

Home Work Assignment - 04

Critical Thinking Group 5

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1 Overview

The data set contains approximately 8161 records. Each record represents a customer profile at an auto insurance company. Each record has two response variables.

The first response 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 response variable is TARGET_AMT. This is the amount spent on repairs if there was a crash. 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.

We will be exploring, analyzing, and modeling the training data. Since there are 2 different predictions we have to work with, we will deal with each prediction independently. The following are the 2 predictions we will be modeling for:

1. TARGET_FLAG - This dependent variable tells whether there was a crash or not. This is a binary variable and as such we will be using a Logistic Regression Model to predict this.
2. TARGET_AMT - This dependent variable gives the amount / cost of repairs if there was a crash. This is a continuous variable and we will be using a Linear Regression Model to predict this.

Each of the above models will be built and evaluated separately. In the first section of this document we will deal with the Logistic Model for TARGET_FLAG and in the second section we will deal with Linear Model for the TARGET_AMT

Out of the many models for each task, we will go ahead and shortlist one model that works the best. We will then use these models (one for each task) on the test / evaluation data.

To attain our objective, we will follow the below steps for each modeling exercise:

1 -Data Exploration 2 -Data Preparation 3 -Build Models 4 -Select Models

Model Selection Strategy: As a strategy, we will split the train dataset into 2 parts - TRAIN and VALID. In the VALID dataset, we will hold out some values to validate how well the model is trained using the TRAIN dataset. We will then use the Model that performs the best on the EVALUATION data to give the required output. We will split the TRAIN / VALID data after the **Data Exploration / Preparation** before the **Build Models**.

Please Note:

- There are some common clean-up and transformations that we will carry out initially that will serve all the models.
- While working on the Linear Models for the TARGET_AMT, we will be using only a subset of the data where the TARGET_FLAG = 1. This will give us all the records where there was a crash and subsequently a repair amount.
- While Predicting the TARGET_AMT with the given Evaluation dataset, We will take the output of the TARGET_FLAG predictions on the Evaluation dataset and use only those rows that were classified as a “Crash” and use it as the input to the TARGET_AMT prediction. So this is a two step prediction, one for the TARGET_FLAG and using the output to predict TARGET_AMT.

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2 Data Exploration and Cleanup / Common Transformations

In this section we go ahead and perform some common cleanup and create additional variables that will be used for modeling both the logistic as well as the linear regressions. We will explore and gain some insights into the dataset by pursuing the below high level steps and inquiries:

- Variable Identification / Relationships
- Data Clean-up
- Common Transformations
- Create Missing Flags / Impute Missing Values

2.1 Variable Identification

First let's display and examine the data dictionary or the data columns as shown in below table:

Table 1: Variable Description

VARIABLE	DEFINITION	THEORETICAL_EFFECT
INDEX	Identification Variable (do not use)	None
TARGET_FLAG	Was Car in a crash? 1=YES 0=NO	None
TARGET_AMT	If car was in a crash, what was the cost	None
AGE	Age of Driver	Very young people tend to be risky. Maybe very old people a
BLUEBOOK	Value of Vehicle	Unknown effect on probability of collision, but probably effec
CAR_AGE	Vehicle Age	Unknown effect on probability of collision, but probably effec
CAR_TYPE	Type of Car	Unknown effect on probability of collision, but probably effec
CAR_USE	Vehicle Use	Commercial vehicles are driven more, so might increase prob
CLM_FREQ	# Claims (Past 5 Years)	The more claims you filed in the past, the more you are likel
EDUCATION	Max Education Level	Unknown effect, but in theory more educated people tend to
HOMEKIDS	# Children at Home	Unknown effect
HOME_VAL	Home Value	In theory, home owners tend to drive more responsibly
INCOME	Income	In theory, rich people tend to get into fewer crashes
JOB	Job Category	In theory, white collar jobs tend to be safer
KIDSDRIV	# Driving Children	When teenagers drive your car, you are more likely to get int
MSTATUS	Marital Status	In theory, married people drive more safely
MVR_PTS	Motor Vehicle Record Points	If you get lots of traffic tickets, you tend to get into more cra
OLDCLAIM	Total Claims (Past 5 Years)	If your total payout over the past five years was high, this su
PARENT1	Single Parent	Unknown effect
RED_CAR	A Red Car	Urban legend says that red cars (especially red sports cars) a
REVOKED	License Revoked (Past 7 Years)	If your license was revoked in the past 7 years, you probably
SEX	Gender	Urban legend says that women have less crashes then men. I
TIF	Time in Force	People who have been customers for a long time are usually
TRAVTIME	Distance to Work	Long drives to work usually suggest greater risk
URBANICITY	Home/Work Area	Unknown
YOJ	Years on Job	People who stay at a job for a long time are usually more saf

We notice that there are 2 dependent variables - TARGET_FLAG and TARGET_AMT. Apart from these 2 dependent variables, we have 23 independent or predictor variables.

2.2 Data Cleanup

```
[1] "Yes" "z_No" [1] "M" "z_F" [1] "<High School" "Bachelors" "Masters" "PhD"
[5] "z_High School" [1] "" "Clerical" "Doctor" "Home Maker"
[5] "Lawyer" "Manager" "Professional" "Student"
[9] "z_Blue Collar" [1] "Minivan" "Panel Truck" "Pickup" "Sports Car" "Van"
[6] "z_SUV"
[1] "Highly Urban/ Urban" "z_Highly Rural/ Rural" [1] "No" "Yes" INDEX TARGET_FLAG TAR-
GET_AMT KIDSDRIV
Min. : 1 Min. :0.0000 Min. : 0 Min. :0.0000
1st Qu.: 2559 1st Qu.:0.0000 1st Qu.: 0 1st Qu.:0.0000
Median : 5133 Median :0.0000 Median : 0 Median :0.0000
Mean : 5152 Mean :0.2638 Mean : 1504 Mean :0.1711
3rd Qu.: 7745 3rd Qu.:1.0000 3rd Qu.: 1036 3rd Qu.:0.0000
Max. :10302 Max. :1.0000 Max. :107586 Max. :4.0000
```

AGE	HOMEKIDS	YOJ	INCOME
Min. :16.00	Min. :0.0000	Min. : 0.0	\$0 : 615
1st Qu.:39.00	1st Qu.:0.0000	1st Qu.: 9.0	: 445
Median :45.00	Median :0.0000	Median :11.0	\$26,840 : 4
Mean :44.79	Mean :0.7212	Mean :10.5	\$48,509 : 4
3rd Qu.:51.00	3rd Qu.:1.0000	3rd Qu.:13.0	\$61,790 : 4
Max. :81.00	Max. :5.0000	Max. :23.0	\$107,375: 3
NA's :6	NA's :454	(Other) :7086	
PARENT1 HOME_VAL MSTATUS SEX EDUCATION			
No :7084	\$0 :2294	Yes :4894	M :3786 <High School :1203
Yes:1077	: 464	z_No:3267	z_F:4375 Bachelors :2242
\$111,129:	3	Masters :1658	
\$115,249:	3	PhD : 728	
\$123,109:	3	z_High School:2330	
\$153,061:	3		
(Other) :5391			
JOB TRAVTIME CAR_USE BLUEBOOK			
z_Blue Collar:1825	Min. : 5.00	Commercial:3029	\$1,500 : 157
Clerical :1271	1st Qu.: 22.00	Private :5132	\$6,000 : 34
Professional :1117	Median : 33.00	\$5,800 : 33	
Manager : 988	Mean : 33.49	\$6,200 : 33	
Lawyer : 835	3rd Qu.: 44.00	\$6,400 : 31	
Student : 712	Max. :142.00	\$5,900 : 30	
(Other) :1413	(Other):7843		
TIF CAR_TYPE RED_CAR OLDCLAIM			
Min. : 1.000	Minivan :2145	no :5783	\$0 :5009
1st Qu.: 1.000	Panel Truck: 676	yes:2378	\$1,310 : 4
Median : 4.000	Pickup :1389	\$1,391 : 4	
Mean : 5.351	Sports Car : 907	\$4,263 : 4	
3rd Qu.: 7.000	Van : 750	\$1,105 : 3	
Max. :25.000	z_SUV :2294	\$1,332 : 3	
(Other):3134			
CLM_FREQ REVOKED MVR_PTS CAR_AGE			
Min. :0.0000	No :7161	Min. : 0.000	Min. :-3.000
1st Qu.:0.0000	Yes:1000	1st Qu.: 0.000	1st Qu.: 1.000
Median :0.0000	Median : 1.000	Median : 8.000	
Mean :0.7986	Mean : 1.696	Mean : 8.328	
3rd Qu.:2.0000	3rd Qu.: 3.000	3rd Qu.:12.000	
Max. :5.0000	Max. :13.000	Max. :28.000	
NA's :510			
URBANICITY			
Highly Urban/	Urban :6492		
z_Highly Rural/	Rural:1669		

From the output above we can make the following observations:

- some numeric variables like INCOME, HOME_VAL, BLUEBOOK, OLDCLAIM have been converted to Factor variables. This needs to be set right.
- Some of the variables like MSTATUS, SEX, EDUCATION, JOB, CAR_TYPE, URBANICITY have some of the values encoded with “z_”. Not that this will impact the analysis, but it will look a bit odd. So we will be fixing this.
- EDUCATION has 2 “High School” values - one starting with “<” and another starting with “z_”. It is assumed that both these values are to be converted to “HIGH School”.

- JOB has a “” value. This would indicate that the job is unknown or is not coded. Hence, we will replace this with “Unknown”.
- There are records where CAR_AGE is negative or zero, which is improbable. Upon investigation, we find that there are 4 records that are affected. We will remove these records.

2.3 Common Transformations

- We will also create dummy variables for all the factors.
- Please note that we will not be using INDEX variable as it serves as just an identifier for each row. And has no relationships to other variables.

Making the above fixes to the data, we now have a “clean” dataset which can be explored further.

```
# Create Dummy Variable for 2 factor variables
insure_train_full$CAR_USE_Commercial <- ifelse(insure_train_full$CAR_USE=="Commercial", 1, 0)
insure_train_full$MSTATUS_Yes <- ifelse(insure_train_full$MSTATUS=="Yes", 1, 0)
insure_train_full$PARENT1_Yes <- ifelse(insure_train_full$PARENT1=="Yes", 1, 0)
insure_train_full$RED_CAR_yes <- ifelse(insure_train_full$RED_CAR=="yes", 1, 0)
insure_train_full$REVOKED_Yes <- ifelse(insure_train_full$REVOKED=="Yes", 1, 0)
insure_train_full$SEX_M <- ifelse(insure_train_full$SEX=="M", 1, 0)
insure_train_full$URBANICITY_Rural <- ifelse(insure_train_full$URBANICITY=="Highly Rural/ Rural", 1, 0)

# remove original variables
insure_train_full <- select(insure_train_full, -CAR_USE, -MSTATUS, -PARENT1, -RED_CAR, -REVOKED, -SEX, )

insure_without_dummy <- insure_train_full

#- We will also create dummy variables for all the factors and drop the original variables.
dummy_vars<-as.data.frame(sapply(dummy(insure_train_full), FUN = as.numeric))
dummy_vars <- dummy_vars-1

# remove original variables
insure_train_full <- select(insure_train_full, -EDUCATION, -JOB, -CAR_TYPE)

insure_train_full <- cbind(insure_train_full, dummy_vars)
insure_train_full <- select(insure_train_full, -INDEX)
```

2.4 Create Missing Flags / Impute Missing Values

Based on the missing data from the below table, we can see that there are a few missing values for AGE, YOJ, INCOME, HOME_VAL, CAR_AGE variables. We will create flags to indicate that there are missing values in some of the variables.

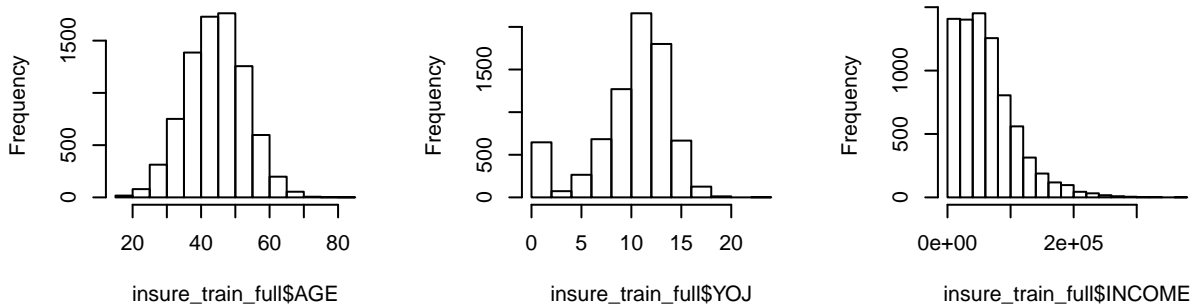
Table 2: Missing Values

	missings
TARGET_FLAG	0
TARGET_AMT	0
KIDSDRIV	0
AGE	6

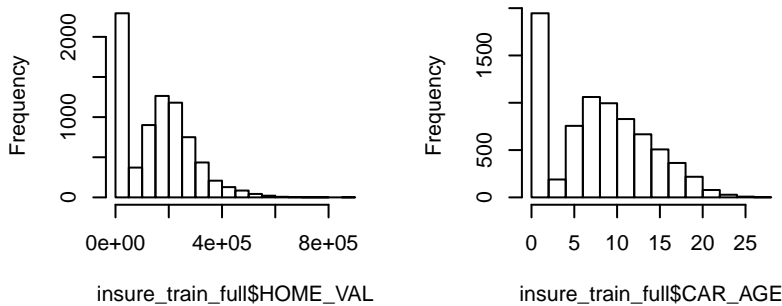
	missings
HOMEKIDS	0
YOJ	454
INCOME	445
HOME_VAL	464
TRAVTIME	0
BLUEBOOK	0
TIF	0
OLDCLAIM	0
CLM_FREQ	0
MVR_PTS	0
CAR_AGE	510
CAR_USE_Commercial	0
MSTATUS_Yes	0
PARENT1_Yes	0
RED_CAR_yes	0
REVOKED_Yes	0
SEX_M	0
URBANICITY_Rural	0
EDUCATION_Bachelors	0
EDUCATION_High.School	0
EDUCATION_Masters	0
EDUCATION_PhD	0
JOB_Blue.Collar	0
JOB_Clerical	0
JOB_Doctor	0
JOB_Home.Maker	0
JOB_Lawyer	0
JOB_Manager	0
JOB_Professional	0
JOB_Student	0
JOB_Unknown	0
CAR_TYPE_Minivan	0
CAR_TYPE_Panel.Truck	0
CAR_TYPE_Pickup	0
CAR_TYPE_Sports.Car	0
CAR_TYPE_SUV	0
CAR_TYPE_Van	0

We now impute values to AGE, YOJ, INCOME, HOME_VAL, CAR_AGE. However, while doing the impute, we will impute to a new variable so as not to impact the original variables. We will look at the distributions for each of the variable to determine the value to use to impute. Given that Age and YOJ look to be somewhat normally distributed, we can go ahead and use the mean to impute the missing values for these variables. For INCOME, HOME_VAL and CAR_AGE the median seems to be a better value to impute since there are strong right skews. We will carry out these transformation while data preparation.

Histogram of insure_train_full\$AGE Histogram of insure_train_full\$YOJ histogram of insure_train_full\$INCOME



istogram of insure_train_full\$HOME_VAL histogram of insure_train_full\$CAR_AGE



Now that we are done with the common clean-up and transformations, we can proceed to each specific model as below.

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3 Logistic Regression for TARGET_FLAG

In this section we will use Logistic regression to model the TARGET_FLAG. We will first start with the Data Exploration.

3.1 Data Summary and Correlation Analysis

3.1.1 Data Summary

In this section, we will create summary data to better understand the relationship each of the variables have with our dependent variables using correlation, central tendency, and dispersion as shown below:

3.1.2 Correlations

Now we will produce the correlation table between the independent variables and the dependent variable - TARGET_FLAG

Table 3: Correlation between TARGET_FLAG and predictor variables

	Correlation_TARGET_FLAG
TARGET_FLAG	1.0000000
TARGET_AMT	0.5343138
MVR_PTS	0.2192671
CLM_FREQ	0.2159652
PARENT1_Yes	0.1576594
REVOKED_Yes	0.1517045
CAR_USE_Commercial	0.1427163
EDUCATION_High.School	0.1382094
OLDCLAIM	0.1378435
HOMEKIDS	0.1161499
KIDSDRIV	0.1040583
JOB_Blue.Collar	0.1018097
JOB_Student	0.0770293
CAR_TYPE_Sports.Car	0.0572627
CAR_TYPE_Pickup	0.0563353
TRAVTIME	0.0480461
CAR_TYPE_SUV	0.0450376
JOB_Clerical	0.0275791
JOB_Home.Maker	0.0112577
CAR_AGE_MISS	0.0085607
YOJ_MISS	0.0039126
CAR_TYPE_Van	0.0030163
CAR_TYPE_Panel.Truck	-0.0003471
HOME_VAL_MISS	-0.0016978
JOB_Unknown	-0.0031380
RED_CAR_yes	-0.0069595
INCOME_MISS	-0.0090653
SEX_M	-0.0206620
JOB_Professional	-0.0391996
EDUCATION_Bachelors	-0.0431408
JOB_Doctor	-0.0580794
JOB_Lawyer	-0.0617528
EDUCATION_PhD	-0.0652170
YOJ	-0.0684748
EDUCATION_Masters	-0.0761613
TIF	-0.0821748
CAR_AGE	-0.0974530
AGE	-0.1032152
BLUEBOOK	-0.1035337
JOB_Manager	-0.1052506
MSTATUS_Yes	-0.1347552
CAR_TYPE_Minivan	-0.1367604
INCOME	-0.1377852
HOME_VAL	-0.1785848
URBANICITY_Rural	-0.2241940

The above table suggests that none of the variables seem to have a very strong correlation with TARGET_FLAG. However, CAR_TYPE_Van, RED_CAR_no, JOB_Home.Maker, SEX_F, JOB_Clerical, CAR_TYPE_SUV, TRAVTIME, CAR_TYPE_Pickup, CAR_TYPE_Sports.Car, JOB_Student,

JOB_Blue.Collar, KIDSDRIV, HOMEKIDS, MSTATUS_No, OLDCLAIM, EDUCATION_High.School, CAR_USE_Commercial, REVOKED_Yes, PARENT1_Yes, CLM_FREQ, MVR_PTS, URBANICITY_Highly.Urban..Urban have a positive correlation.

Similarly, URBANICITY_Highly.Rural..Rural, HOME_VAL, PARENT1_No, REVOKED_No, CAR_USE_Private, INCOME, CAR_TYPE_Minivan, MSTATUS_Yes, JOB_Manager, BLUEBOOK, AGE, CAR_AGE, TIF, EDUCATION_Masters, YOJ, EDUCATION_PhD, JOB_Lawyer, JOB_Doctor, EDUCATION_Bachelors, JOB_Professional, SEX_M, RED_CAR_yes, CAR_TYPE_Panel.Truck have a negative correlation.

Lets now see how values in some of the variable affects the correlation:

CAR_TYPE - If you drive Minivans and Panel Trucks you have lesser chance of being in a crash as against Pickups, Sports, SUVs and Vans. Since the distiction is clear, we believe that binning this variable accordingly will help strengthen the correlation.

EDUCATION - If you have only a high school education then you are more likely to crash than if you have a Bachelors, Masters or a Phd. Again binning this variable will strengthen the correlation.

JOB - If you are a Student, Homemaker, or in a Blue Collar or Clerical job, you are more likely to be in a crash against Doctor, Lawyer, Manager, professional or Unknown job. Again binning this variable will strengthen the correlation.

3.1.3 Binning of Variables

Lets have a look at the following numeric variables to see how they are distributed vis-a-vis TARGET_FLAG: INCOME, YOJ, HOME_VAL, OLDCLAIM, CLM_FREQ, MVR_PTS, CAR_AGE, AGE, BLUEBOOK, TIF, TRAVTIME. The goal here is to see if we can bin these variables into zero and non-zero bin values and check the correlations. While doing that we will also see how the variables are distributed vis-a-vis TARGET_FLAG.

```
show_hist <- function(var) {

  col_x <- which(colnames(insure_train_full)==var)
  h0 <- select(insure_train_full[insure_train_full$TARGET_FLAG==1,], col_x)
  h1 <- select(insure_train_full[insure_train_full$TARGET_FLAG==0,], col_x)

  min_x <- min(select(insure_train_full, col_x), na.rm = TRUE)
  max_x <- max(select(insure_train_full, col_x), na.rm = TRUE)
  by_x <- (max_x - min_x) / 20

  hist(h0[,1], breaks = 20, col=rgb(1,0,0,0.5), main="Overlapping Histogram", xlab = var, xaxt = "n")
  axis(1, at = seq(min_x, max_x, by = by_x), las=2)

  hist(h1[,1], breaks = 20, col=rgb(0,0,1,0.5), add=T) #
  # axis(1, at = seq(min_x, max_x, by = by_x), las=2)

  box()
}

check_bins <- function(var, thresholds) {

  col_x <- which(colnames(insure_train_full)==var)
  old_x <- select(insure_train_full, col_x)
  cor_old <- cor(old_x, insure_train_full$TARGET_FLAG,use = 'na.or.complete')
```

```

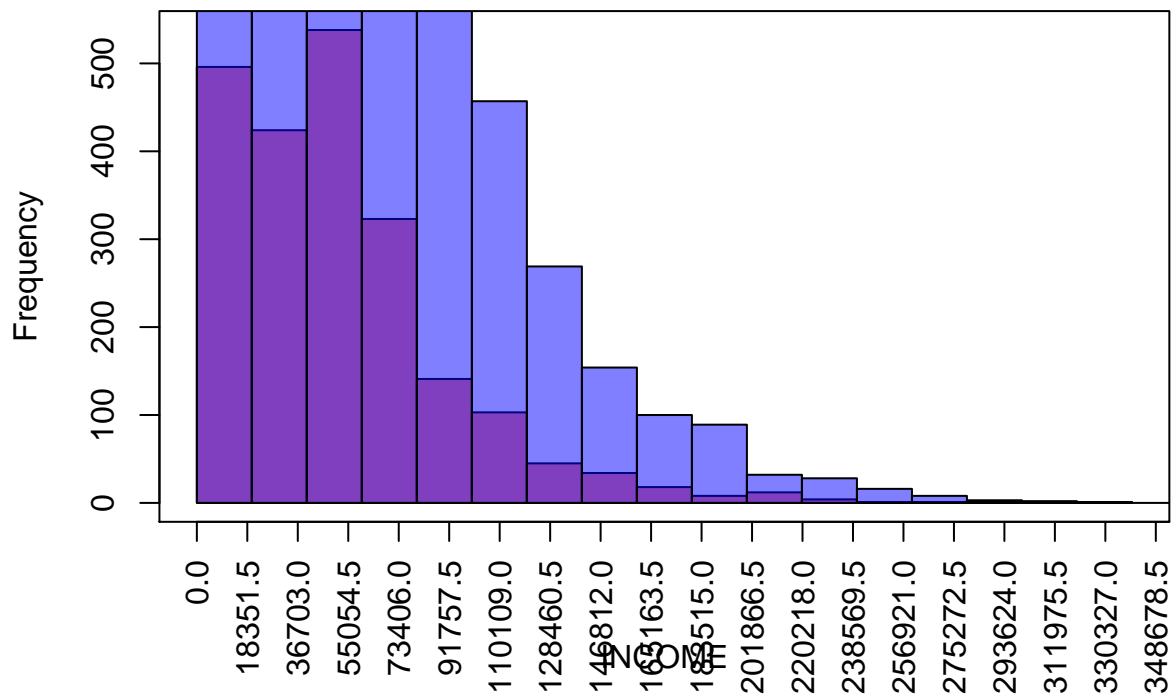
ds <- data.frame("Item" = "Original", "Correlation"= round(cor_old, 5))

for(i in 1:length(thresholds)) {
  New_x <- ifelse(select(insure_train_full, col_x)<=thresholds[i],0,1)
  cor_new <- cor(New_x, insure_train_full$TARGET_FLAG,use = 'na.or.complete')
  ds_1 <- data.frame("Item" = as.character(thresholds[i]), "Correlation"= round(cor_new, 5))
  ds <- rbind(ds, ds_1)
}
return (ds)
}

show_hist("INCOME")

