**Smart banking customer targeting using ML Ensemble for improved business operational efficiency through reduced cost per call (CPC)  
EDA, Data Preparation, Feature Engineering and Initial Modeling Report**

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# Introduction

Traditionally businesses reach out to prospect customer for encashing potential opportunities (can be in terms of cross sell or upsell). Though this process of targeting customer for potential cross sell or upsell in observed in many industries, it is very wide and frequent seen in banking industry were a customer holding a with a bank will be targeted for cross selling opportunities like loans, fixed deposits and term deposits etc., Banks traditionally uses various channels to reach their customer and one of the major such channel is Telemarketing. Though telemarketing seems like a very easy way to reach a customer at the same time it is very costly. As per industry standard typical Cost per Call (CPC) is around $2.7 to $5.6 [1] (it might difference from business to business), based this statistic we can estimate the possible impact of targeting a wrong prospect and importance of accurate targeting strategy. In the current project we plan to address this problem of high operating cost due to inaccuracy customer targeting using machine learning. As part of the analysis, we will be using banking telemarketing call data for predicting the propensity of a customer opting for cross selling, which can later be used by banking businesses for making better call plan as well customer target list.

Keywords: Business optimization, Machine Learning for CPC reduction, Call Center Optimization

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# Data Overview

## Source

Data for current project has been procured from UCI Machine learning repository. Following is the description of repository (as per the website) “*The UCI Machine Learning Repository is a collection of databases, domain theories, and data generators that are used by the machine learning community for the empirical analysis of machine learning algorithms. The archive was created as an ftp archive in 1987 by David Aha and fellow graduate students at UC Irvine. Since that time, it has been widely used by students, educators, and researchers all over the world as a primary source of machine learning datasets.*”

## Data Description

We are using “Bank Marketing Dataset” hosted in UCI repository for the current analysis. Data actually belongs to a Portuguese bank where existing bank customers are targeted for term deposit subscription over phone calls. The data provided has information related to customers and past behavior when targeted with marketing campaign. Following are key fields and their description as per UCI repository

