

# Lab: Data Manipulation and Cleaning

## Actuarial Data Science Online Textbook

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### Learning Objectives

- Learn how to do data importing, quality check and cleansing.
- Learn how to do data manipulation and transformation.

### Case study A - French Insurance Dataset

We will continue to use the `freMTPL2freq` dataset. As a preview, this dataset includes risk features collected for 677,991 motor third-party liability policies, observed mostly over one year. In addition, `freMTPL2freq` contains both the risk features and the claim number per policy. The `freMTPL2freq` dataset consists of 12 columns:

- `IDpol`: The policy ID (used to link with the claims dataset).
- `ClaimNb`: Number of claims during the exposure period.
- `Exposure`: The period of exposure for a policy, in years.
- `Area`: The area code.
- `VehPower`: The power of the car (ordered categorical).
- `VehAge`: The vehicle age, in years.
- `DrivAge`: The driver age, in years (in France, people can drive a car at 18).
- `BonusMalus`: Bonus/malus, between 50 and 350: <100 means bonus, >100 means malus in France.
- `VehBrand`: The car brand (unknown categories).
- `VehGas`: The car gas, Diesel or regular.

- **Density:** The density of inhabitants (number of inhabitants per km2) in the city the driver of the car lives in.
- **Region:** The policy regions in France (based on a standard French classification).

Let's first import the data, and then begin by briefly examining it.

```
# Load the required packages
library(CASdatasets)
library(tidyverse)

# Load the data
data(freMTPL2freq)

# Briefly check the data
str(freMTPL2freq)
```

```
'data.frame':  678013 obs. of  12 variables:
 $ IDpol      : num  1 3 5 10 11 13 15 17 18 21 ...
 $ ClaimNb    : 'table' num [1:678013(1d)] 1 1 1 1 1 1 1 1 1 1 ...
 $ Exposure   : num  0.1 0.77 0.75 0.09 0.84 0.52 0.45 0.27 0.71 0.15 ...
 $ VehPower   : int   5 5 6 7 7 6 6 7 7 7 ...
 $ VehAge     : int   0 0 2 0 0 2 2 0 0 0 ...
 $ DrivAge    : int  55 55 52 46 46 38 38 33 33 41 ...
 $ BonusMalus : int   50 50 50 50 50 50 50 68 68 50 ...
 $ VehBrand   : Factor w/ 11 levels "B1","B10","B11",...: 4 4 4 4 4 4 4 4 4 4 ...
 $ VehGas     : chr   "Regular" "Regular" "Diesel" "Diesel" ...
 $ Area       : Factor w/ 6 levels "A","B","C","D",...: 4 4 2 2 2 5 5 3 3 2 ...
 $ Density    : int  1217 1217 54 76 76 3003 3003 137 137 60 ...
 $ Region     : Factor w/ 21 levels "Alsace","Aquitaine",...: 21 21 18 2 2 16 16 13 13 17 ...
```

```
summary(freMTPL2freq)
```

IDpol	ClaimNb	Exposure	VehPower
Min. : 1	n.vars :1	Min. :0.002732	Min. : 4.000
1st Qu.:1157951	n.cases:36102	1st Qu.:0.180000	1st Qu.: 5.000
Median :2272152		Median :0.490000	Median : 6.000
Mean :2621857		Mean :0.528750	Mean : 6.455
3rd Qu.:4046274		3rd Qu.:0.990000	3rd Qu.: 7.000
Max. :6114330		Max. :2.010000	Max. :15.000

VehAge	DrivAge	BonusMalus	VehBrand
Min. : 0.000	Min. : 18.0	Min. : 50.00	B12 :166024

1st Qu.:	2.000	1st Qu.:	34.0	1st Qu.:	50.00	B1	:162736
Median :	6.000	Median :	44.0	Median :	50.00	B2	:159861
Mean :	7.044	Mean :	45.5	Mean :	59.76	B3	: 53395
3rd Qu.:	11.000	3rd Qu.:	55.0	3rd Qu.:	64.00	B5	: 34753
Max. :	100.000	Max. :	100.0	Max. :	230.00	B6	: 28548
						(Other):	72696

VehGas	Area	Density
Length:678013	A:103957	Min. : 1
Class :character	B: 75459	1st Qu.: 92
Mode :character	C:191880	Median : 393
	D:151596	Mean : 1792
	E:137167	3rd Qu.: 1658
	F: 17954	Max. :27000

Region
Centre :160601
Rhone-Alpes : 84752
Provence-Alpes-Cotes-D'Azur: 79315
Ile-de-France : 69791
Bretagne : 42122
Nord-Pas-de-Calais : 40275
(Other) :201157

From the outputs above, we can see that there are 678013 individual car insurance policies and 12 variables associated with each policy. At first glance, without further checking, we notice that the data types of some columns may need adjustment. For example, `ClaimNb` is stored as a table, and `VehGas` is stored as a character. We may want to convert these to integer and factor, respectively. However, note that some modeling packages are smart enough to handle this automatically, so we may not need to do this ourselves.

```
# Load the required packages
# Convert ClaimNb from a table to integer
freMTPL2freq$ClaimNb <- as.integer(as.numeric(freMTPL2freq$ClaimNb))

# Convert VehGas from character to factor
freMTPL2freq$VehGas <- as.factor(freMTPL2freq$VehGas)

# Recheck the data structure after adjustment
# str(freMTPL2freq)
# summary(freMTPL2freq)
```

## Task Solution: Are There Any NA (Missing) Values Present in the Dataset?

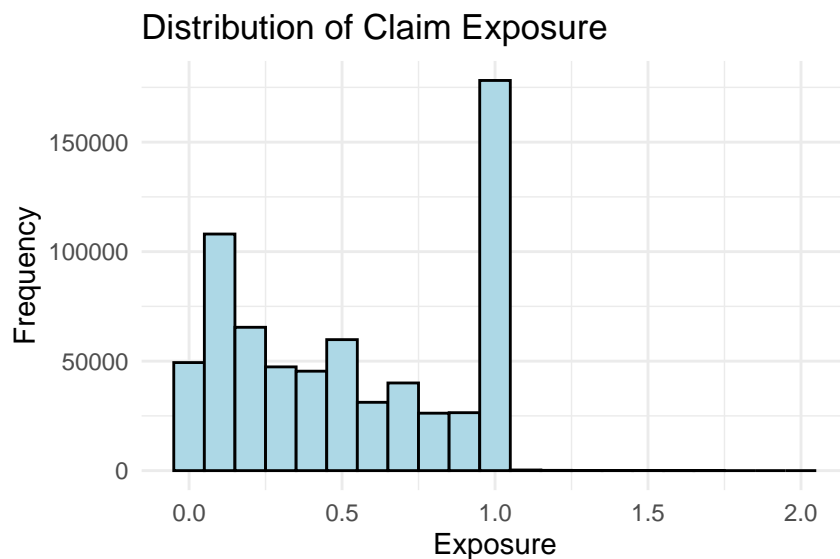
```
# Check for NA values in freMTPL2freq
na_summary_freq <- sapply(freMTPL2freq, function(x) sum(is.na(x)))
print(na_summary_freq)
```

IDpol	ClaimNb	Exposure	VehPower	VehAge	DrivAge	BonusMalus
0	0	0	0	0	0	0
VehBrand	VehGas	Area	Density	Region		
0	0	0	0	0		

Fortunately, there are no missing values in this dataset.

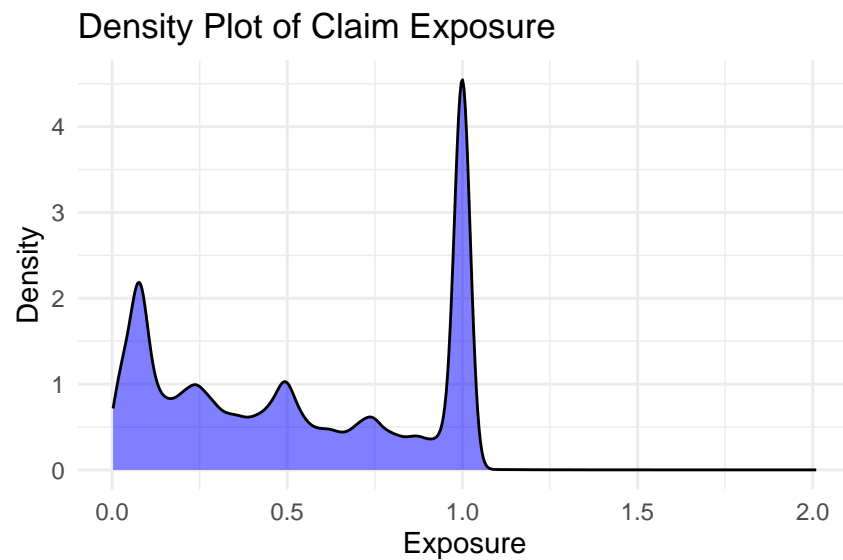
## Task Solution: Check the Distribution of Claim Exposure and Number of Claims, and Comment on Any Unusual Observations

```
# Histogram of claim exposure using ggplot2
ggplot(freMTPL2freq, aes(x = Exposure)) +
  geom_histogram(binwidth = 0.1, fill = "lightblue", color = "black") +
  labs(title = "Distribution of Claim Exposure", x = "Exposure", y = "Frequency") +
  theme_minimal()
```

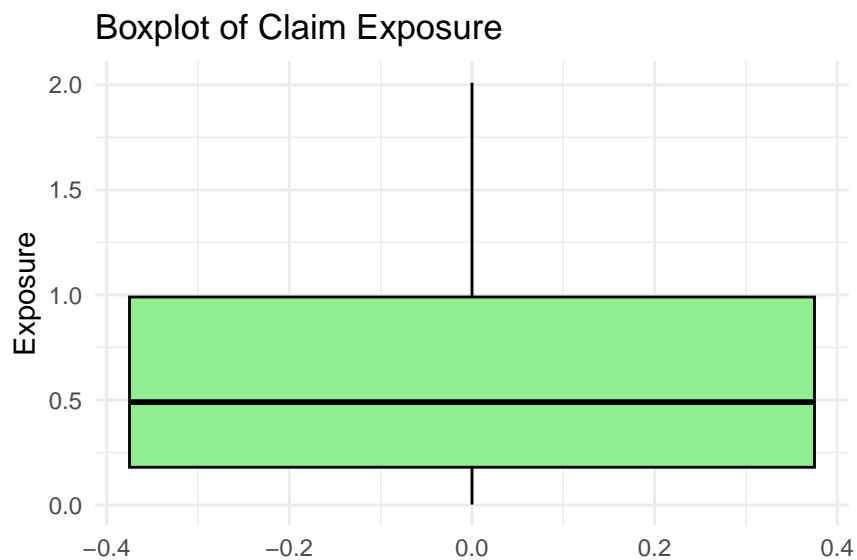


```
# Density plot of claim exposure using ggplot2
ggplot(freMTPL2freq, aes(x = Exposure)) +
  geom_density(fill = "blue", alpha = 0.5) +
```

```
labs(title = "Density Plot of Claim Exposure", x = "Exposure", y = "Density") +  
theme_minimal()
```



```
# Boxplot of claim exposure using ggplot2  
ggplot(freMTPL2freq, aes(y = Exposure)) +  
  geom_boxplot(fill = "lightgreen", color = "black") +  
  labs(title = "Boxplot of Claim Exposure", y = "Exposure") +  
  theme_minimal()
```



```
# Frequency table of the number of claims using dplyr
freMTPL2freq %>%
  count(ClaimNb) %>%
  print()
```

