

Always-On Retention: How AI Is Rewiring Insurance Growth

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Insurers say they are pursuing growth, but their strategies often suggest otherwise. Most carriers remain focused on winning new policyholders. The economics are not on their side. Insurers typically lose money in the early years of a customer relationship and only realize profits over time.

Retention is the more powerful source of value. Extending customer lifetime is worth more than replacing churn with new business, yet it remains poorly managed. In many distribution organizations, retention is still reactive and agent led, guided by intuition, broad discounting, and limited visibility into customer value or churn risk. The result is familiar: margins erode and performance varies widely.

AI changes the distribution equation. As insurers move toward AI-assisted distribution, the technology enables personalized, real-time decisions, shifting retention from negotiation to optimization. Sales agents can focus on which customers to retain and how much it is worth spending to keep them. At the center of this approach is a retention intelligence engine that combines customer value, churn risk, and offer optimization to guide actions.

Early results are promising. Some insurers report margin gains of up to 30% on policies managed through AI-driven retention, supported by 5% to 10% improvements in retention and a 20% to 30% reduction in discount leakage.

Whether these gains prove durable will depend less on technology than on how organizations change their decision making. The market leaders will be those that turn AI from a set of tools into a system that personalizes customer value management.

From Campaigns to Always-On Value Creation

Most insurers still manage customer value episodically through renewals, ad hoc win-backs, and static segmentation. Actions are triggered by events rather than driven by continuous insight, and decisions are often made in isolation, with limited feedback on what works.

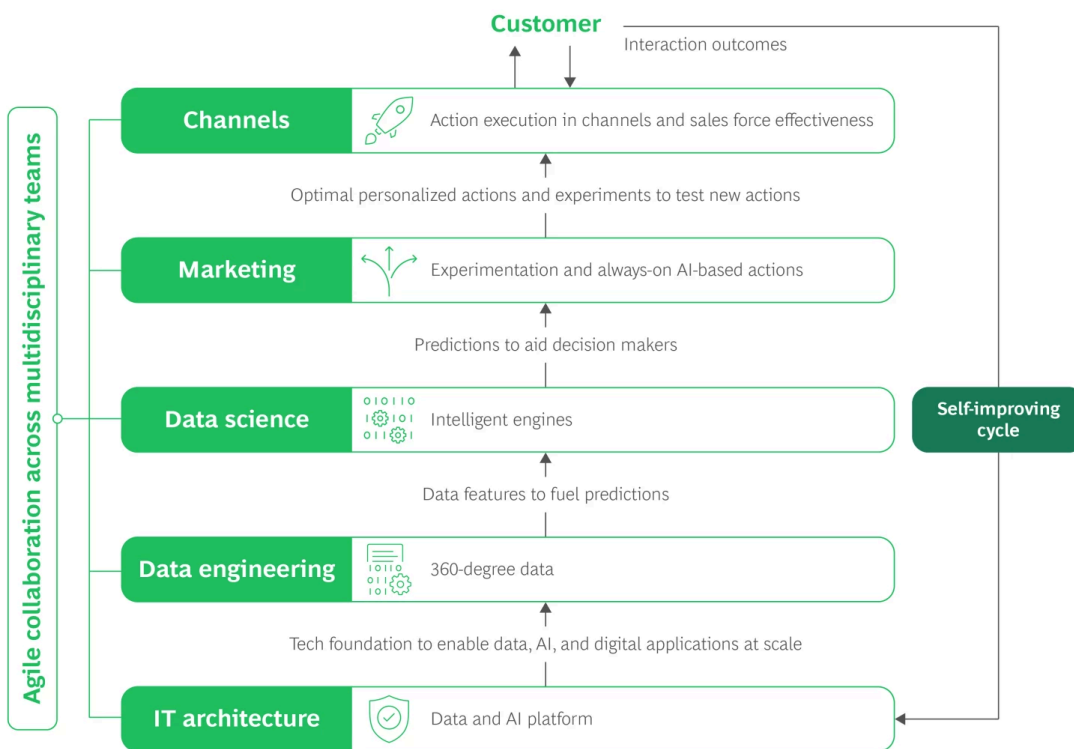
This model is increasingly out of step with the economics of the insurance business and customer expectations. Insurers face structural growth pressure caused by rising acquisition costs, tighter margins, and fragmented omnichannel journeys. At the same time, customers can switch carriers more freely and increasingly expect seamless, relevant experiences and instant personalization.