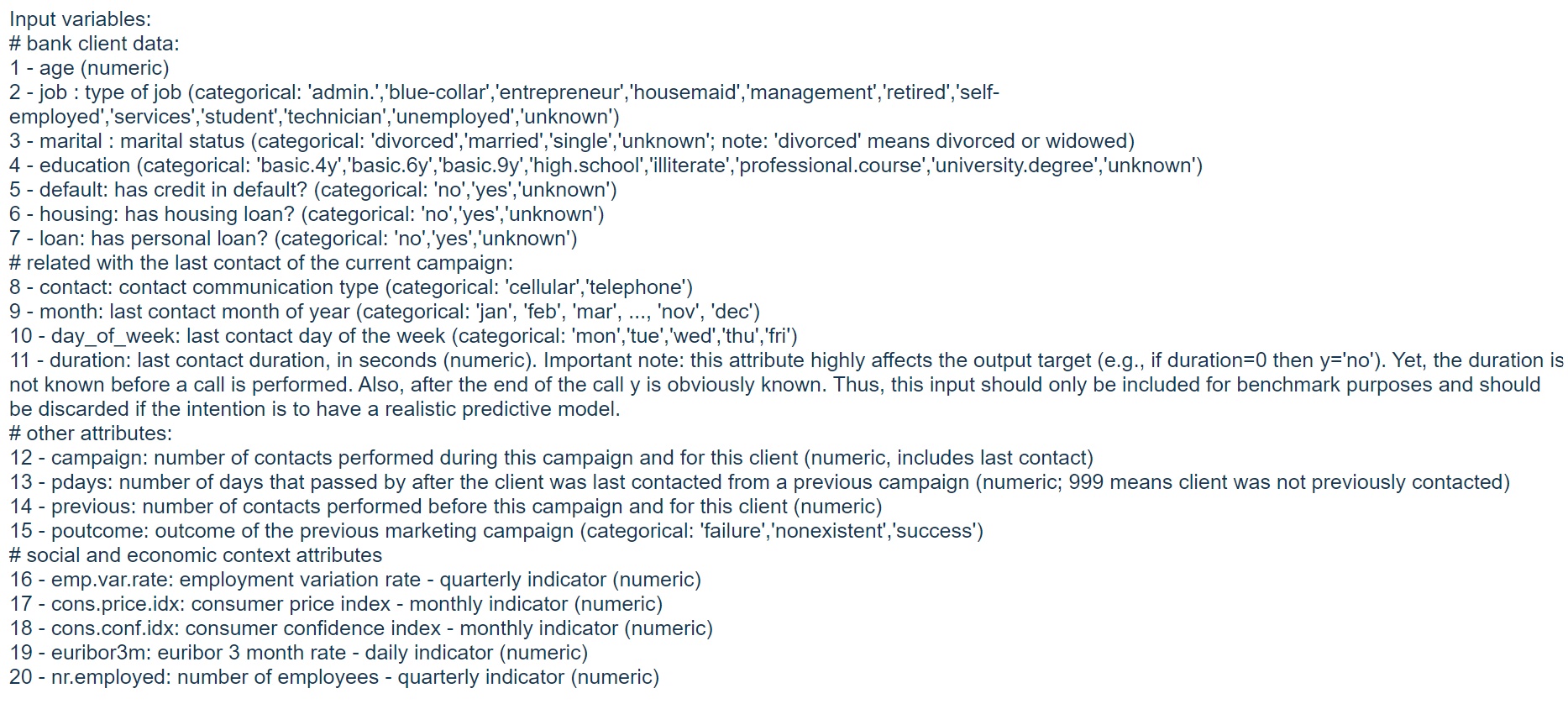


Image showing description of key fields in the dataset

## Collection Process

Data is directly downloaded from UCI website. As required information is available as single file there is no need for data merges. Data is available as CSV file which can be directly loaded into python for model development.

# Data Summary Stats

Understanding metadata and other key attributes like data size, data types only helps in making data preparation process smoother but also makes it faster as proactive data treatments can be made.

## Metadata, Counts and Datatypes

Dataset has close to 45K records with 17 columns. A good split of both categorical (10 fields) and continuous (7 fields) variables are available. Table 1 below show the datatype of each field.

|  |  |
| --- | --- |
| **Variable** | **Datatype** |
| job | object |
| marital | object |
| education | object |
| default | object |
| housing | object |
| loan | object |
| contact | object |
| month | object |
| poutcome | object |
| y | object |
| age | int64 |
| balance | int64 |
| day | int64 |
| duration | int64 |
| campaign | int64 |
| pdays | int64 |
| previous | int64 |

Table 1: *Datatypes of key fields*

## Quick Summary Stats

A high-level glance at the quick summary stats below (Table 2) shows that

1. All categorical fields have limited set of factors (max factor = 12 for job) hence no need for further bucketing
2. All the numerical feature ranges are in expected limits except balance and pdays which has negative values



Table 2: *High-level summary key summary states of data fields*

# Univariate Analysis

To understand the distribution of individual features univariate analysis has been performed on each feature of the dataset. Insights from the univariate analysis will be used for data treatment (if required for missing values, outliers and feature engineering) as well as model approach selection. To understand the univariate distribution Histogram have been used for numerical fields (post binning) and frequency plots are using for categorical fields.

Though univariate analysis has been performed on all the features only insightful distribution are reported in the current document. For detailed univariate EDA charts refer to EDA html file.

## Insights and Key Distributions from Univariate Analysis

Age**:** Age of the customer is nearly normally distributed with few outliers having age above 65 years which can be treated during data preprocessing stage (after careful observation)

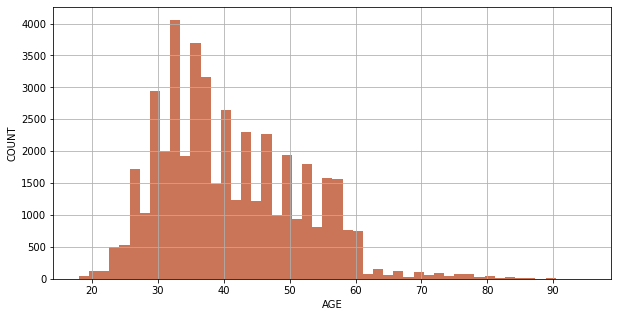


Chart 1: *Histogram of Customer Age*

Balance, Duration & Campaign**:** Balance, Duration and & Campaign variables are exhibiting right skewed distribution which kind of makes sense from intuition perspective. But these variables might need further treatment if models like linear regression are using for prediction**.** Additionally, balance has negative numbers which can be loans etc.,

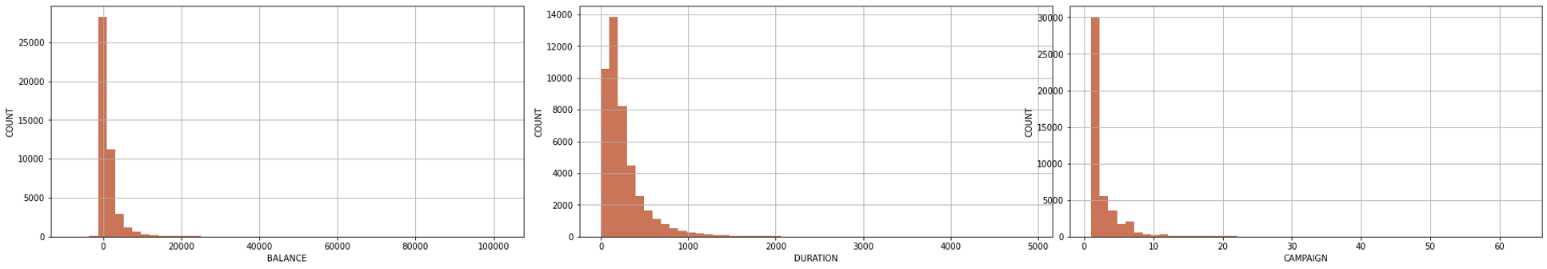
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Chart 2: *Right Skewed Distribution of Balance, Duration & Campaign*

Pdays and Previous**:** Most of the values in Pdays and Previous are mostly zero. Non-zero values in these are of importance as not every customer is retarget during any campaign.

