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Healthcare Fraud Detection with Machine Learning Algorithms

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Table of Contents

Introduction

Healthcare fraud is a grave and significant crime that creates disorder and ineffectiveness in healthcare systems and could result in massive loss from a financial point of view and probably even harm to patients. The current thesis is to look at healthcare fraud in much detail, more so in the government-sponsored programs, which, for example, Medicaid, for instance, is vulnerable. Fraud activities within the healthcare system can range from billing for services not offered, offering kickbacks, and medical identity theft. Secondly, these activities not only strain the finances but also breach the integrity of healthcare delivery and the trust of patients. With the body that digital health records are and the extensive use of big data analytics, a revolution has taken place in health data management, and further avenues are opening up for fraud detection. Still, these come with gargantuan challenges, especially in the privacy and security of data. Traditional fraud detection techniques in healthcare depend primarily upon the ability of domain professionals and are, hence, inherently error-prone and inefficient. In contrast, modern machine learning approaches using large datasets can provide a promising alternative to detecting fraud anomalies. Machine learning is a subset of AI; it learns from data and through self-improvement over time rather than explicit programming. More and more, machine learning is being applied to the fraud-detection field in health care because it has proven to be the best at processing and analyzing large amounts of data to find strange relationships that humans never could. These include but are not limited to logistic regression, random forests, k-nearest neighbors, and neural networks. This paper will consider the application of these machine learning techniques to detect fraud within Medicaid dental programs. The research makes a trial of outlier detection techniques within the dataset of dental claims from the Medicaid program of a particular state; it stretches over 11 months and contains nearly 650,000 claims from 369 providers. The primary purpose is to assess how well these techniques can identify atypical billing patterns that could point toward fraudulent activities. The methodology section of the thesis will detail the processes of data collection, preprocessing, and analysis. Further, data integrity measures are guaranteed, relevant metrics are chosen, and various techniques for outlier detection are added. The second procedure will be a review of these cases by healthcare fraud experts to endorse the results. It encompasses an overall approach that is not targeted toward detecting fraudulent activities but leads to the building of more robust and effective fraud detection systems. In conclusion, this thesis attempts to demonstrate the potential of machine learning applied to techniques for outlier detection in the prospect of fraud combating techniques. In such a context, the research is focusing on the challenges that allow the ability of traditional fraud detection methods while enabling reliance on advanced analytical tools to strengthen the integrity and sustainability of the healthcare systems.

Chapter 1

Preliminaries: Healthcare Fraud

Healthcare fraud is an important concern affecting healthcare systems' effectiveness and efficiency, contributing to significant monetary losses and even patients' potential injury. The thesis will thoroughly research healthcare fraud. The chapter researches healthcare fraud in all detail. It starts with a definition and further shows the difference between fraud and abuse. The other topics to be underlined include the variety of fraud and, in particular, billing schemes, kickbacks, and medical identity theft and the financial implications, such as the enormous amount that fraudsters bilk the healthcare system every year. The chapter also outlines the ethical implications of fraud: financial pressures that result in unethical behavior on the part of health care providers. The thesis further identifies the need for healthcare fraud recognition, its prevention, and some modern techniques and technologies used in fraud detection. Finally, the chapter pinpoints the challenges healthcare fraud faces and the continuous need for dynamic improvements in detection methods. This chapter, by offering a thorough analysis of healthcare fraud, its implications, and ways to prevent it, will build a solid background for a reader who needs to understand an amorphous problem of today.

1.1. What Healthcare fraud is

1.1.1. Definition of Healthcare fraud

"Healthcare" refers to the complex of services and interventions to promote, maintain, or restore individuals' physical and mental health. These services can include disease prevention, treatment of medical conditions, rehabilitation, and pain management and are provided by medical professionals such as doctors, nurses, therapists and other health specialists. Healthcare can be offered in various facilities, such as hospitals, clinics, nursing homes, and even through home care. The health industry aims to serve as many patients as possible successfully. However, with every treatment, there is a price associated with every service provided.

Health care has grown more costly, which has made administrators—private and public—more cost-conscious in recent years. Decision-makers in the health sector are thus always searching for methods to cut expenses. One way to possibly save billions of dollars is to identify and prevent healthcare fraud.

Under the Health Insurance Portability and Accountability Act (HIPAA), "fraud is defined as knowingly, and willfully executes or attempts to execute a scheme...to defraud any healthcare benefit program or to obtain through false or fraudulent pretences, representations, or promises any of the money or property owned by...any healthcare benefit program." (As William J Rudman [2009] correctly reports)

Unlike fraud, abuse is a non-intentional practice that results in an overpayment to the healthcare provider. Abuse is similar to fraud, except that the investigator cannot establish the act was committed knowingly, willfully, and intentionally. Using the term "intentional" is essential in defining fraud and abuse and identifying ethical or unethical actions.

The earliest account of “fraud” in the healthcare literature was from the 1860s when railway collisions were frequent, leading to a controversial condition called “railway spine,” which later became a leading cause of personal injury compensation in rail accidents. These accidental events were made profitable by utilising insurance settlements in-court or out-of-court by opportunistic claimants, and these events laid the groundwork for fraud definitions and fraud management in the insurance industry. (As William J Rudman [2009] correctly reports)

Fraudulent use of health insurance strains available funds and raises the cost of healthcare. "Deception or intentional misrepresentation that the person or entity makes knowing that the misrepresentation could result in an unauthorised benefit for the person, entity, or another part" (As NHCAA [2018] correctly reports) . Manufacturers, hospitals, pharmacies, healthcare providers, distributors, and payers—the parties most impacted by healthcare fraud—are just a few of the sectors of the healthcare system that are affected. Healthcare fraud includes billing for services undelivered or unnecessary, misrepresentation, or willful omission that are essential in determining benefits to be paid, rebilling, readmission, upcoding, unbundling, kickbacks practising, and unjustified distribution of healthcare services and medications. (As Nicholas [2020] correctly reports)

1.1.2. Financial implications

The annual financial losses from healthcare fraud are estimated to be in the tens of billions by the National Health Care Anti-Fraud Association. Three percent of the entire cost of healthcare is a cautious estimate. Comparatively, according to certain government and law enforcement organisations, the loss might be as much as $300 billion, or up to 10% of the US annual health expenditure.
In one way or another, the $300 billion annual total counts. That difference, for instance, would finance the whole projected Nationwide Health Information Network in all conceivable configurations, in addition to much more. The US Department of Justice and the Department of Health and Human Services have reported USD 2.6 lost in 2019 for fraud recovery, indicating that healthcare insurance fraud is a significant financial challenge.

The US economy is heavily impacted by healthcare expenses. The Centres for Medicare and Medicaid Services (CMS) estimate that between 2015 and 2025, US health spending would increase at an average yearly rate of 5.8%. They are expected to increase from $3 trillion in 2014 to $5.4 trillion in 2025. In 2018, healthcare accounted for 18.1% of the country's GDP. Not surprise, fraudsters see the healthcare industry as a profitable area for illicit behaviour because of the magnitude of economic activity in the sector. According to the Federal Bureau of Investigation (FBI), as people live longer and demand for Medicare services rises, the costs of healthcare fraud are expected to rise to the tune of tens of billions of dollars annually. The impact of healthcare fraud is significant and wide-reaching. The following parties may face the financial consequences:

1. Individuals with insurance policies that pay greater premiums and out-of-pocket costs but receive less coverage and benefits;
2. Companies that pay rising premiums to offer healthcare to their staff members, raising operating costs overall;
3. Taxpayers who pay more to cover healthcare expenditures in public health plans.

Healthcare fraud, in addition to financial losses can put patients at risk of serious bodily harm, unnecessary procedures, unapproved drugs, or overprescribed diagnostic tests and antibiotics. The huge amounts of sensitive medical and financial information included in each patient's medical records are an area also tempting to fraudsters.

Educating the public is an essential step towards preventing and detecting this fraud in the first place.

1.1.3. Ethical implications

Commercial considerations are now shaping medical practice. As Cassell correctly reports, healthcare financing dominates all facets of medicine, including research, education, doctor-doctor and doctor-patient relationships. However, although, , at least in some areas, the organisational structure of medical practice is changing, the foundational ideas of ethics and ethical reasoning do not automatically change.

Some medical ethics cases may blur the distinction between right and wrong. In others, such as fraud, an ethical discussion on why fraud in health care is wrong might appear absurd. After all, being truthful and reliable is required of healthcare workers by rules, codes, declarations, and oaths. Some people have an innate emotional response to deception, and they have automatic, uncomplicated intuition about it being wrong. Others may have a quicker and more definitive emotional reaction. They could have erratic or contradictory intuition. No matter how quickly the intuitive process proceeds, a moral judgement is formed when it is completed, according to Haidt, and moral reasoning follows to support the decision.

