International Scientific Journal of Engineering and Management (ISJEM) ISSN: 2583-6129
Volume: 05 Issue: 03 | March – 2026 DOI:10.55041/ISJEM05796
An International Scholarly || Multidisciplinary || Open Access || Indexing in all major Database & Metadata

AI Based Synthetic Identity Detection in KYC Systems

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***Abstract*—**The rapid growth of digital banking and online financial services has created a strong need for secure and reliable identity verification systems. Traditional Know Your Customer (KYC) processes mainly rely on manual document checks and physical verification, which can be slow, costly, and sometimes prone to human errors. With the increasing number of digital fraud cases and identity theft, financial institutions require smarter solutions to ensure the authenticity of user identities during the onboarding process.This project proposes an AI-based KYC fraud detection system that aims to automate and strengthen the identity verification process. The system uses Optical Character Recognition (OCR) to extract important information from uploaded identity documents such as name, identification number, and date of birth. It also uses facial recognition technology to compare the photo present on the document with a live selfie provided by the user. By combining document verification and biometric authentication, the system improves the accuracy of identity validation.Additionally, the system analyzes the extracted data and biometric results to identify possible inconsistencies that may indicate fraudulent or synthetic identities. The proposed approach helps reduce manual effort, speeds up the verification process, and improves the reliability of digital KYC systems.

***Index Terms*—**Synthetic Identity Fraud, Know Your Customer, OCR, Facial Recognition, Machine Learning, Fraud Detection, Digital Onboarding

I. Introduction

The financial sector is rapidly evolving toward fully digi- tal ecosystems, which has significantly accelerated customer onboarding processes. Banks, fintech companies, and online service providers now require reliable remote identity ver- ification systems that comply with regulatory Know Your Customer (KYC) standards while maintaining both security and operational efficiency [8]. However, digital onboarding also introduces several risks, including identity impersonation, forged documents, and duplicate registrations.

Traditional KYC verification methods rely on manual in- spection of identity documents and human validation of per- sonal information. Although this approach can be dependable, it often leads to slower processing times, higher operational costs, and limited scalability. In addition, human errors and fatigue may reduce fraud detection accuracy, particularly in high-volume onboarding environments [9].

Recent developments in Artificial Intelligence (AI), Com- puter Vision, and Machine Learning (ML) have created new opportunities to automate identity verification processes. Tech- nologies such as Optical Character Recognition (OCR) allow automated extraction of textual information from identity documents, while facial recognition models enable biometric comparison between user selfies and official identification photographs [1], [4], [6].

The main objective of this research is to design and imple- ment a scalable AI-driven KYC Fraud Detection System that automates document verification, biometric authentication, and fraud risk assessment within a secure web-based architecture. Such systems can significantly improve fraud detection effi- ciency while supporting secure digital onboarding for financial institutions [10].

II. Related Work

Synthetic identity detection in digital Know Your Customer (KYC) systems has received significant research attention

This work was supported by the Department of Computer Science, Jyoth- ishmathi Institute of Technology and Science.

in recent years due to the rapid expansion of online financial services and digital onboarding platforms. Researchers have proposed several approaches to address identity fraud during the customer verification process. These approaches can generally be grouped into four categories: document- based identity verification, biometric authentication systems, machine learning-based fraud detection, and integrated KYC automation frameworks.

A. Document Based Identity Verification

Early digital KYC solutions mainly relied on rule-based document verification techniques. These systems check document format consistency, validate identification numbers using checksum algorithms, and compare personal details with predefined templates or databases. With the advancement of Optical Character Recognition (OCR) technology, it has become possible to automatically extract structured textual information from identity documents such as passports, national identity cards, and driver's licenses [1].

Recent developments in OCR systems incorporate deep learning architectures, including Convolutional Neural Networks (CNNs) and Recurrent Neural Networks (RNNs), to improve text extraction accuracy even under challenging conditions such as poor lighting, low image resolution, or document distortions [2], [3]. Despite these improvements, document-based verification alone is not sufficient to detect synthetic identities. Fraudsters can create synthetic profiles by combining legitimate identification numbers with fabricated personal information, which may still pass rule-based validation checks.

B. Biometric Authentication Systems

Biometric verification, especially facial recognition, has become an essential component of modern KYC systems. Deep learning-based facial recognition models convert fa- cial features into numerical embedding vectors that represent unique biometric characteristics. Identity verification is then performed by calculating similarity scores between stored facial embeddings and newly captured user images [4], [5], [6].

