SUSHANT UNIVERSITY ORGANIZED INTERNATIONAL CONFERENCE ON
"ADVANCES IN MULTIDISCIPLINARY RESEARCH AND INNVOATION" ICAMRI-2023
ON 28-29TH OCTOBER 2023
INTERNATIONAL ADVANCE JOURNAL OF ENGINEERING, SCIENCE AND MANAGEMENT (IAJESM)
July-December 2023, Submitted in October 2023, iajesm2014@gmail.com, ISSN -2393-8048
Multidisciplinary Indexed/Peer Reviewed Journal. SJIF Impact Factor 2023 =6.753

"Churn Prediction in Machine Learning: A Holistic Approach"

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Abstract

Customer churn prediction is an integral component of customer relationship management across industries, especially in sectors with high competition such as telecommunications, banking, and e-commerce. Traditional machine learning approaches often focus on maximizing predictive accuracy but overlook critical real-world considerations including class imbalance, model interpretability, and cost-sensitivity. This paper reviews recent developments in churn prediction and presents an integrated framework combining Automated Machine Learning (AutoML), Explainable AI (XAI), class imbalance handling, and profit-driven optimization. The proposed approach is tested with real-world case data and shows promising results in identifying potential churners while optimizing profit margins. The paper provides insights into the challenges and future prospects of deploying profit-aware and interpretable AutoML systems in customer retention strategies.

Keywords— Churn Prediction, AutoML, Explainable AI, Class Imbalance, Profit Optimization, Machine Learning.

I. INTRODUCTION

Customer churn, or attrition, refers to customers who discontinue their relationship with a business over a given time. In competitive industries like telecommunications and banking, retaining existing customers is far more cost-effective than acquiring new ones. Therefore, accurate churn prediction models are essential to recognize at-risk customers and deploy timely retention efforts.

Machine learning has been widely used in churn prediction due to its ability to detect complex patterns in customer behavior. However, existing models often suffer from two main drawbacks: (i) difficulty in handling imbalanced datasets where churners are a minority, and (ii) lack of explainability. Moreover, most models optimize purely for accuracy metrics without considering the economic implications of prediction decisions.

This research study presents a comprehensive review and a novel framework integrating AutoML, XAI, imbalance correction techniques, and profit-based optimization— thereby addressing these limitations.

II. LITERATURE REVIEW

A. Early Machine Learning Models for Churn Prediction

Early research in churn analysis utilized statistical methods like logistic regression and survival analysis. These models were interpretable but suffered from low flexibility. Subsequently, machine learning techniques such as decision trees, random forests, support vector machines (SVM), and gradient boosting were explored for their ability to handle nonlinear relationships[6][7]..

B. Advances in Imbalanced Data Handling

Churn datasets are typically imbalanced, with churners representing 10-30% of the total. Techniques like SMOTE (Synthetic Minority Over-sampling Technique), ADASYN, and class-weight tuning have shown effectiveness in addressing imbalance [1]. Ensemble methods like Balanced Random Forests also provide balanced predictions[1][8][9].

C. Explainable AI (XAI)

With increasing complexity of models (e.g., deep learning, ensembles), interpretability becomes crucial especially in regulated industries. XAI techniques like SHAP (SHapley Additive exPlanations) and LIME (Local Interpretable Model-agnostic Explanations) provide insights into model predictions, facilitating trust and transparency [2][10][11].

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D. AutoML in Churn Prediction

AutoML automates feature engineering, model selection, and hyperparameter tuning, facilitating faster development of machine learning solutions with minimal manual intervention [3]. AutoML frameworks such as AutoSklearn, TPOT, and H2O AutoML have been applied in churn prediction with promising results [4] [12].

E. Profit-Based and Cost-Sensitive Optimization

Traditional prediction models maximize score-based metrics like accuracy or AUC, failing to consider the business costs associated with misclassifications. Recent studies advocate for cost-sensitive churn models integrating Customer Lifetime Value (CLV) and retention efforts [5]. Profit-based metrics enable firms to focus on models that drive economic benefits [13][14].

III. PROPOSED METHODOLOGY

To address the current challenges, we propose an integrated framework that combines AutoML, class imbalance handling, XAI, and profit-driven optimization within a churn prediction workflow.

A. Framework Components

1. **Data Preprocessing**: Cleaning, encoding categorical features, and feature scaling.
2. **Imbalance Correction**: A hybrid strategy using SMOTE + class-weighting for balanced learning.
3. **AutoML Pipeline**: AutoSklearn is selected for its ensemble and meta-learning capabilities.
4. **Profit-Aware Optimization**: Custom loss function incorporating CLV and retention campaign cost modeled via ROI.
5. **Explainable Output**: Use of SHAP for feature importance and individual predictions explanations.

B. Proposed Workflow

1. **Raw Data** → 2. **Processed Data** → 3. **Balanced Target** → 4. **AutoML Model Generation** → 5. **Churn Prediction** → 6. **Profit Analysis** → 7. **Retention Strategy Decision**.

IV. EXPERIMENTAL SETUP AND RESULTS

A. Dataset

The Telco Customer Churn dataset (available on Kaggle) includes features like tenure, monthly charges, contract type, and payment method, with churn as the target variable.

B. Evaluation Metrics

In addition to F1 and AUC, we compute expected profit using:

Profit = (TP×CLV) − (FP × Retention Cost)

C. Results

Model	AUC	F1	Prioritized Customers	Estimated Profit ($)
Logistic Regression	0.74	0.59	312	15,200
XGBoost (manual)	0.81	0.66	401	24,350
AutoML + SMOTE + SHAP	**0.85**	**0.71**	387	**31,700**

Interpretability: Features like tenure, contract type, and tech support were among the top churn predictors.

V. DISCUSSION

The integration of AutoML and XAI enables faster and more transparent churn model development. Handling imbalance effectively enhances the real-world relevance. Profit-based thresholding ensures that predictions align with business goals. However, the success of the framework heavily depends on accurate estimation of customer value and retention costs.

Key Findings:

- Profit maximization may require sacrificing minimal accuracy.
- SHAP values build trust, aiding actionable decision-making.
- AutoML reduces the technical burden on data teams.

VI. CONCLUSION AND FUTURE WORK

This paper presents a novel, practical, and profit-aware approach to churn prediction in machine learning. The union of AutoML, XAI, and economic optimization represents a powerful tool for customer retention strategies. Future work should focus on:

- Real-time churn prediction and XAI integration
- Personalization in retention offer recommendations
- Cross-industry validation of the proposed framework

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