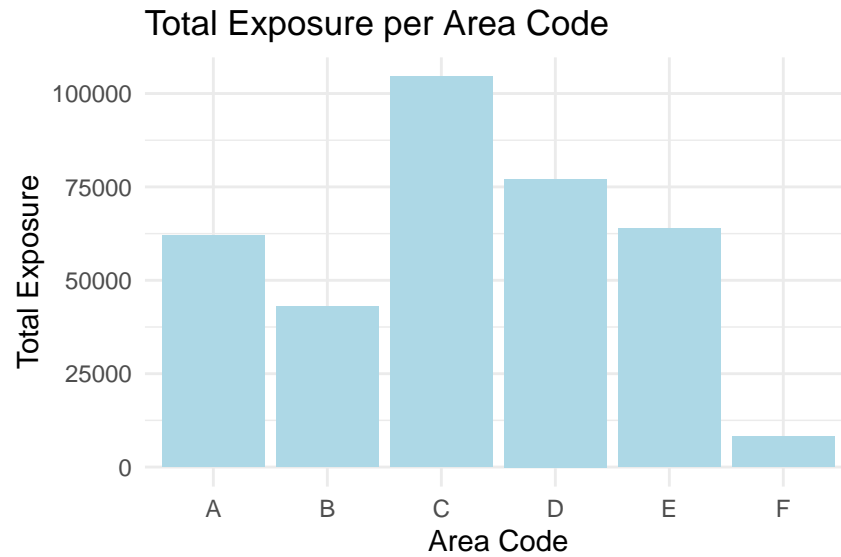
	ClaimNb	n
1	0	643953
2	1	32178
3	2	1784
4	3	82
5	4	7
6	5	2
7	6	1
8	8	1
9	9	1
10	11	3
11	16	1

We consider several plots to depict the distribution of claim exposure. Typically, you would only need to show one of these if you want to include exposure in your EDA. Note that some exposures are greater than one year (i.e., 1224 policies). Additionally, we present the frequency table of the number of claims. There are only 9 policies with more than 4 claims, as shown in the table. Without further information, it is difficult to determine whether these entries are errors or not. You can choose to keep them or consider capping them (e.g., in Noll, Salzmann, and Wuthrich (2020), all exposures greater than 1 are set to 1, and all claim numbers greater than 4 are set to 4).

### Task Solution: Check if Area Is an Ordinal Categorical Variable

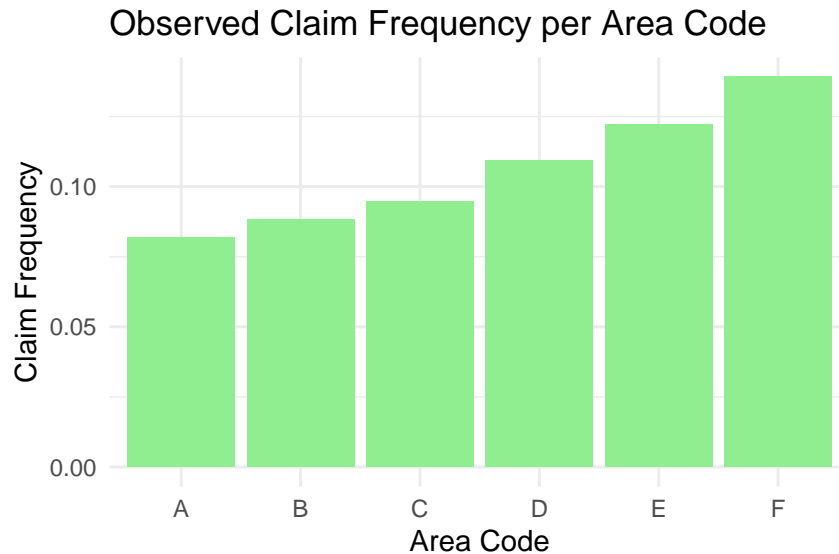
```
# Calculate total exposure per area code
total_exposure_per_area <- freMTPL2freq %>%
  group_by(Area) %>%
  summarise(TotalExposure = sum(Exposure, na.rm = TRUE))

# Bar plot of total exposure per area code using ggplot2
ggplot(total_exposure_per_area, aes(x = Area, y = TotalExposure)) +
  geom_bar(stat = "identity", fill = "lightblue") +
  labs(title = "Total Exposure per Area Code", x = "Area Code", y = "Total Exposure") +
  theme_minimal()
```



```
# Calculate claim frequency per area code
claim_frequency_per_area <- freMTPL2freq %>%
  group_by(Area) %>%
  summarise(TotalClaims = sum(ClaimNb, na.rm = TRUE),
            TotalExposure = sum(Exposure, na.rm = TRUE),
            ClaimFrequency = TotalClaims / TotalExposure)

# Bar plot of claim frequency per area code using ggplot2
ggplot(claim_frequency_per_area, aes(x = Area, y = ClaimFrequency)) +
  geom_bar(stat = "identity", fill = "lightgreen") +
  labs(title = "Observed Claim Frequency per Area Code", x = "Area Code", y = "Claim Frequency")
theme_minimal()
```



We first checked whether the level of total exposure is roughly the same for each area, which is not the case; Area F clearly has the lowest total exposure. Then, by examining the observed claim frequency per area code, we confirmed that **Area** is an ordinal categorical variable, as the observed claim frequency increases consistently from Area A to Area F.

#### **i** Exercise

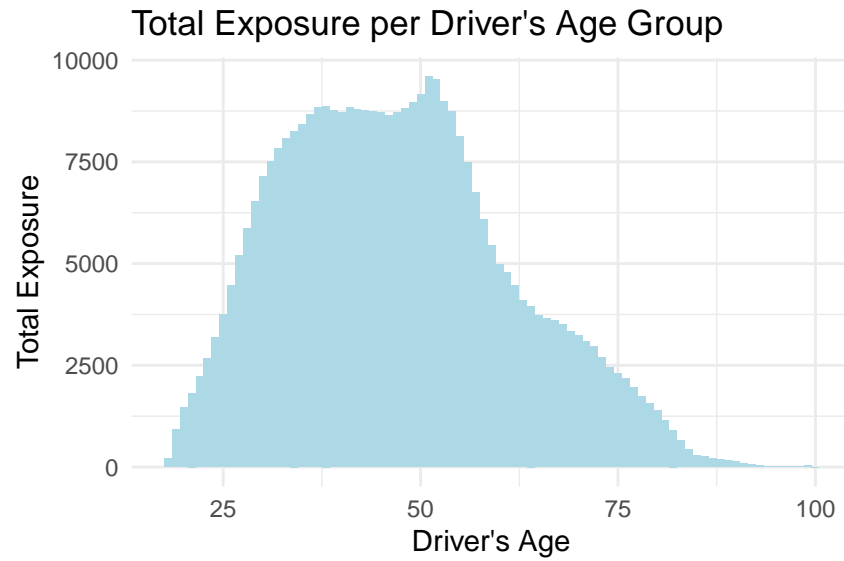
Is **VehPower** an ordinal variable? Can you follow the code above to check this?

### **Task Solution: Explore the Relationship Between Age and Claim Frequency. How Does Age Influence the Frequency of Claims?**

```
# Calculate total exposure per driver's age group
total_exposure_per_age <- freMTPL2freq %>%
  group_by(DrivAge) %>%
  summarise(TotalExposure = sum(Exposure, na.rm = TRUE)) %>%
  arrange(DrivAge)

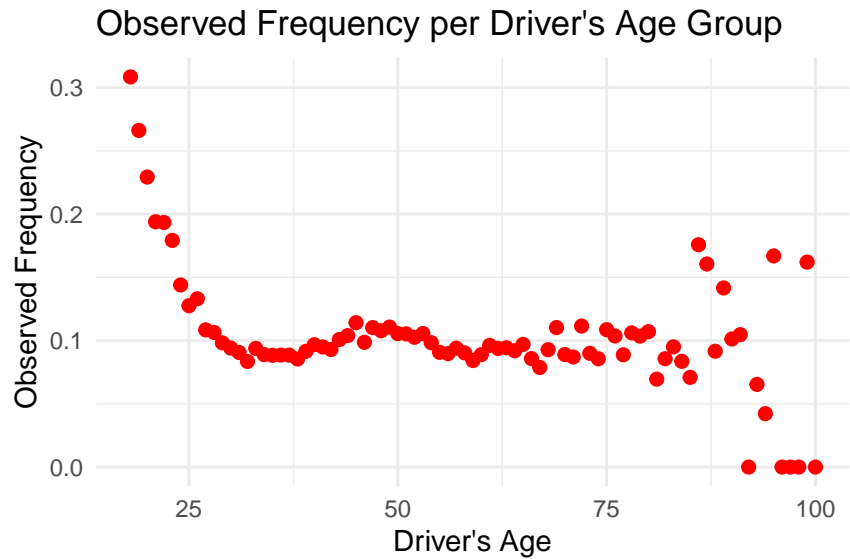
# Bar plot of total exposure per driver's age group using ggplot2
ggplot(total_exposure_per_age, aes(x = DrivAge, y = TotalExposure)) +
  geom_bar(stat = "identity", fill = "lightblue") +
  labs(title = "Total Exposure per Driver's Age Group", x = "Driver's Age", y = "Total Exposure")
theme_minimal()
```





```
# Calculate observed frequency per driver's age group
observed_frequency_per_age <- freMTPL2freq %>%
  group_by(DrivAge) %>%
  summarise(TotalClaims = sum(ClaimNb, na.rm = TRUE),
            TotalExposure = sum(Exposure, na.rm = TRUE),
            ObservedFrequency = TotalClaims / TotalExposure) %>%
  arrange(DrivAge)

# Line plot of observed frequency per driver's age group using ggplot2
ggplot(observed_frequency_per_age, aes(x = DrivAge, y = ObservedFrequency)) +
  geom_point(color = "red", size = 2) +
  labs(title = "Observed Frequency per Driver's Age Group", x = "Driver's Age", y = "ObservedFrequency") +
  theme_minimal()
```



From the above plots, we can observe that the relationship between the predictor **Age** and the observed claim frequency is non-linear. Please note this, as we will explore how to incorporate this into modeling in the coming weeks.

