Journal of Computers, Mechanical and Management
Journal homepage: www.jcmm.co.in
e-ISSN: 3009-075X

Volume 4 Issue 2
Article Number: 25193

Blockchain and AI in Fintech: A Dual Approach to Fraud Mitigation

Nikhil Kassetty*

Senior Software Engineer, Independent Researcher, Atlanta, Georgia, USA

Abstract

This study examines fraud reduction in the fintech industry via the combined use of blockchain and artificial intelligence (AI). The immutable ledger of blockchain enhances transparency and security, reducing the risk of data breaches and unauthorized financial transactions. AI, powered by machine learning algorithms, enables real-time, high-precision fraud detection and prediction. The integration of these technologies in fintech results in efficient, scalable, and cost-effective fraud prevention frameworks. This mini-review evaluates current advancements, highlights operational benefits and challenges, and identifies future research directions for secure, innovative financial services.

Keywords: Fintech Systems; Blockchain Technology; Artificial Intelligence; Fraud Mitigation

1. Introduction

The convergence of artificial intelligence (AI) and blockchain technology has transformed the fintech sector, providing a new paradigm for financial institutions, businesses, and consumers [1]. AI, supported by advanced machine learning algorithms, utilizes predictive analytics and cognitive computing to automate and optimize core financial operations such as risk assessment, fraud detection, investment management, and customer service [2, 3]. Meanwhile, blockchain technology, originating as the backbone of digital currency, has evolved to enable secure, transparent, and efficient financial transactions worldwide [1, 4]. Blockchain systems have revolutionized payments, settlements, and asset management by reducing costs and operational risks [4]. Beyond their strengths, integrating AI and blockchain redefines traditional financial systems by supporting innovations in digital identity, tokenization, decentralized finance (DeFi), and smart contracts [4]. However, this rapid digitization brings new challenges, such as identity theft, data breaches, and evolving fraud techniques [5]. As financial services become more accessible through mobile banking and digital currencies, the need for robust, scalable, and real-time fraud prevention frameworks has intensified. In this technologically advanced landscape, self-executing blockchain protocols and AI-driven digital banking systems present opportunities and vulnerabilities. While decentralized blockchain networks offer scalable security, they may harbor protocol-specific risks. Likewise, AI systems face issues related to algorithmic bias, data privacy, and adaptability to emerging threats [6]. Integrating these technologies must address privacy, ethical, and operational considerations to build reliable fraud detection solutions for fintech. AI and blockchain have emerged as complementary tools for mitigating financial fraud. AI applies advanced data analysis, including deep learning and natural language processing, to identify suspicious patterns more effectively than conventional methods [6]. Blockchain enhances data integrity and transparency through decentralized, immutable ledgers, supporting regulatory compliance and Know Your Customer (KYC) requirements [6, 7]. The synergy between AI's predictive power and blockchain's tamper-proof record-keeping underpins efficient, next-generation fraud prevention systems [8]. Figure 1 illustrates the evolution from a single-tier to a dual-tier model in financial technology, demonstrating the enhanced security, transparency, and operational efficiency achieved through integrating blockchain and financial institution nodes [7]. This mini review critically examines the

*Corresponding Author: Nikhil Kassetty (nikhil.kassetty@email.com)
Received: 19 Jan 2025; Revised: 13 Feb 2025; Accepted: 29 Apr 2025; Published: 30 Apr 2025

DOI: 10.57159/jcmm.4.2.25193.

