Knowledge Graph-Augmented Financial Signal Processing: AI-Driven Computational Frameworks for Multi-Source Financial Data Analytics

Dr. Aisha Bashir, Professor of Computer Science, University of Khartoum, Sudan

1. Introduction

The rise of technology in the 21st century has had a profound impact on the operations of the financial sector. The increasing use of artificial intelligence is at the forefront of this trend, and it is speculated that it may change the way businesses within minimally diverse sectors like finance will function. Data analytics is now a necessity for entities and corporations when making significant business decisions. Financial transactions are increasing rapidly, necessitating banks to automate. The organized and complex transnational monetary system demands financial data analysis. The burgeoning supply creates immense data logs that necessitate appropriate methods for analysis. There are divergences in the entire series of log data that the economic market generates, such as when and how trades happen. The worldwide, highly organized system of international currencies necessitates a financial data analytics technique. This form of analytics enables various report generations needed for tenders, overall performance statistics for various firms' stockholders, assistance in decision-making, economic review, and credit reports and statistics.

Financial data needed for these activities are becoming more sophisticated day by day, and IT architecture should be in place for advanced analytics. Analytics of advanced data require intelligent machines to handle. Administrative financial crime analytics models need to be redeveloped using AI processes. The regulatory and administrative methodological aspects of such methodologies may not be helpful, and thorough discussions need to be conducted. The escrow account needed for outbound losses during administration is not available for firms with a high share of diverse business operations. Stock trading and data analytics have recently emerged as a prominent branch in analytics. When the amount of stock trading increases, the need for stock data analytics and data storage systems grows. Stock data analysis for forecasting purposes is also primarily used in stock data. It is a cutting-edge topic in the prediction of stock trading. Activities in the stock market nowadays are entirely electronic, achieved through the exchange of details between the dealer and the intraday trading possibilities.

1.1. Background and Significance

The financial sector has been using a tremendous amount of data for decision-making in recent years. There are traditional databases as well as simple analytical tools to do the analysis, though the simple act of unifying business and technology is an activity that needs to be done. There are many questions for decision-makers, such as deriving segmentation and customer behavior, creating a customer value list, drawing comparisons and benchmarks between customers and targets, and identifying anomalies or warnings for declining and increasing customers in terms of value, improvement of consumer profiling, and capturing a ruthless market. Financial services have also been trying to onboard low ROI customers by increasing benefits through data and intelligence via customer profiling and business insights through data analysis swiftly. By leveraging the same cost levers through mass data mining, banks could perform better than before to retain their most profitable customers through feature segmentation. However, data has been increasing while there are still the same nineteen metrics to be linked to a customer or company. This presents a tremendous opportunity through data mining before customers fall victim to fraud.

Financial institutions are under constant pressure to increase customer satisfaction levels in the fast-evolving financial services digital landscape. Currently, every financial service, including investment banks, commercial banks, insurance companies, and financial service companies, is viewed from the customer's perspective. The new business model in financial services places customer needs at the forefront by presenting different customizations for similar customers based on past records. This requires a complete transformation of business processes within financial institutions. To improve operational efficiency and decision-making efforts, structured data is primary in building analytics. Hence, it is the right platform to apply analytics and big data to strengthen the bank's current position and to draw a competitive advantage.

1.2. Research Objectives

Based on the previous premise, this research aims to find evidence comparing the effectiveness of AI models to traditional models in the financial domain. We also aim to point out the potential holistic AI applications in the banking domain. This research will not only identify the future trends of the financial industry and the new emerging technologies applied in finance, but it will also present the AI applications from a critical point of view. We also try to evoke discussion about the future of finance and find potential fields for future study or work. This research will reflect on the potential benefits and challenges in relevant research areas. On one hand, the role of data management and big data analytics can be investigated. The main objective is to determine whether the existing AI methods, compared to traditional predictability models in the financial domain, can be considered sufficiently useful. On the other hand, the possible future roll-out can also be investigated. We will discuss whether future finance will be mainly online and automated with big analytics. However, we may evaluate the biggest dilemmas and obstacles faced in practice and what expectations we have for the future of AI in the financial domain and banking. The crisis showed that the financial industry is one of the most flexible spheres. This does not merely refer to financial products, services, and systems, but also touches on concepts, attitudes, ideas, values, and employees. As our hypothesis is that AI will decisively affect banking, our subsequent objective is to explore what trends or AI technologies might emerge in finance and what effect this will have on the decision-makers within financial institutions.