#### **i** Exercise

Can you follow the code above or write your own code to explore the relationship between the (observed) claim frequency and other predictors in the dataset? Did you find any interesting findings?

**Task Solution: Analyze the Interrelationships Between the Various Predictors in the Dataset. Identify Any Significant Correlations or Dependencies, and Discuss Their Potential Implications for Modeling.**

```
# Convert the Area factor to numeric based on its levels
freMTPL2freq$AreaNumeric <- as.numeric(as.ordered(freMTPL2freq$Area))

# Select the relevant variables
correlation_data <- freMTPL2freq %>%
  select(AreaNumeric, VehPower, VehAge, DrivAge, BonusMalus, Density)

# Calculate the Pearson correlation matrix
correlation_matrix <- cor(correlation_data, method = "pearson")
```

```
# Display the correlation matrix
```

```
print(correlation_matrix)
```

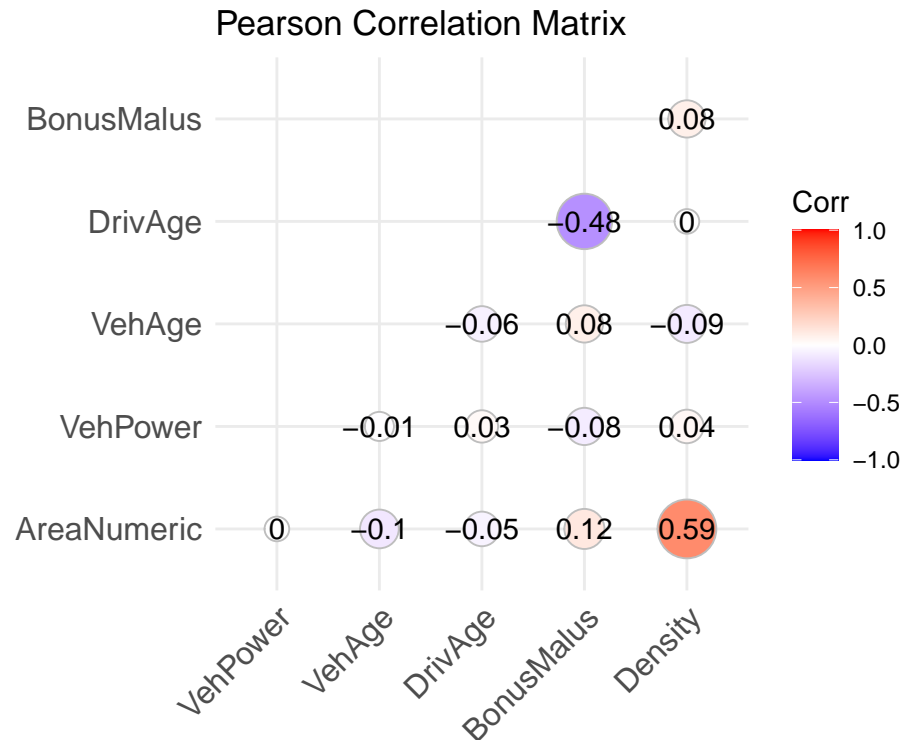
	AreaNumeric	VehPower	VehAge	DrivAge	BonusMalus
AreaNumeric	1.000000000	0.003176694	-0.104530220	-0.045180127	0.12085798
VehPower	0.003176694	1.000000000	-0.006001487	0.030107579	-0.07589469
VehAge	-0.104530220	-0.006001487	1.000000000	-0.059213383	0.07992307
DrivAge	-0.045180127	0.030107579	-0.059213383	1.000000000	-0.47996604
BonusMalus	0.120857981	-0.075894688	0.079923071	-0.479966037	1.00000000
Density	0.589375413	0.042900681	-0.090427830	-0.004699793	0.07771679
	Density				
AreaNumeric	0.589375413				
VehPower	0.042900681				
VehAge	-0.090427830				
DrivAge	-0.004699793				
BonusMalus	0.077716791				
Density	1.000000000				

```
# Load additional packages for visualization if needed
```

```
library(ggcorrplot)
```

```
# Visualize the Pearson correlation matrix
```

```
ggcorrplot(correlation_matrix,  
            method = "circle",  
            type = "lower",  
            lab = TRUE,  
            title = "Pearson Correlation Matrix")
```



Here, we focus on checking the correlations between numerical and ordinal categorical features. Notably, there is a strong positive correlation between **Area** and **Density**, followed by a negative dependence between **DrivAge** and **BonusMalus**. Examining relationships between features is important because it helps identify multicollinearity, reveals potential interactions, and provides insights into how features jointly influence the target variable.

#### **i** Exercise

In the above, we only considered Pearson's correlation between numerical features. Can you explore more of the interrelationships between predictors? For example, we might be interested in how vehicle brand interplays with other vehicle characteristics, or even with driver or policy characteristics.

For your reference, you can refer to [Noll, Salzmann, and Wuthrich \(2020\)](#) for some in-depth bivariate analysis in EDA for this dataset.

## **Case study B - Default of Credit Card Clients**

The data set is the customers' default payments which include 30000 instances described over 24 attributes. The data can be downloaded from [link](#). This case study considers the

customers default payments in Taiwan and compares the predictive accuracy of probability of default among the shrinkage techniques namely lasso, ridge, and elastic net regression and non-shrinkage methods such as logistic regression. This case study employs a binary variable, default payment (Yes = 1, No = 0), as the response variable. The data used in this case study have 23 variables as explanatory variables:

- $X_1$ : Amount of the given credit (NT dollar): it includes both the individual consumer credit and his/her family (supplementary) credit.
- $X_2$ : Gender (1 = male; 2 = female).
- $X_3$ : Education (1 = graduate school; 2 = university; 3 = high school; 4 = others).
- $X_4$ : Marital status (1 = married; 2 = single; 3 = others).
- $X_5$ : Age (year).
- $X_6 - X_{11}$ : History of past payment. We tracked the past monthly payment records (from April to September, 2005) as follows:  $X_6$  = the repayment status in September, 2005;  $X_7$  = the repayment status in August, 2005; ...;  $X_{11}$  = the repayment status in April, 2005. The measurement scale<sup>1</sup> for the repayment status is: -2: No consumption; -1: Paid in full; 0: The use of revolving credit; 1 = payment delay for one month; 2 = payment delay for two months; . . .; 8 = payment delay for eight months; 9 = payment delay for nine months and above.
- $X_{12} - X_{17}$ : Amount of bill statement (NT dollar).  $X_{12}$  = amount of bill statement in September, 2005;  $X_{13}$  = amount of bill statement in August, 2005; ...;  $X_{17}$  = amount of bill statement in April, 2005.
- $X_{18} - X_{23}$ : Amount of previous payment (NT dollar).  $X_{18}$  = amount paid in September, 2005;  $X_{19}$  = amount paid in August, 2005; ...;  $X_{23}$  = amount paid in April, 2005.

## Import data

- The credit card issuers in Taiwan faced the cash and credit card debt crisis in 2005. To increase market share, card-issuing banks in Taiwan over-issued cash and credit cards to unqualified applicants. At the same time, most cardholders, irrespective of their repayment ability, they overused credit card for consumption and accumulated heavy credit and cash card debts. The crisis caused the blow to consumer finance confidence and it was a big challenge for both banks and cardholders. In a well-developed financial system, crisis management is on the downstream and risk prediction is on the upstream. The major purpose of risk prediction is to use financial information, such as business financial

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<sup>1</sup>The original data set description is inconsistent with the data; updated according to <https://www.kaggle.com/datasets/uciml/default-of-credit-card-clients-dataset/discussion/34608>.

statements, customer transactions, and repayment records to predict business performance or individual customers' credit risk and to reduce the damage and uncertainty.

- This tutorial focus on how to pre-process the data before using the machine learning techniques to predict the response variable.
- In this tutorial, we use the credit data of the credit card clients in Taiwan. The data set is the customers' default payments which include 30000 instances described over 24 attributes. This dataset contains information on default payments, demographic factors, credit data, history of payment, and bill statements of credit card clients in Taiwan from April 2005 to September 2005.
- Loading the required packages

```
library(data.table)
library(readxl)
library(ggplot2)
library(tidyverse)
library(naniar)
library(corrplot)
library(caret)
library(gridExtra)
library(ggcorrplot)
library(glmnet)
```

- Importing data

```
data <- read_excel("credit.xls", skip = 1)
```

- Understanding the data structure

```
dim(data) # dimension of data
```

```
[1] 30000    25
```

```
str(data) # structure of data
```

```
tibble [30,000 x 25] (S3: tbl_df/tbl/data.frame)
```

```
$ ID           : num [1:30000] 1 2 3 4 5 6 7 8 9 10 ...
$ LIMIT_BAL    : num [1:30000] 20000 120000 90000 50000 50000 50000 500000 100000 ...
$ SEX          : num [1:30000] 2 2 2 2 1 1 1 2 2 1 ...
$ EDUCATION    : num [1:30000] 2 2 2 2 2 1 1 2 3 3 ...
$ MARRIAGE     : num [1:30000] 1 2 2 1 1 2 2 2 1 2 ...
$ AGE          : num [1:30000] 24 26 34 37 57 37 29 23 28 35 ...
$ PAY_0        : num [1:30000] 2 -1 0 0 -1 0 0 0 0 -2 ...
```

```

$ PAY_2          : num [1:30000] 2 2 0 0 0 0 0 -1 0 -2 ...
$ PAY_3          : num [1:30000] -1 0 0 0 -1 0 0 -1 2 -2 ...
$ PAY_4          : num [1:30000] -1 0 0 0 0 0 0 0 0 -2 ...
$ PAY_5          : num [1:30000] -2 0 0 0 0 0 0 0 0 -1 ...
$ PAY_6          : num [1:30000] -2 2 0 0 0 0 0 -1 0 -1 ...
$ BILL_AMT1      : num [1:30000] 3913 2682 29239 46990 8617 ...
$ BILL_AMT2      : num [1:30000] 3102 1725 14027 48233 5670 ...
$ BILL_AMT3      : num [1:30000] 689 2682 13559 49291 35835 ...
$ BILL_AMT4      : num [1:30000] 0 3272 14331 28314 20940 ...
$ BILL_AMT5      : num [1:30000] 0 3455 14948 28959 19146 ...
$ BILL_AMT6      : num [1:30000] 0 3261 15549 29547 19131 ...
$ PAY_AMT1       : num [1:30000] 0 0 1518 2000 2000 ...
$ PAY_AMT2       : num [1:30000] 689 1000 1500 2019 36681 ...
$ PAY_AMT3       : num [1:30000] 0 1000 1000 1200 10000 657 38000 0 432 0 ...
$ PAY_AMT4       : num [1:30000] 0 1000 1000 1100 9000 ...
$ PAY_AMT5       : num [1:30000] 0 0 1000 1069 689 ...
$ PAY_AMT6       : num [1:30000] 0 2000 5000 1000 679 ...
$ default payment next month: num [1:30000] 1 1 0 0 0 0 0 0 0 0 ...

