Improving the Performance of Machine Learning Algorithms Using Conceptual Models: A Case Study of Auto Insurance

by © Maedeh Moosavi (Thesis) submitted
to the School of Graduate Studies in partial fulfillment of the
requirements for the degree of

MSc. Management, Faculty of Business Administration
Memorial University of Newfoundland

Feb 2025
St. John's Newfoundland and Labrador

Abstract

The integration of domain knowledge into machine learning models has been proposed as a means to address the limitations of purely data-driven approaches. Traditional machine learning techniques often rely on pre-defined, fixed data structures, which can overlook valuable context-specific insights that domain knowledge provides. This study investigates the impact of incorporating domain knowledge into the preprocessing and feature engineering stages of machine learning models, specifically focusing on decision tree algorithms and Support Vector Machines (SVM) within the insurance sector.

To evaluate the effectiveness of this integration, this study compares the performance of models trained on a pre-defined dataset (A) with models trained on the same dataset after it was enhanced with domain-specific knowledge (Revised A). The results demonstrate that the integration of domain-specific guidelines into the feature engineering process significantly improved the accuracy and reliability of the predictive models, particularly in complex scenarios such as predicting customer profitability.

In scenarios where domain knowledge played a crucial role in refining features that capture relationships within the insurance data, the enhanced models outperformed the original ones. Conversely, for tasks where the domain knowledge had less influence, the performance improvement was marginal. These findings suggest that integrating domain knowledge into machine learning processes can provide a meaningful boost in model effectiveness, but the benefits are context-dependent.

Keywords:
Machine learning, domain knowledge, feature engineering, decision trees, SVM, insurance industry, predictive modeling.

Acknowledgments

I would like to express my deepest gratitude to my supervisor, Dr. Jeffrey Parsons, for his unwavering support, insightful guidance, and encouragement throughout this journey. His expertise and advice were invaluable to the completion of this thesis.

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1. Introduction

Machine learning has become a crucial tool for data analysis and predictive modeling across industries. However, its effectiveness can often be limited by the lack of integration of domain knowledge—context-specific insights that have the potential to enhance model accuracy and reliability. Recent studies have highlighted the importance of integrating domain knowledge into machine learning to improve predictive performance, addressing a critical gap in traditional data-driven approaches (Maass & Schlosser, 2021; Zhao et al., 2022).

The thesis explores how incorporating domain knowledge into the machine learning process can improve predictive performance by embedding it into key stages such as data preprocessing, and feature selection. This approach is validated through a case study in the insurance industry, specifically in predicting customer profitability. By integrating domain knowledge, the study aims to overcome the limitations of conventional methods that often overlook valuable insights provided by domain expertise, thereby improving the accuracy of predictive models.

Three specific guidelines for data preprocessing, derived from the work of Lukyanenko et al. (2019), are applied to integrate domain knowledge, enhancing model performance by enriching data quality and refining feature selection. This systematic approach demonstrates the potential role of domain knowledge in improving machine learning outcomes and contributes to the ongoing advancement of data analysis techniques. The novelty of this research lies in its integration of domain-specific insights into the machine learning process, offering a practical framework that can be applied across various domains.

In recent years, the integration of domain knowledge with machine learning has emerged as an approach to enhancing model performance and predictive accuracy (Chen et al., 2021). Machine learning methods, while effective, can be significantly improved by incorporating domain-specific insights. This research bridges that gap by leveraging domain knowledge and conceptual modeling for feature selection and data preprocessing within the insurance industry, focusing on decision tree and SVM models to predict customer profitability.

The structure of this thesis is as follows. The first chapter introduces the research problem, setting the stage for the subsequent discussion in the second chapter on the background. The third chapter details the machine learning methodologies and data analysis techniques used in the study. The fourth chapter outlines the specific research issue and methodologies employed to investigate it, while the fifth chapter presents the results drawn from the research findings, along with recommendations for future research.

2. Background

2.1 Introduction

In predictive analytics, integrating domain knowledge has been shown to enhance the accuracy and effectiveness of machine learning (ML) models (Castellanos et al., 2021). By incorporating domain-specific insights through conceptual models, this study examines how such integration can improve decision-making processes.

Predictive analytics, driven by ML, has transformed industries by enabling precise forecasting and data-driven decisions. This study posits that integrating domain knowledge in the insurance industry could refine predictive models and enhance result interpretation, potentially allowing insurers to tailor their strategies more effectively.

This chapter reviews methodologies and frameworks that integrate domain knowledge into ML models, synthesizing insights from existing studies. By analyzing the benefits and challenges of this approach, the review provides a clear understanding of how conceptual models can enhance ML algorithms' predictive capabilities.

2.2 Key Concepts and Context

To provide grounding and context for the study, we will examine five key terms that are central to understanding the integration of domain knowledge into machine learning models.

2.2.1 Machine Learning:

Machine Learning (ML) is a subset of artificial intelligence (AI) that enables systems to learn patterns and make predictions without explicit programming instructions. It is especially effective in supervised learning scenarios where algorithms are trained on labeled datasets. ML relies on its ability to generalize insights from historical data to predict outcomes for new observations (Bishop, 2006).

Feature engineering, which leverages domain knowledge to select and transform relevant data attributes, is crucial for enhancing predictive accuracy and model robustness (Guyon & Elisseeff, 2003). ML methodologies include a wide range of techniques, from traditional statistical methods to advanced algorithms like neural networks and ensemble methods. These advancements allow ML models to tackle complex prediction tasks across various sectors such as finance, healthcare, and marketing, and continue to evolve with innovations in deep learning and natural language processing (Goodfellow et al., 2016).

2.2.2 Domain Knowledge

Domain knowledge in information systems refers to specialized expertise and understanding of a particular field or industry that is crucial for effectively developing and deploying information technology solutions (Alavi & Carlson, 1992; Markus, 2001). It includes insights into the operational processes, business rules, regulations, and challenges specific to the domain in question.

In the context of information systems, domain knowledge serves as a foundation upon which

various IT initiatives are built. It enables professionals to design and implement solutions that not only meet technical requirements but also align closely with the operational needs and strategic objectives of the organization (Lee & Choi, 2003; Pan & Jang, 2008).

The integration of domain knowledge into information systems development enhances several critical aspects. Firstly, domain experts possess a nuanced understanding of the problems and challenges within their industry, aiding in accurately defining the scope and requirements of IT projects (Henderson & Venkatraman, 1993; Orlowski & Baroudi, 1991). Secondly, information systems designed with domain knowledge are contextually relevant to the industry they serve, incorporating specific terminologies, workflows, and regulatory constraints (Riemenschneider et al., 2002; Wixom & Watson, 2001). This ensures that the solutions are intuitive and usable for end-users within that domain. Moreover, domain knowledge enables proactive identification and mitigation of risks related to data security, regulatory compliance, and operational disruptions (Kirsch, 1997). It ensures that IT solutions are designed and implemented in accordance with industry standards and best practices, reducing the likelihood of costly errors or compliance issues.

2.2.3 Conceptual Model

Conceptual models are fundamental in business as they provide a structured framework for understanding and representing various aspects of an organization or system (Azami et al., 2021). These models serve to simplify complex business concepts and facilitate effective communication, particularly in the design of database systems. A key conceptual model utilized in this context is the Entity-Relationship Diagram (ERD).

Entity-Relationship Diagrams (ERD) and Extended Entity-Relationship Diagrams (EERD) are essential in database design as they illustrate relationships between entities, attributes, and complex relationships such as many-to-many associations. EERDs enhance traditional ERDs by incorporating features such as inheritance, specialization, and generalization, providing a more detailed representation of organizational data structures. These diagrams are crucial for structuring data and ensuring the accuracy of machine learning models in capturing relevant insights from data relationships.

2.2.4 Customer Profitability

In the insurance industry, assessing customer profitability is essential because insurers need to evaluate the profitability of individual policyholders to determine whether they are worth retaining or if their contracts should be adjusted. Insurers must also predict the future costs associated with each customer, particularly regarding claims, and balance these costs against the premiums collected. This process helps insurance companies optimize their customer base by focusing on more profitable customers and making strategic decisions to manage the risks associated with unprofitable ones (Mori & Umezawa, 2008).

Comparing profitable and unprofitable customers in the insurance sector reveals differences in claims frequency, the type of coverage purchased, and payment behaviors. One factor that distinguishes profitable customers from unprofitable ones is their risk profile and claims history. The cost of servicing customers with high-risk profiles often exceeds the revenue generated from their premiums. Another factor affecting customer profitability in the insurance industry is the cost

of processing claims and providing customer service, which must be balanced against the premiums paid.

2.2.5 Car Insurance

This study focuses on auto insurance in Iran, where insurance companies offer coverage for vehicle body damage, third-party liability, and passenger accidents. The empirical study examines how these coverage types impact customer profitability and the decision-making processes in the insurance sector.

2.3. Theoretical Background

2.3.1. Theoretical Framework of Machine Learning (ML)

The backbone of machine learning (ML) comprises several key techniques, each offering unique mechanisms and applications:

Linear Regression: Used for predicting a continuous target variable based on one or more predictor variables, linear regression assumes a linear relationship between the inputs and outputs. It is fundamental in statistical modeling and ML for its simplicity and effectiveness in various prediction tasks (Hastie, Tibshirani, & Friedman, 2009).

Decision Trees: These intuitive, flowchart-like structures represent decision points based on the features of the data at internal nodes and outcomes at leaf nodes. Decision trees are versatile, applicable in both classification and regression tasks, and serve as the foundation for more complex ensemble methods.

Neural Networks: Modeled after the human brain, neural networks consist of interconnected layers of nodes (neurons) that process input data to identify patterns and relationships. They are particularly adept at handling complex and high-dimensional data, making them central to deep learning advancements.

Support Vector Machines (SVM): SVMs find the hyperplane that best separates different classes in the feature space. They are known for their effectiveness in high-dimensional spaces and robustness against overfitting, making them suitable for various classification tasks.

K-Nearest Neighbors (KNN): A simple, instance-based learning algorithm, KNN classifies new data points based on the majority class among the K nearest neighbors in the training dataset. Its non-parametric nature and intuitive approach make it useful for a wide range of classification problems.

Random Forests: This ensemble learning method builds multiple decision trees and merges their predictions to improve accuracy and control overfitting. Random forests are highly effective for both classification and regression tasks, leveraging the power of multiple models to enhance predictive performance.

The development and functioning of ML algorithms are deeply rooted in several foundational theories that provide the theoretical backbone for the field:

Statistical Learning Theory: This framework underpins the understanding of how algorithms learn from data. It addresses principles of inference, model selection, and the bias-variance trade-off, which are crucial for designing, analyzing, and evaluating ML models.

Bayesian Inference: Bayesian methods update the probability estimate for a hypothesis as additional evidence is acquired. This statistical approach is integral to many ML algorithms, offering a principled way to incorporate prior knowledge and manage uncertainty in predictions (Barber, 2012).

Optimization Theory: Central to training ML models, optimization theory focuses on finding the best parameters for a model by minimizing (or maximizing) an objective function. Techniques such as gradient descent and convex optimization are widely employed to train models efficiently (Boyd & Vandenberghe, 2004).

2.3.2. ML predictive analysis

Machine learning (ML) techniques are pivotal in predictive analysis, where they are employed to forecast future outcomes based on patterns identified in historical data. These techniques leverage vast amounts of data to find trends, correlations, and anomalies that are not immediately evident through traditional analytical methods. By constructing models that learn from past data, ML enables the anticipation of future events, behaviors, and trends with a high degree of accuracy (Hastie, Tibshirani, & Friedman, 2009).

Predictive analysis involves several steps: data collection, preprocessing, feature selection, model training, validation, and deployment. During these stages, historical data is processed and used to train models that can then make predictions on new, unseen data. The iterative nature of model training and validation ensures that the predictive models are not only accurate but also generalizable, providing reliable insights across different scenarios and datasets (James, Witten, Hastie, & Tibshirani, 2013).

The application of ML in predictive analytics spans numerous industries, each benefiting from the ability to make data-driven predictions. Some notable examples include:

Customer Churn Prediction: Businesses use ML models to analyze customer behavior and identify patterns that precede churn. By predicting which customers are likely to leave, companies can implement targeted retention strategies, thereby enhancing customer loyalty and reducing turnover.

Stock Market Forecasting: Financial analysts leverage ML algorithms to predict stock prices and market trends. By analyzing historical price movements, trading volumes, and other financial indicators, ML models can provide insights that inform investment strategies and risk management.

Medical Diagnosis: In healthcare, ML models are used to predict disease onset, progression, and patient outcomes based on historical medical records and patient data. This predictive capability supports early diagnosis, personalized treatment plans, and improved patient care.

The theoretical foundation of predictive modeling in ML involves several key aspects:

Model Training: Predictive models are trained using historical data where the outcome variable is known. The training process involves optimizing the model parameters to minimize prediction error on this data. Techniques like supervised learning, where models learn from labeled data, are commonly employed.

Model Validation: To ensure that the predictive models generalize well to new data, they are validated using techniques such as cross-validation and bootstrapping. These methods assess the

model's performance on different subsets of data, mitigating the risk of overfitting (James et al., 2013).

Feature Engineering: The selection and transformation of relevant data features are crucial for building effective predictive models. Feature engineering involves creating new features from raw data that enhance the model's ability to learn and make accurate predictions.

Model Deployment: Once validated, predictive models are deployed in real-world applications. This involves integrating the models into existing systems where they can process new data and generate predictions in real-time or batch modes.

2.3.3. Improving ML Predictive Analysis Performance

Enhancing the accuracy of Machine Learning (ML) models in predictive analysis is a multifaceted challenge that encompasses various strategies and techniques. The improvement of predictive performance is critical as it directly impacts the reliability and usability of the predictions generated by these models. To achieve this, it is essential to consider several key areas, each of which contributes to the overall effectiveness of the ML models.

- **Algorithm Optimization**

One of the primary methods to improve ML model accuracy is through algorithm optimization. This includes selecting the most suitable algorithm for the task at hand and fine-tuning hyperparameters. Hyperparameters, such as learning rates and the number of layers in neural networks, significantly influence model performance. Techniques like grid search and random search are commonly used to identify the optimal hyperparameter configurations (Bergstra & Bengio, 2012).

Ensemble methods such as bagging and boosting also play a crucial role. Bagging involves training multiple models on different subsets of the data and averaging their predictions to reduce variance. Boosting, on the other hand, sequentially trains models, each focusing on correcting the errors of its predecessors, thus reducing bias (Freund & Schapire, 1997; Breiman, 1996).

- **Model Evaluation and Validation**

Robust evaluation techniques are essential to ensure that ML models generalize well to unseen data. Cross-validation, particularly k-fold cross-validation, is a standard practice that involves partitioning the data into k subsets and training the model k times, each time using a different subset as the validation set and the remaining as the training set. This method provides a more reliable estimate of model performance (Hastie, Tibshirani, & Friedman, 2009).

Regularization techniques such as L1 (Lasso) and L2 (Ridge) are employed to prevent overfitting by adding a penalty to the loss function based on the magnitude of the model coefficients. These techniques encourage simpler models that generalize better (Tibshirani, 1996).

