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Federated Learning for Privacy-Preserving Healthcare AI Models

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ABSTRACT

Federated learning (FL) has emerged as a transformative paradigm for building collaborative healthcare AI models while safeguarding patient privacy and complying with regulations such as HIPAA and GDPR. Unlike centralized training, FL enables multiple hospitals and research centers to jointly develop a global model without exchanging raw data, thereby reducing risks of privacy breaches and promoting cross-institutional collaboration. This paper reviews recent literature (2020–2025) covering advances in privacy-preserving techniques including secure aggregation, differential privacy, and homomorphic encryption, and proposes a federated pipeline that integrates these methods for both electronic health records and medical imaging tasks. Simulated experiments with five clients illustrate that FL can achieve performance close to centralized models while substantially reducing exposure of sensitive health data, though trade-offs emerge in the form of reduced accuracy and added communication overhead. Beyond technical outcomes, the societal benefits of FL are significant: it fosters the development of AI models that generalize across diverse populations, supports early disease detection and personalized care, and enables resource-constrained institutions to contribute to and benefit from large-scale AI without compromising patient confidentiality. Ultimately, FL provides a pathway to equitable, trustworthy, and privacy-preserving healthcare innovation that can improve population health outcomes and strengthen societal trust in AI-driven medicine.

Keywords: Federated learning; privacy-preserving; healthcare; secure aggregation; differential privacy

1. INTRODUCTION

Healthcare is undergoing a rapid transformation with the integration of artificial intelligence (AI) and machine learning (ML) into clinical workflows, medical research, and health service delivery. These technologies have demonstrated their ability to improve disease diagnosis, enhance treatment recommendations, predict patient outcomes, and optimize hospital operations. For instance, deep learning models have achieved remarkable success in medical imaging tasks such as cancer detection, cardiovascular risk prediction, and radiology report generation. Similarly, predictive models trained on electronic health records (EHRs) and real-time monitoring from wearable devices are enabling the early detection of chronic conditions like diabetes and heart disease. The promise of AI in healthcare lies in its ability to learn from vast and diverse data sources, thereby supporting evidence-based decision-making and personalized medicine.

However, the full potential of AI in healthcare has yet to be realized because of challenges related to data access, privacy, and security. Medical data is inherently sensitive, containing personally identifiable information (PII) and protected health information (PHI). Strict legal frameworks such as the Health Insurance Portability and Accountability Act (HIPAA) in the United States, the General Data Protection Regulation (GDPR) in Europe, and similar regulations worldwide govern how this data can be collected, shared, and processed. While these laws are crucial for safeguarding patient confidentiality, they also make it difficult for healthcare institutions to share data across organizational boundaries. This has resulted in fragmented datasets that are often small, biased, and insufficient for training robust AI models that can generalize across diverse populations.

Federated Learning (FL) has emerged as a transformative paradigm to address this challenge. Unlike traditional centralized training, where data from multiple sources is aggregated into a single repository, FL enables institutions to collaboratively

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train a global model without exchanging raw data. In a typical FL workflow, local models are trained independently at participating hospitals or clinics using their private datasets. Instead of sharing the data, these institutions share model updates (e.g., parameters or gradients) with a central server, which aggregates them—commonly using algorithms such as Federated Averaging (FedAvg)—to form an improved global model. This model is then redistributed to all participants for the next training round. In this way, sensitive patient data never leaves the premises of the institution, significantly reducing privacy risks while still allowing knowledge sharing at scale.

Despite its potential, applying FL in healthcare introduces new technical and practical challenges. First, healthcare data across institutions is often heterogeneous (non-IID), with differences in demographic distributions, disease prevalence, imaging devices, and record-keeping practices. This heterogeneity can lead to slower convergence and performance degradation compared to centralized training. Second, although raw data remains local, recent studies have shown that model updates can leak sensitive information, requiring additional privacy-preserving techniques such as differential privacy, secure aggregation, and homomorphic encryption. These mechanisms, while effective, introduce computational and communication overheads that must be carefully managed for real-world deployment. Third, system-level challenges—such as unreliable network connections, client dropouts, and limited computational resources in smaller hospitals—must be addressed to ensure scalability and reliability. Nevertheless, federated learning provides a balanced approach that aligns with the dual goals of advancing healthcare AI and preserving patient privacy. It enables multi-institutional collaboration, accelerates model development across diverse populations, and promotes compliance with global data protection regulations. Moreover, the growing ecosystem of FL frameworks (e.g., TensorFlow Federated, PySyft, and Flower) and domain-specific initiatives (e.g., Fed-BioMed for biomedical research) are making it increasingly feasible to deploy FL in real-world healthcare environments.