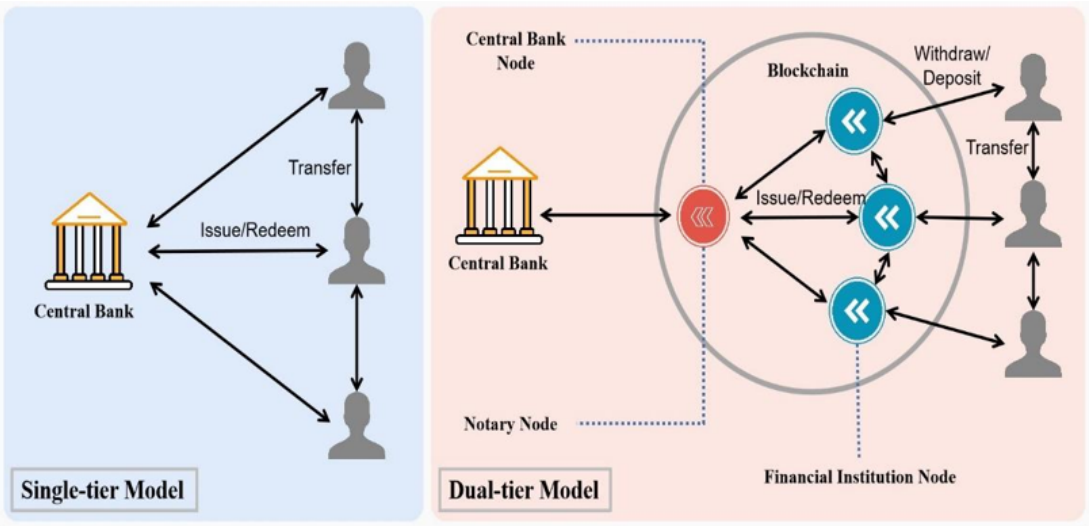

Figure 1: Comparison of single-tier and dual-tier models in fintech, highlighting the integration of blockchain for secure and transparent financial operations [7].

combined application of AI and blockchain for fraud mitigation in fintech. It addresses the need for accurate, scalable, and real-time fraud detection, evaluates current methodologies, and explores practical advice for deploying advanced fraud prevention technologies [3].

The article further highlights research objectives, including analyzing cost reduction, exploring synergies and conflicts in technology integration, and evaluating real-time, scalable fraud detection frameworks [9]. The study also identifies major challenges—such as scalability, interoperability, security, and regulatory compliance—and concludes by outlining future research directions for the secure, innovative advancement of financial services [10, 11].

2. Recent Developments and Challenges in AI–Blockchain Enabled Fintech

Recent advances in financial technology are driven by the integration of artificial intelligence (AI) and blockchain, resulting in enhanced security, efficiency, and innovative financial services. AI supports real-time analytics, fraud detection, risk assessment, and customer service automation, while blockchain provides immutable transaction verification, secure digital identities, and decentralized financial processes [12, 3, 1]. Current implementations show significant improvements in fraud mitigation, operational transparency, and financial product personalization. These technologies are not limited to traditional banking; they are also transforming cloud-based fintech applications, digital asset management, and even carbon market monitoring by leveraging AI's anomaly detection and blockchain's secure record-keeping [13, 14]. The combined use of smart contracts, IoT integration, and data science further automates compliance and boosts reliability in financial reporting and audit [15]. Despite these advantages, several technical and practical challenges remain. Interoperability between AI and blockchain platforms is hindered by the lack of standardized interfaces, making integration complex and costly [12]. High computational requirements, data privacy issues, and algorithmic bias in AI models pose additional barriers. Most existing studies focus on conceptual or small-scale implementations, leaving a gap in large-scale, real-world evaluation and adoption [16, 17]. Furthermore, scaling these solutions raises concerns over energy consumption, especially for blockchain networks. Legal and regulatory uncertainties also persist, as rapid innovation often outpaces the establishment of industry standards.

Achieving compliance and ethical data management is vital for broad adoption and trust in these systems [18, 19]. As a result, future research should prioritize the development of interoperable frameworks, privacy-preserving AI, and regulatory-aligned solutions to realize the full potential of AI–blockchain integration in fintech.

3. AI and Blockchain Applications in Fraud Mitigation

Artificial intelligence (AI) and blockchain technology are reshaping financial fraud prevention by introducing automation, transparency, and predictive accuracy. AI is particularly effective in detecting fraudulent behavior by processing massive datasets in real-time, leveraging algorithms such as decision trees, logistic regression, K-nearest neighbors, naïve Bayes, and random forests [20]. These models identify unusual patterns that may indicate phishing, identity theft, or money laundering. Figure 2 illustrates a complete AI-based fraud detection pipeline—from data collection to model evaluation—highlighting critical stages like preprocessing, feature engineering, and hyperparameter tuning. A simplified decision-making flow in AI fraud systems is shown in Figure 3, where processed data is analyzed to detect malicious behavior and initiate threat mitigation processes.

