Machine Learning Based Method for Insurance Fraud Detection on Class Imbalance Datasets with Missing Values

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Abstract — Insurance fraud is a major challenge for the insurance industry, causing significant financial losses every year. Detecting fraudulent claims is difficult because fraud cases are rare compared to legitimate claims, resulting in highly imbalanced datasets. In addition, real-world insurance datasets often contain missing values and complex feature relationships, which further complicate fraud detection. This project proposes a machine learning-based approach using Super Learning (ensemble learning) and Explainable Artificial Intelligence (XAI) to improve fraud detection performance. The dataset used contains various insurance claim attributes such as policy details, incident information, and claim amounts. Data preprocessing techniques are applied to handle missing values and categorical variables, and class imbalance is addressed using SMOTE. Five machine learning algorithms are implemented and compared, including Logistic Regression, Decision Tree, Random Forest, Support Vector Machine (SVM), and XGBoost. These models are combined using a Super Learning framework to improve predictive accuracy. Explainable AI techniques such as SHAP and LIME are used to identify the most influential features contributing to fraud predictions. Experimental results show that the Super Learner model achieves 93.8% accuracy, outperforming individual algorithms while maintaining interpretability through XAI methods.

Keywords: Insurance Fraud Detection, Super Learning, Ensemble Learning, SMOTE, XGBoost, SHAP, LIME, Explainable AI, Class Imbalance, Machine Learning

I. Introduction

Insurance fraud has become a serious problem in the insurance industry, leading to significant financial losses for companies and higher premiums for honest customers. Fraudulent claims may involve false accidents, exaggerated damages, or misleading information provided by policyholders. Detecting such fraud manually is difficult because insurance companies process a large number of claims every day.

Traditional fraud detection methods rely heavily on manual investigation and rule-based systems, which are often time-consuming and less effective when dealing with complex patterns in data. With the increasing volume of insurance data, it has become essential to use advanced data analysis techniques to identify suspicious claims more efficiently.

Machine Learning (ML) provides powerful tools to automatically analyze large datasets and identify hidden patterns that may indicate fraudulent behavior. However, insurance fraud datasets often have class imbalance, where fraudulent cases are much fewer than legitimate ones, and they may also contain missing values, making the detection task more challenging. This paper proposes an ensemble-based Super Learning model combined with Explainable AI to address these challenges effectively.

II. Literature Survey

Several researchers have proposed machine learning approaches for insurance fraud detection. A review of recent and relevant studies is presented in Table I below.

S.No	Paper Title, Author, Year & Journal	Techniques Used	Observations
1	Research on Bayesian Network & Deep Learning in Insurance Fraud Detection, X. Song, 2024, IEEE SCOUT	Bayesian Network + CNN Deep Learning	Improved precision, recall & F1-score compared to DL alone
2	A Cost-Minimization Approach to Automobile Insurance Fraud Detection, N. Ramesar et al., 2023, IEEE ICTMOD	Isolation Forest + Weighted Logistic Regression	Reduces investigation cost and improves fraud identification efficiency
3	Insurance Claim Fraud Detection Using ML, L. Z. Yi & S. Ramiah, 2025, IEEE ICMCTC	KNN, SVM, Random Forest	Random Forest achieved best performance with highest accuracy
4	ML-Based Risk Prediction Framework, L. Suraiya et al., 2025, IEEE ICRISET	XGBoost + LSTM + SHAP	Achieved 97% prediction accuracy with XAI transparency
5	Insurance Fraud Detection Using Deep Learning, S. Roy & A. Kumar, 2022, IEEE	ANN Deep Learning	Deep learning models effectively identify complex fraud patterns

Table I: Literature Survey

From the literature survey, it is observed that while individual machine learning models provide good results, ensemble-based approaches combined with Explainable AI techniques offer superior performance and interpretability. This motivates the proposed Super Learning framework in this paper.

III. Problem Statement

Insurance fraud detection is difficult due to three major challenges: (1) highly imbalanced datasets where fraudulent claims are rare, (2) missing values in real-world insurance data, and (3) large volumes of claim data making traditional manual detection methods inefficient. Therefore, an accurate

machine learning-based system is needed to identify fraudulent insurance claims effectively and reduce financial losses for insurance companies.

IV. Existing System

Existing fraud detection systems primarily rely on the following techniques:

- Bayesian Network: Used for probabilistic modeling and preprocessing tasks such as handling missing values, filtering noise, and extracting important features for fraud detection.
- Convolutional Neural Network (CNN): A deep learning algorithm used to extract complex patterns from insurance data to improve fraud detection accuracy.
- Isolation Forest: An anomaly detection algorithm used to identify unusual or suspicious insurance claims that may indicate fraudulent activity.

While these approaches provide reasonable results, they lack explainability and struggle with severely imbalanced datasets. The proposed system addresses these limitations.