```

Overlapping Histogram



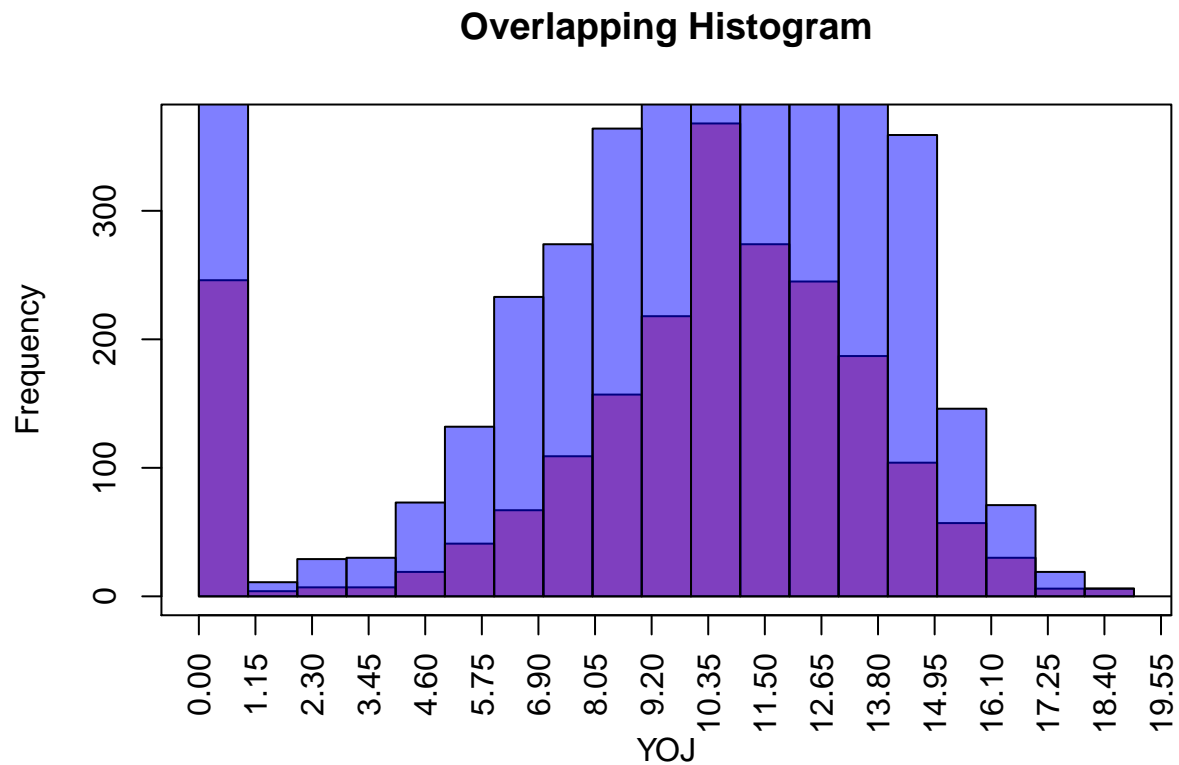
```
check_bins("INCOME", c(0, 20000, 90000, 130000))
```

```

##          Item Correlation
## INCOME  Original   -0.13779
## INCOME1      0     -0.09245
## INCOME2    20000  -0.09167
## INCOME3    90000  -0.12081
## INCOME4   130000  -0.07364

```

```
show_hist("Y0J")
```

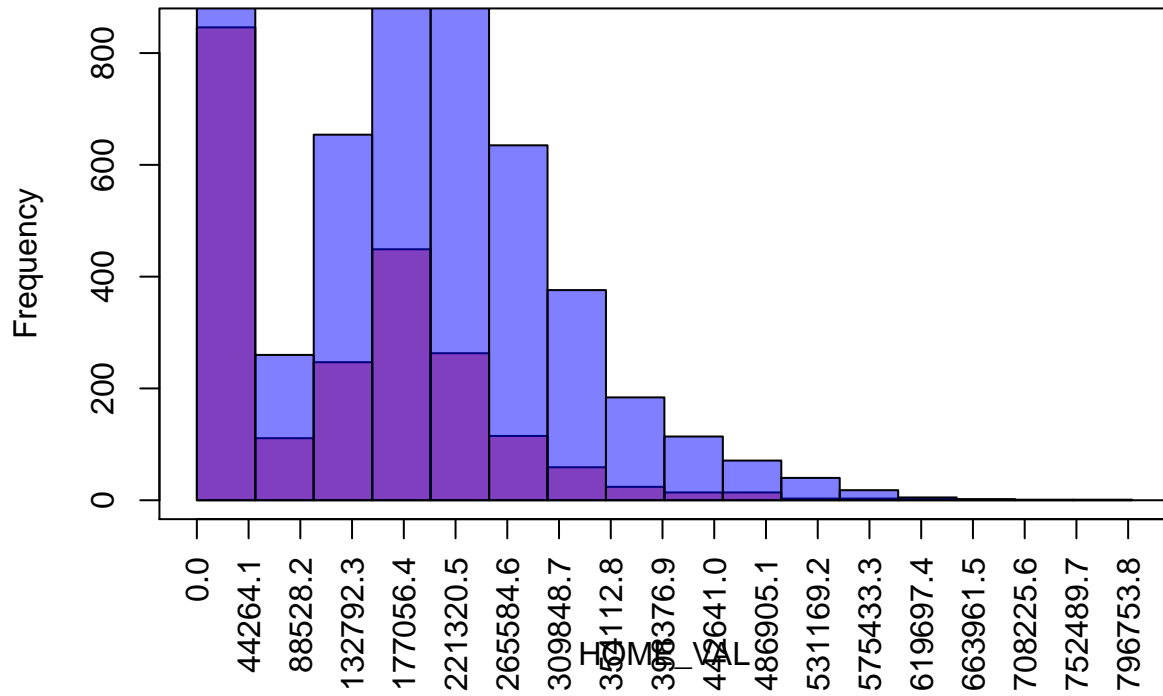


```
check_bins("Y0J", c(0, 4, 8, 15))
```

```
##           Item Correlation
## Y0J  Original   -0.06847
## Y0J1         0   -0.08483
## Y0J2         4   -0.07292
## Y0J3         8   -0.04154
## Y0J4        15    0.01179
```

```
show_hist("HOME_VAL")
```

Overlapping Histogram

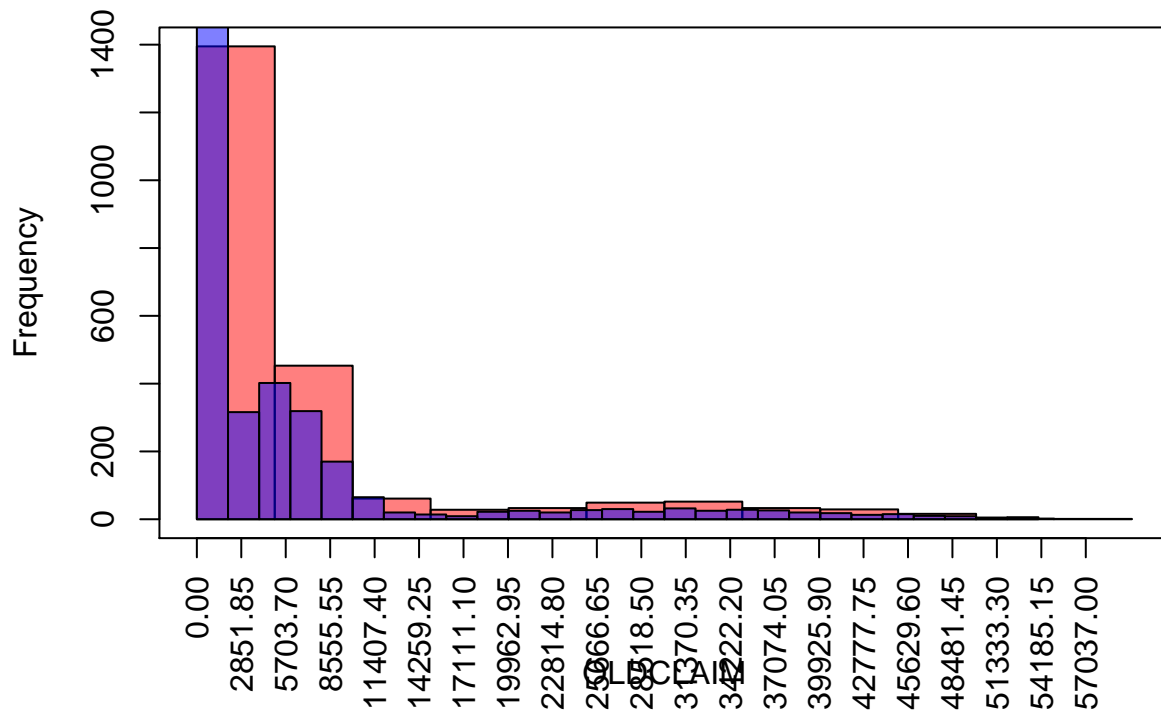


```
check_bins("HOME_VAL", c(0, 20000, 90000, 130000))
```

```
##           Item Correlation
## HOME_VAL  Original   -0.17858
## HOME_VAL1      0     -0.14898
## HOME_VAL2    20000   -0.14898
## HOME_VAL3    90000   -0.15142
## HOME_VAL4   130000   -0.15006
```

```
show_hist("OLDCLAIM")
```

Overlapping Histogram

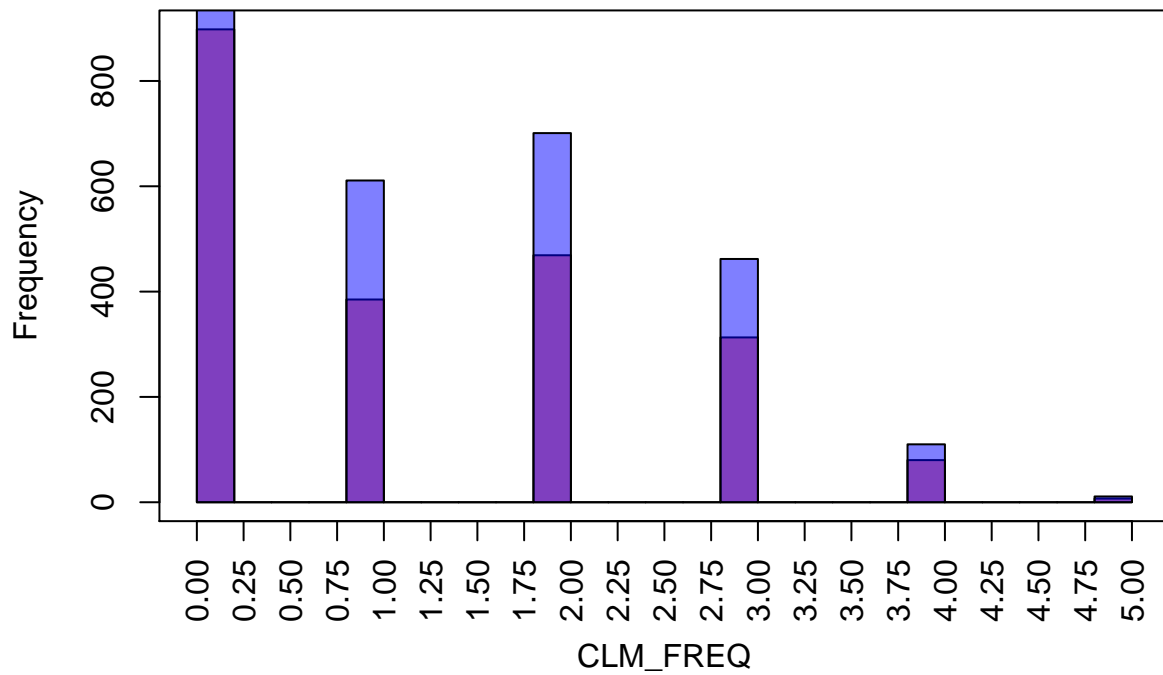


```
check_bins("OLDCLAIM", c(0, 5000, 10000, 15000, 20000, 40000))
```

##	Item	Correlation
##	OLDCLAIM Original	0.13784
##	OLDCLAIM1 0	0.24183
##	OLDCLAIM2 5000	0.16565
##	OLDCLAIM3 10000	0.09750
##	OLDCLAIM4 15000	0.08610
##	OLDCLAIM5 20000	0.07898
##	OLDCLAIM6 40000	0.03475

```
show_hist("CLM_FREQ")
```

Overlapping Histogram



```
check_bins("CLM_FREQ", c(0, 1, 2, 3, 4))
```

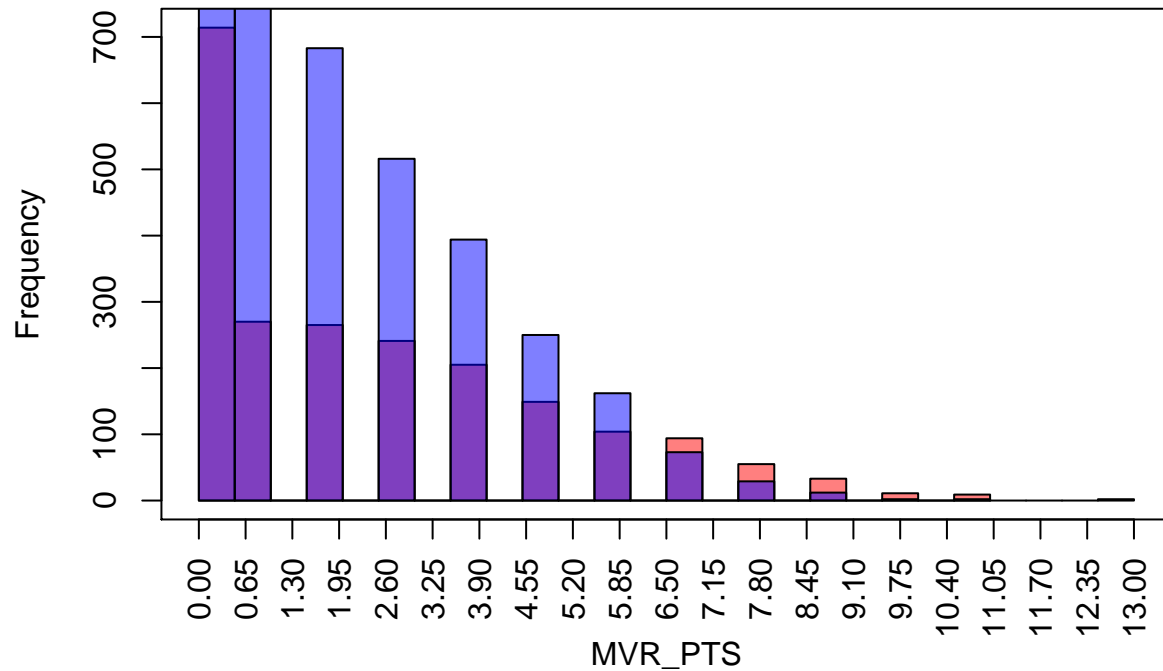
```
##           Item Correlation
## CLM_FREQ Original    0.21597
## CLM_FREQ1      0      0.24183
## CLM_FREQ2      1      0.18996
## CLM_FREQ3      2      0.12019
## CLM_FREQ4      3      0.05669
## CLM_FREQ5      4      0.01335
```

```
table(insure_train_full$MVR_PTS)
```

```
##
##    0    1    2    3    4    5    6    7    8    9   10   11   13
## 3710 1156  948  757  599  399  266  167   84   45   13   11    2
```

```
show_hist("MVR_PTS")
```

Overlapping Histogram

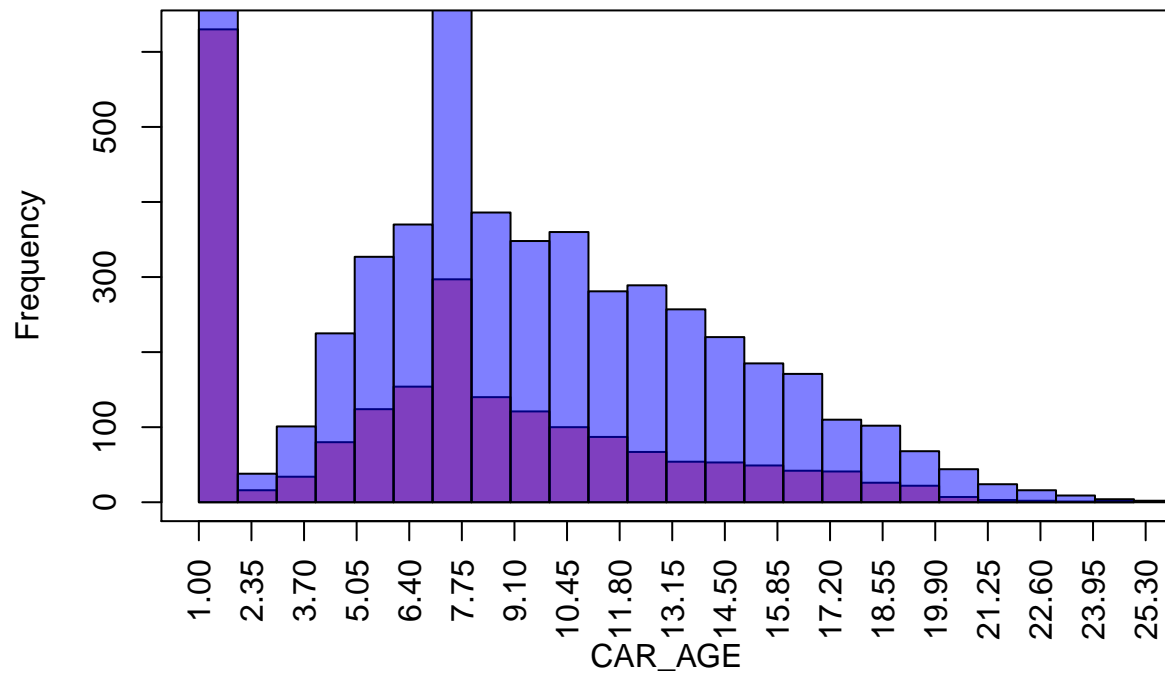


```
check_bins("MVR_PTS", c(0:12))
```

##	Item	Correlation
## MVR_PTS	Original	0.21927
## MVR_PTS1	0	0.14792
## MVR_PTS2	1	0.16997
## MVR_PTS3	2	0.17513
## MVR_PTS4	3	0.17121
## MVR_PTS5	4	0.16770
## MVR_PTS6	5	0.16443
## MVR_PTS7	6	0.17007
## MVR_PTS8	7	0.14080
## MVR_PTS9	8	0.10861
## MVR_PTS10	9	0.07472
## MVR_PTS11	10	0.05279
## MVR_PTS12	11	0.02616
## MVR_PTS13	12	0.02616

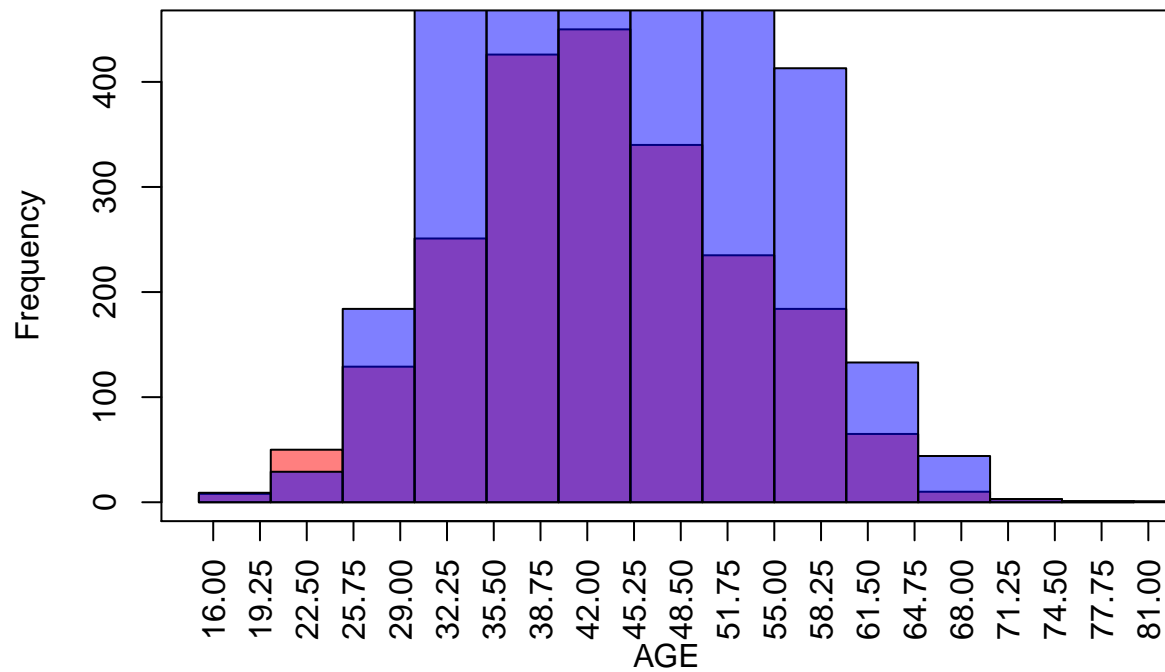
```
#table(insure_train_full$CAR_AGE)
show_hist("CAR_AGE")
```

Overlapping Histogram



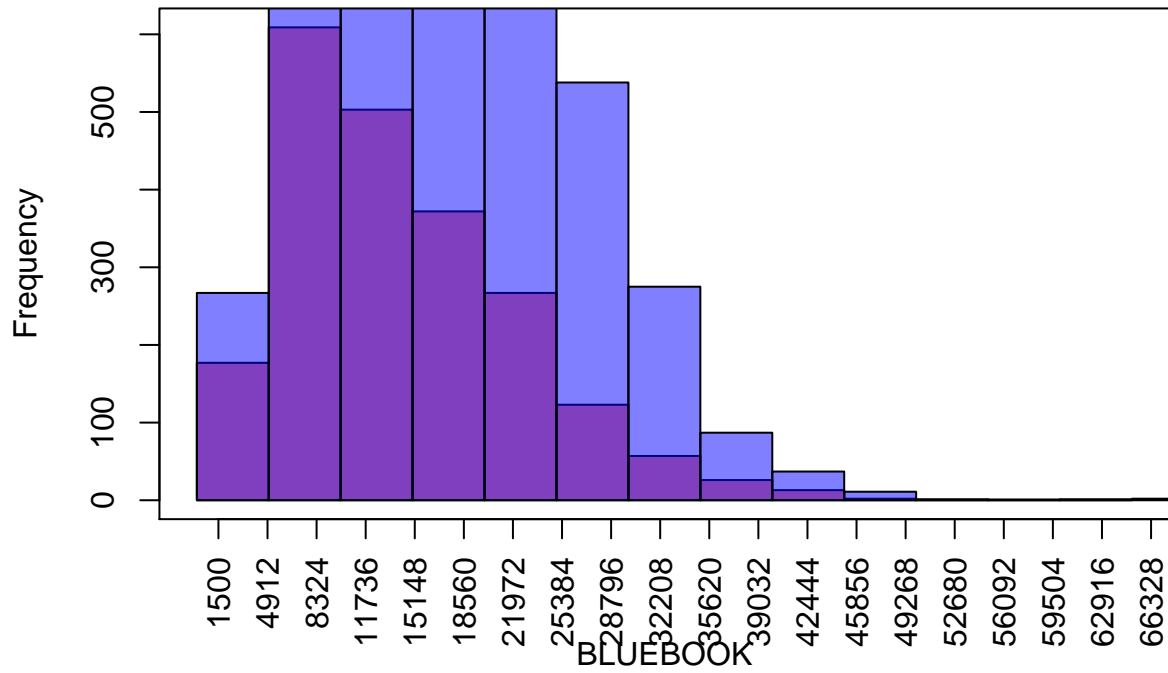
```
#check_bins("CAR_AGE", c(1:27))  
  
#table(insure_train_full$AGE)  
show_hist("AGE")
```


Overlapping Histogram



```
#check_bins("AGE", c(16:80))  
  
#table(insure_train_full$BLUEBOOK)  
show_hist("BLUEBOOK")
```

Overlapping Histogram



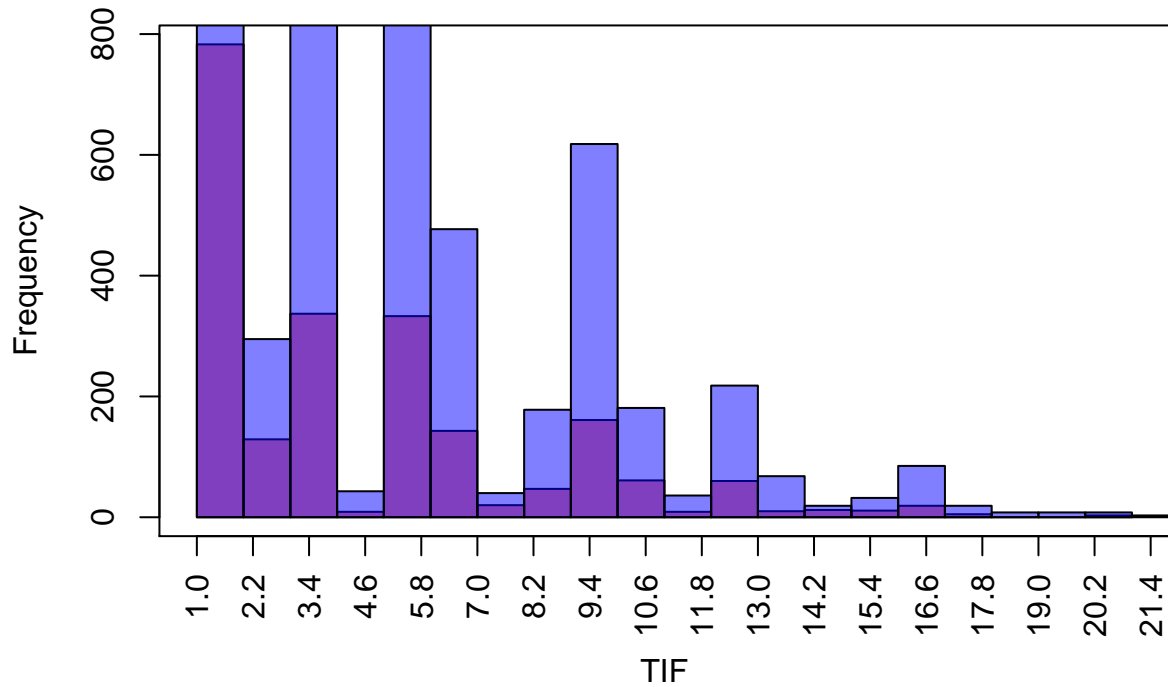
```
#check_bins("BLUEBOOK", c(11000, 41000, 41050, 57500, 58000))
```

```
table(insure_train_full$TIF)
```

```
##
##      1      2      3      4      5      6      7      8      9     10     11     12     13     14     15
## 2532      6    424   1241     52   1341    620    60    225    779    242    45    278    78    31
##      16     17     18     19     20     21     22    25
##      43    104     24      8      8     11      3      2
```

```
show_hist("TIF")
```

