Babylonian Journal of Artificial Intelligence
Vol. **(2023)**, 2023, **pp**. 74–82
DOI: https://doi.org/10.58496/BJAI/2023/011 ISSN: 3006-5437
https://mesopotamian.press/journals/index.php/BJAI

Research Article

Improving Financial Forecasting Accuracy with Artificial Intelligence (AI) Models

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ARTICLE INFO

Article History

Received 15 Aug 2023
Accepted 17 Oct 2023
Published 15 Nov 2023

Keywords

Artificial Intelligence (AI)

Financial Forecasting

Causal Inference

Big Data Analytics

AI Models

ABSTRACT

In this paper, the author examines the role of the AI models in promoting a radical shift in financial forecasting, planning, and analysis (FP&A). Compared to its human counterparts, AI is uniquely suited to the process of interpreting large data sets so that it can greatly refine the estimates upon which business finances depend. Most of the classical AI approaches, which are mainly developed for making prediction, need to be adjusted for dealing with planning processes in organization, which often require more causal analysis. This paper describes the difficulties arising from the non-critical implementation of the AI in this context, and assesses the potential of the double machine learning framework in responding to causal questions. Also, we investigate how AI transforms the approaches to assessing and optimising the financial risks. Harnessing state of the art algorithms including neural networks and big data analytics, AI models allow for bringing up real time big data analysis of various financial data, where patterns could be obscure even to standard techniques. All these capabilities enable the right prognosis of market trends, estimation of credit risk and then provide the best means of investment. Another issue discussed in the paper is the challenges related to AI integrated financial forecasting, including the issues of data protection, model explainability, as well as the challenges that arise in terms of AI based decision making. Using a simulation analysis, we explain that as the data grows, both accuracy in forecasting and effectiveness in planning are enhanced, stressing that AI is indispensable for creating a wiser and stronger financial industry.

1. INTRODUCTION

The role of economies is changing constantly, forecasted financial statements and right decision making help modern organizations be financially stable. Strategic FP&A helps organizations achieve considerable success in conditions of high market risk and anticipate the company's future financial requirements [1-3]. The growth of sophistication in the global markets where ever changing technology and integrated economy enhance the need for accurate forecasting for corporate planning and operations [4].

Conventional approaches to developing financial forecasts are based on quantitative tools and techniques, including time series forecasting, and qualitative approaches, including Delphi technique and surveys. However, such methods are proving inefficient in the current trend-competitive market environment. They have a very poor ability to adapt to the rapidly changing pace of change on the consumers, the market place and the regulatory environment which results in the production of forecasts that are often irrelevant or inapposite [5]. To overcome these challenges, many companies are enhancing use of Artificial Intelligence (AI) especially in its subset, Machine Learning (ML) for their FP&A operations. The fields of AI and ML employ a well-equipped array of algorithms concretized from computer science and statistics to address the analysis of big data at a greater efficiency [6-9]. With these technologies empowering the extraction of insightful knowledge from large data volumes, companies can achieve not only better accuracy and timeliness of forecasted financial results but also optimise the decision-making for all the company's financial activities [10].

AI and ML do not only enhance the general possibility of accurate predictions; they also enhance the variant of analyses in financial organizations. There are AI models: neural networks, decision trees, ensemble methods, and others, which are capable to detect and analyze patterns and relations in data that might be nondetectable for traditional models [11]. These capabilities enable processing of unpredictable data types, which include social media sentiment, macroeconomic factors, and micrometric transaction records [12]. Also, AI decreases routine workloads offering supportive methodologies without errors involved in manual handling of gigantic data sets in the process of forecasting by analyzing colossal voluteers of data [13].

Whereas for predictive work, such as fraud, and first-stage budgeting, the causal structure is less important, planning and resource allocation call for causal knowledge. The idea is that these tasks involve understanding of how specific decisions

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made at the strategic level, such as market entrance or a change in a business's product portfolio, is going to impact the system [14]. The more complex questions are being addressed by the newly established field known as causal machine learning. That is why the tool like the double machine learning framework helps control the effect of the incorrect model specification and provides a better picture on cause and effect relation, which can be very important for strategic planning [15]. When more and more data is generated and the computing capabilities for analyzing this data are developed, the application of AI in financial forecasting and planning can merely broaden. In pursuing this objective, this paper also intends to show how various AI models can not only enhance the accuracy of financial forecasts, but also enhance the flexibility of financial planning as a function. When the challenges as well as the benefits of artificial intelligence are considered by financial leaders, they are in a position to harness the opportunities of the advanced tools and gain a strategic edge and achieve the bottom line benefits for the businesses [17].

