Extending Blockchains with AI for Risk Management

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http://www.cse.wustl.edu/~jain/talks/pbc_dx21.htm

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Overview

1. Strength of Blockchains
2. Weaknesses of the blockchains
3. Extending Blockchains: Converting data to knowledge
4. Applications of Knowledge Chains

What is a Blockchain?

1. Satoshi Nakamoto invented Bitcoin
2. He used blockchains to make it decentralized
3. Since then blockchains have found numerous other applications
4. Blockchains allow two complete strangers to enter into a smart contract without a trusted third party.
5. This talk is about blockchains not about Bitcoin.

Example of a Contract: Wedding

Wedding (Cont)

- **Centralized**
- Decentralized

- Centralized registry
- Single point of failure
- Easy to hack

- Decentralized
- No single point of failure

⇒ Fault Tolerant, No Monopoly

- Very difficult to hack

Examples of Centralized Systems

- **Banks**: Allow money transfer between two accounts
- **City Records**: Wedding registers, Property ownership
- **Networks**: Certificate Authorities, DNS

- In all cases:
  - There is a central third party to be trusted
  - Central party maintains a large database ⇒ Attracts Hackers
  - Central party may be hacked ⇒ Affects millions
  - Central party is a single point of failure.
    Can malfunction or be bribed

Key Strengths of Blockchains

1. **Distributed**: No single point of failure
2. **Decentralized Consensus**: Transactions valid only if agreed by majority
3. **Trustless**: Transacting or processing parties do not need to trust
4. **Cryptographic Security**: Elliptic Curve Cryptography
5. **Non-Repudiation Guarantee**: All transactions are signed

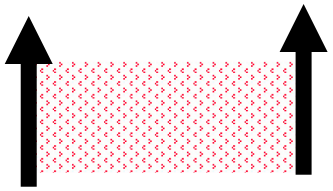
Can the Blockchains be Enhanced?

Limitation 1: Only facts are recorded

- Alice is married to Bob
- Alice gave 20 coins to Bob
- Alice signed a contract with Bob to pay 10 coins for 1 kg of xx.

Limitation 2: Binary Validity

- All transactions recorded on the blocks that are committed are valid
- Those not on the committed blocks and old are invalid
- So the recording is binary: only 0 or 1.

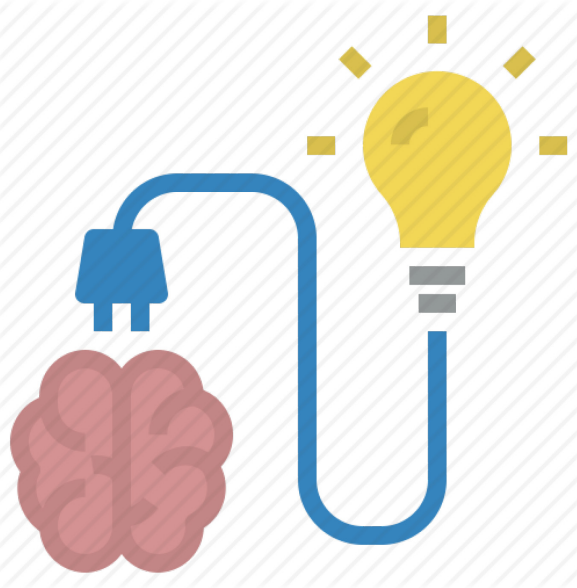


Limitation 3: Deterministic Events only

- Can not record that I am only 90% sure that Alice gave 20 coins to Bob.

Ideas to Enhance Blockchains

- Blockchain is just a distributed **data storage** of valid transactions
- All transactions are ***deterministic***
- What's Wrong?
  - Need to convert data to knowledge
  - We are in big data and machine learning age
  - Real life is probabilistic
  - Most to the decisions we make are probabilistic
    ⇒ All decisions have some risk