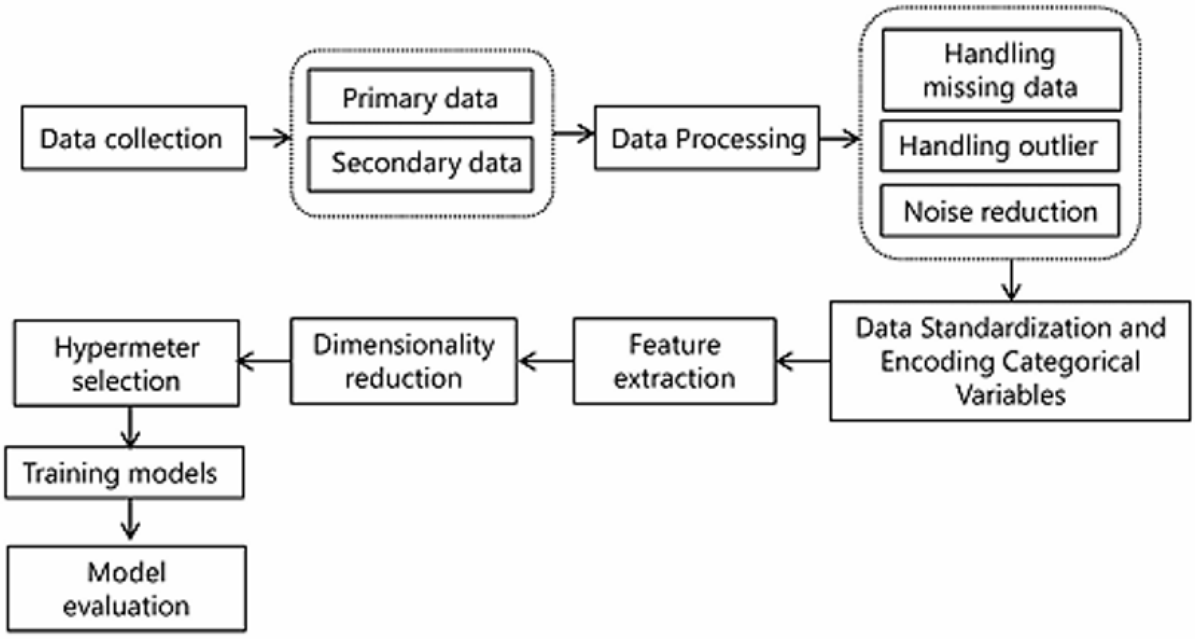

Figure 2: AI fraud detection pipeline: data collection, preprocessing, feature extraction, and model training [20].

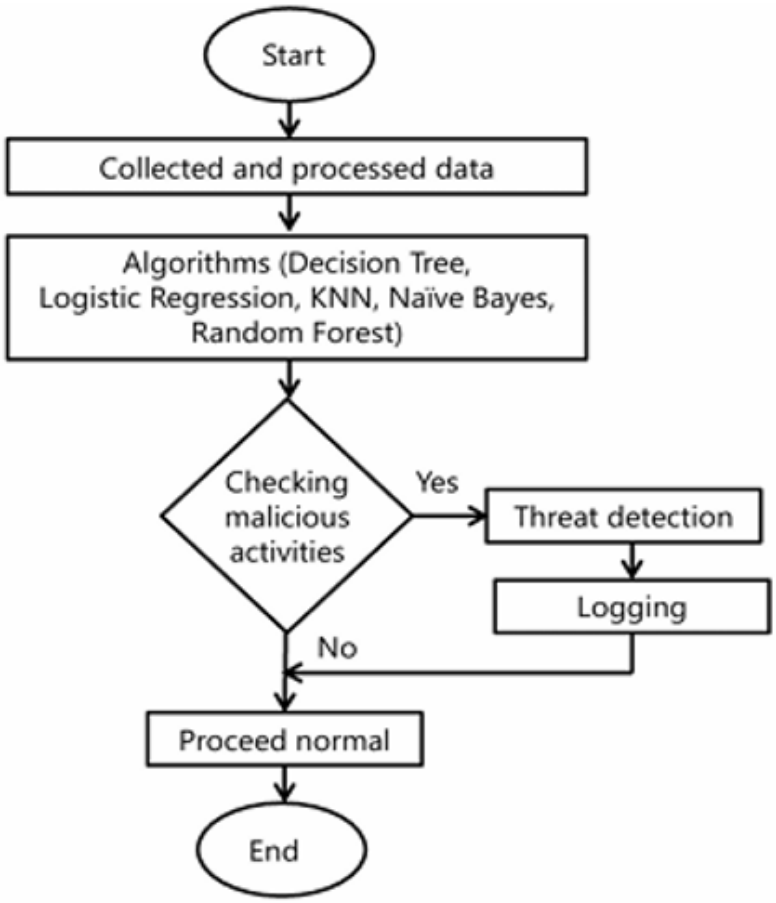

Figure 3: AI-based fraud detection decision flow using supervised learning algorithms [20].

