

Predicting Opportunity of Subrogation with Real Claim Data

Model Citizens, 2025 Travelers UMC

Wenjie Gong, Cecilia Liu, Simeng Wu, Carol Zhou, Franklin Zhou

Department of Statistical Science, Duke University

Introduction

Business Context

Subrogation is a critical part of the claim lifecycle. When a third party is liable, recovery reduces net incurred loss, improves loss ratios, and enhances reserving accuracy—making subrogation a key financial and loss-mitigation lever.

The Core Challenge

Current subrogation identification relies heavily on adjuster judgment and manual file review. This process is slow, inconsistent, and often results in missed recovery opportunities across thousands of claims.

Subrogation Modeling Framework

Our Mission

Build a predictive model using 2020–2021 first-party physical damage claims to flag potential subrogation opportunities, identify key indicators, and provide recommendations for operational use.

Modeling Objective

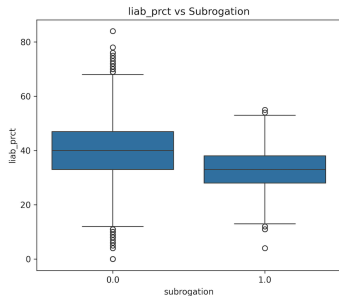
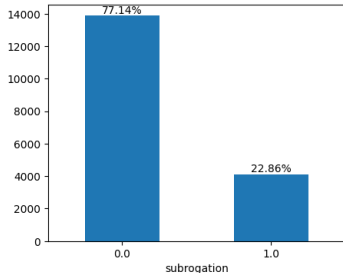
Predict a binary outcome *Subrogation Opportunity* (1 = likely recovery, 0 = not likely).

Evaluation Metric: **F1 score** (balances precision and recall due to asymmetric business costs).

Business Value

- Improve recovery rates and reduce net incurred losses
- Help subrogation specialists prioritize high-value cases
- Reduce time spent on low-likelihood opportunities
- Support data-driven decision-making in the claims process

Data Overview



Dataset Summary

- Training set: **18,000** rows with binary subrogation indicator
- Test set: **12,000** rows without the indicator
- Features describe policyholder, driver, vehicle, accident context, and estimated payout

Data Quality Steps

- Removed **2** training rows with missing subrogation indicator
- Test set contains **no missing values**
- Dropped `vehicle_made_year` (inconsistent with claim date) and `age_of_vehicle` (unreliable)

General Patterns

- Several numeric features exhibit skewness
- Subrogation indicator is **imbalanced** (few positives)
- `liab_prct` is strongly associated with the target

We Leverages Multiple Model Families

- **Linear Model:** Logistic Regression with LASSO
- **Tree-based Models:** XGBoost, CatBoost, LightGBM, LogitBoost, Random Forest
- **MLP-based Models:** TabM

Why We Used Multiple Preprocessing Pipelines?

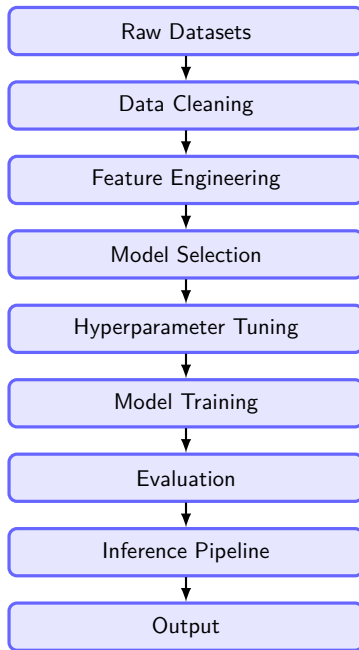
Each model family has its own optimized pipeline, in accordance with their algorithm characteristics.