Overlapping Histogram



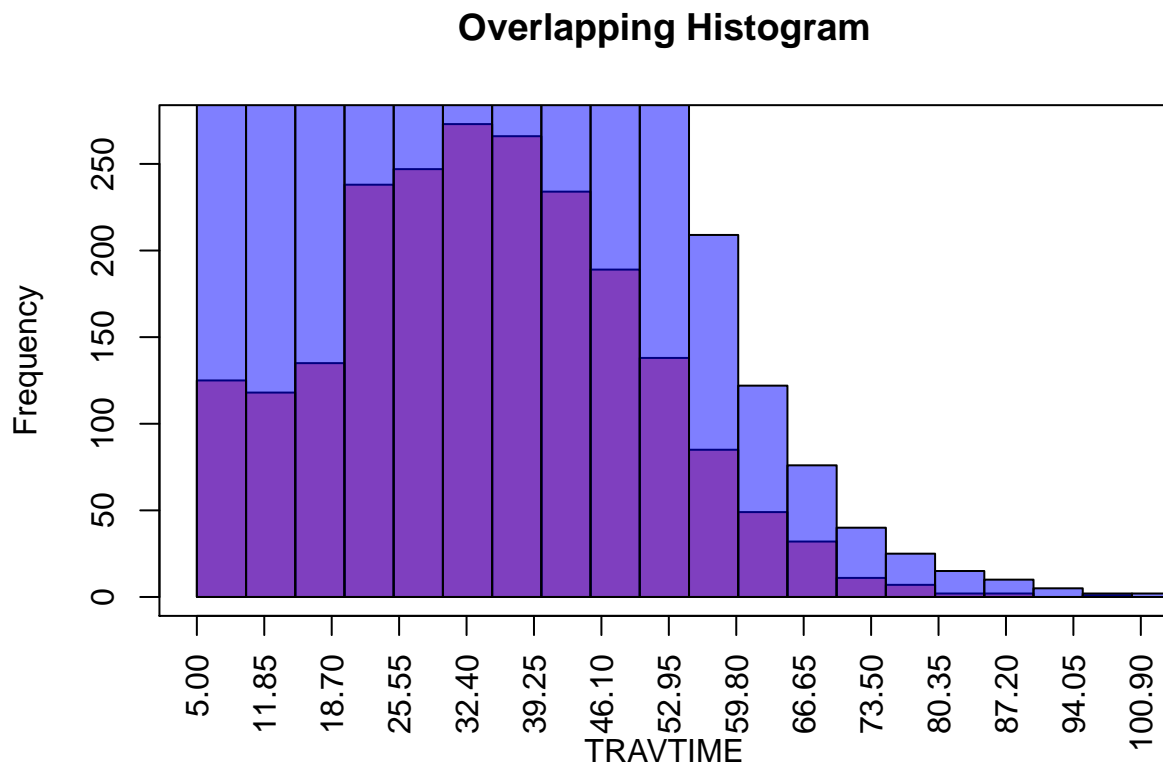
```
check_bins("TIF", c(1, 4, 6, 10, 24))
```

```
##           Item Correlation
## TIF Original -0.08217
## TIF1         1 -0.06734
## TIF2         4 -0.07801
## TIF3         6 -0.06872
## TIF4        10 -0.03715
## TIF5        24 -0.00937
```

```
table(insure_train_full$TRAVTIME)
```

```
##
##  5  6  7  8  9 10 11 12 13 14 15 16 17 18 19 20 21 22
## 334 49 43 54 70 87 70 97 97 102 92 117 117 121 135 131 169 164
## 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40
## 157 204 212 181 173 188 207 219 190 214 206 201 219 211 202 186 175 196
## 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58
## 175 154 153 162 167 145 125 128 125 106 102 110 82 62 72 73 71 56
## 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76
## 50 44 46 37 25 37 26 30 19 20 21 18 15 8 8 10 10 4
## 77 78 79 80 81 82 83 84 85 86 87 88 90 91 92 93 95 97
## 8 8 5 7 5 4 3 3 2 2 4 3 3 1 1 1 2 2
## 98 101 103 113 124 134 142
## 1 1 1 1 1 1 1
```

```
show_hist("TRAVTIME")
```



```
check_bins("TRAVTIME", c(21, 59, 120))
```

##	Item	Correlation
## TRAVTIME	Original	0.04805
## TRAVTIME1	21	0.05432
## TRAVTIME2	59	0.00188
## TRAVTIME3	120	-0.01148

From the outputs above, we can come to the following conclusions:

- INCOME - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this at zero value.
- YOJ - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this.
- HOME_VAL - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this.
- OLDCLAIM- There is a huge difference in the correlation when we transform this variable. Binning this variable seems like a good idea.
- CLM_FREQ - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this.

- MVR_PTS - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this.
- CAR_AGE - There are quite a few records with a 1 year car age. We will use this bound to generate a binned variable as well as retain the original variable as is.
- AGE - There is no specific pattern that emerges. We will retain this variable as is.

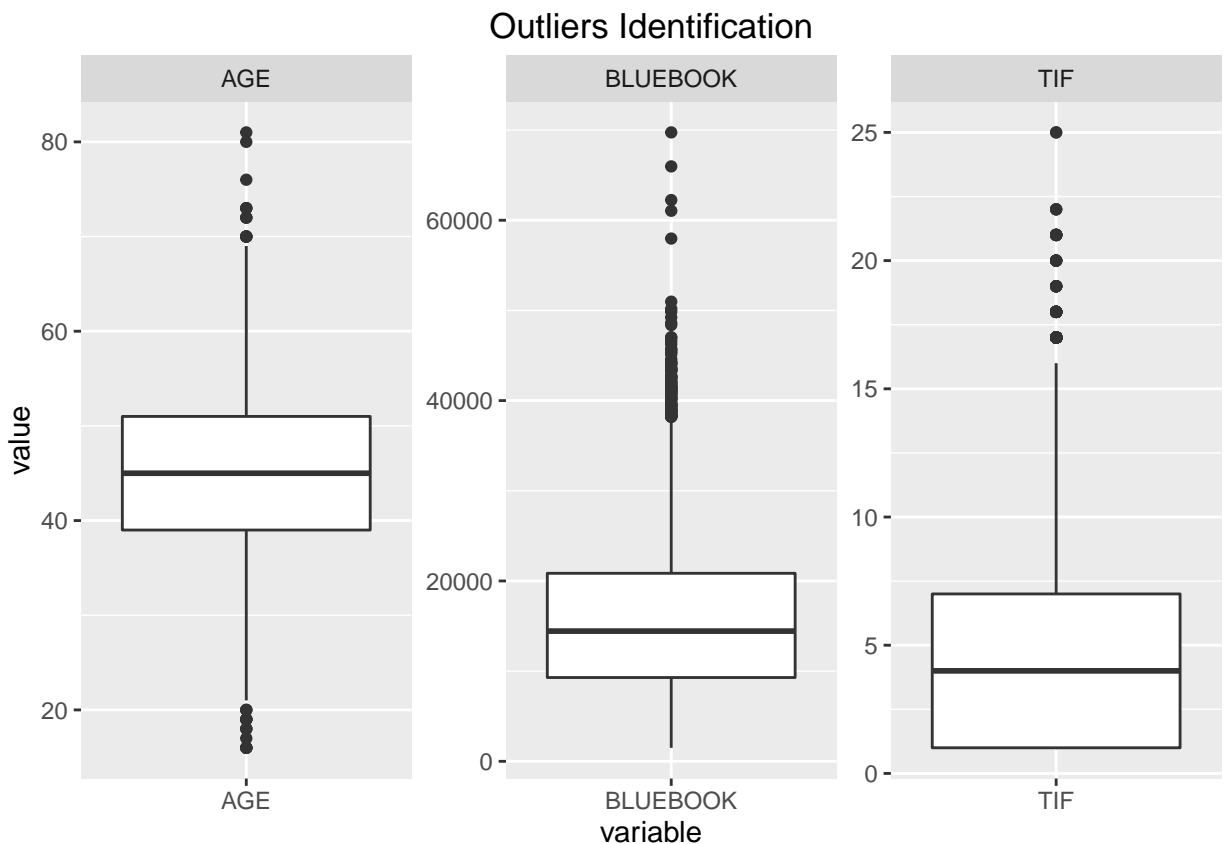
-BLUEBOOK - There is no specific pattern that emerges. We will retain the variable as is.

- TIF - Looking at the plots, values and the correlations with TARGET_FLAG, we can conclude that this is not a good variable for binning. We will retain this variable as is.
- TRAVTIME - from the plot, we can see that there is a clear pattern around the value - 20. We will go ahead and create a binned variable for this.

We will carry out the above transformations in the Data Preparation phase.

3.1.4 Outliers identification

In this sub-section, we will look at the boxplots and determine the outliers in variables and decide on whether to act on the outliers. We will do the outliers only on some of the currency and few other variables. Below are the plots:



From the “Outliers identification” plot above, we see that we have few outliers that we need to treat. We will treat the outliers in this variable when we do the data preparation for modeling the TARGET_FLAG.

3.1.5 Analysis of the link function

In this section, we will investigate how our initial data aligns with a typical logistic model plot.

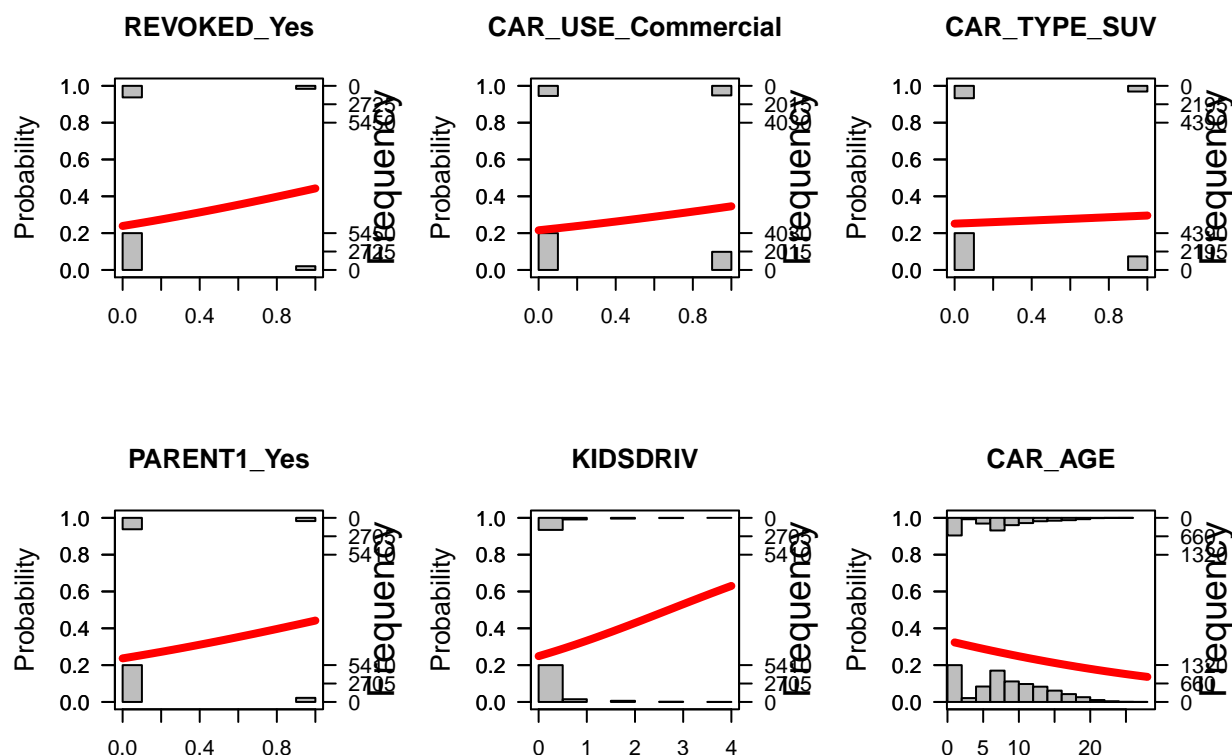
Recall the Logistic Regression is part of a larger class of algorithms known as Generalized Linear Model (glm). The fundamental equation of generalized linear model is:

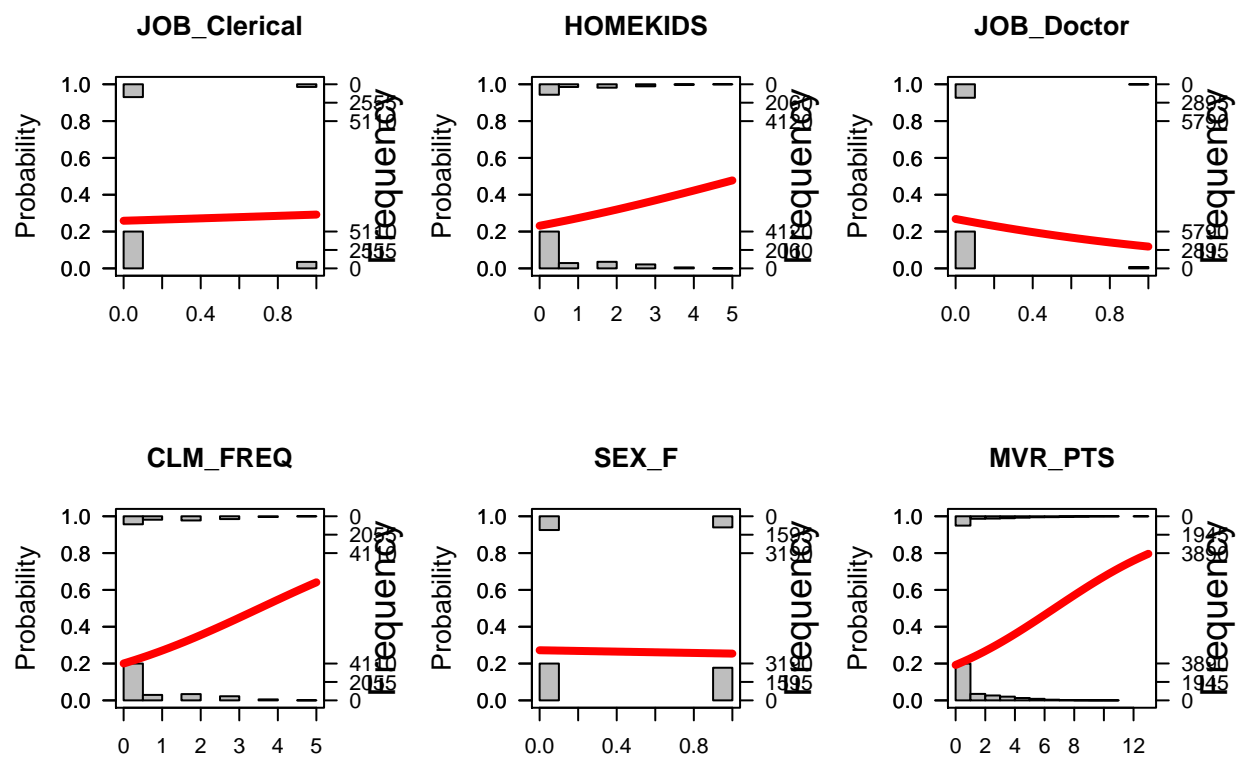
$$g(E(y)) = a + Bx_1 + B_2x_2 + B_3x_3 + \dots$$

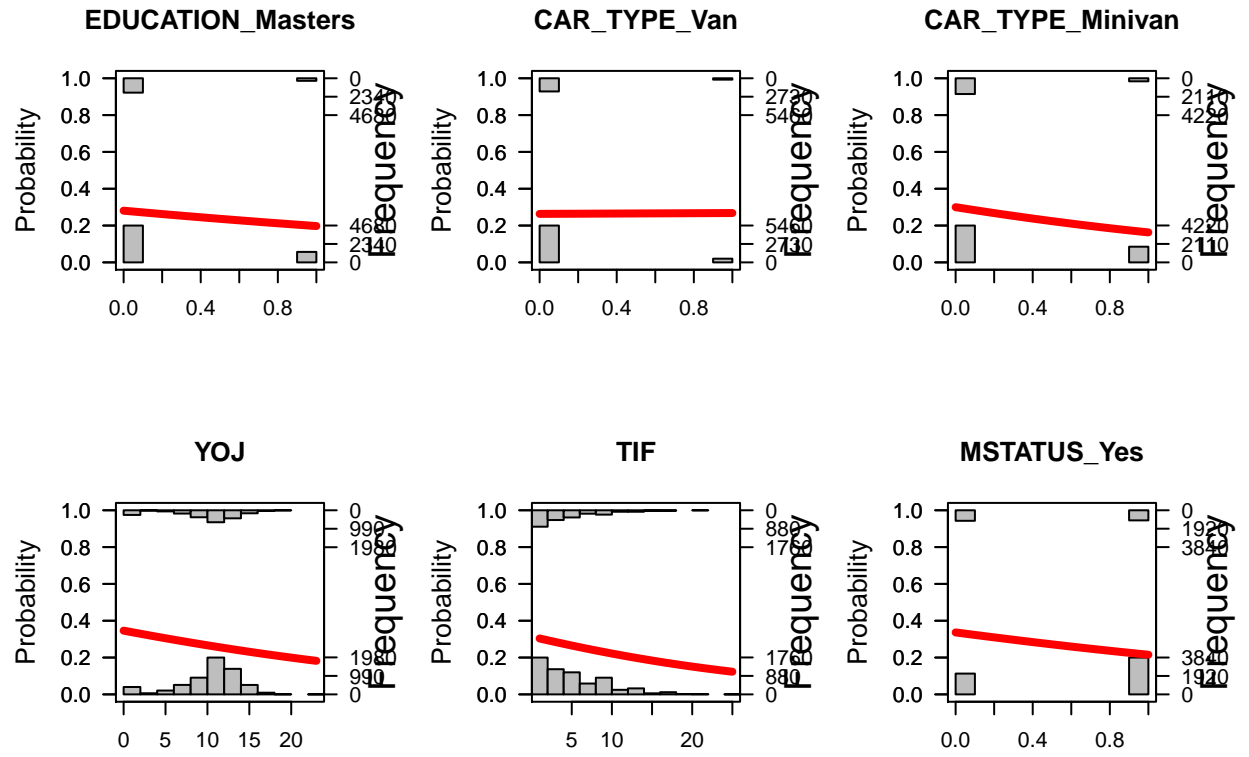
where, $g()$ is the link function, $E(y)$ is the expectation of target variable and $B_0 + B_1x_1 + B_2x_2 + B_3x_3$ is the linear predictor (B_0, B_1, B_2, B_3 to be predicted). The role of link function is to 'link' the expectation of y to linear predictor.

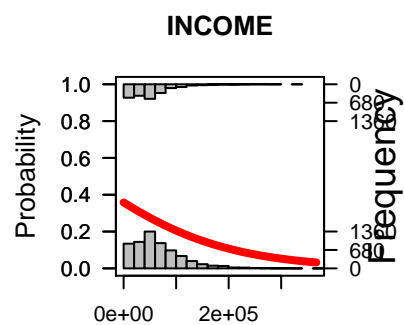
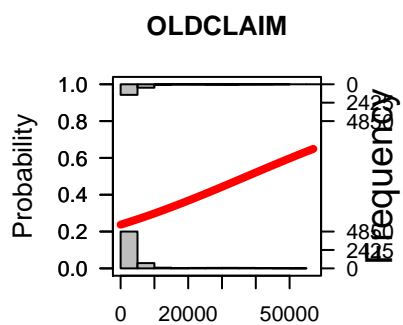
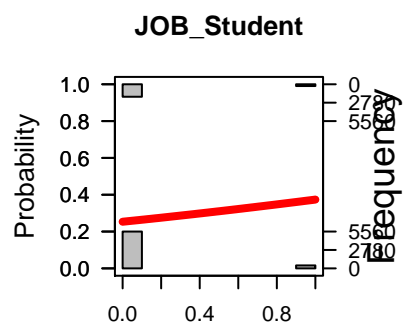
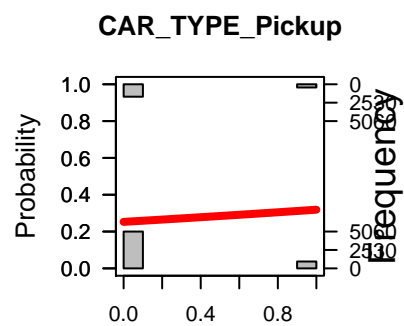
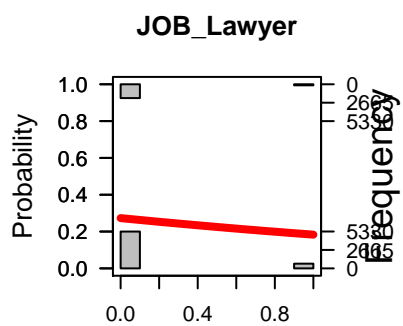
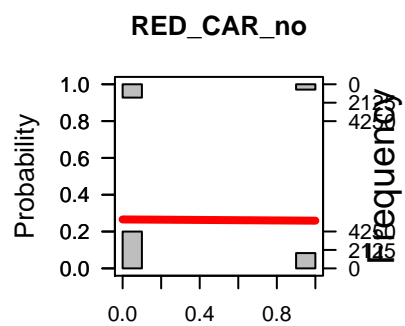
In logistic regression, we are only concerned about the probability of outcome dependent variable (success or failure). As described above, $g()$ is the link function. This function is established using two things: Probability of Success (p) and Probability of Failure ($1-p$). p should meet following criteria: It must always be positive (since $p \geq 0$) It must always be less than equals to 1 (since $p \leq 1$).

