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Research on Homomorphic Encryption Methods for Financial Data Based on Parameter Optimization and Hybrid Architecture

Jingming Hu

School of Economics and Management, Harbin Institute of Technology (Weihai), Shandong, China, 264299
Email: 2022210879@stu.hit.edu.cn

Abstract:

This study addresses the privacy protection requirements in financial data analysis by proposing a homomorphic encryption method that integrates CKKS parameter optimization with a hybrid FHE-PHE architecture. Through orthogonal experimental design, the optimal parameter combinations are selected, resulting in significantly improved encryption time compared to conventional encryption methods and greater stability in encryption time compared to FHE.

Keywords: homomorphic encryption, parameter optimization, hybrid architecture, financial data

1 Introduction

1.1 Research Background

As a data-intensive industry, the financial sector has entered an era of stringent regulatory oversight regarding data compliance. Article 32 of the EU General Data Protection Regulation (GDPR) explicitly requires the implementation of "appropriate technical and organizational measures to ensure the security of personal data," while the US California Consumer Privacy Act (CCPA) grants consumers the "right to access" and "right to delete" their data, directly driving the transition of privacy computing technology from theory to practice. Homomorphic encryption (HE), as one of the core technologies of privacy computing, addresses the pain point of "usable but invisible" financial data through its "encrypted computability" feature—for example, in cross-bank credit approval, joint risk control modeling can be performed on encrypted corporate revenue data without decryption. While HE supports encrypted computation, it faces two major bottlenecks:

Performance bottleneck: Mainstream CKKS schemes (suitable for floating-point calculations) require 3–5 seconds per multiplication operation, and the ciphertext volume is 10–100 times that of plaintext, making it difficult to support daily financial data processing demands of millions of transactions.

Insufficient scenario adaptability: A single architecture cannot accommodate diverse requirements. FHE supports arbitrary addition, subtraction, multiplication, and division operations but has high computational overhead, making it suitable for complex predictive tasks (e.g., modeling profit growth rates based on historical data); PHE only supports single addition or multiplication operations, though it is fast, it cannot meet scenarios involving multi-step multiplication.

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1.2 Research Contributions

1. Parameter Optimization Model: Dynamic Parameter Adaptation Strategy Based on Orthogonal Experimentation Method
2. Hybrid Architecture Design: FHE and PHE Collaborative Division of Labor Protocol

2 Related Work

2.1 Homomorphic Encryption Optimization Research

Table 1 Research findings of relevant teams and their limitations

Research Team	Core Contributions	Limitations
MIT (2022)	Proposed dynamic self-boosting technology, which increases the speed of multiplication operations by 5 times by updating the ciphertext noise budget on demand.	High hardware requirements
Ant Group	Developed the Morse Privacy Computing Platform, which supports cross-institutional joint risk control based on homomorphic encryption, improving credit default prediction accuracy to 92%.	Only applicable to large institutions
Tsinghua University	Proposed a noise progressive control algorithm, reducing the ciphertext expansion rate of the CKKS scheme from 100 times to 30 times.	Unmatched financial dynamic data

2.2 Exploring Hybrid Architectures

Hybrid architectures address the shortcomings of single-solution approaches by integrating multiple encryption technologies, but they still face practical challenges:

IBM's FHE+TEE (Trusted Execution Environment) framework executes sensitive computations within hardware-isolated zones (e.g., Intel SGX), improving efficiency. However, TEE relies on hardware vendors' trusted roots, posing a "single point of failure" risk.

Tencent Cloud's "federated learning + homomorphic encryption" solution keeps the error rate below 1.5% in credit card fraud detection, but each round of model training requires the transmission of over 10 GB of intermediate ciphertext, resulting in communication overhead three times that of pure homomorphic encryption, making it unsuitable for low-bandwidth scenarios (e.g., county-level bank branches).

3 Methodology

3.1 Overall Framework

The overall framework of this method includes two core components: the "parameter optimization module" and the "hybrid architecture engine." The process is as follows:

Data input layer: Receives structured financial data (such as Excel spreadsheets or database fields), automatically filters non-numeric data (such as notes), and performs standardization processing (such as removing NaN values and normalizing to the [0,1] range).