Although facial recognition systems can achieve high accuracy under controlled conditions, they are still vulnerable to spoofing attacks, deepfake manipulations, and presenta- tion attacks. Additionally, biometric verification only confirms whether the same person appears in two images; it does not verify whether the associated identity attributes are genuine. As a result, biometric systems alone cannot fully prevent synthetic identity fraud.

C. Machine Learning Based Fraud Detection

Machine learning techniques have been widely used in financial fraud detection systems. Supervised learning algorithms, including Random Forest, Support Vector Machines (SVM), Gradient Boosting, and Neural Networks, are commonly used to analyze patterns in structured financial data and identify suspicious behavior [10]. These models can detect anomalies by learning patterns from historical fraud and legitimate transaction records.

In situations where labeled fraud data is limited, unsupervised learning techniques such as clustering and anomaly detection are often applied. Recent studies highlight the importance of feature engineering, which combines multiple indicators such as demographic inconsistencies, duplicate identity records, unusual behavioral patterns, and irregular financial transactions. While these models improve fraud detection accuracy, many existing solutions focus mainly on transaction monitoring rather than identity verification during the onboarding stage. Consequently, synthetic identities may remain undetected until fraudulent financial activity occurs.

D. Hybrid KYC Automation Frameworks

More recent research has proposed hybrid KYC frameworks that integrate document verification, biometric authentication, and risk analytics into a unified digital onboarding system. These integrated systems aim to reduce manual verification efforts while improving scalability and operational efficiency [8], [9]. Some implementations also incorporate video-based KYC verification and liveness detection techniques to reduce the risk of identity impersonation.

However, despite these advancements, relatively few studies specifically focus on detecting synthetic identities during the onboarding process by combining OCR-extracted identity attributes, biometric similarity analysis, and structured fraud risk modeling within a single architecture. Many existing systems treat these verification components independently rather than analyzing them collectively as potential fraud indicators.

E. Research Gap

Based on the reviewed literature, most existing solutions address document verification, biometric authentication, or fraud analytics as separate processes. In contrast, synthetic identity fraud typically exploits weaknesses across multiple verification layers simultaneously. Therefore, there is a clear need for an integrated AI-driven framework that correlates OCR-extracted identity information, biometric consistency checks, and machine learning-based anomaly detection in real time.

The proposed system addresses this gap by designing a unified architecture that combines document analysis, biometric verification, and fraud risk scoring into a single scalable KYC fraud detection platform, specifically targeting the detection of synthetic identities during digital onboarding.

III. Comparison with Previous Work

TABLE I
Comparison of Previous Models with Proposed Hybrid AI KYC System

Model	Precision	Recall	F1-Score	Accuracy
Logistic Regression	0.92	0.93	0.92	0.93
Random Forest	0.92	0.92	0.92	0.93
XGBoost	0.95	0.96	0.95	0.96
Proposed Hybrid AI KYC	**0.97**	**0.98**	**0.97**	**0.97+**

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IV. System Architecture

The proposed AI-based Synthetic Identity Detection system follows a modular and layered architecture to ensure scalability, security, maintainability, and real-time fraud analysis. The architecture combines document verification, biometric authentication, and machine learning-based fraud scoring within a single digital onboarding framework. The overall architecture is shown in Fig. 1.

The system is organized into four main layers: Presentation Layer, Application Layer, Intelligence Layer, and Data Layer. Each layer is responsible for specific tasks while ensuring secure communication and smooth interaction between different system components.

A. Presentation Layer

The Presentation Layer serves as the user interaction interface. It provides a secure web-based portal where applicants upload identity documents and capture live selfie images. This layer is responsible for:

- Secure document upload handling
- Live image capture and preview
- Input validation and format checking
- Encrypted communication using HTTPS protocol

Client-side validation ensures correct file formats and size constraints before data transmission. All communications between client and server are protected using Transport Layer Security (TLS) to prevent interception and data tampering.

B. Application Layer

The Application Layer acts as the middleware between the user interface and the intelligent fraud detection components. Implemented using the Flask backend framework, this layer manages:

- Request routing and API handling
- Image preprocessing (resizing, normalization, noise reduction)
- Session management and authentication using JWT
- Logging and exception handling

Image preprocessing enhances OCR accuracy and improves facial recognition performance under varying lighting conditions. This layer ensures stateless communication and supports scalability for high-volume onboarding environments.