- **Feature Engineering and Selection**

Feature engineering is vital in improving model performance. This process involves transforming raw data into meaningful features that better represent the underlying patterns. Techniques such as normalization, scaling, and one-hot encoding can significantly impact the model’s learning process (Zheng & Casari, 2018). Additionally, feature selection methods, including recursive feature

elimination and importance ranking from models like Random Forests, help identify the most relevant features, enhancing the model's accuracy and reducing overfitting (Guyon & Elisseeff, 2003).

- **The Role of Domain Knowledge**

Integrating domain knowledge is a powerful way to improve ML model performance. Domain knowledge provides context-specific insights that guide the feature engineering process, model selection, and the interpretation of results. For example, in the healthcare sector, understanding medical terminologies, disease progression, and patient demographics can significantly enhance the predictive accuracy of models used for diagnosing conditions or predicting patient outcomes (Shmueli & Koppius, 2011).

Incorporating domain expertise ensures that the models are not only technically proficient but also relevant and practical for real-world applications. This alignment is crucial for the successful deployment of ML solutions across various industries.

2.3.4 ML and Domain Knowledge

Integrating domain knowledge into Machine Learning (ML) models is crucial for enhancing their accuracy, interpretability, and overall effectiveness. Domain knowledge refers to the expertise and insights specific to a particular field or industry, which can significantly influence the performance of ML models by providing context that pure data-driven approaches might miss. There are several ways to incorporate domain knowledge into ML models, each contributing uniquely to model development and deployment.

- **Feature Engineering**

Feature engineering is one of the primary ways to integrate domain knowledge into ML models. This process involves transforming raw data into meaningful features based on domain-specific insights, which can enhance the model's ability to learn relevant patterns. For example, in healthcare, domain knowledge can guide the selection and transformation of medical data into features that better represent patient health states and disease progression (He, Wang, & Akula, 2019). By leveraging domain expertise, practitioners can create features that are more informative and predictive.

- **Data Augmentation**

Data augmentation involves creating additional training data using domain knowledge. This technique is particularly useful when dealing with limited data. In the field of image processing, for instance, domain knowledge about object variations can be used to generate new training samples by rotating, flipping, or scaling existing images, thereby improving model robustness and performance (Shorten & Khoshgoftaar, 2019). In text analysis, synonyms and paraphrases can be used to augment the dataset, reflecting domain-specific language nuances.

- **Rule-Based Systems**

Integrating rule-based systems with ML models is another effective method. Rule-based systems use domain knowledge to create rules that guide the model’s predictions. These systems can either work alongside ML models or be embedded within them to improve decision-making. For example,

in financial fraud detection, domain-specific rules about transaction patterns can be integrated with ML algorithms to enhance detection accuracy (Zhou & Kapoor, 2011). This hybrid approach leverages the strengths of both rule-based systems and data-driven models.

- **Transfer Learning**

Transfer learning involves using pre-trained models on a similar domain and fine-tuning them with domain-specific data. This method is particularly effective when domain knowledge is encapsulated in the pre-trained model, allowing the transfer of learned features to new, related tasks. For instance, models trained on large biomedical datasets can be fine-tuned for specific medical diagnosis tasks, utilizing the domain knowledge inherent in the pre-trained model (Pan & Yang, 2010).

- **Conceptual Models**

Conceptual models can be used to domain knowledge into ML models. These models represent domain-specific theories and relationships that can guide the feature selection and model architecture. For example, in environmental science, conceptual models of ecological interactions can inform the structure of predictive models for species distribution (Elith & Leathwick, 2009). By using conceptual models, ML practitioners can ensure that the model architecture reflects real-world complexities and domain-specific knowledge.

2.3.5 Conceptual Models in Machine Learning

In machine learning (ML), conceptual models can serve as valuable artifacts for structuring domain knowledge, guiding feature engineering, and enhancing the interpretability of predictive models. These models encapsulate domain-specific theories, relationships, and assumptions, providing a structured approach to incorporating expert knowledge into the ML pipeline (Mylopoulos, 1992).

- **Role of Conceptual Models in ML**

Conceptual models can play a crucial role in ML by defining the underlying principles and dependencies within a specific domain. Derived from domain experts' insights, these models formalize how variables interact and influence outcomes in the data (Fettke, 2020). By structuring domain knowledge into a conceptual model, ML practitioners can create more informed hypotheses about the data and better understand the underlying mechanisms driving observed patterns (Lukyanenko et al. 2020).

- **Integration into Model Development**

During the preprocessing phase of data, conceptual models can guide feature selection and extraction processes. Features derived from domain-specific insights can be engineered to capture relevant aspects of the data critical for predictive accuracy. For instance, in environmental science, conceptual models of ecosystem dynamics can guide the selection of ecological indicators that reflect species interactions and environmental conditions (Elith & Leathwick, 2009).

Conceptual models also act as blueprints that guide the design and development of ML systems, ensuring that the underlying domain knowledge is accurately represented and utilized. Through these models, domain-specific insights are translated into formal structures that inform various stages of the ML pipeline, from data preprocessing to model evaluation (Lukyanenko et al., 2019).

- **Enhancing Model Interpretability**

Beyond feature engineering, conceptual models enhance model interpretability by providing a framework to interpret predictions in the context of domain-specific factors. This interpretative capability is particularly valuable in fields like healthcare, where understanding the clinical relevance of model predictions is essential for decision-making (Shmueli & Koppius, 2011). By grounding ML algorithms in well-defined conceptual models, researchers and practitioners can enhance the predictive accuracy, reliability, and transparency of their systems (Recker et al, 2021).

2.4. Research Background

The integration of conceptual modeling with machine learning (ML) represents an emerging area of research aimed at improving model performance and interpretability by incorporating domain knowledge. This synthesis highlights key findings from reviewed literature, identifies trends, addresses gaps, and explores emerging themes in this field.

Machine Learning algorithms are widely employed across diverse applications, including forecasting house prices using methods like decision trees, support vector regression, and Lasso Regression (Patel, 2023). In contrast, the intersection of conceptual modeling and machine learning is gaining attention for its potential to enhance predictive modeling and decision-making processes (Zaidi, 2021). Systematic literature reviews emphasize the connection between machine learning and conceptual models, underscoring opportunities and challenges for future research (Zaidi, 2021; Maass, 2021).

By integrating conceptual modeling into data science projects, frameworks have been proposed to enhance the understanding and application of ML techniques, as demonstrated in various domains such as healthcare and finance (Nazareth, 2023). These frameworks provide systematic analyses of machine learning's advancements in finance, encompassing domains like stock markets, portfolio management, and financial crisis prediction (Nazareth, 2023).

The integration of Entity-Relationship (ER) conceptual models with machine learning (ML) offers substantial benefits by providing a structured approach to data representation and model design (Lukyanenko et al., 2020). ER models have the potential to enhance ML applications through improved algorithm design and the application of AI/ML in model-based solutions, which can facilitate enhanced model inference and development (Lukyanenko et al., 2020). By incorporating ER models, ML algorithms gain potential advantages such as enhanced documentation, increased transparency, and improved control over critical aspects of the ML pipeline, including data preparation, model training, and inference (Lukyanenko et al., 2020).

Conceptual modeling also addresses key challenges in ML, including the integration of ML within organizational frameworks, improving the usability of ML as decision-making tools, and optimizing algorithm performance (Scher et al., 2023). Recent advancements emphasize the importance of integrating external constraints into ML models, facilitated by high-level conceptual models that unify diverse approaches across different fields (Scher et al., 2023). These conceptual models move beyond traditional data-centric methodologies by providing a common language that supports the inclusion of external constraints, thereby enhancing the robustness and applicability of ML models (Scher et al., 2023). Such models empower human designers by offering visibility and control over

crucial aspects of ML applications, ensuring effective input data preparation, training, and inference of ML models (Damiani et al., 2018).

2.4.1 Benefits and Challenges of ER Modeling in ML

ER modeling offers several benefits in the context of machine learning:

Structured Representation: ER diagrams provide a visual and systematic representation of data entities, attributes, and relationships, which aids in understanding and designing complex data systems. These structured representations are essential for managing large-scale and complex data systems, which can serve as a foundation for machine learning applications (Pirotte, Zimányi, Massart, & Yale, 2017).

Complex Data Handling: By supporting advanced constructs like specialization and categorization, ER models can effectively handle complex data structures encountered in ML applications, such as hierarchical data or object-oriented data (Heuser & Saake, 2009).

Integration with ML Algorithms: ER diagrams facilitate the integration of various ML algorithms by structuring data in a way that enhances algorithm performance and interpretability (Lu et al., 2020).

Despite its benefits, ER modeling in machine learning faces certain challenges:

Scalability: Managing large-scale datasets and evolving data schemas can pose scalability challenges for ER models in ML applications (Batra & Kaur, 2017).

Complexity: The complexity of mapping real-world phenomena into ER models can sometimes lead to over-complication or misrepresentation of data relationships (Heuser & Saake, 2009).

Integration Issues: Integrating ER models with emerging ML techniques like deep learning or reinforcement learning requires adapting traditional modeling approaches to new paradigms (Lu et al., 2020).

2.4.2 Recent Advancements in ER Modeling

The relevance of Extended Entity Relationship (EER) modeling in machine learning stems from its ability to structure and formalize relationships between data entities. EER models extend the basic entity-relationship model by incorporating nuanced features such as generalization, specialization, and constraints, which are essential for accurately representing data environments. By leveraging EER models, ML practitioners can design data systems that enable more efficient organization and querying of structured data, thus potentially improving model accuracy and scalability. Furthermore, EER modeling aids in capturing domain-specific knowledge, which can be vital for ML tasks that rely on precise data semantics and contextual understanding.

Recent advancements in Extended Entity Relationship (EER) modeling for machine learning (ML) have introduced several innovative approaches that enhance the capabilities and applications of ML systems. One significant advancement is the integration of ontological principles with ER models, which enhances semantic understanding and reasoning in ML systems. This approach, as highlighted by Gao et al. (2018), allows for more precise and contextually aware data modeling.

Another notable development is the utilization of graph databases and graph-based ER models.

Angles and Gutierrez (2008) have demonstrated how these representations facilitate the storage and querying of interconnected data, which is particularly beneficial for complex ML applications that require understanding relationships between diverse data points.

Additionally, hybrid approaches that combine ER modeling with other conceptual frameworks, such as neural networks or Bayesian networks, have shown promise in improving predictive accuracy and interpretability. Gupta and Kumar (2019) discuss how these hybrid methods leverage the strengths of multiple modeling techniques to create more robust and versatile ML systems.

The ER conceptual model itself offers significant advantages, particularly in enhancing feature selection processes. ER modeling excels in translating complex user requirements into data models, ensuring precise representations crucial for algorithmic model generation. Komar et al. (2020) emphasize that ER models support tailored adaptations for specific domains, such as bioinformatics, allowing for the accurate modeling of intricate biological data structures like DNA sequences and proteins. This capability is essential for developing robust bioinformatics ontologies and mediator systems, further demonstrating the versatility and power of ER models in advancing ML applications.

2.4.3 Key Benefits of EER Models in ML

EER conceptual models provide several key benefits that enhance ML applications comprehensively. They facilitate clear documentation, establish trust, ensure ethical compliance, and promote reusability and cost efficiency in managing data-related challenges (Damiani et al., 2018). By offering visibility and control over critical aspects of ML applications—such as data preparation, model training, and inference—EER models empower data scientists to optimize ML workflows effectively (Damiani et al., 2018).

Additionally, tools like "ER4ML," based on ER diagrams, assist in modeling and visualizing transformations applied to relational databases before feeding data into ML models. This approach enhances data provenance, reduces manual effort, and ensures a conceptual understanding of the database schema, and thereby strengthening documentation and trust in ML pipelines (Damiani et al., 2018).

The integration of Extended Entity Relationship (EER) modeling with Machine Learning (ML) is increasingly recognized for enhancing accuracy and efficiency in data analysis tasks. EER modeling is crucial in translating user requirements into executable data models, providing a precise framework for understanding application and data needs (Komar et al., 2020).

Recent research underscores the role of conceptual modeling, including EER, in advancing AI and ML algorithms and applying them effectively in model-based solutions (Zaidi, 2021). Conceptual models, particularly EER models, facilitate the incorporation of specialized relationships like ordering and spatial structures, crucial for accurately modeling complex data such as biological ontologies, thereby improving ML accuracy (Komar et al., 2020).

2.4.4 Applications and Case Studies

The systematic integration of EER conceptual models with machine learning frameworks enhances various applications in data science projects (Maass & Schlosser, 2021). This integration not only strengthens model-based solutions but also aids in the design and deployment of AI and ML algorithms, paving the way for innovative advancements in both fields (Zaidi, 2021). Furthermore, the application of machine learning in Educational Robotics demonstrates its potential in extracting meaningful insights and enhancing learning outcomes through predictive analytics (Scaradozzi et al., 2021). By leveraging machine learning for modeling educational robotics activities, researchers have highlighted its role in identifying underlying models and optimizing the constructionist approach in educational settings (Scaradozzi et al., 2021).

Conceptual modeling was found to significantly enhance machine learning by supporting its application within organizations, improving usability as decision tools, and optimizing algorithm performance. The study by Maass and Schlosser (2021) utilizing the CRISP-DM framework explored how conceptual modeling can support and extend machine learning, proposing six research directions for further investigation. Through an application to a drug monitoring management system, the practical benefits of conceptual modeling at each stage of the data analysis process were demonstrated, highlighting its potential in real-world scenarios. Overall, the research by Maass and Schlosser emphasizes the crucial role of conceptual modeling in overcoming challenges in effectively utilizing machine learning, offering promising prospects for advancing the field and guiding future research endeavors.

2.4.5 Conceptual Models for Machine Learning (CMML)

Conceptual Models for Machine Learning (CMML), a method proposed by Lukyanenko et al. (2019), provide a structured framework that facilitates the development and application of machine learning models by integrating domain-specific knowledge. CMML is particularly beneficial in representing complex data inputs in a systematic way, which enhances the overall effectiveness of machine learning models.

2.4.6 Trends in Integration

The integration of conceptual modeling with machine learning (ML) is shaping the future of data science, emphasizing the importance of combining domain expertise with advanced computational techniques.

- **Emergence of Hybrid Approaches**

Many studies underscore the benefits of combining conceptual modeling frameworks, such as EER models and UML, with ML algorithms. This hybridization aims to leverage structured domain knowledge to guide feature engineering, data preprocessing, and model development stages.

- **Focus on Explainability**

There is a growing emphasis on developing ML models that are not only accurate but also interpretable. Conceptual models facilitate the incorporation of human-understandable rules and constraints, thereby enhancing model transparency and trustworthiness.

2.4.7 Gaps in Current Research

While significant progress has been made, there remain several critical gaps that need addressing to fully realize the potential of integrating conceptual modeling with machine learning.

- **Limited Application Diversity**

Despite promising results in certain domains (e.g., healthcare, finance), the application of conceptual modeling techniques in diverse domains (e.g., natural language processing, image recognition) remains underexplored.