```

- Renaming some columns

```

colnames(data)[colnames(data) == "PAY_0"] = "PAY_1"
colnames(data)[colnames(data) == "default payment next month"] = "default"
data$default <- as.factor(data$default) # changes it
data$SEX <- as.factor(data$SEX)

```

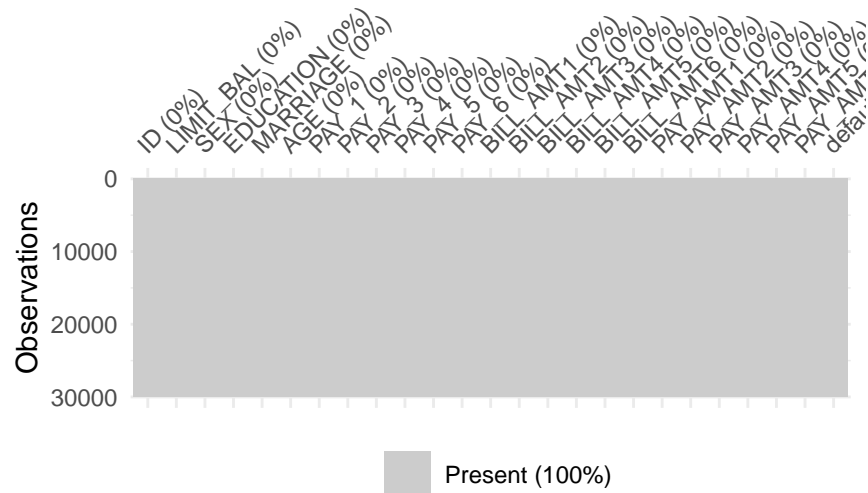
**Task Solution: Are there any missing values in the data? If there are any missing values suggest the ways to impute them. Use the suggested method to impute the missing values.**

**Checking missing values in the data.**

```

vis_miss(data) # 0% of them are N.A.

```



```
colSums(is.na(data))
```

ID	LIMIT_BAL	SEX	EDUCATION	MARRIAGE	AGE	PAY_1	PAY_2
0	0	0	0	0	0	0	0
PAY_3	PAY_4	PAY_5	PAY_6	BILL_AMT1	BILL_AMT2	BILL_AMT3	BILL_AMT4
0	0	0	0	0	0	0	0
BILL_AMT5	BILL_AMT6	PAY_AMT1	PAY_AMT2	PAY_AMT3	PAY_AMT4	PAY_AMT5	PAY_AMT6
0	0	0	0	0	0	0	0
default							
0							

```
summary(data)
```

ID	LIMIT_BAL	SEX	EDUCATION	MARRIAGE
Min. : 1	Min. : 10000	1:11888	Min. :0.000	Min. :0.000
1st Qu.: 7501	1st Qu.: 50000	2:18112	1st Qu.:1.000	1st Qu.:1.000
Median :15000	Median : 140000		Median :2.000	Median :2.000
Mean :15000	Mean : 167484		Mean :1.853	Mean :1.552
3rd Qu.:22500	3rd Qu.: 240000		3rd Qu.:2.000	3rd Qu.:2.000
Max. :30000	Max. :1000000		Max. :6.000	Max. :3.000
AGE	PAY_1	PAY_2	PAY_3	
Min. :21.00	Min. : -2.0000	Min. : -2.0000	Min. : -2.0000	
1st Qu.:28.00	1st Qu.: -1.0000	1st Qu.: -1.0000	1st Qu.: -1.0000	
Median :34.00	Median : 0.0000	Median : 0.0000	Median : 0.0000	
Mean :35.49	Mean : -0.0167	Mean : -0.1338	Mean : -0.1662	
3rd Qu.:41.00	3rd Qu.: 0.0000	3rd Qu.: 0.0000	3rd Qu.: 0.0000	
Max. :79.00	Max. : 8.0000	Max. : 8.0000	Max. : 8.0000	
PAY_4	PAY_5	PAY_6	BILL_AMT1	



Min. : -2.0000	Min. : -2.0000	Min. : -2.0000	Min. : -165580
1st Qu.: -1.0000	1st Qu.: -1.0000	1st Qu.: -1.0000	1st Qu.: 3559
Median : 0.0000	Median : 0.0000	Median : 0.0000	Median : 22382
Mean : -0.2207	Mean : -0.2662	Mean : -0.2911	Mean : 51223
3rd Qu.: 0.0000	3rd Qu.: 0.0000	3rd Qu.: 0.0000	3rd Qu.: 67091
Max. : 8.0000	Max. : 8.0000	Max. : 8.0000	Max. : 964511
BILL_AMT2	BILL_AMT3	BILL_AMT4	BILL_AMT5
Min. : -69777	Min. : -157264	Min. : -170000	Min. : -81334
1st Qu.: 2985	1st Qu.: 2666	1st Qu.: 2327	1st Qu.: 1763
Median : 21200	Median : 20088	Median : 19052	Median : 18104
Mean : 49179	Mean : 47013	Mean : 43263	Mean : 40311
3rd Qu.: 64006	3rd Qu.: 60165	3rd Qu.: 54506	3rd Qu.: 50190
Max. : 983931	Max. : 1664089	Max. : 891586	Max. : 927171
BILL_AMT6	PAY_AMT1	PAY_AMT2	PAY_AMT3
Min. : -339603	Min. : 0	Min. : 0	Min. : 0
1st Qu.: 1256	1st Qu.: 1000	1st Qu.: 833	1st Qu.: 390
Median : 17071	Median : 2100	Median : 2009	Median : 1800
Mean : 38872	Mean : 5664	Mean : 5921	Mean : 5226
3rd Qu.: 49198	3rd Qu.: 5006	3rd Qu.: 5000	3rd Qu.: 4505
Max. : 961664	Max. : 873552	Max. : 1684259	Max. : 896040
PAY_AMT4	PAY_AMT5	PAY_AMT6	default
Min. : 0	Min. : 0.0	Min. : 0.0	0: 23364
1st Qu.: 296	1st Qu.: 252.5	1st Qu.: 117.8	1: 6636
Median : 1500	Median : 1500.0	Median : 1500.0	
Mean : 4826	Mean : 4799.4	Mean : 5215.5	
3rd Qu.: 4013	3rd Qu.: 4031.5	3rd Qu.: 4000.0	
Max. : 621000	Max. : 426529.0	Max. : 528666.0	

```
unique(data%>%select("MARRIAGE"))
```

---

MARRIAGE

---

1  
2  
3  
0

---

```
unique(data%>%select("EDUCATION"))
```

---

EDUCATION

---

2  
1

EDUCATION
3
5
4
6
0

```
length(data%>%filter(MARRIAGE==0)%>%pull("MARRIAGE"))
```

```
[1] 54
```

```
length(data%>%filter(EDUCATION==0)%>%pull("EDUCATION"))
```

```
[1] 14
```

- No direct missing values in the data. However, when we look at the summary of the data, there are some missing values in marriage and education named 0.

### Possible ways to impute the missing values.

- Impute the missing value in marriage and education by naming the missing values as “others”.
- The missing values can also be imputed using the mode value.

### Impute the missing values.

```
mplot1 <- ggplot(data = data, mapping = aes(x = MARRIAGE, fill = default)) +
  geom_bar() + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Before Imputing") + stat_count(aes(label = ..count..))
```

```
# impute missing values in marriage
# replace 0s values with 3 (others)
```

```
data$MARRIAGE = ifelse(data%>%select(MARRIAGE) == 0, 3, data$MARRIAGE)
unique(data%>%select("MARRIAGE"))
```

MARRIAGE
1
2

---

MARRIAGE

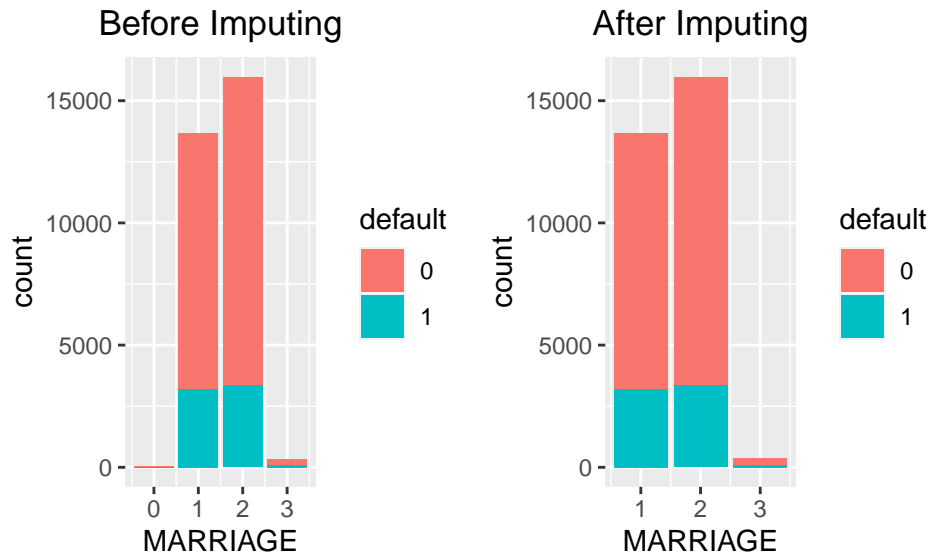
---

3

---

```
mplot2 <-ggplot(data = data, mapping = aes(x = MARRIAGE, fill = default)) +
  geom_bar() + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("After Imputing") + stat_count(aes(label = ..count..))

grid.arrange(mplot1, mplot2, ncol = 2)
```



```
# impute missing values in education
# replace 0s values with 3 (others), and merge 5, and 6 to others.

eplot1 <- ggplot(data = data, mapping = aes(x = EDUCATION, fill = default)) +
  geom_bar() + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Before Imputing") + stat_count(aes(label = ..count..))

data$EDUCATION = ifelse(data%>%select(EDUCATION) == 0 | data%>%select(EDUCATION) == 5
  | data%>%select(EDUCATION) == 6, 4, data$EDUCATION)
# we want to replace 0,5,6 by 4
unique(data%>%select("EDUCATION"))
```