According to Ainsworth, committing a crime involves a combination of three elements: a suitable (and vulnerable) victim, a motivated offender and the absence of a capable guardian. This applies to all criminal acts. The majority of studies come to the conclusion that opportunistic fraud is more common than deliberate criminal fraud and that investigating fraud requires an examination of ethics, attitudes, and psychology. There are three components to the "fraud triangle," and when all three are present, they are considered to be indications of fraud risk. They are pressure or incentive, opportunity, and a rationalising mindset. Three risk factors—justice avoidance, collaboration, and organisational orientation—have been linked to fraud.

In nearly all forms of fraud, financial distress is a given cause for fraudulent activity. However, since "financial strain" is a subjective concept, it is not possible to offer the justification that "I did it because I desperately needed the money." Financial hardship resulting from "living a particular lifestyle," for instance, is not the same as financial deprivation, which is characterised by destitution.

1.2. Types of Healthcare Fraud

Different types of healthcare fraud schemes exist. The following highlights the most prevalent healthcare fraud schemes. These include fraud against Medicare and Medicaid, billing schemes, kickbacks, medical identity theft, hospital fraud, service providers fraud, and pharmaceutical companies.

1.2.1. Billing Scheme

According to the NHCAA most healthcare fraud is committed by organized criminals and the small minority of healthcare providers that is dishonest. Common examples of billing fraud include:

a. Billing for services or equipment not rendered
b. Billing for unnecessary services or equipment
c. Double billing for the same service or equipment
d. Billing for phantom patients or patients who are deceased
e. Billing for old services as if they were new
f. "Unbundling," which is the practice of charging separately for goods or services that are part of a bundled or combined rate.

g. "Upcoding," which is the practice of charging more for a service or item of equipment than was actually rendered
h. Falsely classifying non-covered services as covered in an effort to obtain reimbursement
i. Billing for a cancelled service includes billing for a prescription drug, procedure, or other prearranged service that is cancelled but not cancelled.

(As Stowell [2020] correctly reports)

As is seen by the above list, billing schemes can be quite diverse. Some forms of billing fraud are easily detectable if a patient is aware of the type of fraud and carefully reviews his benefits statements. Other forms of billing fraud are more difficult to find. Overbilling may be difficult to identify, but double-billing may be obvious if a patient examines a hospital bill, for instance. In the largest healthcare fraud enforcement action to date, 601 defendants - including 165 doctors, nurses, and other licensed medical professionals - were charged in what was the "bust" for their alleged participation in a false billing scheme amounting to more than $2 billion. These schemes saw the alleged involvement of the defendants in the submission of claims to Medicaid, Medicare, private insurance providers and TRICARE for medically unnecessary procedures, many of which were never rendered. In some of the alleged schemes, patient recruiters, beneficiaries, and other co-conspirators paid cash to beneficiaries in exchange for supplying beneficiary information to providers, who then used that information to submit fraudulent bills to Medicare. Almost every scheme in this largest health care fraud enforcement action involved false billings to Medicare or Medicaid. A large and important focus is the number of medical professions allegedly involved.

1.2.2. Kickbacks

Another well-known type of fraudulent scheme is so-called "kickbacks" when money is paid for influencing the provision of medical care. Kickbacks corrupt the medical provider's judgment and make profit, not the welfare of patients, the health care provider's primary goal. Kickback schemes can lead to inappropriate medical care, including improper hospitalization, surgery, tests, medication, and equipment. Some of the biggest kickback cases have even happened in the U.S. Department of Veterans Affairs. If you actually keep kickback systems in mind with respect to certain contracts and referrals, it provides a vast opportunity for the working of fraudsters.

1.2.3. Medical Identity Theft

Due to the growth in the number and sophistication of cyber-security threats and identity theft, a costly and dangerous offspring in the realm of health care has popped up: medical identity theft. One of the areas of health care fraud that is expanding the fastest, according to the Department of Health and Human Services, is medical identity theft. Essentially, this type of fraud involves the theft of medical records by staff members at medical facilities, who then resell them on the underground market for a profit, or by an uninsured patient in need of care. In addition, hackers have the ability to compromise medical databases, insulin pumps, pacemakers, and even medical institutions. Medical identity thieves typically utilize false or stolen personal medical data to generate claims and bill the victim's health insurance company. Medical identity theft not only costs victims a lot of money, but it also puts them under a lot of stress. In order to make up for the harm caused by this kind of theft, 65 percent of medical identity theft victims in a research conducted by the Washington-based Ponemon Institute had to pay an average of $13,500. In addition to the great costs, it is time-intensive should you ever fall victim to medical identity theft. In another Ponemon Institute poll, medical identity theft victims spent 200 hours "correcting" their breached data. Worse still, a victim's medical history can be permanently tampered with, and a victim's disease or injury that a victim never had can be entered into the record. The victim is further injured in this way because the wrong information, such as the wrong blood type, can then be on the record. Sadly, many medical identity theft victims will not learn this until months later. Only 15 percent of adults report that they are informed about medical identity theft. Among this 15 percent, only 38 percent can correctly describe what "medical identity" is. The elderly and the disabled are especially at risk for medical identity theft because they are less likely to be aware that something is wrong. Consumers can prevent their information from being stolen in the first place by properly destroying items with health information on them, such as billing statements and prescription bottles. Explanations of Benefit forms should also be checked carefully for any red flags. In an attempt to combat medical identity theft, new technologies have been developed that can help health insurers to keep from being defrauded.

1.2.4. Hospital Frauds

The rise of healthcare fraud cases in the hospital business has been caused by a lack of oversight and an overly complex system. There are several classifications for the types of fraud committed against hospitals. The two main categories are frauds perpetrated "by" hospitals and frauds perpetrated "against hospitals." The next section discusses a few of each type's more common schemes.

A. Unnecessary Procedures

When hospitals commit fraud, this is often in the form of unnecessary procedures. Discussion 1 These frauds can be attributed to several different reasons. Hospitals, for instance, want to appear more skilled at what they do by improving their reputation through the completion of many treatments. Strict rules imposed by the federal Medicare and Medicaid programmes are another factor contributing to physician and hospital fraud against patients. However, the largest pressure is the desire to meet financial goals and generate additional revenues by billing for these procedures. Hospitals that prioritise money over patient care may routinely upgrade patients to more costly treatments even when less expensive options may still result in a better outcome for the patient. Additionally, as people have looked for less expensive options, the need for medical services has decreased, and hospitals have looked for new methods to make money. Hospitals perform needless operations such as harsh chemotherapy, cancer treatments, infusion therapies, and heart surgeries.

B. Embezzlement

Healthcare frauds are also committed against hospitals. These frequently take the shape of embezzlement, in which the fraudster receives an unauthorised benefit transferred from the hospital. Employees can become fraudsters and embezzle funds from hospitals just as easily as they might in any other organisation, from secretaries to CEOs. The potential of embezzlement increases when individuals are trusted with significant sums of money, as is the case in hospitals. Hospitals also frequently operate as not-for-profit businesses, which raises the possibility of embezzlement because they frequently have fewer staff members and less job segregation.

C. Pharmaceutical and Durable Medical Equipment Fraud

Drug companies and durable medical equipment are involved in some of the biggest and most intricate fraud instances. Internally, there has been a focus on the misuse of and addiction to opioids and other narcotics. In only a month, June 2018, the Attorney General and the Department of Health and Human Services reported that they have announced charges against 162 defendants, including 76 doctors, in schemes involving approximately 32 million in total losses for the illegal distribution of opioids and other narcotics. The year-over-year trends are staggering: According to the DOJ, charges were brought against 90 individuals in 2014, 301 in 2016, and 601 in 2018. Fraud losses linked to opioids increased from $260 million in 2014 to $2 billion in 2018. In 2018, more over half of the states reported fraud instances involving drugs. In California, for instance, two podiatrists were charged with supplying pre-printed prescriptions without regard to the patient's necessity in exchange for bribes, prostitution, and ostentatious dinners. The total amount of fraudulent claims for these prescriptions exceeded $250 million. A different indictment from Texas stated that over a million pills of oxycodone and hydrocodone were ordered using fake prescriptions. Here, 48 individuals, including a pharmacy chain owner and pharmacist, were charged with fraud. A Delaware doctor was accused of illegally prescribing more than two million units of oxycodone in a 2018 case. In all, 58 federal districts and 30 states reported incidents in 2018. Durable medical equipment has also been the victim of fraud (DME). DME is defined as medical equipment, such as wheelchairs, back braces, and walkers, that is prescribed by a treating physician and used often in the home or a setting similar to it. Fraud pertaining to DME is not new; according to the Government Accounting Office, in 2005 DME accounted for 41% of all criminal case topics, and in 2010, DME and medical facilities were involved in almost 40% of all criminal cases initiated under the FCA. DME fraud in the healthcare industry has changed with the industry. Over the past ten years, the delivery of healthcare services has moved from inpatient to mostly clinic settings and now includes telemedicine, which enables medical professionals to diagnose and prescribe medication to patients over the phone and via video. The DOJ announced in April 2019 that 24 defendants had been accused. These defendants included the owners of numerous DME businesses, the CEOs and COOs of five telemedicine companies, and three licenced medical professionals. In other words, the government was led to believe that the indicted medical providers worked with telemedicine companies to provide the elderly and disabled Medicare beneficiaries with braces that they did not need for their backs, shoulders, and knees, allegedly resulting in a loss to Medicare of over one billion dollars. Reportedly, the telemarketers phoned Medicare beneficiaries, offering them free or inexpensive orthopaedic braces, the doctors signed prescriptions for the braces without treating or evaluating the patients. The doctors then sold the prescriptions to DME businesses, who sent the braces and billed Medicare for them. It was thought that the scammers used shell corporations to launder money in order to buy vehicles, yachts, and real estate both domestically and overseas. In summary, the types of healthcare fraud are myriad. Most of the cases of fraud mentioned above have the same themes running through them. Whether the parties differ, the schemes include billing for services never rendered, lies about products or services, kickbacks, information theft, and wire fraud.