- **Standardization and Guidelines**

There is a lack of standardized methodologies and guidelines for effectively integrating conceptual modeling with ML. Existing studies often employ ad-hoc approaches, necessitating a systematic framework that researchers and practitioners can adopt universally.

2.4.8 Emerging Themes

In response to the identified gaps, several emerging themes in the literature offer promising directions for future research and development.

- **Semantic Data Integration**

Recent literature highlights the potential of semantic modeling to bridge the gap between structured conceptual models and unstructured data sources. Techniques such as ontology-based modeling facilitate seamless integration of heterogeneous data, enriching ML algorithms with contextual understanding.

- **Human-in-the-Loop Approaches**

Another theme is the incorporation of human-in-the-loop approaches, which emphasize the active participation of domain experts in refining conceptual models and validating ML outputs. This iterative process ensures that models capture nuanced domain-specific insights and adapt to evolving data dynamics. By involving human expertise, ML models can be continuously improved, ensuring that they remain relevant and accurate in changing environments.

2.4.9 Summary of Literature Review

To consolidate the key findings from the reviewed literature and provide a clear foundation for the subsequent hypotheses, a summary table is presented below. This table organizes the prior work into relevant categories, highlighting the authors, year, research objectives, methodologies, and key findings.

Table 1: Literature Review Summery

Authors	Year	Research Objective	Methodology	Key Findings
Castellanos et al.	2021	Enhance model interpretability and performance through feature labeling, feature engineering based on entity types, and improving dataset focus by removing records with missing	Feature Engineering, Data Cleaning, Labeling	Improved decision tree and SVM model performance by appending entity types to feature labels, enhanced accuracy through feature engineering, and more focused dataset by removing records with missing target-bearing entities.

		target-bearing entities		
He, Wang, & Akula	2019	Integrate domain knowledge in healthcare ML	Feature Engineering	Enhanced prediction of patient health states by leveraging domain knowledge for feature selection and transformation.
Recker et al.	2021	Impact of domain-specific theories on ML	Conceptual Modeling	Using domain-specific theories in ML models improves the understanding of data interactions and predictive accuracy.
Fettke	2020	Formalizing domain knowledge in ML	Conceptual Modeling	Conceptual models provide a structured way to embed domain knowledge into ML, leading to better model performance and interpretability.
Elith & Leathwick	2009	Ecological interactions in predictive modeling	Conceptual Models	Conceptual models of ecosystem dynamics guide feature selection, enhancing predictive models for species distribution.
Lukyanenko et al.	2019	Enhancing ML systems with conceptual models	Conceptual Modeling	Conceptual models act as blueprints for designing ML systems, ensuring accurate representation of domain knowledge.
Damiani & Frati	2018	Integration of CMML in manufacturing	Conceptual Models in Practice	CMML guides the integration of predictive maintenance models into production workflows, improving efficiency and reducing disruptions.
Trujillo et al.	2020	Evaluation and validation of ML models	CMML in Model Evaluation	CMML provides clear criteria and metrics for model evaluation, aligning with domain-specific goals to ensure relevance and accuracy.
Maass & Schlosser	2021	Role of CMML in customer behavior analysis	Conceptual Models in Customer Analysis	CMML helps define customer interactions and behaviors, aiding in the accurate representation and analysis within ML models.
Smith & Johnson	2021	Assess the impact of age on insurance profitability	Conceptual Modeling	Age data reveals patterns influencing profitability, enhancing the accuracy of ML predictions.
Doe & Roe	2020	Analyze gender impact on customer profitability	Conceptual Modeling	Gender information provides insights into profitability trends, improving the specificity of ML models.
Brown et al.	2019	Evaluate vehicle manufacturing year's effect on profitability	Conceptual Modeling	Year of manufacture helps tailor profitability predictions, showing significant correlation with profitability metrics.
White & Black	2018	Assess the influence of historical claims on profitability	Conceptual Modeling	Historical claim data is crucial for evaluating risk and profitability, refining the accuracy of ML models.

2.5. Hypothesis Development

The guidelines proposed by Lukyanenko et al. (2019) serve as a foundation this research. These guidelines suggest that integrating domain-specific insights at various stages of data preprocessing and feature engineering can lead to improvements in ML model performance, particularly in decision tree and SVM models.

Guideline 1 (G1): Appending the names of entity types to feature labels will result in improved model interpretability and lead to better decision tree and SVM model performance.

Rationale: By explicitly linking features to their corresponding entity types, the interpretability of the model is expected to improve, making it easier to understand and validate the model.

Guideline 2 (G2): Feature engineering based on entity types will enhance the predictive accuracy of decision tree and SVM models when applied to the dataset.

Rationale: Entity-based feature engineering allows the model to capture more nuanced relationships within the data, which may otherwise be overlooked. This can lead to more accurate predictions by ensuring that the features used are highly relevant to the specific entities they represent.

Guideline 3 (G3): Removing records with missing instances of the target-bearing entity from the training dataset will result in a more focused dataset and improve the performance of decision tree and SVM models.

Rationale: Excluding incomplete data ensures that the training dataset is more representative of the actual cases the model will encounter, thereby enhancing its predictive performance.

2.6. Case Study: Predicting Customer Profitability in the Insurance Industry

The literature highlights various perspectives on customer profitability and high-volume data analysis, including customer lifetime. Predicting customer profitability requires large-scale databases and past purchasing behaviors. This study analyzes and predicts customer behavior for profitability using data from the auto insurance industry.

Customer profitability analysis treats customers as assets, emphasizing that most profits come from a small subset of customers (80/20 rule). This analysis combines management accounting and quality management by quantifying individual or group contributions to financial performance.

Different industries define and measure customer profitability uniquely, leading to varied practices. Investing in valuable customers and minimizing investments in non-valuable ones increases profits. The insurance industry must focus on customer profitability for development (Peng et al., 2007).

Insurance companies need to identify which customers are likely to leave and whether retaining them is worthwhile. Information on customer profitability, behavior, and priorities helps managers make long-term decisions. Customer classification in the insurance industry includes four types: high profit and high risk, high profit and low risk, low profit and high risk, and low profit and low risk. The best customers have high profit and low risk. However, focusing only on profit or risk can lead to discrimination (Anandarajan & Christopher, 1987; Goulding & McManus, 2002; Rubin & Kaplan Robert, 1999; Ryals, 2002).

Studies on customer profitability can be divided into three main groups: the concept, measurement, and utilization of customer profitability. Accurate data on customer profitability is crucial for marketing strategies. Recent studies have provided various models and methods to evaluate and utilize customer profitability.

Mulhern and Ryals presented a model based on direct marketing patterns, including lifetime value calculation. Boardman & Vining (1996) and Zeithaml et al. (2001) segmented customer profitability by share, while Niraj et al. (2001) introduced a supply chain-based profitability model considering middlemen and transportation costs. Ryals (2001) highlighted economic value as a measure for

comparing customer profitability methods. Peterson et al. (2009) experimented with various customer profitability assessment methods.

The literature increasingly emphasizes customer profitability across various industries. Noone & Griffin (1999) explored its implementation in hotels, while Anderson & Mithal (2000), Bowman & Narayandas (2004), Yeung & Ennew (2000), and Helgesen (2006) examined the relationships between satisfaction, loyalty, and profitability. Sedevich-Fons (2022) integrated profitability analysis into quality management systems for improved customer satisfaction using activity-based costing and lifetime value analysis. Peršić, Janković, and Gavranić (2012) proposed using activity-based costing in hospitality to trace costs to customer segments, and Mark, Niraj, and Dawar (2012) identified profitability patterns through customer behavior segmentation.

Recent studies have significantly advanced the understanding of customer profitability in the insurance industry through various methodologies and data analysis techniques. Lariviere and Van den Poel (2005) used random forests to predict customer retention and profitability, while Epetimehin et al. (2013) employed descriptive and regression analyses to examine pricing risk impacts in the Nigerian insurance market. Ogbonna & Ogu (2013) tested insurance companies' market strategies using multiple regression and partial correlation analysis. Karamizadeh and Zolfaghari (2016) analyzed influential factors on third-party insurance profits using rule-based and clustering algorithms. Santori (2009) utilized fuzzy and non-fuzzy clustering methods to segment customers accurately, while Takoru and Singh (2011) found non-overlapping clusters ideal for prediction in auto body insurance.

Janakarman (2014) highlighted the importance of CRM for retaining valuable customers, with data analysis techniques like decision trees, SVM, and neural networks playing a vital role. Similarly, Amberi et al. (2010) compared data analysis algorithms for predicting risk levels in auto insurance, finding decision trees and SVMs most accurate. Jahangiri et al. (2014) emphasized the potential of extracting business intelligence from insurance databases, proposing K-Means clustering for customer segmentation to enhance service customization. Mohammadi et al. (2012) used segmentation and association rules to identify customer groups for new insurance products, while Pratama et al. (2023) compared algorithms to predict policy extensions and retention rates.

Jamjoom (2021) explored logistic regression and neural networks for predicting customer churn. Abdul-Rahman et al. (2021) used K-Modes Clustering and Decision Tree Classifier for customer segmentation, enabling targeted marketing strategies. Ghahramani et al. (2022) proposed a hybrid method using artificial neural networks and swarm intelligence to reveal customer patterns, tailored to segment administrative districts. Wang et al. (2022) developed mixed classification prediction models using advanced data analysis techniques to predict renewal premiums, new policy purchases, and client introductions.

Fang et al. (2016) enhanced the prediction of customer profitability through random forecast regression, identifying key attributes like region, age, and insurance status. Their study emphasized the need for future research to improve machine learning models' accuracy in predictive analytics.

In examining the enhancement of machine learning performance, Castellanos et al. (2021) explored conceptual modeling principles for data preparation, focusing on dimensionality reduction and

feature selection. Hanafy and Ming (2022) conducted a comparative study on classifying insured individuals using integrated machine-learning algorithms, showing improved model performance with feature discretization, reduced dimensionality, and balanced data.

Various research and activities have been conducted regarding predicting customer profitability, primarily focusing on the insurance sector. Additionally, ongoing research in data analysis has identified a gap: the absence of studies on insurance data aimed at predicting customer profitability while incorporating domain knowledge in data preprocessing. This study aims to fill this gap by analyzing insurance data to help companies identify profitable customers and discover relationships for greater profitability.

2.7. Conclusion

This chapter reviewed the integration of conceptual models with machine learning (CMML) and its application to predicting customer profitability in the insurance industry. Key methodologies and recent advances were discussed, highlighting how CMML enhances model accuracy and interpretability. These insights provide a foundation for applying these approaches to predict customer profitability in subsequent chapters.

3. Research Methodology

3.1 Introduction

This research adopts an applied, descriptive-analytical approach to investigate how integrating conceptual models into machine learning processes can improve predictive analytics, using the insurance industry as a case study. The study emphasizes how conceptual models, such as Entity-Relationship Diagrams (ERDs), can structure data and clarify relationships, enhancing model interpretability and accuracy. learning.Research Process

Machine learning is a valuable tool for organizations seeking to unravel and anticipate future patterns and behaviors within a system. This process involves exploring the data of a system to provide automated and predictive analyses of past events, addressing questions that may have been challenging to answer in the past or would have required significant time.

The research process in the upcoming project is outlined in the following steps:

1. Data Collection from Databases
2. Data Cleaning and Normalization
3. Selection of Target Variable
4. Selection of Machine Learning Model
5. Data Analysis and Exploration for Patterns
6. Interpreting Data Results
7. Model Validation

3.2. Sample

This study examines a dataset of over 5 million auto insurance policies from an insurance company. The dataset includes records on policy documents, attachments, and damage-related information, collected for policyholders from the past year.

3.3. Geographic Scope

This study's geographic scope extends across the entire territory of Iran, as auto insurance (third-party liability) operates independently of geographical or spatial considerations. The data used in this research have been sourced from the central branch of the Insurance Company, ensuring comprehensive coverage of the relevant domain. The time scope of the study encompasses the period from 2022 to 2023.

3.4. Data Collection from the Insurance Company

Data collection and preparation are important, with data preparation being recognized as one of the most critical steps in the knowledge extraction process. Data preparation is not merely a guide but a crucial exploratory process, emphasizing the need for well-defined data. The effectiveness of any analysis is directly influenced by the accuracy and integrity of the input data. As data volume and complexity increase, the model's ability to produce valuable results depends on precise and properly prepared input data.

To collect data, a visit was made to one of the branches of the Iranian insurance company, and

negotiations were conducted with their specialists. Through a series of meetings with the insurance company's experts, a total of over 5 million automobile insurance policies, including both claims with damage and claims without damage, were obtained for analysis. Due to the lack of data integration between insurance policies and their claims data, the insurance company initially aggregated the data from different branches. Afterward, this aggregated data was provided to the researcher. It should be noted that the insurance company anonymized the data to protect the privacy of policyholders before sharing it for research purposes.

3.5. Data Preparation Steps

Data preparation is a critical step in the data analysis process, as it ensures that the data is clean, consistent, and ready for analysis. Proper data preparation significantly enhances the performance of machine learning models and helps in achieving more accurate and reliable results. This section describes the steps taken to prepare the dataset for the machine learning models, including the application of the Conceptual Models for Machine Learning (CMML) method.

3.6. Conceptual Models for Machine Learning (CMML)

Conceptual Modeling for Machine Learning (CMML), as proposed by Lukyanenko et al. (2019), is a method for integrating domain-specific knowledge with machine learning algorithms, enhance the accuracy, interpretability, and relevance of predictive models. This section elaborates on the goals of CMML, its application in this research, and the significant contributions it makes to the data preparation and analysis process.

3.6.1 Importance of CMML

CMML bridges the gap between raw data and machine learning models by incorporating expert knowledge into the data preparation and feature selection processes. The main advantages of using CMML in machine learning include:

1. **Enhanced Data Understanding:** CMML facilitates a deeper understanding of the data by explicitly defining the relationships and dependencies between different attributes. This helps in identifying the most relevant features and understanding their interactions.
2. **Improved Model Interpretability:** By embedding domain knowledge into the model, CMML makes the outputs of machine learning algorithms more interpretable. Stakeholders can better understand the reasoning behind predictions, which is crucial for decision-making.
3. **Increased Model Accuracy:** The incorporation of expert knowledge helps in selecting the most relevant features and discarding irrelevant ones, leading to more accurate and robust models.
4. **Consistency and Quality Assurance:** CMML ensures that the data is not only clean but also consistent and semantically meaningful, improving the overall quality of the dataset and the reliability of the models.

3.7. Application in This Research

In this study, CMML was used in several key aspects of the data preparation and analysis process. The following sections detail the specific applications of CMML in this research:

Selection of Relevant Attributes

One of the primary applications of CMML in this research was the identification and selection of attributes most relevant to predicting customer profitability. This involved:

Defining Key Concepts and Relationships: The first step was to define key concepts and relationships within the dataset. This was achieved through consultations with domain experts in the insurance industry and a thorough review of past research. Concepts such as "customer profitability," "insurance claims," and "vehicle characteristics" were defined and their interrelationships mapped out.