| Model | TabM | Linear Model | CatBoost | LightGBM | XGBoost |
|-------------|---------------------------------|---------------------|--------------------------|--------------------------|--------------------------|
| Numerical | Normalize (quantile or z-score) | Normalize (z-score) | Works well with raw data | Works well with raw data | Works well with raw data |
| Categorical | One-Hot Encoding | One-Hot Encoding | Native handling | Native handling | One-Hot Encoding |

Comparison of Preprocessing Pipelines for GBMs

- LightGBM uses an aggressive, high-complexity pipeline, generating the most features through extensive transformations like 3-way interactions, binning, and Z-scores.
- CatBoost adopts a minimalist strategy, keeping numerical data raw and leaving categoricals in the string form to leverage its native handling, with very little manual feature engineering.
- XGBoost strikes something in between, applying moderate scaling and feature creation while converting categorical values into integers.

Sample Workflow



Motivation for Majority Voting: Wisdom of the Crowd

- While we obtained decent individual models, aggregating opinions from multiple models is a good way to optimize bias and variance

Theorem (Condorcet's Jury Theorem)

If each individual model outperforms random guessing ($p > 0.5$) and is independent, the probability of majority voting being correct approaches 1 as such models are added.

- According to Condorcet's Jury Theorem, the majority voting is likely to produce a better prediction than individual models
- The systematic error on specific feature subspaces of each individual model is now overridden by the consensus of others, leading to a smaller model bias
- Overfitting is mitigated as the a single model might obsess over a tiny, unimportant detail in the data, while the group ignores these details and focuses on the main trends

Why We Choose Majority Voting Ensemble

Majority Voting is better than stacking, because

- We trained each individual model with a tailor-made preprocessing pipeline, to optimize the individual model performance
- Stacking requires a unified input feature matrix
- If we use one unified preprocessing pipeline to retrain individual models, their performance will greatly degrade

Majority Voting is better than weighted majority, because

- For validation set performance, $\text{XGBoost} > \text{CatBoost} > \text{TabM}$
- For test set performance (per private score): $\text{TabM} > \text{CatBoost} > \text{XGBoost}$
- Majority voting algorithm tends to give XGBoost the highest weight
- The resulting ensemble is an “expert” with validation set but a “failure” with test set

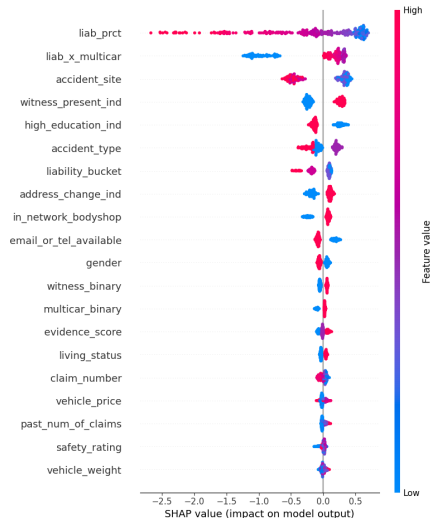
Majority Voting Ensemble

| Model | Public Score |
|----------|--------------|
| XGBoost | 0.60600 |
| CatBoost | 0.60491 |
| XGBoost | 0.60352 |
| CatBoost | 0.60319 |
| TabM | 0.60298 |
| XGBoost | 0.60213 |
| LightGBM | 0.59682 |

Feature Selection Across Models

| Model | Primary Selection Mechanism | Key Differentiator |
|------------|---|---|
| XGBoost | Gain-based split selection using first-order and second-order gradient statistics. | Precise, curvature-aware feature scoring with strong regularization. |
| LightGBM | Histogram-based gain estimation with Exclusive Feature Bundling (EFB). | Highly efficient and scalable on sparse or high-dimensional tabular data. |
| CatBoost | Ordered Target Statistics combined with gain-based splitting on leakage-free categorical encodings. | Best-in-class categorical handling with minimal overfitting. |
| TabM (MLP) | Implicit feature weighting learned through nonlinear layers and gradient-based optimization (no explicit splits). | Soft, continuous reweighting captures smooth nonlinear interactions. |

SHAP & Feature Importance



Compared to the feature importance plots of other models, **liab_prct**, **witness_present_ind**, and **in_network_bodyshop** consistently surfaced as high-impact predictors.

