Analysis of reinforcement learning for security alert in financial system

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Abstract— **Cyber-attacks, fraud and abnormal transactions pose a huge number of security alerts on financial systems. Conventional rule-based and monitored machine learning techniques are not typically capable of keeping up with new threats, and produce a high false positive, which results in alert fatigue in security analysts. Financial environments are highly dynamic and thus, there is need of smart systems that can learn and get better in the process of making decisions. The paper will examine how reinforcement learning is used in security alerts in financial systems. The process related to security alerts handling is projected as a series of sequential decision-making in which an RL agent acquires the best policies to classify and prioritize alerts by constantly interacting with the surrounding system. The paper emphasizes the role of reinforcement learning in improving adaptability, minimizing false alerts, and increasing the detection rate as compared to the traditional methods, thus showing how it can be used to develop efficient and automated security monitoring solutions. Keywords- Reinforcement Learning, Financial Security, Intrusion Detection, Security Alert Management, Cyber Fraud Detection, Machine Learning, Anomaly Detection, Adaptive Systems.**

I. INTRODUCTION

With the growth of online banking, online transactions and finance technology services, financial systems have become more susceptible to cyber-attacks and fraud examples. To keep the sensitive financial records safe and secure transactions, the systems constantly generate security warnings depending on suspicious activities, transactional anomalies and unauthorized access. Nonetheless, the high increase in the volume of transactions has resulted in too many alerts, which are mostly false. Security alerts are difficult to handle in large numbers manually, expensive and most likely to be missed by human error. Analysts working in security will sometimes encounter alert fatigue, a situation where relevant alerts can be missed because of too much noise.

The conventional security warning systems are largely based on predetermined guidelines and set limits, which cannot identify the sophisticated and dynamic attack patterns that are prevalent in the contemporary financial settings. To eliminate these shortcomings, machine learning has been proposed to detect and classify alerts automatically. Learning models that are supervised are capable of identifying known patterns of attacks using historical data, however they fail to detect unknown attacks and concept drift. Furthermore, these models are prone to frequent retraining as well as labeled datasets, which are not very easy to access in actual financial systems.

Another approach that can be provided as an alternative and adaptive to the reinforcement learning approach is to frame the security alert management as a sequence-based decision-making problem. In this method, a learning agent is taught to make these actions (classifying, prioritizing, or escalating an alert) as optimum by taking into consideration the feedback of previous choices. The agent can adjust to new system behavior and attack strategies and can adapt to changes in the behavior of the environment through continuous interaction with the environment, wherein the policy of the agent is improved over time.

This paper contains analysis of the reinforcement learning methods of management of security alerts in financial systems. The paper compares the performance of RL-based approaches in minimizing false positives, accuracy of detection, and automated decision-making. The results indicate the possibility of reinforcement learning to establish intelligent, adaptive, and efficient security surveillance systems of contemporary financial infrastructures. The following parts of this paper show the general framework and research methodology. Part II contains a more in-depth literature review of the current security alert management methods in financial systems, both

conventional on the rule-based and machine learning approach.

Part III outlines the gaps in research in the existing methods of handling alerts, where there is a lack in responsiveness and precision. Part IV outlines a reinforcement learning model proposed and the procedure of prioritizing security alerts and classifying them. Part V contains the experimental outcomes and performance assessment of the suggested approach. Lastly, Part VI wraps up the paper and outlines the possible future research in financial security system based on reinforcement learning.

II. LITERATURE REVIEW

The use of digital platforms to offer banking, payment, and investment services has been increasing in financial systems, therefore, raising the level of cyber threats and frauds. The first security warning systems of the financial setting were predominately rule based and made use of set thresholds and human rules to track suspicious transactions. Axelsson [1] explained that these rule-based intrusion detection systems are afflicted with high levels of false positive rates and are not flexible to new patterns of attacks. Equally, Sommer and Paxson [2] highlighted the ineffectiveness of a static security rule in real-life scenarios whereby the actions of the attackers keep on varying. Machine learning methods have been found to be very useful in overcoming the shortages of rule-based systems used to detect fraud and intrusion in financial systems. As Dal Pozzolo et al. [3] showed, decision trees and logistic regression can be used to train a supervised learning model that enhances the accuracy of fraud detection when trained on past transaction records.

Nonetheless, they are an extreme relying on labeled datasets and may be ineffective in identifying new types of attacks. Bahnsen et al. [4] also observed that concept drift with the financial data decreases the effectiveness of the supervised learning models with time, necessitating retraining and manual intervention. The use of unsupervised and anomaly detection methods has been also addressed to determine new and uncharacterized threats. Chandala et al.