---

EDUCATION

---

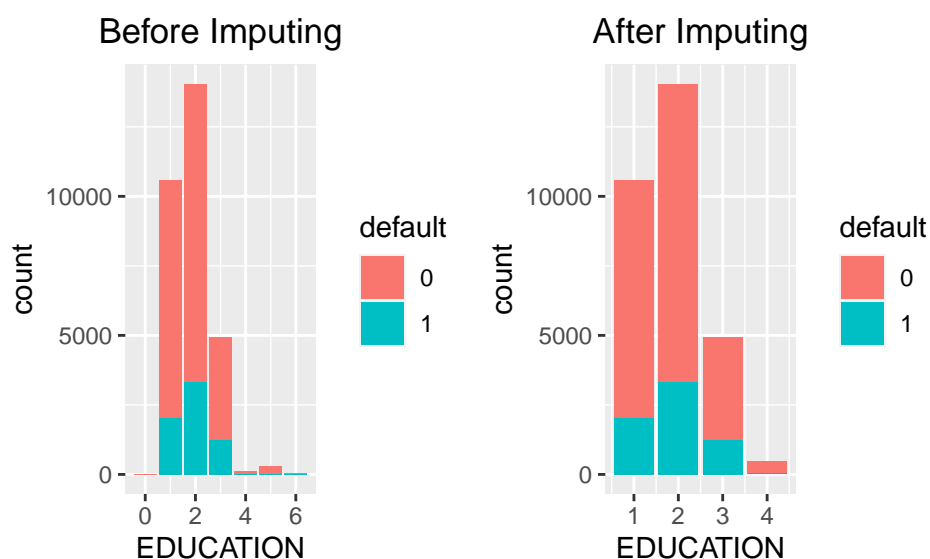
2

1

EDUCATION
3
4

```
eplot2 <- ggplot(data = data, mapping = aes(x = EDUCATION, fill = default)) +
  geom_bar() + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("After Imputing") + stat_count(aes(label = ..count..))

grid.arrange(eplot1, eplot2, ncol = 2)
```



**Task Solution: Using visualizations, explore the predictor variables to understand their distributions as well as the relationships between predictors.**

### Exploration of Social Status Predictors

```
# Checking the number of defaulters
```

```
par(mfrow=c(1,3))
```

```
# Number of defaulters in marriage
```

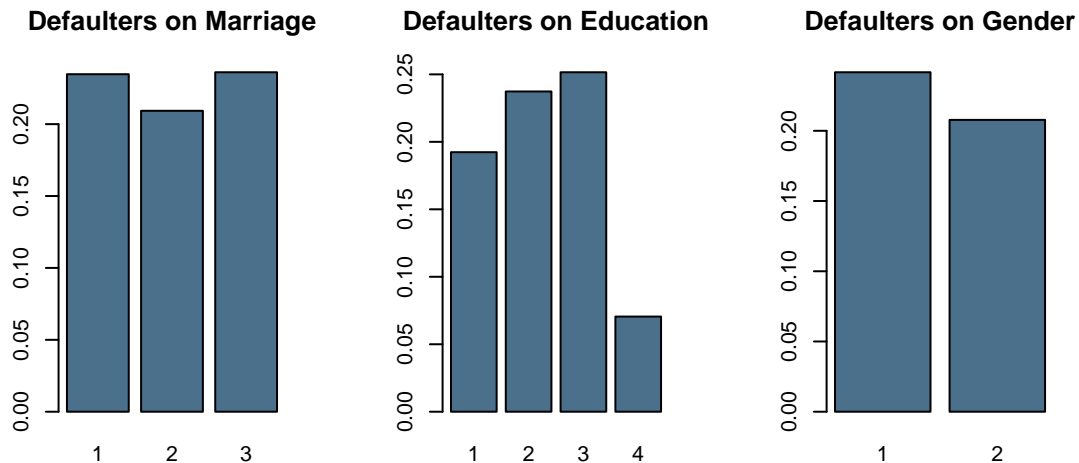
```
count <- table(data$MARRIAGE, data$default)/rowSums(table(data$MARRIAGE, data$default))
barplot(count[,2], col = "skyblue4", main = 'Defaulters on Marriage')
```

```
# Number of defaulters in education

count1 <- table(data$EDUCATION, data$default)/rowSums(table(data$EDUCATION, data$default))
barplot(count1[,2], col = "skyblue4", main = 'Defaulters on Education')

# Number of defaulters in gender (sex)

count3 <- table(data$SEX, data$default)/rowSums(table(data$SEX, data$default))
barplot(count3[,2], col = "skyblue4", main = 'Defaulters on Gender')
```

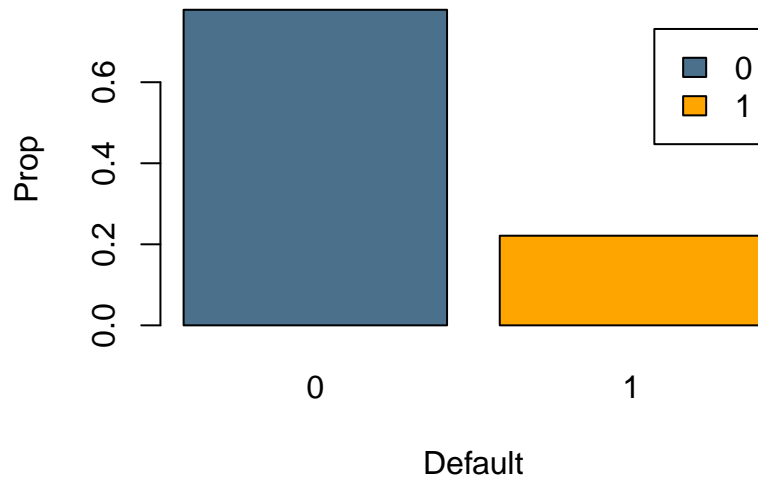


- Male persons (male = 1) have more chances to default.
- The better education the lower chances to default.
- Married persons have more chances to default.

### Exploration of response variable

```
# proportion of defaulters vs non-defaulters

prop <- prop.table(table(data%>%select(default)))
barplot(prop, ylab = "Prop", xlab = "Default", col = c("skyblue4","orange"),
        legend = rownames(prop), beside = TRUE)
```

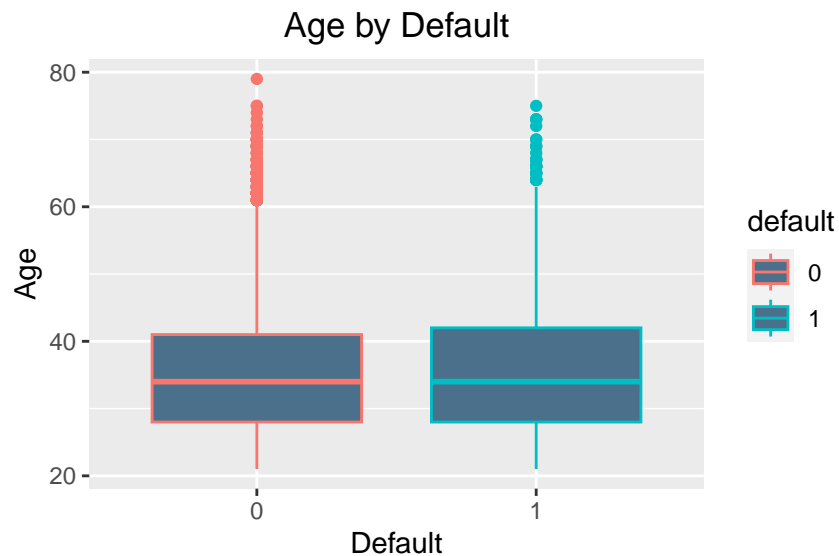


20% at 1, 80% at 0 - Target variable variable is imbalanced. This can be solved by under-sampling, over-sampling or no sampling.

### Exploration of age variable

```
# box plot for age by default
```

```
ggplot(data = data, aes(x = as.factor(default), y = AGE, colour = default))+
  geom_boxplot(fill="skyblue4") + theme(plot.title = element_text(hjust = 0.5))+
  labs(title='Age by Default', x= 'Default', y ='Age')
```