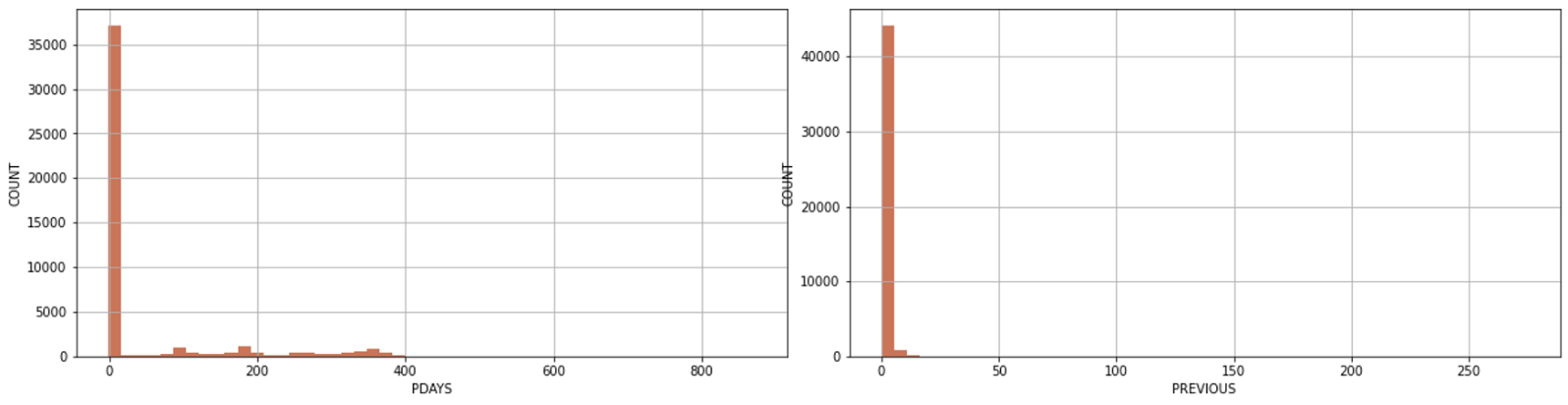
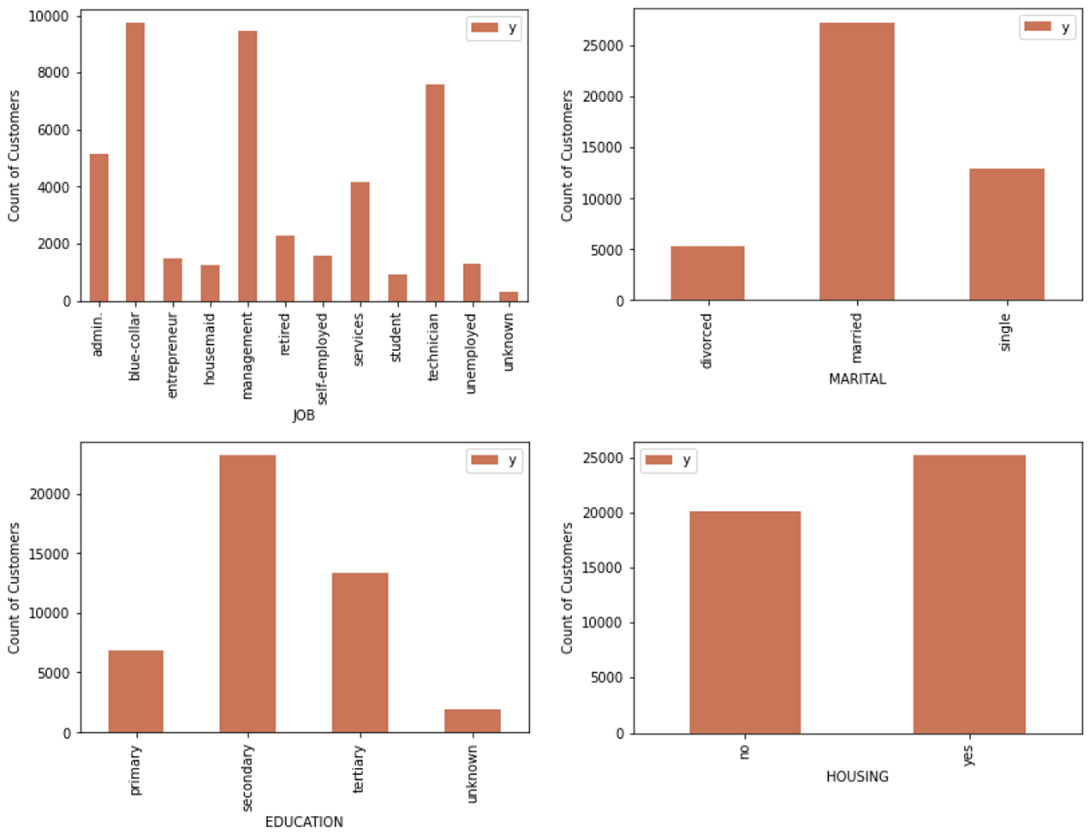