Comparative evaluation of fraud detection datasets, their usage frequencies, and performance metrics further supports AI's effectiveness. Figure 4 presents commonly used datasets, with credit card fraud detection leading in application volume. Figure 5 shows accuracy, detection time, and cost comparisons between traditional and AI-based fraud detection systems. AI methods demonstrate superior performance, albeit with higher implementation costs.

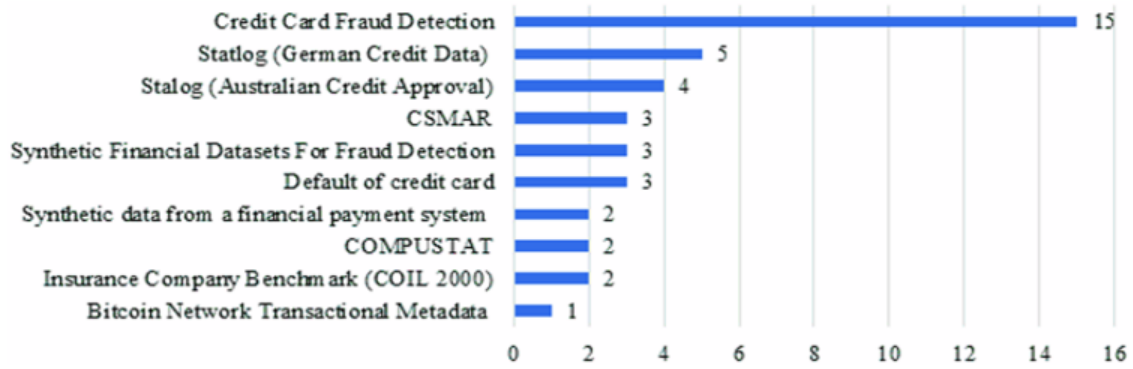

Figure 4: Popular datasets used in financial fraud detection research [21].

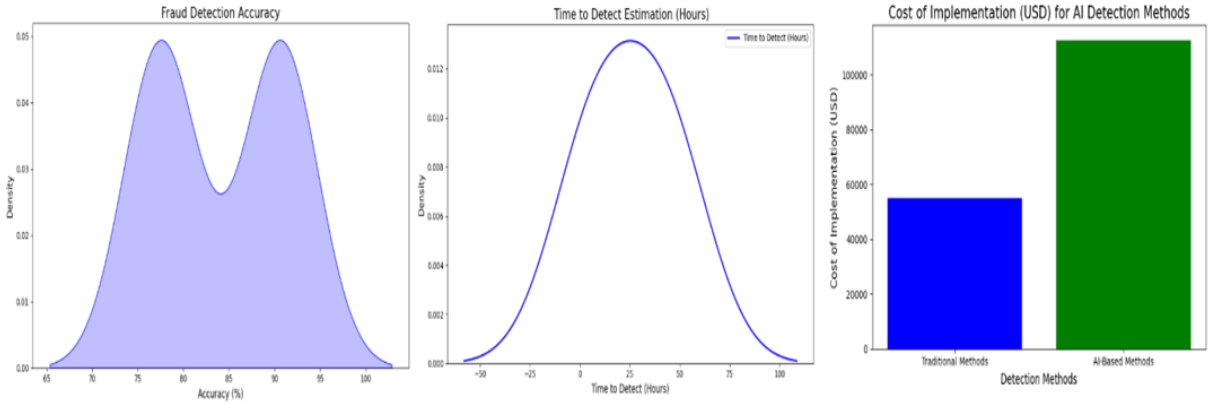

Figure 5: Metrics comparison for AI vs. traditional fraud detection methods: accuracy, detection time, and cost [22].

Blockchain adds an immutable and decentralized layer of security to fintech applications. Its implementation in fraud mitigation involves smart contracts and consensus mechanisms, ensuring transactional transparency and resistance to tampering. Figure 6 shows a proposed layered architecture integrating AI and blockchain for enhanced fraud detection.