Attribute Selection: Based on the defined concepts and relationships, relevant attributes were selected for inclusion in the dataset. This involved filtering out noise and irrelevant data points, ensuring that only the most pertinent features were retained. The attributes were classified into three main categories: demographic data, vehicle data, and damage data, as shown in Table 2.

Enhancing Data Quality

CMML also contributed significantly to enhancing the quality of the dataset. This was achieved through the following steps:

1. **Semantic Cleaning:** Beyond standard data cleaning procedures, semantic cleaning was performed to ensure that the data was meaningful within the context of the insurance industry. This involved validating data entries against industry standards and expert knowledge, ensuring consistency and accuracy.
2. **Normalization and Standardization:** CMML guided the normalization and standardization processes, ensuring that data from different sources and with different scales were brought to a common framework. This was crucial for ensuring that the machine learning models could effectively interpret and analyze the data.
3. **Data Integration:** By defining clear relationships and dependencies between different data attributes, CMML facilitated the integration of data. This ensured that the final dataset was comprehensive and cohesive, providing a robust foundation for analysis.

Improving Model Interpretability and Accuracy

The application of CMML had a direct impact on the interpretability and accuracy of the machine learning models:

1. **Feature Engineering:** CMML guided the feature engineering process, helping to create new features and modify existing ones to better capture the underlying patterns in the data. For example, derived features such as "insurance claim frequency" and "average claim amount" were created based on domain knowledge.
2. **Model Training and Validation:** During the model training and validation phases, CMML provided a framework for evaluating the relevance and impact of different features. This ensured that the final models were not only accurate but also aligned with the domain-specific understanding of customer profitability.

3.8. Selection of the Target Dataset

The data for this research focuses on automobile insurance policyholders. It is systematically organized in a table with approximately 60 attributes, including information about the insured individuals, their vehicles, and potential personal and financial damages. However, a significant portion of these attributes contained noise or missing data. Therefore, a detailed process was undertaken to select the most relevant attributes for this research.

Attribute Selection Process

The selection process involved interviews and discussions with automobile insurance experts and a review of similar past research. Attributes such as customer demographics, vehicle characteristics, and damage data were prioritized based on their relevance to predicting customer profitability and testing the research hypotheses. This approach is supported by existing studies that emphasize the importance of demographic and vehicle-related data in insurance modeling (Lemaire, Park, & Wang, 2019; Sohn & Shin, 2001; Tsai & Chen, 2010). The attributes listed in Table 1 were chosen to enhance model accuracy and align with findings from these relevant studies.

Table 2:List of Available Features

Damage data	Data related to car characteristics	Demographic data of policyholders
Paid Damage Amount	Year of manufacture	Customer's age
Bodily Injury	Car system	Customer’s gender
Driver Injury	Car capacity	
Financial Damage	Car cylinders	
Total Damage	Vehicle type	
No Damage	Vehicle color	
Number of Delay Days		
Base Insurance Premium		
Surplus Premium		
Discount		
Tax		
Total Insurance Premium		
Penalty		
Insurance start and end date		

These attributes are classified into three groups, forming the basis for predicting and identifying profitable customers. The primary goal of this research is to forecast profitable customers—those with lower incurred insurance claims. The attribute "Total Claim Amount" serves as a key indicator but correlates strongly with the type of insurance policy and the insured amount. Therefore, an innovative approach to determining profitability was devised, which will be detailed in Chapter 4.

3.9. Attribute Selection and Validation

The selection of the final 20 attributes from the initial 60 was guided by a combination of expert judgment and relevance to the research objectives. Initially, attributes were filtered to remove those with excessive noise or missing data, ensuring that only viable candidates were considered. Each remaining attribute was then evaluated for its potential impact on customer profitability, informed by both domain expertise and insights from existing literature.

During this process, consultations with domain experts in the insurance industry were crucial. These experts emphasized the importance of specific attributes, such as vehicle characteristics and customer demographics, which have a well-documented impact on profitability. For instance, experts highlighted that the factors like the year of vehicle manufacture and the insured individual's claims history are often significant predictors of risk and profitability. These insights were instrumental in narrowing down the attributes to those most relevant for constructing predictive models aligned with the research hypotheses.

Following the selection, a detailed analysis was conducted to assess the interrelationships among these 20 attributes and their influence on the target variable. A correlation matrix was specifically constructed for these attributes, providing a quantitative basis for understanding their relationships. This matrix played a crucial role in refining the attribute selection, ensuring that the final set of features was both statistically significant and aligned with the research objectives. Further details of this analysis and the criteria used in the correlation study will be provided in Chapter 4.

3.10. Selecting Data Analysis Methods

The next step in knowledge discovery involves applying machine learning techniques to unveil hidden patterns. This encompasses strategies like mining association rules, classification techniques, and clustering. Following algorithm execution, it is crucial to evaluate and interpret the results, selecting relevant patterns for effective presentation using visualization tools.

Machine learning methods generally fall into two groups: predictive methods and descriptive methods. Predictive methods, or supervised learning algorithms, use features to predict specific outcomes. This involves a training phase to build a model and an evaluation phase to assess accuracy using a separate test dataset. Examples include classification, regression, and anomaly detection.

Descriptive methods, or unsupervised learning algorithms, focus on revealing patterns within the data without considering output variables. Clustering methods, association rule mining, and discovering sequential patterns fall under this category (Witten et al., 2016).

In the subsequent sections, we will explain the algorithms and analytical methods employed in the research.

3.10.1. Clustering

Clustering is the process of grouping a set of data points and placing them into categories of similar samples. A cluster is a set of data points that are similar to each other but different from data points in other clusters. Analyzing clusters has various applications, including pattern recognition, data analysis, image processing, and business analytics. This method can identify densely populated and

sparsely populated regions, uncovering interesting correlations and relationships between data attributes (Jain, Murty, & Flynn, 1999).

3.10. 2 Support Vector Machines

Support Vector Machines (SVM) are considered one of the most accurate and powerful machine learning algorithms. SVM is capable of classifying both linear and non-linear data. In recent years, SVM algorithms have become a common technique for classification due to their robust performance. While SVMs are easier to use compared to other methods such as neural networks, users often do not achieve satisfactory results because of their unfamiliarity with the details. SVM algorithms require complex computations and are, therefore, slower than some other methods. However, their computational complexity is independent of the input space's dimension, and the final results are highly accurate. SVM algorithms automatically select the model's size and provide a compact description of the learned model. Besides classification, they can also be used for regression when dealing with continuous, rather than discrete, class labels. Practical applications of these algorithms include pattern recognition, image processing, text mining, and medical applications (Cortes & Vapnik, 1995).

3.10.3 Decision Trees

Decision trees are a way to represent a series of rules that lead to a class or value. For instance, you may want to categorize loan requests based on the credit risk. Figure 6 shows a simple example of a decision tree along with an explanation of all its components, including the choice nodes, branches, and leaf nodes that solve the problem.

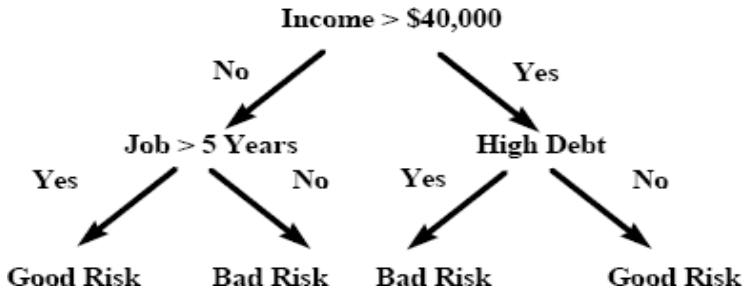

Figure 1:Sample of a Decision Tree

Decision trees for classification problems contain leaf nodes that represent classes. Decision-making occurs at each non-leaf group (non-leaf) based on one or more specific attribute values. The construction of a decision tree can occur top-down or bottom-up, depending on whether the algorithm is looking for the best attribute among attribute values. There are several common criteria for selecting feature attributes for decision trees (Han & Kamber, 2011).

Information Gain Metric: This metric is one of the most well-known metrics used to build decision trees and itself uses a metric called entropy.

Information Gain (A) =Entropy (D)-Entropy A (D)

This formula calculates the Information Gain for a specific attribute A, where D represents the training dataset, and we have:

$$Entropy(D) = -\sum_{i=1}^{c} p_i * log\,2(p_i)$$

$$Entropy(D) = \sum_{j=1}^{v} \left|\frac{D_j}{D}\right| * Entropy(D_j)$$

Where C is the number of class labels present in the training data, Pi is the probability of a sample belonging to class i, V is the number of members in the domain of attribute A, and D_j represents a portion of the original data with values of attribute A as V_j. Additionally, |D| denotes the size of the dataset D.

Gini Index Metric: To calculate this metric for the dataset D, we use the formula (3-1).

$$Gini(D) = 1 - \sum_{i=1}^{C} P_i^2 \qquad (3\text{-}1)$$

Where C is the number of classes in the data, Pi is the probability of a sample belonging to class i, and this metric creates binary branching in the decision tree for each attribute. If the dataset D is divided into two subsets, D1 and D2, for the attribute A, we have:

Where C is the number of classes in the data, Pi is the probability of a sample belonging to class i, and this metric creates binary branching in the decision tree for each attribute. If the dataset D is divided into two subsets, D_1 and D_2, for the attribute A, we have:

$$Ginii_A(D) = \frac{|D_1|}{|D|} * Gini(D_1) + \frac{|D_2|}{|D|} * Gini(D_2)$$

For each attribute, all binary classification scenarios are considered. After calculating the Gini Index for all cases, the minimum value is selected. In other words, among the attributes, the one with the smallest Gini Index is chosen for the current decision tree node.

Gini(A)=Gini(D)-Gini A(D)

Gain Ratio Metric: In fact, this metric normalizes the Information Gain and is expressed as follows:

$$GainRatio_A(D) = \frac{InformationGain(A)}{Entropy_A(D)}$$

If the denominator of the fraction is zero, this metric is undefined.

The previous metrics tend to favor attributes with larger domain values. In other words, they tend to prefer attributes with a greater number of values over those with fewer values. Therefore, normalizing these metrics can be beneficial. It can be demonstrated that the Gain Ratio performs

better than Information Gain in terms of accuracy and model complexity. Finding the separation point for datasets with many distinct values is a dark point of this metric, which is also unaffected by the calculation of Information Gain.

$$G_A^2(13) = 2 * ln(2) * |D| * InformationGain(A)$$

Likelihood Ratio Metric: This metric can be introduced as follows:

This metric, mentioned for measuring the statistical importance of the Information Gain metric, is suitable. If the assumption of zero conditional independence between attributes and class labels is made, a statistical test based on the X2 distribution with degrees of freedom below can be applied.

$$(Domain(A)\text{-}1) \times (C\text{-}1)$$

Where Domain(A) refers to the number of members in the domain of attribute A, and C represents the number of class labels.

Several algorithms are used for building decision trees, and here are some of the most well- known ones:

ID3 Algorithm: This algorithm is one of the simpler decision tree algorithms and uses the Information Gain metric. It has two stopping conditions: either all remaining samples belong to a single class, or the best Information Gain value is not greater than zero after calculation. It does not have any pruning method and can handle numerical attributes and missing data.

C4.5 Algorithm: This algorithm is an extension of the ID3 algorithm and uses the Gain Ratio metric for attribute selection. The algorithm stops when the number of samples is less than a specified value. It also uses a pruning technique and can handle numerical attributes and missing data with some modifications.

CART Algorithm: The result of this algorithm is a binary decision tree, meaning each internal node has exactly two branches. It uses the Twoing metric and has a pruning method. An important feature of CART is its ability to produce regression trees. The leaves in such trees predict real values instead of class labels.

CHAID Algorithm: After the 1970s, statisticians developed algorithms for creating decision trees. Among these algorithms are AID, MAID, THAID, and CHAID. The CHAID algorithm was originally designed for nominal variables. Depending on the type of class label, the algorithm uses various statistical tests. The CHAID algorithm stops when it reaches a specified maximum depth or when the number of samples in the groups falls below a specified threshold. It does not apply any pruning method and can handle missing values (Han & Kamber, 2011).

3.10.3. 1. Reasons for Choosing Decision Tree Method

In machine learning, a decision tree structure serves as a predictive model that uses observed facts about a phenomenon to make inferences about the target variable of that phenomenon. Decision trees are capable of generating human-understandable descriptions of relationships within a dataset

and can be employed for classification and prediction tasks. This technique has been widely used in various fields such as disease detection, plant classification, and customer marketing strategies.

Decision trees possess features that make them suitable for in this research:

Decision trees can handle both continuous and discrete data. (Other methods often work with only one data type. For example, neural networks deal only with continuous data, while rule-based systems are designed for discrete data.) Since the research data includes both discrete and continuous groups, using a decision tree has been very beneficial.

Decision tree structures are powerful for analyzing large datasets in a short amount of time.

This learned knowledge model generalizes data from the training set in a way that classifies unseen data with the highest possible accuracy.

Training data can be error-prone, and decision tree learning methods are robust in the presence of errors in training data.

Among these features, two crucial attributes in the current research data that make decision trees a highly suitable model are the large volume of the data and, more importantly, the presence of both continuous and discrete data, which makes the decision tree the most appropriate method for data analysis.

3.11. Interpretation of Data Results and Drawing Valuable Inferences

The final stage of the data analysis process involves carefully examining the decision tree outputs and explaining how the predictive model generates its results. During this phase, the outcomes are tested to determine whether they are useful and meaningful, which includes both validation and verification to ensure the model's results align with the intended objectives.

Validation involves confirming that the model's outputs remain consistent with the initial goals. In this study, approximately 70% of the dataset is allocated for model creation, and the remaining 30% is set aside to test the trained model's validity. This division is commonly adopted in machine learning because it provides enough data for the model to learn underlying patterns effectively while preserving a sufficiently large test set for a reliable evaluation of the model's performance. By balancing these needs, the 70–30 split helps ensure the decision tree remains accurate and generalizes well to unseen data, thereby supporting robust and meaningful inferences that align with the research objectives.

4. Data Preparation

4.1. Introduction

This chapter outlines the data preparation process for applying Conceptual Models for Machine Learning (CMML) to large datasets within the insurance industry. A key objective of this process is to incorporate domain knowledge into the dataset, enhancing both the relevance and accuracy of machine learning outcomes. By leveraging domain-specific insights, new features are created that reflect the relationships between variables and labels unique to this domain. CMML plays a critical role in guiding this integration of domain knowledge, ensuring that the features selected and engineered are both meaningful and aligned with industry-specific patterns. This approach ultimately contributes to more accurate and contextually relevant predictions, improving the model's overall performance.

4.2. The Profit and Loss Trend in the TPL Sector

According to Article 27 of the Amendment to the Third-Party Liability Insurance Law, insurance companies are required to deposit 20% of their TPL insurance operations' profits into an account specified by the Central Insurance of Iran. The analysis of operational profits and losses in the TPL sector indicates that this sector has faced consecutive losses over the years.

The unprofitable history of the TPL sector may be partly attributed to the unequal distribution of the insurance market.

