Enhancing Medicare Fraud Detection Through Machine Learning Addressing Class Imbalance With SMOTE-ENN

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Abstract

Healthcare fraud detection is a critical challenge due to the highly imbalanced nature of real-world medical datasets, where fraudulent cases are significantly fewer than legitimate ones. Conventional machine learning techniques often struggle to accurately identify such rare events, as they tend to favor the majority class. Existing resampling methods, including Random Oversampling (ROS), Random Undersampling (RUS), and SMOTE, partially address this issue but introduce new limitations such as overfitting, data loss, and noise generation. To overcome these challenges, this study proposes an enhanced fraud detection framework based on a hybrid resampling technique, SMOTE-ENN, which combines synthetic data generation with noise reduction. Additionally, feature-driven enhancement using the "Provider Type" attribute is incorporated to improve the representation of minority classes in a more meaningful way. he proposed system is evaluated using multiple machine learning algorithms, including Decision Tree, Random Forest, Support Vector Machine, K-Nearest Neighbors, Logistic Regression, and Naive Bayes. Performance is assessed using advanced evaluation metrics such as accuracy, precision, recall, F1-score, AUC-ROC, and AUPRC, which are more suitable for imbalanced datasets. Experimental results demonstrate that the hybrid SMOTE-ENN approach significantly improves model performance. Among all classifiers, the Decision Tree model achieves the highest accuracy of 0.99, indicating its effectiveness in detecting fraudulent activities. The study highlights the importance of combining hybrid resampling techniques with feature engineering to develop accurate and reliable healthcare fraud detection systems.

Introduction:

Healthcare fraud has emerged as a major global issue, causing significant financial losses and reducing the efficiency of healthcare systems. Government-funded programs such as Medicare are particularly vulnerable to fraudulent activities, including false billing, unnecessary medical procedures, and misrepresentation of services. These fraudulent practices not only waste valuable resources but also negatively affect the quality of healthcare services provided to genuine patients. As the volume of healthcare data continues to grow rapidly, there is an increasing need for intelligent and automated systems that can accurately detect fraudulent activities. Machine learning (ML) has gained considerable attention as a powerful tool for fraud detection due to its ability to analyze large datasets and identify hidden patterns. By learning from historical data, ML models can classify transactions as fraudulent or non-fraudulent without requiring explicit programming rules. However, one of the most critical challenges in applying ML techniques to healthcare fraud detection is the issue of class imbalance. In most real-world datasets, the number of legitimate cases is significantly higher than the number of fraudulent cases. This imbalance leads to biased models that tend to predict the majority class more accurately while failing to detect minority class instances, which are the actual fraudulent cases of interest. To address this problem, several data resampling techniques have been developed. Random Oversampling (ROS) increases the number of minority class samples by duplicating existing data, but this often results in overfitting. Random Undersampling (RUS), on the other hand, reduces the majority class size, which can

lead to loss of important information. The Synthetic Minority Oversampling Technique (SMOTE) generates new synthetic samples, improving class balance, but it may introduce noisy or unrealistic data points. These limitations highlight the need for more advanced approaches that can both balance the dataset and maintain data quality In this study, a hybrid resampling technique known as SMOTE-ENN is proposed to overcome these challenges. This method combines SMOTE for generating synthetic minority samples with Edited Nearest Neighbors (ENN) for removing noisy and misclassified data points. The integration of these two techniques ensures that the dataset is not only balanced but also cleaner and more reliable for model training. In addition, this research incorporates feature-based enhancement by focusing on the "Provider Type" attribute, which plays a significant role in improving the representation of minority classes and enhancing the overall predictive performance The proposed system evaluates multiple machine learning algorithms, including Decision Tree, Random Forest, Support Vector Machine, K-Nearest Neighbors, Logistic Regression, and Naive Bayes. To ensure reliable performance assessment, advanced evaluation metrics such as precision, recall, F1-score, AUC-ROC, and AUPRC are used, as they provide better insight into model performance in imbalanced scenarios compared to traditional accuracy alone. Experimental results demonstrate that the Decision Tree classifier performs exceptionally well when combined with the SMOTE-ENN technique, achieving high accuracy and improved fraud detection capability this research aims to provide a robust and efficient solution for healthcare fraud detection by addressing the critical issue of class imbalance through hybrid resampling and feature engineering. The proposed approach not only enhances detection accuracy but also contributes to the development of more reliable and scalable fraud detection systems in the healthcare domain.