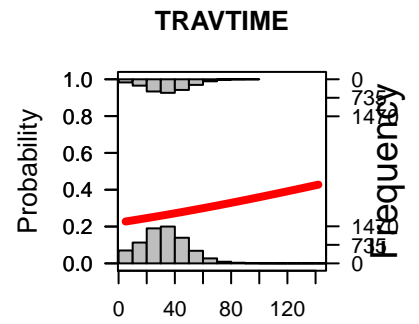
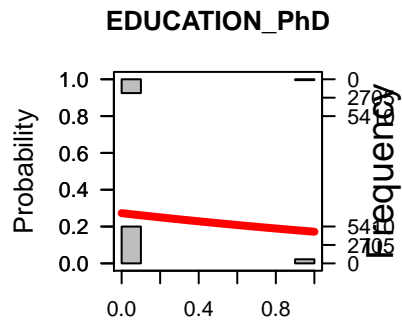
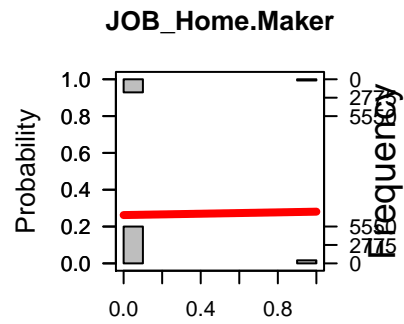
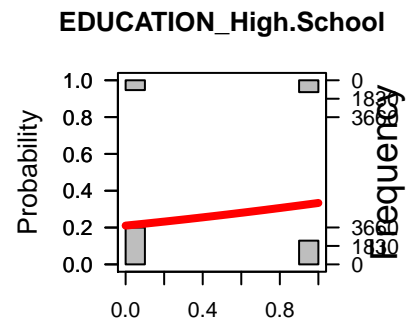
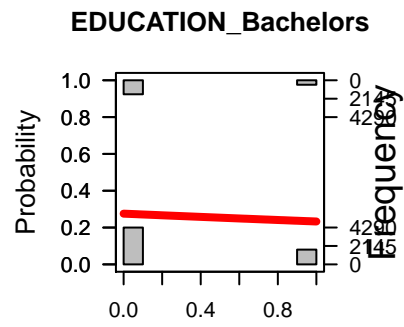
Now let's investigate how our initial data model aligns with the above criteria. In other words, we will plot regression model plots for each variable and compare it to a typical logistic model plot:

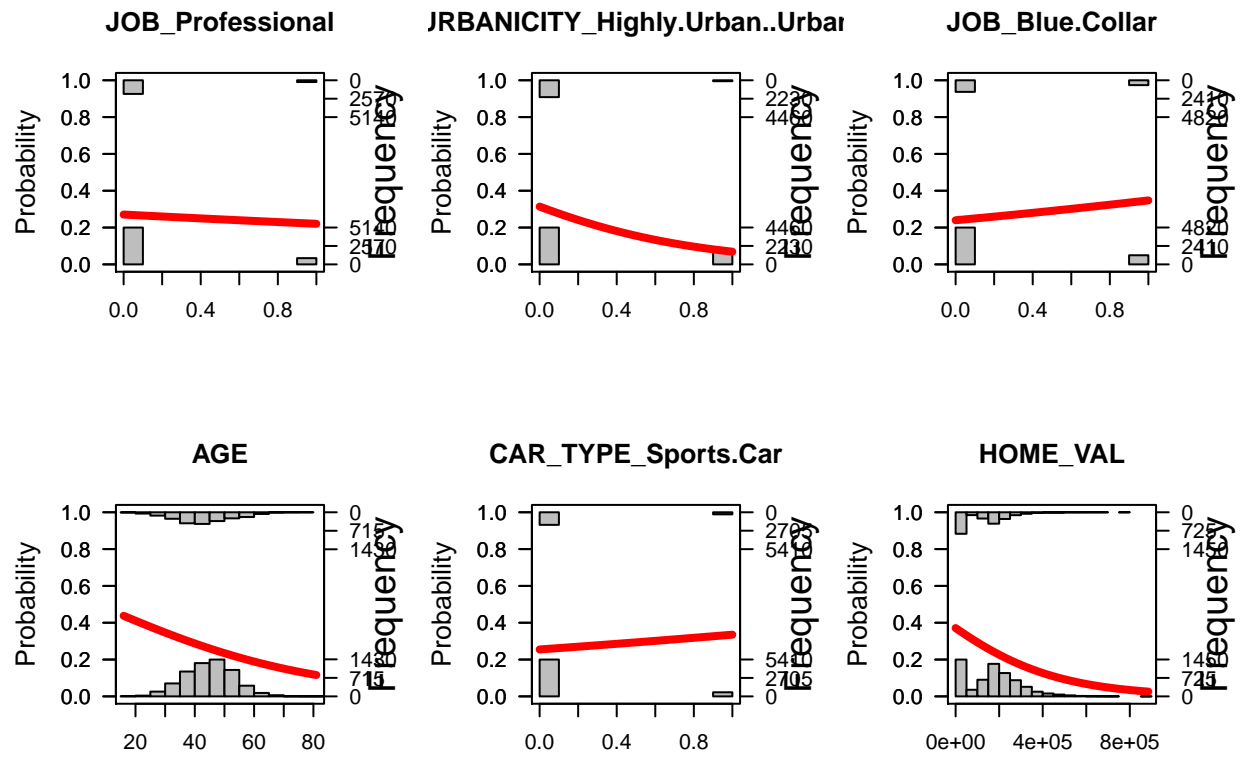


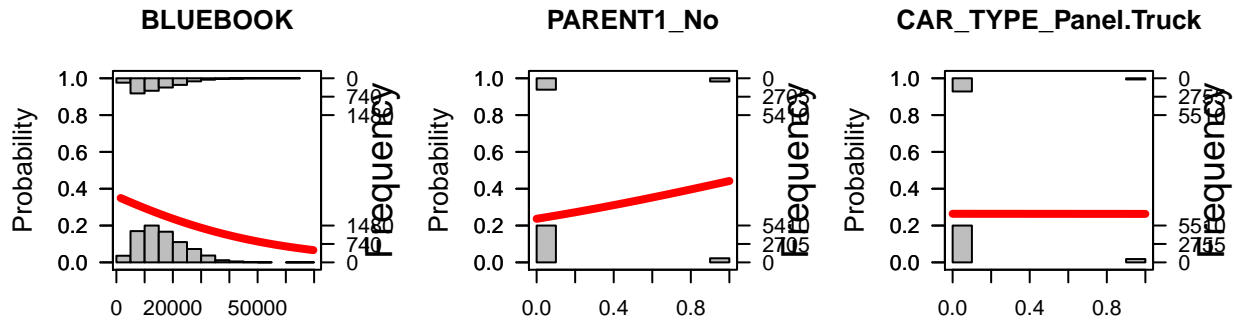












3.1.5.1 Interpretation

You can see that the probability of crashing increases as we get closer to the “1” classification for the CAR_TYPE_Van, RED_CAR_no, JOB_Home.Maker, SEX_F, JOB_Clerical, CAR_TYPE_SUV, TRAVTIME, BLUEBOOK, CAR_TYPE_Pickup, CAR_TYPE_Sports.Car, JOB_Student, KIDSDRIV, JOB_Blue.Collar, HOMEKIDS, MSTATUS_No, EDUCATION_High.School, CAR_USE_Commercial, REVOKED_Yes, PARENT1_Yes, OLDCLAIM, CLM_FREQ, MVR_PTS, URBANITY_Highly.Urban..Urban variables.

You can see that the probability of crashing decreases as we get closer to the “1” classification for the HOME_VAL, CAR_TYPE_Minivan, MSTATUS_Yes, JOB_Manager, AGE, CAR_AGE, TIF, EDUCATION_Masters, YOJ, EDUCATION_PhD, JOB_Lawyer, JOB_Doctor, EDUCATION_Bachelors, JOB_Professional, INCOME, SEX_M, RED_CAR_yes, CAR_TYPE_Panel.Truck variables.

3.2 Data Preparation

Now that we have completed the data exploration / analysis, we will be transforming the data for use in analysis and modeling.

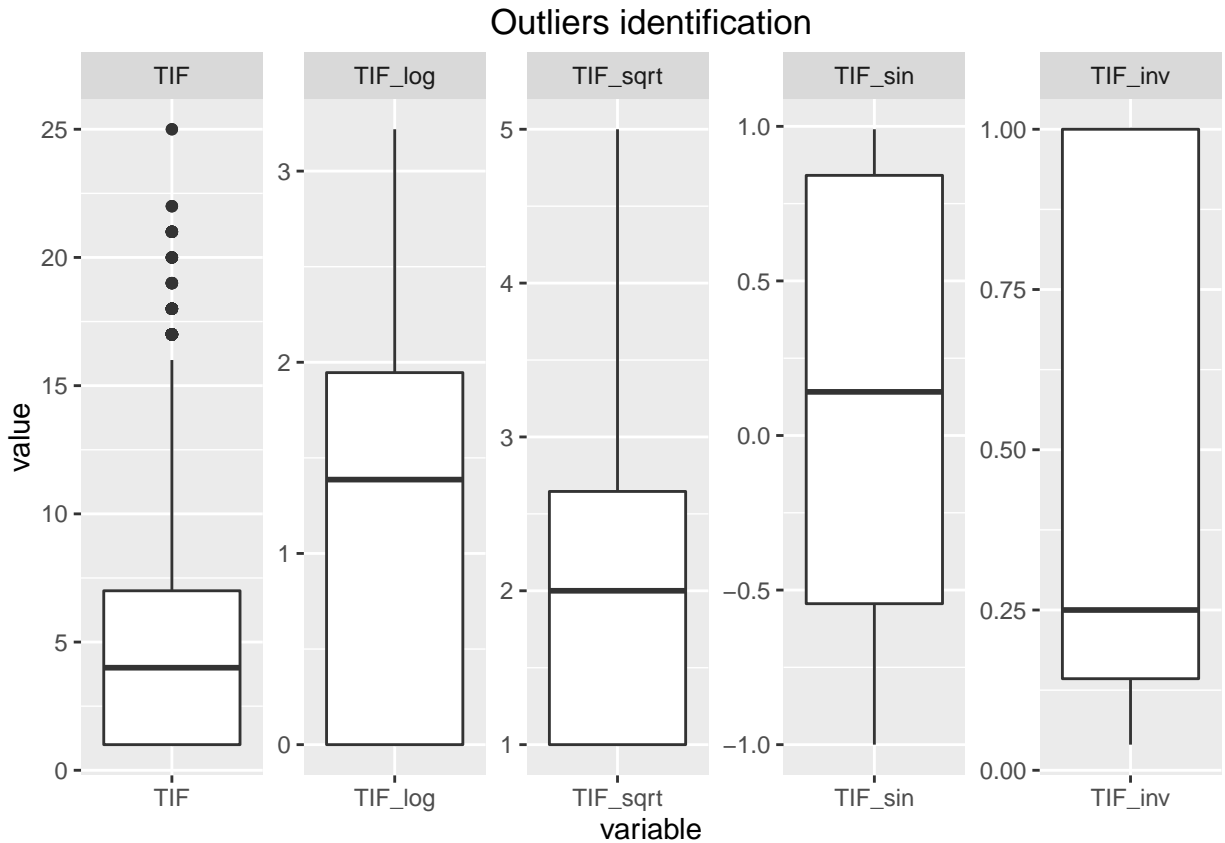
We will be following the below steps as guidelines: - Outliers treatment - Adding New Variables

3.2.1 Outliers treatment

In this sub-section, we will check different transformations for AGE, BLUEBOOK and TIF to create the appropriate outlier-handled / transformed variables.

Transformations for TIF

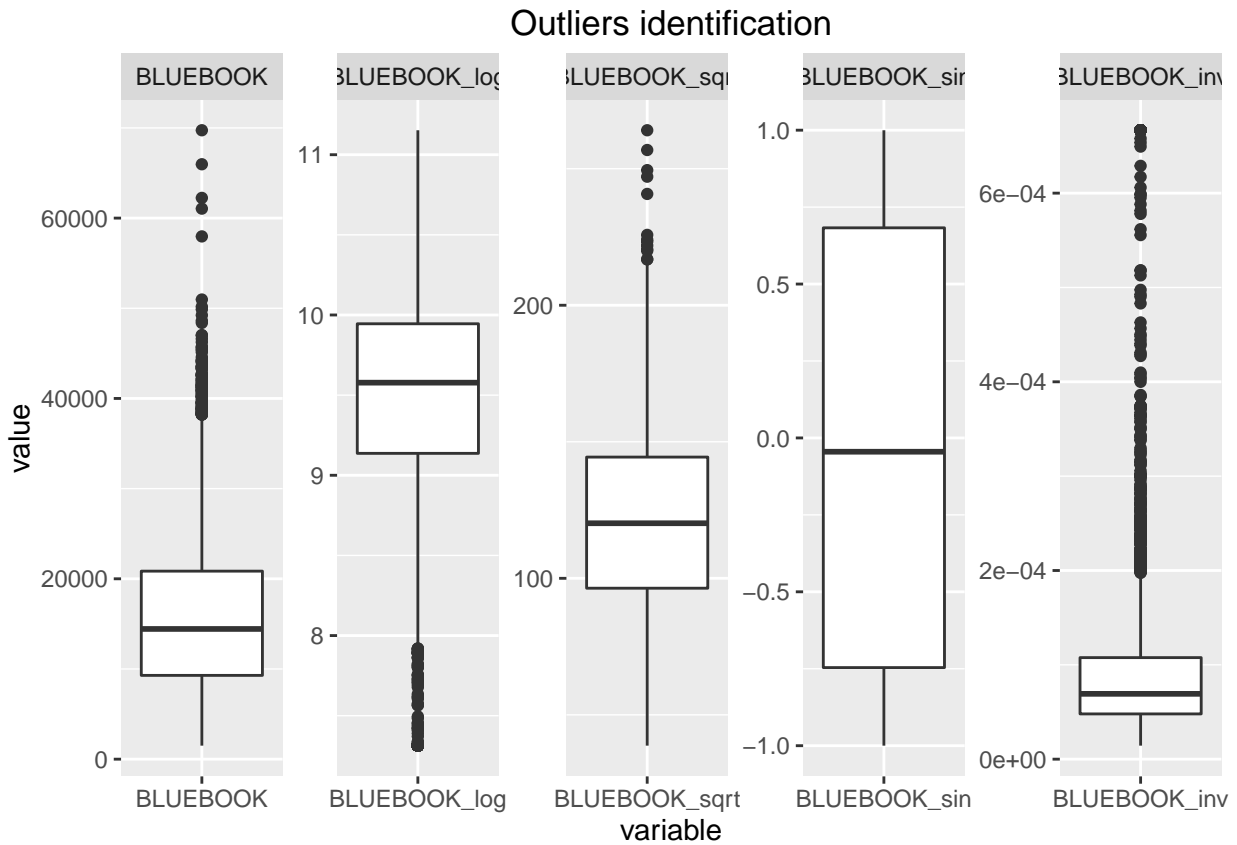
##	Min.	1st Qu.	Median	Mean	3rd Qu.	Max.
##	1.00	1.00	4.00	5.35	7.00	25.00



From the above charts we can see that a log, sqrt, sin or an inverse transformation works well for TIF. However, the sin transformation seems to be better distributed. Hence, We will create this variable.

Transformations for BLUEBOOK

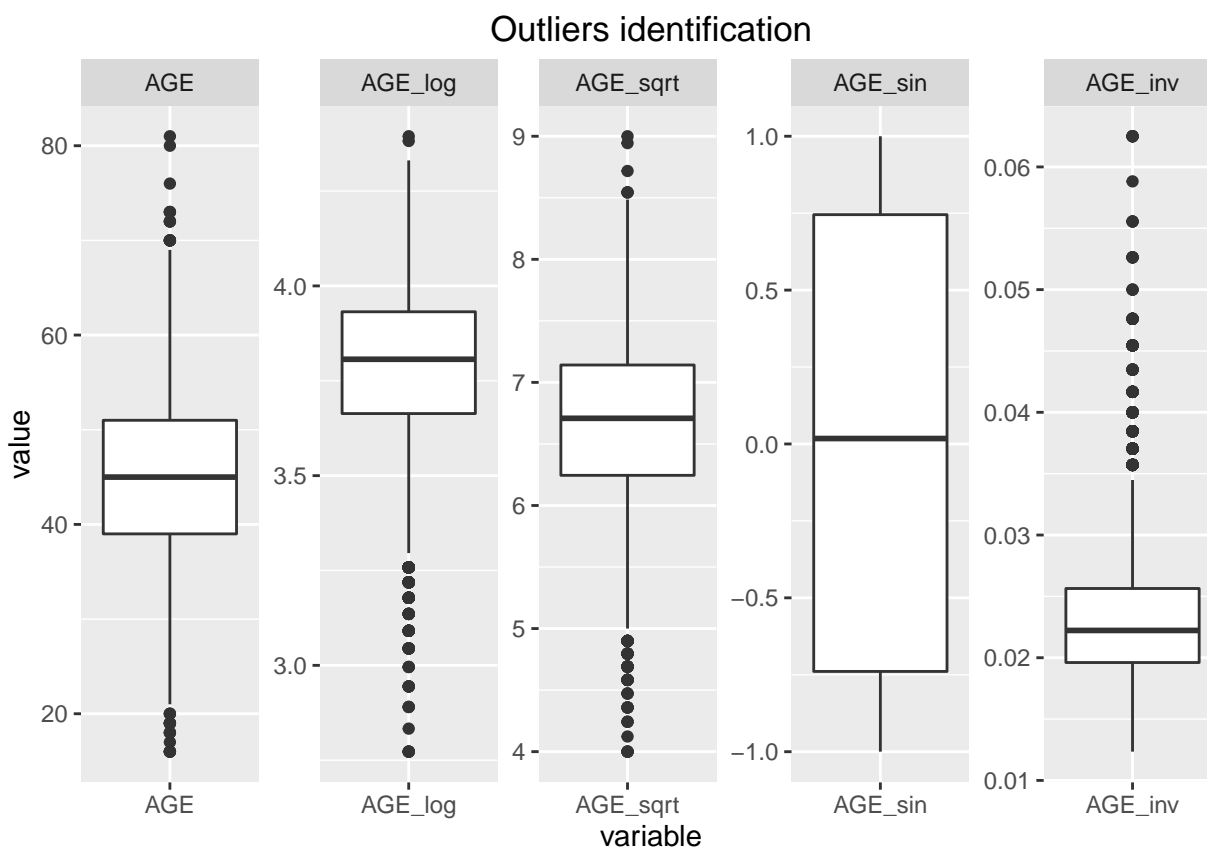
##	Min.	1st Qu.	Median	Mean	3rd Qu.	Max.
##	1500	9290	14440	15710	20850	69740



From the above charts we can see that a sin transformation works well. Hence, We will create this variable.

Transformations for AGE

##	Min.	1st Qu.	Median	Mean	3rd Qu.	Max.
##	16.00	39.00	45.00	44.79	51.00	81.00



From the above charts we can see that a sin works well for AGE. Hence, We will create this variable.

3.2.2 Adding New Variables

In this section, we generate some additional variables that we feel will help the correlations. The following were some of the observations we made during the data exploration phase for TARGET_FLAG

CAR_TYPE - If you drive Minivans and Panel Trucks you have lesser chance of being in a crash as against Pickups, Sports, SUVs and Vans. Since the distinction is clear, we believe that binning this variable accordingly will help strengthen the correlation. Accordingly, we will bin this variable as below:

CAR_TYPE_FLAG_BIN :

- 1 : if CAR_TYPE is Minivans or Panel Trucks
- 0 : if CAR_TYPE is Pickups, Sports, SUVs or Vans

EDUCATION - If you have only a high school education then you are more likely to crash than if you have a Bachelors, Masters or a Phd. Again binning this variable will strengthen the correlation:

EDUCATION_FLAG_BIN :

- 0 : if EDUCATION is High School
- 1 : if EDUCATION is Bachelors, Masters or Phd

JOB - If you are a Student, Homemaker, or in a Blue Collar or Clerical job, you are more likely to be in a crash against Doctor, Lawyer, Manager or professional. Again binning this variable will strengthen the correlation:

JOB_TYPE_FLAG_BIN :

- 1 : if JOB_TYPE is Student, Homemaker, or in a Blue Collar or Clerical
- 0 : if JOB_TYPE is Doctor, Lawyer, Manager, professional, Unknown
- INCOME - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this at zero value.

INCOME_FLAG_BIN :

- 1 : if INCOME \leq 0
- 0 : if INCOME $>$ 0
- YOJ - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this.

YOJ_FLAG_BIN :

- 1 : if YOJ \leq 0
- 0 : if YOJ $>$ 0
- HOME_VAL - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this.

HOME_VAL_FLAG_BIN :

- 1 : if HOME_VAL \leq 0
- 0 : if HOME_VAL $>$ 0
- OLDCLAIM- There is a huge difference in the correlation when we transform this variable. Binning this variable seems like a good idea.

OLDCLAIM_FLAG_BIN :

- 1 : if OLDCLAIM \leq 0
- 0 : if OLDCLAIM $>$ 0
- CLM_FREQ - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this.

CLM_FREQ_FLAG_BIN :

- 1 : if CLM_FREQ \leq 0
- 0 : if CLM_FREQ $>$ 0
- MVR_PTS - Binning this variable seems to make a difference in the correlation. We will go ahead and create a binned variable for this.

MVR_PTS_FLAG_BIN :


```
## $ CAR_USE_Commercial: num 0 1 0 0 0 1 0 1 0 1 ...
## $ MSTATUS_Yes : num 0 0 1 1 1 0 1 1 0 0 ...
## $ PARENT1_Yes : num 0 0 0 0 0 1 0 0 0 0 ...
## $ RED_CAR_yes : num 1 1 0 1 0 0 0 1 0 0 ...
## $ REVOKED_Yes : num 0 0 0 0 1 0 0 1 0 0 ...
## $ SEX_M : num 1 1 0 1 0 0 0 1 0 1 ...
## $ URBANICITY_Rural : num 0 0 0 0 0 0 0 0 0 1 ...
## $ YOJ_MISS : num 0 0 0 0 1 0 1 1 0 0 ...
## $ INCOME_MISS : num 0 0 0 1 0 0 0 0 0 0 ...
## $ HOME_VAL_MISS : num 0 0 0 0 0 0 1 0 0 0 ...
## $ CAR_AGE_MISS : num 0 0 0 0 0 0 0 0 0 0 ...
## $ TIF_sin : num -1 0.841 -0.757 0.657 0.841 ...
## $ BLUEBOOK_sin : num -0.988 -0.988 0.971 0.8 -0.97 ...
## $ AGE_sin : num -0.305 -0.832 -0.428 0.67 -0.262 ...
## $ CAR_TYPE_FLAG_BIN : num 1 1 0 1 0 0 0 0 0 0 ...
## $ EDUCATION_FLAG_BIN: num 1 0 0 0 1 1 0 1 1 1 ...
## $ JOB_TYPE_FLAG_BIN : num 0 1 1 1 0 1 1 1 1 0 ...
## $ INCOME_FLAG_BIN : num 0 0 0 0 0 0 0 0 0 0 ...
## $ YOJ_FLAG_BIN : num 0 0 0 0 0 0 0 0 0 0 ...
## $ HOME_VAL_FLAG_BIN : num 1 0 0 0 0 1 0 0 1 1 ...
## $ OLDCLAIM_FLAG_BIN : num 0 1 0 1 0 1 1 0 1 1 ...
## $ CLM_FREQ_FLAG_BIN : num 0 1 0 1 0 1 1 0 1 1 ...
## $ MVR_PTS_FLAG_BIN : num 0 1 0 1 0 1 1 0 1 0 ...
## $ CAR_AGE_FLAG_BIN : num 0 1 0 0 0 0 1 0 1 0 ...
## $ TRAVTIME_FLAG_BIN : num 1 0 1 0 0 0 0 0 0 0 ...
```

3.3 Build Models

In this section, we will create 3 models. Aside from using original and transformed data, we will also using different methods and functions such as Linear Discriminant Analysis, step function, and logit function to enhance our models. Below is our model definition: -Model 1- This model will be created using all the variables in train data set with logit function GLM. -Model 2: This model step function will be used to enhance the model 1. -Model 3- This model will be created using classification and regression tree.

3.3.1 Prepare TRAIN and VALID datasets

However, prior to that, we hold out a subset of data as a validation dataset to check model performance. This will be useful when we select a model.

```
smp_size <- floor(0.80 * nrow(DS_TARGET_FLAG))

## set the seed to make your partition reproducible
set.seed(123)

train_index <- sample(seq_len(nrow(DS_TARGET_FLAG)), size = smp_size)

DS_TARGET_FLAG_TRAIN<- DS_TARGET_FLAG[train_index, ]
DS_TARGET_FLAG_VALID <- DS_TARGET_FLAG[-train_index, ]
```

3.3.2 Model 1 and enahncement of Model 1 with step function (Model 2)

In this model, we will be using all the given variables in train data set. We will create model using logit function. We will then step thru the model to remove unnecessary variables and generate the refined model. We will highlight the summary of the refined model.

```
##
## Call:
## glm(formula = TARGET_FLAG ~ ., family = "binomial", data = na.omit(DS_TARGET_FLAG_TRAIN))
##
## Deviance Residuals:
##      Min       1Q   Median       3Q      Max
## -2.4903  -0.7193  -0.4098   0.6561   3.1494
##
## Coefficients: (1 not defined because of singularities)
##              Estimate Std. Error z value Pr(>|z|)
## (Intercept)   -3.988e-01  3.403e-01  -1.172  0.241181
## KIDSDRIV       3.979e-01  6.763e-02   5.883  4.03e-09 ***
## AGE          -4.759e-03  4.458e-03  -1.067  0.285793
## HOMEKIDS       1.818e-02  4.169e-02   0.436  0.662766
## YOJ           1.598e-02  1.378e-02   1.159  0.246305
## INCOME        -3.058e-06  1.260e-06  -2.427  0.015231 *
## HOME_VAL      -8.986e-07  6.553e-07  -1.371  0.170277
## TRAVTIME       1.334e-02  2.786e-03   4.786  1.70e-06 ***
## BLUEBOOK      -1.680e-05  4.762e-06  -3.527  0.000420 ***
## TIF           -5.153e-02  9.256e-03  -5.567  2.59e-08 ***
## OLDCLAIM      -2.124e-05  4.735e-06  -4.487  7.23e-06 ***
## CLM_FREQ       7.001e-02  4.953e-02   1.413  0.157567
## MVR_PTS        1.042e-01  2.119e-02   4.918  8.73e-07 ***
## CAR_AGE        5.177e-03  1.077e-02   0.481  0.630837
## CAR_USE_Commercial 7.512e-01  7.643e-02   9.828  < 2e-16 ***
## MSTATUS_Yes    -5.337e-01  9.590e-02  -5.565  2.62e-08 ***
## PARENT1_Yes     3.787e-01  1.219e-01   3.106  0.001898 **
## RED_CAR_yes    -1.602e-02  9.656e-02  -0.166  0.868237
## REVOKED_Yes     1.052e+00  1.032e-01  10.194  < 2e-16 ***
## SEX_M          -7.591e-03  9.676e-02  -0.078  0.937467
## URBANICITY_Rural -2.313e+00  1.254e-01 -18.453  < 2e-16 ***
## YOJ_MISS       -9.088e-02  1.503e-01  -0.605  0.545393
## INCOME_MISS    -8.443e-02  1.491e-01  -0.566  0.571275
## HOME_VAL_MISS  -1.280e-02  1.414e-01  -0.091  0.927878
## CAR_AGE_MISS    2.667e-01  1.351e-01   1.975  0.048291 *
## TIF_sin        2.893e-02  5.475e-02   0.528  0.597165
## BLUEBOOK_sin   -2.722e-02  4.562e-02  -0.597  0.550670
## AGE_sin        1.864e-02  4.599e-02   0.405  0.685238
## CAR_TYPE_FLAG_BIN -5.584e-01  8.259e-02  -6.760  1.38e-11 ***
## EDUCATION_FLAG_BIN -3.764e-01  9.592e-02  -3.923  8.73e-05 ***
## JOB_TYPE_FLAG_BIN  3.225e-01  9.760e-02   3.304  0.000953 ***
## INCOME_FLAG_BIN  4.796e-01  3.508e-01   1.367  0.171569
## YOJ_FLAG_BIN    8.043e-02  3.797e-01   0.212  0.832256
## HOME_VAL_FLAG_BIN  1.107e-02  1.552e-01   0.071  0.943148
## OLDCLAIM_FLAG_BIN -4.899e-01  1.371e-01  -3.572  0.000354 ***
## CLM_FREQ_FLAG_BIN      NA         NA         NA         NA
## MVR_PTS_FLAG_BIN  2.785e-02  9.490e-02   0.293  0.769170
## CAR_AGE_FLAG_BIN  8.810e-02  1.170e-01   0.753  0.451457
```

```
## TRAVTIME_FLAG_BIN -9.989e-02 1.104e-01 -0.905 0.365589
## ---
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## (Dispersion parameter for binomial family taken to be 1)
##
## Null deviance: 7551.7 on 6524 degrees of freedom
## Residual deviance: 5886.1 on 6487 degrees of freedom
## AIC: 5962.1
##
## Number of Fisher Scoring iterations: 5
```

Interpretation for the TF_Model1 and TF_Model1_ref

newline

TF_Model1:

From model 1 summary we can find following important points-

- (i) Variable URBANICITY_Rural has most significant association with lowest p value. negative value of log odd function indicates that chances of accidents are higher in Urbanicity areas compare to rural area.
- (ii) For MSTATUS_Yes variable log odd is negative which indicates married people tend to drive slowly and have less number of accidents.
- (iii) Sex variable has no significant association which means driving patterns does not depend on men and women.
- (iv) variable REVOKED_Yes has strong association which indicates if person's license has been revoked in last 7 years then chance of end up in accidents are much higher with log odds value of 0.809090.
- (v) If person has a claim in last 5 years then chances of more claims are higher. Variable OLDCLAIM_FLAG_BI indicates that with negative log odds value(1 is here no claim -0.559409).
- (vi) AIC value of the model is AIC: 6078.7 and number of iteration was 5.