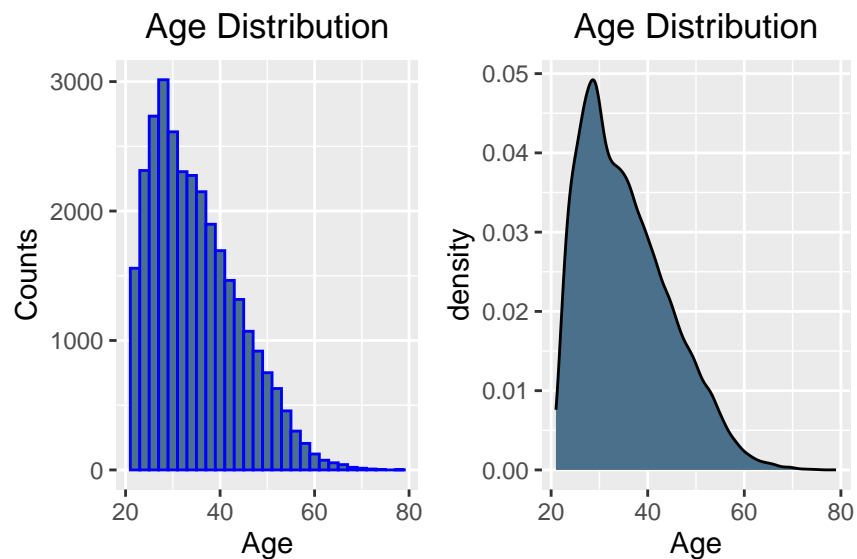


```
# distribution of age
```

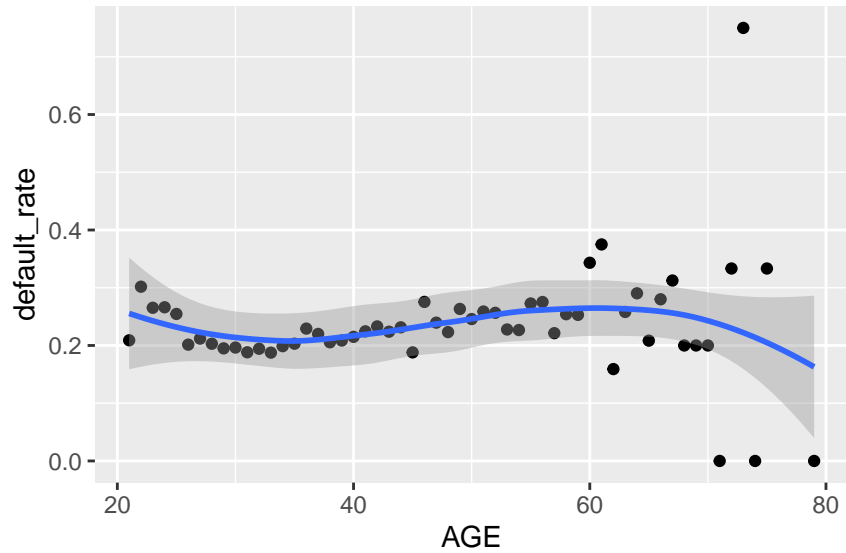
```
plot1 <- ggplot(data, aes(x = AGE))+  
  geom_histogram(aes(x = AGE), color = "blue", fill="skyblue4") +  
  labs(x = "Age", y = "Counts") + theme(plot.title = element_text(hjust = 0.5)) +  
  ggtitle("Age Distribution")
```

```
plot2 <- ggplot(data = data, mapping = aes(x = AGE)) +  
  geom_density(fill="skyblue4") + theme(plot.title = element_text(hjust = 0.5)) +  
  ggtitle("Age Distribution") +  
  xlab("Age")
```

```
grid.arrange(plot1, plot2, ncol = 2)
```



```
data %>%  
  group_by(AGE) %>%  
  summarize(default_rate=sum(as.double(default)-1)/length(AGE)) %>%  
  ggplot(aes(x=AGE, y=default_rate)) + geom_point() + geom_smooth()
```



- In general, we cannot see any obvious patterns in the above plot.

### Exploration of balance limit variable

```
summary(data%>%select("LIMIT_BAL"))
```

```

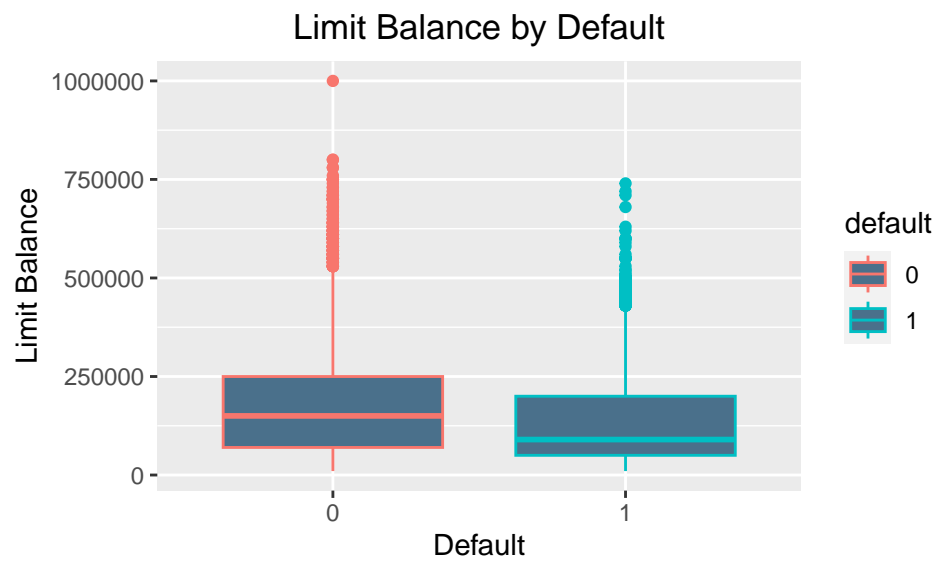
LIMIT_BAL
Min.   : 10000
1st Qu.: 50000
Median : 140000
Mean   : 167484
3rd Qu.: 240000
Max.   :1000000

```

```
# box plot for limit balance by default
```

```
ggplot(data = data, aes(x = as.factor(default), y = LIMIT_BAL, colour = default))+
  geom_boxplot(fill="skyblue4") + theme(plot.title = element_text(hjust = 0.5))+
  labs(title='Limit Balance by Default', x= 'Default', y ='Limit Balance')
```



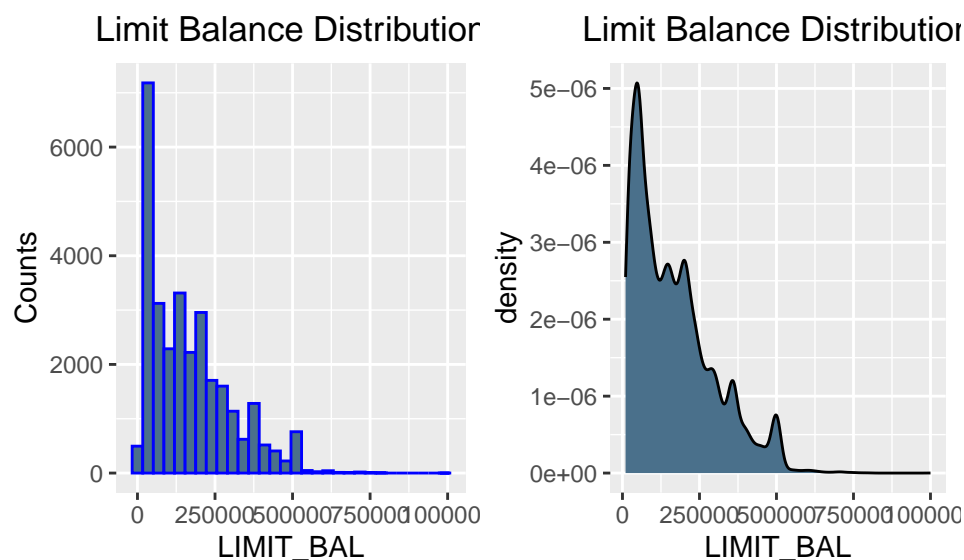


```
plot_bal1 <- ggplot(data, aes(x = LIMIT_BAL)) +
  geom_histogram(aes(x = LIMIT_BAL), color = "blue", fill = "skyblue4") +
  labs(x = "LIMIT_BAL", y = "Counts") + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Limit Balance Distribution")

# distribution of limit balance

plot_bal2 <- ggplot(data = data, mapping = aes(x = LIMIT_BAL)) +
  geom_density(fill = "skyblue4") + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Limit Balance Distribution") +
  xlab("LIMIT_BAL")

grid.arrange(plot_bal1, plot_bal2, ncol = 2)
```



- The lower the amount of given credit limit of the balance owing, the bigger the chances to default.

### Exploration of amount of bill statement variable

```
billamt_colsnames <- paste0("BILL_AMT", c(1, 2:6))
data1 <- data%>%select(starts_with("BILL_AMT"))
summary(data1)
```

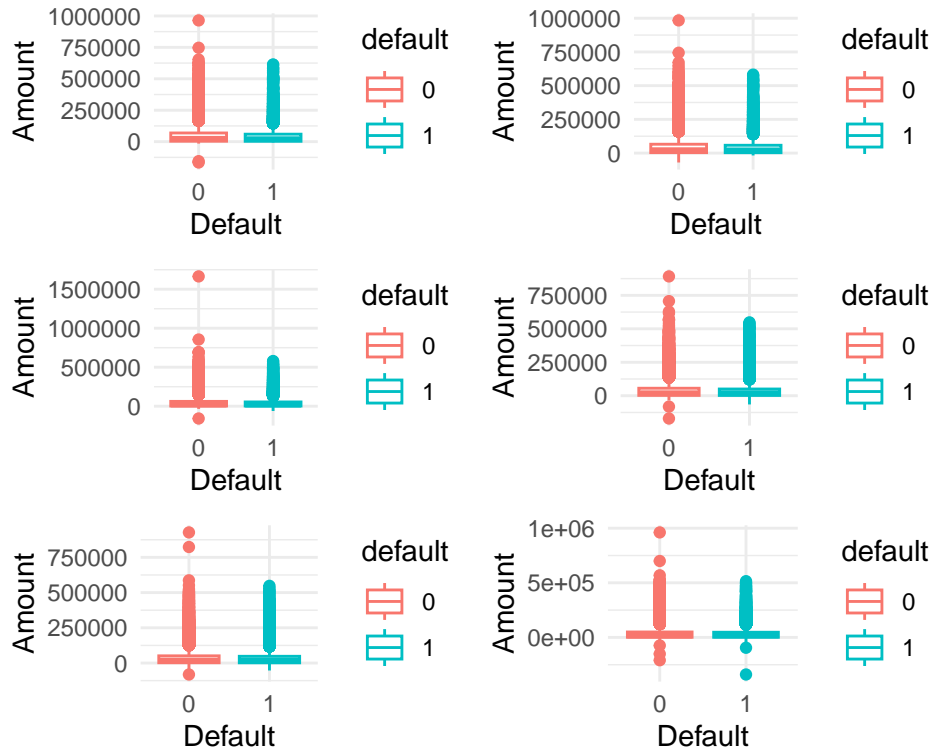
BILL_AMT1	BILL_AMT2	BILL_AMT3	BILL_AMT4
Min. :-165580	Min. :-69777	Min. :-157264	Min. :-170000
1st Qu.: 3559	1st Qu.: 2985	1st Qu.: 2666	1st Qu.: 2327
Median : 22382	Median : 21200	Median : 20088	Median : 19052
Mean : 51223	Mean : 49179	Mean : 47013	Mean : 43263
3rd Qu.: 67091	3rd Qu.: 64006	3rd Qu.: 60165	3rd Qu.: 54506
Max. : 964511	Max. : 983931	Max. : 1664089	Max. : 891586

BILL_AMT5	BILL_AMT6
Min. :-81334	Min. :-339603
1st Qu.: 1763	1st Qu.: 1256
Median : 18104	Median : 17071
Mean : 40311	Mean : 38872
3rd Qu.: 50190	3rd Qu.: 49198
Max. : 927171	Max. : 961664