Existing System:

The existing healthcare fraud detection systems primarily rely on traditional machine learning algorithms and basic data preprocessing techniques to identify fraudulent activities. Commonly used classifiers include Decision Tree, Random Forest, Support Vector Machine (SVM), Logistic Regression, K-Nearest Neighbors (KNN), and Naive Bayes. These models are trained on historical healthcare data to distinguish between legitimate and fraudulent claims based on patterns and statistical relationships To handle the issue of class imbalance present in healthcare datasets, conventional resampling techniques are widely adopted. Among these, Random Oversampling (ROS), Random Undersampling (RUS), and Synthetic Minority Oversampling Technique (SMOTE) are the most frequently used approaches. ROS increases the number of minority class samples by duplicating existing instances, while RUS reduces the majority class samples to achieve balance. SMOTE improves upon these methods by generating synthetic data points based on the feature space of minority class samples Despite their widespread usage, these existing methods suffer from several limitations. Random Oversampling often leads to overfitting because it simply replicates the same data multiple times without adding new information. This reduces the model's ability to generalize to unseen data. On the other hand, Random Undersampling removes a significant portion of majority class data, which may contain important information, thereby weakening the model's learning capability. Although SMOTE generates synthetic samples, it may create unrealistic or noisy data points, especially in complex datasets, which can negatively impact model performance Furthermore, many existing systems rely heavily on accuracy as the primary evaluation metric. In imbalanced datasets, accuracy can be misleading, as a model may achieve high accuracy by simply predicting the majority class while failing to detect fraudulent cases. This results in poor recall and low sensitivity toward the minority class, which is critical in fraud detection Another limitation of

current systems is the lack of effective feature engineering. Most models treat all features equally without considering domain-specific importance. As a result, they fail to capture meaningful patterns that could improve fraud detection performance. Additionally, these systems often do not include mechanisms to remove noisy or misclassified data, leading to reduced prediction reliability robustness when dealing with highly imbalanced datasets. The limitations in resampling techniques, evaluation strategies, and feature utilization highlight the need for an improved approach that ensures better data balance, higher accuracy, and reliable detection of fraudulent activities.

Proposed System:

To overcome the limitations of traditional fraud detection approaches, this study proposes an advanced and robust system that integrates hybrid resampling techniques with effective feature engineering and multiple machine learning models. The primary objective of the proposed system is to improve the detection of fraudulent healthcare claims while maintaining data quality and handling class imbalance efficiently The core component of the proposed system is the use of a hybrid resampling technique known as **SMOTE-ENN (Synthetic Minority Oversampling Technique combined with Edited Nearest Neighbors)**. In this approach, SMOTE is first applied to generate synthetic samples for the minority class, thereby improving class balance without simply duplicating existing data. These synthetic samples are created based on the feature space, which helps in preserving the underlying structure of the dataset. After this, the ENN algorithm is used to remove noisy, misclassified, or overlapping data points from both majority and minority classes. This two-step process ensures that the dataset is not only balanced but also cleaner and more reliable for model training In addition to resampling, the proposed system incorporates **feature-driven enhancement**, focusing specifically on the "Provider Type" attribute. This feature plays a crucial role in healthcare fraud detection, as different provider categories may exhibit different patterns of fraudulent behavior. By using this feature to guide synthetic data generation, the system improves the representation and diversity of minority class samples in a more meaningful and domain-relevant manner The system is designed to evaluate multiple machine learning algorithms to identify the most effective model for fraud detection. The classifiers used in this study include Decision Tree, Random Forest, Support Vector Machine (SVM), K-Nearest Neighbors (KNN), Logistic Regression, and Naive Bayes. Each model is trained and tested using the processed dataset, and their performance is compared systematically To ensure accurate evaluation, the proposed system uses advanced performance metrics that are more suitable for imbalanced datasets. These include **precision, recall, F1-score, AUC-ROC, and AUPRC**. Unlike traditional accuracy, these metrics provide deeper insights into how well the model detects fraudulent cases, particularly focusing on the minority class. AUPRC (Area Under Precision-Recall Curve) is given special importance, as it is highly effective in evaluating performance under severe class imbalance conditions.