Additional Useful Variables

Policyholder behavior

- Telematics / Driving behavior (speeding, hard brakes, miles driven)
- Payment behavior (late payments, lapse tendencies)

Environmental risk

- Weather exposure (hail, hurricanes, freeze events)
- Traffic density or road safety score

Socioeconomic

- Zip-code-level socioeconomic indicators (median income, population density)
- Education level at area level

Assumption & Robustness Checks

Tree-based Models

- Checked overfitting via training vs validation scores
- Cross-validation scores stable across folds
- Feature importance consistent across model runs

Deep Tabular Model

- Examined training/validation loss to confirm convergence
- Key variables aligned with tree-based models

Ensemble (Majority Vote)

- Verified diversity via low-moderate prediction correlations

Model Evaluation & Results

| Model | Public F1 | Note |
|----------------|-----------|--|
| Ensemble | 0.60866 | +0.4% over the best single model; +18% over benchmark |
| XGBoost | 0.60600 | Best individual model |
| CatBoost | 0.60491 | Handled categorical features well |
| TabM | 0.60298 | Competitive deep-tabular model and consistent across seeds |
| LightGBM | 0.59682 | Fast training but underperformed compared to XGBoost/CatBoost |
| Simple XGBoost | 0.51584 | Benchmark |

Limitations

- Many pipelines = complexity
- Harder to interpret combined model
- Majority vote doesn't use calibrated probabilities
- Feature engineering consistency is limited

Conclusion

We predicted which auto insurance claims are likely to result in successful subrogation using a majority-vote ensemble of XGBoost, CatBoost, LightGBM, and TabM, achieving an 18% improvement over the benchmark and a modest gain over the best single model.

Appendix

Comparison of Preprocessing Pipelines for GBMs

We designed three classes of preprocessing pipelines for XGBoost, CatBoost, and LightGBM.

LightGBM

- Has most features (most extensive transformation)
- Creates binary flags for categorical variables
- Applies Z-scores, Log transforms, and bucketing for numerical variables
- Applies aggressive feature engineering, with 2-way/3-way interactions, polynomials, domain-specific flags

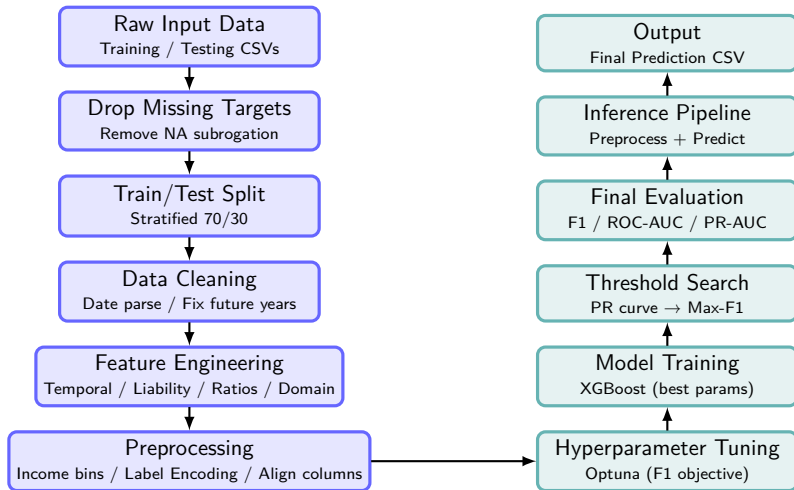
CatBoost

- Has least features (minimal transformation)
- Casts categorical values into strings
- Keeps numerical data *as is*
- Approaches feature engineering very conservatively, with only a few ratio features