Chart 3: *Distribution of Pdays and Previous*

Categorical Variable Distribution**:**

1. All categorical variables have limited set of factors hence no need for further bucketing of categories before dummy coding of variables.
2. Very few customers are defaulters (default = ‘Yes’). Based on business intuition this can an important feature for model development
3. Job among all categorical variable has relatively higher number of factors, some of the factors can be excluded during preprocessing/model development stage based on their importance
4. Job and Education have factor values as ‘Unknow’, we need to be cautious while using this factor in the model as any insight on this factor is not actionable



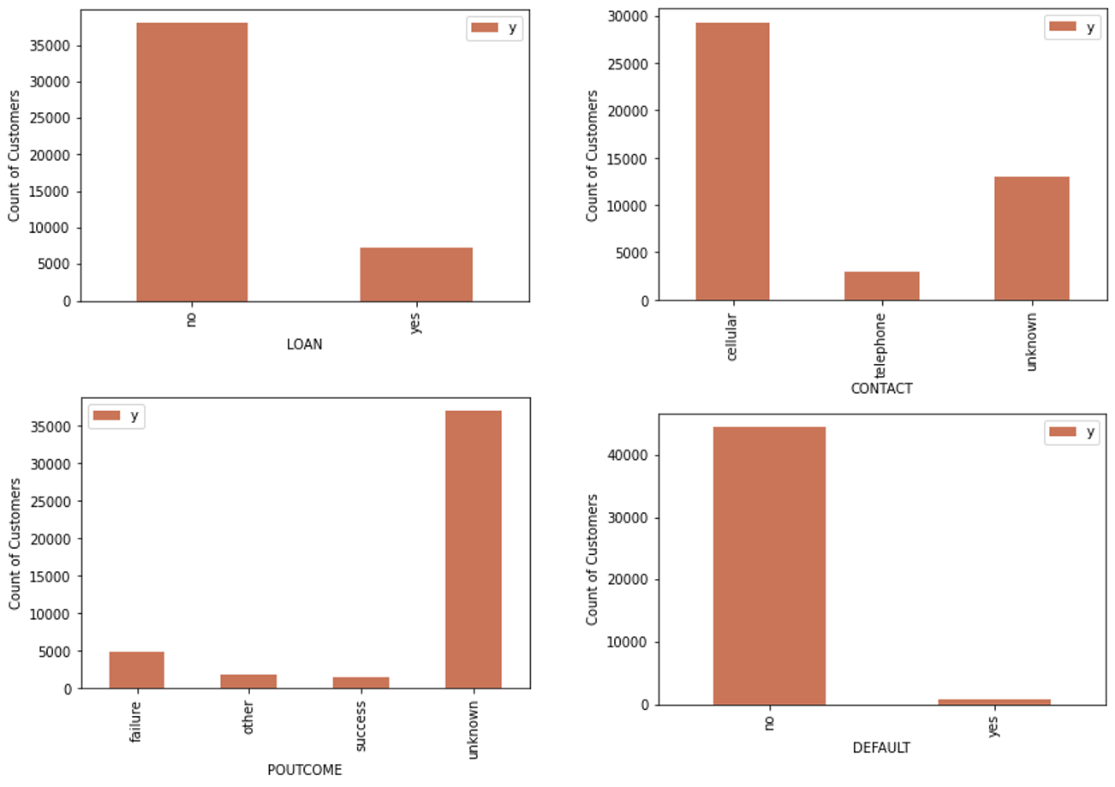


Chart 3: *Frequency plot of categorical variables across various factors*

# Bi-Variate Analysis

## Insights from Bi-Variate Analysis

Bi-Variate analysis on each feature (both categorical and continuous) has been performed for identifying possible the key features/factors impacting term deposit subscription. For categorical variables percentage term deposit distribution and for continuous variable average value feature value for with and without term deposit subscription has been used.

### Numerical Variable

* Average of age and day doesn’t show any significant difference for positive vs negative class [Refer to Chart 4]
* Balance, Duration, Campaign and Pdays variance shows very significant difference for positive vs negative classes [Refer to Chart 5]
  + People with high balance are showing higher tendency to opt for term deposit
  + Customers spending more time when an agent called for the first time are having higher tendency to opt for term deposits
  + Reaching a customer who has been targeted in previous campaigns are showing higher receptiveness in comparison with other customers