2. LITERATURE REVIEW

The incorporation of the innovations such as Artificial intelligence (AI)/Machine Learning (ML) in the financial planning and analysis (FP&A) has become one of the most promising trends in the sphere of the financial planning and analysis, attracting a lot of attention in the theoretical and practical fields. Research conducted more recently shows that not only does the use of AI and ML improve the accuracy of the predictions, but that it also increases the speed of the decision making process within numerous financial processes such as risk and credit, investment and operational planning. This literature review aims at comparing and analyzing a variety of different works that describe the many-sided use of AI and ML in the area of financial forecasting. It describes the research strategies used, assesses the results obtained and points out the directions for further study. Furthermore, the inclusion of AI technology in FP&A has led to transformation of the known static and often manually performed analytical work to the dynamic ones. These several advances not only enhanced and hastened the qualitative and accurate forecasts of financial data but also the revelation of more elaborate facets of available financial data. This review is written to exemplify the change that AI brought to financial forecasting, and to provide insights how those technologies are altering the context of financial analysis.

ML has been the subject of active investigation in the field of financial time series forecasting in particular. In [18] established how Recurrent Neural Networks (RNNs) could be used to forecast stock price movements, while [19] used RNNs as well as econometric models and found that machine learning-based models were more accurate in their predictions. Another aspect involving the use of ML in causal relationship analyzing of economic data has been a subject of the most recent investigations. The double machine learning was also used in [20] in economic forecasting and the authors pointed out that the approach outperforms standard regression for detecting biasing that might cause confounding when checking for causal effects.

This has been done by using some of the recent forms of regression such as the Lasso and the Ridge techniques in order to better deal with the high number of features in the data for the purpose of the actual financial forecasting. In [21] it demonstrated that these techniques can find application in enhancing forecast reliability in large datasets. The ability of applying ensemble methods to improve the stability and accuracy of predictions in the area of financing has been outlined. Nam et al [22] pointed out that deciding the optimal number of ensemble learned base classifiers can minimize variance for stronger stability of financial risk analysis. All three concepts of AI, ML, and big data have made financial risks control and predictions highly effective. In the study [23] the author reviewed the ways in which integrating big data into AI algorithms may enable a better understanding of markets and investors.

ML has been revolutionary that ML has been used in credit score and risk management for several companies and ventures. Author [24] explained the use of Support Vector Machines (SVM) in credit risk assessment and found significant improvement over conventional score cards. The application of neural networks for analysing and forecasting market trends has been given a lot of focus. [25] has undertaken a study regarding deep learning networks for the forecast of foreign exchange rates, it has yielded improved predictive performance in this area. Stepping outside of the narrow domain of budgeting and covering a wider range of of applications of AII and ML for making strategic financial decisions, [26] gave the overview of potential advantages and issues connected with their employment. Due to the ever-growing regulatory compliance needs, AI and ML has also been adopted in the financial sector in order to maintain compliance. [27] also discussed the function of AI within compliance automation as well as helping to minimizing mistakes and improving financial audits efficiency. Large Table 1 below provides an outline of these works with regards to the main research methods used, the particular aspect of financial forecasting targeted and the overall major conclusions that were made.

TABLE I. SUMMARY OF STUDIES ON FINANCIAL FORECASTING METHODOLOGIES, ASPECTS ADDRESSED, AND MAIN FINDINGS

Methodology	Focus Area	Key Findings
Recurrent Neural Networks	Stock Market Trends	RNNs provide superior accuracy in stock trend predictions.
Comparative Study	Econometric vs. AI/ML Models	AI/ML models outperform traditional econometrics in accuracy.
Double Machine Learning	Causal Economic Forecasting	Double ML effectively identifies causal relationships.