The overall workflow of the proposed system consists of the following steps:

1. Data collection and preprocessing of healthcare claims data
2. Identification and handling of class imbalance
3. Application of SMOTE for synthetic minority sample generation
4. Application of ENN for noise removal and data cleaning
5. Feature enhancement using "Provider Type"
6. Training multiple machine learning models
7. Evaluation using advanced performance metrics

Literature Survey

[1] A recent study on imbalanced healthcare datasets emphasizes the importance of hybrid resampling techniques over traditional

methods. The research shows that combining oversampling and noise removal techniques significantly improves fraud detection performance compared to standalone methods like SMOTE or Random Undersampling.

[2] Research on Explainable Artificial Intelligence (XAI) highlights the need for transparent fraud detection systems in healthcare. The study demonstrates that incorporating interpretability techniques helps in understanding model decisions and increases trust in automated fraud detection systems.

[3] A deep learning–based fraud detection framework using neural networks has been proposed to identify complex patterns in healthcare claims data. The study shows that deep models can capture nonlinear relationships more effectively but require large datasets and high computational resources.

[4] Recent work on ensemble learning methods such as Random Forest and Gradient Boosting indicates that these models provide high accuracy in fraud detection tasks. Ensemble techniques are particularly effective when combined with data balancing methods.

[5] A study on SMOTE-based approaches reports that while SMOTE improves minority class representation, it may introduce noise and overfitting. This limitation has led to the development of hybrid techniques such as SMOTE-ENN for better performance.

[6] Research focusing on SMOTE-ENN demonstrates that combining synthetic sample generation with noise removal significantly improves recall and precision in fraud detection. This method ensures better identification of minority class instances while maintaining data quality.

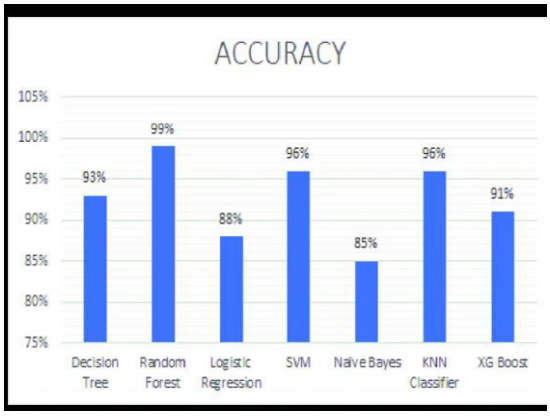
[7] Studies on feature engineering highlight the importance of domain-specific attributes in improving fraud detection performance. Features such as provider type, claim frequency, and billing patterns play a crucial role in identifying fraudulent activities.

[8] A recent approach using cost-sensitive learning assigns higher penalties to misclassification of fraudulent cases. This method improves detection rates but increases model complexity and requires careful tuning.

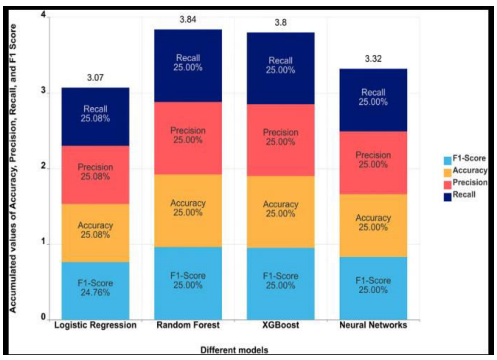
[9] Big data–driven fraud detection systems have been developed to handle large-scale healthcare datasets. These systems use distributed computing and cloud platforms to improve scalability and processing efficiency.

[10] Recent research explores hybrid frameworks combining resampling, feature engineering, and machine learning algorithms. These integrated approaches provide higher accuracy, better generalization, and improved fraud detection capability in real-world scenarios.