Decisions with Risk

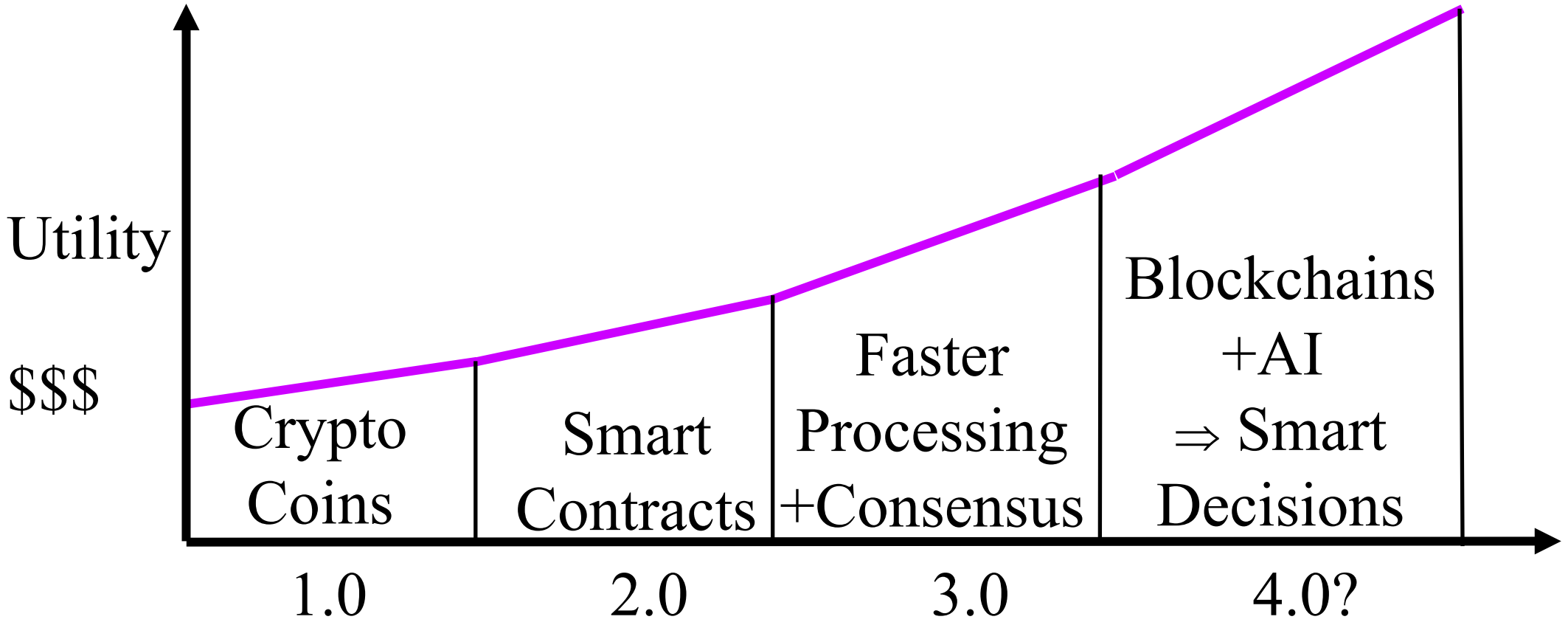
- Sell insurance
- Buy insurance
- Sell a stock
- Buy a stock
- Download a software application on your computer
- Update your computer
- Marry someone

Our Goal

- Moving the chain from deterministic to **probabilistic**
- Moving the chain from storage to **computation**
- Moving the chain from data to **knowledge**
- Moving the chain from information to **decision making**

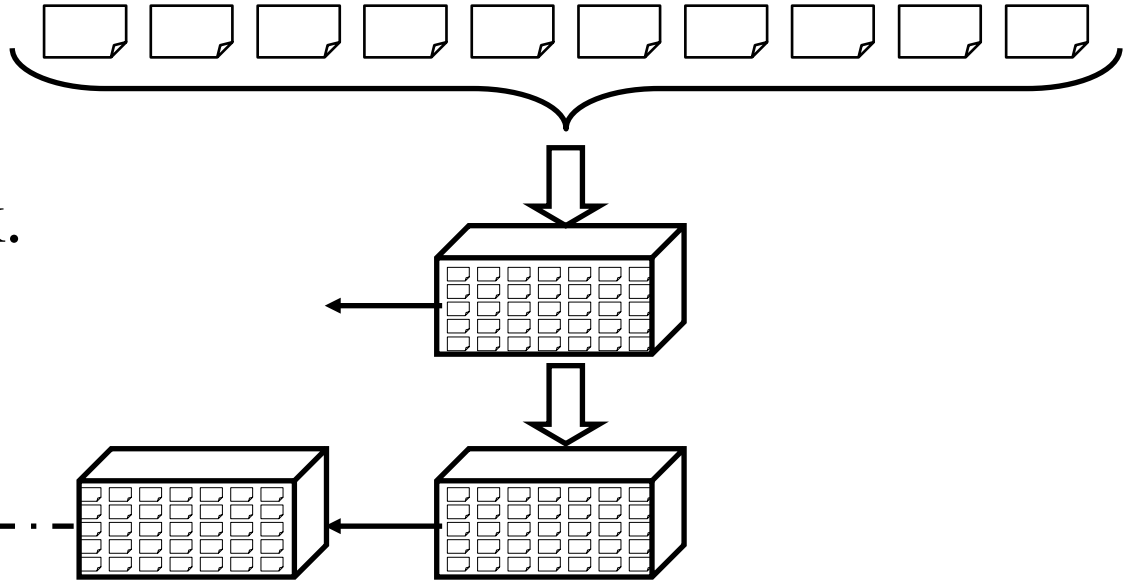
- Google is moving from "Search" to "Suggest" using AI
- A blockchain that provides knowledge
  - A **knowledge chain** would be more useful