2. Fundamentals of Financial Data Analytics

Background knowledge on financial data analytics—from traditional methods to AI-driven analytics—is fundamental in order to grasp the challenges, potential, current limits, and developments in AI-driven financial decision-making and financial market analysis. While traditional financial analysis can determine some kinds of market inefficiencies and general over- or undervaluation, improvement in formal analytics is usually embedded in an improved decision-making process. AI-driven technologies have improved the capabilities of today’s analysts with regard to the modeling of such relations.

Artificial intelligence is a technology that enables analysis and decision-making processes on non-structured, multi-faceted, voice-accented, visual, video, and libre text data. There are primarily two kinds of techniques applied: machine learning, popularly known as "pattern finding," and machine reasoning. Machine learning algorithms are largely driven by the use of computers to learn from data through a variety of techniques that allow computers to find patterns and relations in given datasets. Thus, machine learning is essentially a composite of statistical methods and automatic learning in the domain of data mining and computational statistics, which seeks to find models and structures within data so that the models may be used for prediction and decision-making. In the context of finance, these systems employ general concepts of linear algebra, calculus, and projection geometry.

The professional analyst in finance dealing with AI-based financial decision-making, in particular, agricultural financial analysts and those dealing with issues in financial market microstructure and price analysis, need to have a basic understanding of the fundamentals of finance as well as related concepts of investment theory, including portfolio optimization and the capital asset pricing model. Key concepts of machine learning, together with the principles of databases, probability, and statistics, are implicit in the knowledge required by today's analysts in making wise financial decisions. Understanding of basic work on time series analysis and a survey of various techniques in the field is of prime importance. Data generated by stochastic processes should be well understood by financial analysts in order to harness the power of AI decision-making software. Understanding the reliability of data provided by the underlying technology is also important for an AI analyst; data quality can explain varying results in outputs and avoid misleading interpretations.

2.1. Traditional Methods vs. AI-Driven Approaches

Traditional financial analytics adopt a variety of methods related to finance itself, such as signal extraction, noise reduction, cross-correlation, derivatives pricing, and portfolio management. While many of these methods have their origins deeply rooted in academic finance, most of them are adaptations from statistics, digital signal processing, time-series analysis, and optimization. Generally, these methods were applicable to datasets that are stationary or slowly evolving, possess a small number of dimensions, have strong signal-to-noise ratios, are unbiased, noise-free, have consistent relationships between financial prices, and are robust to micro and macro fluctuations. However, these methods have fundamental drawbacks. First, the required computational resources were vast in fetching massive data and fast computing since most cutting-edge trading systems capitalize on the high-frequency domain in information.

Conventional financial analytics, such as statistical analysis, time-series analysis, and hypothesis testing, are inadequate to manage the volumes and dimensions of information fluttering in and out within short periods. In addition to data volume and dimension, complex market conditions that respond to various external shocks from different parts of the world have snappish propensities, which therefore affect strategies premised on the foreseeable future from historical data. Such maneuvers are illogical, and if systems are built upon these strategies, they are doomed to fail. AI technologies in finance, however, deal with the vastness and dimensionality of the market by simplifying them into suitable abstract mathematical entities and equations, and simulating the future using massive simulators and horizon scenario optimizers.

2.2. Key Concepts in Machine Learning

Supervised Learning and Unsupervised Learning: Here we provide a concise but comprehensive introduction to several machine learning concepts. Probably the most basic one is the distinction between supervised and unsupervised learning. In supervised learning, the model is trained on pairs of input examples and the output that is known to be associated with those input examples. During the training process, it learns a mapping from the input to the output, which can be subsequently used for making predictions. In unsupervised learning, the training data do not include output-related information, and the model's goal is to discover general structure or relationships in the data. Further distinctions between reinforcement, semi-supervised, and self-supervised learning are possible, but not needed for this introduction.