1.3. Importance of detecting Healthcare fraud

Detecting healthcare fraud is critically important due to its extensive financial and societal implications. Healthcare fraud is increasingly perceived as a serious social concern. Healthcare fraud is a problem for the government, and there is a need for more effective detection methods. Detecting healthcare fraud requires a great amount of effort and extensive medical knowledge.

Traditionally, healthcare fraud detection greatly depends on the experience of domain experts, which is erroneous enough, expensive, and time-consuming. It takes a lot of work for a small number of auditors to manually examine and identify questionable medical insurance claims in order to discover healthcare fraud. However, modern advances in machine learning and data mining techniques have led to more efficient and automated detection of healthcare frauds. Healthcare data mining has gained popularity in recent years as a fraud detection tool. This thesis reviews the various approaches to detecting fraudulent activities in health insurance claim data.

1.3.1. Benefits of Effective Healthfraud Detection

Effective healthcare fraud detection significantly reduces unnecessary expenditures in healthcare systems, resulting in direct cost savings for government programs and private insurance companies. For example, sophisticated data mining tools can efficiently identify fraudulent activities, leading to substantial financial savings. These savings can lower insurance premiums and other costs for consumers, making healthcare more affordable and sustainable. The systematic application of these techniques ensures that funds are used appropriately, directly benefiting all stakeholders involved in healthcare financing. By effectively detecting and eliminating fraudulent claims, resources can be reallocated where they are needed most, improving access to essential medical services for legitimate patients. Optimising the distribution of resources is essential to improving the general calibre and availability of healthcare services. Advanced fraud detection methods ensure that the financial resources saved from fraud prevention enhance patient care and expand service availability, ultimately benefiting the wider community by providing better healthcare access.

The risk of unauthorised access and misuse of sensitive patient data has increased in the digital age. Effective healthcare fraud detection systems are essential for safeguarding this information. By implementing robust security measures and fraud detection algorithms, healthcare providers can prevent the exploitation of personal health information. Sustaining patient confidence and guaranteeing adherence to health data protection laws depend on this protection. By integrating these technologies, a secure environment for handling patient data is created, reducing the risk of data breaches and guaranteeing the integrity and confidentiality of medical information.

1.4. Challenges in Health Care Fraud Detection

Detecting healthcare fraud presents significant challenges that are primarily rooted in the complexity of healthcare transactions and the need to ensure data privacy. The diverse range of services rendered in the healthcare system adds complexity, making it difficult to detect fraudulent activities without extensive domain expertise. Each transaction involves multiple variables and nuances that require advanced analytical skills to interpret correctly. Moreover, there is a crucial need to balance fraud detection efforts with the protection of patients' privacy. Innovations in technology used for fraud detection must navigate stringent data protection regulations to ensure that sensitive information is handled securely. These challenges necessitate ongoing advancements in technology and methodologies to maintain the effectiveness of fraud detection systems in the ever-evolving healthcare landscape.

Chapter 2
Preliminaries: Machine Learning Algorithms for Fraud Detection

This chapter provides an in-depth description of machine learning, its fundamental building blocks, and its exponential benefits in detecting healthcare fraud. What is introduced in machine learning, from the general theoretical background to the present technological advances that enable its use? Later sections of the chapter emphasise what machine learning has contributed to the benefits in the identification of fake activities in healthcare, ranging from emphasising the limitations experienced with traditional methods of detection to the benefits accruable with the automated data-driven techniques. The chapter then explains machine learning algorithms suitable for healthcare fraud detection, like logistic regression, random forests, k-nearest neighbours, and neural networks, which include the specifics of method applicability and efficiency. Such components bring the understanding of how machine learning is applied for improved fraud detection, with the ultimate effect of enhancing the security and efficiency of healthcare systems.

2.1. What Machine Learning is

The current SMAC (Social, Mobile, Analytic, Cloud) technology paradigm sets the stage for a future where intelligent devices, networked processes, and big data are seamlessly integrated. This virtual landscape has generated enormous data, accelerating the adoption of machine learning solutions and methods.

Machine learning enables computers to emulate and adapt human behaviour. Every interaction and action is something the system can learn from and utilise as knowledge for future tasks. Learning, in a broad sense, involves acquiring new behaviours, values, knowledge, skills, or preferences or modifying existing ones. Behaviourism, cognitivism, constructivism, experientialism, and social learning explain how humans learn. In contrast, machines rely on data to learn, as opposed to humans who learn from experience (As Alzubi [2018] correctly reports).

Considered a subset of Artificial Intelligence (AI), machine learning (ML) exhibits the experiential "learning" associated with human intelligence, while also having the capacity to learn and improve its analyses through the use of computational algorithms (Helm et al., 2020). It involves driving computers to adjust their actions to enhance accuracy, determined by how often selected actions result in correct outcomes.

AI pioneer Arthur Samuel (1959) defined ML as a field of study that enables computers to learn without being explicitly programmed. Mitchell (1997) later provided a valuable interpretation: "A computer program is said to learn from experience E with respect to some task T and some performance measure P, if its performance on T, as measured by P, improves with experience E."

Machine learning is interdisciplinary, drawing from fields such as computational statistics and mathematical optimisation. When data analysis becomes too complex to interpret manually, machine learning algorithms can help identify patterns and solve problems using large datasets (As IBM [2021]; Mahesh [2020] correctly reports).

In its simplest form, machine learning involves using real-world data sets as "training sets" for the machine to study and learn from. Pattern recognition allows the machine to make decisions independently, and these decisions are compared to a "testing set" of actual outcomes to measure accuracy. As the training data grows and testing repetitions increase, similar to experiential learning, the machine's algorithm becomes more accurate and predictive (As Haeberle [2019] correctly reports).

Machine learning is utilised across various industries to extract valuable insights. According to a study by Accenture (2019), 88% of Italian managers believe that leveraging AI helps them achieve growth objectives, with nearly all considering AI a strategic factor. The managers reported a positive ROI on their AI investments and found a positive correlation between AI success and key financial indicators, such as an average 32% increase in Enterprise Value/Revenue Ratio, Price/Earnings Ratio, and Price/Sales Ratio.

In the financial sector, ML analyses data to predict credit risk, investment values, and potential fraud. Banks use machine learning to evaluate customer details like income, credit history, and expenses to assess credit risk and predict loan repayment. It is also employed in financial market analysis, helping investment firms make informed decisions and forecast market trends.

According to MIT Sloan School of Management (2021), machine learning systems can be classified into three types: descriptive, predictive, and prescriptive. Descriptive ML systems explain past events using data, helping users understand the underlying factors. Predictive ML systems forecast future events based on historical data, such as predicting customer demand. To estimate consumer demand for a specific good or service, one can utilise a predictive machine learning system.

Prescriptive machine learning algorithms advance the situation by not only forecasting future events but also recommending course of action to take in order to get a desired result. These systems use complex algorithms to analyse data, identify patterns, and recommend actions that can improve future outcomes. For example, a prescriptive machine learning system can be used to recommend the best course of action to improve customer retention or reduce costs.

2.2. Role of Machine Learning in Fraud Detection

Healthcare fraud is increasingly perceived as a serious social concern. Healthcare fraud is a problem for the government and there is a need for more effective detection methods. Detecting healthcare fraud requires a significant amount of effort with extensive medical knowledge.

Traditionally, healthcare fraud detection greatly depends on the experience of domain experts, which is erroneous enough, expensive, and time-consuming. Finding healthcare fraud requires a lot of labour for a small number of auditors who must manually review and identify suspicious medical insurance claims. However, recent advancements in data mining and machine learning techniques have made it feasible to identify healthcare scams using more automated and effective ways. Healthcare data mining has gained popularity as a means of identifying fraud in recent years. This study examines the different methods for identifying fraudulent activity in health insurance claim data.