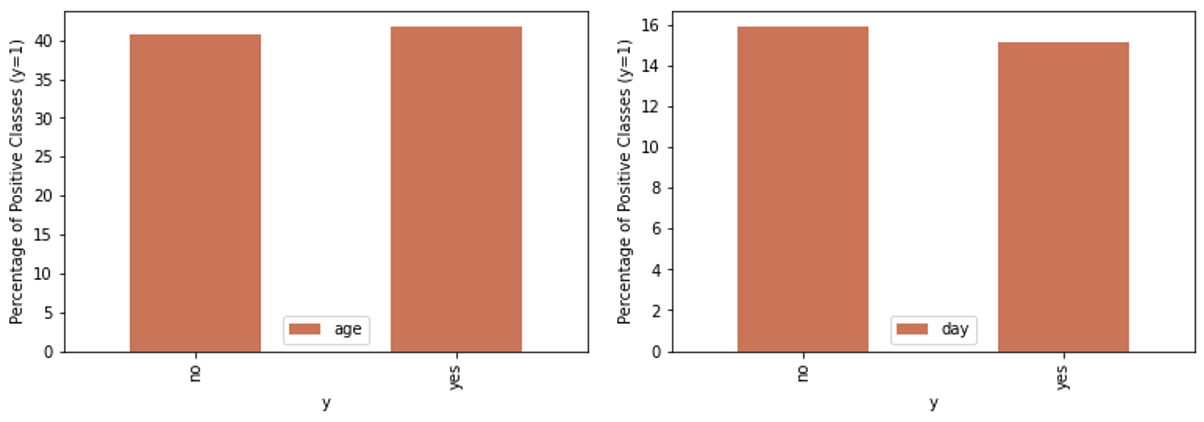


Chart 4: *Average of age, day vs positive & negative classes*

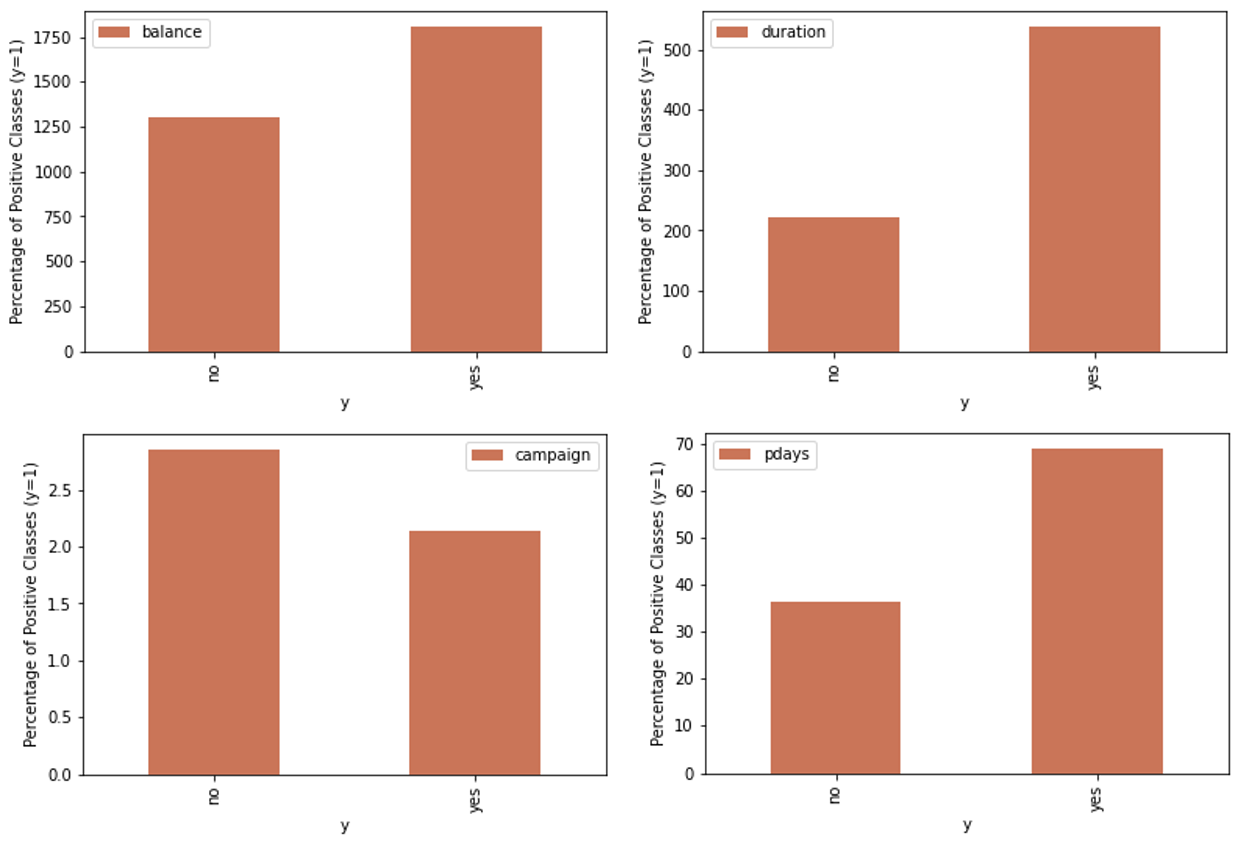


Chart 5: *Average of Balance, Duration, Campaign, Pdays vs positive & negative classes*

### Categorical Variable

* Customers who successfully opted in previous marketing campaign (poutcome) have higher changes of opting for term deposit if targeted
* Students and retired employees have higher percentage of term deposit opter than that of other job groups
* Customer who doesn’t own a house are preferring term deposit than that of customer with own house
* Lower the education level lower are the chances for taking term deposit
* Loan defaulting customers are showing lower receptance to term deposit
* Customers who don’t how an existing loan are opting more for term deposit than that of other customers