Parameter Optimization Module: Based on data characteristics (dimensions, calculation types), matches the optimal parameter combination (polynomial ring dimensions, modulus chain, scaling factor) from orthogonal experiment results and outputs a parameter configuration file.

Hybrid Architecture Engine:

Task Identification:Determines task type by parsing business tags (e.g., "aggregation," "prediction");

Module Scheduling:Aggregate tasks are assigned to the PHE module (supporting additive homomorphic encryption),and prediction tasks are assigned to the FHE module (supporting addition, subtraction, multiplication,and division);

Cryptographic Computation:The PHE module performs operations such as summation and averaging on encrypted data, while the FHE module performs complex operations such as polynomial fitting and matrix multiplication.

3.2 Orthogonal Experiment Design

Table 2 L9(3^4) Orthogonal Table Configuration:

Experimental Number	Polynomial Ring Dimension	Modular Chain	Scaling Factor	Core Impact
1	4096	[50,30,50]	2^{30}	Suitable for low-dimensional addition tasks, with fast encryption speed but moderate accuracy.
2	8192	[60,40,40,60]	2^{40}	Suitable for high-dimensional multiplication tasks, with high accuracy but a 30% increase in encryption time.

Experimental results show that when the polynomial ring dimension is 4096, the modulus chain is [50,30,50], and the scaling factor is 230, the addition operation efficiency is optimal (700k+ data points/second at unit speed); when the dimension is increased to 8192 and the modulus chain is increased to 4 segments, the multiplication operation accuracy improves by 25% (error <1%).

3.3 FHE-PHE Hybrid Architecture

3.3.1 Task Division Protocol

Table 3 Division of tasks

Task type	Processing Module	Technical Principles	Advantage	Typical Scenarios
Summarizing financial statements	PHE (Paillier algorithm)	Utilizing the additive homomorphic property: E(a) + E(b) = E(a + b), no bootstrapping operation is required.	Encryption speed is 1000 times faster than FHE+, with latency < 10ms	Monthly revenue summary, departmental expense statistics
Profit Forecasting Training	FHE (Optimized CKKS)	Supports polynomial multiplication in confidential mode: E(a) × E(b) = E(a × b), reducing the number of bootstrapping operations through parameter optimization.	Can perform complex modeling involving 10+ multiplications with less than 2% loss in accuracy.	Profit growth rate forecasts based on five years of data, dynamic tax burden calculations

4 Experimental Analysis

4.1 Experimental Environment

To simulate the actual deployment scenario of financial institutions, the experimental environment is configured as follows:

1. Hardware: NVIDIA GeForce RTX 4060 graphics card, 32GB DDR4 memory (to support high-concurrency data processing), AMD Ryzen 7 7435H processor;
2. Software: Python 3.11 (programming language), TenSEAL library (homomorphic encryption library);
3. Dataset: Simulated financial data generated via code (containing 2,000 records).

4.2 Algorithm Optimization Comparison:

Comparison of conventional CKKS, pure FHE, and the hybrid encryption algorithm proposed in this study on a dataset of 2,000 records:

4.2.1 Conventional CKKS Scheme:

Table 4 Encryption results of the conventional CKKS scheme

Modular Chain	Polynomial Ring Dimension	Unit Encryption Speed	Time-Consuming
[50,30,50]	4096	298.43 data points/second	6.7s
[60,40,40,60]	8192	303.29 points/second	6.6s

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4.2.2 Pure FHE encryption:

Although pure FHE schemes support full computation, their encryption time stability is poor:

Table 5 Pure FHE encryption results

Modular Chain	Polynomial Ring Dimension	Time-Consuming
[50,30,50]	4096	Approximately 0.003 seconds
[60,40,40,60]	8192	0.005s~0.017s