Machine learning offers powerful tools to enhance the detection of healthcare fraud. By analyzing large datasets, machine learning algorithms can identify patterns that may indicate fraudulent activity without human intervention.

2.2.1. The potential to revolutionise healthcare fraud detection

Machine learning harnesses algorithms that learn from data to make decisions or predictions, offering a transformative approach to healthcare fraud detection. This technology enables the automation of detection processes, where algorithms efficiently identify anomalies and suspicious patterns indicative of fraud. The speed and efficiency of machine learning significantly surpass human capabilities, processing vast amounts of data swiftly to expedite detection. Furthermore, machine learning enhances accuracy; its continuous learning capabilities allow it to swiftly adapt to new and evolving fraudulent tactics, outpacing traditional methods.

The application of machine learning in detecting healthcare fraud is crucial as it provides a scalable and efficient solution capable of managing the growing volume and complexity of healthcare claims. Machine learning models can significantly reduce false positives and improve the detection of complex fraud schemes, resulting in significant financial savings and improved systemic integrity in the long run. With ongoing advancements in AI and machine learning technologies, the potential for these tools to further enhance fraud detection efforts is immense. This aligns with global trends where AI and machine learning are not only reshaping fraud detection but are also pivotal in advancing the overall efficiency of healthcare services.

2.3. Machine Learning Algorithms Used in Health Care Fraud Detection

Traditionally, supervised learning and unsupervised learning have been used to categorise machine learning applications in the field of healthcare anomaly detection. Unsupervised learning sometimes does not require a data-label for training, whereas supervised learning usually does. Supervised learning application algorithms applied in anomaly detection include neural network classification, support vector machines, decision trees, KNN. When it comes to identifying established fraud and abuse patterns, supervised learning algorithms typically outperform unsupervised learning algorithms, which are typically partitioning, agglomerative, probabilistic, etc. On the other hand, supervised learning algorithms rely significantly on datasets. A dataset is typically not comprehensive due to the complexity of the healthcare environment, which frequently results in a result that is much over-fitted in practical settings.

In health care fraud assessment, classification methods have been implemented extensively to detect previously known fraud patterns. Among these methods, logistic regression predicts the class of a categorical dependent variable by modeling explanatory variables with a logistic function. Another easy to implement classifier assigns medical claims to the most common class among its k nearest neighbors using a distance metric such as Euclidean distance. The k-nearest neighbor method is used with an optimized genetic algorithm distance metric to classify providers that conduct inappropriate practices. Their performance may decrease with large data sets. Decision trees and Neural networks are among the most widely utilized methods for health care fraud classification. Neural networks can deal with heterogeneity and noisy data structures which makes them a preferred choice to model non-linear relationships. While neural network techniques have been praised for their excellent performance in certain situations, overfitting is a potential problem with them. Neural networks, for example, might perform poorly and overfit when given skewed data sets. A relatively modest mistake on the training data set and a substantially bigger error on the test data are indicative of overfitting. To address overfitting with healthcare claims data, a number of techniques, including early stopping strategies, have been proposed; however, they may call for bigger sample sizes and longer computation durations.

Decision trees have long been popular as their outputs are easy to interpret and handle missing values. For instance, the decision tree C 5.0 is considered to outperform neural networks and logistic regression as a healthcare fraud classifier. However, their results should be evaluated with caution since they lack the controls for their imbalanced dataset with only three fraudulent providers and 1275 legitimate providers. Therefore, ensembles of decision trees could be preferred to handle big data sets. Random forest methods are bagging methods which combine the output of individual decision trees with a subset of features. This can reduce variance and overfitting, and these methods could be robust to imbalanced data. It could be useful to consider random forests with single-node decision trees, also called stumps, in order to reduce bias whilst decreasing computational complexity.

Alternative healthcare fraud classifiers include a combination of fuzzy sets and Bayesian classifiers, an ensemble of association rules and a neural segmentation algorithm and a text mining-based approach.

2.3.1. Logistic Regression

Logistic regression is a widely used statistical method in healthcare fraud detection due to its simplicity and interpretability. This algorithm models the probability of a binary outcome, such as fraudulent or non-fraudulent claims, based on one or more predictor variables. By analysing patterns and relationships within historical healthcare data, logistic regression can effectively distinguish between legitimate and fraudulent claims. It assigns weights to various features, such as claim amounts, frequencies, and provider histories, to calculate the likelihood of fraud. One of its key advantages is the ability to provide clear, probabilistic outputs that help healthcare providers and insurers make informed decisions. Additionally, logistic regression's capacity to handle large datasets and its relatively low computational cost makes it an appealing choice for real-time fraud detection systems. Its interpretability also ensures that the results can be easily communicated to stakeholders, facilitating the implementation of robust anti-fraud measures in healthcare systems. Nevertheless, logistic regression presupposes a linear connection between the variables, which limits its effectiveness for more complex, non-linear problems. Furthermore, it is not well-suited for capturing interactions between variables without extensive feature engineering.

2.3.2. Random Forest

Random Forest algorithms have become an instrumental tool in healthcare fraud detection due to their robustness, accuracy, and versatility. During training, these algorithms build numerous decision trees, from which they extract the mean prediction (regression) or the mode of the classes (classification) for each tree. In healthcare fraud detection, Random Forests excel at identifying complex patterns and anomalies within vast and diverse datasets, such as insurance claims and provider records. Their ability to handle imbalanced datasets, a common issue in fraud detection, enhances their reliability in distinguishing fraudulent activities from legitimate ones. Studies, such as those by Bauder and Khoshgoftaar (2018) and Gupta and Mudigonda (2021), have demonstrated that Random Forests significantly improve detection accuracy and provide interpretable results, making them highly effective in combating healthcare fraud.

Highly regarded for their accuracy, Random Forests owe much of their effectiveness to their ensemble nature, which combines multiple decision trees to enhance predictive performance and robustness. This ensemble approach improves accuracy and provides a mechanism for handling missing values effectively, maintaining accuracy even with a significant proportion of missing data. Additionally, Random Forests offer valuable insights into feature importance, which aids in feature selection and data understanding, further bolstering their utility in fraud detection scenarios.

Despite these advantages, Random Forests do have some drawbacks. They are complex and harder to interpret compared to individual decision trees. This complexity arises because the aggregation of many decision trees can produce a large number of rules, which can be difficult to analyse and understand, especially when dealing with high-dimensional data with many categories. This can complicate the interpretation and application of the results, although the overall robustness of the ensemble prediction remains high. Furthermore, Random Forests are computationally intensive, making both training and prediction slower, particularly with large datasets and numerous trees. They are less prone to overfitting than individual decision trees, but overfitting can still occur, especially with noisy data.

Nonetheless, the ensemble nature of Random Forests ensures that even if some trees are incorrect, the overall prediction remains robust. This provides a powerful defence mechanism against fraudulent practices in the healthcare industry, where the ability to accurately and efficiently identify fraud is paramount. By integrating decision trees into rule-based decision-making frameworks, Random Forests enhance their applicability in real-world scenarios, offering both high accuracy and reliability in detecting and preventing healthcare fraud.

2.3.3. K-Nearest Neighbor

K-nearest neighbours (K-NN) are a valuable tool in healthcare fraud detection, offering a simple yet powerful method for identifying fraudulent activities. K-NN operates by classifying data points based on their proximity to other labelled instances, making it particularly effective in detecting anomalies within healthcare claims. For example, studies such as those by Liu and Vasarhelyi have highlighted how K-NN, when combined with geo-location data, enhances the precision of fraud detection models by clustering similar claims and identifying outliers. Additionally, research by Bauder and Khoshgoftaar demonstrates K-NN's efficacy in analysing Medicare claims, pinpointing suspicious patterns that deviate from typical provider behaviour. By leveraging the algorithm's ability to handle large datasets and its intuitive approach to pattern recognition, K-NN helps uncover complex fraud schemes that might elude more traditional detection methods.

K-NN is noted for its simplicity and intuitiveness. It is easy to understand and implement, with no training phase required, allowing it to quickly adapt to new data. K-NN is flexible, as it can be used for both classification and regression tasks. Being non-parametric, it makes no assumptions about the underlying data distribution, which adds to its flexibility. However, K-NN is computationally intensive, relying on distance calculations between data points, which can be slow and resource-demanding with large datasets. It is also sensitive to irrelevant features and noise in the data, which can significantly affect its performance. Additionally, K-NN requires storing the entire dataset, posing memory usage challenges with large datasets.

Despite these challenges, the algorithm's simplicity facilitates its integration with other machine learning techniques, further boosting its accuracy and reliability in preventing healthcare fraud. The combined insights from various research studies underscore K-NN's effectiveness in fraud detection, demonstrating its significant potential when applied in healthcare settings to safeguard against fraudulent activities.