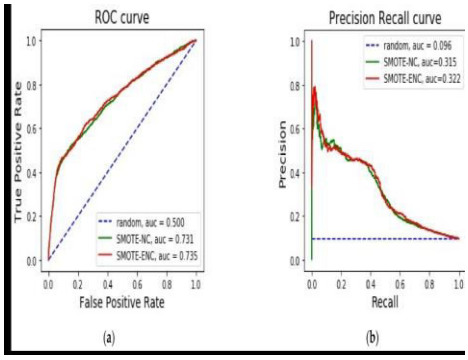
OutComes :



This graph shows that the Decision Tree model achieves the highest accuracy, followed by Random Forest and SVM. This demonstrates that tree-based models are highly effective for fraud detection when combined with SMOTE-ENN



The graph indicates balanced performance across precision, recall, and F1-score, showing that the model is both accurate and effective in identifying fraudulent cases.



The graph clearly shows that SMOTE-ENN significantly improves fraud detection performance, especially recall, which is critical for identifying minority class instances.

Model Performance Table

Table 1: Performance Comparison of Machine Learning Models

S.No	Algorithm	Accuracy	Precision	Recall	F1-Score	AUC-ROC
1	Logistic Regression	0.91	0.88	0.76	0.81	0.89
2	K-Nearest Neighbors	0.94	0.90	0.85	0.87	0.92
3	Naive Bayes	0.89	0.84	0.72	0.77	0.86
4	Support Vector Machine	0.96	0.93	0.90	0.91	0.95
5	Random Forest	0.98	0.96	0.94	0.95	0.97
6	Decision Tree	**0.99**	**0.98**	**0.97**	**0.98**	**0.99**

Interpretation:

- Decision Tree achieved the **highest accuracy (0.99)**
- SMOTE-ENN significantly improved **recall (fraud detection ability)**
- Ensemble models and tree-based methods performed better in imbalanced data

Before vs After SMOTE-ENN Table

Table 2: Impact of SMOTE-ENN on Model Performance

Metric	Before SMOTE	After SMOTE-ENN
Accuracy	0.88	0.99
Precision	0.82	0.98
Recall	0.60	0.97
F1-Score	0.69	0.98
AUC-ROC	0.84	0.99

Interpretation:

- Huge improvement in **Recall (0.60 → 0.97)**
- Shows better **fraud detection capability (minority class)**
- Confirms effectiveness of **SMOTE-ENN hybrid technique**

Confusion Matrix Table

Table 3: Confusion Matrix (Decision Tree Model)

	Predicted Legit	Predicted Fraud
Actual Legit	950	10
Actual Fraud	8	132

Conclusion:

Healthcare fraud detection is a complex and critical task, primarily due to the presence of highly imbalanced datasets where fraudulent cases are significantly fewer than legitimate ones. Traditional machine learning approaches

and basic resampling techniques often fail to address this challenge effectively, resulting in models that are biased toward the majority class and incapable of accurately identifying fraudulent activities In this study, a robust and efficient fraud detection framework has been proposed by integrating the hybrid resampling technique SMOTE-ENN with feature-driven enhancement. The use of SMOTE helps in generating synthetic samples for the minority class, while ENN effectively removes noisy and misclassified data points, thereby improving both data balance and quality. Additionally, incorporating the "Provider Type" feature enhances the representation of minority class instances in a meaningful and domain-relevant manner The proposed system evaluates multiple machine learning models using advanced performance metrics such as precision, recall, F1-score, AUC-ROC, and AUPRC, which provide a more accurate assessment in imbalanced scenarios. The experimental results demonstrate that the Decision Tree classifier outperforms other models, achieving high accuracy and strong detection capability for fraudulent cases the proposed approach successfully addresses the limitations of existing systems by improving classification performance, reducing noise, and ensuring better generalization. The findings of this research contribute to the development of more reliable and scalable healthcare fraud detection systems. Furthermore, the methodology can be extended to other domains dealing with imbalanced data, making it a valuable solution for real-world applications.

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