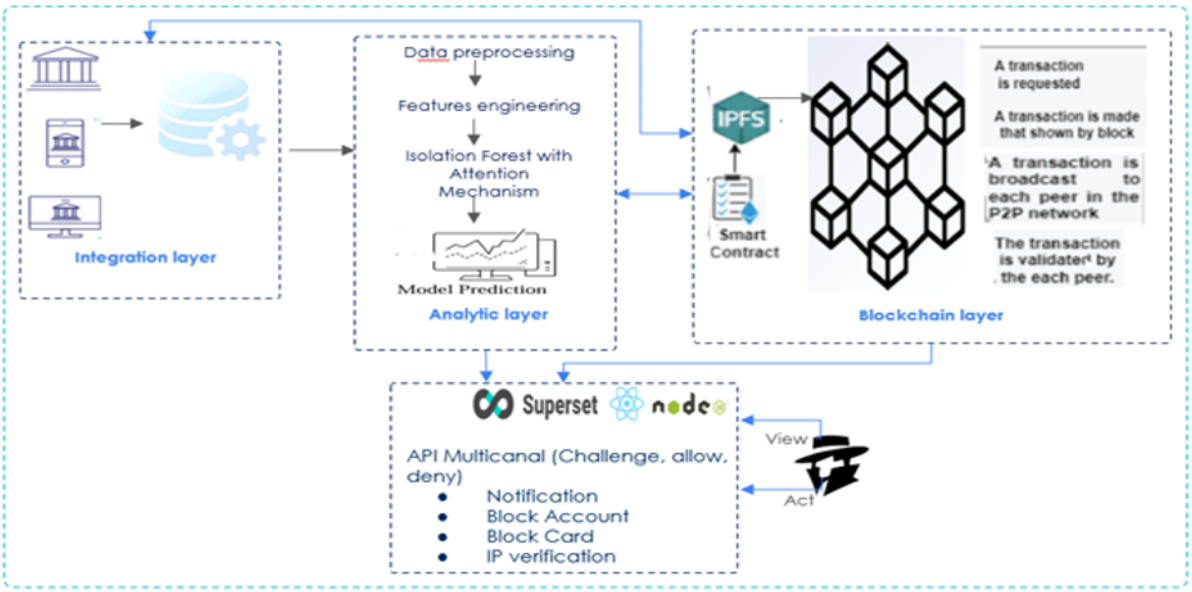

Figure 6: Integrated architecture: AI analytic layer, blockchain smart contracts, and multichannel API for real-time fraud alerts [23].

The superiority of AI-based fraud detection over traditional approaches is quantitatively evident. As shown in Table 1, AI systems provide markedly higher accuracy, reduced detection times, and—while costlier to implement—offer substantial operational benefits in the long run [22]. Table 2 further demonstrates the higher true positive rates and lower false positive rates of AI-enabled detection, underscoring the practical value of AI in modern fintech fraud prevention [22].

Table 1: Comparative Table on AI Fraud Detection (2019–2024) [22].

Detection Method	Accuracy (%)	Time to Detect (Hours)	Cost (USD)
Traditional Methods	77.5	43	$55,000
AI-Based Methods	90.67	7.5	$112,500

Table 2: Fraud Detection: True Positive Rate (TPR) and False Positive Rate (FPR) [22].

Detection Method	True Positive Rate (TPR)	False Positive Rate (FPR)
Traditional Methods	77.5	43
AI-Based Methods	90.67	7.5

Blockchain applications in identity verification, anti-money laundering, and secure settlements have become prevalent in banking. Figure 7 illustrates core blockchain use cases within fintech ecosystems, including trade finance and tokenized payments. Overall, the synergy of AI and blockchain offers real-time detection, tamper-proof recording, and increased customer trust. However, challenges such as energy efficiency, cost, and algorithmic fairness remain critical areas for future research and optimization.