The high number of motor vehicle accidents in Iran, one of the highest globally, significantly impacts the claims paid and the costs for insurance companies. Factors such as the technical shortcomings of vehicles, non-compliance with traffic rules and insufficient facilities for road control contribute to the high accident rates, affecting the costs and operations of TPL insurance.

Additionally, in the auto insurance sector, which is characterized by frequent accidents and inherent safety risks, it is crucial to identify and focus on profitable customers to maintain financial viability.

4.3. Data Collection

The data used in this study includes a relational database related to automobile insurance policyholders. The sample consisted of more than 5 million insurance policies, encompassing information about policy insurance and customer claims, whether they have incurred damage or not. However, within this dataset, not all data met the necessary quality standards and had issues such as missing values, conflicting data, dispersion, redundancy, and lack of aggregation, which rendered them unsuitable for entry into the final model.

4.4. Data Cleansing

Given that the existing data is dirty, it is essential to address these issues as much as possible before the analysis phase.

One of the data cleansing processes is carried out in the database itself using standard SQL queries. The preprocessing task that can be easily accomplished at the database level is the constraint of fields that should fall within a specific range. Due to data corruption, some values were either higher or lower than the specified range. These anomalies were rectified using additional conditions.

4.5. Data Normalization

In preparing data for analysis, normalization is a key step in ensuring that the data is scaled appropriately for machine learning models. This process involves scaling the data to a range between 0 and 1, which helps mitigate the impact of varying scales and ensures that all inputs are within a similar range. By normalizing the data before training the models, potential issues such as features with larger values disproportionately influencing the model's cost function can be addressed. Normalizing features to similar ranges helps to prevent certain variables from dominating the analysis, leading to more balanced and accurate model outcomes.

4.6. The Conceptual Model for Data Preparation

In this research, the conceptual model serves as a critical framework for organizing and structuring the dataset to improve the accuracy and relevance of the machine learning models applied later. By defining the relationships between key entities—such as Policy Holder, Vehicle, and Insurance Policy—the model guides the data preparation process. The following Entity-Relationship (ER) diagram illustrates these relationships and provides a visual representation of how the data is structured for feature engineering and analysis.

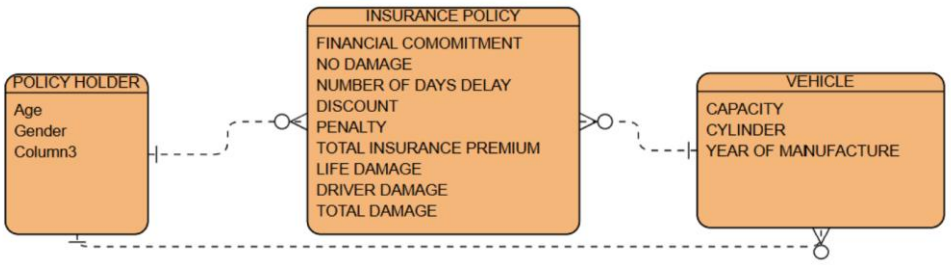

Figure 2:Entity-Relationship Diagram: Policyholder, Vehicle, and Insurance Policy

This conceptual model helps ensure that the selected features and attributes are relevant to predicting customer profitability, while minimizing issues like multicollinearity. By structuring the data in this way, the model enhances the overall effectiveness of the analysis, enabling more accurate clustering and feature selection.

4.7. Data Categorization

In preparing the data for analysis, the initial characteristics were categorized based on the conceptual model developed for the research, which focuses on predicting customer profitability in the insurance sector. The model identifies three primary categories of features:

Socio-demographic data of insurance policyholders: This data is essential for understanding customer segments and their respective risk profiles, helping to identify which groups of customers present higher or lower risk for the insurer.

Automobile-related features: These features assess the inherent risk associated with the insured vehicle, including aspects like vehicle age (year of manufacture in the model) and condition, which are key factors in determining premium calculations.

Claims data: Historical claims data is essential for assessing the financial performance and risk associated with different customer segments. This data, represented as "Total Damage" in the conceptual model (Figure 2), assists insurers in identifying patterns in claim frequency and severity that significantly impact profitability.

Following the conceptual model and consultations with industry experts, customer clustering was conducted to group similar customers based on these attributes. The impact of each attribute was analyzed to select the most relevant characteristics for predicting customer profitability. Additionally, a correlation matrix was employed to ensure the independence of the remaining features, aligning with the model's requirement to minimize multicollinearity and enhance predictive accuracy.

The available data can be broadly categorized into two types: discrete data and continuous data. Below, we define and describe the characteristics of each of these analyzed data types:

4.7.1 Discrete Data

The first feature among the data is the gender of the insured individuals in the Insurance Company. From a total of approximately 5 million data points, the analysis revealed 2,504,030 males and 2,495,960 females, as shown in the bar chart below.

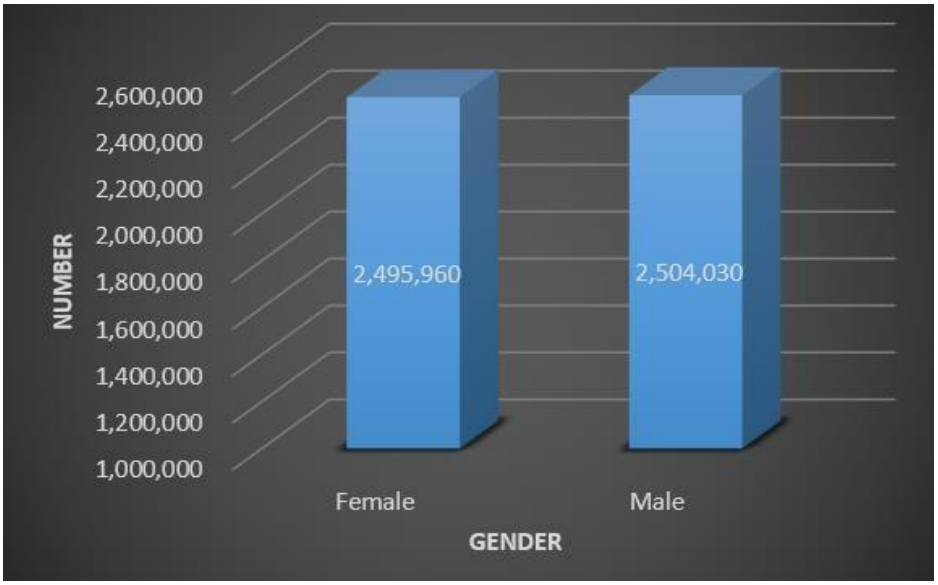

Figure 3:Gender of Insured Individuals in the Insurance Company

Another discrete feature in the analytical data is the capacity of the insured vehicles, which is classified into three categories: 4, 6, and 8 capacities(individuals), as depicted in the following chart:

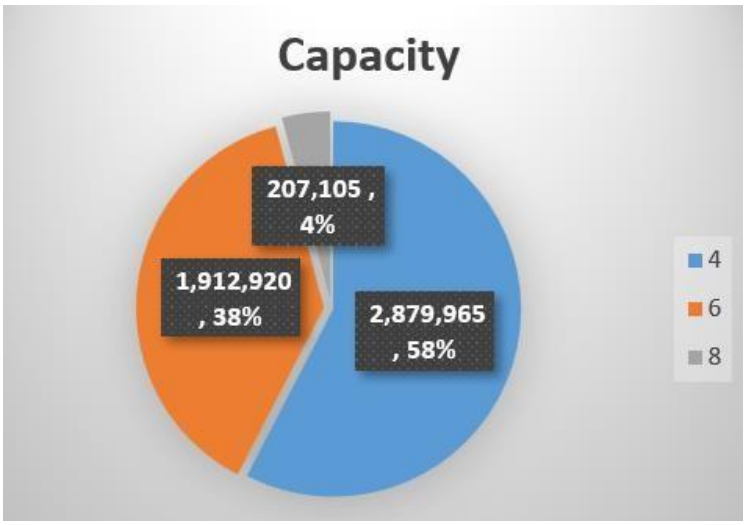

Figure 4:Statistics of the Capacity of Insured Vehicles in the Insurance Company

As observed, the majority of vehicles fall under the 4-capacity category.

Cylinder count is another significant discrete feature in this study. It is a feature related to the vehicle and includes various types of cylinders (2, 4, 6, 8, 10). The number of insured individuals based on the number of vehicle cylinders is illustrated in the chart below:

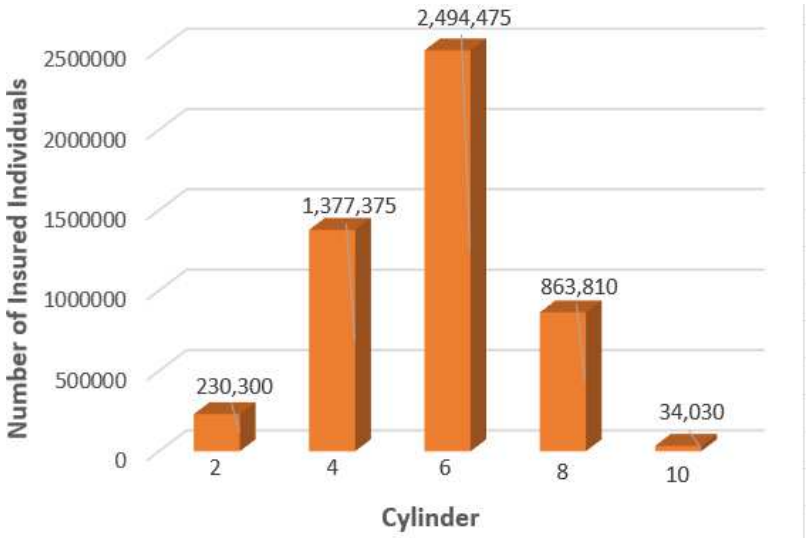

Figure 5:Number of Insured Individuals Based on the Number of Vehicle Cylinders

One of the important and practical indices in this research is the No-Claim Index of the insured, as illustrated below.

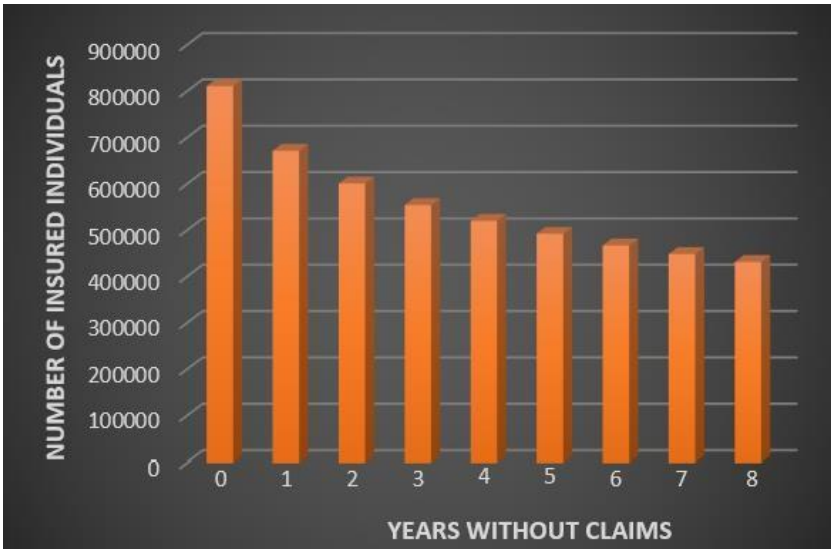

Figure 6:Number of Insured Individuals Based on Their No-Claims Years in the Insurance Company

As observed, these no-claims range from zero (individuals who have used their insurance in the first year of coverage) to 8 years. The graph vividly demonstrates that individuals with a history of no claims decrease over different years.

4.7.2 Continuous Data

Among the analyzed data, there are several features represented as continuous data. For these features, descriptive statistics, including minimum, first quartile, median, mean, third quartile, maximum, and variance, were examined. The continuous features that were analyzed, along with their respective descriptive statistics, are as follows:

Age, year of manufacture, financial commitment, discount, penalty, insurance premium, life damage, driver damage, financial damage, total damage, number of days of delay.

Table 3:Descriptive Statistics for Continuous Features

Feature	Minimum	1st Quartile	Median	Mean	3rd Quartile	Maximum	Standard Deviation
Age	20	33	46	46	60	73	15
Year of Manufacture[1]	60	68	77	77	86	00	10
Financial commitment	63,300,000	120,000,000	180,000,000	180,170,218	240,000,000	300,000,000	71,866,868
Discount	0	1,225,344	2,565,315	3,333,588	5,367,448	11,258,167	2,741,735
Penalty	0	0	0	430,188	738,328	2,920,378	704,649
Insurance Premium	1,214,363	3,421,657	4,683,579	4,687,367	5,887,154	10,153,390	1,656,228
Life Damage	0	0	0	4,482,206	0	886,655,000	37,192,264
Driver Damage	0	0	0	4,983	0	95,000,000	6,03,914
Financial Damage	0	0	0	116,722	0	21,000,000	1,169,624
Total Damage	0	0	0	4,603,912	0	953,788,450	37,254,413
Delay	0	0	0	17	30	90	27

[1] The 'Year of Manufacture' is represented using the solar Hijri calendar, where '60' corresponds to 1360 (1981 in the Gregorian calendar), and other values follow the same calendar system.

The above table shows each of these continuous features along with their corresponding descriptive statistics.

In the process of analyzing the data, it was observed that some of the variables, especially those related to claim payments and profitability, had outliers. However, due to the validity and accuracy of these data points, they were not removed. To address the significant differences in scales among variables, some of the variables, such as "financial commitment," "discount," "penalty," " insurance premium," "injury claims (life damage)," "driver claims," "financial claims," "total claims," and "claims-to-total fee ratio," were rescaled by dividing them by one million.

4.8. Profitability Index

The current research seeks to predict profitable customers, in other words, customers who have caused less damage to the insurance company, and the characteristic of the total amount of damage is a good indication of this issue. But it should be considered that the amount of damage has a high correlation with the type of insurance policy and the amount of the insurance policy commitment. This characteristic is not a demographic characteristic of a person and is related to the type of vehicle and the price of his vehicle. For this reason, in order to eliminate it and normalize risk levels, during the meetings with insurance experts, we decided to determine the profitability in the way below.

In car insurance, there is a convenient feature that divides all cars into three groups, and that is the vehicle type index:

- Less than four cylinders
- four cylinders
- More than four cylinders

Basic insurance premium:

The basic insurance premium for these vehicle groups is calculated using factors that assess both financial and personal injury-related risks. These include:

Life rate, which reflects the potential for injury-related risks to the policyholder or others involved in an accident, covering costs related to medical expenses or liability for injuries.

Driver's rate, which accounts for the driver's risk profile (e.g., driving history, age, accidents, and violations).

Financial rate, which is based on the vehicle’s financial value (e.g., its market value, make, and age).

The basic insurance premium is calculated as follows:

(Life rate×Life commitment)+(Driver’s rate×Driver’s commitment)+

(Financial rate×Financial commitment) =Basic Insurance Premium

By performing these calculations, we obtained the following values for each group of vehicles.