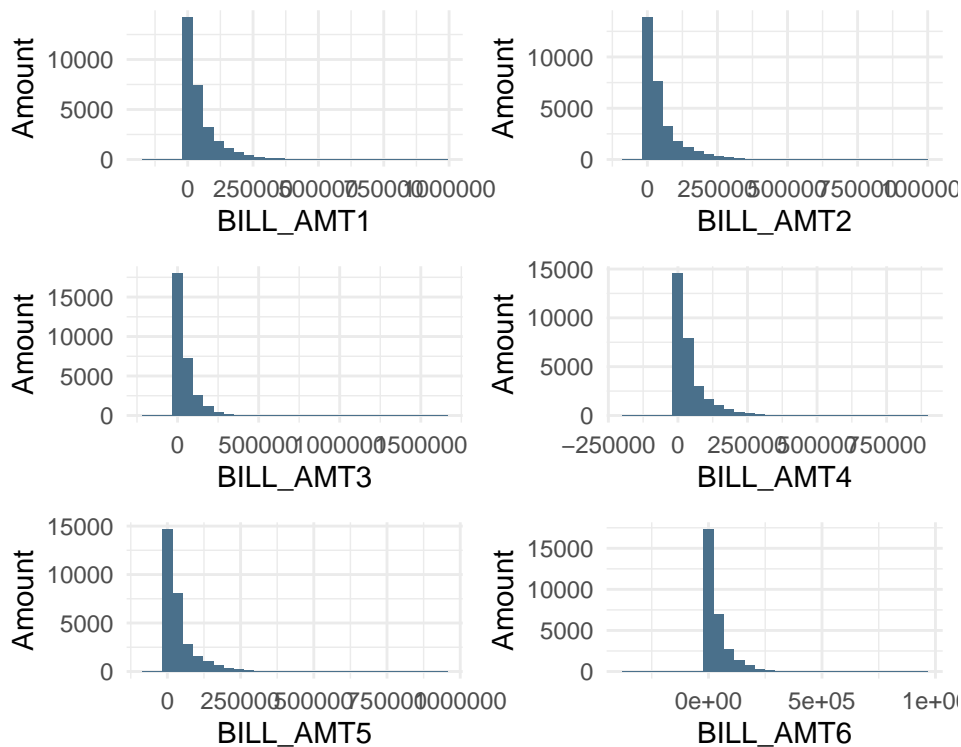
```
# box plot of the bill amount
```

```
plot <- lapply(1:ncol(data1), function(x) ggplot(data = data,
  mapping = aes(x = default, y = data1[[x]], colour = default)) +
  geom_boxplot() + theme_minimal() + labs(y = "Amount", x = "Default"))
do.call(grid.arrange, c(plot, ncol = 2, nrow = 3))
```



```
# histogram of the bill amount
```

```
plot <- lapply(1:ncol(data1), function(x) ggplot(data = data1, mapping = aes(x = data1[[x]])) +
  geom_histogram(fill = "skyblue4") + theme_minimal() + xlab(paste0(billamt_colsnames[x])) +
  labs(y = "Amount"))
do.call(grid.arrange, c(plot, ncol = 2, nrow = 3))
```



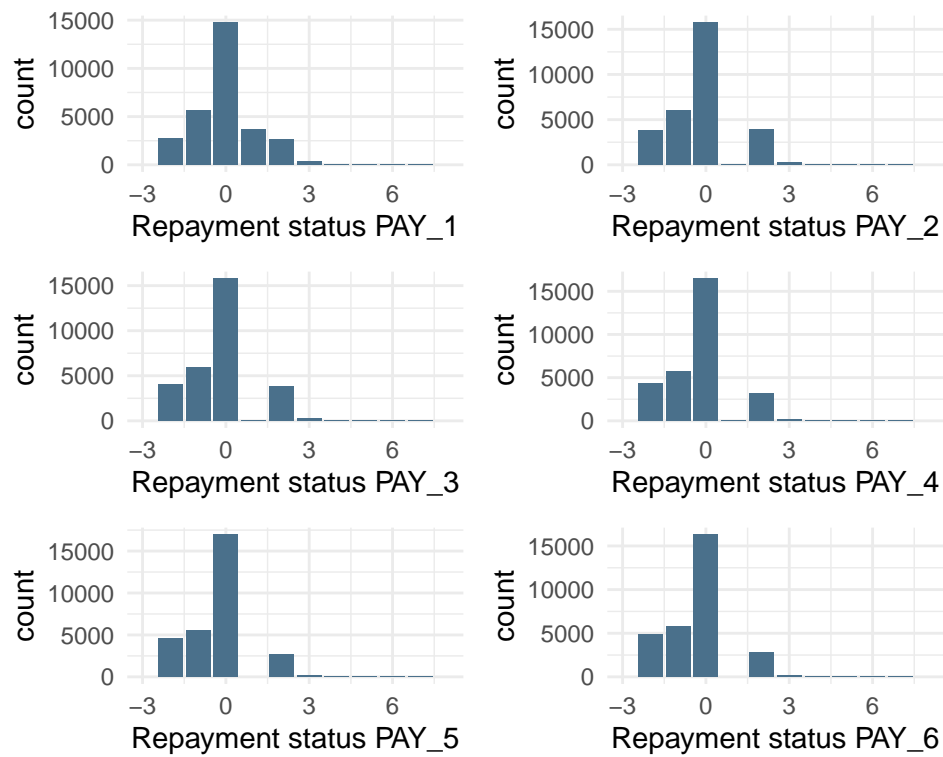
- In general, we can observe a decreasing trend in the key statistics in the summary table from BILL\_AMT1 to BILL\_AMT6.

### Exploration of history of past payment variable

```
payamt_colnames <- paste0("PAY_AMT", c(1, 2:6))
data2 <- data%>%select(starts_with("PAY_AMT"))

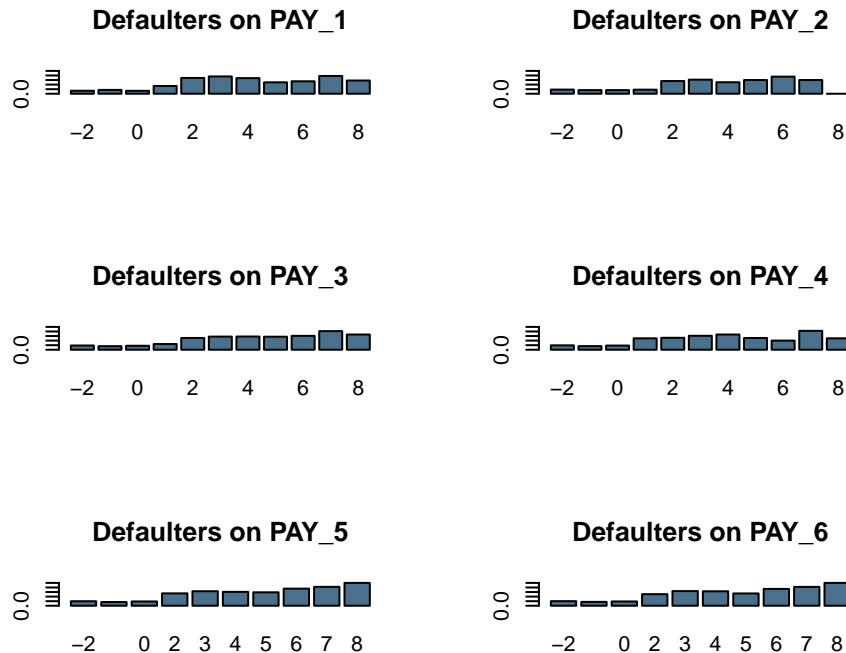
# bar plot of history of past payment

pay_colnames <- paste0("PAY_", c(1, 2:6))
data3 <- data%>%select(pay_colnames)
plot <- lapply(1:ncol(data3), function(x)
  ggplot(data = data3, mapping = aes(x = data3[[x]])) +
  geom_bar(stat = "count", fill = "skyblue4") + theme_minimal() +
  xlab(paste0("Repayment status", sep = " ", pay_colnames[x])) + xlim(-3,8))
do.call(grid.arrange, c(plot, ncol=2, nrow=3))
```



```
# number of defaulters in history of past payment
```

```
par(mfrow = c(3,2))
count4 <- lapply(1:ncol(data3), function(x) table(data3[[x]], data$default)/rowSums(table(d
plots <- lapply(1:ncol(data3), function(x) barplot(count4[[x]][,2], ylim = c(0, 1), col = "sl
```



- Having a delay, even for 1 month in any of the previous months, increases the chance of default.

**Task Solution: Are there any relevant transformations of one or more predictors that might improve the classification model?**

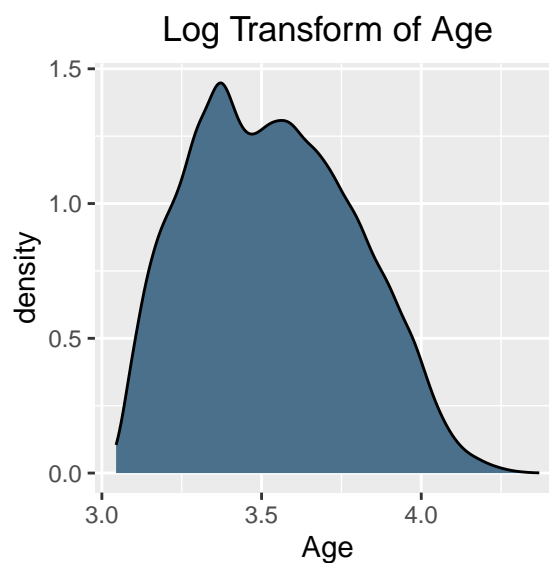
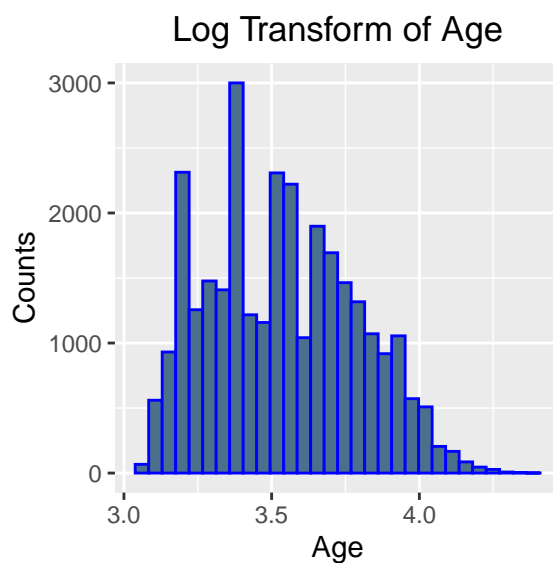
#### Relevant transformations of predictors