TF_Model1_ref:

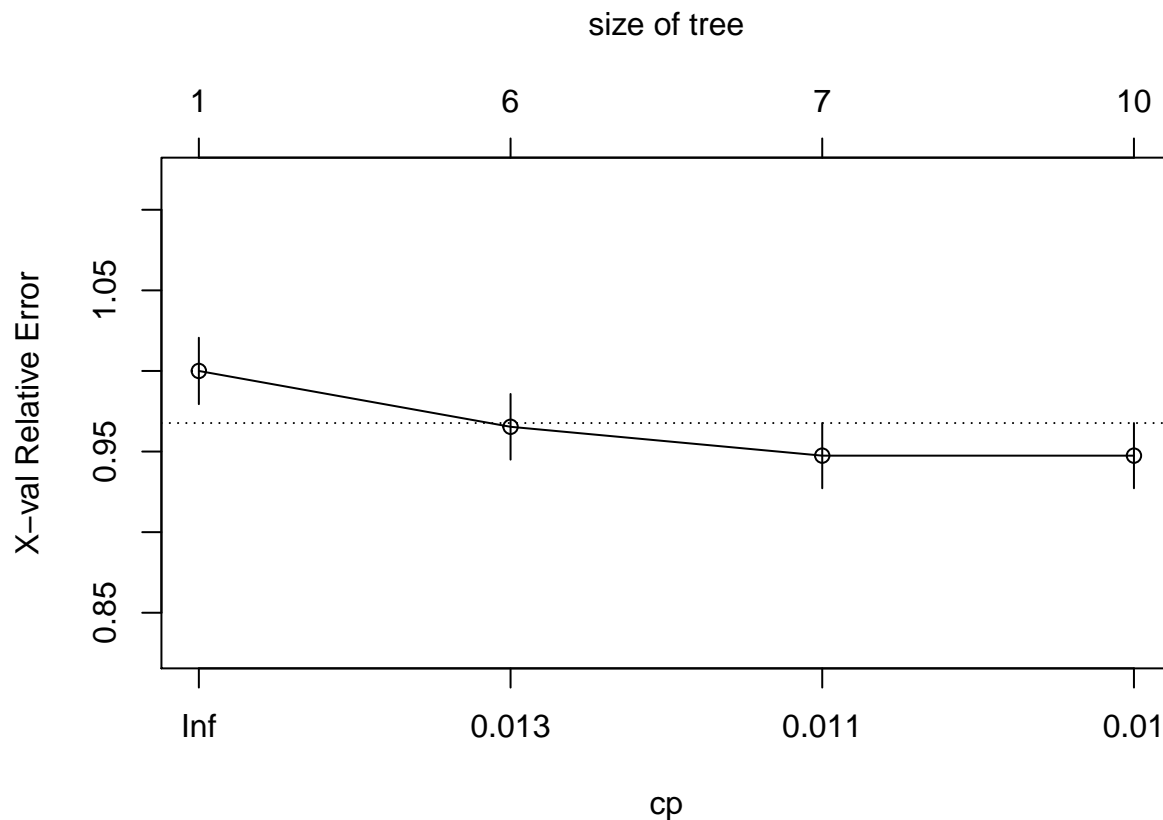
Model 1 has AIC value 6078.7 and enhanced model TF_Model1_ref has AIC value 6064.9 slightly better compared to model1. We will look into more details on model1_ref below-

- (i) Based on the outcome from model_ref, it can be seen that following variables KIDSDRIV, PARENT1_Yes, MSTATUS_Yes, CAR_USE_Commercial, REVOKED_Yes, TIF_sin, CAR_TYPE_FLAG_BIN, EDUCATION_FLAG_BIN, JOB_TYPE_FLAG_BIN, INCOME_FLAG_BIN, HOME_VAL_FLAG_BIN, OLDCLAIM_FLAG_BIN, URBANICITY_Rural are only statistically significant. Most of the variables are having similar association as above model 1.
- (ii) As for the statistically significant variables, URBANICITY_Rural has the lowest p-value suggesting a strong association of the URBANICITY_Rural to the target variable. Implication is also same negative value indicate lower chances of accidents in rural areas.
- (iii) One interesting outcome is when childrens are driving your car then more chances of accidents with log odd value of 0.41327 for variable KIDSDRIV.
- (iv) For variable CAR_TYPE_FLAG_BIN there is high negative correlation is there with log odds value of -0.65867 that means Minivan and Panel truck has higher chance of getting into an accident.

- (v) Variable EDUCATION_FLAG_BIN has negative log odds value of -0.46755 indicating that people with higher education above high school has less chance of an accident compared to the other group.
- (vi) No. of iterations are 5 before lowest value of AIC was derived for this model.

3.3.3 Model 3

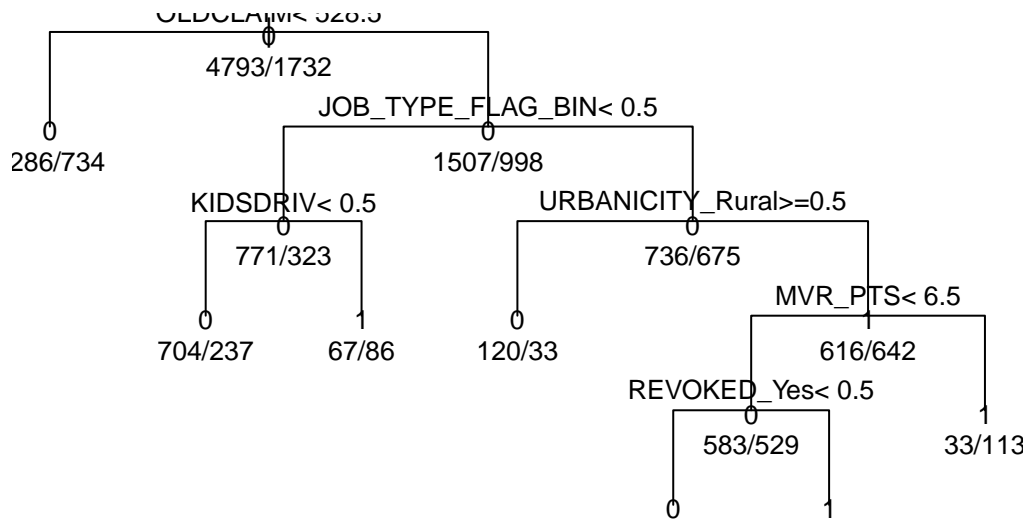
In this model, we will be using original variables; however we use the CART (Classification and Regression Trees) algorithm to train the model. We will then Prune the tree and have a look at the summary of this pruned model.



```
##
## Classification tree:
## rpart(formula = TARGET_FLAG ~ ., data = DS_TARGET_FLAG_TRAIN,
##       method = "class")
##
## Variables actually used in tree construction:
## [1] JOB_TYPE_FLAG_BIN KIDSDRIV      MVR_PTS      OLDCLAIM
## [5] REVOKED_Yes      URBANICITY_Rural
##
## Root node error: 1732/6525 = 0.26544
##
## n= 6525
##
##      CP nsplit rel error  xerror    xstd
## 1 0.016051      0  1.00000 1.00000 0.020594
```

## 2	0.010970	5	0.91975	0.96536	0.020360
## 3	0.010778	6	0.90878	0.94746	0.020235

Pruned Classification Tree for TARGET_FLAG



Interpretation for Model 3

newline

Following analysis can be drawn from this model: (i) The following variables have been used for classification - OLD_CLAIM, JOB_TYPE_FLAG_BIN, URBANICITY_Rural, KIDSDRIV, MVR_PTS, REVOKED_Yes.

(ii) lowest Cp value and Xerror occurred on split 7.

(iii) OLDCLAIM_FLAG_BIN is the first variable used to split the classification based on its value 0 and 1. When there is claim (1 in above variable) branch is further split to other branches by variable JOB_TYPE_FLAG_BIN (based on value 0 and 1). Based on value of JOB_TYPE_FLAG_BIN (0 and 1) there is two different routes in classification. one Split (774/323) is based on variable KIDSDRIV and the other one (738/675) is based on URBANICITY_Rural variable. Using the above variable total 7 splits have been performed for classification.

3.4 Model Evaluation Using VALID Data

Lets go ahead and apply the above models to the VALID dataset that we had held out. Below is the table of predictions for each of the models:

3.4.1 Evaluation of Model 1

Table 4: Model 1 evaluation KPIs

	Accuracy	Error_Rate	Precision	sensitivity	specificity	F1_Score	AUC
1	0.7947304	0.2052696	0.447619	0.6460481	0.8269948	0.3926341	0.8079817

Model 1 has good accuracy value close to 78.3%. sensitivity value is lower than the specificity value.

3.4.2 Evaluation of Model 2

Table 5: Model 2 evaluation KPIs

	Accuracy	Error_Rate	Precision	sensitivity	specificity	F1_Score	AUC
2	0.7830882	0.2169118	0.2690476	0.70625	0.7914402	0.2537439	0.8079817

Model 2 has good accuracy value close to 77.3% and very close to model1. sensitivity value is lower than the specificity value.

3.4.3 Evaluation of Model 3

Table 6: Model 3 evaluation KPIs

	Accuracy	Error_Rate	Precision	sensitivity	specificity	F1_Score	AUC
1	0.7947304	0.2052696	0.4476190	0.6460481	0.8269948	0.3926341	0.8079817
2	0.7830882	0.2169118	0.2690476	0.7062500	0.7914402	0.2537439	0.8079817
3	0.7561275	0.2438725	0.1666667	0.5932203	0.7688243	0.1451789	0.6733272

This model has accuracy value of 75.4%. AUC for this model is 67.4 % and less compared to the other two models.

3.5 Final Logistic Model Selection Summary

Following is the comparison of various metrics for above 3 models

Table 7: Model Performance Metrics Comparison

Model_No	Accuracy	Error_Rate	AUC	Precision	sensitivity	specificity	F1_Score
1	0.7947304	0.2052696	0.8079817	0.4476190	0.6460481	0.8269948	0.3926341
2	0.7830882	0.2169118	0.8079817	0.2690476	0.7062500	0.7914402	0.2537439
3	0.7561275	0.2438725	0.6733272	0.1666667	0.5932203	0.7688243	0.1451789

From the comparison table, we see that Model 1 is quite superior from the accuracy and AUC perspective.

The AUC provides the best score on probability of correctly identifying the patterns at various cut off values. The Accuracy, on the other hand, is calculated as specific cut off value. For this assignment we will go with cut off value of 0.5 and choose the Model 1 based on Accuracy value for further prediction on evaluation data set.

3.5.1 Detailed Inference for Final Model

The following analysis will be carried out on the final model:

- (i) Relevant variables in the model
- (ii) Estimate confidence interval for coefficient
- (iii) odds ratios and 95% CI
- (iv) AUC curve
- (v) Distribution of prediction

3.5.2 Most important variables in the model

```
##
## Call:
## glm(formula = TARGET_FLAG ~ ., family = "binomial", data = na.omit(DS_TARGET_FLAG_TRAIN))
##
## Deviance Residuals:
##      Min       1Q   Median       3Q      Max
## -2.4903  -0.7193  -0.4098   0.6561   3.1494
##
## Coefficients: (1 not defined because of singularities)
##              Estimate Std. Error z value Pr(>|z|)
## (Intercept)   -3.988e-01  3.403e-01  -1.172  0.241181
## KIDSDRIV       3.979e-01  6.763e-02   5.883  4.03e-09 ***
## AGE           -4.759e-03  4.458e-03  -1.067  0.285793
## HOMEKIDS       1.818e-02  4.169e-02   0.436  0.662766
## YOJ            1.598e-02  1.378e-02   1.159  0.246305
## INCOME        -3.058e-06  1.260e-06  -2.427  0.015231 *
## HOME_VAL      -8.986e-07  6.553e-07  -1.371  0.170277
## TRAVTIME       1.334e-02  2.786e-03   4.786  1.70e-06 ***
## BLUEBOOK      -1.680e-05  4.762e-06  -3.527  0.000420 ***
## TIF           -5.153e-02  9.256e-03  -5.567  2.59e-08 ***
## OLDCLAIM      -2.124e-05  4.735e-06  -4.487  7.23e-06 ***
## CLM_FREQ       7.001e-02  4.953e-02   1.413  0.157567
## MVR_PTS        1.042e-01  2.119e-02   4.918  8.73e-07 ***
## CAR_AGE        5.177e-03  1.077e-02   0.481  0.630837
## CAR_USE_Commercial 7.512e-01  7.643e-02   9.828  < 2e-16 ***
## MSTATUS_Yes    -5.337e-01  9.590e-02  -5.565  2.62e-08 ***
## PARENT1_Yes     3.787e-01  1.219e-01   3.106  0.001898 **
## RED_CAR_yes    -1.602e-02  9.656e-02  -0.166  0.868237
## REVOKED_Yes     1.052e+00  1.032e-01  10.194  < 2e-16 ***
## SEX_M         -7.591e-03  9.676e-02  -0.078  0.937467
## URBANICITY_Rural -2.313e+00  1.254e-01 -18.453  < 2e-16 ***
## YOJ_MISS       -9.088e-02  1.503e-01  -0.605  0.545393
## INCOME_MISS    -8.443e-02  1.491e-01  -0.566  0.571275
## HOME_VAL_MISS  -1.280e-02  1.414e-01  -0.091  0.927878
## CAR_AGE_MISS    2.667e-01  1.351e-01   1.975  0.048291 *
## TIF_sin        2.893e-02  5.475e-02   0.528  0.597165
## BLUEBOOK_sin   -2.722e-02  4.562e-02  -0.597  0.550670
## AGE_sin        1.864e-02  4.599e-02   0.405  0.685238
## CAR_TYPE_FLAG_BIN -5.584e-01  8.259e-02  -6.760  1.38e-11 ***
## EDUCATION_FLAG_BIN -3.764e-01  9.592e-02  -3.923  8.73e-05 ***
## JOB_TYPE_FLAG_BIN  3.225e-01  9.760e-02   3.304  0.000953 ***
```

```
## INCOME_FLAG_BIN      4.796e-01  3.508e-01  1.367 0.171569
## YOJ_FLAG_BIN         8.043e-02  3.797e-01  0.212 0.832256
## HOME_VAL_FLAG_BIN    1.107e-02  1.552e-01  0.071 0.943148
## OLDCLAIM_FLAG_BIN    -4.899e-01  1.371e-01  -3.572 0.000354 ***
## CLM_FREQ_FLAG_BIN      NA         NA         NA         NA
## MVR_PTS_FLAG_BIN      2.785e-02  9.490e-02  0.293 0.769170
## CAR_AGE_FLAG_BIN      8.810e-02  1.170e-01  0.753 0.451457
## TRAVTIME_FLAG_BIN    -9.989e-02  1.104e-01  -0.905 0.365589
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## (Dispersion parameter for binomial family taken to be 1)
##
## Null deviance: 7551.7  on 6524  degrees of freedom
## Residual deviance: 5886.1  on 6487  degrees of freedom
## AIC: 5962.1
##
## Number of Fisher Scoring iterations: 5
```

Following are the most relevant variables for the model: CAR_USE_Commercial, REVOKED_Yes, URBANICITY_Rural, CAR_TYPE_FLAG_BIN, TRAVTIME, OLDCLAIM_FLAG_BIN, MVR_PTS, TIF_SIN, KIDSDRIV, PARENT1_Yes, EDUCATION_FLAG_BIN, MSTATUS_Yes, BLUEBOOK, OLDCLAIM, JOB_TYPE_FLAG_BIN, HOME_VAL, INCOME_FLAG_BIN.

we can write the equation of the Model 1 as:

$$\log(y) = -0.4015 + 0.3431 * KIDSDRIV - 0.000001027 * HOME_VAL + 0.01557 * TRAVTIME - 0.00001858 * BLUEBOOK - 0.05103 * TIF - 0.00001873 * OLDCLAIM + 0.1043 * MVR_PTS + 0.7632 * CAR_USE_Commercial - 0.4066 * MSTATUS_Yes + 0.5246 * PARENT1_Yes + 1.025 * REVOKED_Yes - 2.221 * URBANICITY_Rural - 0.5662 * CAR_TYPE_FLAG_BIN - 0.3996 * EDUCATION_FLAG_BIN + 0.3584 * JOB_TYPE_FLAG_BIN + 0.311 * INCOME_FLAG_BIN - 0.627 * OLDCLAIM_FLAG_BIN$$

3.5.3 Analysis of odds ratios of variables 95% CI

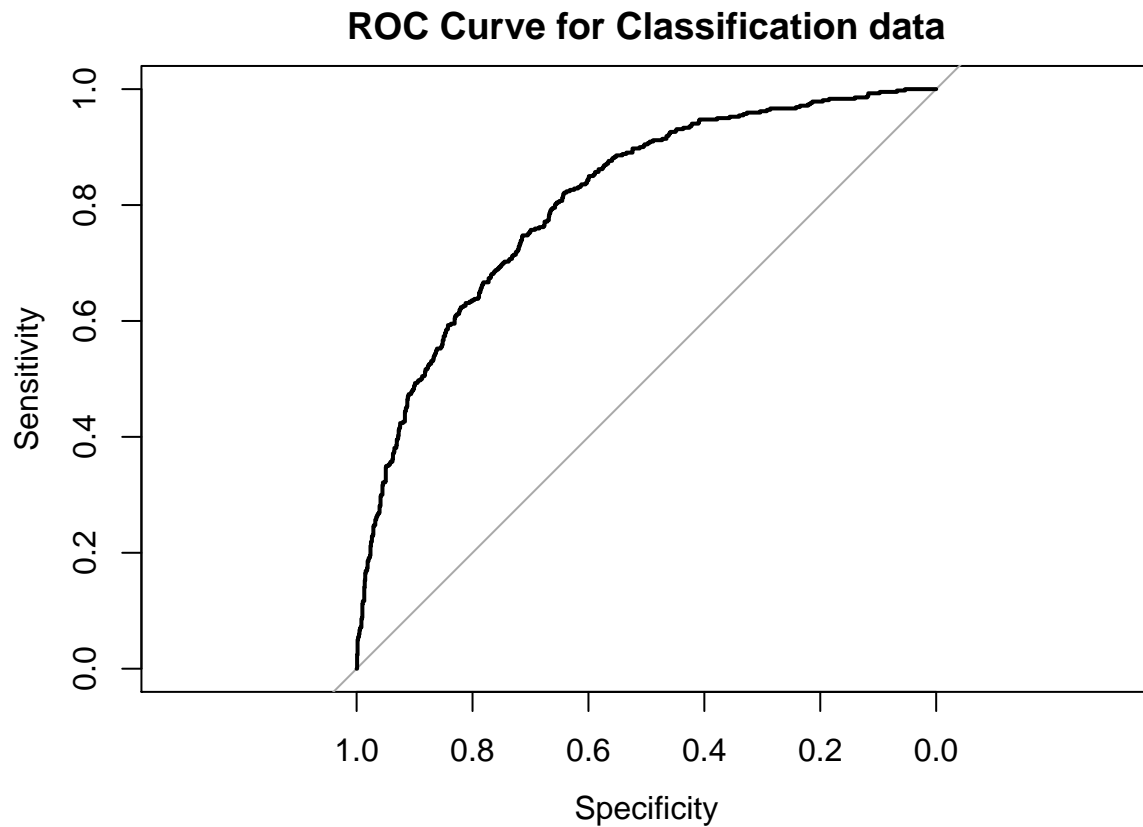
##	OR	2.5 %	97.5 %
## (Intercept)	0.67113058	0.34449416	1.3074714
## KIDSDRIV	1.48862259	1.30382382	1.6996140
## AGE	0.99525237	0.98659334	1.0039874
## HOMEKIDS	1.01834688	0.93844701	1.1050495
## YOJ	1.01610813	0.98902600	1.0439318
## INCOME	0.99999694	0.99999447	0.9999994
## HOME_VAL	0.99999910	0.99999782	1.0000004
## TRAVTIME	1.01342437	1.00790509	1.0189739
## BLUEBOOK	0.99998320	0.99997387	0.9999925
## TIF	0.94977489	0.93269993	0.9671624
## OLDCLAIM	0.99997876	0.99996948	0.9999880
## CLM_FREQ	1.07251612	0.97328473	1.1818647
## MVR_PTS	1.10986959	1.06470918	1.1569455
## CAR_AGE	1.00519015	0.98418928	1.0266391
## CAR_USE_Commercial	2.11945792	1.82459644	2.4619701
## MSTATUS_Yes	0.58643036	0.48593986	0.7077019
## PARENT1_Yes	1.46035120	1.14992968	1.8545705
## RED_CAR_yes	0.98410869	0.81442639	1.1891436
## REVOKED_Yes	2.86451319	2.33977796	3.5069293

## SEX_M	0.99243744	0.82099263	1.1996844
## URBANICITY_Rural	0.09894387	0.07738989	0.1265009
## YOJ_MISS	0.91313153	0.68015614	1.2259085
## INCOME_MISS	0.91903450	0.68611221	1.2310296
## HOME_VAL_MISS	0.98728640	0.74837344	1.3024707
## CAR_AGE_MISS	1.30565907	1.00200553	1.7013335
## TIF_sin	1.02935564	0.92462226	1.1459523
## BLUEBOOK_sin	0.97314416	0.88991133	1.0641617
## AGE_sin	1.01881446	0.93100276	1.1149085
## CAR_TYPE_FLAG_BIN	0.57214143	0.48662962	0.6726796
## EDUCATION_FLAG_BIN	0.68635498	0.56871853	0.8283239
## JOB_TYPE_FLAG_BIN	1.38053840	1.14018363	1.6715608
## INCOME_FLAG_BIN	1.61542333	0.81225230	3.2127856
## YOJ_FLAG_BIN	1.08375386	0.51487406	2.2811839
## HOME_VAL_FLAG_BIN	1.01113208	0.74588194	1.3707103
## OLDCLAIM_FLAG_BIN	0.61268865	0.46828247	0.8016259
## CLM_FREQ_FLAG_BIN	NA	NA	NA
## MVR_PTS_FLAG_BIN	1.02824027	0.85372369	1.2384312
## CAR_AGE_FLAG_BIN	1.09209197	0.86830795	1.3735506
## TRAVTIME_FLAG_BIN	0.90493543	0.72885274	1.1235577

The following points can be made for the important variables in the model:

In keeping all other variables same, the odds of an accident increases as follow: 1.8449962 for per unit change in CAR_USE_Commercial, 2.2458626 per unit change in REVOKED_Yes, 0.1104633 for per unit change in URBANICITY_Rural, etc. Any value which is less than 1, it means that there is less chance of an event with the per unit increase of the variable.