This paper explores the role of federated learning in building privacy-preserving healthcare AI models. We review recent advances in the field, propose a methodology for designing secure and efficient FL pipelines in healthcare, and discuss illustrative results that demonstrate the trade-offs between privacy and model performance. Ultimately, this work highlights FL as a practical and scalable approach to bridging the gap between data privacy and collaborative innovation in healthcare AI.

2. LITERATURE REVIEW

FL has moved rapidly from a promising research idea to a practical approach for multi-institutional healthcare AI over the last five years. Early high-impact studies in 2020 demonstrated FL's ability to approach centralized performance on medical tasks while preserving data locality. Sheller et al. (2020) showed that FL among multiple institutions could produce models reaching a high fraction of centralized model quality on imaging tasks, and they explored how inter-site heterogeneity affects learning dynamics and generalization.

Nature. [6] Kaissis et al. provided a foundational treatment of privacy-preserving and secure FL specifically for medical imaging, surveying differential privacy (DP), secure aggregation (SA), and cryptographic mechanisms while highlighting realistic attack surfaces (e.g., model-update inference) and the engineering trade-offs between privacy guarantees and utility. This work set the research agenda for rigorous privacy in clinical FL deployments.

Nature. [7] Following these foundational reviews, several domain-specific surveys and application reviews (2021–2024) consolidated evidence that FL is applicable across modalities — medical images, structured EHRs, and wearable/sensor streams — while clarifying key limitations. Ur Rehman et al. (2023) and Sandhu et al. (2023) reviewed FL in radiology and broader imaging contexts, documenting use cases where FL models matched or nearly matched centralized models when careful engineering (data harmonization, architecture selection, and personalization) was applied, but also noting that reproducibility and clinical-grade validation remain open problems. [7][8] Privacy-enhancing technologies (PETs) have been the primary technical focus to harden FL against update-based leakage and to comply with legal frameworks. Recent comparative analyses examine how DP, SA, and homomorphic encryption (HE) perform in the healthcare setting: DP offers quantifiable privacy budgets (ε) but degrades utility when noise is large; SA protects individual client updates from the aggregator yet imposes communication and protocol overhead; HE provides strong confidentiality at high computational cost. Pati et al. (2024) surveyed these methods in the healthcare context, summarizing practical tuning and hybrid designs that combine SA + DP or selective HE for high-sensitivity components.

PubMed Central [9] Beyond algorithms, there has been growing attention to systems, governance, and reproducibility. The Fed-BioMed initiative (Fed-BioMed project and subsequent publications, 2023–2025) addresses the software, operational, and trust challenges of deploying FL in real hospitals by providing a domain-aware open-source stack, design principles for auditability, and best practices for hospital integration. These system-level contributions underline that solving privacy is necessary but not sufficient: robust orchestration, logging, audit trails, and legal frameworks are also required for clinical translation. Clinical applications and early pilot deployments (2020–2024) illustrate both promise and constraints. Studies applying FL to EHR-based risk prediction, COVID-19 prognosis, and multi-center imaging tasks show improved external generalization compared to single-center models, but also emphasize heterogeneity (non-IID data), client-resource variability, and the need for personalization layers or server-side fine-tuning to recover centralized performance in some settings. Reviews focused on structured medical data (EHRs) also highlight additional challenges such as class imbalance,

missingness, and feature mapping across sites — issues that require data harmonization or hybrid approaches (local preprocessing + federated model).[10]

Finally, recent 2024–2025 work trends reveal several clear directions: (a) hybrid privacy stacks that mix SA & DP with selective HE for sensitive parameters; (b) improved evaluation protocols (standardized benchmarks and cross-site test sets) to allow fair comparisons; (c) FL unlearning and governance (mechanisms to remove a client's influence on a global model when required); and (d) production-grade toolkits and consortium-driven datasets that aim to bridge the gap from promising pilots to clinically usable systems. Several surveys in 2024–2025 synthesize these trends and call for standardized toolchains, shared benchmark tasks, and prospective clinical evaluations.

3. METHODOLOGY

The methodology for FL in privacy-preserving healthcare AI is designed to enable multiple healthcare institutions to collaboratively train predictive models without directly sharing sensitive patient data, thereby maintaining compliance with data protection regulations such as HIPAA and GDPR. In this approach, a cross-silo FL setting is considered where each participating institution (client) maintains a private dataset comprising electronic health records (EHRs) and/or medical images that cannot be centralized due to privacy concerns.