# log-transform of age

```
plot3 <- ggplot(data, aes(x = log(AGE)))+
  geom_histogram(aes(x = log(AGE)), color = "blue", fill="skyblue4") +
  labs(x = "Age", y = "Counts") + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Log Transform of Age")
```

```
plot4 <- ggplot(data = data, mapping = aes(x = log(AGE))) +
  geom_density(fill="skyblue4") + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Log Transform of Age") +
  xlab("Age")
```

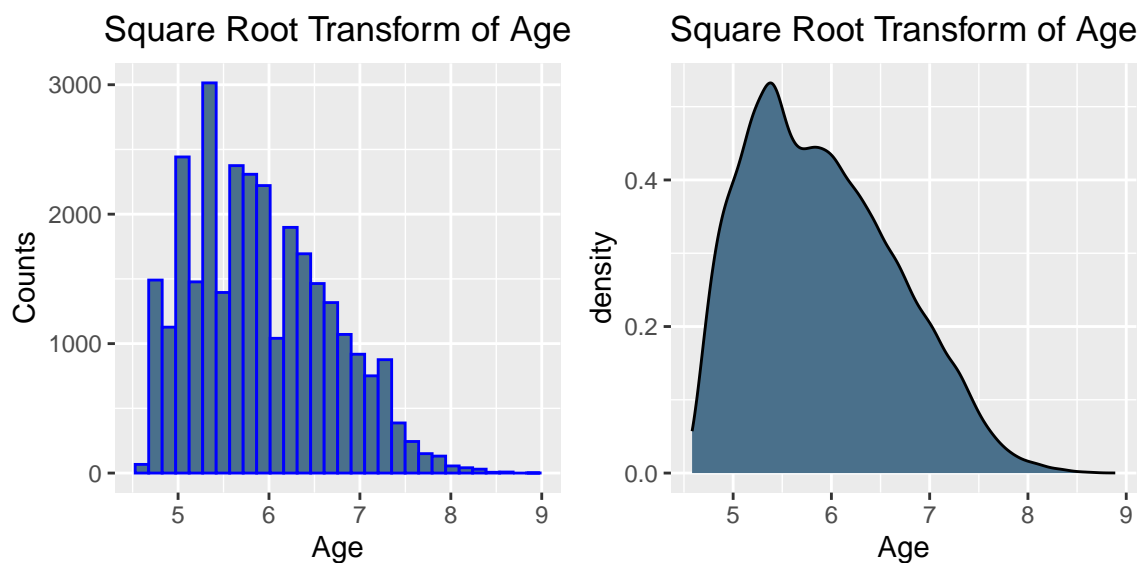
```
grid.arrange(plot3, plot4, ncol = 2)
```



```
# square-root transform of age
```

```
plot5 <- ggplot(data, aes(x = sqrt(AGE)))+
  geom_histogram(aes(x = sqrt(AGE)), color = "blue", fill = "skyblue4") +
  labs(x = "Age", y = "Counts") + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Square Root Transform of Age")

plot6 <- ggplot(data = data, mapping = aes(x = sqrt(AGE))) +
  geom_density(fill = "skyblue4") + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Square Root Transform of Age") +
  xlab("Age")
grid.arrange(plot5, plot6, ncol = 2)
```



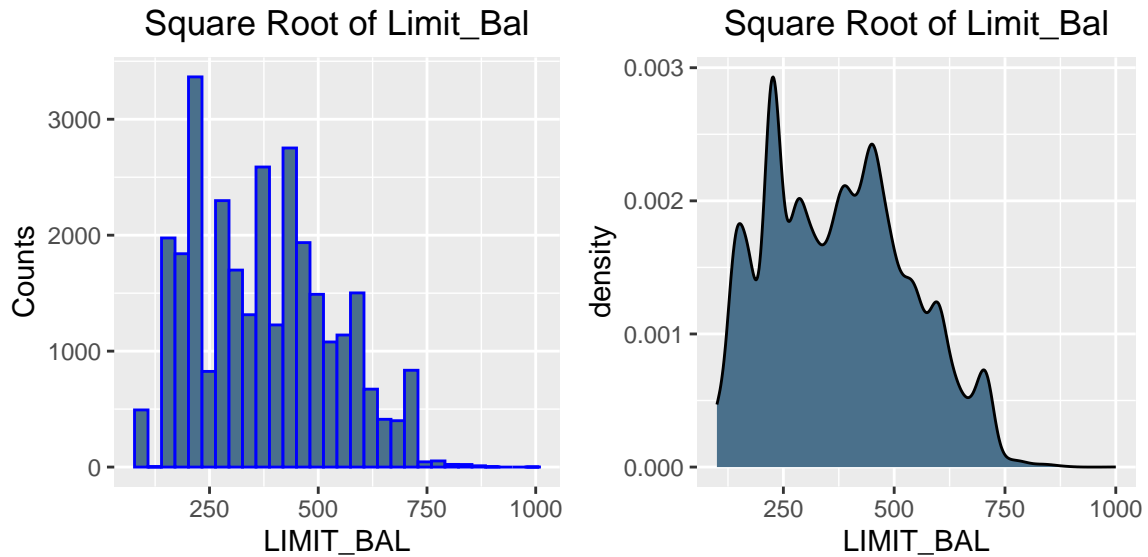
```
# square-root transform of limit balance
```

```
plot_bal3 <- ggplot(data, aes(x = sqrt(LIMIT_BAL)))+
  geom_histogram(aes(x = sqrt(LIMIT_BAL)), color = "blue", fill="skyblue4") +
  labs(x = "LIMIT_BAL", y = "Counts") + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Square Root of Limit_Bal")
```

```
plot_bal4 <- ggplot(data = data, mapping = aes(x = sqrt(LIMIT_BAL))) +
  geom_density(fill="skyblue4") + theme(plot.title = element_text(hjust = 0.5)) +
  ggtitle("Square Root of Limit_Bal") +
  xlab("LIMIT_BAL")
```

```
grid.arrange(plot_bal3, plot_bal4, ncol = 2)
```





**Task Solution:** Rename the column “default payment next month” as “default”. Are there strong relationships between the default variable and other numeric variables? How can you handle the highly correlated variables?

#### Relationships between the default variable and other numeric variables

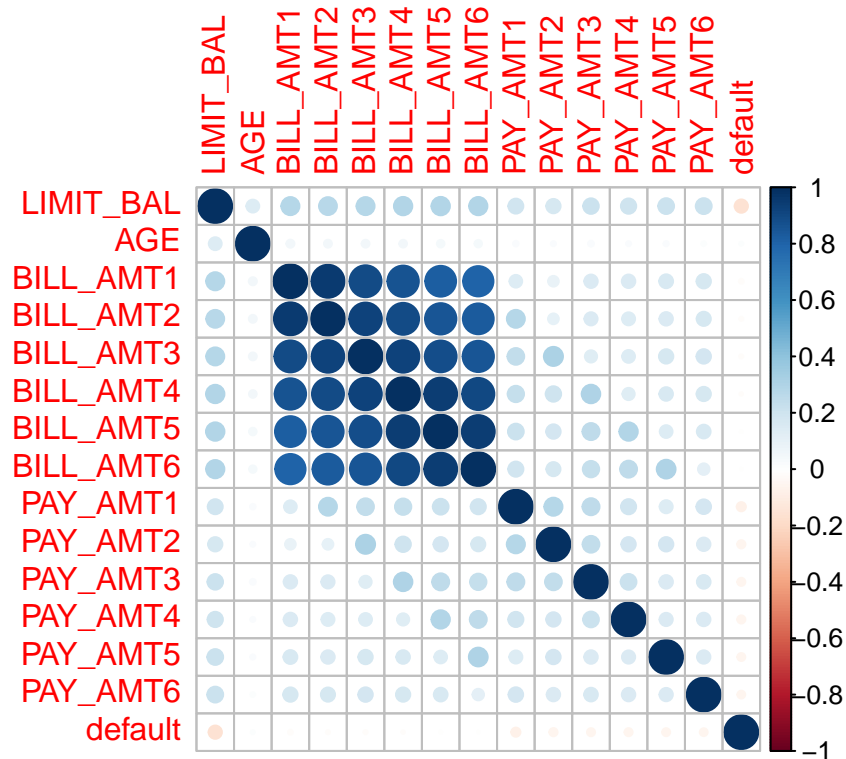
- Here we are checking the correlation of default variable with other numeric variables.

```
# correlation plot
```

```
payamt_colsnames <- paste0("PAY_", c(1, 2:6))
```

```
data$default <- as.numeric(data$default)
```

```
corrplot(cor(data %>%select(-EDUCATION,-SEX, -MARRIAGE,-ID, -payamt_colsnames)), method = "c
```



- We see a high level of linear correlations between the amount of bill statements in different months.
- In the case of the multicollinearity, we need to use such techniques as Ridge and Lasso regression and the Principal components method.
- We can even drop some variables if we need to, but the price of this is unbiasedness of estimates and this is not the best decision.
- PCA - Principal Component Analysis

```
# pca
```

```
pca.model <- prcomp(data %>%select(-EDUCATION,-SEX, -MARRIAGE,-ID, -payamt_colsnames),
                     center = TRUE, scale. = TRUE)
summary(pca.model)
```

Importance of components:

	PC1	PC2	PC3	PC4	PC5	PC6	PC7
Standard deviation	2.4333	1.3235	1.02473	1.00038	0.95589	0.93941	0.93376
Proportion of Variance	0.3947	0.1168	0.07001	0.06672	0.06092	0.05883	0.05813
Cumulative Proportion	0.3947	0.5115	0.58151	0.64823	0.70915	0.76798	0.82611

	PC8	PC9	PC10	PC11	PC12	PC13	PC14
Standard deviation	0.88285	0.8521	0.82363	0.51373	0.26648	0.20260	0.15919
Proportion of Variance	0.05196	0.0484	0.04522	0.01759	0.00473	0.00274	0.00169
Cumulative Proportion	0.87807	0.9265	0.97170	0.98929	0.99402	0.99676	0.99845
	PC15						
Standard deviation	0.15244						
Proportion of Variance	0.00155						
Cumulative Proportion	1.00000						

## Reference

Noll, Alexander, Robert Salzmänn, and Mario V Wuthrich. 2020. "Case Study: French Motor Third-Party Liability Claims." *Available at SSRN 3164764*.