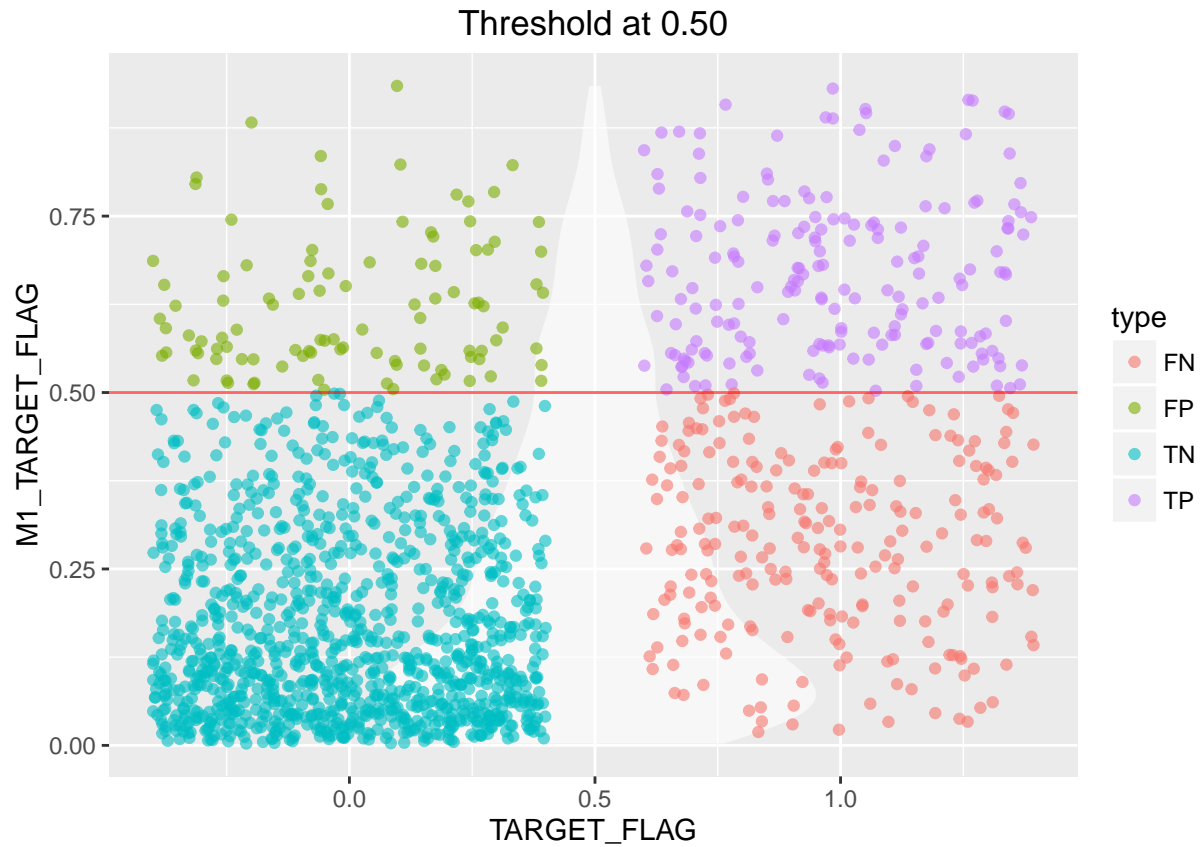
3.5.4 ROC curve for the selected model



```
##  
## Call:  
## roc.formula(formula = DS_TARGET_FLAG_VALID$TARGET_FLAG ~ DS_TARGET_FLAG_VALID$M1_TARGET_FLAG,      da  
##  
## Data: DS_TARGET_FLAG_VALID$M1_TARGET_FLAG in 1212 controls (DS_TARGET_FLAG_VALID$TARGET_FLAG 0) < 42  
## Area under the curve: 0.808
```

3.5.5 Distribution of the Predictions

```
## Warning in predict.lm(object, newdata, se.fit, scale = 1, type =  
## ifelse(type == : prediction from a rank-deficient fit may be misleading
```



Considering the target has value 1 (accident occurs) and 0 when no accident, then the above plot illustrates the tradeoff of choosing a reasonable threshold. In other words, if the threshold is increased, the number of false positive (FP) results is lowered; while the number of false negative (FN) results increases.

4 Linear Regression for TARGET_AMT

In this section we will use Linear regression to model the TARGET_AMT. We will first start with the Data Exploration. We will be using only those records where the TARGET_FLAG is 1. This indicates that the vehicle crashed. In such a scenario, we will be modeling the cost of repair using Linear Regression. First, lets create the required data set for the “Crashed” data from the existing “clean” full data and look at the structure of the resulting dataset. We will remove from the new “crashed” dataset all those variables that were created specifically for predicting TARGET_FLAG. We will be creating these variables separately for predicting TARGET_AMT.

We notice that the dependent variable here is TARGET_AMT. Apart from the dependent variables, we have 49 independent or predictor variables.

Also, since we created this dataset from the “Clean” full dataset, we already have taken care of the missing values.

However, we may need to look into the outliers and correlations again since we have a new target variable to correlate against.

4.1 Data Summary and Correlation Analysis

4.1.1 Data Summary

In this section, we will create summary data to better understand the relationship each of the variables have with our dependent variables using correlation, central tendency, and dispersion as shown below:

4.1.2 Correlations

Now we will produce the correlation table between the independent variables and the dependent variable - TARGET_AMT

Table 8: Correlation between TARGET_AMT and predictor variables

	Correlation_TARGET_AMT
TARGET_AMT	1.000000
BLUEBOOK	0.1181297
CAR_TYPE_Panel.Truck	0.0682806
SEX_M	0.0513430
CAR_TYPE_Van	0.0499290
CAR_USE_Commercial	0.0496142
INCOME	0.0454604
JOB_Professional	0.0406747
JOB_Unknown	0.0402613
MVR_PTS	0.0396710
YOJ	0.0343807
EDUCATION_PhD	0.0294767
HOME_VAL	0.0291859
AGE	0.0279828
RED_CAR_yes	0.0271768
PARENT1_Yes	0.0238302
JOB_Blue.Collar	0.0155259
EDUCATION_Masters	0.0143267
EDUCATION_Bachelors	0.0136662

	Correlation_TARGET_AMT
JOB_Lawyer	0.0102382
TRAVTIME	0.0053657
CLM_FREQ	0.0023251
INDEX	0.0010044
HOMEKIDS	0.0002698
KIDSDRIV	-0.0000869
URBANICITY_Rural	-0.0048888
OLDCLAIM	-0.0049723
CAR_TYPE_Minivan	-0.0058234
TIF	-0.0060620
JOB_Doctor	-0.0122018
CAR_AGE	-0.0135348
JOB_Clerical	-0.0151891
CAR_TYPE_Sports.Car	-0.0152654
CAR_TYPE_Pickup	-0.0174060
JOB_Manager	-0.0256129
JOB_Home.Maker	-0.0293974
JOB_Student	-0.0331511
MSTATUS_Yes	-0.0351848
EDUCATION_High.School	-0.0359529
REVOKED_Yes	-0.0365018
CAR_TYPE_SUV	-0.0405600

The above table suggests that none of the variables seem to have a very strong correlation with TARGET_AMT.

However, BLUEBOOK, CAR_TYPE_Panel.Truck, SEX_M, CAR_TYPE_Van, CAR_USE_Commercial, INCOME, INCOME_IMPUTE, JOB_Professional, JOB_Unknown, MVR_PTS, YOJ, YOJ_IMPUTE, HOME_VAL_IMPUTE, EDUCATION_PhD, HOME_VAL, AGE, AGE_IMPUTE, RED_CAR_yes, PARENT1_Yes, YOJ_MISS, HOME_VAL_MISS, JOB_Blue.Collar, EDUCATION_Masters, EDUCATION_Bachelors, JOB_Lawyer, TRAVTIME, CLM_FREQ, HOMEKIDS have a positive correlation.

Similarly, KIDSDRIV, TRAVTIME_FLAG_BIN, INCOME_MISS, URBANICITY_Rural, OLDCLAIM, CAR_TYPE_Minivan, TIF, CAR_AGE_MISS, JOB_Doctor, CAR_AGE, CAR_AGE_IMPUTE, JOB_Clerical, CAR_TYPE_Sports.Car, CAR_TYPE_Pickup, JOB_Manager, JOB_Home.Maker, JOB_Student, MSTATUS_Yes, EDUCATION_High.School, REVOKED_Yes, CAR_TYPE_SUV have a negative correlation.

Lets now see how values in some of the variable affects the correlation:

CAR_TYPE - If you drive Vans or Panel Trucks your cost of repair seems to increase as against Minivan, Pickup, Sports.Car, SUV. Since the distiction is clear, we believe that binning this variable accordingly will help strengthen the correlation.

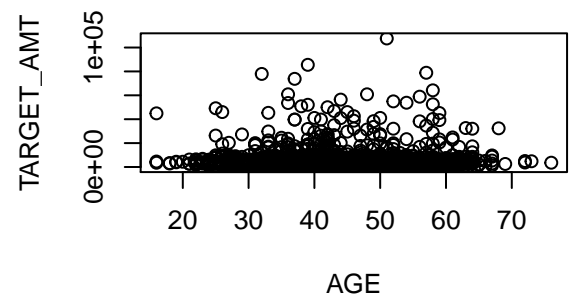
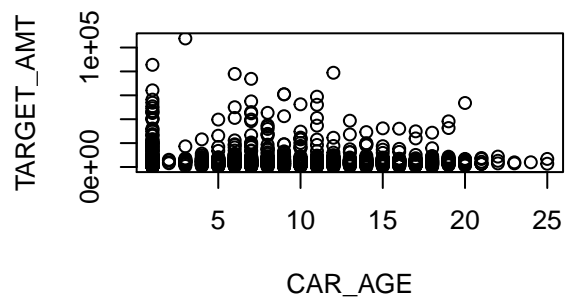
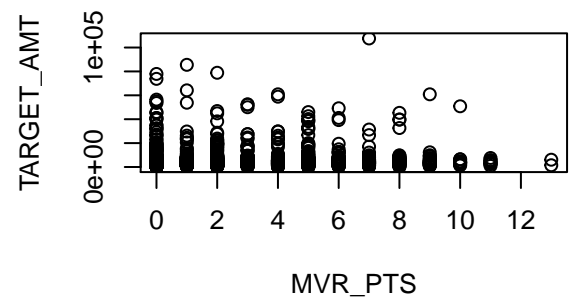
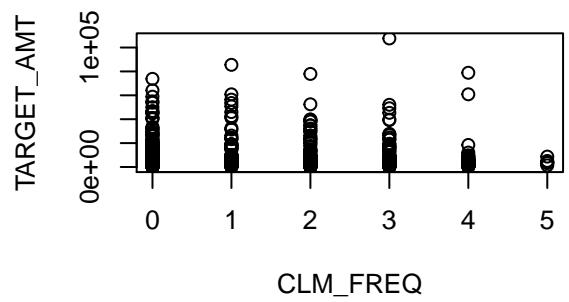
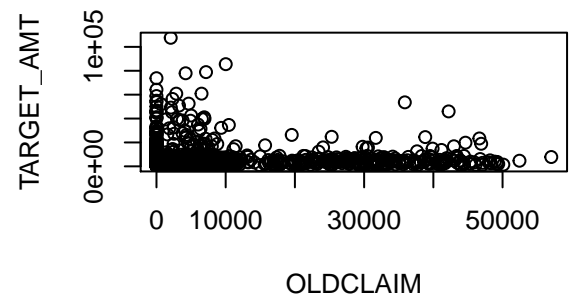
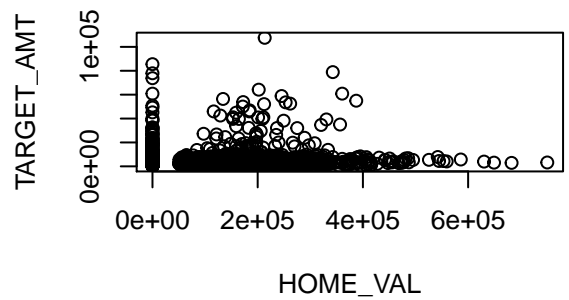
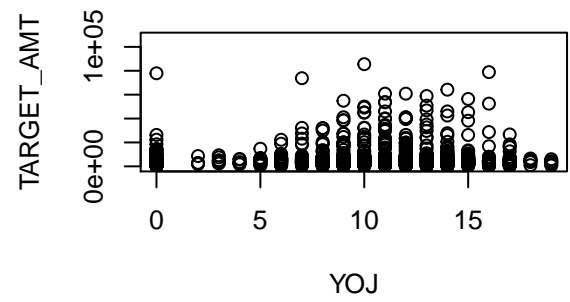
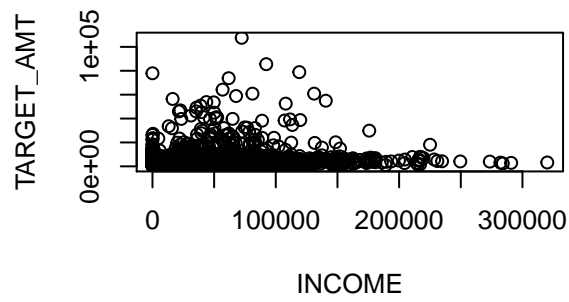
EDUCATION - If you have only a high school education then your cost of repair is less compared to a Bachelors, Masters or a Phd. Again binning this variable will strengthen the correlation.

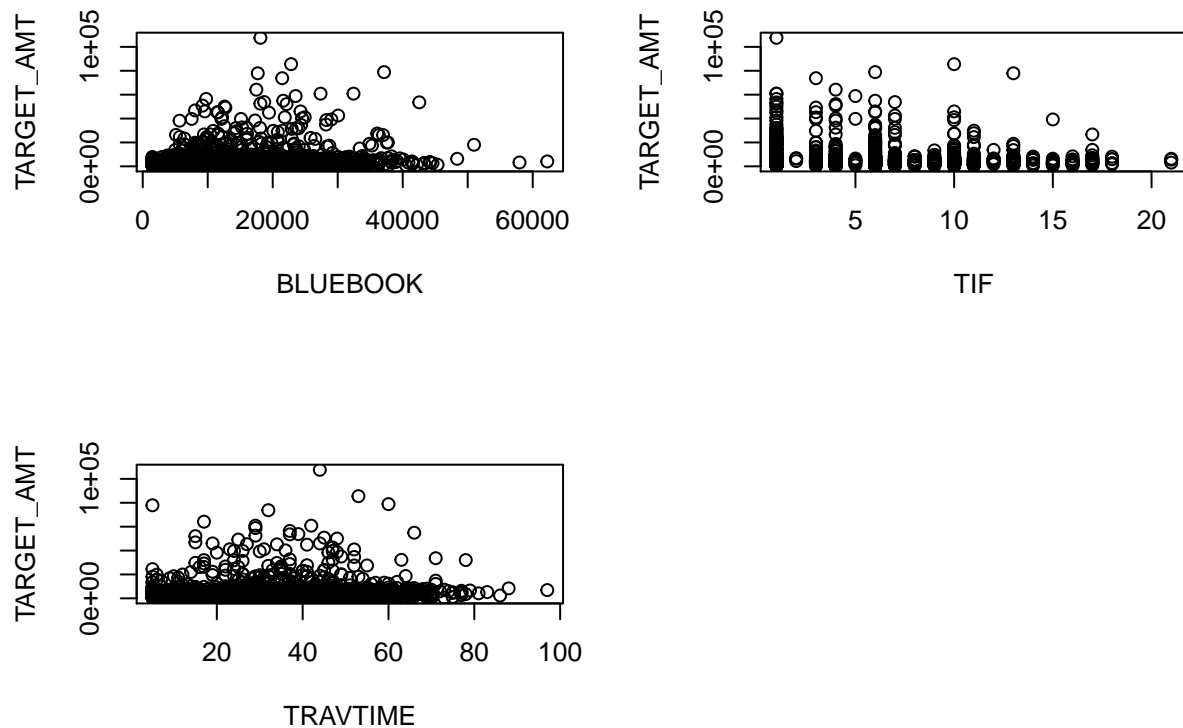
JOB - If you are a Lawyer, Professional, in a Blue Collar job or the job is unknown, you spend more on repairs as compared to a Doctor, Manager, Home Maker, Student, or Clerical job. Again binning this variable will strengthen the correlation.

4.1.3 Binning of Variables

Lets have a look at the following numeric variables that have 0 as one of their values: INCOME, YOJ, HOME_VAL, OLDCLAIM, CLM_FREQ, MVR_PTS, CAR_AGE, AGE, BLUEBOOK, TIF, TRAVTIME.

The goal here is to see if we can bin these variables into zero and non-zero bin values and check the correlations. While doing that we will also see how the variables are distributed vis-a-vis TARGET_AMT.





From the outputs above, we can come to the following conclusions:

- INCOME - From the plot we can see that there is a marked difference in the chart at around 125000. We will use this value to bin this variable.
- YOJ - We can see that from 7 - 17 years, there is a visible change in the TARGET_AMT. We will use this bound to create the binned variable.
- HOME_VAL - We see from the plot 3 distinct segments - Between 0-10000, 60000-400000 and the rest. We will use these values to create 2 bins.
- OLDCLAIM- We can visualize 3 clusters in the data - 0-2000, 2000-10000, > 10000, We will use these values to create 2 bins.
- CLM_FREQ - Values less than 4 seem to have a positive correlation. We will use this value for binning.
- MVR_PTS - We can see from the plot that after 2, the TARGET_AMT starts decreasing. We will use this value for binning.
- CAR_AGE - There are quite a few records with a 1 year car age. We will use this bound to generate a binned variable as well as retain the original variable as is.
- AGE - There is no specific pattern that emerges in AGE. We will retain the variable as is.
- BLUEBOOK - There is no specific pattern that emerges. We will retain the variable as is.
- TIF - Looking at the plot we can conclude that this is not a good variable for binning. We will retain this variable as is.

- TRAVTIME - from the plot, we can see that there is a clear pattern around the value - 20. We will go ahead and create a binned variable for this.

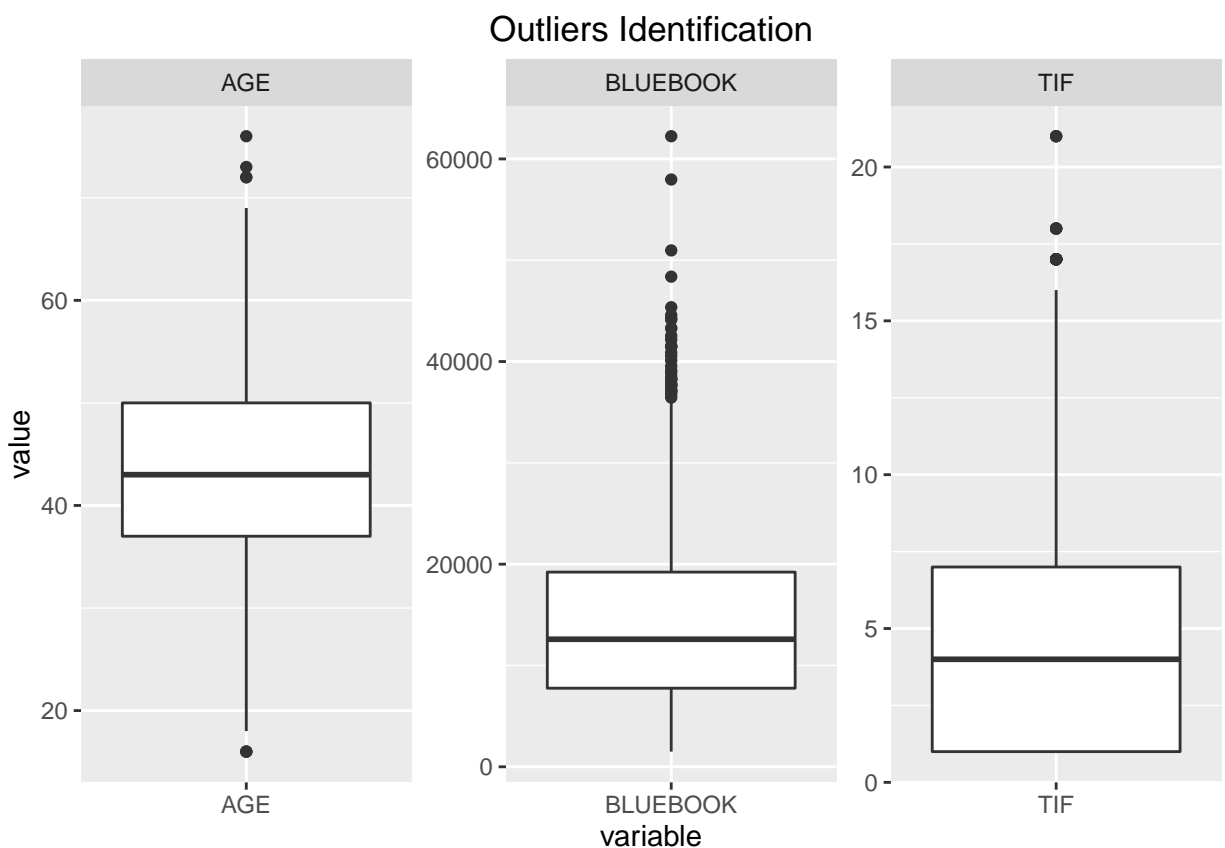
We will carry out the above transformations in the Data Preparation phase.

4.1.4 Outliers identification

In this sub-section, we will look at the boxplots and determine the outliers in variables and decide on whether to act on the outliers.

We will do the outliers only on the numeric variables: AGE, BLUEBOOK and TIF. The other variables will be binned and would not need outlier handling.

Below are the plots:



From the “Outliers identification” plot above, we see that we have few outliers that we need to treat.

We see that all the 3 variables need to be treated when we do the data preparation for modeling the TARGET_AMT.

4.2 Data Preparation

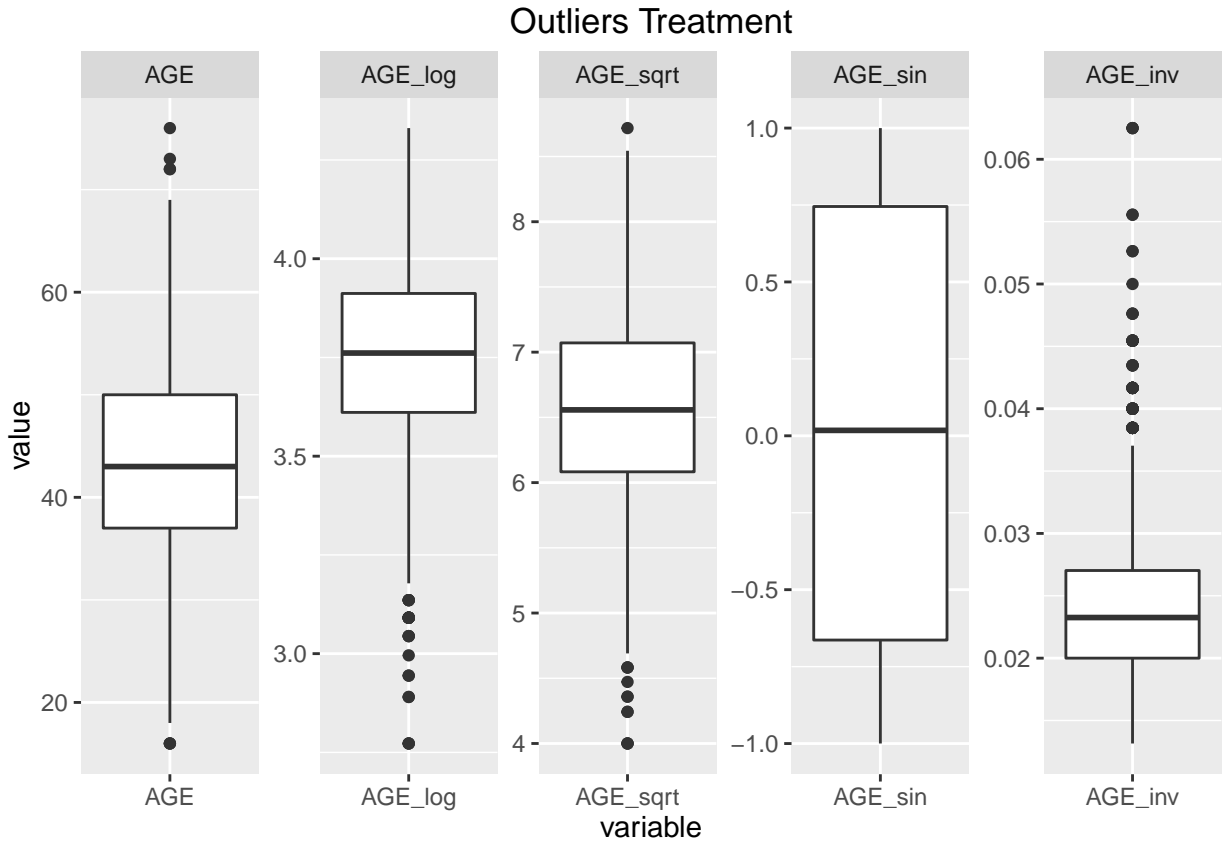
Now that we have completed the data exploration / analysis, we will be transforming the data for use in analysis and modeling.