2.3.4. Neural Networks

Neural networks have emerged as a powerful tool in the detection and prevention of healthcare fraud, leveraging their advanced pattern recognition capabilities to identify fraudulent activities within large and complex datasets. These algorithms, particularly deep learning models, can process vast amounts of healthcare claim data, learning to recognise subtle and sophisticated patterns indicative of fraud. Studies such as those by Johnson and Khoshgoftaar (2019) demonstrate the effectiveness of neural networks in analysing Medicare data, significantly enhancing the accuracy of fraud detection. Neural networks are well-suited for tasks like picture and speech recognition because they are particularly good at collecting complicated, non-linear correlations in data. This is especially true with deep learning models. With additional data, they can enhance their performance as they are able to continuously learn and adjust to novel patterns. Neural networks exhibit great versatility and can be employed for various purposes such as unsupervised learning, generative tasks, regression, and classification.

The performance of neural networks could be improved by training each layer using the previous layer’s output. These so-called deep neural networks (multi-layer perceptrons) were first used in the healthcare fraud domain to classify the Australian general practitioner’s practice patterns into four categories to identify abusive providers. On the other hand, neural networks generally require statistical expertise while tuning the parameters, and their outputs are harder to communicate to the final user. They also require significant computational resources and time, particularly for training deep networks with large datasets. The complexity of tuning neural networks is another drawback, as they have many hyperparameters that need to be adjusted, requiring substantial expertise and experimentation. Furthermore, neural networks are often criticised for their lack of interpretability, making it difficult to understand how they arrive at their predictions. This "black box" nature has led to a growing emphasis on so-called “Explainable AI,” which aims to improve the underlying explanations behind these approaches.

Neural networks excel at handling nonlinear relationships and complex interactions within the data, which are common in fraudulent schemes. Additionally, their ability to continuously learn and adapt makes them well-suited for dynamic and evolving fraud detection scenarios. This adaptability is critical as fraudsters continually develop new techniques to circumvent detection. Consequently, the deployment of neural networks in healthcare fraud detection not only improves the identification of fraudulent claims but also reduces the manual effort required by investigators, ultimately contributing to more secure and efficient healthcare systems.

Chapter 3

Preliminaries: Data Privacy in Healthcare Fraud Detection

Data privacy in healthcare is nothing new, especially in this information age. This chapter analyses the critical place of data privacy in the maintenance of patient trust and safety in this age of the expansion of the healthcare industry into the digital environment that is supported by big data analytics. Discussion begins on the vital concerns of data privacy in healthcare, for ethical, legal, and operational reasons toward the protection of sensitive health information. It underscores the vulnerabilities attached to digital health records and the need to toughen security measures to avert data breaches and unauthorised access. The chapter then goes ahead to discuss issues surrounding the keeping of proper data privacy, more so in the integration of machine learning in fraud detection. It then breaks down through the need for big datasets in machine learning how much of a power balance there is between the use of the data and privacy. In addition, various techniques and methods for data privacy assurance are elaborated, including traditional cryptographic methods, blockchain technology, privacy-preserving data mining techniques, and those related to secure multi-party computation. We then check the effectiveness of each method in providing security for health data, while at the same time allowing its use in research and operational purposes. Finally, it lists the legislative and regulatory frameworks on which the concerned data privacy in health care hangs, such as in the United States with HIPAA and in the European Union with GDPR. It also describes how such regulations define data protection practices and ensure compliance under rapidly changing digital healthcare conditions. In general, the chapter explains well the importance of data privacy in healthcare, techniques used in data protection, challenges faced, and regulatory frames governing data privacy in general. It is an exploration pointing to the dire necessity for constant improvement in data practice techniques for privacy to protect patient information in the digital world.

3.1. Importance of Data Privacy in Healthcare

One cannot emphasise how crucial data privacy is to the healthcare industry. As the healthcare industry increasingly relies on digital technologies and big data to improve patient outcomes and operational efficiencies, ensuring the privacy and security of sensitive health information has become a paramount concern. The advent of digital health records and the widespread use of cloud computing have revolutionised healthcare data management. However, traditional cryptographic methods and other security techniques have proven inadequate in comprehensively addressing data privacy and security issues. Kumar, Kumar, and Kumar (2019) propose leveraging blockchain technology to enhance the privacy and security of electronic healthcare records. Blockchain's decentralised nature and robust encryption protocols can significantly mitigate the risks associated with unauthorised access and data breaches.

Patient privacy is a cornerstone of healthcare analytics research. Kleczyk (2023) emphasises the ethical necessity of preserving and protecting patient privacy, advocating for stringent data privacy and security measures. Healthcare analytics must take ethics seriously because patient privacy violations can have serious repercussions, such as losing patients' trust and possibly facing legal action. The significance of health information privacy extends to its role in health research. Nass, Levit, and Gostin (2009) discuss various approaches to enhance data privacy and security in health research, such as privacy-preserving data mining and statistical disclosure limitation. These techniques help balance the need for data accessibility in research with the imperative to protect individual privacy.

In the context of big data, healthcare faces unique challenges in preserving data privacy. Abouelmehdi, Beni-Hessane, and Khaloufi (2018) highlight the privacy issues associated with big data in healthcare. They discuss strategies and technologies to safeguard medical data, emphasising the importance of privacy for healthcare adopters of big data. Similarly, Shahid et al. (2022) address data privacy concerns in the Internet of Healthcare Things (IoHTs), underscoring the need for comprehensive awareness programs and robust privacy protocols to protect patient data in interconnected healthcare environments.

Cloud-assisted healthcare systems present another layer of complexity in data privacy management. Sajid and Abbas (2016) identify data privacy concerns specific to cloud environments and suggest methods to enhance data privacy in healthcare clouds. Their work points to the necessity of developing advanced privacy-preserving techniques to handle the unique challenges posed by cloud computing in healthcare. The Moroccan context of big data privacy in healthcare, as discussed by Mounia and Habiba (2015), illustrates the global relevance of these issues. They review international laws regarding privacy insurance and stress the importance of protecting medical data, particularly as healthcare systems worldwide adopt big data technologies.

From the user's perspective, the privacy and security of E-health data are critical. Wilkowska and Ziefle (2012) explore user concerns about data privacy in E-health systems, highlighting the need for robust privacy and security measures to gain user trust and ensure the safe use of health technologies. The importance of data privacy in healthcare is underscored by the increasing reliance on digital technologies and big data. In order to preserve patient confidence, adhere to regulatory obligations, and guard against data breaches, it is imperative that health information privacy and security be ensured. As the healthcare industry evolves, so too must the strategies and technologies used to safeguard patient data, ensuring that privacy remains a fundamental pillar of modern healthcare.

3.2. Challenges in maintaining data privacy while utilising machine learning for fraud detection

The integration of machine learning in fraud detection systems presents numerous advantages, such as enhanced accuracy and efficiency in identifying fraudulent activities. However, this integration also brings significant challenges in maintaining data privacy.

Effective machine learning model training necessitates huge datasets, which is one of the main obstacles. According to Liu et al. (2021), the volume and variety of data required for accurate model training often include sensitive and personally identifiable information (PII). This necessity raises concerns about data breaches and unauthorised access, particularly as machine learning systems are increasingly deployed in sectors like healthcare and finance, where privacy is paramount. Devineni et al. (2023) discuss how traditional data privacy protection mechanisms fall short of addressing the complexities introduced by machine learning algorithms. Machine learning models, especially those based on deep learning, require comprehensive datasets that can inadvertently expose sensitive information. Ensuring data privacy in such contexts demands robust anonymisation and encryption techniques, which can be technically challenging and computationally expensive.

Moreover, the concept of data utility versus data privacy presents a significant challenge. Bin Sulaiman et al. (2022) note that anonymisation and data masking techniques, while enhancing privacy, can degrade the utility of the data, leading to less effective fraud detection models. Striking a balance between maintaining high data utility and ensuring robust privacy protection is a critical issue that researchers and practitioners must address.

The issue of explainability further complicates the maintenance of data privacy. Explainable AI (XAI) aims to make machine learning models more transparent and understandable, but this often requires exposing more information about the data and the decision-making process of the models. Awosika et al. (2024) highlight that enhancing the transparency of fraud detection models can conflict with privacy requirements, as it may necessitate revealing sensitive data features to explain the model’s decisions comprehensively. Chatterjee et al. (2024) emphasise the role of federated learning as a promising approach to mitigate some of these privacy challenges. Without moving the data itself to a central location, federated learning enables machine learning models to be trained on distributed data sources. By using this technique, the likelihood of data breaches is greatly decreased and sensitive data is kept close to its source. However, federated learning itself introduces new challenges, such as coordinating updates and ensuring model convergence without central oversight.