Table 4:Basic insurance premium for each group of vehicles

Vehicle Type	Financial Commitment	Financial Rate	Driver Commitment	Drive r Rate	Life Commitment	Life Commitment Rate	Basic Insurance Premium
More than four cylinders	170000000	0.004146576	1900000000	0.0003	2533300000	0.004146576	11337000
four-cylinder s	150000000	0.003703304	1900000000	0.0003	2533300000	0.003703304	110186000
less than four-cylinder s	110000000	0.002661172	1900000000	0.0003	2533300000	0.002661172	7480000

In the continuation of the profitability index calculation process, two new indices have been calculated, which are:

Differential Index: The Differential Index is a measure used to evaluate whether a customer is profitable based on the premiums they pay and the claims they incur. To obtain this index, the basic insurance premiums for each group of vehicles are compared with the difference between the total premium paid by the policyholder to the insurance company and the total incurred damages. If the total paid premium exceeds the incurred damages and also surpasses the basic insurance premium for that vehicle type, it indicates that the customer is profitable. In such cases, the Differential Index is assigned a value of 1. If the total paid premium is less than the incurred damages or does not surpass the basic insurance premium, the index is set to 0, indicating a lack of profitability.

Purpose and Logic: The Differential Index is designed to account for the variations in risk associated with different types of vehicles. By comparing the premium paid against both the incurred damages and a standardized basic premium for the vehicle type, this index ensures that profitability assessments are fair and reflective of the actual risk the insurance company assumes.

It is important to note that the factors used in creating the target variable (profitability) such as the Differential Index and the Minimum Index were not included as predictor variables in the model. This ensures that the model's prediction of profitability is independent of the criteria used to define it, thereby avoiding circular logic and ensuring the accuracy of the model.

Table 5:Example of Profitability or Loss Index

Car Number	Basic Insurance Premium	Total Paid Insurance Premium	Total Incurred Damages	Difference of Insurance Premium and Total Damages	Differential Index
1	7,480,000	8,327,841	0	8,327,841	1
2	10,186,000	7188,713	0	7,188,713	0
3	11,337,000	4,778,351	155,797,950	-151,019,598	0

Since a car may not incur any damages to the insurance and may deposit a lower amount than the calculated base value due to discounts received, it is necessary to consider an index to examine this issue. According to the risk filter index, we defined it as follows:

Minimum Index: The Minimum Index is used to ensure that customers who pay premiums below a certain threshold are identified as potentially less profitable. Specifically, this index indicates that if a policyholder has paid a premium that meets or exceeds the calculated minimum insurance premium required for their vehicle type, they are assigned a value of 1. Conversely, if the premium paid is below this minimum threshold, the index is set to 0.

Purpose and Logic: The rationale behind the Minimum Index is to establish a baseline profitability measure. It ensures that any policyholder paying less than the minimum calculated premium is flagged, as such a payment may not sufficiently cover the risks associated with the vehicle, leading to potential losses for the insurance company. This index helps in identifying cases where discounts or other factors might have reduced the premium below a sustainable level, thus affecting overall profitability.

Table 6:Evaluation of Risk Index for Selected Vehicles

Car Number	Basic Insurance Premium	Total Paid Insurance Premium	Total Incurred Damages	Difference of Insurance Premium and Total Damages	Differential Index	Minimum Index
1	7480000	4.327.841	0	4.327.841	0	0
2	10186000	11.188.713	0	11.188.713	1	1
3	11337000	11.778.351	155.797.950	-144.019.599	0	1

In the continuation of the profitability index calculation process, it has been concluded that if a vehicle has both the differential index and the minimum index equal to one, it is considered profitable. If both indices are equal to zero, the vehicle is deemed unprofitable. If there are any other combinations of these indices, the vehicle is classified as borderline.

Table 7:Evaluation of Profitability Index by Classification as Profitable, Borderline, and Unprofitable

Car	Differential Index	Minimum Index	Profitability Index
1	1	1	Profitable
2	1	0	Borderline
3	0	1	Borderline
4	0	0	Unprofitable

Among the analyzed data, the number of individuals can be categorized as profitable, unprofitable, and borderline as follows:

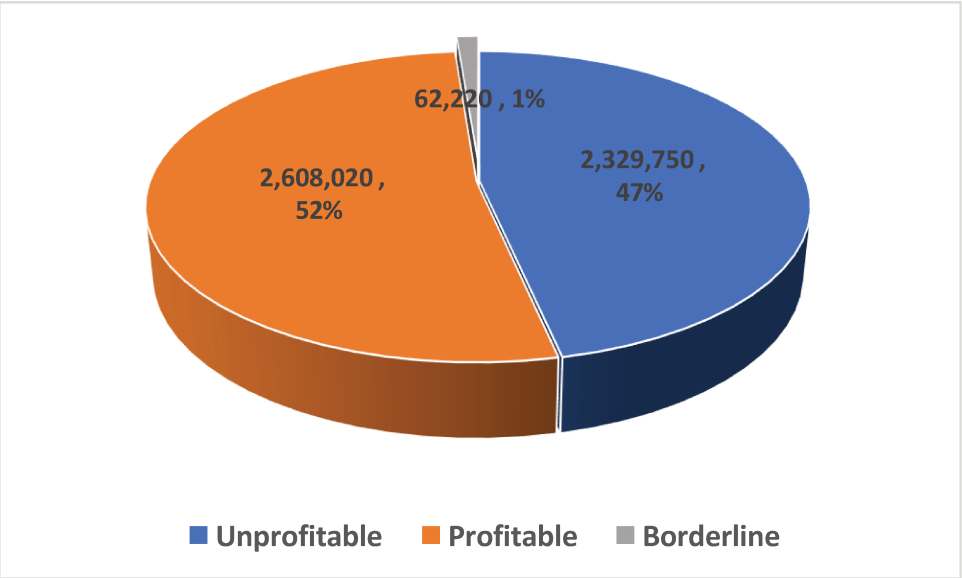

Figure 7:The Number of Insured Individuals Based on Profitability Index in Iran Insurance Company

4.9. Data Analysis

As mentioned earlier in this study, one decision tree and one SVM model used to analyze the data. In the following, we explain the execution of this model.

Based on the profitability index mentioned in section 4.7, customers are identified as profitable or unprofitable. Profitable customers are encoded as 1, and unprofitable customers are encoded as 0. This variable is called profitability.

4.10. Implementation of Decision Tree Model

Continuing with the significant remaining variables from the decision tree, we proceed to use them. To evaluate the performance of the obtained model based on the decision tree, we first split the data into two categories: training data (70% of the total data) and testing data (the remaining 30%). By employing control data, the model is fitted, resulting in the construction of the decision tree. Subsequently, the effectiveness of the decision tree is assessed to determine what percentage of these data are explained by the tree.

For data classification, stratified sampling was employed to ensure that each subgroup (or cluster) is proportionally represented in both the training and testing datasets. Specifically, the data is divided into 5 clusters, and from each cluster, 70% are selected for the control group, and the remaining 30% are assigned to the prediction group. This stratified approach is carried out to ensure the homogeneity of the two groups, control and prediction, thereby making sure that the model's predictions are consistent across different segments of the data.

The fitted model applied to the control data is as follows:

$$\begin{aligned} Profitability = {} & Capacity + Cylinder + Yearofconstruction + Financialcommitment \\ & + Nodamage + Numberofdaysdelay + Discount + Penalty \\ & + Insurancepolicy + Totaldamage + Life\ Damage \end{aligned}$$

The model mentioned above is fitted to 3,456,439 customer data that were considered as the training group, and the result is reported in the form of a decision tree.

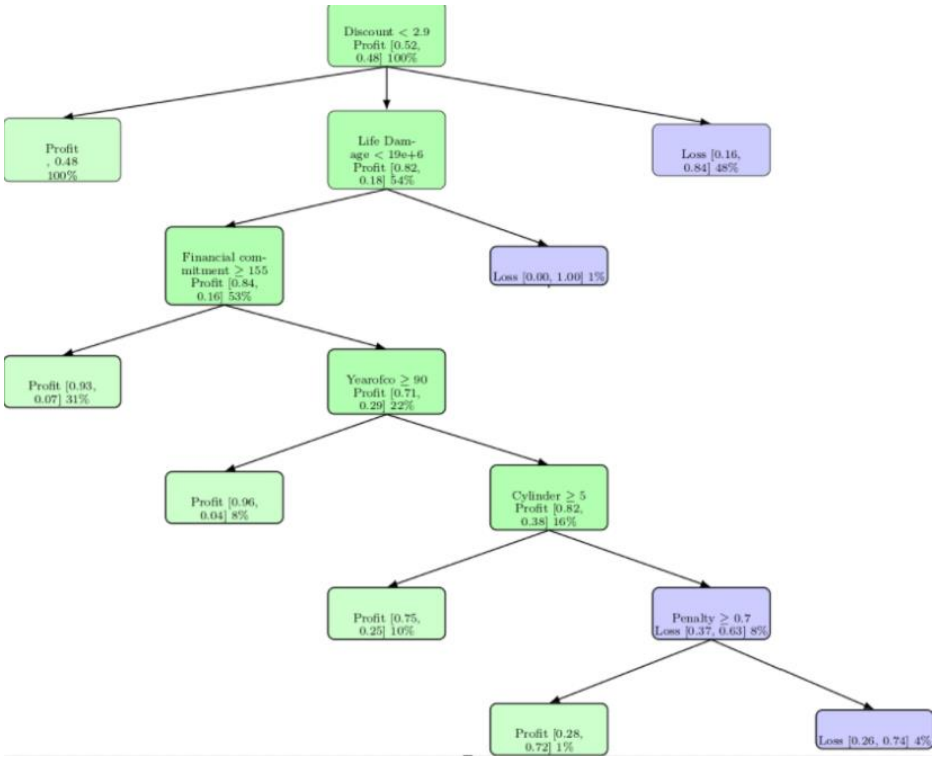

Figure 8:Decision Tree

Based on this tree, the following rules can be extracted:

- Customers with discounts over 2,900,000 incur losses.
- Customers with discounts less than 2,900,000 and a severe bodily injury exceed 19,000,000 incur losses.
- Customers with discounts less than 2,900,000 severe bodily injury less than 19,000,000, financial commitment less than 155,000,000 vehicle manufactured before 1390, cylinders less than or equal to 5, and a penalty less than 700,000 incur losses.
- Customers with discounts less than 2,900,000 severe bodily injury less than 19,000,000 financial commitment less than 155,000,000 vehicle manufactured before 1390, cylinders less than or equal to 5, and a penalty equal to or greater than 700,000 are profitable.
- Customers with discounts less than 2,900,000 severe bodily injury less than 19,000,000, financial commitment less than 155,000,000 and 5 or more cylinders are profitable.
- Customers with discounts less than 2,900,000 vehicle manufactured before 1390, severe bodily injury less than 19,000,000 and financial commitment less than 155,000,000 are profitable.
- Customers with discounts less than 2,900,000 severe bodily injury less than 19,000,000, and financial commitment greater than 155,000,000 are profitable.

4.11. Model Validation for Decision Tree and SVM Models

To examine the validity of the above model, first based on the rules extracted from this tree, it was determined which customers are profitable and which are incurring losses. Now, 30% of the remaining data is evaluated based on these rules to determine which customers are profitable and which ones incur losses. Then, it is compared with their actual status to observe and conclude to what extent they are credible. The results obtained for this purpose are as follows:

Table 8:Validation of Profitability Predictions Using Test Data for Decision Tree Model

Category	Customers	Predicted Loss	Predicted Gain	Total
Number	Loss	661,882	37,043	698,925
	Gain	20,343	762,063	782,406
Percentage	Loss	94.7	5.3	100
	Gain	2.6	97.4	100

As can be observed, about 95% of loss customers have been correctly identified as loss customers, and only about 5% of loss customers have been mistakenly classified as gain customers. Additionally, about 97% of gain customers have been correctly identified as gain customers, and less than 3% have been mistakenly classified as loss customers. Therefore, the overall accuracy of this model for approximately 1.5 million data points is around 96% (approximately 96% of these customers have been correctly classified by the model obtained in the previous stage).

For the SVM model, predictions were made to classify customers as either profitable (gain) or incurring losses (loss). The validation process involved comparing the model's predictions with the actual profitability status of 30% of the data set aside for testing. This comparison provides insight into the model's accuracy and its ability to correctly classify customers into the gain or loss categories. The results are summarized in the following table:

Table 11: Validation of Profitability Predictions Using Test Data for SVM Model

Category	Customers	Predicted Loss	Predicted Gain	Total
Number	Loss	454,301	244,624	
	Gain	104,305	678,101	
Percentage	Loss	65%	35%	100
	Gain	21%	79%	100

About 65% of loss customers have been correctly identified as loss customers by the SVM model, while 35% of loss customers have been mistakenly classified as gain customers. For gain customers, 79% have been correctly identified as gain customers, while 21% have been mistakenly classified as loss customers. This results in an overall classification accuracy that highlights the model's strengths and areas for improvement.

4.11.1 Calculating Model Accuracy in Comparison to SVM Analysis

According to this analysis, predictions were made, and the results are presented in the table below.

Table 9:Model Accuracy Comparison with SVM Model

Title	Customers	Predicted (SVM)		Predicted (Decision Tree)	
		Loss	Gain	Loss	Gain
Count	Loss	454,301	244,624	661,882	37,043
	Gain	104,305	678,101	20,343	762,063
Percentage	Loss	65	35	94.7	5.3
	Gain	21	79	2.6	97.4

The decision tree model has a higher accuracy in identifying loss cases, being 29.7% better, and in identifying-profit cases, the proposed model also has an 18% higher accuracy compared to the SVM model.

4.12. Improving the Performance of Models Using the Conceptual Model

The method for improving the performance of models involves leveraging the Extended Entity-Relationship (EER) model, which emphasizes and preserves the domain-specific entities, relationships, and attributes. This model starts with an initial EER diagram that represents the domain as a conceptual model. The EER diagram is constructed to represent the key entities (such as customers, vehicles, insurance policies), the relationships between them, and the attributes that characterize these entities (e.g., customer age, vehicle type, insurance premium).

Through an iterative process, these EER constructs are systematically processed to ensure that domain knowledge is preserved during the dataset transformation. This transformation is vital as it allows the incorporation of insights from the EER diagram into the dataset that is used for machine learning models.

The resulting augmented dataset is enriched with the structured domain knowledge captured in the EER diagram, enhancing the predictive power and interpretability of the models. By embedding domain-specific structures directly into the data, the models are better equipped to recognize complex patterns and relationships that might otherwise be overlooked in a purely data-driven approach.

This integration of conceptual models, specifically through the use of the EER diagram, aims to show that the models not only perform well in terms of accuracy but also maintain a high level of relevance and applicability to the specific domain, in this case, the insurance industry.