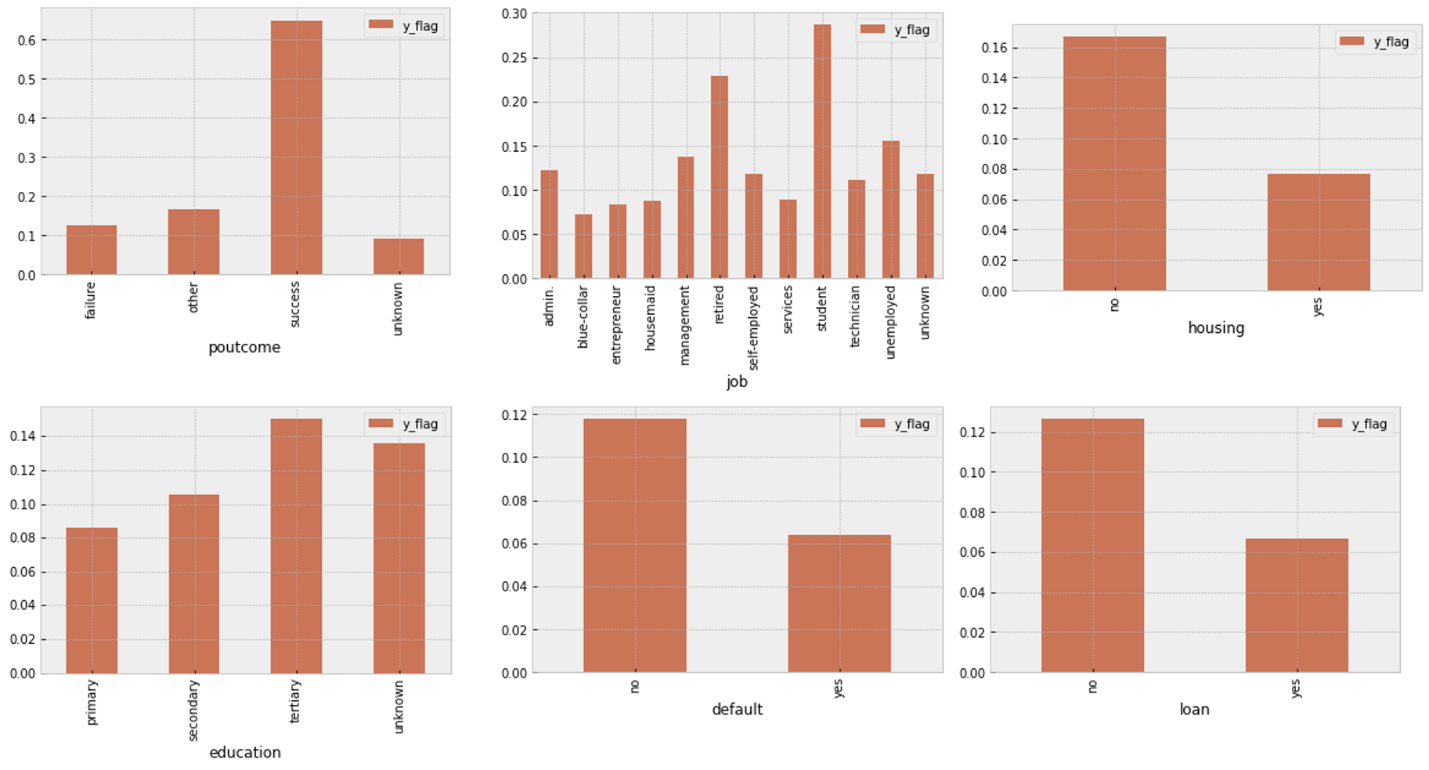


Chart 6: *Percentage of positive classes across different factors of categorical variable*

# Correlation Analysis

Correlation analysis has been performed on the given dataset post dummy coding categorical variables. We have used Pearson’s correlation coefficient for understanding variable one on one correlation and VIF has been used to check the multi collinearity of the variables. Following are key observations from correlation analysis

* poutcome – pdays, Education secondary - Education tertiary and Married\_single - marital\_married are very highly correlated with each other hence they to be appropriately treated while modeling [Refer to Chart 7]
* poutcome\_unknown, month\_may, day and marital\_married feature have > 5 VIF suggesting a strong presence of multicollinearity [Refer to Table 3]

## One to One Correlation Analysis using Pearson’s Correlation Coefficient



Chart 7: *Variable correlation heatmap*

## Multicollinearity Analysis using Variance Inflation Factor (VIF)



Table 3: *Variables with High VIF*

# Target Variable Class Imbalance

Only ~12% of the total customers have subscribed to term deposit (Refer to Chart 8) which means for every 100 records we have only 12 positive classes. This suggests a slight presence of class imbalance issues. During model development incase we observe large amount false negative class balancing might have to be performed.