An alternative is emerging. Insurance distribution is shifting to AI-augmented and, increasingly, AI-assisted approaches. Early use cases support individual decisions; more advanced applications are taking on entire activities. This transition enables a continuous, AI-driven approach in which every interaction becomes an opportunity to create value through personalization. Instead of periodic campaigns, insurers operate always-on systems that anticipate customer needs, prioritize actions, and adapt in real time.

Delivering this shift requires an integrated operating model that connects data, decision making, and execution. (See Exhibit 1.) A unified customer data foundation feeds intelligent decision engines; these, in turn, drive personalized actions across channels. Every interaction generates feedback, enabling the system to learn and improve over time.

EXHIBIT 1

The Operating Model of Personalized Distribution



Source: BCG.

The advantage arises from embedding decision intelligence into the core of the commercial model, so that customer value is continuously optimized rather than periodically managed. Among the applications, retention stands out as the highest-impact opportunity.

Retention Is an Underestimated Growth Lever

Many insurers underestimate the value of retention despite its disproportionate impact on growth and profitability. In most insurance businesses, new policies are unprofitable in the early years because commissions, marketing costs, and claims exceed premiums, while profitability rises with customer tenure. As a result, even small improvements in retention have an outsized effect—lifting customer lifetime value and driving growth. A 1 percentage point increase in retention delivers growth comparable to a 15% increase in new business. (See Exhibit 2.)

EXHIBIT 2

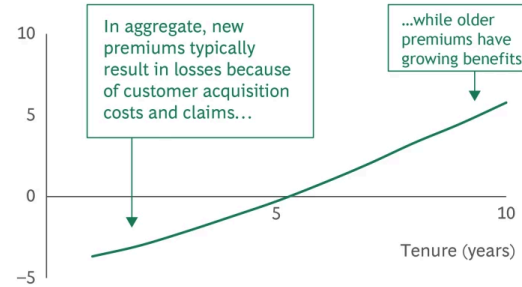
Retention Is Essential for Profitable Business Growth

Churn reduction boosts growth...



... because retaining customers is far more profitable than capturing new business

Estimated profit per policy, cumulative (%)



Source: BCG.

Note: Growth estimates are for a typical company.

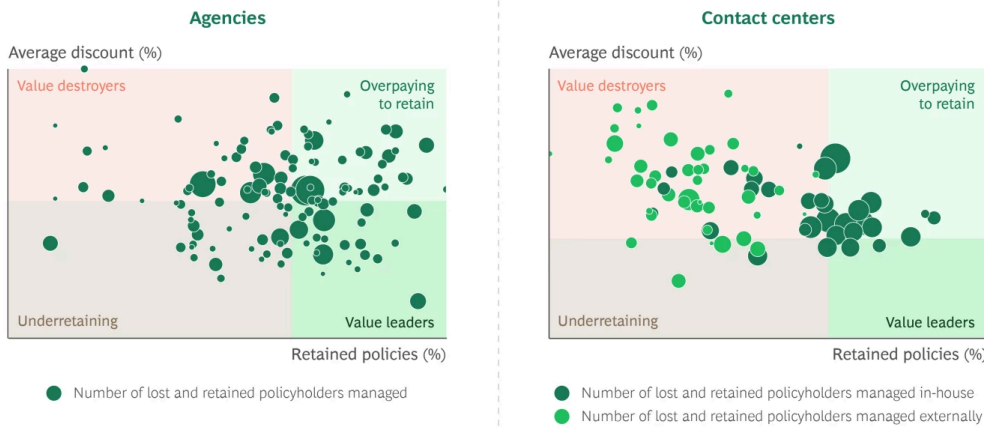
Retention, however, means more than managing cancellations. It includes proactively identifying customers at risk, addressing payment defaults, and capturing early signals of disengagement before churn occurs. Managing these risks effectively requires a continuous view of customer behavior across the life cycle.