[5] have conducted an extensive review of the anomaly detection techniques, demonstrating that they are useful in detecting variation of the normal financial behavior. Although these approaches can be used to identify any unknown attacks, they tend to yield too many alerts that are inaccurate. As it is observed by Ahmed et. al. [6], Anomaly- based systems generate high number of false alerts that increase the alert fatigue and decrease operational efficiency in the security operations centers. Recent works have proposed reinforcement learning as an adaptive method to use in the context of cybersecurity.

Reinforcement learning models assume that security management is a serial decision-making process, and agents learn the best actions by rewards and disciplines. The ability to evolve over a period of time was observed when Tesauro et al. [7] applied the reinforcement learning to the decision- making problems in complex environments. Its application to cybersecurity was demonstrated by Zhu and Basar [8], who demonstrated that reinforcement learning might be used to dynamically modify defense against smart attackers to enhance system resilience. To be more precise, the application of reinforcement learning to intrusion detection and alert prioritization has been used. Xu et al. [9] introduced an intrusion response system that is based on reinforcement learning and learns the best response strategies depending on the severity of attacks and feedback on the system to respond optimally. Their findings indicated that there were less false positives and that their response efficiency was better.

Likewise, Han et al. [10] reported that the concept of deep reinforcement learning has proven to be effective in controlling security alerts through prioritization of the critical threats and benign alerts suppression. The use of reinforcement learning in security alert management within financial systems has not been well studied although there is the potential of reinforcement learning within the cybersecurity context. Majority of the prior studies are on network intrusion detection or general cybersecurity environment instead of transaction-based financial systems. This gap suggests that reinforcement learning frameworks that are specifically tailored towards financial security alerts are needed and can adjust to dynamic transaction behavior and changing fraud patterns. This gap has been addressed in the present work by examining

methods of reinforcement learning that are applicable to effective security alerts management in financial systems.

III. RESEARCH GAP

The literature at hand shows that there has been a great advancement in the security alert detection methods that are rule-based, machine learning, and anomaly detection methods. Rule-based methods are not flexible, whereas supervised learning models require a large amount of labeled data and do not cope with unobservable attack patterns and concept drift. Despite the ability of anomaly detection techniques to determine unknown threats, they tend to generate too many false alerts thereby putting a heavy load on security analysts.

Recent research suggests that reinforcement learning has a great prospect of adaptive decision making in the context of cybersecurity application. Most of the solutions based on reinforcement learning are however on network intrusion detection or generic security response mechanisms. Few studies have been done specifically on the issue of security alert management of financial systems, where the behavior of transactions is very dynamic and sensitive to any change in the context.

Moreover, the current reinforcement learning methods usually fail to combine alert prioritization, false positive minimization, and long-term learning into a single framework. The absence of standardized assessment of financial datasets and a focus on real-time alert processing represent the necessity of a domain-specific reinforcement learning model. Hence, there is research gap concerning the creation and analysis of reinforcement learning-based systems of security alerts management specific to financial setting that is the objective of this paper.

IV. METHODOLOGY

In this study, it is suggested that the intelligent security alert management in financial systems can be developed using a reinforcement learning-based framework. Its essence is to define the alert-handling procedure as a series of decision making task in which autonomous agent gets to learn the best strategies by engaging with the system environment on a continuous basis. These five components make up the methodology, which includes data collection and preprocessing, alert generation, environment modeling, reinforcement learning agent design, and system evaluation.

A. Data Collection and Preprocessing

The data of financial transactions is gathered based on historical data which is stored with information like the amount of transaction, frequency of transactions, the pattern of user behavior, the time of access, device details and the fraud labeling. Preprocessing is done to eliminate noise, missing values, and the normalization of numerical attributes, among other things. Categorical features are coded to enable them to be accepted by learning algorithms. This preprocess stage is to make sure that the reinforcement learning agent gets consistent and meaningful input so that it can learn effectively.

B. Security Alert Generation

Preliminary alert generation module It is a preliminary process that identifies potentially suspicious activity using predefined risk indicators and anomaly detection methods. Alerts are activated when the transactions do not follow the usual behavioral patterns or do not conform to the security policies. All alerts have a combination of features including the level of alert severity, transaction risk rating, the user history, and contextual information about the system. These alerts are used to represent the state within the environment of reinforcement learning.

C. Environment and State Modeling

The financial system is represented as a reinforcement learning environment characterized by a state space, action space and rewards space. The state space is an indication of the alert context in a given moment including the nature of transactions, user history, past alert results and system load. Action space contains the following types of decisions: confirming an alert as a genuine threat, dismissing an alert as a false positive, escalating an alert to be reviewed manually or deferring the decision to additional observation. The formulation allows the agent to take into account the short-term and long-term effects of its actions.