Blockchain Generations



Blockchain Process

1. **Users** broadcast signed transactions or smart contracts



2. **Mining nodes** validate transactions and create blocks. Point to previous block.

3. **Blockchain nodes** validate blocks and construct a chain

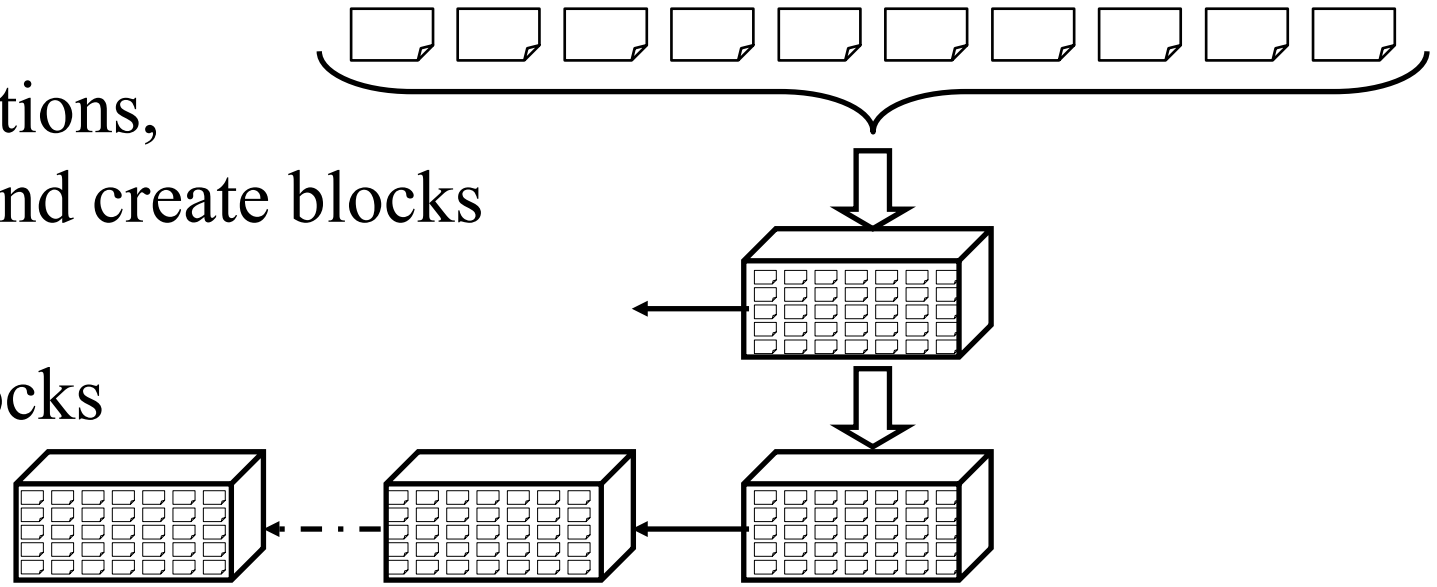
- There are many users, many mining nodes, and many blockchain nodes. More nodes ⇒ Better. Less ⇒ Blockchain not required/useful.

