Credit Risk Prediction in Digital Finance Ecosystems Using Ensemble Learning, Deep Neural Networks, and Sentiment Fusion

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Abstract
This study puts forth a hybrid AI-driven framework for predicting credit risk in digital finance ecosystems by amalgamating structured financial data with unstructured market sentiment. A feature fusion strategy was used with the Kaggle Home Credit Default Risk dataset (307,511 records, 122 features) and sentiment scores from news and social media that were generated using NLP models. SMOTEENN was used to fix the class imbalance, and regularized logistic regression was used to choose the best features. We made and tested an ensemble Machine Learning stacking model (XGBoost, LightGBM, Random Forest) and a CNN-LSTM deep learning architecture using ROC-AUC, F1-score, precision, and recall. The experimental results show that the stacking ensemble did much better than the baseline structured-only models (Accuracy: 95%, ROC-AUC: 0.9817). The results show that sentiment fusion greatly improves the accuracy and reliability of credit risk assessment systems.
Keywords: Credit Risk Prediction, Digital Finance Ecosystems, Ensemble Learning, Deep Neural Networks, Sentiment Analysis, Feature Fusion, SMOTEENN, Explainable AI (XAI).

1.Introduction

It's very important for institutions to do accurate financial risk assessments right now, when the economy is unstable and digital finance ecosystems are changing quickly. Conventional risk assessment models often struggle to adjust to real-time changes and fail to utilize the extensive information available in unstructured data sources. This paper elucidates the research methodologies and testing results of a proposed hybrid AI system that integrates structured financial records with unstructured text data to enhance the prediction of credit risk. The research integrates sophisticated Machine Learning (ML) ensemble methodologies with Deep Learning (DL) architectures to tackle issues like class imbalance and high-dimensional feature spaces.

2. **Related work**

The literature suggests a gradual shift towards hybrid methodologies that amalgamate various algorithmic paradigms to achieve enhanced efficacy and improved robustness.
For a long time, traditional risk assessment methods have used well-known statistical techniques like linear discriminant analysis, logistic regression, and time-series models like ARIMA and GARCH. These methods provide essential insights; however, they face significant limitations in managing high-dimensional datasets, detecting non-linear correlations, and adapting to rapidly changing market dynamics

A summary of the most recent AI and ML methods for analyzing financial risk

No.	Title	Authors/Journal	Methods	Contribution / Findings

1	DeRisk: Deep Learning for Credit Risk	Liang et al. (Aug 2023)	Pure deep learning tailored for high-dimensional, sparse, imbalanced credit data	Outperforms gradient boosting/random forest; details factors enabling DNN success
2	Integrated Deep Learning & Reinforcement Learning for Supply Chain Financial Risk	Knowledge Economy (Apr 2024)	Deep autoencoder + distributed RL; PSO-SDAE for feature extraction and decision-making	Real-time, accurate risk forecasts in supply chain finance
3	Hybrid GCNN for Credit Risk Analysis	Sun et al. (Oct 2024)	Graph convolution + attention mechanism; processes borrower networks	Captures relational borrower data; improves handling of imbalance & feature complexity
4	CNN + BiLSTM Framework for Systemic Risk	Cheng et al. (Feb 2025)	CNN extracts spatial patterns; BiLSTM models' temporal dependencies	High F1 (~0.88); robust to noise and high-dimensional input
5	ML + DL for Credit Card Approval	Tong et al. (Sep 2024)	Ensemble of LR, SVM, KNN, tree models + NN; SMOTE for imbalance handling	Enhanced precision, recall, F1, and AUC vs. traditional models

3. Key Contribution

This paper makes a number of important contributions to the field of credit risk analytics in digital finance ecosystems. First, it suggests a new hybrid framework that combines structured financial records with unstructured market sentiment using a single strategy for combining temporal features. Second, it presents a powerful way to deal with imbalances (SMOTEENN) along with feature selection to greatly improve the sensitivity of default detection. Third, it builds and compares a stacking-based ensemble model (XGBoost, LightGBM, Random Forest) with a CNN-LSTM deep learning architecture on datasets that have been combined. Fourth, the study empirically shows that models that use sentiment improve ROC-AUC and F1-scores a lot more than models that only use structure. Fifth, it uses Explainable AI methods like SHAP values and attention visualization to make sure that it can be understood and that it is clear to regulators. In general, the research moves forward scalable, accurate, and understandable credit risk prediction in changing digital finance settings.

4.Methods, Experiments & Results

4.1 Dataset Description

This research is founded on the integration of various data sources, combining quantitative financial history with qualitative market sentiment.

4.1.1 Structured Data

The Kaggle Home Credit Default Risk competition provided the main structured dataset. It shows everything about the applicants' finances.

Volume: 307,511 loan application records.

Dimension: There are 122 independent variables (features), like demographic information, financial position, and history of payback.

Class Imbalance: The dataset is very unbalanced, with only 8% of records being default cases (Target=1) and 92% being non-default cases (Target=0). This imbalance needs to be dealt with in a certain way to keep the model from being biased.