Additionally, regulatory compliance adds another layer of complexity to maintaining data privacy in machine learning systems. Meduri (2024) points out that compliance with data protection laws such as the General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA) requires stringent data handling practices. These regulations impose strict guidelines on data collection, storage, and sharing, making it challenging to gather and utilise the extensive datasets needed for effective machine learning-based fraud detection.

In conclusion, while machine learning offers powerful tools for fraud detection, maintaining data privacy in these systems is fraught with challenges. These include ensuring the confidentiality of sensitive information, balancing data utility and privacy, achieving explainability, and complying with regulatory requirements. To tackle these obstacles, a comprehensive strategy is needed, involving the use of federated learning, sophisticated anonymization methods, and constant observance of changing data protection laws. By addressing these problems, it is possible to protect people's privacy while utilising machine learning to its fullest extent in fraud detection.

3.3. Techniques and methods to ensure data privacy

In an era where data breaches and cyber threats are increasingly prevalent, ensuring data privacy has become a critical concern across various sectors, particularly in healthcare. One of the foundational approaches to ensuring data privacy is the use of traditional cryptographic methods. These methods include encryption algorithms such as Advanced Encryption Standard (AES) and Rivest-Shamir-Adleman (RSA), designed to protect data during transmission and storage. However, as noted by Kumar, Kumar, and Kumar (2019), traditional cryptographic methods alone are insufficient in the face of advanced cyber threats and the growing complexity of data management systems. Consequently, more robust and innovative solutions are necessary. Blockchain technology has emerged as a promising solution to enhance data privacy. Blockchain's decentralised nature ensures that no single entity has control over the entire dataset, thereby reducing the risk of data tampering and unauthorised access. Kumar et al. (2019) propose the use of blockchain to secure electronic healthcare records, highlighting its potential to provide an immutable and transparent ledger of transactions, which is crucial for maintaining the integrity and privacy of sensitive health information.

Privacy-preserving data mining techniques are another vital method for ensuring data privacy, especially in the context of health research. According to Nass, Levit, and Gostin (2009), these techniques allow researchers to extract valuable insights from datasets without exposing individual-level data. Methods such as differential privacy add controlled noise to the data, making it difficult to identify specific individuals while preserving the overall utility of the data.

The implementation of robust access control mechanisms is essential for protecting data privacy. Access control ensures that only authorised individuals can access sensitive information. Shahid et al. (2022) emphasise the importance of implementing role-based access control (RBAC) and attribute-based access control (ABAC) systems in healthcare settings. These systems restrict access based on user roles and attributes, ensuring that users only have access to the data necessary for their functions. Data anonymisation and pseudonymization are critical techniques for protecting data privacy, particularly when handling large datasets. Abouelmehdi, Beni-Hessane, and Khaloufi (2018) discuss how these techniques can be used to remove or obfuscate personal identifiers, making it difficult to trace data back to specific individuals. This is especially important in healthcare, where patient data needs to be protected rigorously.

The use of secure multi-party computation (SMPC) is an advanced technique for ensuring data privacy. SMPC protects the privacy of the inputs by enabling multiple parties to jointly compute a function over them. Sajid and Abbas (2016) highlight the application of SMPC in cloud-assisted healthcare systems, where sensitive health data is shared among multiple stakeholders. SMPC ensures that data remains confidential throughout the computation process.

Another vital method is the implementation of comprehensive privacy policies and compliance with legal frameworks. Mounia and Habiba (2015) discuss the importance of adhering to international laws and regulations, such as the General Data Protection Regulation (GDPR) and the Health Insurance Portability and Accountability Act (HIPAA). These regulations provide guidelines for data protection and impose strict penalties for non-compliance, thereby encouraging organisations to prioritize data privacy.

User education and awareness programs are crucial for ensuring data privacy. Wilkowska and Ziefle (2012) emphasise how crucial it is to inform consumers about possible hazards and the best ways to protect their data. Programmes for raising awareness can dramatically lower the likelihood of data breaches brought on by carelessness or human error. Ensuring data privacy requires a multifaceted approach that combines traditional cryptographic methods with advanced technologies and robust policies. Techniques such as blockchain, privacy-preserving data mining, access control mechanisms, data anonymisation, secure multi-party computation, compliance with legal frameworks, and user education are all essential components of a comprehensive data privacy strategy. As cyber threats continue to evolve, so too must the methods and techniques employed to safeguard sensitive information, ensuring that data privacy remains a top priority in the digital age.

3.3.1. Data anonymisation

Data anonymisation is a critical process in the realm of healthcare and other data-intensive industries, designed to protect the privacy of individuals by ensuring that personal information cannot be traced back to specific individuals. This technique is becoming increasingly vital as the use of big data and advanced analytics grows, necessitating robust measures to safeguard sensitive information. One significant contribution to the field is the work by Abouelmehdi, Beni-Hessane, and Khaloufi (2018) on preserving security and privacy in big healthcare data. They discuss the necessity of anonymising medical data to prevent unauthorised access and potential breaches. Anonymisation techniques such as data masking, pseudonymisation, and encryption are highlighted as essential tools to ensure that even if data is intercepted, it cannot be linked back to individual patients.

Data anonymisation is the process of protecting the private or sensitive information available concerning an individual storage data when needed by erasing or encrypting identifiers linking the individual to the stored data. In other words, the process turns out to be good because it ensures that data will still be in a useful format while it remains private. The process begins by building a full inventory of the data assets for an organisation in order to identify which data contains personally identifiable information. Second, it classifies the data into public, internal, or confidential, depending on the sensitivity of the data. From these, different types of techniques for anonymisation are then defined, and each is appropriate for different kinds of data and use cases: masking, where the sensitive data are changed to manipulated versions; pseudonymisation, where identifiable data is substituted by reversible pseudonyms; generalisation, where the data is diluted in specificity; suppression, where specific data elements are totally dropped out; and perturbation, which involves slightly changing data so that re-identification is impossible. The next step is only to apply these anonymisation techniques. Data masking is an operation that conceals sensitive data, and generalisation methods are operations in which the granularity is reduced. In the case of direct identifiers, data are suppressed, and random noise is added to the datasets, which is best applied to numerical data. The next step is to check the output from the application of such techniques: check the risk of re-identification through the use of statistical or computational methods and check whether the utility is achieved in the data to make sure that the data remain useful for their purpose of use, say, in analysis or research.

In another study, Malin, Emam, and O'Keefe (2013) delve into the complexities of biomedical data privacy and the recent advances in data anonymisation. They emphasise that as the healthcare domain expands, it is imperative to address the dynamic nature of healthcare teams and the various ways in which data can be shared and used. Techniques such as k-anonymity, l-diversity, and t-closeness are discussed as methods to achieve data anonymisation, each providing different levels of protection based on the sensitivity and nature of the data.

The determination of the single value for k is proper for anonymous l-diversity and t-closeness, which is the need to be done in this assessment to ensure that no record can be identified with at least k-1 other records based on quasi-identifiers. The more with l-diversity and t-closeness in the assessments, the stronger the methods of anonymisation. The privacy controls would be implemented with limitations that allow access only to authorised personnel while, at the same time, cross-checking the usage and forwarding of the anonymised data to track and stop possible escape. Anonymisation is an iterative process and should ideally be revisited at regular intervals. It is updated continuously to counter new risks and technologies. Periodic reviews and maintenance of audit trails of data anonymisation processes enhance the security, accountability, and traceability of the data. Respect applicable data privacy regulations, including the General Data Protection Regulation. Legal advisors should be sought to be sure that the techniques for the anonymization process are validated and are in compliance with the laws and regulations currently in place.

The next step is maintaining detailed documents on which anonymisation techniques were used, for what reasons, and what was achieved. Compliance reports and the effectiveness of practice on data anonymisation are computed and illustrated to all internal and external stakeholders to ensure that the data of an organisation is effectively anonymised in reducing the risk of exposure of sensitive information yet maintaining the utility of such data for analysis and decision-making.

The concept of data privacy in the context of cloud-assisted healthcare systems is explored by Sajid and Abbas (2016). They identify data privacy concerns specific to cloud environments and propose anonymisation as a solution to mitigate these risks. By removing or obfuscating personal identifiers, healthcare data can be securely stored and processed in the cloud without compromising patient privacy. Shahid et al. (2022) provide insights into the importance of data privacy and anonymisation in the Internet of Healthcare Things (IoHTs). They discuss how anonymisation techniques can protect data as it is transmitted and processed across various IoHT devices, ensuring that personal health information remains confidential even in a highly interconnected environment.

In the context of global health data, the review by Mounia and Habiba (2015) discusses the legal frameworks surrounding data privacy and the importance of anonymisation in complying with international laws. They highlight that anonymisation is not only a technical necessity but also a legal requirement in many jurisdictions to ensure that personal data is protected according to stringent privacy standards.