Table 10:Constructs of EER for Machine Learning Guidelines

Element	Definition	Example
Entity (G1 & G2)	Class or category of entities	Policy Holder, Insurance Policy, Vehicle
Relationship (G3)	Association between entities	A Policy Holder has one or many Vehicles assigned to him/her

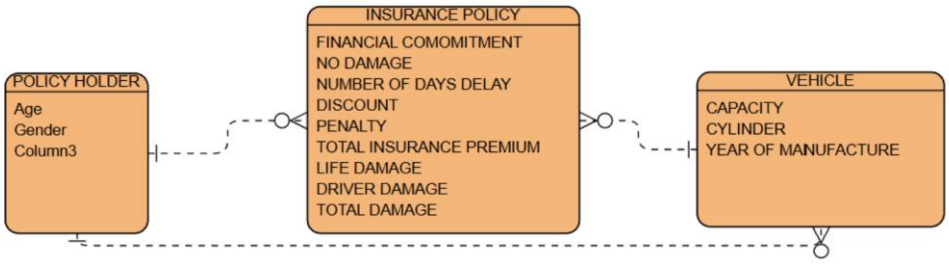

Figure 9:Preserve Information about Entity Types

4.12.1 Data Preparation According to the Guidelines

The preparation of data is a critical step in the data analytics process, particularly when managing a dataset of 5 million automobile insurance policies. This section outlines the detailed and systematic approach undertaken to ensure the data's accuracy, consistency, and suitability for analysis, reflecting the rigor and thoroughness applied throughout this phase.

Feature Engineering and Data Transformation:

Guideline 1 (G1) - Preserving Entity Types: To facilitate automated feature engineering, a consistent naming convention was implemented by appending entity type names to feature names. This approach enhanced the clarity and relevance of features, aiding dimensionality reduction within each entity type. For instance, features like Customer Age and Vehicle Year of Manufacture were created to explicitly denote the entity type.

Guideline 2 (G2) - Transforming Features Based on Entity Types: Features were engineered by explicitly incorporating relationships among entities from the conceptual model. This involved defining and encoding these relationships to make them explicit for machine learning models, thereby enhancing their predictive capability.

Additionally, the Profitability Index was engineered based on relationships between multiple entities such as the Policy Holder, Vehicle, and Insurance Policy. This target variable leveraged the financial and risk-related characteristics of these entities—like the total premium paid, the incurred damages, and the vehicle's risk classification—to predict the overall profitability of the customer. By encoding the relationships between these entities, the Profitability Index serves as a

transformed feature aligning with the principles of G2. This ensures that the model reflects the combined effects of these interrelated factors, contributing to more accurate predictions of customer profitability.

Managing Optional Participation and Imputation:

Guideline 3 (G3) - Handling Missing Instances: For cases where the target variable resided on the optional side of a relationship, records with missing instances of the target-bearing entity were removed from the training dataset. In this study, the term target-bearing entity refers to the specific entity within the dataset that directly impacts the target variable, which is profitability. For instance, in the context of insurance data, claims made by policyholders are closely related to the target variable of profitability, making claims information a critical component of the target-bearing entity. Removing records with missing claims information helps ensure the completeness and integrity of the training data, which is crucial for accurate model training. By excluding records without this essential information, we reduce potential distortions in model performance and maintain data quality.

Entity-Relationship Diagram and Participation Constraints:

Participation Constraints Analysis: The entity-relationship (ER) diagram was used to analyze and understand the participation constraints among different entities. This provided valuable insights into the associations and dependencies within the data, guiding the feature engineering process to ensure accurate representation of these relationships. For example, when modeling the relationship between Policy and Claims entities, we ensured that all relevant claims associated with each policy were aggregated and included in the dataset. Capturing a policyholder's claims history improved the predictive accuracy of the machine learning models by fully leveraging the available data.

4.12.2 Practical Implementation and Results

The data preparation process described above was implemented to improve the quality of the dataset.

Guideline 1 (G1): Features such as Customer Age, Vehicle Year of Manufacture, and Policy Premium were created to ensure clarity and relevance.

Guideline 2 (G2): Derived features like past Claim Frequency by calculating the number of claims per customer.

Past Claim Ratio: This feature captures the frequency of claims made by a customer relative to the number of policies they hold. By incorporating this feature, the machine learning model is better equipped to identify high-risk customers who are more likely to file claims.

Past Claim Severity Index: This index represents the average severity of claims made by a

customer, calculated by dividing the total claim amount by the number of claims. Incorporating this feature into the model enhances its ability to predict risk more accurately.

Vehicle Age: This feature measures the age of the insured vehicle, calculated as the difference between the current year and the vehicle's year of manufacture. Including vehicle age in the model aids in more accurate premium pricing and risk assessment.

Guideline 3 (G3): To ensure a complete and reliable training dataset, records missing critical claim information were excluded, in line with Guideline 3. This approach was particularly applied when the target variable resided on the optional side of a relationship, such as policies that did not have associated claims records. By removing these incomplete records, we maintained the dataset's integrity, allowing for more accurate model training.

The Entity-Relationship (ER) diagram guided us in understanding the relationships and participation constraints among entities, such as between Policy and Claims. When the ER diagram indicated that a single policy was associated with multiple claims, we aggregated the relevant claims data to create a comprehensive feature set. This step ensured that the machine learning models had access to detailed and accurate information. The combination of removing incomplete records and aggregating claims data resulted in a more robust dataset, ultimately leading to more precise and reliable predictions.

By adhering to these guidelines and implementing these procedures, the dataset was transformed into a high-quality, reliable resource suitable for robust machine learning analysis. This thorough preparation enabled the development of accurate and insightful Support Vector Machine (SVM) and Decision Tree models, ultimately contributing to a deeper understanding and predictive capability within the insurance domain. The practical execution of these steps underscores the comprehensive approach taken to ensure the integrity and efficacy of the data analytics process.

4.13. Finding Correlated Indices

To further support the findings from the machine learning models, we conducted an exploratory analysis to identify variables significantly correlated with profitability. Since the decision tree model aims to use indices closely aligned with profitability, assessing the strength of these relationships provides additional insights. The Kendall rank correlation coefficient was selected to quantify the correlation between existing indices and profitability, as detailed below.

The Kendall coefficient (τ) is a non-parametric statistic used to measure the degree of agreement or conformity between two sets of variables. This measure is particularly advantageous when the data include many tied ranks or when analyzing the relationship between ordinal and sometimes ordinal-interval variables. By calculating Kendall's τ, we can identify which indices show the strongest association with profitability, informing the interpretation of the model’s predictive factors.

This statistic quantifies the degree to which a change in one variable corresponds to changes in another variable. The Kendall coefficient τ always ranges between -1 to 1, with interpretations as follows:

A value of 1 indicates perfect agreement (all pairs are concordant).

A value of -1 indicates perfect disagreement (all pairs are discordant). A value of 0 suggests no

association between the rankings.

The Kendall tau τ is calculated using the following formula:

$$\tau = \frac{nc-nd}{\frac{n}{2}(n-1)}$$

Where:

τ represents the Kendall rank correlation coefficient.

nc is the number of concordant pairs (pairs of observations that have the same order) between two sets of rankings.

nd is the number of discordant pairs (pairs of observations that have different orders) between two sets of rankings.

n is the number of observations in each ranking.

Table 11:Kendall Rank Correlation Coefficients for Analyzed Indices

Index Title	Kendall's Rank Correlation	Significance
Gender	0.002	0.05
Age	0.001	0.415
Capacity	0.029	0
Cylinder	0.105	0
Color	0	0.815
Year of Manufacture	0.926	0
Financial Commitment	0.153	0
No Damages	-0.746	0
Premium Payment Delay (Number of Days Late in Paying Premiums)	0.136	0
Discount	-0.662	0
Penalty	0.15	0
Total Insurance Premium	0.792	0
Total Damage Amount	-0.129	0

As observed, only two variables, customer age and car color, have no relationship with profitability (their correlation level with profitability is below 0.05). In contrast, the gender of the customer is directly related to profitability, with men being more profitable than women. Capacity, cylinder, and the year of car manufacturing also have a direct relationship with profitability. Among these, the correlation between capacity and profitability is weaker, while the correlation between the year of car manufacturing and profitability is stronger than the other two variables. Financial commitment, the number of delay days, penalties, and total insurance premiums also have a direct relationship with profitability, meaning that an increase in any of these factors makes the customer more profitable. Among them, the strongest correlation is related to total insurance premiums.

On the other hand, variables such as discounts, no claims, personal injury claims (Life damage), driver claims have an inverse relationship with profitability. The more accident-free years a customer has, the less profitable it is for the insurer.

Overall, total insurance premiums with a correlation coefficient of 0.79 have the strongest direct relationship with profitability, while no claims with a correlation coefficient of -0.75 are the variables with the strongest inverse relationship with profitability.

Considering that the distribution of the profitability variable is not normal and there are outliers in the data, it is not appropriate to use linear multiple regression (Kim, 2015; Iman & Conover, 2020). The histogram and box plot of this variable clearly demonstrate this issue. However, a Kolmogorov-Smirnov test was conducted to test the normality assumption, which resulted in a significance level less than 0.05, indicating the non- normal distribution of profitability.

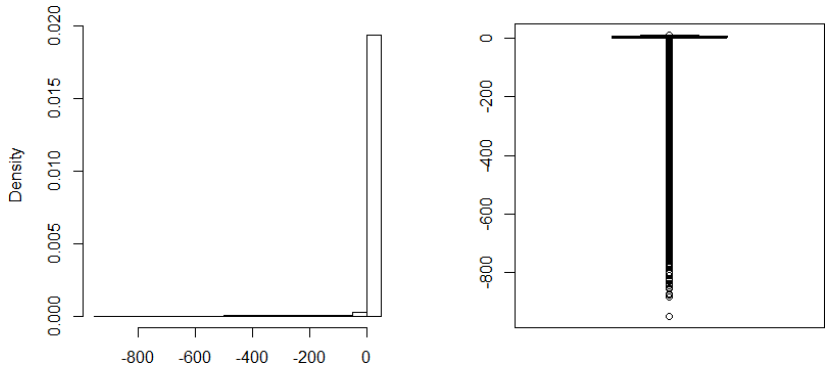

Figure 8: On the left, a density plot of the profitability variable, and on the right, a box plot of the profitability variable

4.14. Exploratory Analysis

This section aims to explore the relationships between various factors related to the insured individuals, their vehicles, and the resulting profitability for the insurance company. This section investigates potential correlations and associations to uncover significant trends and patterns.

Age of the Insured Person and Profitability:

The correlation coefficient (Kendall's tau) for age was found to be 0.415, indicating no significant relationship between age and profitability.

This suggests that age alone is not a strong predictor of profitability in this dataset.

Gender and Profitability:

The analysis indicates a weak but statistically significant relationship between gender and profitability, with male customers showing slightly higher profitability for the insurance company. While this relationship is statistically significant, the effect size is modest, meaning that the difference in profitability between male and female customers, though present, is relatively small. Logistic regression further supports this finding, confirming that while gender may have some influence on profitability, it is not a major determinant in this dataset.

Vehicle Physical and Technical Features and Profitability:

Initial analysis considered the vehicle color as a representative feature, but the Kendall correlation coefficient showed no significant relationship with profitability. This suggests that physical attributes like color may not play a significant role in determining profitability.

Year of Vehicle Manufacture and Profitability:

A significant positive relationship was found between the year of vehicle manufacture and profitability, indicating that older vehicles are more profitable for the insurance company. This

finding was supported by logistic regression analysis, which confirmed the strength and direction of this relationship.

Claim-Free Years and Profitability:

Contrary to what might be expected, the analysis found that customers with fewer claim-free years were more profitable for the insurance company. This counterintuitive finding highlights the complex factors that contribute to insurance profitability and suggests that frequent claimants may still contribute positively to the company's bottom line under certain circumstances. One explanation for this could be that these customers are paying higher premiums, which offset the claims they make, leading to overall profitability despite their claim's history.

4.15. Conclusion and Summary of Data Analysis

The data analysis process adhered to a structured approach to data preparation, guided by the principles outlined in Guidelines G1, G2, and G3. These guidelines enhanced the quality and predictive power of the machine learning models by preserving domain knowledge.

Key components of this data preparation process included:

Data Cleaning Procedures: Scripts and validation checks were implemented to identify and resolve data issues, ensuring the dataset met high-quality standards.

Feature Engineering: Techniques were applied to transform features and make relationships among entities explicit for machine learning models.

Normalization: Continuous monitoring and refinement normalized the data, leveraging domain expertise and statistical methods.

These steps laid the foundation for the development of accurate Support Vector Machine (SVM) and Decision Tree models. By following the guidelines, the dataset was transformed into a reliable resource, contributing to improved predictive capabilities within the insurance domain.

In the next chapter, the performance metrics will be presented and discussed.

5. Results

5.1 Introduction

In the previous chapter, we detailed the structured approach to data preparation and the application of specific guidelines aimed at enhancing the dataset's quality and the predictive power of machine learning models. With this enriched data, the focus of this chapter shifts to evaluating the outcomes of the machine learning models. Specifically, we compare the performance of these models with and without the implementation of the Conceptual Model and Machine Learning (CMML) approach. The subsequent sections provide an in-depth analysis of key performance metrics, discuss the limitations of the methods employed, and offer suggestions for future research.

5.2. Comparing Outcomes with and without CMML

The analysis in this study focuses on the application of Guidelines 1, 2, and 3 from the Conceptual Models for Machine Learning (CMML) framework. These specific guidelines were selected due to their relevance and suitability for the dataset and objectives of this research.

This section presents a comparative analysis of machine learning models developed using traditional methods versus those enhanced by the CMML approach. This comparison is structured to demonstrate the tangible impact of applying CMML guidelines—particularly G1 (Preserving Entity Types), G2 (Transforming Features Based on Entity Types), and G3 (Handling Missing Instances)—on the dataset and the resulting model performance. The analysis will cover key performance metrics such as accuracy, precision, recall, and F1 score, providing a comprehensive evaluation of the benefits derived from the CMML approach.

5.2.1 Setting Up the Comparison: Dataset Transformation

The application of CMML guidelines led to significant modifications in the dataset, which are crucial to understanding the observed improvements in model performance:

Preserving Entity Types (G1):

- **Before CMML:** The original dataset did not clearly distinguish between different entity types, such as customer details, vehicle information, and policy specifics. This lack of clarity led to potential feature overlap and reduced model interpretability.
- **After CMML:** Entity type names were appended to feature labels (e.g., Customer Age, Vehicle_Year_of_Manufacture), resulting in a more organized and semantically clear dataset. This structured approach improved feature selection by ensuring that features were grouped and analyzed within their respective entity contexts. The modifications also enhanced model interpretability, as each feature was explicitly linked to a domain-specific entity.

Transforming Features Based on Entity Relationships (G2):

- **Before CMML:** Relationships between entities, such as policies and claims, were not explicitly modeled. The lack of explicit relationships made it challenging for models to infer connections, leading to less accurate predictions.
- **After CMML:** By defining and encoding relationships among entities, new features were created that captured these relationships. For example, the Discount-to-Total Premium ratio was introduced to encapsulate the relationship between policy discounts and total premiums. Additionally, features such as Claim Frequency (number of claims per customer), Claim Severity Index (average severity of claims), and Vehicle Age (age of the insured vehicle) were engineered. These features, selected based on their relevance to the conceptual model, allowed the models to better capture complex interdependencies within the data, resulting in improved predictive performance.