Knowledge Chain /Probabilistic Blockchain

1. **Agents** broadcast transactions,
   Transactions = Opinions/decisions

2. **Mining nodes** validate transactions,
   create a knowledge summary and create blocks

3. **Blockchain nodes** validate blocks
   and construct a chain



- Two types of users:
  - **Agent nodes** provide their probabilistic opinions/decisions
  - **Management nodes** that inquire the blockchain and use it for group decisions

Knowledge Chain Example

- **Issue**: Whether Cisco stock will go up tomorrow?
- i^{th} Agent says that the probability that it will go up is p_i
- Summary of all opinions related to this issue is:

$$\text{P[Stock will rise]} = G(\{p_1, p_2, \ldots, p_n\})$$

Here, G = Machine Learning Algorithm = Summarizing function

Ref: T. Salman, R. Jain, and L. Gupta, "**Probabilistic Blockchains: A Blockchain Paradigm for Collaborative Decision-Making**," 9th IEEE Annual Ubiquitous Computing, Electronics & Mobile Communication Conference (UEMCON 2018), New York, NY, Nov. 8-10, 2018, 9 pp., http://www.cse.wustl.edu/~jain/papers/pbc_uem.htm

Generalizing the Summary Function

- Summary can be any other reasonable function of individual decisions:
  - 90-percentile
  - Median
  - Mode
  - 2nd Moment
- Summary can be a vector: {1st moment, 2nd moment, …, n^{th} moment}
- Summary can be the result of any **statistical** algorithm
- Summary can be the result of a **data mining** algorithm
- Summary can be the result of a **machine learning algorithm**

Empirical Validation

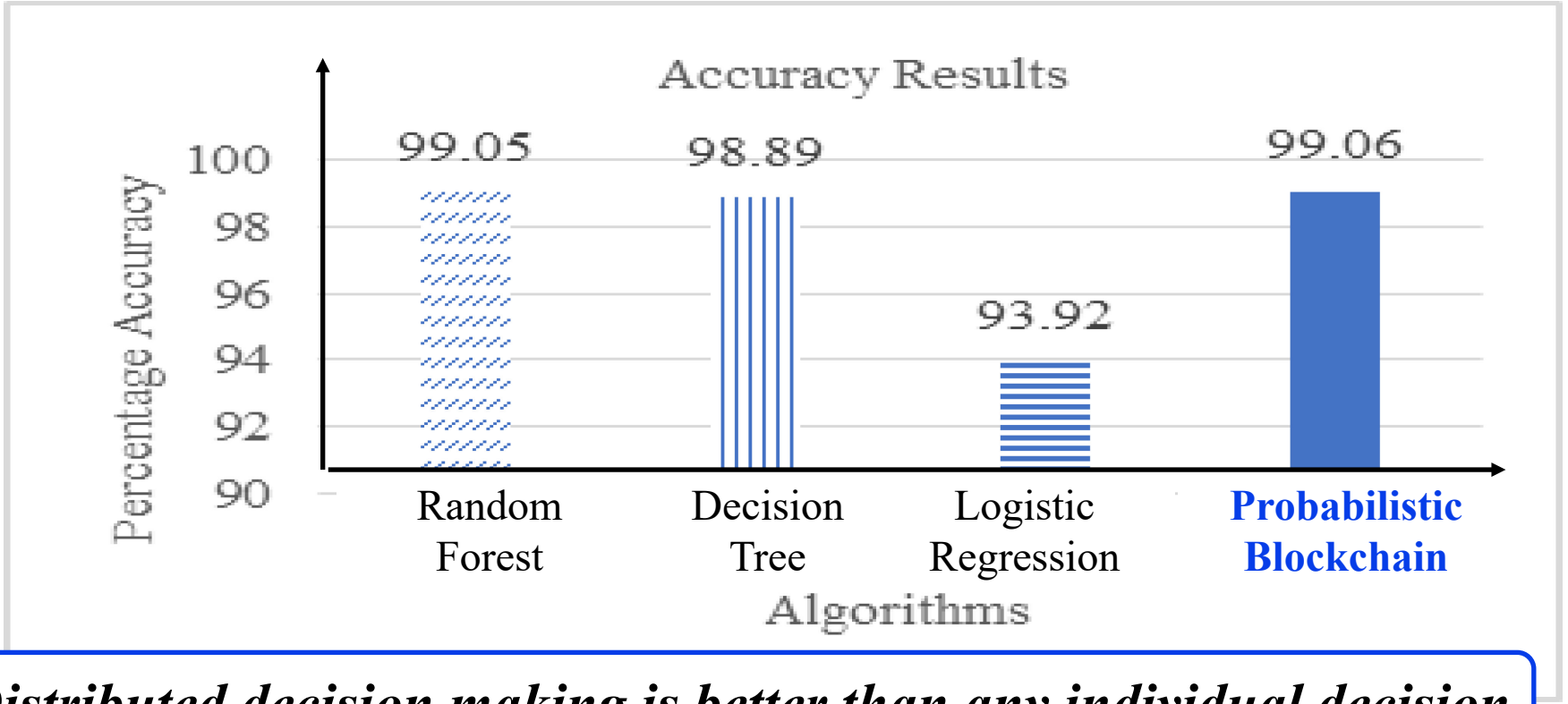
- Issue: Whether a network traffic pattern represents intrusion
- 1000 Agents* using different machine learning algorithms give their decisions: Yes or No
- Mining nodes summarize these decisions using the majority function