We will be following the below steps as guidelines: - Outliers treatment - Adding New Variables

4.2.1 Outliers treatment

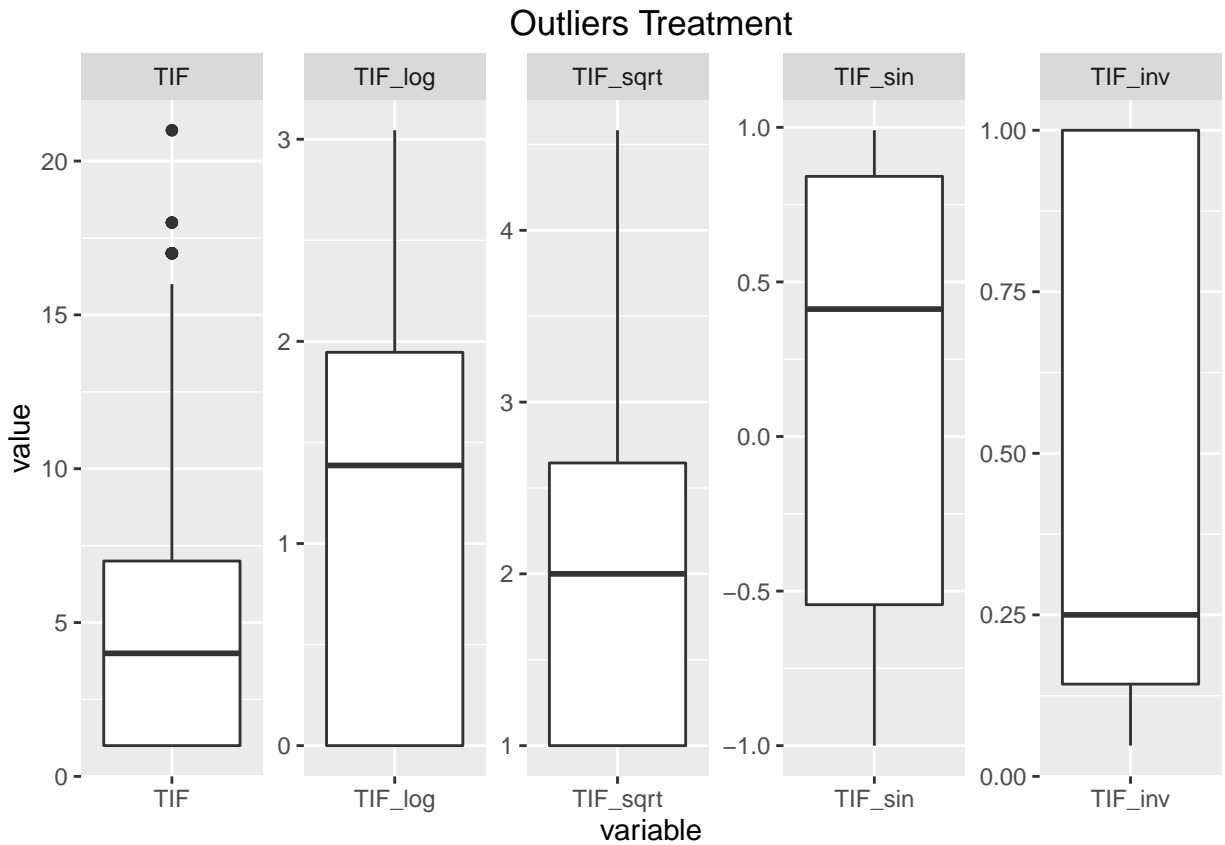
In this sub-section, we will check different transformations for each of the variables - AGE, BLUEBOOK, TIF - and create the appropriate outlier-handled / transformed variables.

Transformations for AGE



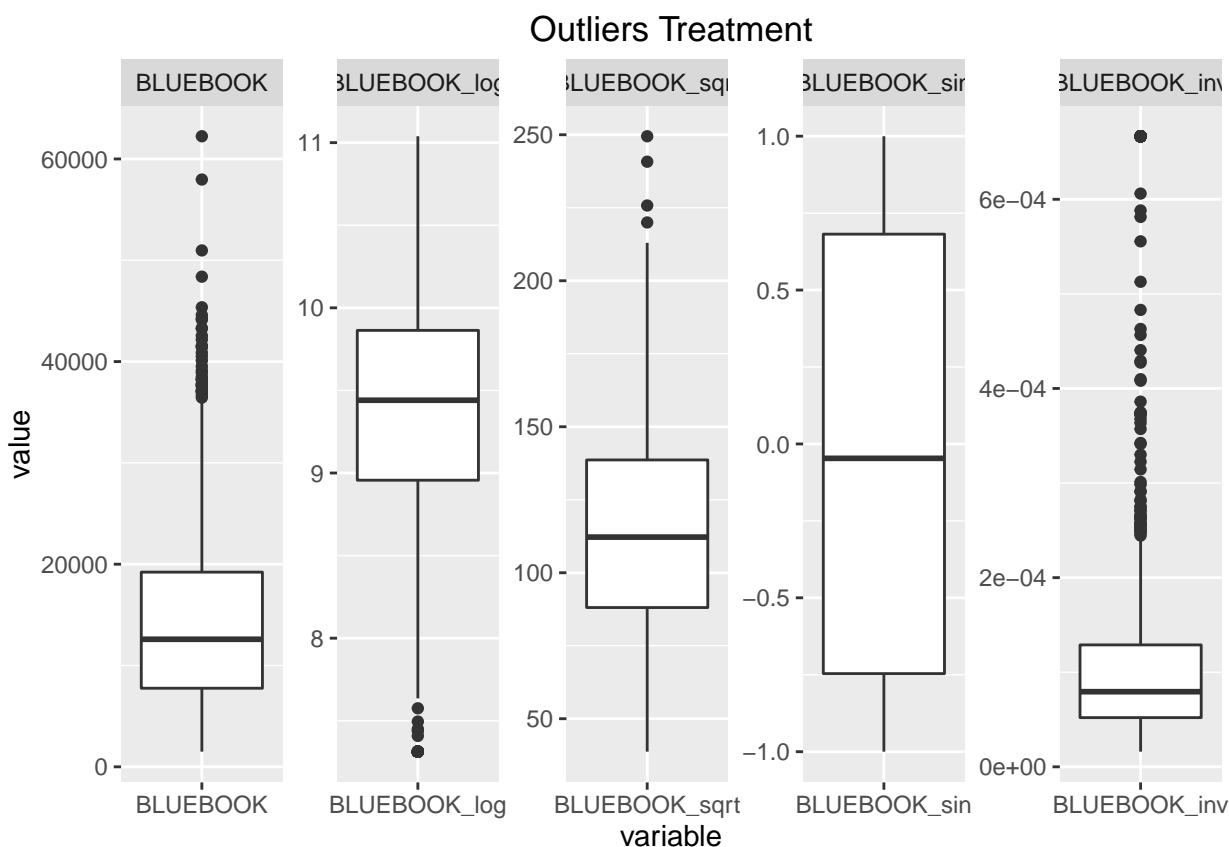
From the above charts we can see that a sin transformation works well for AGE. We will create this variable.

Transformations for TIF



From the above charts we can see that a log, sqrt, sin or an inverse transformation works well for TIF. However, a sin transformation seems to be more appropriate as it is well centered. Hence, We will create these variables.

Transformations for BLUEBOOK



From the above charts we can see that a sin transformation works well for BLUEBOOK. We will create these variables.

4.2.2 Adding New Variables

In this section, we generate some additional variables that we feel will help the correlations. The following were some of the observations we made during the data exploration phase for TARGET_AMT.

The following were some of the observations we made during the data exploration phase for TARGET_AMT

CAR_TYPE - If you drive Vans or Panel Trucks your cost of repair seems to increase as against Minivan, Pickup, Sports.Car, SUV. Since the distinction is clear, we believe that binning this variable accordingly will help strengthen the correlation. Accordingly, we will bin these variables as below:

CAR_TYPE_AMT_BIN :

- 1 : if CAR_TYPE is Vans or Panel Trucks
- 0 : if CAR_TYPE is Pickups, Sports, SUVs or Minivans

EDUCATION - If you have only a high school education then your cost of repair is less compared to a Bachelors, Masters or a Phd. Again binning this variable will strengthen the correlation. Accordingly, we will bin these variables as below:

EDUCATION_AMT_BIN :

- 1 : if EDUCATION is High School
- 0 : if EDUCATION is Bachelors, Masters or Phd

JOB - If you are a Lawyer, Professional, in a Blue Collar job or the job is unknown, you spend more on repairs as compared to a Doctor, Manager, Home Maker, Student, or Clerical job. Again binning this variable will strengthen the correlation. Accordingly, we will bin these variables as below:

JOB_TYPE_AMT_BIN :

- 1 : if JOB_TYPE is Lawyer, Professional, Unknown or in a Blue Collar
- 0 : if JOB_TYPE is Doctor, Manager, Home Maker, Student, or Clerical

INCOME - From the plot we can see that there is a marked difference in the chart at around 125000. We will use this value to bin this variable.

INCOME_AMT_BIN :

- 1 : if INCOME \leq 125000
- 0 : if INCOME $>$ 125000
- YOJ - We can see that from 7 - 17 years, there is a visible change in the TARGET_AMT. We will use this bound to create the binned variable.

YOJ_AMT_BIN :

- 1 : if YOJ \geq 7 and YOJ \leq 17
- 0 : ELSE 0
- HOME_VAL - We see from the plot 3 distinct segments - Between 0-10000, 60000-400000 and the rest. We will use these values to create 2 bins.

HOME_VAL_AMT_0_10K_BIN :

- 1 : if HOME_VAL \geq 0 and HOME_VAL \leq 10000
- 0 : ELSE 0

HOME_VAL_AMT_60K_400K_BIN :

- 1 : if HOME_VAL \geq 60000 and HOME_VAL \leq 400000
- 0 : ELSE 0

OLDCLAIM- We can visualize 3 clusters in the data - 0-2000, 2000-10000, $>$ 10000, We will use these values to create 2 bins.

OLDCLAIM_AMT_0_2K_BIN :

- 1 : if OLDCLAIM \geq 0 and OLDCLAIM \leq 2000
- 0 : ELSE 0

OLDCLAIM_AMT_2K_10K_BIN :

- 1 : if OLDCLAIM \geq 2000 and OLDCLAIM \leq 10000
- 0 : ELSE 0

- CLM_FREQ - Values less than 4 seem to have a positive correlation. We will use this value for binning.

CLM_FREQ_AMT_BIN :

- 1 : if CLM_FREQ < 4
- 0 : if CLM_FREQ >= 4
- MVR_PTS - We can see from the plot that after 2, the TARGET_AMT starts decreasing. We will use this value for binning.

MVR_PTS_AMT_BIN :

- 1 : if MVR_PTS <=2
- 0 : if MVR_PTS > 0
- CAR_AGE - There are quite a few records with a 1 year car age. We will use this bound to generate a binned variable as well as retain the original variable as is.

CAR_AGE_AMT_BIN :

- 1 : if CAR_AGE <= 1
- 0 : if CAR_AGE > 0
- TRAVTIME - from the plot, we can see that there is a clear pattern around the value - 20. We will go ahead and create a binned variable for this.

TRAVTIME_AMT_BIN :

- 1 : if TRAVTIME <= 20
- 0 : if TRAVTIME > 0

4.3 Build Models

Now that we have the dataset in a shape that can be modeled, we will go ahead and train the model for TARGET_AMT. We will train 2 models and select the best among these 2 models. The following will be the model specifications:

- Model1 (All Variables in Linear Dataset) - This will use the standard lm for building the model. We will use all available variables.
- Model2 - (A few selected variables) - This will use the standard lm for building the model. However, we will use only a few selected variables that seemed to have a good correlation with TARGET_AMT.

4.3.1 Model 1

In this model, we will be using the standard lm modeling technique. We will use the entire set of variables from the Linear dataset.

```
##
## Call:
## lm(formula = TARGET_AMT ~ ., data = na.omit(DS_TARGET_AMT))
##
## Residuals:
##      Min       1Q   Median       3Q      Max
## -9677   -3249   -1387    792   75391
##
## Coefficients:
##              Estimate Std. Error t value Pr(>|t|)
## (Intercept)    2.005e+03  6.472e+03   0.310  0.75674
## KIDSDRIV      -1.683e+01  1.782e+03  -0.009  0.99247
## AGE           1.114e+01  2.565e+01   0.434  0.66415
## HOMEKIDS       3.102e+02  4.101e+02   0.756  0.44956
## YOJ           -1.288e+02  1.189e+02  -1.083  0.27895
## INCOME        -1.149e-02  1.083e-02  -1.061  0.28897
## HOME_VAL       1.941e-03  4.389e-03   0.442  0.65832
## TRAVTIME       5.253e+00  1.641e+01   0.320  0.74890
## BLUEBOOK       1.528e-01  3.399e-02   4.496 7.41e-06 ***
## TIF           -4.696e+01  1.116e+02  -0.421  0.67391
## OLDCLAIM       1.300e-02  4.408e-02   0.295  0.76809
## CLM_FREQ      -5.938e+02  3.286e+02  -1.807  0.07095 .
## MVR_PTS        6.051e+02  2.594e+02   2.332  0.01980 *
## CAR_AGE       -1.689e+02  7.621e+01  -2.217  0.02678 *
## CAR_USE_Commercial  6.193e+01  5.625e+02   0.110  0.91235
## MSTATUS_Yes    -1.815e+03  6.199e+02  -2.928  0.00346 **
## PARENT1_Yes    -7.486e+02  7.574e+02  -0.988  0.32309
## RED_CAR_Yes    -1.314e+02  5.557e+02  -0.236  0.81308
## REVOKED_Yes    -1.130e+03  6.178e+02  -1.830  0.06749 .
## SEX_M          1.924e+03  7.219e+02   2.666  0.00776 **
## URBANICITY_Rural -2.500e+02  8.220e+02  -0.304  0.76106
## EDUCATION_Bachelors -3.466e+03  1.323e+03  -2.620  0.00887 **
## EDUCATION_High.School -4.125e+03  1.420e+03  -2.904  0.00373 **
## EDUCATION_Masters -2.236e+03  1.083e+03  -2.065  0.03911 *
## JOB_Blue.Collar  8.884e+02  1.311e+03   0.677  0.49824
## JOB_Clerical    -1.907e+02  1.376e+03  -0.139  0.88981
## JOB_Doctor      -3.153e+03  1.885e+03  -1.673  0.09460 .
## JOB_Home.Maker  -1.200e+02  1.503e+03  -0.080  0.93638
## JOB_Lawyer      -3.472e+02  1.156e+03  -0.300  0.76396
## JOB_Manager     -9.609e+02  1.227e+03  -0.783  0.43367
## JOB_Professional  1.427e+03  1.289e+03   1.107  0.26827
## JOB_Student      2.542e+01  1.563e+03   0.016  0.98703
## CAR_TYPE_Minivan  1.140e+02  8.588e+02   0.133  0.89438
## CAR_TYPE_Panel.Truck -6.953e+01  9.576e+02  -0.073  0.94213
## CAR_TYPE_Pickup   5.865e+02  8.258e+02   0.710  0.47769
## CAR_TYPE_Sports.Car  2.203e+03  1.115e+03   1.975  0.04839 *
## CAR_TYPE_SUV      1.972e+03  1.047e+03   1.882  0.05998 .
## AGE_sin        -1.392e+01  2.635e+02  -0.053  0.95788
## TIF_sin        -2.987e+02  3.791e+02  -0.788  0.43086
```

```
## BLUEBOOK_sin          1.310e+02  2.608e+02   0.502  0.61557
## INCOME_AMT_BIN        -5.870e+02  1.278e+03  -0.459  0.64598
## YOJ_AMT_BIN           1.765e+03  1.017e+03   1.735  0.08296 .
## HOME_VAL_AMT_0_10K_BIN 2.353e+03  1.959e+03   1.201  0.22985
## HOME_VAL_AMT_60K_400K_BIN 2.907e+03  1.496e+03   1.944  0.05212 .
## OLDCLAIM_AMT_0_2K_BIN  -2.182e+03  1.453e+03  -1.501  0.13344
## OLDCLAIM_AMT_2K_10K_BIN -4.936e+02  1.139e+03  -0.434  0.66466
## CLM_FREQ_AMT_BIN      -1.331e+03  1.183e+03  -1.125  0.26082
## MVR_PTS_AMT_BIN        1.740e+03  7.970e+02   2.183  0.02918 *
## CAR_AGE_AMT_BIN       -6.829e+02  7.036e+02  -0.971  0.33190
## TRAVTIME_AMT_BIN       7.007e+01  6.639e+02   0.106  0.91596
## KIDSDRIV_AMT_BIN_0     -9.347e+02  1.928e+03  -0.485  0.62787
## KIDSDRIV_AMT_BIN_1      2.079e+03  2.355e+03   0.883  0.37742
## HOMEKIDS_AMT_BIN_0     -5.618e+02  9.971e+02  -0.563  0.57318
## HOMEKIDS_AMT_BIN_3      8.051e+02  1.428e+03   0.564  0.57285
## YOJ_AMT_BIN_0_AND_9To14 6.615e+02  7.114e+02   0.930  0.35259
## INCOME_AMT_BIN_MISS_0  -2.171e+02  1.778e+03  -0.122  0.90283
## TIF_AMT_BIN_6          -1.557e+02  8.834e+02  -0.176  0.86015
## OLDCLAIM_AMT_BIN_MISS_0 4.083e+02  1.026e+03   0.398  0.69059
## MVR_PTS_AMT_BIN_0      4.155e+02  6.288e+02   0.661  0.50888
## MVR_PTS_AMT_BIN_5      1.819e+03  1.083e+03   1.680  0.09312 .
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Residual standard error: 7577 on 1642 degrees of freedom
## Multiple R-squared:  0.05812,    Adjusted R-squared:  0.02428
## F-statistic: 1.717 on 59 and 1642 DF,  p-value: 0.0006848
```

Interpretation of the Model

Based on the Model output, below are the characteristics of the refined model :

- The Residual standard error is 7577
- Multiple R-squared: 0.05812
- Adjusted R-squared: 0.02428
- F-statistic: 1.717 on 59 and 1642 DF
- p-value: < 0.0006848

4.3.2 Model 2

In this model, we will be using the standard lm modeling technique. We will use only those variables that seemed to have a good correlation with TARGET_AMT.

```
##
## Call:
## lm(formula = TARGET_AMT ~ ., data = DS_SELECTED_VARS)
##
## Residuals:
##      Min       1Q   Median       3Q      Max
## -9665  -3182  -1427    758   75206
##
## Coefficients:
##                                Estimate Std. Error t value Pr(>|t|)
```

## (Intercept)	-8.686e+02	6.126e+03	-0.142	0.88725	
## AGE	1.359e+01	2.550e+01	0.533	0.59414	
## BLUEBOOK	1.533e-01	3.261e-02	4.702	2.8e-06	***
## CAR_AGE	-1.077e+02	7.287e+01	-1.478	0.13958	
## CAR_AGE_AMT_BIN	-2.792e+02	6.877e+02	-0.406	0.68485	
## CAR_USE_Commercial	-1.467e+01	5.460e+02	-0.027	0.97857	
## CLM_FREQ	-6.803e+02	2.613e+02	-2.603	0.00932	**
## CLM_FREQ_AMT_BIN	-1.586e+03	1.128e+03	-1.406	0.15978	
## HOME_VAL	1.886e-03	4.376e-03	0.431	0.66661	
## HOME_VAL_AMT_0_10K_BIN	2.213e+03	1.955e+03	1.132	0.25778	
## HOME_VAL_AMT_60K_400K_BIN	2.762e+03	1.492e+03	1.851	0.06430	.
## HOMEKIDS	2.804e+02	4.087e+02	0.686	0.49275	
## HOMEKIDS_AMT_BIN_0	-5.455e+02	9.930e+02	-0.549	0.58280	
## HOMEKIDS_AMT_BIN_3	6.281e+02	1.424e+03	0.441	0.65922	
## INCOME	-8.304e-03	1.067e-02	-0.778	0.43654	
## INCOME_AMT_BIN	-1.080e+03	1.259e+03	-0.858	0.39089	
## KIDSDRIV	8.219e+01	1.779e+03	0.046	0.96315	
## KIDSDRIV_AMT_BIN_0	-8.472e+02	1.925e+03	-0.440	0.65983	
## KIDSDRIV_AMT_BIN_1	2.178e+03	2.351e+03	0.926	0.35447	
## MSTATUS_Yes	-1.760e+03	6.180e+02	-2.848	0.00445	**
## MVR_PTS	6.149e+02	2.590e+02	2.374	0.01769	*
## MVR_PTS_AMT_BIN	1.798e+03	7.952e+02	2.261	0.02387	*
## MVR_PTS_AMT_BIN_0	3.765e+02	6.280e+02	0.600	0.54890	
## MVR_PTS_AMT_BIN_5	1.901e+03	1.082e+03	1.757	0.07910	.
## OLDCLAIM	6.387e-03	4.365e-02	0.146	0.88368	
## OLDCLAIM_AMT_0_2K_BIN	-2.130e+03	1.385e+03	-1.538	0.12431	
## OLDCLAIM_AMT_2K_10K_BIN	-6.152e+02	1.135e+03	-0.542	0.58796	
## PARENT1_Yes	-6.825e+02	7.537e+02	-0.905	0.36538	
## RED_CAR_yes	-1.771e+02	5.530e+02	-0.320	0.74888	
## REVOKED_Yes	-1.065e+03	6.139e+02	-1.734	0.08303	.
## SEX_M	1.898e+03	7.037e+02	2.697	0.00707	**
## TIF	2.202e+01	8.168e+01	0.270	0.78754	
## TIF_AMT_BIN_6	3.152e+02	7.370e+02	0.428	0.66892	
## TRAVTIME	6.230e+00	1.640e+01	0.380	0.70399	
## TRAVTIME_AMT_BIN	5.334e+01	6.636e+02	0.080	0.93594	
## URBANICITY_Rural	-1.737e+02	8.191e+02	-0.212	0.83210	
## YOJ	-1.253e+02	8.558e+01	-1.464	0.14351	
## YOJ_AMT_BIN	1.847e+03	1.012e+03	1.824	0.06828	.
## YOJ_AMT_BIN_0_AND_9To14	6.231e+02	5.531e+02	1.127	0.26003	
## EDUCATION_Masters	-2.763e+02	7.656e+02	-0.361	0.71822	
## EDUCATION_High.School	-7.452e+02	5.639e+02	-1.322	0.18646	
## JOB_Clerical	-1.080e+03	6.458e+02	-1.672	0.09478	.
## JOB_Doctor	-1.692e+03	1.709e+03	-0.990	0.32210	
## JOB_Home.Maker	-6.548e+02	1.021e+03	-0.641	0.52151	
## JOB_Lawyer	-2.863e+02	1.029e+03	-0.278	0.78096	
## JOB_Professional	3.888e+02	7.117e+02	0.546	0.58492	
## JOB_Manager	-1.396e+03	9.149e+02	-1.526	0.12711	
## JOB_Student	-7.835e+02	9.216e+02	-0.850	0.39537	
## CAR_TYPE_Panel.Truck	-2.730e+01	8.979e+02	-0.030	0.97575	
## CAR_TYPE_Pickup	5.834e+02	5.965e+02	0.978	0.32815	
## CAR_TYPE_Sports.Car	2.118e+03	8.203e+02	2.582	0.00992	**
## CAR_TYPE_SUV	1.814e+03	7.294e+02	2.487	0.01297	*
## ---					
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1					

```
##  
## Residual standard error: 7577 on 1650 degrees of freedom  
## (450 observations deleted due to missingness)  
## Multiple R-squared: 0.05333, Adjusted R-squared: 0.02407  
## F-statistic: 1.823 on 51 and 1650 DF, p-value: 0.0004045
```

Interpretation of the Model

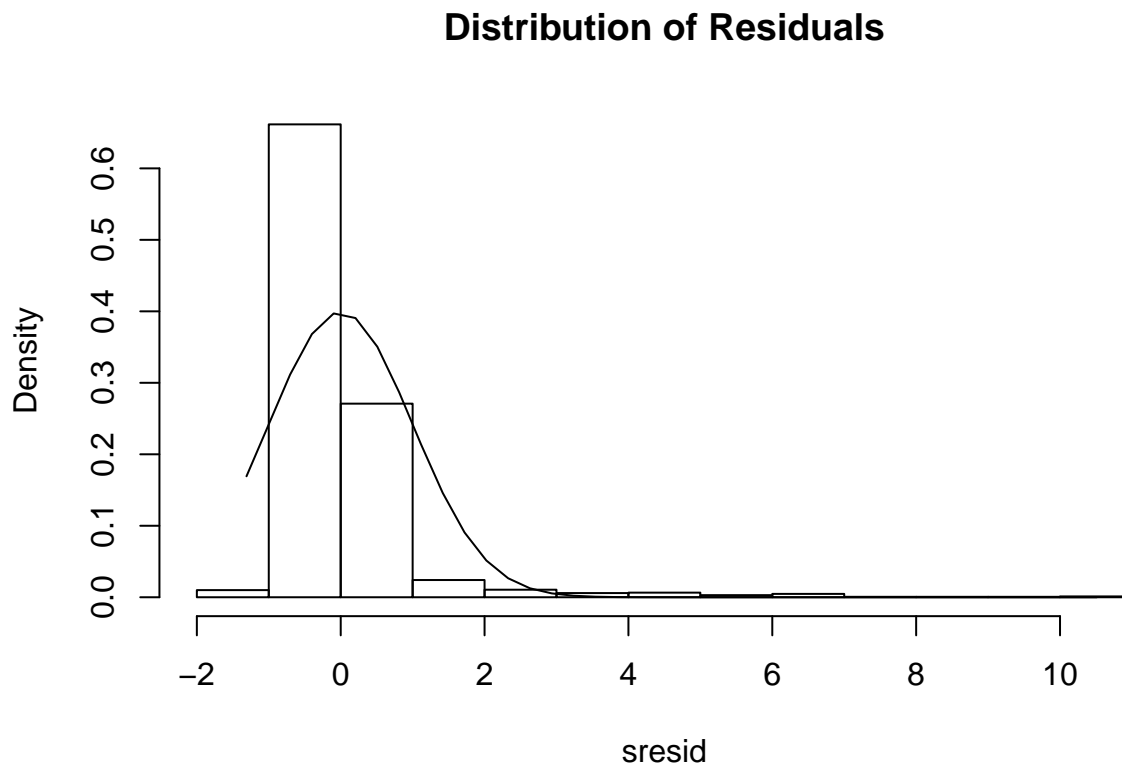
Based on the backward stepwise selection, below are the characteristics of the refined model :

