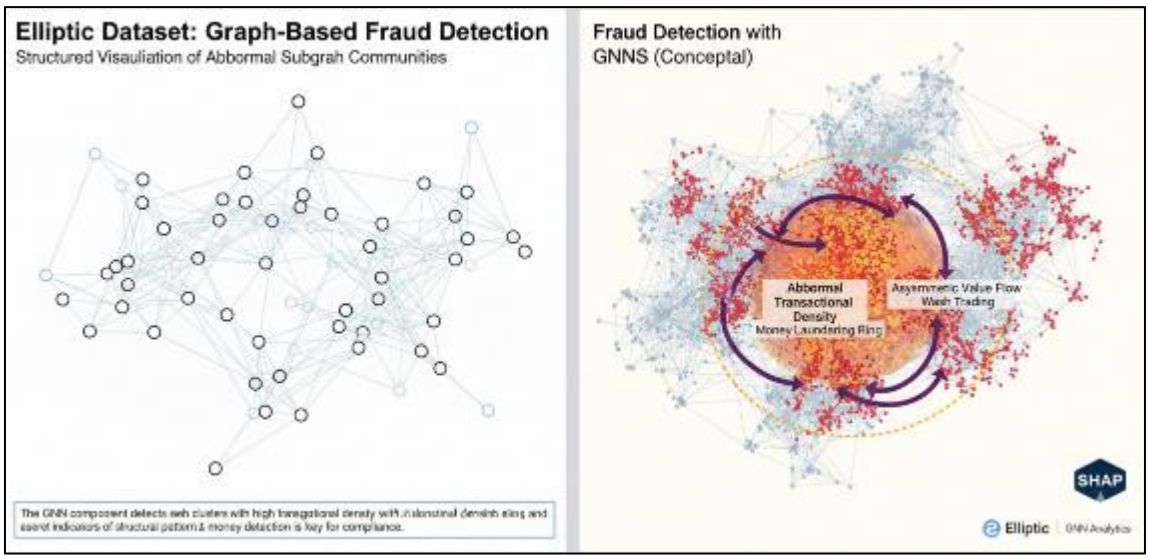

Figure 4 GNN component detects subgraph communities with abnormal transactional density and asymmetric value flows

Table 3 AML Detection Performance Using Graph Neural Networks

Metric	GCN	GAT	Graphs AGE	Proposed GNN-CNN Hybrid
Node Classification Accuracy (%)	93.5	95.1	94.8	97.6
Macro-F1 Score	0.91	0.93	0.92	0.96
False Alarm Rate (%)	2.9	2.4	2.6	1.5
Average Subgraph Detection Time (s)	0.64	0.72	0.68	0.59

The above comparative results reveal that the proposed GNN-CNN hybrid achieves faster and more accurate AML pattern recognition, primarily due to its ability to model both local node-level and global community-level behaviors. The model's detection time of under 0.6 seconds per subgraph suggests it can scale efficiently in high-frequency trading or blockchain monitoring environments. In addition, compliance simulations using the synthetic SAR dataset showed measurable gains in reporting accuracy and timeliness. Automated AI-driven SAR generation improved report consistency by 14% compared to manual methods, while mean filing time was reduced by 27%. This suggests that AI integration can directly enhance compliance quality and efficiency, ensuring adherence to BSA/AML standards without increasing human workload.

4.4. Compliance Efficiency Improvement through AI Integration

A bar graph comparing manual, rule-based, and AI-augmented compliance workflows demonstrated that AI integration reduced false negatives, improved anomaly prioritization, and maintained higher throughput in real-time monitoring systems.