D. Reinforcement Learning Agent Design

The reinforcement learning agent is meant to learn an ideal alert-handling policy that is likely to increase cumulative rewards to a maximum. The

complex and high-dimensional state space is managed by using standard reinforcement learning algorithms including Q-learning or Deep Q-Networks (DQN). The agent modifies its policy with feedbacks of the environment after every action. The exploration-exploitation strategies are also used to bring equilibrium between learning new behavior and making use of pre-learned behavior.

E. Reward Function Definition

The reinforcement learning agent is meant to learn an ideal alert-handling policy that is likely to increase cumulative rewards to a maximum. The complex and high-dimensional state space is managed by using standard reinforcement learning algorithms including Q-learning or Deep Q-Networks (DQN). The agent modifies its policy with feedbacks of the environment after every action. The exploration-exploitation strategies are also used to bring equilibrium between learning new behavior and making use of pre-learned behavior.

F. Training and Evaluation Process

With the help of historical alert data, the reinforcement learning agent is trained in the form of several learning episodes. The agent optimizes the long-term rewards to keep refining its policy in the course of the training. Certain unseen test data is used after the model has been trained to determine its ability to generalize. Evaluation is done using performance measures like detection accuracy, false positive rate, time taken to resolve an alert and system efficiency.

G. System Implementation and Deployment Considerations

The system to be proposed is aimed to be compatible with the financial security infrastructures that are already in place. The reinforcement learning agent is capable of working with the existing detection systems as an intelligent decision support system but not substitution of the existing systems. The system facilitates life-long learning enabling the agent to change according to changing fraud trends and transaction dynamics in real-life settings. Altogether, the offered methodology is a versatile and dynamic approach to the security alert management within financial systems. The framework will help minimize alert fatigue, increase detection rate, and also improve automated decision-making, so it is appropriate to implement it in the current financial security setting as it functions through reinforcement learning.

V. SYSTEM ARCHITECTURE

The proposed system architecture will facilitate intelligent and adaptive security alert management on financial systems through reinforcement learning. The architecture combines the functions of transaction monitoring and alert generation, decision-making, and continuous learning into a single system.

A. Financial Data Source Layer

This layer is a compilation of financial transaction information made available through banking systems, payment platforms and online financial services. The data are transaction amount, frequency, date, account information, location of access, device information and past fraud labels. These are the main input data in the system and show real time activity of money.

B. Alert Generation Module

The alert generation module represents the first detection phase by detecting areas of possible suspicious activities. It applies rule based checks and anomaly detection schemes to raise security notifications in case of any abnormal pattern. Each alert gets initial severity level and risk score, which is an input of the reinforcement learning environment.

C. Reinforcement Learning Engine

The main element of the system is the reinforcement learning engine. It is composed of RL agent, environment model, policy network and reward evaluation mechanism. As an system state, alert-related features are provided to the agent, and he or she chooses an action to perform in the action space, including alert confirmation, false alarm, forwarding to manual inspection, or deferring the decision. The agent keeps on revising its policy according to the feedback of the past decision.

D. Decision and Response Module

Depending on the action that the reinforcement learning agent chooses, the decision and response module implements the security response. Confirmed threats are upgraded to be mitigated instantly, false alerts are suppressed and doubtful cases are sent to the security analysts to examine them. This module will provide effective

management of alerts and reduce the amount of manual interaction.

E. Feedback and Learning Loop

Continuous learning is possible through the feedback loop as the outcome-based feedback is provided to the reinforcement learning agent. False positives or confirmed fraud are all final decision outcomes through which reward signals are computed. These rewards aid in tuning the policy of the agent after some time, as it will get adjusted to the changing fraud patterns and transactional behaviors.

F. Monitoring and Reporting Layer

The monitoring and reporting layer ensures that the performance of the system is visible in terms of dashboards, and logs. Important key performance measurements as accuracy of detection, false positive, alert resolution time and system efficiency are constantly observed.

The layer assists in financial security operations through auditing, compliance, and performance assessment. In general, the suggested system architecture is a complete adaptive security alert management system framework in the financial systems. The architecture allows incorporating reinforcement learning with conventional alert generation systems, which improves the accuracy of the detection results, the alert fatigue, and the enhancement of scalability and resilience in real-world financial contexts.

VI. EXPERIMENTAL SETUP AND RESULTS

This section contains experimental design, data, reinforcement learning setup, performance metrics and the results of the proposed system. The goals of the experiments will be to test the usefulness of the RL-based alert management structure in minimizing the false positives, increasing the detection rates, and enhancing the automation of the decision-making process.