Lasso and Ridge Regression	High-dimensional Data	Advanced regression improves reliability in large datasets.
Ensemble Methods	Financial Risk Assessment	Ensemble methods enhance prediction stability and accuracy.
Big Data and AI Integration	Market Dynamics Analysis	Integration with big data offers deep market insights.
Support Vector Machines	Credit Risk Evaluation	SVMs achieve better accuracy in credit scoring.
Deep Learning Networks	Foreign Exchange Prediction	Deep networks significantly enhance forex predictions.
Review Study	AI/ML in Financial Planning	AI/ML adapts well for strategic financial decisions.

3. METHODOLOGY

In the case of the FP&A, the use of integrated intelligent AI and ML methods present a vast opportunity in increasing the financial prediction efficacies. This section of the paper outlines a simulation study that will be pursued in an attempt to evaluate the usability of AI-generated ML models in a real business environment. To contribute evidence on the practical applicability of these models, this work therefore designed a simulation environment that attempts to capture the reality of current FP&A departments functioning in large, multinational organizations. The simulation is not only limited to merely the kind of analysis where a model maps past events into the future, but also encompasses assessment of causality, for instance, impact promotion exercises exert on sales, consequently facilitating resource and plan decisions.

In order to illustrate how the AI based ML models can improve predictive prowess of FP&A departments in a large, multinational organization, we created a simulation that mimics actual financial environment. The simulation includes two main goals:

a) predicting sales accurately and

b) evaluating the impact of promotional activities on sales, which ties into causal inference for resource planning.

To further support the information provided in the simulation and to draw attention to the processes of data generation and feature engineering that occurred in our simulation, below is a flowchart organized from data input to actual modeling. Diagrams of the model are presented in figures 1-16 wherein figure 1 shows the line of succession from raw inputs to data predictors and the latter's use in sales and promotions modeling. This visualization is useful when simplifying the cross-coalesced complexities and changes within the dataset to achieve better comprehensiveness of how each piece contributes to the final output of the forecasting model. Besides improving understanding, the use of diagrams also creates easy and rapid access to the fundamental structure of our simulation approach.

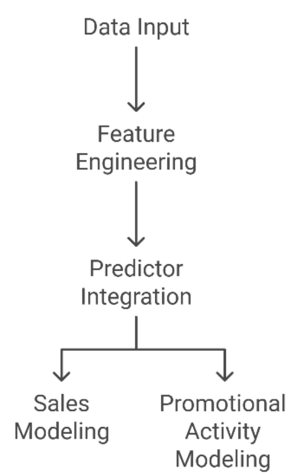

Fig. 1. Flowchart of Data Generation and Feature Engineering Process.

3.1. Datasets

In order to provide the realistic context of a multinational corporation's FP&A department, our study uses synthetic data that mimics the real-world challenges of financial forecasting. The current dataset consists or the monthly sales for an assumed product over five years period which amounts to sixty months (60N=60). Alongside this sale data, there is a plentiful 40P=40 conjectured to affect sale outcome significantly. These predictors include all forms of weather conditions, macro-economic indicators, and general state of market competition; customer shipment that is, how they are distributing their product, among other operational variables..

The simulated sales data is generated based on the following linear model Eq.1:

$$y_n = \sum_{p=1}^{P} \beta_p x_{p,n} + \epsilon_n, \quad \text{for } n = 1, 2, \ldots, N \tag{1}$$

To introduce realistic complexity into the data, moderate correlations are included among the predictors. The predictors $x_{p,n}$ are drawn from a multivariate normal distribution Eq.2:

$$x_{p,n} \sim N(0, \Sigma), \quad \Sigma_{k,j} = c^{|j-k|} \tag{2}$$

Feature engineering is another component of the present approach, bringing the effectivity of the machine learning models employed in simulations to the next level. These comprise taking capture of the postponed impact of predictors on sales, studying the interaction impacts of the predictors and mapping categorical variables into binary ones.

3.2. Model Development and Training

In our study, we utilized two distinct modeling approaches for financial forecasting: The two models used in this paper are the standard Ordinary Least Squares (OLS) regression and the Post-Lasso regression. The two techniques were employed for an intention to demonstrate different aspects of models in the evaluation of financial data.