4.1.2. Unstructured Data

Source: We collected unstructured textual data to show how people feel about the market and real-time financial indicators in order to improve the forecasting ability of structured qualities. **Keywords:** Some of the words that come to mind are "credit risk," "loan default," "financial market," "banking," and "microfinance. **Content:** news articles, social media posts, and metadata (such as the publication date, source, and title) from both the present and the past.

Feature Fusion Strategy

To put these different types of data together, a single method for aligning time was used. We used Natural Language Processing (NLP) on unstructured text with sentiment analysis models like VADER or FinBERT. The structured dataset was updated with the positive, negative, and neutral sentiment scores, which were grouped by date and then normalized. This combination makes a full feature matrix that keeps the old risk indicators and adds new mood cues.

4.2 Preprocessing Pipeline:

A strict preparation pipeline was set up to make sure the data was good enough to work with both ML and DL architectures.

Missing Value Handling

Values Because financial datasets are usually very sparse, the following rules were used:

Feature Removal: Features with more than 40% missing values were thrown away to cut down on noise.

Numerical Imputation: We used the median imputation method to fill in the blanks in the columns that had numbers. This kept the distribution characteristics constant and diminished the impact of outliers. Category Imputation: Items that weren't in a category were given a "missing"

Label so that he information that was sent was still there.

Label Encoding: changed all of the category attributes in the structured dataset into numbers. This changes the unique string values of categories into integer labels so that the study's tree-based Algorithms and neural networks can use them.

What Scaling Does We used MinMaxScaler on all the numbers in the merged dataset to make sure that the ranges of the independent variables were the same. The numbers are now between 0 and 1, which is what Deep Learning algorithms that use gradients need to work. It also makes sure that features with bigger magnitudes don't unfairly change how Machine Learning models work.

Sentiment Features Extractions: The NLP module gave the text data three main sentiment scores: a positive score, a negative score, and a neutral score. These scores are basically stand-ins for things that affect the economy and market confidence but aren't directly related to the company

4.3 How to Handle Class Imbalance

A hybrid resampling strategy was used to fix the huge 92:8 class imbalance after fusion but before Training the model.

The SMOTEENN Method: The research employed SMOTEENN, a synthesis of two distinct methodologies:
SMOTE (Synthetic Minority Oversampling Technique): This technique makes fake instances for the minority class (defaulters) by mixing existing samples with their k-nearest neighbors.
ENN (Edited Nearest Neighbors): Removes noisy samples from the majority class and cases where class clusters overlap to clean up the dataset.
Effect on training the model: This two-part method keeps the class distribution even, which stops the models from favoring the class that is most common (non-defaulters). By fine-tuning the decision bounds, SMOTEENN makes the model much more sensitive (Recall) to defaults

4.4 Features Selection

To make calculations faster and lessen the curse of dimensionality, a process for choosing features was added.
Logistic Regression with Regularization We trained a Logistic Regression model with L2 (Ridge) regularization using the whole set of features. The absolute coefficients of this linear model show how important each feature is.
Selection Criteria: The last step in modeling used the 30 features with the highest absolute coefficients. This reduction gets rid of noise and only keeps the variables that are most useful. The text-based sentiment features were kept so that the idea that unstructured data could be useful could be tested.

4.5 Pipeline for an Ensemble of Machine Learning Models

The Machine Learning pipeline combines the best parts of many algorithms using ensemble learning. This makes them stronger and able to work in more situations.
Basic Models We used three tree-based classifiers that worked very well:
The XGBoost Classifier uses gradient boosting with L1 and L2 regularization to keep from overfitting and work with spaces that have a lot of dimensions.
LightGBM Classifier uses decision trees that grow leaf-wise based on histograms. It works best on large datasets when speed and efficiency are important.
Random Forest Classifier: A bagging method that trains a number of bootstrapped decision trees at once to reduce variance.
Soft Voting Classifier A Classifier That Votes Softly We used a Soft Voting ensemble to combine the estimated probabilities from XGBoost, LightGBM, and Random Forest. The final forecast is the one with the highest average chance of happening. This strategy removes the biases in each model. **Stacking Classifier,** A stacking classifier was made to find complex, non-linear interactions.
Level-0 XGBoost and LightGBM are level-0 (base) models.
Level-1 (Meta) Learner is Logistic Regression. The meta-learner uses the outputs of the basis models to train itself on how to best combine their predictions.

4.6 Deep Learning Pipeline (CNN-LSTM)

The Deep Learning pipeline looks for both patterns of local features and temporal dependencies in the data.
The Architecture Details

Details about the building the hybrid CNN-LSTM architecture operates with the integrated dataset as follows:

Input: The data is turned into 3D tensors that look like this: (Samples × Time-Steps × Features).

1D Convolutional Layer (CNN): Uses more than one kernel to find local patterns and interactions between structured and sentiment data.