A. Dataset Description

- Source: A simulated financial transactions dataset using publicly availed financial fraud datasets like PaySim or IEEE-CIS Fraud Detection dataset.

Features included:

- Transaction amount Payment (cash), transfer, withdrawal. Timestamp and location User account history Information device and IP address.
- Label of historical fraud (1 fraud, 0 normal) Scale: 200,000 transactions, of which the proportion of the fraudulent is approximately 5 percent. Training, validation, and testing 70/15/15.

B. Experimental Setup

The alert management system was implemented according to the RL-based system, on Python 3.10, neural network-based RL was done using TensorFlow/Keras, and data processing was done using NumPy/Pandas.

Algorithms RL Algorithms Deep Q-Network (DQN)
State Space:
The alert properties of transaction risk score, historical behaviour, alert severity and system load.

Action Space:
Confirm alert as fraud Suppress false alert Notification of escalate to manual review.
delay decision: further observation. Reward Function:

1. +10 for correct fraud detection
2. +5 because of proper false alert repression.
3. -10 in case of false negative (missed fraud).
4. -5 of false positive (incorrect escalation)

Hyperparameters: Learning rate = 0.001

1. Discount factor g = 0.9
2. Replay buffer size = 50,000
3. Batch size = 64
4. Training episodes = 500

C. Experimental Setup

The following metrics were used to evaluate performance:

Metric	Description
Accuracy (%)	Overall correctly classified alerts / total alerts
Precision (%)	Correctly predicted fraud alerts / total predicted fraud alerts
Recall (%)	Correctly predicted fraud alerts / total actual fraud alerts
F1-Score (%)	Harmonic mean of precision and recall

False Positive Rate (FPR)	Percentage of normal alerts incorrectly classified as fraud
Average Alert Resolution Time	Time taken to handle each alert (seconds)

D. Results

Method	Accuracy (%)	Precision (%)	Recall (%)	F1-Score (%)	FPR (%)	Avg. Resolution Time (s)
Rule-based system	78.2	70.5	65.3	67.8	29.1	12.5
Random Forest	85.4	81.2	76.5	78.8	18.7	9.8
RL-based framework	91.6	88.5	85.2	86.8	10.3	6.2

Observations:
The findings suggest that financial alert management is best managed using reinforcement learning:

* Unlike the traditional ML, RL offers adaptive decision- making as opposed to static rules.
* The system is capable of dealing with fraud patterns that have never been observed before through continuous learning.
* The feedback loops allow it to be integrated to improve on policy overtime with minimal human involvement.
* The system can be scaled to large financial data and real time implementation.

E. Discussion

The findings suggest that financial alert management is best managed using reinforcement learning:

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* The system is capable of dealing with fraud patterns that have never been observed before through continuous learning.
* The feedback loops allow it to be integrated to improve on policy overtime with minimal human involvement. * The system can be scaled to large financial data and real time implementation.

VII. CONCLUSION AND FUTURE WORK

This paper discussed the reinforcement learning (RL) methods of security alert management in financial systems. The paper discussed limitations of conventional rule-based and monitored learning concepts that have high false positive rates, deficiencies to be enhanced to changing threats and overburdening of human analysts. The RL-based framework proposed was capable of excluding, prioritizing and escalating security alerts with better efficiency and accuracy by treating the process of handling alerts as a sequence of choices. Experimental findings showed that the RL-based framework had greater performance in the major performance measure, such as accuracy, precision, recall,

F1-score and false positive rate compared to the rule-based and supervised learning methods. The system was effective in minimizing alert fatigue, enhancing the detection of the important fraudulent activities, and minimizing the time taken to resolve an alert.

These findings indicate that reinforcement learning has a potential to offer an adaptive, automated and scalable solution to financial security alert management. Although the proposed framework is effective, it also has certain weaknesses. The existing application is based on past transaction records and synthetic financial records and does not fully reflect the complexity of real-life financial behaviours.

Also, the state representation and the reward function should be carefully designed, and domain-specific knowledge can be important to the RL agent. The future area of work will be the expansion of the framework of real- time deployment to the operational financial systems and the collaboration of multi-agent reinforcement learning to manage alerts jointly on multiple financial systems. The hybrid models that integrate RL with deep learning-based anomaly detection could also be studied to provide an additional accuracy in detection and generalization. In addition, explainable AI methods can enhance trust and accountability in automated

financial security systems by incorporating explainable AI techniques to enhance interpretability of the decisions made by an agent.

In summary, the field of reinforcement learning offers a bright future in intelligent and versatile financial system security alerts management, as it could vastly enhance operational performance, minimise human factor, and increase the security against the changing cyber attack.

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