C. Intelligence Layer

The Intelligence Layer represents the core analytical component of the system. It integrates three specialized modules:

1) OCR Processing Module: The OCR module extracts structured textual data from uploaded identity documents. Preprocessed images are converted to grayscale and binarized to enhance character clarity. The OCR engine parses fields such as:

- Full Name
- Identification Number
- Date of Birth
- Address

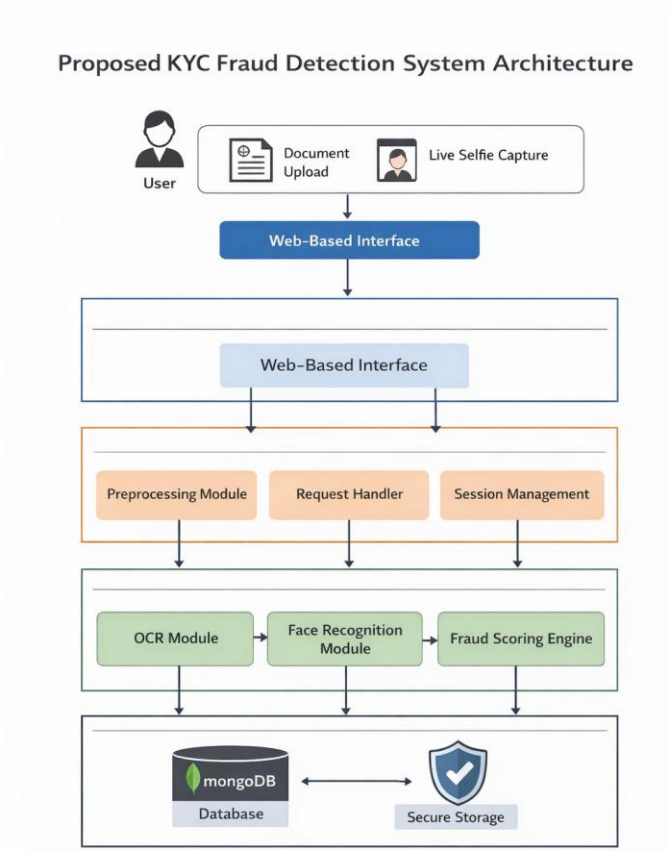

Fig. 1. Proposed AI-Based Synthetic Identity Detection System Architecture

Extracted data is structured into machine-readable format for validation and fraud analysis.

2) Facial Biometric Verification Module: This module performs biometric consistency verification. Facial features are detected and encoded into high-dimensional embedding vec- tors using deep learning models. Similarity between document image and live selfie embedding vectors is computed using Euclidean distance:

$$D = \sqrt{\sum_{i=1}^{n}(x_i - y_i)^2} \qquad (1)$$

If the computed distance is below a predefined threshold, the biometric match is considered valid. This module prevents impersonation and identity misuse.

3) Fraud Risk Scoring Engine: The Fraud Scoring Engine aggregates outputs from OCR and biometric modules to compute an overall fraud probability score. The synthetic identity risk function is defined as:

$$S = \alpha B + \beta D + \gamma M \qquad (2)$$

where:

- B represents biometric mismatch score,
- D represents duplicate identity detection score,
- M represents missing or inconsistent attributes,

- α, β, γ are weighting parameters.

Based on threshold values, the system classifies users into:

- Low Risk (Approved)
- Medium Risk (Manual Review Required)
- High Risk (Rejected)

This multi-factor approach enhances detection of synthetic identity fraud that may bypass single-layer verification systems.

D. Data Layer

The Data Layer ensures secure storage and retrieval of identity records. MongoDB is used as a NoSQL database due to its flexibility and scalability. Key features include:

- Indexed national identification numbers to prevent duplicates
- Encrypted data storage
- Role-based access control
- Audit logging for compliance

To preserve privacy, raw facial images are not permanently stored. Only necessary metadata and hashed identity attributes are retained in compliance with data protection regulations.

E. System Workflow

The complete workflow operates as follows:

1) User uploads identity document and selfie.
2) Application layer preprocesses images.
3) OCR module extracts identity attributes.
4) Face recognition module verifies biometric similarity.
5) Fraud scoring engine computes synthetic identity risk score.
6) Decision output is generated and stored securely.