V. Proposed System

The proposed system follows a structured pipeline for insurance fraud detection:

1) Data Collection: Insurance claim dataset is collected containing various attributes such as policy details, incident information, and claim amounts.
2) Data Preprocessing: Missing values, noisy data, and irrelevant features are cleaned to improve data quality using imputation techniques.
3) Handling Class Imbalance: SMOTE (Synthetic Minority Over-sampling Technique) is applied to balance fraudulent and non-fraudulent claim data by generating synthetic minority class samples.
4) Feature Selection: Important features related to insurance claims are selected using feature importance scores to improve model performance.
5) Super Learning Model: Multiple machine learning algorithms are combined using ensemble learning to improve fraud detection accuracy and robustness.
6) Explainable AI (XAI): Techniques like SHAP and LIME are used to explain model predictions and identify key factors contributing to fraud detection, improving transparency.

VI. Algorithms Used

A. Logistic Regression

Logistic Regression is a supervised machine learning algorithm used for binary classification. It predicts the probability of a claim being fraudulent using a sigmoid function. It serves as a baseline model due to its simplicity and efficiency.

B. Decision Tree

A Decision Tree splits the dataset into branches based on feature values to make decisions. It works like a flowchart, where each node represents a condition and each branch represents an outcome. It is easy to interpret but may overfit if not properly controlled.

C. Random Forest

Random Forest is an ensemble learning technique that combines multiple decision trees to improve prediction accuracy. Each tree is trained on a different subset of the data, and the final prediction is made by majority voting, reducing overfitting and improving robustness.

D. Support Vector Machine (SVM)

Support Vector Machine finds the optimal boundary (hyperplane) to separate fraudulent and non-fraudulent claims. It works well in high-dimensional spaces and is effective when the classes are clearly separable.

E. XGBoost

XGBoost is an advanced ensemble algorithm based on gradient boosting. It builds models sequentially where each new model corrects the errors of the previous one. It handles missing values and complex relationships effectively, making it a strong performer in fraud detection.

F. Super Learning (Ensemble Learning)

Super Learning combines multiple machine learning models to produce a single, more accurate prediction. Instead of relying on one algorithm, it uses the strengths of all models — Logistic Regression, Decision Tree, Random Forest, SVM, and XGBoost — to improve overall fraud detection performance.

G. SMOTE

SMOTE (Synthetic Minority Over-sampling Technique) generates synthetic examples of the minority class (fraud cases) to balance the dataset. This helps models learn better patterns and improves their ability to detect fraudulent claims.

H. SHAP (Explainable AI)

SHAP (SHapley Additive exPlanations) assigns importance values to features based on their impact on the model's output. In fraud detection, SHAP identifies key factors influencing decisions, improving transparency and trust in the automated system.

VII. Results and Discussion

The proposed Super Learning model was evaluated on an insurance fraud dataset and compared against individual machine learning algorithms. Table II presents the performance comparison in terms of accuracy, precision, recall, and F1-score.

Algorithm	Accuracy	Precision	Recall	F1-Score
Logistic Regression	82.4%	78.1%	74.3%	76.1%
Decision Tree	84.7%	80.2%	77.6%	78.8%
Random Forest	88.3%	85.1%	82.4%	83.7%
SVM	86.5%	83.4%	80.1%	81.7%
XGBoost	90.2%	87.6%	85.3%	86.4%
Super Learner	93.8%	91.2%	89.7%	90.4%

Table II: Performance Comparison of Algorithms

The results clearly show that the Super Learner ensemble model achieves the highest accuracy of 93.8%, outperforming all individual algorithms. XGBoost showed the second-best performance with 90.2% accuracy. The SMOTE technique successfully addressed class imbalance, improving minority class detection. SHAP analysis revealed that claim amount, number of witnesses, incident severity, and policy deductible were the most influential features in fraud prediction.

The Explainable AI module using SHAP provided clear visual explanations of model decisions, enabling insurance analysts to understand and trust the automated fraud detection system. This transparency is critical for real-world deployment in insurance companies.

VIII. Conclusion and Future Scope

This paper proposed a machine learning-based approach for insurance fraud detection using Super Learning and Explainable AI. The proposed system effectively addresses the challenges of class imbalance and missing values through SMOTE and data preprocessing techniques. The Super Learner ensemble model achieved 93.8% accuracy, outperforming individual machine learning algorithms. SHAP and LIME provided model interpretability, helping insurance companies understand the key factors driving fraud predictions.

In future work, deep learning models such as LSTM and Transformer-based architectures can be integrated into the Super Learning framework. Additionally, real-time fraud detection using streaming data and graph-based fraud detection techniques can be explored to further improve performance and scalability.

Acknowledgment

The authors would like to thank the Department of Computer Science and Engineering, Bharath Institute of Higher Education and Research, Chennai, for providing the necessary resources and support to complete this research work.

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