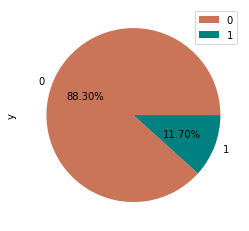


Chart 8: *Distribution customers subscribing for term deposit*

# EDA Conclusion and Next steps

1. Data has no missing values hence no need for missing value treatment
2. Certain outliers have been observed for age variable which can be treated during preprocessing stage
3. Majority for the numeric variables are showing skewed distribution, it is suggested to avoid methods like linear regression as data is violating modeling assumptions
4. High Balance, High Duration, customer targeted in previous campaign, customer last targeted, customers without house, customer without existing loans and customers without any defaults are characters showing high tendency to opt for term deposits – (Observation made from initial EDA) Hence these can be import variables for model development
5. poutcome – pdays, Education secondary - Education tertiary and Married\_single - marital\_married are very highly correlated with each other hence they to be appropriately treated while modeling
6. poutcome\_unknown, month\_may, day and marital\_married feature have > 5 VIF suggesting a strong presence of multicollinearity
7. Data shows the presence of slight class imbalance issue which has to be addressed using appropriate class balancing techniques like over sampling

# Data Preparation based in Insights from EDA

## Missing Value Treatment

No missing value treatment performed on the data as procured data doesn’t contain any missing values

## Outlier Treatment

Of all features analyzed Age, Call duration, Balance and Campaign had relatively high degree of outliers and have been treated. We have applied very tight threshold for outlier treatment and detection as outlier can be key for prediction of subscription due to low class ratio. Following is the approach followed and distribution before and after outlier treatment

### Outlier Treatment for Age

Based on the visual observation of age, we see that there are very few customers with age > 60 and it is really rare for someone to opt for term plan with age greater than 60. Hence, we have capped age to 60 i.e., if age is greater than 60, we cap it to 60. Refer to Chart 9 below

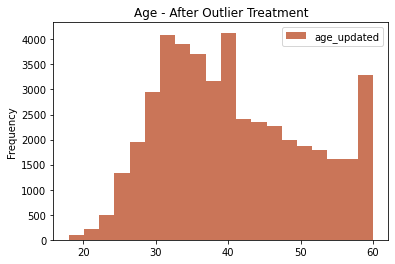
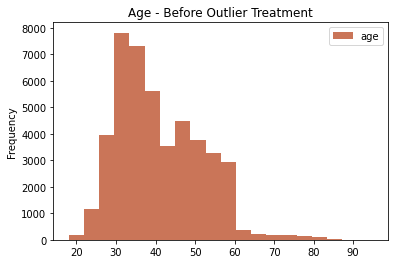


Chart 9: *Distribution of age before and after capping*

### Outlier Treatment for Call Duration

We observe that the call duration is ranging from 0 to 5000 sec in the dataset. A call duration of 2000 sec (33Min) is very high for a customer to interact with agents over phone. Hence, we treated anything above 2000 sec as outlier and capped it. Refer to Chart 10

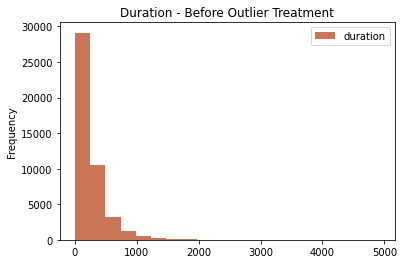
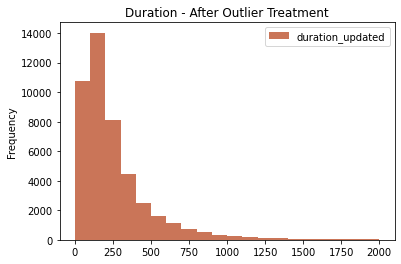
 

Chart 10: *Distribution of call duration before and after capping*

### Outlier Treatment for Balance

There are very few data point with balance greater than 40K. Hence, records with greater than 40K balance are capped at 40K. Refer to Chart 11 below for distribution before and after

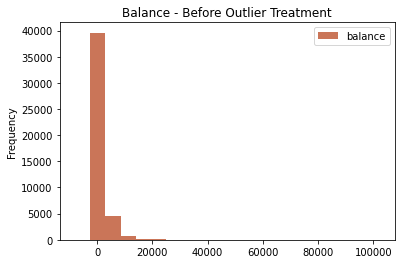
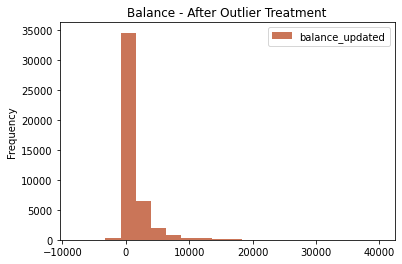
 

Chart 11: *Distribution of balance before and after capping*

### Outlier Treatment for Campaigns

Number of campaigns is ranging from 0 to 60 in the dataset, which means that a customer reached anywhere between 0 to 60 times is the current campaign. Based on distribution of data we few data point have campaign value >30. Hence, all data point with campaign value > 30 are capped at 30. Refer to Chart 12 below for distribution before and after