3.2.1. Ordinary Least Squares (OLS) Regression

a) Implementation: To put it to glossary's definition OLS is an essential method that is used within the linear regression analysis, which aims to determine model parameters that should best fit our historical data. It achieves this by striving at getting as small value as possible for the sums of the squares of the differences between the observed sales and the predicted values of the model. This is considered one of the easiest techniques to use and to make a correct interpretation of results.

b) Rationale: The first benefit of ordinary least squares is that the procedure is simple and under certain assumptions it is also, unbiased. However, it is vulnerable to overfitting, particularly with big predictors data set which compares with minor observations set.

3.2.2. Post-Lasso Regression

a) Implementation: This approach begins with Lasso regression; this is a powerful method for a situation where the number of predictors is immensely high. Lasso does this by fitting the model but also choosing which variables should be included by applying a penalty, which when certain it shrinks the coefficients of some to zero thereby learning a new simpler and more robust model.

b) Rationale: After the initial phase of Lasso step, an OLS regression testing is carried on the variables that Lasso has selected. This two-step is applied to improve the initial estimations due to the extreme regularization of Lasso which leads to bias selection. This method is useful in high dimensional data regimes, it keeps only the important predictors in order to avoid the model from memorizing the data.

The model training-testing plan involves allocating data of the first four years to the training set and data of the fifth year to the test set. Here it is necessary to stress that it is useful for checking the possibility of further data prediction with the help of the given model, if it is trained with the help of historical data only. Validation on the out-of-sample data is critical to establishing the model's promise of providing realistic forecasts and basis for performance on new data. These methodologies have real-world significance that is seen to guarantee that the financial forecasting models which are used would be good in the uncertainty.

4. RESULTS

The simulation study carried out offered valuable lessons regarding the applicability of AI-Drived ML models in the FP&A for large multinational corporations. The study aimed to evaluate two main modeling approaches: Therefore, we evaluate the performance of Ordinary Least Squares (OLS) and Post-Lasso regression in both predictive accuracy, and causal inference learning for all scenarios.

4.1 Average RMSE Analysis

The RMSE (Root Mean Square Error) which has been used as earlier explained is perhaps one of the most basic ways of assessing the capability of the models in explaining future financial performances, as demonstrated in Table 1 above. The RMSE in-fit estimate of the OLS model was great, showing a perfect fit of the model on the training data, but the out-of-fit estimate was high showing the low ability of the model to make a good out of sample prediction. These imply that, although OLS is capable of fitting the past data very closely, it has problems in extrapolating it to new data since it may have over fitted the data. However, as seen from out-of-sample data, the Post-Lasso model, which was observed to have higher in sample RMSE was much more consistent in out of sample data. This tells of a better ability to generalize and, therefore, makes it a more appropriate model for use in the real business environment involving stocks and shares, the future is not a mirror image of the past.

Figures 2 offers the opportunity to make a contrastive analysis of the two approaches – naive and partialling-out – to assess the ability for inference of the causal relationships rooted in the financial data. Consequently, the results showed that naive approach consistently overestimated effects with high rejection rate due to confounding factor's impact. However, the partialling-out method greatly reduced the bias, given by the lower mean estimate and rejection rate and indicating its applicability in excluding extraneous confounding factors and testing direct causal effects of variables on financial results.