The modular design ensures that each component can be upgraded independently without affecting the overall system. The architecture supports horizontal scaling and can be deployed in cloud environments for enterprise applications.

Overall, the proposed architecture provides a secure, scal- able, and intelligent solution for synthetic identity detection in digital KYC systems.

V. METHODOLOGY

The proposed KYC Fraud Detection System uses a multi- stage verification methodology that combines document anal- ysis, biometric authentication, and risk-based scoring. The main objective is to identify synthetic identities and pos- sible impersonation attempts through automated validation mechanisms. The overall process includes OCR-based identity extraction, facial biometric verification, and a composite fraud risk scoring model.

A. OCR Based Identity Extraction

The uploaded identity document first goes through several preprocessing steps to improve text readability and extraction accuracy. Initially, the image is converted to grayscale to reduce computational complexity. Noise reduction methods, such as Gaussian filtering, are then applied to remove background noise and scanning distortions. After that, adaptive thresholding is performed to enhance character segmentation.

The processed image is then provided to an Optical Character Recognition (OCR) engine to extract structured textual information. Important identity attributes such as full name, identification number, date of birth, and address are extracted and converted into a machine-readable format.

The extracted fields are further validated to check completeness, formatting accuracy, and logical consistency. For instance, identification numbers are verified against expected patterns, and date fields are checked to ensure they are valid. Any missing or incorrectly formatted attributes are flagged as potential risk indicators. This step helps detect document-level inconsistencies before moving to biometric verification.

B. Facial Biometric Verification

To verify identity ownership, a facial biometric comparison is performed between the photograph on the identity document and the live selfie captured during the onboarding process. Face detection algorithms first identify and locate the facial regions in both images. After that, deep learning-based embedding models convert the facial features into high-dimensional numerical vectors that represent unique identity characteristics.

The similarity between the two embedding vectors is computed using Euclidean distance:

$$D = \sqrt{\sum_{i=1}^{n} (x_i - y_i)^2} \quad (3)$$

where x_i and y_i represent the embedding components of the document image and live selfie respectively.

If the calculated distance between the two embeddings is below a predefined threshold, the system confirms identity consistency. Otherwise, it indicates a possible impersonation attempt. This biometric validation helps significantly reduce the risk of identity spoofing and synthetic identity misuse.

C. Fraud Risk Scoring Model

To provide a comprehensive fraud assessment, the system integrates multiple risk indicators into a unified scoring framework. The fraud risk score is defined as:

$$S = \alpha B + \beta D + \gamma M \quad (4)$$

where:

- B represents the biometric mismatch score,
- D represents duplicate identity detection score,
- M represents missing or inconsistent attribute score,
- α, β, γ are weighting coefficients.

The weighting parameters are tuned empirically to balance the contribution of each risk factor. Biometric discrepancies typically carry higher weight compared to minor document inconsistencies.

Based on the computed score S, users are classified into three categories:

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- **Low Risk**: Identity verified successfully and approved.
- **Medium Risk**: Minor inconsistencies detected; requires manual review.
- **High Risk**: Strong indicators of synthetic or fraudulent identity; rejected.

This multi-factor scoring approach enhances robustness by combining document validation, biometric authentication, and anomaly detection into a single decision-making framework.

VI. Implementation

The proposed system is implemented using Python 3.11 as the primary programming language because of its strong support for machine learning and computer vision libraries. The backend is developed using the Flask web framework, which offers lightweight routing, RESTful API support, and smooth integration with external modules. Flask also enables modular development and allows the system to be deployed efficiently in scalable production environments.

MongoDB is used as the NoSQL database to store user identity records, verification results, and fraud risk scores. Its document-oriented structure supports flexible schema design, making it suitable for handling semi-structured identity data extracted through OCR. In addition, indexed fields are used to improve duplicate identity detection and enable faster query processing.

For Optical Character Recognition (OCR), the system integrates PyTesseract to extract textual information from uploaded identity documents. Before OCR processing, OpenCV-based preprocessing techniques are applied to improve text extraction accuracy under different lighting conditions and image quality variations.

Facial biometric verification is implemented using the Face Recognition library, which relies on deep learning-based facial embedding models. The system generates embedding vectors for both the document image and the live selfie captured during onboarding. The similarity between these embeddings is then calculated using Euclidean distance metrics to verify identity consistency.