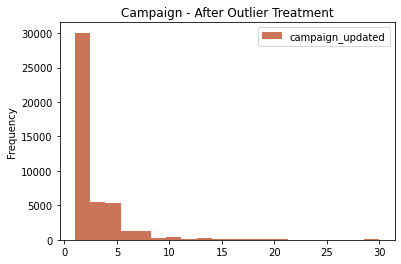
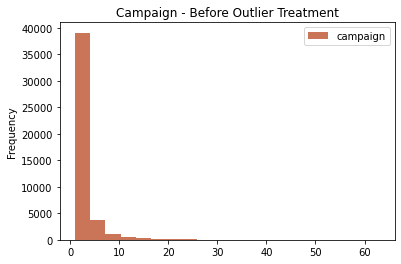


Chart 12: *Campaign value before and after capping*

## Train and Test Data Preparation

Data has been split into train and test in 4:1 ration through random sampling. Model will be trained on train dataset and performance will be evaluated on test dataset.

# Feature Engineering

## Addressing Multicollinearity

Of all the correlation observed Poutcomes is very highly correlated with Pdays both statistically and in business sense and hence Pdays is been excluded from the modeling. Though there are other correlated variables we are not excluding then as we are using tree-based models for model building and are robust to outliers and has no assumptions on multicollinearity

## Treating Categorical Features

Data has lot categorical features like Education, Job etc., which cannot be used as is. Categorical variables are dummy coded for making data model ready

# Model Development

## Decision Tree

As per the proposal we have start with building decision tree as baseline model for current project. We have implemented and tuned decision trees using Grid Search and performance has been evaluated on Test and Train datasets. Following are the initial model results.

### Model Results and Observations

Best model performance was observed at max depth of 9. Refer to Chart 13 below showing grid sreach results for best model identification

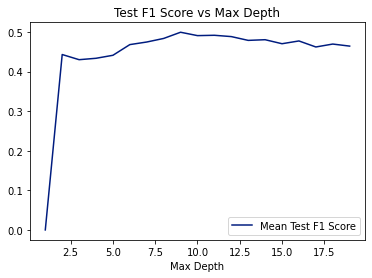
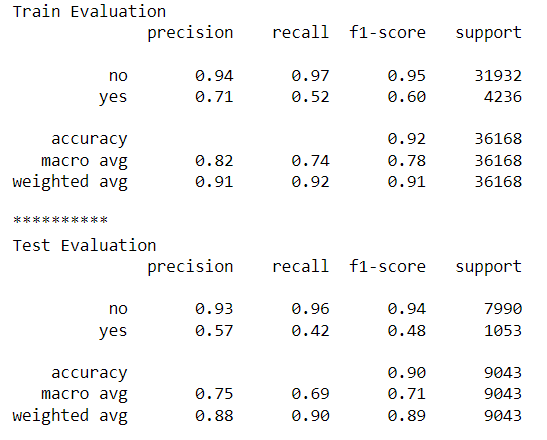


Chart 13: *Decision Tree Grid Search Results*

Model Evaluation Report (Best Model from Grid Search)



Results Summary

* Decision tree model has exhibited a good train and test accuracy of 92% and 90% respectively on support ratio of 89% and 87% respectively
* Though model is exhibiting a good accuracy of more than 90% but due to presence of class imbalance it is not good enough
  + Especially when we look at recall score positive class for train and test it is 52% and 42% which shows that model is not doing good job in classifying customer would actually opt from term plan

# Modeling Next Steps

Though model performance in exception in terms of overall accuracy, it is failing in recalling actual customers who would opt for term plan. This problem be addressed if we train model post treating for class imbalance issue. Along with this other model in the proposal Random forest and XGboost will be tried and tested.

# References

**Reference Description:** Source for understanding Cost per Call in a typical call center

**Reference Link:** <https://www.liveagent.com/customer-support-glossary/cost-per-call/>

**Reference Description:** Research paper showing how ensemble of machine learning model can be used to achieve better prediction accuracies

**Reference Link:** Stefan Lessmann a, Johannes Haupt a, Kristof Coussement b, Koen W. De Bock c *Targeting customers for profit: An ensemble learning framework to support marketing decision-making* [*https://doi.org/10.1016/j.ins.2019.05.027*](https://doi.org/10.1016/j.ins.2019.05.027)

**Reference Description:** Research paper on different techniques for addressing class imbalances

**Reference Link:** Justin M. Johnson & Taghi M. Khoshgoftaar *Survey on deep learning with class imbalance,* Journal of Big Data volume 6, Article number: 27 (2019)

**Reference Description:** Resource explaining the technique and need for dummy code for machine learning model development

**Reference Link:** <https://www.analyticsvidhya.com/blog/2015/11/easy-methods-deal-categorical-variables-predictive-modeling/#:~:text=Dummy%20Coding%3A%20Dummy%20coding%20is,absence%20is%20represented%20by%200>.

**Reference Description:** Resource capturing implementation of decision tree in Python

**Reference Link:** https://www.geeksforgeeks.org/decision-tree-implementation-python/