Exemplary algorithms: In financial environments, several machine learning algorithms are particularly popular: regression (including linear regression, ridge regression, or Lasso), regression trees, rule-based algorithms such as rule learners and dichotomizers, Bayesian algorithms, ensembles of different algorithms, support vector machines, nearest neighbor-based models, deep learning-based methods, and unsupervised approaches such as clustering, factor analysis, or principal component analysis. Data Preprocessing and Feature Engineering: With any type of learning approach, data preprocessing and feature engineering are key ingredients to success. Cleaning and normalizing the data, including handling of missing values and outliers, are as important as creating translated, scaled, rolled, and aggregated variables from raw data that the model should not see directly. Learning and validation: During training, machine learning models adjust internal parameters based on the input data and the outcome of the model. Model predictions are compared to the observed outcomes in a validation process.

3. Applications of AI in Banking

With vast datasets containing customer information, transaction history, and credit scores, the banking sector has long been collecting highly valuable data. AI and ML technologies can help banks maximize the potential of this data, allowing them to provide better user experiences and increase operational efficiency. By integrating real-time data analytics tools powered by AI, banks can take advantage of predictive analytics and act in the moment based on current market conditions. This can meaningfully reduce credit scoring errors and systematize the loan approval process, leading to significant cost savings. Moreover, AI-driven risk management can allow banking institutions to track the condition of debts in real time and assess their probability of loss. This can help more accurately measure the funds against potential risks, such as credit valuation adjustments.

AI can optimize the core functionality of banks in creating credit scoring models, such as the FICO score based on machine learning. Additionally, by applying predictive analytics, a new machine learning credit scoring model could substantially decrease the approval process from 6 days to 5 minutes. Moreover, AI makes predictive banking and trend analysis more granular and accurate. For example, one bank has announced plans to leverage behavioral data and customer information to predict where customers might look to buy houses next. The prediction model will help provide timely properties in areas of interest to customers and help customers access investments. Similarly, another bank has turned to AI and data analytics to predict where home buyers may want funding for mortgages, as well as where cultivators might be looking for funding based on their crop cycles. By predicting the future needs of various customer segments, the bank will proactively price their products using different variables accrued through AI, such as in the case of housing, using variables including sale prices and foot traffic. In conclusion, AI and advanced analytics can underpin a bank's successful transition from a traditional financial institution into a banking platform that presents a single point of connection between customers and different financial products.

3.1. Real-Time Data Analysis

There are plenty of cases where fast data processing can find a job, but it is difficult to find more suitable frameworks for its realization than in a situation where dynamic decisions are made based on analytics: in manufacturing (to optimize the process), in e-commerce (for individual offers), in online games (to provide the best response), etc. Banking is no exception, especially when it comes to real-time analytics. Data must be processed online, since it is critical for smart business management. This turns into common sense with finance, where every month means something. The relationship with the client, products, and operations: real-time financial data opens the door to major banking topics.

Banks have been able to dynamically assess an entrepreneurial decision in real time. Thanks to a predictive model, you can analyze a bank account and reduce the time needed to verify a loan application significantly. Thanks to the implementation of a system, dozens of system monitors will no longer miss a transaction problem, but the increase in investments confirms that real-time analytics is possible. In a traditional data processing setup, it takes an average of 26 days to obtain a portfolio, while mobile phone data is collected minute by minute. In a set of fast data and analytics, they are placed in high-speed data storage. When making a decision, you've already started analyzing thousands of data streams. In one case, you make sure there is no sign of fraud or inactivity, and in the other, you select the appropriate offer or estimate resources if the previous part of the obligations is triggered.

3.2. Risk Management and Fraud Detection

Within the banking sector, AI systems today actively participate in the reduction of threats to critical financial infrastructure. AI enables the automated analysis of communication patterns between banks, which ultimately grants a better insight into systemic-level bank operations. AI system analysis of publicly available official and supervisory financial databases could improve the accuracy and efficiency of bank rating. Finally, entrance to some payment systems could become tougher if AI-driven credit and operational risk scoring systems rejected a bank's application. AI development in the banking sector arguably most frequently comes in the shape of risk management systems and sophisticated fraud detection systems.