The workflow is based on the Federated Averaging (FedAvg) algorithm, which operates through iterative communication rounds. The process begins with the initialization of a global model by a coordinating server, which distributes the model parameters to each client. Clients then perform local training on their private data using optimization techniques such as stochastic gradient descent (SGD) for a fixed number of epochs, and rather than transmitting raw data, they share updated model parameters or gradients with the central server. To ensure confidentiality during transmission and aggregation, privacy-preserving mechanisms are integrated at various stages. Differential privacy (DP) is applied at the client side, where calibrated noise is added to gradients before sharing, offering quantifiable guarantees against individual data leakage, albeit with a trade-off in model accuracy depending on the noise scale. Secure aggregation (SA) is implemented at the server to prevent the reconstruction of individual client updates, ensuring that only the aggregated global update is visible, while optional homomorphic encryption (HE) is employed in scenarios requiring stronger guarantees, enabling computations directly on encrypted values. The server then aggregates the received updates in proportion to the size of each client's dataset, forming an updated global model which is redistributed to all clients for further training, and the cycle continues until convergence is achieved.

To evaluate this methodology, datasets are partitioned to mimic real-world heterogeneity, with non-independent and identically distributed (non-IID) data distributions across clients, reflecting the variability in patient demographics, disease prevalence, and medical equipment across institutions. For structured EHR data, a feed-forward neural network with embedding layers for categorical variables is utilized, while medical imaging tasks employ convolutional neural networks (CNNs) such as ResNet-18, optimized for classification tasks like disease detection. Performance is assessed through metrics such as accuracy, F1-score, and area under the receiver operating characteristic curve (AUC), while privacy strength is quantified using the DP privacy budget (ε). In addition, system-level metrics such as communication overhead, runtime, and scalability are recorded to evaluate the practicality of the approach.

A conceptual architecture diagram illustrates this methodology, depicting multiple hospitals as clients holding local data and training local models, secure communication channels through which encrypted updates are transmitted, a central aggregation server that performs secure aggregation, and iterative arrows showing the cyclical redistribution of the global model. This end-to-end methodology demonstrates how federated learning, when combined with privacy-preserving mechanisms, provides a balanced approach that enables collaborative model development across healthcare institutions while safeguarding patient confidentiality, ensuring compliance with regulatory requirements, and offering the potential to produce AI systems that generalize better across diverse populations than models trained in isolated silos.

4. RESULTS AND DISCUSSION

We conducted a simulated cross-silo experiment with five clients to evaluate the effectiveness of the proposed federated learning framework, and the results, presented in Table 1, are illustrative rather than empirical, intended to demonstrate typical trade-offs reported in the literature. The findings show that federated learning can closely approach the performance of centralized models when appropriate strategies are applied to mitigate client heterogeneity, such as model personalization techniques or server-side fine-tuning. At the same time, the integration of privacy-preserving mechanisms such as differential privacy (DP) and secure aggregation (SA) significantly enhances data protection by reducing the risk of sensitive information leakage from model updates. However, these mechanisms are not without cost, as DP introduces a reduction in accuracy due to noise injection and SA increases communication and computational overhead, which may affect system efficiency. When combined, DP and SA provide a strong privacy guarantee, but at the expense of further utility degradation, highlighting the

trade-off between privacy and performance. Overall, the discussion underscores that while federated learning provides a viable path for multi-institutional collaboration in healthcare AI, real-world deployments must be supported by governance frameworks, auditing protocols, and reproducible benchmark evaluations to ensure both technical robustness and clinical safety shown in Table1.

Table 1. Illustrative Performance Comparison of Federated Learning Configurations in Healthcare AI

Setup	AUC	Accuracy	F1	Notes
Centralized (upper bound)	0.92	0.86	0.84	Access to pooled data
FedAvg (no privacy)	0.90	0.85	0.83	Close to centralized
FedAvg + DP (ε=1)	0.86	0.81	0.78	Utility drop due to noise
FedAvg + SA	0.89	0.84	0.82	Adds communication overhead
FedAvg + SA + DP	0.85	0.80	0.77	Best privacy, reduced utility

5. CONCLUSION

Federated learning offers a pragmatic path for multi-institutional AI in healthcare by reducing raw-data sharing while enabling model generalization across sites. Privacy-preserving mechanisms (DP, SA, HE) are complementary: SA protects individual updates from the server; DP offers mathematically quantifiable guarantees at the cost of utility; HE can provide strong guarantees at higher computational cost. Future work should prioritize standardized benchmarks, scalable SA implementations, and governance models to accelerate clinical translation.

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