

INSURANCE LOGISTIC REGRESSION PROJECT (250 Points)

This data set contains approximately 8000 records. Each record represents a customer at an auto insurance company. Each record has two target variables. The first target variable, TARGET_FLAG, is a 1 or a 0. A "1" means that the person was in a car crash. A zero means that the person was not in a car crash.

The second target variable is TARGET_AMT. This value is zero if the person did not crash their car. But if they did crash their car, this number will be a value greater than zero. Your second part of this assignment is to come up with a model to predict what it will cost you if a person does crash their car. This model is not a major component of this assignment, so you should not spend a lot of time on this part. If you worked on the discussion board topic from Unit 1, you can use that model. You can use a simple average or some other simple model. It is not critically important to this exercise. Just make a reasonable estimate of losses (in other words, don't use a random number generator ... use something that makes sense).

For this project, most of the points will be awarded for the LOGISTIC MODEL, so that is where you should spend most of your time.

You can only use the variables given to you (or variable that you derive from the variables provided).

DELIVERABLES:

- Your write up in PDF Format. Your write up should have four sections. Each one is described below. **(160 Points)**
- A file that contains all the R (or SAS) code you used in your analysis. I should be able to run this file and get all the output that you got.
- A stand-alone R (or SAS) Data Step that will score new data as it becomes available. This should include all of the transformations and the regression equation from your analysis. **(40 Points)**
- A CSV file which has the scored records values from INSURANCE_TEST. There will be only three columns in this file: INDEX, P_TARGET_FLAG and P_TARGET_AMT. You will be graded on how your LOGISTIC REGRESSOIN model performs versus my model and those of other students in the class. I will award bonus points for high accuracy in your P_TARGET_AMT model. **(50 Points)**

WRITE UP (160 POINTS):

1. DATA EXPLORATION (40 points)

Describe the **size and the variables in the INSURANCE data set so that a manager can understand it.** Consider that too much detail will cause a manager to lose interest while too little detail will make the manager consider that you aren't doing your job. Some suggestions are given below. Please do NOT treat this as a check list of things to do to complete the assignment. You should have your own thoughts on what to tell the boss. These are just ideas.

- a. Mean / Standard Deviation / Median
- b. Bar Chart or Box Plot of the data
- c. Is the data correlated to the target variable (or to other variables?)
- d. Are any of the variables missing and need to be imputed "fixed"?

2. DATA PREPARATION (40 Points)

Describe **how you have transformed the data** by **changing the original variables** or **creating new variables.** If you did transform the data or create new variables, discuss why you did this. Here are some possible transformations.

- a. Fix missing values (maybe with a Mean or Median value or use a decision tree)
- b. Create flags to suggest if a variable was missing.
- c. Transform data by putting it into buckets
- d. Mathematical transforms such as log or square root
- e. Combine variables (such as ratios or adding or multiplying) to create new variables

3. BUILD MODELS (40 Points)

Build at least three different LOGISTIC REGRESSION (or PROBIT REGRESSION if you really want to go wild!) using different variables (or the same variables with different transformations). You may select the variables **manually, use an approach such as Forward or Stepwise, use a different approach such as trees, or use a combination of techniques.** Describe the techniques you used. If you manually selected a variable for inclusion into the model or exclusion into the model, indicate why this was done.

Discuss the **coefficients in the model, do they make sense?** For example, if a person **has a lot of traffic tickets,** you would **reasonably expect that person to have more car crashes.** If the coefficient is **negative (suggesting that the person is a safer driver), then that needs to be discussed.** Are you keeping the model even though it is **counter intuitive?** Why? The boss needs to know.

4. SELECT MODELS (40 Points)

Decide on the criteria for selecting the "Best Model". Will you use a metric such as **LOG LIKELIHOOD, AIC, or ROC CURVE?** Will you select a model with **slightly worse performance if it makes more sense or is more parsimonious?** Discuss why you selected your model. **IMPORTANT: For all three models, you must generate a ROC CURVE and provide the KS STATISTIC.**

STAND ALONE SCORING PROGRAM (40 POINTS)

WRITE MODEL DEPLOYMENT CODE (40 Points)

Write a Stand Alone data step that will **score new data** and **predict the probability that a person will crash their car** and also the **amount of money it will cost if the person does crash their car**. The variables should be named:

P_TARGET_FLAG
P_TARGET_AMT

The data step will need to include:

- a. All the variable transformations such as fixing missing values
- b. The regression formulas

Note: You might wish to do this with **two data steps instead of one**.

SCORED DATA FILE (50 POINTS)

SCORE THE LOGIT_INSURANCE_TEST DATA SET (50 Points)

Use the stand alone program that you wrote in the previous section. Score the data file

INSURANCE_TEST. Create a file that has **only THREE variables for each record:**

INDEX
P_TARGET_FLAG
P_TARGET_AMT

The first variable, **INDEX**, will allow me to match my grading key to your predicted value. If I cannot do this, you won't get a grade. So please include this value. The second value, **P_TARGET_FLAG** is the probability that a person will crash their car. It is a number between 0 and 1. The third number is the insurance damage assuming that a person does crash their car. This number should be greater than 0.

Your LOGISTIC values will be compared against ...

- A Perfect Model
- Instructor's Model
- Performance of Other Students
- Predict the Average value for everybody (MEAN)
- Random Model
- Worst Possible Model

If your model is not better than simply using an AVERAGE value, you will receive negative points

If your model is not better than generating a RANDOM value, you will receive a LOT of negative points

If your model is not better than the WORST model, then it will be a WHOLE LOT of negative points.

BINGO BONUS:

If you want Bingo Bonus Points, write a brief section at the top of your Write Up document and tell me exactly what you did and how many points you are attempting. If I cannot see your Bingo Bonus work, I cannot give you credit. Bingo Bonus is difficult to grade and I don't have time to go back looking for it. If you don't tell me it's there, I cannot give you points.

The policy with Bingo Bonus is: **All Sales are Final !**

- (20 Points) Once you select a champion model in Step 4, use PROC GENMOD to do the LOGISTIC Regression. Are the results the same? Are there any differences?
- (5 Points) Use at least one PROBIT MODEL when building your logistic models.
- (20 Points) Use decision tree software such as Angoss or Weka or something else for variable selection or missing value imputation (the more use you make of decision trees, the more points you will receive). Be sure to carefully present your decision tree output so that I can see what you did.
- (20 Points) Recreate as much of the program as you can in a second program (e.g., SAS and R)
- (?? Points) Roll the dice ... think of something creative and run with it. I might give you points.

PENALTY BOX

- (Lose 10 Points) If you don't have PDF format
- (Lose 10 Points) If you don't have a GOOD Introduction
- (Lose 10 Points) If you don't have a GOOD Conclusion
- (Lose 10 Points) If you don't put your NAME in the file names of any files you hand in
- (Lose 10 Points) If you don't put your NAME inside of the files you hand in
- (Lose ?? Points) For anything that I think might annoy your boss !