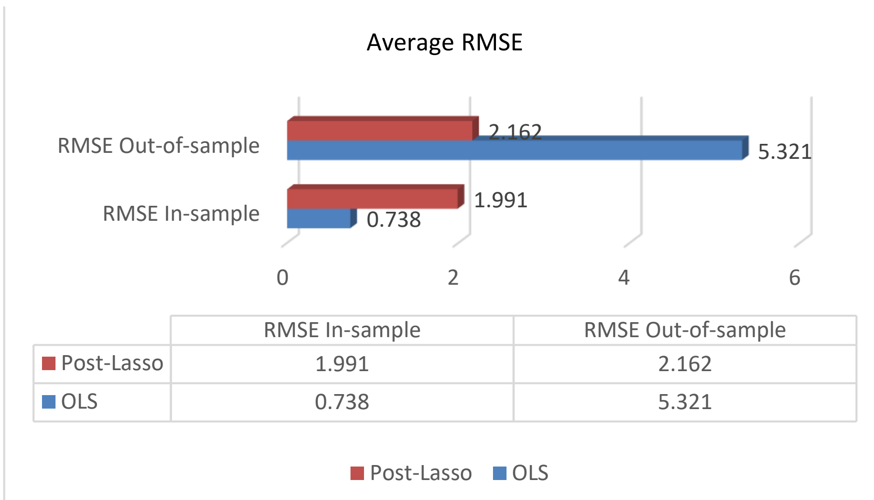

Fig. 2. Average RMSE of the Hold-out Sample from 1000 Simulation Runs for the Forecasting Task

As indicated in figure 3, when the size of the training set was increased, the number of outliers as well as overall error for in- sample as well as out- sample was reduced. This trend holds for both OLS and Post-Lasso models; however, the true performance was considerably higher in models based on the Post-Lasso across all training observations as well as out of sample observations. This underlines the necessity to have a selection of rich models especially for financial forecasting that are characterized by complex and large datasets to satisfy several criteria without compromising the analysis of future trends.

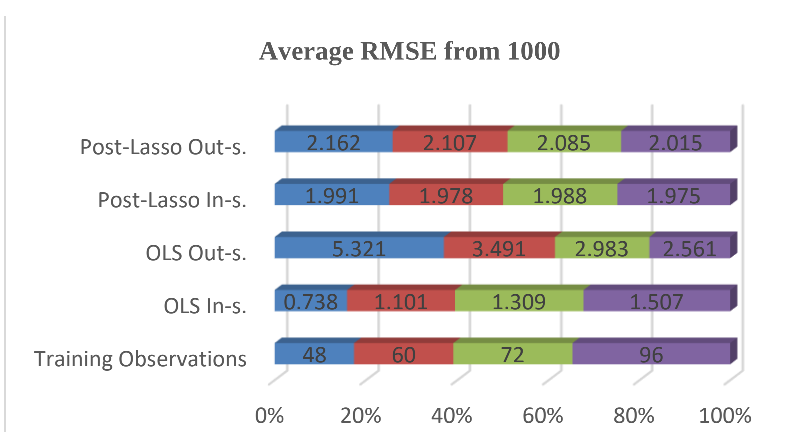

Fig. 3. Average RMSE from 1000 Simulation Runs for the Forecasting Task, 48 vs. 60, 72, and 96 Training Observations

The expectation of inferential statistics was made further in figure 4 for various training sizes. It also confirmed once more, the higher accuracy of the partialling-out method as compared to the naïve one. In particular, it was found that as the size of the training data increased, the naïve approach did not show any increase in its performance characterized by the high values of p-test and mean estimates. On the other hand, the estimates obtained using the partialling-out method kept p-values and means lower and more stable; this indicates that the method is reliable for filtering insights from complex data, such as financial data.