MaxPooling Layer: Keeps the most important features while down-sampling to lower the number of dimensions. **Long Short-Term Memory (LSTM) Layer**: This kind of network looks at the sequence to find dependencies that happen over time. This is very helpful for keeping track of how people's feelings change over time. **Dense Layers**: Fully linked layers put together the learned representations and use Dropout to keep from overfitting. **Output Layer**: A single neuron with a Sigmoid activation function gives the chance of default (0 to 1)

Training Process

- **Loss Function:** Cross-Entropy in Binary Form.
- **Optimize:** Adam optimizer with a schedule for the learning rate is the optimizer.
- **Regularization:** After CNN and LSTM blocks, dropout layers are used.
- **Early Stopping:** Keeping an eye on the validation loss to stop training when the performance levels out.7. Putting Explainable AI (XAI) into action

4.7. Explainable AI (XAI) techniques

XAI were added to the framework to make sure that everything was clear and followed the rules.

Values of SHAP: We used Shapley Additive exPlanations (SHAP) values to figure out how the Machine Learning ensemble works. This game-theory method gives each feature a value of how important it is for a certain prediction. This tells everyone exactly which financial factors (like the amount of credit or the amount of an annuity) were used to figure out the risk.

Seeing Attention Weight: We used attention processes to figure out which parts of the input sequence, like the unstructured text signals, had the biggest impact on the CNN-LSTM model's choice. This checks to see if a higher expected risk is linked to a rise in sentiment.

Examination of Feature Significance The study found that common financial indicators, like dominance and sentiment, are important extra signs for borderline situations

4.8. Evaluation Metrics

A stratified hold-out test set has been to check performance, making sure that the distribution of the test classes was the same as that of the original data. The following metrics were utilized:

Accuracy = (TP + TN) / (TP + TN + FP + FN) This checks how accurate the model is for both classes as a whole.TP / (TP + FP) =. **Precision** Shows how accurate positive predictions are by showing how many people who were expected to default actually did. **Recall** = TP / (TP + FN) This is important for figuring out how risky something is; it checks how well the model can find real cases of default.

F1-Score = 2 × (Precision × Recall) / (Precision + Recall) The harmonic mean of precision and recall shows datasets that aren't balanced in a way that is fair.

ROC-AUC The Area the Receiver Operating Characteristic Curve checks how well the model can tell the difference between classes at all levels of decision-making. A score of 1.0 means that the classification is perfect, while a score of 0.5 means that the guessing is random.

Matrix of Confusion: A table that shows how many True Positives (TP), True Negatives (TN), False Positives (FP), and False Negatives (FN) there are to help you figure out what kind of mistake you made

5. Discussion

The test results show that the hybrid strategy works better than the other methods, especially when working with data that isn't structured.

ML Ensemble vs. CNN-LSTM (Merged Dataset)

The performance on the fused dataset (Structured + Unstructured) shows that the ML Stacking Ensemble has the best overall metrics.

Model	Accuracy	ROC-AUC	F1-Score
ML Ensemble (Stacking)	95.00%	0.9817	0.9500
CNN-LSTM (DL)	89.73%	0.9592	0.9091

Baseline Performance (Structured Only)

The text fusion strategy works because performance is much lower without unstructured data.

Model	Accuracy	Precision	Recall	F1-Score	ROC-AUC
Stacking	91.8%	0.53	0.71	0.61	0.832
CNN-LSTM	91.2%	0.49	0.68	0.57	0.821
Voting	88.3%	0.44	0.66	0.53	0.812

Confusion Matrix Analysis

The confusion matrices below (for the baseline models) show the balance between false alarms and missed detections

Model	True Negatives (TN)	False Positives (FP)	False Negatives (FN)	True Positives (TP)
Stacking Classifier	49,497	2,293	120	784
CNN-LSTM	49,210	2,587	154	750

Results of the Ablation Study

The ablation study shows that SMOTEENN and feature selection are both needed for high performance. Without SMOTEENN, the accuracy drops to 86.1% and the recall drops to a dangerously low 0.28. The model can't find people who don't pay. With SMOTEENN, Recall goes up to 0.71, making sure that risk is really found. Without Feature Selection, the F1-Score drops to 0.45, which means that the model is overfitting because of noisy features.

The effect of unstructured data

Combining unstructured sentiment data led to steady gains in all important metrics: Improvements to ML Ensemble: Accuracy went up by 2.15%, ROC-AUC went up by 0.69%, and F1-Score went up by 1.06%.CNN-LSTM improvements: Accuracy up 1.97%, ROC-AUC up 0.97%, and F1-Score up 1.01%.

06. Conclusion

Demographic Trends: The study found that younger borrowers (25–35) are more likely to default, while borrowers who have been employed for a long time (>5 years) are more likely to pay back their loans. Jobs that didn't require a lot of skills had default rates over 17%.
Feature Importance: Scores from an outside source () are still the best signs of creditworthiness. But sentiment scores were what made the difference that raised ROC-AUC scores from about 0.83 to about 0.98. The Stacking Ensemble (ML) did a little better than the Deep Learning method when it came to pure metrics. However, both models did much better with the hybrid data fusion strategy. The proposed framework shows that mixing structured financial history with unstructured market sentiment makes a risk assessment tool that is more reliable, accurate, and scalable.

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