- The Residual standard error is 7577
- Multiple R-squared: 0.05333
- Adjusted R-squared: 0.02407
- F-statistic: 1.823 on 51 and 1650 DF
- p-value: < 0.0004045

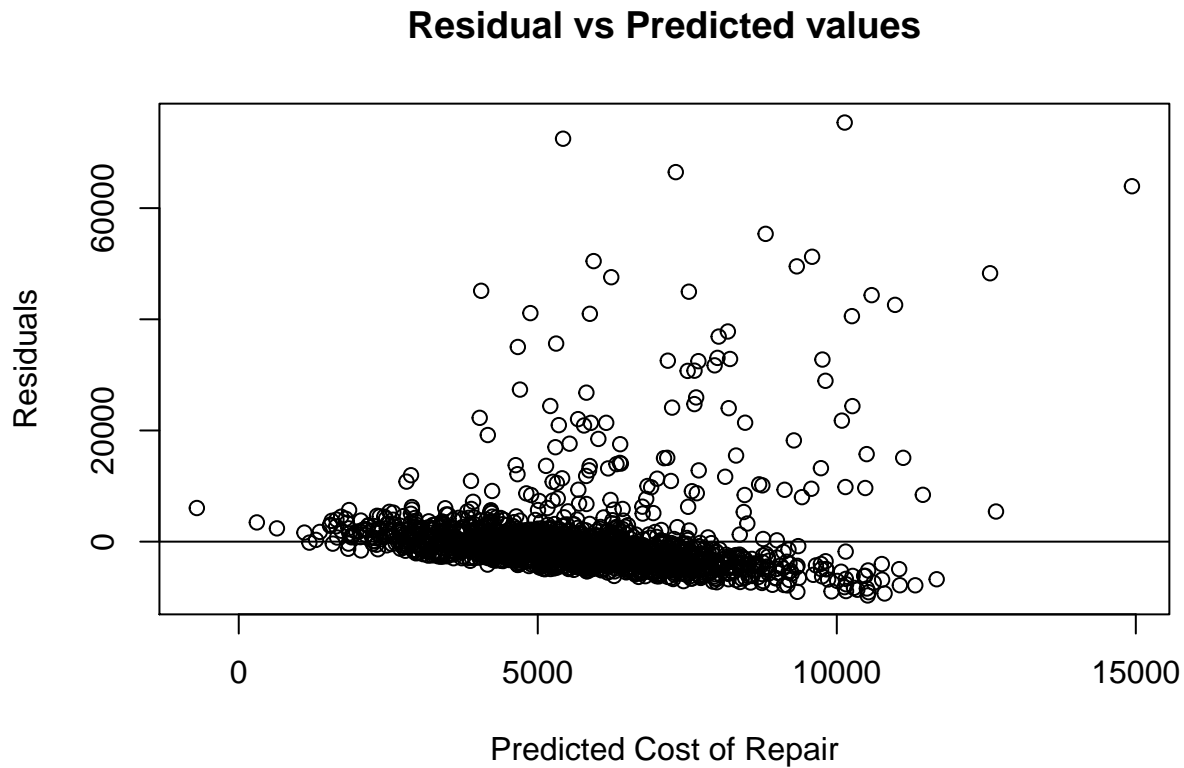
4.4 Final Linear Model Selection Summary

Based on the Models above, it is clear that Model 1 performs slightly better than Model 2. We will now use this model to validate further. We will create plots to validate the assumption of Linear Regression:

Normality check of residual values:



Based on the normality plot it appears that residual distribution is nearly normal. This indicates the mean of the difference between our predictions.



Distribution of residual values are random around base line and do not show any pattern around base line.

Evaluate homoscedasticity:

The test confirms the non-constant error variance test. It also has a p-value higher than a significance level of 0.05.

Analysis of collinearity:

##	KIDSDRIV	AGE
##	5.929505	1.359778
##	HOMEKIDS	Y0J
##	2.659453	2.901429
##	INCOME	HOME_VAL
##	2.532339	2.860978
##	TRAVTIME	BLUEBOOK
##	1.354146	1.549806
##	TIF	OLDCLAIM
##	2.404457	2.435889
##	CLM_FREQ	MVR_PTS
##	2.240646	3.678998
##	CAR_AGE	CAR_USE_Commercial

##	2.285783	1.531233
##	MSTATUS_Yes	PARENT1_Yes
##	1.687018	1.725320
##	RED_CAR_yes	REVOKED_Yes
##	1.358885	1.350861
##	SEX_M	URBANICITY_Rural
##	1.954711	1.032607
##	EDUCATION_Bachelors	EDUCATION_High.School
##	3.056577	3.841265
##	EDUCATION_Masters	JOB_Blue.Collar
##	2.083557	3.278455
##	JOB_Clerical	JOB_Doctor
##	2.898793	1.282385
##	JOB_Home.Maker	JOB_Lawyer
##	2.196223	1.654125
##	JOB_Manager	JOB_Professional
##	1.563833	2.204776
##	JOB_Student	CAR_TYPE_Minivan
##	2.740883	1.731236
##	CAR_TYPE_Panel.Truck	CAR_TYPE_Pickup
##	1.446472	1.813465
##	CAR_TYPE_Sports.Car	CAR_TYPE_SUV
##	2.134942	2.646477
##	AGE_sin	TIF_sin
##	1.019210	1.398977
##	BLUEBOOK_sin	INCOME_AMT_BIN
##	1.015772	1.643573
##	YOJ_AMT_BIN	HOME_VAL_AMT_0_10K_BIN
##	2.047651	5.255209
##	HOME_VAL_AMT_60K_400K_BIN	OLDCLAIM_AMT_0_2K_BIN
##	4.044083	3.953793
##	OLDCLAIM_AMT_2K_10K_BIN	CLM_FREQ_AMT_BIN
##	3.007588	1.279461
##	MVR_PTS_AMT_BIN	CAR_AGE_AMT_BIN
##	2.144426	1.784942
##	TRAVTIME_AMT_BIN	KIDSDRIV_AMT_BIN_0
##	1.353599	3.930334
##	KIDSDRIV_AMT_BIN_1	HOMEKIDS_AMT_BIN_0
##	3.165772	2.705844
##	HOMEKIDS_AMT_BIN_3	YOJ_AMT_BIN_0_AND_9To14
##	1.299757	1.793634
##	INCOME_AMT_BIN_MISS_0	TIF_AMT_BIN_6
##	3.111211	2.116778
##	OLDCLAIM_AMT_BIN_MISS_0	MVR_PTS_AMT_BIN_0
##	2.753036	1.608030
##	MVR_PTS_AMT_BIN_5	
##	2.083625	

Variables have been tested with variance inflation factors (VIF). If any variable has value which is greater than 3 then the highest value variable been removed from model and model performance has been evaluated. Following are the out comes from this assessment steps-

Pass 1- Based on that variance inflation factors (VIF) following variable “KIDSDRIV” has highest value > 3 and is removed from model, and model is evaluated without that variable. Adjusted R^2 value has changed

to 0.02487 due to removal of this variable. Hence this variable is not adding lot of value to the model and can be removed.

```
##
## Call:
## lm(formula = TARGET_AMT ~ . - KIDSDRIV, data = na.omit(DS_TARGET_AMT))
##
## Residuals:
##      Min       1Q   Median       3Q      Max
## -9677   -3249   -1393    792   75391
##
## Coefficients:
##              Estimate Std. Error t value Pr(>|t|)
## (Intercept)    1.968e+03  5.166e+03   0.381  0.70325
## AGE            1.114e+01  2.564e+01   0.435  0.66392
## HOMEKIDS       3.099e+02  4.091e+02   0.758  0.44879
## YOJ           -1.288e+02  1.189e+02  -1.084  0.27868
## INCOME        -1.149e-02  1.083e-02  -1.061  0.28876
## HOME_VAL       1.941e-03  4.388e-03   0.442  0.65822
## TRAVTIME       5.252e+00  1.640e+01   0.320  0.74884
## BLUEBOOK       1.528e-01  3.398e-02   4.498 7.33e-06 ***
## TIF           -4.693e+01  1.115e+02  -0.421  0.67389
## OLDCLAIM       1.299e-02  4.406e-02   0.295  0.76811
## CLM_FREQ      -5.938e+02  3.285e+02  -1.808  0.07083 .
## MVR_PTS        6.051e+02  2.593e+02   2.333  0.01976 *
## CAR_AGE       -1.689e+02  7.617e+01  -2.218  0.02670 *
## CAR_USE_Commercial  6.238e+01  5.604e+02   0.111  0.91138
## MSTATUS_Yes   -1.815e+03  6.197e+02  -2.929  0.00345 **
## PARENT1_Yes   -7.485e+02  7.570e+02  -0.989  0.32296
## RED_CAR_yes   -1.314e+02  5.555e+02  -0.237  0.81302
## REVOKED_Yes   -1.130e+03  6.175e+02  -1.831  0.06734 .
## SEX_M         1.924e+03  7.216e+02   2.667  0.00773 **
## URBANICITY_Rural -2.499e+02  8.217e+02  -0.304  0.76107
## EDUCATION_Bachelors -3.466e+03  1.322e+03  -2.621  0.00884 **
## EDUCATION_High.School -4.125e+03  1.420e+03  -2.905  0.00372 **
## EDUCATION_Masters -2.236e+03  1.082e+03  -2.065  0.03905 *
## JOB_Blue.Collar  8.878e+02  1.309e+03   0.678  0.49790
## JOB_Clerical   -1.910e+02  1.375e+03  -0.139  0.88957
## JOB_Doctor     -3.153e+03  1.884e+03  -1.673  0.09450 .
## JOB_Home.Maker -1.202e+02  1.502e+03  -0.080  0.93624
## JOB_Lawyer     -3.472e+02  1.156e+03  -0.300  0.76392
## JOB_Manager    -9.610e+02  1.227e+03  -0.783  0.43348
## JOB_Professional 1.427e+03  1.287e+03   1.108  0.26786
## JOB_Student     2.459e+01  1.560e+03   0.016  0.98743
## CAR_TYPE_Minivan 1.142e+02  8.585e+02   0.133  0.89422
## CAR_TYPE_Panel.Truck -6.954e+01  9.573e+02  -0.073  0.94210
## CAR_TYPE_Pickup  5.863e+02  8.254e+02   0.710  0.47760
## CAR_TYPE_Sports.Car 2.203e+03  1.115e+03   1.976  0.04829 *
## CAR_TYPE_SUV     1.972e+03  1.047e+03   1.883  0.05990 .
## AGE_sin       -1.383e+01  2.633e+02  -0.053  0.95810
## TIF_sin       -2.986e+02  3.789e+02  -0.788  0.43072
## BLUEBOOK_sin   1.310e+02  2.608e+02   0.502  0.61551
## INCOME_AMT_BIN -5.872e+02  1.277e+03  -0.460  0.64574
## YOJ_AMT_BIN     1.765e+03  1.016e+03   1.737  0.08265 .
```

```
## HOME_VAL_AMT_0_10K_BIN      2.352e+03  1.958e+03   1.202  0.22971
## HOME_VAL_AMT_60K_400K_BIN   2.906e+03  1.495e+03   1.944  0.05202 .
## OLDCLAIM_AMT_0_2K_BIN       -2.182e+03  1.453e+03  -1.502  0.13329
## OLDCLAIM_AMT_2K_10K_BIN     -4.937e+02  1.138e+03  -0.434  0.66450
## CLM_FREQ_AMT_BIN            -1.331e+03  1.183e+03  -1.125  0.26068
## MVR_PTS_AMT_BIN             1.740e+03  7.962e+02   2.186  0.02899 *
## CAR_AGE_AMT_BIN             -6.830e+02  7.034e+02  -0.971  0.33172
## TRAVTIME_AMT_BIN            7.013e+01  6.637e+02   0.106  0.91587
## KIDSDRIV_AMT_BIN_0          -9.177e+02  7.034e+02  -1.305  0.19217
## KIDSDRIV_AMT_BIN_1          2.099e+03  9.813e+02   2.139  0.03257 *
## HOMEKIDS_AMT_BIN_0          -5.624e+02  9.949e+02  -0.565  0.57194
## HOMEKIDS_AMT_BIN_3           8.055e+02  1.426e+03   0.565  0.57237
## YOJ_AMT_BIN_0_AND_9To14     6.616e+02  7.110e+02   0.930  0.35228
## INCOME_AMT_BIN_MISS_0       -2.171e+02  1.778e+03  -0.122  0.90281
## TIF_AMT_BIN_6               -1.556e+02  8.831e+02  -0.176  0.86016
## OLDCLAIM_AMT_BIN_MISS_0      4.081e+02  1.025e+03   0.398  0.69058
## MVR_PTS_AMT_BIN_0           4.154e+02  6.286e+02   0.661  0.50879
## MVR_PTS_AMT_BIN_5           1.819e+03  1.082e+03   1.681  0.09302 .
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Residual standard error: 7574 on 1643 degrees of freedom
## Multiple R-squared:  0.05812,    Adjusted R-squared:  0.02487
## F-statistic: 1.748 on 58 and 1643 DF,  p-value: 0.0005054
```

Pass 2- Based on that variance inflation factors (VIF) following variable “HOME_VAL_AMT_0_10K_BIN” has highest value < 3 and is removed from model, and model is evaluated without that variable. Adjusted R^2 values changed to 0.02461. Hence this variable is not adding lot of value to the model and can be removed. We stopped at this point as further removal of variables led to a rapid deterioration of Adjusted R^2 .

```
##
## Call:
## lm(formula = TARGET_AMT ~ . - KIDSDRIV - HOME_VAL_AMT_0_10K_BIN,
##     data = na.omit(DS_TARGET_AMT))
##
## Residuals:
##      Min       1Q   Median       3Q      Max
## -9838  -3162  -1404    806   75299
##
## Coefficients:
##              Estimate Std. Error t value Pr(>|t|)
## (Intercept)    3.867e+03  4.919e+03   0.786  0.43182
## AGE             1.254e+01  2.562e+01   0.489  0.62457
## HOMEKIDS        2.883e+02  4.087e+02   0.705  0.48064
## YOJ            -1.294e+02  1.189e+02  -1.088  0.27662
## INCOME          -8.605e-03  1.056e-02  -0.815  0.41525
## HOME_VAL        -1.617e-03  3.238e-03  -0.499  0.61753
## TRAVTIME         4.999e+00  1.640e+01   0.305  0.76061
## BLUEBOOK         1.532e-01  3.398e-02   4.510 6.96e-06 ***
## TIF             -5.043e+01  1.115e+02  -0.452  0.65107
## OLDCLAIM         1.527e-02  4.403e-02   0.347  0.72881
## CLM_FREQ        -5.833e+02  3.284e+02  -1.776  0.07589 .
## MVR_PTS         5.892e+02  2.590e+02   2.275  0.02306 *
## CAR_AGE         -1.687e+02  7.618e+01  -2.214  0.02698 *
```



```

## CAR_USE_Commercial      6.536e+01  5.604e+02  0.117  0.90718
## MSTATUS_Yes             -1.890e+03  6.167e+02 -3.064  0.00222 **
## PARENT1_Yes             -6.960e+02  7.559e+02 -0.921  0.35732
## RED_CAR_yes             -1.426e+02  5.555e+02 -0.257  0.79743
## REVOKED_Yes             -1.119e+03  6.175e+02 -1.812  0.07010 .
## SEX_M                   1.930e+03  7.216e+02  2.675  0.00755 **
## URBANICITY_Rural        -2.570e+02  8.218e+02 -0.313  0.75456
## EDUCATION_Bachelors     -3.421e+03  1.322e+03 -2.588  0.00973 **
## EDUCATION_High.School   -4.093e+03  1.420e+03 -2.883  0.00398 **
## EDUCATION_Masters       -2.156e+03  1.081e+03 -1.996  0.04613 *
## JOB_Blue.Collar         9.015e+02  1.310e+03  0.688  0.49133
## JOB_Clerical            -2.158e+02  1.375e+03 -0.157  0.87530
## JOB_Doctor              -3.241e+03  1.883e+03 -1.721  0.08539 .
## JOB_Home.Maker          -2.327e+02  1.499e+03 -0.155  0.87670
## JOB_Lawyer              -3.148e+02  1.156e+03 -0.272  0.78533
## JOB_Manager             -9.840e+02  1.227e+03 -0.802  0.42254
## JOB_Professional        1.463e+03  1.287e+03  1.137  0.25571
## JOB_Student             2.080e+02  1.553e+03  0.134  0.89348
## CAR_TYPE_Minivan        1.520e+02  8.580e+02  0.177  0.85939
## CAR_TYPE_Panel.Truck    -2.704e+01  9.568e+02 -0.028  0.97745
## CAR_TYPE_Pickup         6.040e+02  8.254e+02  0.732  0.46439
## CAR_TYPE_Sports.Car     2.226e+03  1.115e+03  1.997  0.04599 *
## CAR_TYPE_SUV            1.999e+03  1.047e+03  1.909  0.05641 .
## AGE_sin                 -7.305e+00  2.632e+02 -0.028  0.97787
## TIF_sin                 -3.045e+02  3.789e+02 -0.804  0.42164
## BLUEBOOK_sin            1.315e+02  2.608e+02  0.504  0.61430
## INCOME_AMT_BIN          -2.323e+02  1.243e+03 -0.187  0.85172
## YOJ_AMT_BIN             1.773e+03  1.017e+03  1.744  0.08132 .
## HOME_VAL_AMT_60K_400K_BIN 1.341e+03  7.330e+02  1.830  0.06751 .
## OLDCLAIM_AMT_0_2K_BIN   -2.134e+03  1.452e+03 -1.470  0.14185
## OLDCLAIM_AMT_2K_10K_BIN -4.602e+02  1.138e+03 -0.404  0.68598
## CLM_FREQ_AMT_BIN        -1.371e+03  1.182e+03 -1.159  0.24658
## MVR_PTS_AMT_BIN         1.703e+03  7.957e+02  2.140  0.03253 *
## CAR_AGE_AMT_BIN         -6.791e+02  7.035e+02 -0.965  0.33450
## TRAVTIME_AMT_BIN        5.845e+01  6.637e+02  0.088  0.92984
## KIDSDRIV_AMT_BIN_0      -9.284e+02  7.034e+02 -1.320  0.18707
## KIDSDRIV_AMT_BIN_1      2.062e+03  9.810e+02  2.102  0.03570 *
## HOMEKIDS_AMT_BIN_0      -5.557e+02  9.950e+02 -0.559  0.57656
## HOMEKIDS_AMT_BIN_3      7.544e+02  1.426e+03  0.529  0.59684
## YOJ_AMT_BIN_0_AND_9To14 6.725e+02  7.111e+02  0.946  0.34438
## INCOME_AMT_BIN_MISS_0   -2.521e+02  1.778e+03 -0.142  0.88723
## TIF_AMT_BIN_6           -1.820e+02  8.830e+02 -0.206  0.83674
## OLDCLAIM_AMT_BIN_MISS_0 4.252e+02  1.025e+03  0.415  0.67841
## MVR_PTS_AMT_BIN_0       3.963e+02  6.285e+02  0.631  0.52840
## MVR_PTS_AMT_BIN_5       1.761e+03  1.082e+03  1.628  0.10374
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Residual standard error: 7575 on 1644 degrees of freedom
## Multiple R-squared:  0.05729,    Adjusted R-squared:  0.02461
## F-statistic: 1.753 on 57 and 1644 DF,  p-value: 0.000521

```

Final model was derived after number of iterations of variable eliminations were carried out. VIF values in the final model among variables < 3. In this scenario a model with slightly less performance was selected to

avoid collinearity effect among variables and reduced complexity.

5 Prediction Using Evaluation Data

Now that we have selected the final models for both the TARGET_FLAG and the TARGET_AMT, we will go ahead and use these models to predict the results for the evaluation dataset. After transforming the data to meet the needs of the trained models, we will apply the models in 2 steps.

Step 1 - Here we use the transformed evaluation dataset to predict for the TARGET_FLAG using the requisite predictors.

Step 2 - Once we have the prediction for the TARGET_FLAG, we will filter this data for only those rows that were predicted for a CRASH. We then use this smaller dataset to predict for the TARGET_AMT.

5.1 Transformation of Evaluation Data

First we need to transform the evaluation dataset to account for all the predictors that were used in both the models.

5.2 Model Output for Logistic Regression

We now apply the final Logistic regression model that was trained for predicting the TARGET_FLAG. Below is a table of predictions.

Count for Crash / No Crash

Table 9: Predicted Crash Counts

Crash Predicted?	Counts
0	1410
1	304

5.3 Model Output for Linear Regression

Next we filter for the “predicted” crashes and we apply the final linear model to this smaller dataset to predict the TARGET_AMT. Below are the results for ONLY the “Crashed” records.

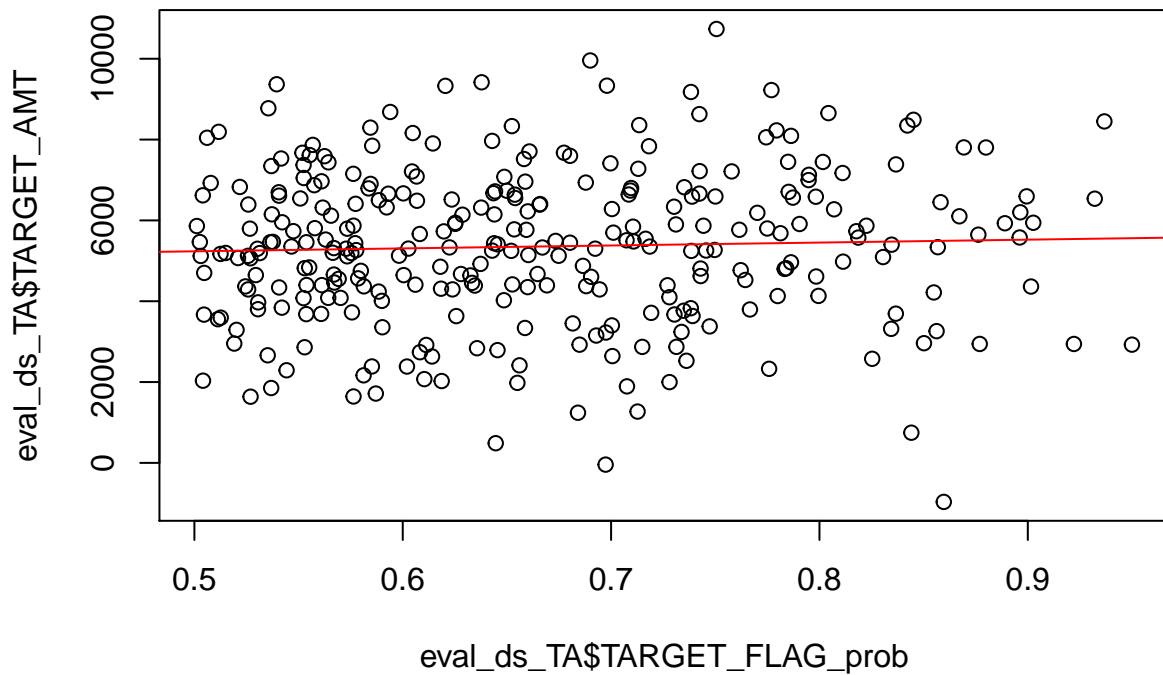
Top 10 Records by TARGET_AMT for TARGET_FLAG = 1

Table 10: Linear Regression Results

	INDEX	TARGET_FLAG	TARGET_FLAG_prob	TARGET_AMT
3	598	1	0.6446238	486.9448
4	5361	1	0.8441118	746.9066
5	2889	1	0.6840995	1241.5246
6	8672	1	0.7127093	1269.6456
7	6447	1	0.5269622	1638.1470

	INDEX	TARGET_FLAG	TARGET_FLAG_prob	TARGET_AMT
8	748	1	0.5763727	1643.4743
9	6329	1	0.5870784	1715.8916
10	4584	1	0.5368640	1852.6016
11	865	1	0.7076172	1893.0028
12	10115	1	0.6550164	1980.4875

5.4 Conclusion



Outcome from regression model and outcome from linear model was plotted in the chart above. It can be seen from the chart above that probability associated with classification and predicted amount from linear model does not show any specific patterns. From insurance business standpoint cases where probability of incident and repair expense amount is high will be the focus area top right side corner of the chart.