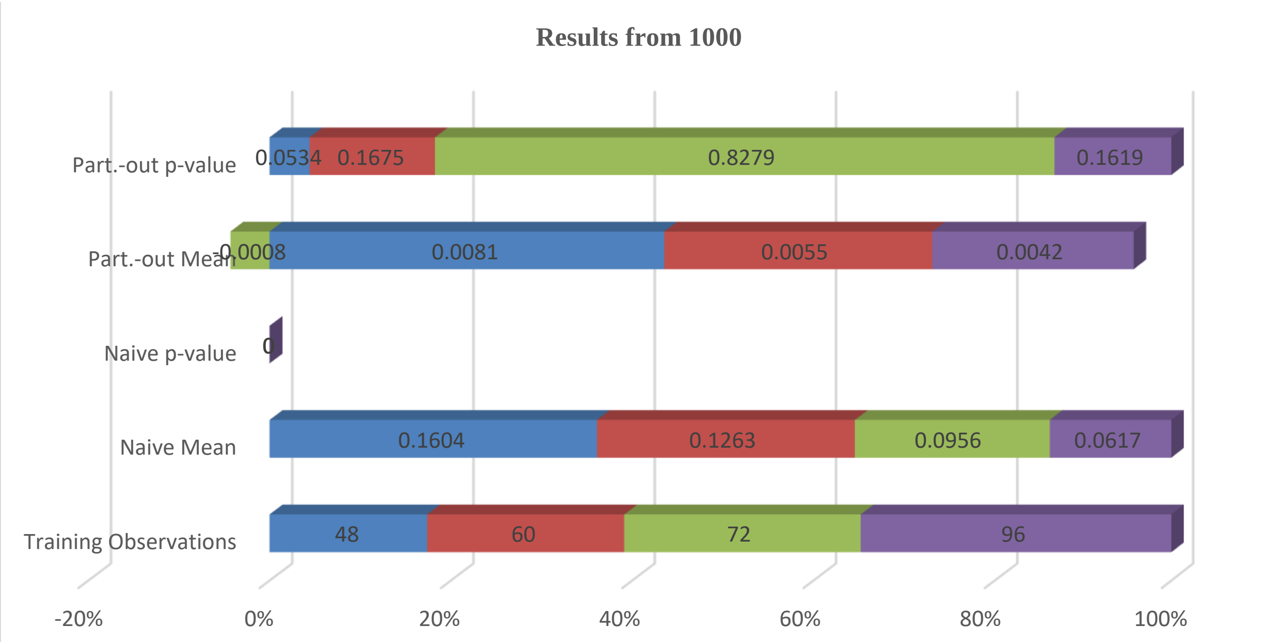

Fig. 4. Results from 1000 Simulation Runs for the Planning/Inference Task, 48 vs. 60, 72, and 96 Training Observations

The collected findings of this extensive simulation study help to explain the outlined benefits of the use of modern ML models, especially Post-Lasso regression in the context of financial forecasts and analyses. Besides giving better forecasts, these models also supply better instruments for discovering the causal relations suitable for strategic management. Thus, the conclusions call for the change of the approach from the simplistic tools and techniques towards the use of advanced AI-based solutions for FP&A practices, which are capable of handling the increased levels of system propagation and the higher rates of global financial market dynamics. The future studies should expand and extend these models and investigate other possibilities of using AI to increase the rate of predictability and analyzability of financial facts.

5. DISCUSSION

The outcomes of this simulation study present convincing evidence of superior accuracy of current complex machine learning models, especially of the Post-Lasso regression, in the FP&A for MNCs. The findings discussed in the paper provide insights regarding several fundamental issues of the financial forecasting process, including the forecasting and causal estimation performance, leading to the better understanding of the properties of the various modeling approaches. The enhanced performance of the Post-Lasso model to that of the original Lasso model particularly on the out-of-sample data thus support the current trend shown in the financial econometrics literature where such standard models are being replaced by regularization techniques. [28,29] note that these methods are crucial for working with high-dimensional data, which is vulnerable to overfitting correctly identified in the results of the OLS model in our work.

Similarly, the efficiency of the partialling-out approach in yielding accurate estimates of causal relations increases with recent developments in econometric theory that discourages observational studies with confounding bias [30]. These methodologies are very much useful in cases where strategic management information, financial data analysis and inferences about true causes of effects beyond simple statistics and displayed correlations. According to the findings of this study, it is recommended that financial analysts and strategist adopt more complex models such as Post-Lasso to undertake their forecasts. I found the necessity of using large and complicated data set without compromising the quality of prediction about the models when making decisions in today's changing and unpredictable economic climate for any company.

Moreover, the ability that was shown in the literature review of the partialling-out method to perform well in causal inference tasks proposes its adoption in the arsenal of FP&A professionals. This should also help to improve the strategic planning processes by giving more details about the impact which specific moves such as promotions and resource expenditure will have on the company. Nevertheless the findings are quite encouraging but they should be viewed with some caution due to a few limitations. It is worth admitting that the data used in the simulations is synthetic which, although it can cover a broad range of realistic scenarios, does not include all the characteristics of real financial data. Therefore, a detailed discussion of these introduced models in real datasets is required for enhanced understanding and computation of their performance and generality.