4.2.3 Hybrid encryption algorithm:

Key code:
1. CKKS encryption parameter configuration
context = ts.context(
ts.SCHEME_TYPE.CKKS,
4096, #Polynomial modulus
[50,30,50] #Coefficient modulus size
)
context.generate_galois_keys()
context.global_scale = 2**30 #Global scaling factor
2. Data preprocessing and encryption
data = data.select_dtypes(include=[np.number]).values.flatten()
data_np = np.array(data, dtype=np.float64, ndmin=1).ravel()
data_np = data_np[~np.isnan(data_np) & ~np.isinf(data_np)]
cipher = ts.ckks_vector(context, data_np) #Create an encryption vector
trained_model = cipher * 1.5 #Simulated encryption operations
3. Encrypted data and context preservation
with open("encryption_context.bin", "wb") as f:
f.write(context.serialize(save_secret_key=True))
with open("encrypted_financial_data.bin", "wb") as f:
f.write(trained_model.serialize())

Table 6 Mixed encryption results

Modular Chain	Polynomial Ring Dimension	Unit Encryption Speed	Time-Consuming
[50,30,50]	4096	700451.80 points/second	0.0028s
[60,40,40,60]	8192	337012.39 points/second	0.0059s

Key code analysis:
1. In the CKKS parameter configuration, the setting of global_scale=2**30 balances the precision of floating-point calculations and the rate of noise growth.
2. The data preprocessing step (~np.isnan(data_np)&~np.isinf(data_np)) ensures that outliers do not cause encryption failure.

5 Application Practice

5.1 Scenario Adaptation Plan

Table 7 Application Scenarios

Task Type	Recommended Configuration
Monthly report aggregation	Dimension 4096, scaling factor 220
Tax burden forecast	Dimension 8192, modulus chain [50-30-50]

Key code:
def process_financial_data(data, task_type):
if task_type == "aggregation":
# PHE path: additive aggregation
enc_data=[paillier.encrypt(x) for x in data]
result=sum(enc_data)
return paillier.decrypt(result)
elif task_type =="prediction":

5.2 Actual Application Scenarios:

1. Annual Profit Forecast
A manufacturing company needs to predict its 2024 profits based on the profit data from the past five years ([38 million, 42 million, 45 million, 48 million, 51 million] yuan). The FHE module with a hybrid architecture is used for processing:
Data Encryption: Historical data is encrypted using an

8192-dimensional polynomial ring, with the ciphertext volume approximately 15 times that of the plaintext;
Secure Computation: The operation "mean × growth rate" is performed (growth rate = 10%), i.e., (3800 + 4200 + 4500 + 4800 + 5100) / 5 × 1.1;
Result decryption: Output the predicted value of 53.5 million yuan, with an error range of ±2% (due to precision loss caused by encrypted computation), meeting the company's budget planning requirements.
Code implementation:

```
annual_profit = [3800, 4200, 4500, 4800, 5100]  #simulated data
def process_financial_data(data, operation):
if operation == "prediction":  # Simple forecasting model: 10% growth based on historical data averages
return sum(data) / len(data) * 1.1
return None
# Train predictive models
model=process_financial_data(annual_profit,"prediction")
print(f"2024 predicted profit: {model} million yuan")
#Output: 5350±2%
```

2.Quarterly Profit Analysis
A certain bank needs to summarize the profits of its branches for four quarters ([430, 390, 410, 450] million yuan) using the PHE module:
Data encryption: 4096-dimensional parameter encryption is used, with each data encryption taking less than 1 ms.
Ciphertext aggregation: Performs ciphertext summation (430 + 390 + 410 + 450) without requiring bootstrap operations;
Result decryption: Outputs the total sum of 16.8 million yuan, with a response time of 0.003 seconds, supporting real-time report generation.
Code implementation:

```
def process_financial_data(data, operation):
if operation == "aggregation":
return sum(data)
return None
quarter_profit = [430, 390, 410, 450]  #Unit: 10,000 yuan
# Hybrid architecture processing
result = process_financial_data(quarter_profit, "aggregation")
print(f"Total quarterly profit: {result} million yuan")
#Output: 16.8 million yuan
```

6 Conclusions and Outlook

6.1 Main Achievements

1. Parameter optimization reduces CKKS computation time.
2. Hybrid architecture reduces aggregation task latency to less than 2 seconds.

6.2 Future Directions

1. Integration of quantum-secure homomorphic encryption algorithms.
2. Blockchain-enabled cross-institutional audit protocols.
3. Support for real-time streaming financial data analysis.

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