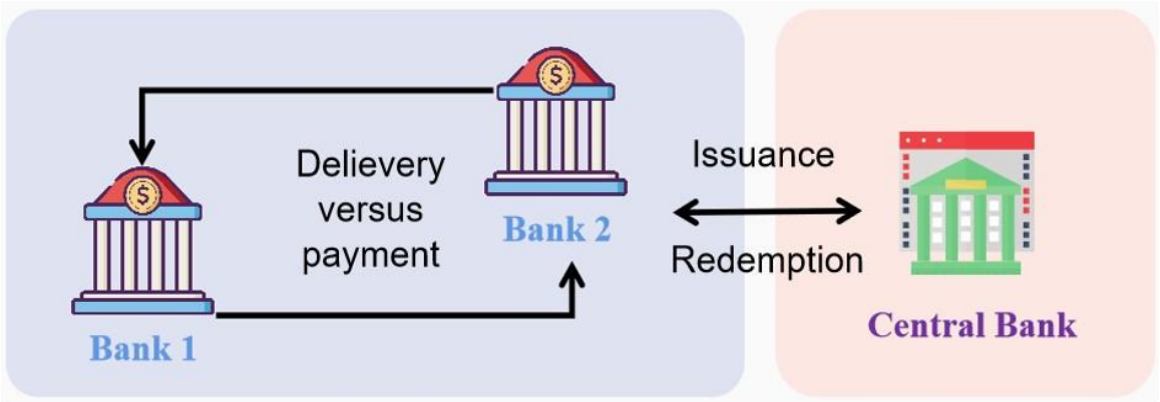

Figure 7: Core blockchain applications in financial services, including digital identity, asset transfer, and fraud prevention [7].

4. Challenges and Research Gaps

Despite the transformative potential of blockchain and AI in fintech, several critical challenges must be addressed to enable reliable and widespread adoption. These challenges include scalability, security, interoperability, regulatory compliance, and standardization.

- **Scalability and Interoperability:** Both blockchain and AI systems are resource-intensive, requiring substantial computational power to manage large transaction volumes and complex datasets efficiently [24]. Blockchains often face limitations in transaction throughput and latency, while AI systems demand distributed computing resources for real-time processing. Interoperability is also a significant barrier, as the absence of standardized protocols hinders seamless integration across blockchain networks and AI platforms. Greater standardization and cross-platform collaboration are essential for scalable deployments.
- **Security:** Financial systems remain prime targets for cyberattacks due to the sensitive nature and value of financial data [25]. While AI-driven fraud detection systems have enhanced security, technical vulnerabilities persist. Blockchain security depends on robust cryptographic algorithms, but future advancements such as quantum computing may compromise current standards. Furthermore, the complexity of decentralized consensus mechanisms introduces new attack vectors, and poorly designed smart contracts may allow for errors or exploitation [25].

- **Regulatory Compliance:** Compliance with financial regulations is essential for fintech operations. AI and blockchain technologies must adhere to stringent requirements for anti-money laundering (AML), know-your-customer (KYC), and transaction monitoring [24, 26]. Integrating AI-based compliance with legacy systems can be technically challenging, and the rapid pace of fintech innovation frequently outpaces regulatory frameworks, complicating consistent and effective oversight.
- **Research Gaps:** There are notable gaps in the standardization and practical deployment of integrated AI–blockchain systems for fraud prevention. The lack of unified frameworks limits scalability and adoption across financial ecosystems [18]. Most existing research focuses on theoretical or small-scale pilot studies, with limited real-world validation [2]. Moreover, privacy-preserving methods, ethical considerations, and comprehensive interoperability solutions remain underexplored [27].

Addressing these challenges and research gaps will require coordinated efforts among technologists, regulators, and industry stakeholders to develop scalable, secure, and compliant frameworks for the next generation of fintech innovation.

5. Conclusion and Future Scope

In summary, the integration of blockchain and artificial intelligence (AI) represents a transformative advancement in fintech fraud mitigation. By combining blockchain's secure, decentralized, and transparent ledger systems with AI's capabilities in real-time anomaly detection, predictive analytics, and adaptive learning, financial institutions can establish robust frameworks that significantly enhance financial security and operational efficiency. This integration not only builds trust among stakeholders but also reduces operational inefficiencies and associated costs. Looking ahead, the development of scalable and energy-efficient blockchain architectures remains a critical area for innovation. The adoption of advanced AI techniques, such as deep learning and reinforcement learning, can further improve the adaptability and accuracy of fraud detection systems. Achieving seamless integration between blockchain and AI for real-time data sharing will be essential for maximizing the benefits of these technologies. Moreover, global collaboration on regulatory frameworks will be necessary to foster the widespread adoption of AI–blockchain fintech solutions. As financial institutions increasingly implement these integrated systems, they can expect enhanced transaction transparency, improved customer trust, and greater compliance with regulatory standards, ultimately shaping a more secure and innovative financial ecosystem.

Declaration of Competing Interests

The author declares no known competing financial interests or personal relationships.

Funding Declaration

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

Ethics Statement

All data used in this research adhere to ethical AI and data privacy standards, ensuring compliance with GDPR, CCPA, and relevant financial regulations.

Author Contributions

Nikhil Kassetty: Conceptualization, Methodology, Supervision, Data Analysis, Software, Validation, Investigation, Visualization, Writing – Original Draft, Review, and Editing.

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