Machine learning algorithms are widely used in identifying atypical structures, unusual patterns, anomalous or simply suspect operations or transactions, mainly inside the huge pools of transactional banking data, proportional to detectable abnormalities. Most of the above functionalities involve complex mathematical and statistical philosophy behind it, thus the application of AI skills can effectively implement sophisticated, elaborate approaches to vast amount of transactional data in real time. Furthermore, the bank of tomorrow shall be able to carry on predictive analytics which will allow for the identification of threats before they appear in bank balance sheets. There can exist multiple layers in a single risk management procedure, where AI could be applied. The identification of the direct threat, the financing of such a portfolio, and the monitoring and accounting issues behind it could be addressed and backed-up by an AI system.

In addition, banks can implement numerous strategies in order to reduce their own systems' vulnerability. By rendering the systems able to learn, understand, and predict the behaviour, risks, and fraud management, the financial institutions would augment the security of transactions. The above statement assumes a certain modification of existing systems in order to make them able to self-detect, self-suspect and self-improve. The cumulative back-and-forth AI system processes would arguably more effectively cover the relatively new and heterogeneous attack vectors in order to guide the risk-prone areas to relevant security enhancement spots. Cost benefits from efficient risk and fraud detection amount to around 7 percent of the operating costs of conducting those operations. A real cost saving have not been observed above 7 percent threshold—this plateau in terms of cost efficiency suggests that the fraud and risk management costs would be halved, or in other words, the same expenses would provide double the effectiveness than in the present day when evaluated or approached by a conventional means.

There exist, however, limitations in AI systems in predicting the behaviour of parties once a certain set of scenarios is enacted. A concentrated, sophisticated AI-driven analysis involving all aspects of the financial sector raises initial questions. Regulation of AI developments falls within the global spectrum of ethics versus rule-making considerations intertwined with national security and general high-technology and globalization issues. In the wake of high-profile banking frauds, new legislation and implementation strategies aimed at governing AI-driven risk and fraud-detection systems should also account for the previously overlooked cost efficiency thresholds and economic relevance of efficient AI-sustained risk operations in financial institutions. Thus, it seems only natural to strengthen the regulatory framework of the banking sector not to solely base a balance of ethical and professional considerations, but also to ultimately offload the financial sector off some public demands.

4. Challenges and Limitations

As demonstrated in the literature review and practical management of AI finance use cases, the use of AI techniques for financial data analytics holds enormous potential. That said, we identified a variety of technical, regulatory, and ethical challenges and limitations that need to be addressed in order to develop self-sustaining AI finance ecosystems.

The handling of potentially sensitive financial data during the development of AI finance solutions may expose service and technology providers to increased liabilities if datasets are not managed in a secure manner. The application of AI for financial data analytics should balance the potential risks to the user of the service or technology, the technology provider, and the general public, with the potential benefits of the AI software. For instance, algorithms that analyze financial transaction data should take into account user privacy, as financial transaction data may be highly sensitive. AI for banking applications would need to have bank permission to access financial transaction data. Furthermore, the use of AI algorithms for making loan decisions is likely to need to comply with data protection rules.

Furthermore, the task of ensuring that AI-powered finance solutions are aligned with modern and future regulations is made particularly difficult due to the ongoing fragmentation of the global regulatory landscape. Other limitations and considerations that must be taken into account when considering the use of AI technologies for financial data analytics are outlined below. Techniques that enable the processes and decisions developed by AI to be transparent and interpretable may not provide a black-box solution. Similarly, the community has yet to agree on the constraints and limitations of AI systems sufficiently to provide guidelines around ethical issues such as the increased potential for discrimination, manipulation, and malfeasance. AI is heavily dependent on access to and the quality of data. Many existing AI techniques may not be suitable for the analysis of financial market data because of issues such as low signal-to-noise ratio. This is particularly true given that the use of unstructured data, such as news and social media, is increasingly an area of interest for AI users.

4.1. Data Privacy and Security Concerns

With AI-driven financial analytics, data privacy and security are critical issues. Financial data is increasingly anonymized to prevent the re-identification of individuals, which would compromise their privacy. Moreover, the financial sector is a top target for cyber threats, since breaches can yield vast amounts of sensitive personal and financial data to adversaries, including account numbers, investment patterns, and risk assessment reports, which can then be used for illicit gain, from fraud to espionage and identity theft. Data privacy is addressed by frameworks that empower end users with the right to opt out of automated profiling and oblige organizations to keep a "consent database" of individuals who have agreed to have their data processed; if an individual withdraws their consent, their data must be purged.