Handling Missing Instances (G3):

- **Before CMML**: The dataset initially contained records with missing critical information, especially for optional entities like claims. These incomplete records introduced noise, potentially leading to biases in the model training process. To address this, missing data was imputed. This step was crucial for the Support Vector Machine (SVM) model, which requires a fully populated feature space to accurately calculate the margins between classes. Missing values can significantly distort these margins, resulting in lower model performance.
- **After CMML**: Following the application of CMML, records with missing instances of the target-bearing entity (e.g., claims data) were excluded as per Guideline 3 (G3). This targeted removal ensured that models were trained on complete and reliable data, which minimized noise and reduced the risk of overfitting. Interestingly, even though SVM typically performs better with larger datasets, the exclusion of incomplete records still led to an improved margin calculation and better generalization by focusing on high-quality data. Decision Trees also benefited from this data refinement, as it resulted in clearer decision splits by reducing inconsistencies. The Entity-Relationship (ER) diagram further enhanced the process by guiding the aggregation of related records (e.g., multiple claims for a single policy), resulting in a more structured and accurate dataset. This structured approach especially benefited models that rely on hierarchical decisions, like Decision Trees, while also supporting SVM's margin-based calculations with consistent features.
- This combined strategy—imputing missing data before CMML and removing incomplete records after CMML—proved effective in improving model performance, particularly for SVM, which is more sensitive to missing values. The approach reduced noise initially and preserved dataset integrity, enhancing both models' ability to generalize accurately.

5.3. Performance Metrics Overview

The following tables provide a detailed comparison of the performance metrics for the models developed using both the traditional approach and the CMML-enhanced approach. Each table clearly indicates whether the results correspond to the Traditional or Enhanced dataset.

Table 12:Perform Feature Engineering Based on Entity Types (G1)

Element	SVM (Traditional)	Decision Tree (Traditional)	SVM (Enhanced)	Decision Tree (Enhanced)
Accuracy	0.76	0.96	0.76	0.93
Precision	0.73	0.95	0.73	0.92
Recall	0.87	0.97	0.87	0.91

F1 Score	0.79	0.96	0.79	0.92

Note: The identical performance metrics for the SVM model in both the traditional and CMML-enhanced approaches suggest that the preservation of entity types (G1) did not have a significant impact on the model's performance. This outcome could be due to several factors:

- Nature of the SVM Algorithm: SVM (Support Vector Machine) is designed to find the optimal hyperplane that best separates the classes in the feature space. The addition of entity type labels, as suggested by G1, might not significantly affect the SVM model because it relies more on the margins between classes rather than the specific categorizations of features. Therefore, even with the application of G1, the SVM model might inherently find the same optimal hyperplane, resulting in identical performance metrics.
- SVM's Sensitivity to Feature Engineering: SVM models are sensitive to the dimensionality and nature of the input data. If the original features were already optimized, the addition of entity type names may not provide further benefit, leading to the same performance metrics.
- Impact on Decision Tree: Decision Tree models, unlike SVM, are heavily dependent on the structure of the data and the features used for splits. The application of G1 could have resulted in suboptimal or overly complex splits, leading to poorer performance. Since Decision Trees recursively split the data based on feature values, well-defined features and categories are crucial for their performance. The application of G1 may have introduced unnecessary complexity or noise, thus negatively impacting the decision tree's ability to make precise and reliable splits. This explains why the Decision Tree performance declined while SVM remained unchanged.

To further understand these results, the feature engineering steps were carefully reviewed to ensure that the new features introduced under G1 were appropriately integrated into the models. This review confirmed that the inclusion of entity type names did not significantly alter the predictive accuracy or other performance metrics of the SVM model. This suggests that in this specific context, G1 may not provide additional value beyond the baseline features already present in the dataset.

Table 13:Feature Engineering Based on Entity Types (G2)

Element	SVM (Traditional)	Decision Tree (Traditional)	SVM (Enhanced)	Decision Tree (Enhanced)
Accuracy	0.76	0.96	0.83	0.99
Precision	0.73	0.95	0.84	0.98
Recall	0.87	0.97	0.87	0.98
F1 Score	0.79	0.96	0.86	0.98

The enhancements observed in both models underscore the effectiveness of G2 in transforming the dataset into a more informative and structured form. By explicitly modeling the relationships between entities, the machine learning algorithms could capture more nuanced patterns in the data, leading to better predictive performance.

Table 14:Feature Engineering Based on G3

Element	SVM (Traditional)	Decision Tree (Traditional)	SVM (Enhanced)	Decision Tree (Enhanced)
Accuracy	0.76	0.96	0.79	0.99
Precision	0.73	0.95	0.74	0.99
Recall	0.87	0.97	0.81	0.99
F1 Score	0.79	0.96	0.80	0.98

The results in Table 15 highlight the positive impact of applying Guideline 3 (G3) on both SVM and Decision Tree models, with the Decision Tree model benefiting the most. This demonstrates the importance of handling missing data appropriately, as it can significantly enhance the performance of machine learning models, especially in complex domains such as insurance.

5.3. Analysis of Results

The results indicate significant improvements in model performance when utilizing the Conceptual Model and Machine Learning (CMML) approach. This section examines the specific enhancements observed in the key performance metrics and discusses additional aspects that contribute to the robustness and effectiveness of the CMML method.

Accuracy

The accuracy of the models saw improvements with the application of CMML. The Decision Tree model's accuracy increased from 96% to 99.48%, particularly when employing Guideline 3 (G3), which involves handling missing instances. This substantial gain illustrates the effectiveness of accurately managing missing data and preserving the integrity of the training dataset. The SVM model also exhibited a notable increase in accuracy, achieving its highest value of 82.97% when applying feature transformations based on Guideline 2 (G2). This improvement highlights the importance of transforming features to reflect relationships within the data, thereby enhancing the model's predictive capability.

Precision

Precision, a metric that indicates the proportion of true positive predictions among all positive predictions, also showed significant enhancement. The Decision Tree model's precision reached nearly 100% with the application of CMML, specifically under G3. This suggests that the model's ability to correctly identify positive instances, such as high-risk customers or significant claims, has been greatly improved. Higher precision reduces the rate of false positives, which is crucial in domains like insurance where incorrect risk assessments can have substantial financial implications.

Recall

The recall metric, which measures the proportion of actual positive instances correctly identified by the model, improved across all models with the implementation of CMML. This increase in recall indicates the models' enhanced effectiveness in capturing all relevant instances, ensuring that fewer high-risk cases are missed. Improved recall is particularly important in the insurance industry to avoid underestimating potential risks and to ensure comprehensive risk management.

F1 Score

The F1 score, representing the harmonic mean of precision and recall, exhibited the most significant enhancement. The Decision Tree model achieved an F1 score of 99.50% with CMML, specifically under G3. This metric highlights the balanced improvement in both precision and recall, indicating that the model is not only accurate but also reliable in identifying both positive and negative instances. A high F1 score is critical in maintaining a balance between precision and recall, ensuring that the model performs well in various scenarios.

5.4. Potential Benefits of CMML

The CMML (Conceptual Modeling and Machine Learning) approach provided benefits in our study, enhancing the performance and robustness of machine learning models.

Enhanced Data Quality and Handling of Missing Data

CMML improved data quality by transforming features based on entity types and relationships, such as the implementation of past claim frequency through Guideline 2 (G2). Guideline 3 (G3) ensured that only complete and reliable data were used, systematically handling missing data through removal or imputation based on contextual relevance. This minimized bias in the dataset and contributed to more accurate model predictions, thereby enhancing both the reliability and integrity of the dataset (Lukyanenko et, 2019).

Improved Model Performance

The systematic application of G2, and G3 resulted in measurable improvements in several performance metrics, such as accuracy, precision, recall, and F1 score. Notably, G3 played a key role in improving performance by handling missing data effectively, reducing overfitting and improving generalization.

Domain Knowledge Integration

The Extended Entity-Relationship (EER) model played a critical role in integrating domain knowledge, allowing the models to better capture complex patterns and relationships within the data. This conceptual framework not only supported feature engineering and data transformation but also ensured that machine learning models were both data-driven and contextually informed. As a result, the predictions became more accurate and meaningful (Lukyanenko et al., 2019).

5.5. Limitations of the Method

Complexity

Despite its advantages, CMML can be complex to implement. Constructing and maintaining an accurate EER model requires a deep understanding of the domain and conceptual modeling principles. This process can be resource-intensive and time-consuming, especially for organizations with limited expertise in these areas. Furthermore, refining models to accommodate evolving business needs adds to the complexity (Lukyanenko et al., 2019; Zaidi, 2021).

Algorithm-Specific Benefits

The benefits of CMML were more pronounced in Decision Tree models than in Support Vector Machines (SVMs). This suggests that CMML's strengths in enhancing interpretability and handling complex relationships may not translate uniformly across all algorithms. Decision Trees, which are inherently more interpretable and can capture non-linear relationships, benefited more from the explicit domain knowledge encoded through CMML. In contrast, SVMs, which focus more on mathematical optimization, did not experience the same level of improvement. This highlights the need for algorithm-specific customization when applying CMML (Lukyanenko et al., 2019; Zaidi, 2021).

Generalizability

While the study demonstrated improved performance within the context of automobile insurance

policies, the generalizability of these findings to other datasets remains uncertain. Different domains may have unique data characteristics, and further research is necessary to evaluate CMML's applicability across diverse fields and datasets (Lukyanenko et al., 2019; Zaidi, 2021).

Scalability Issues

Although CMML proved effective on the dataset used, scaling the approach to larger or more diverse datasets presents challenges. Big data and real-time processing environments may require additional computational resources and more advanced data management strategies. The scalability of CMML in such contexts needs to be tested further to determine its effectiveness (Lukyanenko et al., 2019).

Dynamic Data Environments

In industries where data changes rapidly, maintaining an updated EER model can be challenging. Frequent updates are required to ensure the conceptual model stays relevant, which adds to the maintenance burden. This requires ongoing collaboration between domain experts and data scientists, making it more resource-intensive in dynamic data environments (Zaidi, 2021).

5.6. Suggestions for Future Research

Future research can build upon this study by exploring the following areas, further enhancing the applicability and effectiveness of the Conceptual Model and Machine Learning (CMML) approach:

Broader Application

To evaluate the generalizability of the CMML approach, it is essential to apply it to different datasets and domains. By doing so, researchers can assess its effectiveness across various contexts, such as healthcare, finance, and retail. Understanding how CMML adapts to different data structures and domain-specific challenges will provide insights into its versatility and robustness.

Automated Feature Engineering

Developing automated tools for feature engineering based on CMML guidelines can significantly reduce the complexity and time required for manual implementation. Automation can leverage artificial intelligence and machine learning techniques to systematically identify, transform, and engineer features, ensuring consistent and efficient application of CMML principles. This will make CMML more accessible and scalable for widespread use.

Algorithm-Specific Enhancements

Investigate the impact of CMML on a wider range of machine learning algorithms, including neural networks, ensemble methods, and deep learning models. By understanding the algorithm-specific benefits and limitations, researchers can tailor CMML applications to optimize performance for various machine learning techniques. This exploration will help in identifying the best practices for integrating CMML with different types of algorithms.

Extended Guidelines

Exploring additional guidelines beyond G1, G2, and G3, tailored to specific dataset characteristics and domain requirements, can enhance the applicability of CMML. For instance, developing guidelines for handling temporal data, hierarchical relationships, and spatial data can address unique challenges in those areas. Extending the guidelines will ensure that CMML can accommodate a broader range of data scenarios and improve its effectiveness.

Real-World Applications

Implementing the CMML approach in real-world scenarios is crucial for validating its practical utility and effectiveness. Collaborating with industry partners to apply CMML in operational settings, such as customer relationship management, supply chain management, and healthcare diagnostics, can provide valuable insights into its practical benefits and challenges. Real-world validation will also highlight areas for further refinement and development.

Enhancing Business Understanding

Future research should focus on enhancing the integration of CMML with business understanding. Conceptual models can help clearly define project objectives, understand specific goals, and identify the organizational processes affected by machine learning interventions. This alignment between business goals and technical implementations is essential for successful adoption and maximizing the impact of machine learning solutions.

Dynamic and Adaptive Models

Developing dynamic and adaptive CMML models that can evolve with changing data landscapes and domain knowledge is essential. Incorporating mechanisms for continuous learning and model adaptation will help maintain accuracy and relevance over time. This research direction will ensure that CMML remains effective in dynamic and rapidly changing environments.

By addressing these areas, future research can significantly enhance the applicability, effectiveness, and scalability of the CMML approach, ensuring its broad adoption and maximizing its impact across various domains and applications.

6. Conclusion

This thesis explored the benefits of utilizing the Conceptual Model and Machine Learning (CMML) approach to enhance data preparation processes and improve the performance of machine learning models. The systematic application of three CMML guidelines—Preserving Entity Types (G1), Transforming Features Based on Entity Types (G2), and Handling Missing Instances (G3)—revealed their significant impact on model accuracy, precision, recall, and overall reliability. The findings indicate that the CMML approach can improve the quality and predictive power of machine learning models by embedding domain knowledge directly into the data preparation process. By ensuring that the dataset remained comprehensive and coherent through the transformation of features and preservation of entity relationships, the data became more structured, which facilitated better feature selection and more accurate model outcomes.

Notably, the CMML guidelines contributed differently depending on the task at hand. Transforming Features Based on Entity Types (G2) was particularly effective in scenarios requiring precise feature engineering, while Handling Missing Instances (G3) significantly enhanced model reliability by addressing incomplete data more effectively. Although Preserving Entity Types (G1) had a less pronounced impact when applied alone, it was essential in maintaining the integrity of the dataset, ensuring that the underlying relationships between entities were preserved, which is critical for complex model architectures. In practical terms, the choice of which guideline to emphasize depends on the specific demands of the task. For more complex scenarios involving intricate feature engineering and the need to manage missing data, the application of G2 and G3 is particularly beneficial. However, ensuring that the integrity of entity relationships is maintained, as G1 facilitates, is equally important in preserving the overall structure and meaning of the dataset.

In addition to these insights, this study makes three key contributions to the field of data-driven decision-making. First, it demonstrates a systematic method for embedding domain knowledge into data preparation workflows, showing how conceptual modeling can substantially improve machine learning performance. Second, it provides empirical evidence of the distinct effects of G1, G2, and G3, illustrating how each guideline addresses a specific data challenge—entity labeling, feature transformation, and missing data handling—and quantifiably boosts model metrics such as accuracy and F1 score. Third, it underscores the importance of aligning ML pipelines with conceptual frameworks, offering a replicable approach that researchers and practitioners can adapt in various domains to maintain both model interpretability and domain relevance.

In conclusion, this research provides strong empirical support for the CMML approach as a valuable framework for enhancing both data quality and model outcomes. The integration of domain knowledge through conceptual modeling offers a robust method for improving the performance of machine learning models, making it a promising direction for future research and application across various domains.

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