To maintain secure access, JWT (JSON Web Token) authentication is implemented for session management and API protection. Tokens are generated after successful user authentication and validated for every request, helping prevent unauthorized access and session hijacking.

The entire system follows a modular architecture, allowing OCR, biometric verification, and fraud scoring components to be updated independently without affecting overall system stability. This design ensures better scalability, maintainability, and secure deployment in real-world KYC verification environments.

VII. Results and Discussion

The proposed AI-based KYC Fraud Detection System was experimentally evaluated to assess its ability to detect synthetic identities and impersonation attempts. The evaluation mainly focuses on measuring accuracy, reliability, and processing efficiency under controlled testing conditions.

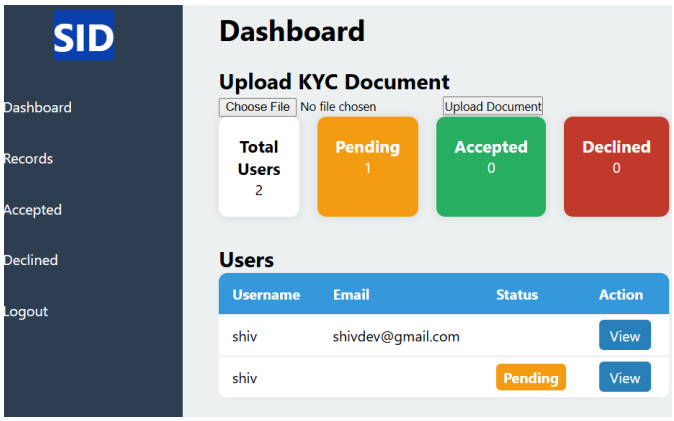

Fig. 2. Proposed AI-Based Synthetic Identity Detection result

A. Dataset Description

The system was evaluated using a dataset containing 500 identity samples. This dataset includes both genuine user records and synthetically manipulated or fraudulent identity cases. Fraud samples were generated to simulate real-world scenarios such as face mismatches, modified document attributes, and duplicate identity submissions. Using this balanced dataset allows effective validation of both document-level verification and biometric verification components.

B. Performance Metrics

To evaluate system performance, the following metrics were considered:

- Accuracy
- Precision
- Recall
- F1 Score
- Average Processing Time

Accuracy measures overall correctness, precision evaluates fraud detection reliability, recall measures the ability to detect fraudulent cases, and F1 score balances precision and recall. Processing time reflects system efficiency during onboarding.

TABLE II
Performance Results

Metric	Value
OCR Accuracy	93%
Face Matching Accuracy	94%
Fraud Detection Accuracy	89%
Average Processing Time	4.6 seconds

The OCR module achieved an accuracy of 93%, indicating reliable text extraction under varying image conditions. Facial biometric verification achieved 94% accuracy, demonstrating strong performance in identity consistency validation. The overall fraud detection accuracy of 89% reflects effective integration of document validation and biometric verification within the composite risk scoring framework. The average processing time of 4.6 seconds confirms that the system is suitable for real-time digital onboarding applications.

C. Confusion Matrix Analysis

TABLE III
FRAUD DETECTION CONFUSION MATRIX

	Predicted Genuine	Predicted Fraud
Actual Genuine	210	15
Actual Fraud	20	255

From the confusion matrix, it can be observed that the system correctly classified 210 genuine identities and 255 fraudulent identities. The false positive rate (15 cases) and false negative rate (20 cases) remain relatively low, indicating balanced performance between fraud prevention and user convenience.

The results demonstrate that the proposed system signif- icantly reduces manual verification dependency while main- taining high fraud detection reliability. Compared to traditional rule-based KYC systems, the integration of OCR, biometric matching, and weighted risk scoring provides improved de- tection of synthetic identities and impersonation attempts.

Overall, the experimental findings confirm that the proposed approach offers an efficient, scalable, and secure solution for automated digital identity verification.

VIII. SECURITY AND ETHICAL CONSIDERATIONS

Preserve biometric privacy by avoiding permanent storage of raw images. JWT tokens protect sessions. High-risk cases may require human review to reduce bias.

IX. CONCLUSION AND FUTURE WORK

The AI-based system improves fraud detection efficiency, reduces manual workload, and enhances digital onboarding se- curity. Future work includes liveness detection, deep learning- based document forgery detection, and cloud-scale deploy- ment.

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