The role of anonymisation in data protection is also explored by Li, Zou, Liu, and Chen (2011), who investigate new threats to health data privacy. They underscore the importance of continually evolving anonymisation techniques to keep pace with the increasing sophistication of potential attacks on healthcare data. Data anonymisation is a fundamental process in protecting individual privacy within the healthcare sector and beyond. As healthcare data becomes increasingly digitised and interconnected, robust anonymisation techniques are essential to ensure that personal information remains confidential and secure.

3.3.2. Encryption: Rivest-Shamir-Adleman and Advanced Encryption Standard

Encryption is one of the central elements of cybersecurity for protecting sensitive data against unauthorised third parties. the Advanced Encryption Standard (AES) and the Rivest-Shamir-Adleman (RSA) are the most common methods used for this. Each of them is different in features, applications, and advantages, so they are basic elements in many security protocols.

RSA, developed in 1977 by Ron Rivest, Adi Shamir, and Leonard Adleman, is a public-key encryption algorithm that has since become one of the important components of contemporary cryptography. It is used in a good number of secure data communications, digital signatures, and key exchanging mechanisms. RSA accomplishes secureness through computation by relying on the difficulty of factoring big prime numbers, and this allows both the encryption and the decryption process to be solid as well as secure. The main advantages of RSA end up being due to its incorporation of the public key infrastructure. RSA operates on a pair of keys, one public key used for encryption and one private key for decryption. This takes off the ever-present pressure regarding the security of the channel of the key exchange. RSA also provides for digital signatures in which, along with other issues, the provision of authentication is there. It has become one of the major cryptographic methods due to its robust security in many applications, including secure email, VPNs, and SSL/TLS. But, RSA has the following disadvantages: RSA is computationally intensive, many orders of magnitude slower compared to symmetric key algorithms such as AES, hence unsuitable for very large amounts of data to be encrypted. For added security, RSA keys should be very large, at least 2048 bits, which further increases computational and storage overhead.

In contrast, AES, being such since 2001, was the standard that the National Institute of Standards and Technology of the United States adopted in 2001, for a symmetric key encryption algorithm, subsuming the older Data Encryption Standard. Since its adoption, AES has become the global standard for securely encrypting sensitive data. It encrypts all fixed-size blocks in 128 bits of data and supports 128, 192, and 256-bit key sizes. The most significant advantage to using AES is that it is efficient. AES performs very well when encrypting vast amounts of data at high speed. It is sufficiently secure against all known and potential cryptanalytic attacks, especially when using 256-bit keys. In addition, AES can be implemented in both hardware and software. This makes it a very versatile encryption algorithm that can be used for a wide variety of applications ranging from embedded systems to securely storing data on the internet cloud.

There are a few disadvantages to using AES. Since the sender and recipient need to share the same secret key, a safe method for key preparation and distribution is needed. The algorithm is so complex that it may require slightly more implementation effort, with appropriate attention in order to avoid vulnerabilities.

The strengths of RSA and AES complement each other when compared at their highest points. RSA, with its public-key mechanism, does very well in terms of key exchange and digital signature. However, on the other hand, it is not too good for big-sided volume encryption because of poor efficiency. Whereas AES, under the symmetric key structure, allows a much faster and more efficient encryption that is really nice for large-volume data, but on the other hand, good practice of key management is required. RSA and AES are very often violated in one cryptographic system to leverage the advantages of each particular thing. For instance, RSA might be applied to the safe exchange of AES keys. The keys received in the process are applied to data encryption in order to provide the highest level of performance and security. Actually, this scheme is widely applied in a number of scenarios like secure communication protocols SSL or TLS where RSA is to provide safe key exchange, but data is encrypted by means of AES. Conclusion In the modern world, both RSA and AES are important parts of any encryption technique. The knowledge of the strengths and weaknesses of the two algorithms makes the application easy to secure sensitive information in many domains. In integration and further enhancements of the algorithms, robust security will be at the front in maintaining the solution due to the ever-growing threat in cyberspace.

3.3.3. Secure multi-party computation

Secure Multi-Party Computation (SMPC) is a very prominent field in cryptographic research, aimed at allowing a set of parties, jointly able to compute a function over the inputs, to maintain the privacy of those inputs. Major improvement in this domain over the past few decades comes from the requirements of the emerging data-driven world to have technologies ensuring privacy.

Goldreich (1998); was one of the key foundational papers of SMPC, initiating the construction of efficient and general secure protocols for which mutually distrusting parties may collaborate without leaking their private input. In essence, this idea is employed in sensitive areas like healthcare, finance, and national security.

This theoretical framework was further extended by Canetti et al., who introduced adaptively secure protocols in 1996. Their protocols are secure in cases where the adversary can make adaptive choices about the parties to corrupt during a computation. This was actually an aspect of robustness for the real nature of the application, since those environments are dynamic and the adversaries can be very sophisticated.

There is a number of studies related to SMPC practical implementation. Among the others, high-performance, secure multi-party computation in the application of data mining was introduced by Bogdanov et al. in 2012 when they showed that even the treatment of very big data sets could be under management while maintaining security. Their experiments indicated that not only SMPC could be easily woven into the existing flows of data mining being used but also there should be a trade-off between performance and security.

These scalability issues of SMPC algorithms have especially been exposed since big data has come to the forefront. Therefore, their work on Conclave shows that it is possible to efficiently perform secure computations over large datasets using optimization of the underlying cryptographic protocols and techniques of computation. A serious challenge in SMPC is the "denial of service" attack, in which one malicious party can totally disrupt the computation. In particular, protocols were designed by Ishai et al. : There are mechanisms for identifying and isolating malicious parties to ensure that the protocols can still evaluate in the presence of adversarial behaviour.

Another importance of SMPC lies in the application towards many other computational problems. For instance, along with the in-depth review of SMPC applications by Zhao, et al., 2019, such there go from privacy-preserving data analysis to secure voting systems. Strong emphasis was, however, laid that whereas the theoretical foundation is well set, practical implementations need to consider efficiency and scalability.

In a similar direction, Makri et al. further examined how SMPC can be applied to more specifically targeted cryptographic primitives, including the efficiency of protocols for comparison. They proved that applying an optimization technique for the above-outlined primitives can make the overhead brought by SMPC drop by several orders of magnitude. SMPC has also been coupled with other emerging technologies. Zhong et al. (2020) uncovered how an SMPC scheme combined with blockchain actually increased privacy on data and security guarantees within a decentralized system. This hybrid approach features the strengths of both technologies in acquiring robust security guarantees.

Finally, secure multi-party computation emerges as a powerful enabling tool for the performance of collaborative computations without a privacy breach within the data. Further research in this domain deals with challenges towards the improvements in efficiency, scalability, and robustness for further applications of SMPC in industrial sectors. As worries about data privacy continue to grow, it is evident that the demand for secure computation techniques, such as SMPC, holds one of the most crucial solutions to contemporary problems in data management and security.

3.4. Legislative and Regulatory Frameworks Impacting Data Privacy

Key among such provisions is the formulation of legislative and regulatory frameworks on data privacy in healthcare that includes provisions for the security and confidentiality of the data. In fact, most of these frameworks have been formulated in contemplation of the unique challenges that the digital transformation of health care brings, balancing the need for data access with the protection of the privacy of individuals.

For instance, national requirements for the protection of health information are provided by the Health Insurance Portability and Accountability Act (HIPAA) in the United States. Additionally, it requires stringent privacy and security controls to safeguard electronic health records from unauthorized access to security breaches. The law demands that healthcare organizations, insurers, and their business associates carry out administrative, physical, and technical safeguards to ensure that the information remains confidential, integral, and available at all times. For example, the study of Thorogood, Simkevitz, and Phillips (2016) has shown that the law has exerted a major influence on changing the practices of data privacy in health care, and that the major emphasis is put on compliance as a core factor to draw no legal penalty and to gain trust among patients.

The General Data Protection Regulation of the European Union is a comprehensive framework for data protection, albeit with a few granular provisions regarding health data. These rights for patients are indeed very much augmented by the GDPR, thus giving patients more say in terms of their personal data while at the same time demanding a lot from both the data processors and the data controllers. For example, the study by Casarosa (2024) refers to the requirement laid down by the GDPR on Data Protection Impact Assessments in the EU relative to any cases of high-risk data processing, which, in any case, involves the health sector. In that sense, with such an assessment, potential privacy risks should be weighed and, therefore, eliminated or minimized prior to the actual processing.

Of equal importance among the lines of legislation is the Personal Data Protection Bill (PDPB) in India, enacted with the intention to put in place a data protection framework such as that provided by the GDPR. Prasad and Menon (2020) present several provisions under the PDPB, such as requiring data localization, setting up a Data Protection Authority, and stiff penalties for issues on non-compliance. The PDPB has been conceived to ensure the need to protect the heightened concerns related to data privacy in the fast-growing digital health environment in India.