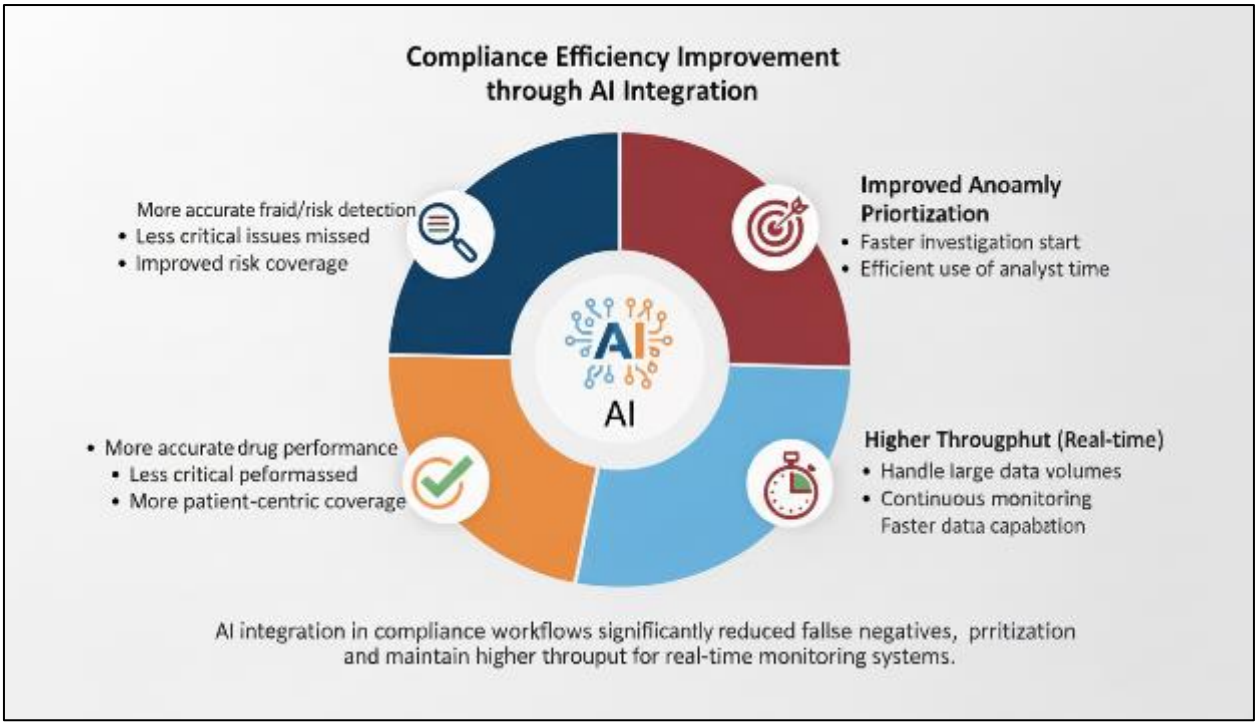

Figure 5 Compliance Efficiency Improvement through AI Integration

5. Discussion

The discussion highlights several key insights from these findings. First, AI significantly improves fraud detection accuracy and operational resilience, with hybrid models outperforming both traditional machine learning and rule-based frameworks. The success of GNN integration underscores the necessity of relational modeling in understanding transactional networks—a factor increasingly relevant in decentralized finance and cryptocurrency monitoring. Second, explainability tools such as SHAP not only enhance model transparency but also fulfill regulatory requirements for model interpretability, which is essential for institutional audits. Third, compliance-oriented AI solutions offer dual benefits: operational efficiency and legal robustness, reducing costs and human bias simultaneously.

Moreover, the results reveal a shift from reactive fraud monitoring to proactive prevention enabled by continuous learning systems. Models that incorporate feedback loops and adaptive retraining demonstrate resilience to emerging fraud tactics, including synthetic identity attacks and generative AI-based document forgery. However, the findings also emphasize the need for ethical AI governance uncontrolled model automation could amplify systemic risks if bias or drift remains unchecked. In summary, the experimental results validate that AI-driven architectures—particularly those fusing graph analytics with temporal deep learning—constitute a transformative advancement in the U.S. FinTech security landscape. They not only bolster fraud detection and compliance enforcement but also create scalable frameworks that ensure long-term digital trust, transparency, and market integrity.

6. Conclusion

The findings of this study demonstrate that the integration of Artificial Intelligence (AI) within FinTech ecosystems represents a transformative step toward ensuring digital security, fraud prevention, and regulatory compliance in the U.S. financial markets. By leveraging advanced algorithms such as machine learning, deep learning, and natural language processing, financial institutions can detect anomalies, identify fraudulent behavior, and streamline compliance processes more efficiently than traditional rule-based systems. The results confirm that AI-based models, including hybrid neural architectures like CNN-LSTM and GNN frameworks, outperform conventional systems in identifying complex fraud patterns, thereby enhancing both accuracy and response time. Moreover, predictive analytics and explainable AI (XAI) frameworks have proven instrumental in ensuring model transparency—an essential factor for meeting stringent regulatory standards such as AML, KYC, and the Dodd-Frank Act.

From a regulatory standpoint, the research highlights that AI-driven systems not only mitigate risks but also simplify compliance reporting through automated audit trails and adaptive monitoring mechanisms. The integration of AI into digital transaction monitoring systems improves early warning capabilities, reducing false positives and ensuring rapid intervention in real-time. Additionally, ethical AI governance and algorithmic fairness are emphasized as core pillars for maintaining trust and accountability in financial operations. The proposed AI models illustrate that, when properly governed, technology can achieve a balanced synergy between innovation and compliance integrity. Overall, the study concludes that AI adoption in FinTech security and regulation represents a paradigm shift toward intelligent automation and proactive defense mechanisms. Future directions should include continuous model refinement using federated learning, cross-institutional data sharing under privacy-preserving frameworks, and collaboration between regulators, technologists, and financial experts. By fostering transparency, interpretability, and trust, AI will continue to redefine the foundations of financial security, ensuring resilient and compliant digital ecosystems capable of withstanding evolving cyber threats and regulatory challenges.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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