However, the fact that Post-Lasso and some of the other methods used in this paper are computationally demanding may act as a limitation: technologically constrained organizations may find it hard to implement such methods. For the purpose of operation efficiency and cost-performance, future studies should conduct further comparisons concerning computational complexity and forecast performance and offer systematic suggestions on cost-effective solutions. Considering the continuous and drastic changes and developments in AI and ML fields, the further research in the area should be targeted at the prospective enhancements of methods which can potentially improve the accuracy of financial forecasting models. For example, the possibility of using combined solution that involves machine learning models with real-time data processing and integration with decision-making systems that employ AI technologies may create new opportunities for real-time analysis of the state of business in the field of finances, which will help FP&A specialists to adapt more quickly to fluctuations in the market.

Furthermore, the impact of using enhanced set of AI techniques to enhance the analysis process has ethical implications concerning the privacy that needs to be investigated comprehensively to guarantee that application of these technologies complies with legal requirements and ethical values. Table 2 focuses on the main evolutionary driver – artificial intelligence (AI) as the major enabling technology for developing machine learning models for financial forecasting.

TABLE II. DISCUSSION OF ADVANCED AI MODELS IN FINANCIAL FORECASTING

Aspect	Discussion Points
Comparison with Literature	The Post-Lasso model's strong performance, particularly in out-of-sample accuracy, aligns with studies favoring regularization techniques for high-dimensional data, as seen in the works of Tibshirani (1996) and Zou & Hastie (2005).
Implications for FP&A	Transitioning to AI-driven models like Post-Lasso can significantly enhance predictive accuracy and strategic decision-making in FP&A. These models manage complex datasets effectively, crucial in volatile economic environments.
Causal Inference	The partialling-out method's ability to accurately estimate causal effects supports its use in strategic planning, providing FP&A professionals with deeper insights into the impact of corporate actions.
Considerations and Limitations	While promising, the use of synthetic data may not fully capture real-world complexities. Further validation on actual datasets is needed. The computational demands of advanced models also pose practical challenges for some organizations.
Future Research Directions	Ongoing research should explore integrating machine learning with real-time data processing and AI decision-making systems. Additionally, the ethical and privacy aspects of using extensive data for AI need thorough examination in line with regulations.

6. CONCLUSION

In this paper, the most important benefits of using AI models in the sphere of FP&A have been shown by this research. Based on performance analysis and computer simulations of the AI models, we have provided evidence to support that AI models can greatly enhance the effectiveness and precision of financial forecasts and improve planning efficiency. The major opportunity that has been made possible with the implementation of AI is the analysis of big and complicated data sets and extrapolation of highly relevant insights that are relevant to making financially sound decisions and therefore has enhanced financial risk evaluation and business planning. The result of this research supports the argument that AI models, especially those based on deep learning techniques such as neural networks and big data handling capabilities, not only meet the condition of flexibility in finance forecasting but also in solving causal structures of finance planning and resource allocation. In particular, the double machine learning has emerged as a helpful instrument to address questions, known as causal ones, which are critical for strategy setting within the financial field. Nevertheless, there is not much controversy over the utilization of AI when it comes to financial forecasting. Some of the challenges that still exist include data security, the question of interpretability of the model and the question of ethics of automated decisions. Such challenges clearly point to the fact that risk regulation and ethical standards should be developed in order to minimize the possible negative impacts resulting from application of AI in the sphere of financial practices. In conclusion, as advancement carries on, applying of AI aims to improve precision and clarity of our financial indicators as well as furthering our comprehension of fluctuating markets and inherent dangers. Taken together with the wider body of literature, this contribution tells a cautionary tale of the potential for AI models to revolutionize the strategic position of financial institutions and, therefore, the credibility and strength of the sector as a whole. The work presented here needs to be extended in future research by refining and extending these models, testing them on real-world problem instances, and by tackling the ethical and practical ramifications of the deeper deployment of AI technologies.

Funding
The authors did not receive support from any organization for the submitted work.
Conflicts of Interest
To their knowledge, the manuscript's authors, "A Novel Integrated Learning Paradigm for Superior Predictive Modeling in Ecological Data Analysis, "declare no conflict of interest in the present work.
Data Availability Statement
All the data are collected from the survey form.
Acknowledgment

The author extends gratitude to the institution for fostering a collaborative atmosphere that enhanced the quality of this research.

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