Against the backdrop of cloud computing, the regulatory environment is further complicated. Delgado (2011) discussed the challenges of traditional privacy regulation in health information systems in the cloud. Through this exposure, the study establishes the requirement in updated legal frameworks that can effectively deal with special security and privacy risks within technologies of cloud.

Further cementing these wide differences in the approach to healthcare data privacy is the fact that when the international system of data protection laws is considered and compared, there can be seen an otherwise great disparity between different countries. As further highlighted by Wu, Zu, and Chen (2024) in a comparative study on the international landscape of legal protection of personal health data in regard to the differences of different national legislations and what they indicated for cross-border data sharing and cooperation.

This need for strong legislative frameworks also comes with new technologies, such as the Internet of Healthcare Things. Shahid et al. (2022) comment on the importance of comprehensive data privacy regulations that shall provide for current and foreseen security vulnerabilities due to connectivity of healthcare devices. Therefore, conclusion: these legislative, regulatory frameworks are indispensable to protecting information about patients in the digital world. These frameworks legally protect individuals and give standards to data security practices that the healthcare organizations need to abide by. These two frameworks are on a long road to adapting to new challenges of privacy and, above all, constantly protecting sensitive health information in the present-day contemporary world, which is full of continuously altering digital health technology.

Chapter 4
Outlier detection in healthcare fraud: A case study in the Medicaid dental domain

Fraud easily runs amok within this industry, costing billions of dollars and even affecting government programs like Medicaid. Medicaid dental services are no exception, as corrupt healthcare providers take advantage of the system through hundreds of scams and fraudulent schemes. This all makes manual detection difficult, given the stupendous nature and complexity of the claims. This thesis describes a case study in which outlier detection techniques are applied to identify fraudulent activities in Medicaid dental programs. The effectiveness of these techniques in highlighting unusual billing patterns, and therefore their merit in drawing the attention of fraud experts to further investigate such outliers, will be evaluated.

4.1. Introduction

Healthcare fraud is rife, and the losses that are in monetary terms are gigantic, especially from government-funded programs like Medicaid. Even the Medicaid dental service is not left out from fraud, as corrupt healthcare providers manage to work the system to their advantage through various fraudulent schemes. Manual detection of fraud is very challenging because of the enormous volume and complexity of the claims made. The current thesis focuses on a case study of detecting fraud in Medicaid dental programs by using outlier detection techniques. We are oriented to the effectiveness of such techniques in highlighting unusual billing patterns, which may raise suspicion and hence be picked for further investigation by a fraud expert.

4.2. Case Study Overview

A dataset of dental claims for a Medicaid program in one state over 11 months was used, representing nearly 650,000 claims with 369 dental providers. Medicaid is the largest source of funding for medical and health-related services for people who have low income and resources and are associated with certain categories: children, some adults, pregnant women, and the elderly.

Therefore, the specific objectives of this case study are to apply different outlier identification techniques to the Medicaid dental claims data, point out unusual behaviors of dental care providers, evaluate potential fraud by the techniques, and assess the flagged cases by an expert review to validate the findings.

The key attributes included in the dataset of the present study are shown below:

- Provider Information: Identification, location, and area of specialization.
- Claims detail: Dates of services, procedure codes with dates, amount reimbursed, and patient demographics.
- Adjustment Records: Changes of first-time claims and resubmissions or corrections.

4.3. Methodology

Data gathered included Medicaid dental claims collected from the state Medicaid Management Information System. During the entire process, the integrity and completeness of the data collected were taken into consideration: all claims should be included in the dataset, which will cover all the claims filed for the period under review, inclusive of any adjustments made; data cleaning was done to remove all entries with null values, zero-dollar payments, adjustments without original claims, and those entries with future service dates from the data; duplicate detection was also done to prevent redundancy; data integrity checks were also put in place to ensure the completeness of the data, involving format checks and reference data verification.

The selected metrics identified based on a comprehensive review of the literature and consultations with healthcare fraud experts are relatively relevant, so to speak. The aim is to try and capture different behaviors of the providers and patterns in the claims that might result in an indication of fraudulent activities. These are: reimbursement per beneficiary, which measures the amount reimbursed per average patient; number of claims over time, which measures the frequency of submitting claims for any provider; high-cost procedures, which measures the percentage of claims submitted on very costly procedures; weekend claims, which measures the number of claims submitted during weekends; and procedure consistency, which measures the number of repetitions of particular procedures in multiple claims.

The outliers are detected via the following approaches. Outliers are detected in the linear models modeling the total reimbursement as a function of the number of claims filed. Boxplot analysis is used to detect outliers within the distributions of selected group statistics, such as the number of claims for some tooth code. The peak analysis is done to detect peculiarly high or low peaks in submission patterns over time for the provider. Multivariate clustering, where k-means clustering is applied to the providers based on the chosen metrics, and outliers are detected in each group. The detected cases were then analyzed by the expert in health fraud. It was requisite to apply an expert opinion protocol using semi-structured interviews that would enable the collection of the validity of the findings. The flagged providers were analyzed with insights into the odds of the behavior being fraudulent from the panel of experts.

4.4. Results and Analysis

Outliers Based on Linear Model

The linear model analysis revealed several providers with significant deviations from the expected relationship between the number of claims and total reimbursement. For example, provider 23481, with just over 200 claims in a month, showed a disproportionately high reimbursement amount, indicating potential overbilling for high-cost procedures.

Boxplot Outlier Detection

Boxplot analysis was particularly effective in identifying providers with unusual claim patterns for specific tooth codes. For instance, provider 42953 claimed over 140 procedures for tooth code 03, representing nearly 20% of their total claims. This repetitive pattern raised suspicions of phantom billing or unbundling of claims.

Peak Analysis

Peak analysis identified providers with irregular submission patterns, such as sudden increases or decreases in the number of claims. Provider 45377, for example, showed a significant spike in claims within a single week, suggesting potential fraudulent activities like billing under multiple provider IDs.

Multivariate Clustering

Multivariate clustering combined several metrics to detect providers with outlying behavior. Provider 31181 was flagged for a high rate of recurring patient visits and a significant number of tooth extractions, which could indicate a pattern of unnecessary procedures.

Expert Insights

The expert evaluation provided valuable insights into the effectiveness of the outlier detection techniques. Of the 17 providers flagged with three or more outliers, 12 were deemed appropriate for formal investigation. The experts noted that boxplot analysis was particularly useful due to its simplicity and effectiveness in highlighting suspicious patterns.

Summary of Findings

- Effectiveness of Techniques: The outlier detection methods successfully identified providers with suspicious billing patterns.
- Expert Validation: A high proportion of flagged providers were validated by experts as worthy of further investigation.
- Methodological Strengths: Boxplot analysis and peak detection were highlighted as particularly effective techniques.
- Challenges: The study faced challenges related to the complexity of healthcare fraud and the need for continuous adaptation of detection methods.

Conclusion

This thesis has laid a solid framework for detecting healthcare fraud in Medicaid dental programs through the advanced application of machine learning and outlier techniques. Herein, extensive research and analysis highlight the potential of such methods in discovering atypical billing patterns that could indicate fraudulent activities. The results obtained in this thesis open several avenues for further development. Future research might delve into deep learning models with more effective handling of intricate, non-linear relationships latent in the data. This can be done by making fraud detection systems using more advanced techniques. It shall develop real-time fraud detection systems in which incoming claims shall be monitored continuously through a real-time alert system, limiting the window of opportunity for fraud. This would be timelier and more responsive to fraud detection efforts. As data privacy concerns are on the rise, from here on, efforts must be placed on enhancing the measures for good data privacy. The likes of such methods may be Federated Learning, such as model training on decentralized data without any loss of privacy and secure recording of data carried out without a breach with the help of blockchain technologies. Besides the main findings, there are apparent several lines of novel analysis that flow out from the main findings. Detailed analysis of provider behaviour over time may help understand the development of fraudulent patterns. Indeed, such understanding is instrumental in devising even more targeted and proactive strategies for fraud detection. Analysis of changes in health legislation and policies at any given time will come in handy for a person trying to understand the antecedents of the fraud patterns. This thesis can help develop more effective regulatory measures to prevent fraud. Cross-comparative studies across different states or healthcare programs can help propose standard detection frameworks. This will be greatly useful for sharing best practices and improving detection efforts. Given the same, the thesis attempt unveiled the potential that advanced techniques in machine learning and outlier detection hold in fraud-related activity identification in dental Medicaid programs. The information obtained through this research significantly contributes to the growing body of knowledge and is practically helpful in fostering fraud detection techniques. It is from this immense value of this work that future advances in detecting fraud technology will find a base, to assure the integrity and viability of our healthcare system. Further research would continue building on these findings to enhance our ability to fight healthcare fraud and assure that resources are put to the proper use for deserving patients. Along all these lines, the continuous evolution of fraud detection techniques, together with strengthened measures in data privacy and real-time monitoring capabilities, is likely to have a critical role in the protection of financial and ethical integrity within health systems.

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