$$P = \frac{1}{n}\sum p_i$$

*In our simulation, agent modules randomly pick one of the 3 algorithms: Random Forest, Decision Tree, Logistic Regression

Results

$$\text{Accuracy} = \frac{\text{Correct Predictions}}{\text{Overall Samples}} \times 100\%$$



Distributed decision making is better than any individual decision

Blockchain 4.0: Database to Knowledge Base

- Blockchain = Distributed ledger/database
- Probabilistic blockchain = Knowledge + database
- **Database**: Who bought, who sold,
  what quantity, what price, what time
- **Knowledge**:
  - Where the market is going?
  - Whether we should buy, sell, or hold?
  - Is this a fake news? Spam? Fraud?

Knowledge Chain

- Customer query to blockchain network:
  How is the Cisco stock doing today?
- Blockchain to Customer: With 60% confidence, the probability of stock rising is 90%, …
- Ideal for **large** distributed systems with **no national boundaries**, no exchange limitations, no brokers in between
- **Crowd-sourced knowledge**, crowd-sourced decisions

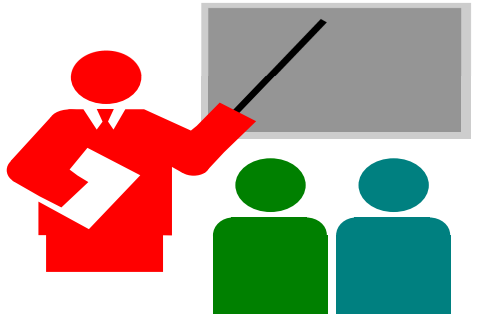
Application Examples

1. Spam from Email/IP Addresses/Cloud providers/source/public IP
2. Intrusions/attacks from IP Addresses. Anonymously share attack information.
3. Gray domains: Share gray list among agents.
4. Reliability/Issues with recent software updates
5. Error/reliability statistics of network/IoT devices
6. Virus in software

Issues to Resolve

1. **Summary functions**
2. **Overhead of consensus mechanisms**: Proof of Work, Proof of Stake, …
3. **Reputation of Experts and Bad Actors**:
   - Some agents are better than others
   - Group decisions should give more weight to them
   - How to incentivize better agents
   - How to penalize bad actors

Summary



1. Blockchains provide an immutable, secure, distributed database
2. Three generations: Crypto currency, Smart contract, faster performance
3. All three generations are deterministic and **only provide storage**
4. The next generation needs to **connect computation and AI** to make knowledge/decisions in addition to data storage
5. Consensus can be probabilistic result of any statistical algorithm, data mining, or machine learning ⇒ **Knowledge Chain**

Related Papers

- Tara Salman, Raj Jain, and Lav Gupta, "**Probabilistic Blockchains: A Blockchain Paradigm for Collaborative Decision-Making**," 9th IEEE Annual Ubiquitous Computing, Electronics & Mobile Communication Conference (UEMCON 2018), New York, NY, November 8-10, 2018, 9 pp., http://www.cse.wustl.edu/~jain/papers/pbc_uem.htm
- Tara Salman, Maede Zolanvari, Aiman Erbad, Raj Jain, and Mohammed Samaka, "**Security Services Using Blockchains: A State of the Art Survey**" IEEE Communications Surveys and Tutorials, Accepted September 2018, 28 pp., http://www.cse.wustl.edu/~jain/papers/bcs.htm
- T. Salman, R. Jain, and L. Gupta, "**A Reputation Management Framework for Knowledge-Based and Probabilistic Blockchains**," 2019 IEEE International Conference on Blockchain, Atlanta, July 14, 2019, http://www.cse.wustl.edu/~jain/papers/rpmcewa.htm

List of Acronyms

- AI Artificial Intelligence
- DNS Domain Name Service
- IEEE Institution of Electrical and Electronics Engineers
- IoT Internet of Things
- IP Internet Protocol
- PKI Public Key Infrastructure
- SSL Secure Socket Layer

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