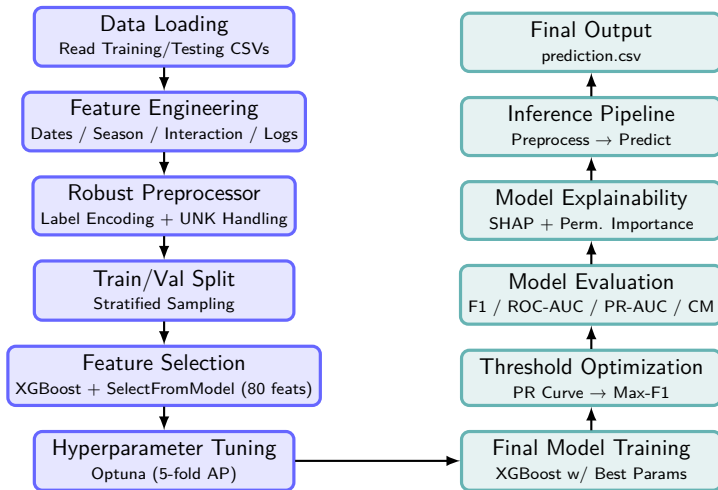
XGBoost

- Has moderately many features (a balanced approach)
- Casts categorical values into integers
- Applies scaling and some Log transforms for numerical variables
- Applies moderate level of feature engineering with temporal features, interactions, and differences

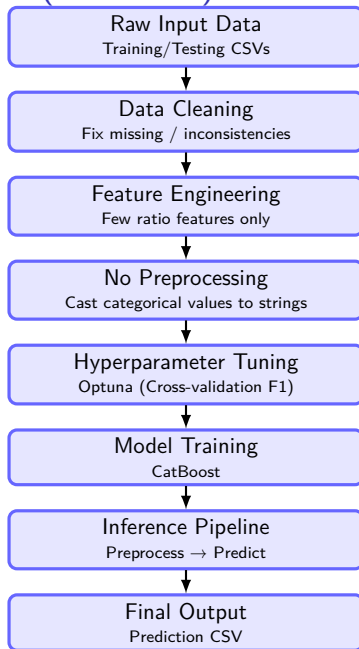
Sample Workflow 1 (XGBoost 1)



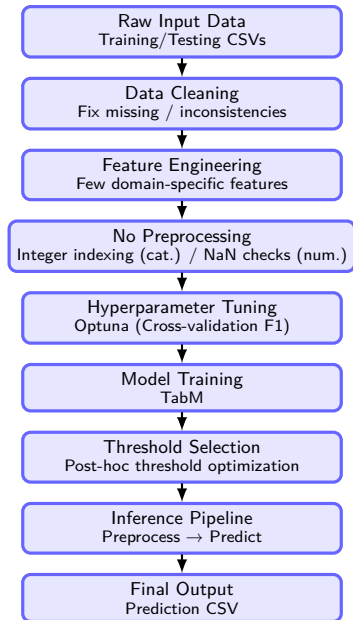
Sample Workflow 2 (XGBoost 2)



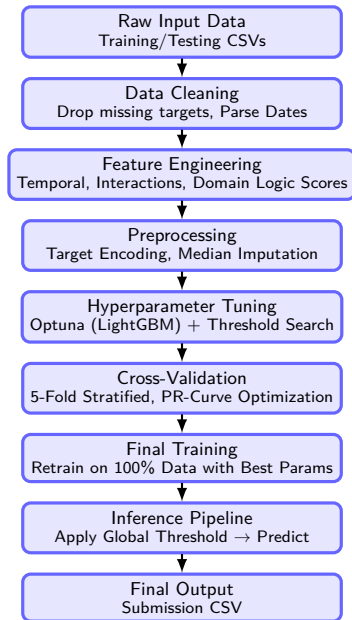
Sample Workflow 3 (CatBoost)



Sample Workflow 4 (TabM)



Sample Workflow 5 (LightGBM)



Feature Importance Plots For Different Models