The introduction of AI into finance carries further security risks, as AI models can inadvertently encode various biases against specific groups in a way that is difficult to detect and correct. Despite these challenges, organizations cannot afford to eschew AI-driven analytics in favor of abiding by these regulations, as that would negate a competitive edge. Instead, organizations must establish a system that can effectively handle and secure data, conform to necessary regulations, and accurately and efficiently conduct AI analytics. Financial institutions themselves also stand to bear liability for their third-party vendors' security failures. Finally, in the aftermath of a data breach, financial organizations risk a permanent loss of privacy rights by their clients, in addition to incurring financial and reputational damage.

4.2. Interpretability and Explainability

Interpretability and Explainability. It is a known fact that AI and machine learning models can perform better than other ex-ante methods. However, many hurdles stand in the way from the decision to adopt AI models to their actual exploitation. Customers are often hesitant to utilize systems they do not understand, especially if they provide limited or no signals regarding the process they operate. Black-box models are also unpopular in the area of finance, where the regulatory bodies require their operations to be minutely scrutinized. AI systems that deliver opaque decisions are, indeed, dangerous for a wide range of reasons. For instance, the new European Data Protection Regulation stipulates a list of rights each user or data subject is entitled to. The list includes the right not to be subjected to a decision based on automatic processing, to be aware of the parameters of such decision-making, to have the right to express their opinion and contest the decision.

In the area of credit scoring, models without the means for absolving the above rights and providing interpretable explanations may not be utilized, even if they deliver higher assessment accuracy. In this context, the interest in building interpretable models is gaining momentum in several domains. The straightforward representation may directly be utilized by the deployers; hence, no additional expenditure is needed. In a diverse and evolving market, transparency is more than goodwill; it is a matter of necessity and competitiveness. Financial supervisors have also recognized the potential of non-transparent products. Arguments on instances that recall market manipulation, instead portraying them as an accidental concert of accidents. Carelessness in the literature on machines that manipulate directly—and in a non-transparent way—appears to be motivated by the hypothetical lack and costliness of this type of abusive conduct. In terms of markets, explainability will most probably become a selling point.

5. Future Directions

The landscape of AI and the technologies that embody or assist it is always evolving. Today, AI is the most used technology in financial services alongside cloud-based solutions, big data, sometimes blockchain, and cybersecurity solutions. The only given here is that these trees—the technologies we have today—will grow, change, and make way for others. What is also certain is that the incumbent tree-choppers will also up their game to innovate or compete. The reforested technological landscape will be full of abundance and disrupt and/or nourish a few of the incumbents at least. A few of the future trees are easy to spot in part: greater automation, more secure and wider use of predictive analytics and hybrid models, growing AI services, etc. Of these, a few are worked examples in previous chapters and are repeated throughout this text; a few others—especially DeFi and blockchain—are discussed pithily in the next section.

All stakeholders involved rely on an open access, cooperative economic environment that fosters innovation and competition. Therefore, it is important to increasingly stress the importance of these technological advancements in an effort to proactively identify how they can be constructively applied in the financial system, risk management, compliance, and regulatory frameworks. In what follows, we detail viable options after making a few predictions. Leading-edge financial institutions and other stakeholders, such as technology providers and entrepreneurs, can begin to collaborate on these efforts. Regulators also need and relish a seat at the table to help guide and oversee these applications as warranted. Authorities rely on open collaboration with stakeholders and efficient processes for identifying, piloting, overseeing, and adjusting their technologies.

5.1. Emerging Technologies and Trends

Ever since the financial crisis, an array of evolving tools and methods have continued to reshape the landscape of financial data analytics. The most relevant change to recent research is the application of various AI approaches to enhance the understanding of financial decisions and financial markets. The main innovations include the systemic application of deep learning along with recurrent and convolutional neural networks, natural language processing, and improving data representations. The logical next step is to encourage the quantitative finance community to emulate the standard set in machine learning to learn from data for prediction, classification, forecasting, and risk assessment. The major contribution of AI is to go beyond typical tests such as linear and logistic regression and to inject a higher level of reasoned intuition into the decision-making process.

The reliance on AI in financial markets is also driven by the availability of big data. The scale and granularity of big data exist in unconventional formats that do not fit into traditional tables, fields, and characters. Valuable market intelligence can be mined from structured and unstructured data. With these technological advancements, there has been an increasing tendency for financial firms to form partnerships with technology companies to expand their resources in R&D. However, as with most emerging techniques, there are also numerous repercussions to consider. Regulatory compliance still needs attention as with any real-world application, and special concern on the ethical aspect for sensitive topics like cryptocurrencies and robo-advisors. The potential range of AI applications in finance is further broadening, including portfolio optimization. In terms of momentum, findings from real markets have been posted online with the last upgrade performed in January 2019. Thus, a natural question is "what can come next?" AI in finance seems a fast-changing field and showcases a spectrum of ideas. Technology will continue to evolve, and further advancements and applications can be anticipated in the near future.

5.2. Potential Impacts on Banking Industry

Finally, the progress of AI potentially yet fundamentally reforms the banking industry in several dimensions. On the one hand, the advancement of AI technologies can largely enhance banking performance due to the merits of great cost savings and process optimization. First, operational efficiencies can be improved by automating the back, middle, and front office with AI technologies. AI-based technologies are capable of finishing data reporting tasks more efficiently and with higher accuracy. Second, due to the availability of big data and machine learning, AI can facilitate personalization by tailoring offerings toward individual clients, such as credit scores, better risk assessments for loans, and changes in the dynamics of personal loan products. As a result, this brings a more sensitive customer experience.

On the other hand, a possible consequence of AI is that some jobs in the banking industry may become obsolete, which might increase the unemployment rate of some relatively low-end workers. Statistics have shown that the progress of deep learning using AI has resulted in a decrease of 1.4 million jobs in the finance industry at the start of the twentieth century. Although AI substitutes the employment of certain parts of the staff, it also creates a requirement for increased personnel. In particular, AI technology will cause a shortage of workforce required for those personnel with experience in the finance field who also understand AI technologies. Consequently, banks or financial-related businesses that lack sufficient personnel with these abilities will be at a disadvantage in competition. Compared with traditional banks, fintech startups develop and use artificial intelligence and robotic process automation to quickly build innovative solutions. AI will remain a key differentiator between companies that desire to innovate services and improve them. A variety of AI technologies are already being used in the finance and banking sectors to improve the financial inclusion rate among the world's underbanked and unbanked societies. Many believe that financial inclusion, accessibility, and equity will still be part of a socially responsible mission. Very different financial inclusion offerings are emerging, tailored to segments and user preferences.

6. Conclusion

In this paper, we have shown that AI-driven financial data analytics has the potential to transform decision-making via the creation of operational excellence. AI technologies can bring relevant information to the right person within the financial organization at the right time. Yet there are challenges and limitations for the adoption of AI-driven data analytics. In an era where software increasingly makes autonomous decisions in the background, it becomes difficult for management to know what decisions have been made. The increasing divide between those who own computers and those who don't accentuates the data privacy, anti-discrimination, and credibility issues related to AI in finance. Interpretable machine learning and its trade-offs are crucial for addressing algorithmic biases and in providing a compliant system that ensures good governance in finance. Addressing these challenges is seen as providing legitimacy to the system in the long term. Further, the fintech and insurtech ecosystems and home-centric AI-driven technologies evolving in parallel show that there are a variety of economic, ethical, and national governance issues that are driven by this trend. Mergers, collaborations, and other ways of working with stakeholders and insurance holders for the development and end-use assessment of these technologies are seen as the way forward. Overall, this report has shown that AI-driven financial data analysis is innovative and can identify various future pathways for its development, including use-inspired basic science research, wherein problems and developments in the financial sector can greatly inform the development of AI-driven financial data analytics. It has been seen as solving emergent informational, behavioral, and governance-related risks that require interdisciplinary solutions between those with expertise in finance, AI, and data protection regulation. We call for more such work in the field.