In practice, most insurers fall short. Frontline sales agents typically operate with limited visibility into customer lifetime value, churn risk, and underlying drivers. They often base retention decisions on intuition rather than a clear understanding of tradeoffs between discount cost and long-term value. This leads to inconsistent actions, unnecessary concessions, and significant margin leakage.

The consequences are visible in the large differences in performance across channels. (See Exhibit 3.) Some sales agents retain customers efficiently with disciplined discounting, while others rely on excessive concessions or inconsistent argumentation. Even with the same tools, outcomes vary significantly, an indication that retention is managed not as a system but as a series of individual decisions.

EXHIBIT 3

Retention Is Essential for Profitable Business Growth



Source: BCG experience.

Reimagining Customer Retention with AI

A more effective approach is to manage retention as a value optimization problem. By combining customer-level insights with personalized AI-driven decisions, insurers can prioritize the right customers, select the most effective actions, and balance retention outcomes against economic cost.

This shift transforms each step of the retention process. (See Exhibit 4.) Instead of relying on fragmented, policy-level information, insurers develop a comprehensive, customer-level view enriched with behavioral data. Rather than diagnosing churn through standardized questions, AI identifies both the likelihood of churn and its underlying drivers. And expertise-based advice is replaced with personalized recommendations and dynamic guidance tailored to each interaction.

By combining a comprehensive view of the customer with real-time insights into churn drivers, AI systems generate tailored talking points and recommendations that help sales agents address the root causes of a customer's dissatisfaction. These data-driven prompts enable more relevant, personalized conversations, allowing agents to resolve issues and reinforce value without immediately resorting to financial incentives. This not only improves the customer experience but also increases agent confidence and reduces the need for discounting.

When commercial actions are required, AI optimizes how they are selected. Rather than leaving discounting and offer decisions to individual judgment, AI systems evaluate customer value, churn risk, and response likelihood to determine the most effective action and sequence of offers. This

allows insurers to protect high-value customer relationships while reducing unnecessary concessions.

These capabilities are delivered through bionic tools embedded in frontline workflows. Sales agents and digital channels receive prioritized next-best actions, supported by real-time guidance and GenAI copilots that adapt to the context of each interaction.

The Retention Intelligence Engine: Turning AI into Economic Precision

At the core of this shift is a retention intelligence engine, an integrated decision system that determines the most effective action and the appropriate level of investment for every customer (the fourth step in Exhibit 4). The engine combines several predictive layers:

- A customer lifetime value model estimates the economic contribution of each policy, ensuring that retention efforts are prioritized where value is highest.
- A churn propensity model, enriched with root-cause explainability, anticipates cancellation risk and identifies its drivers—such as economic pressure, dissatisfaction, or low product usage.
- A promotion response model predicts the likelihood that specific offers will be accepted, enabling personalized rather than generic interventions.

These inputs converge in a value optimization layer that selects and sequences actions based on expected economic return. Instead of maximizing the probability of retention alone, the system balances customer value, promotion cost, and likelihood of acceptance, ensuring that each decision maximizes overall economic impact.

What makes the system especially powerful is its ability to learn. Every offer presented, accepted, rejected, or escalated feeds back into the models, continuously improving precision over time. Retention becomes a self-reinforcing system in which each interaction sharpens future decisions.

Making It Work at Scale

A key challenge in scaling AI-driven retention is ensuring that decisions are executed consistently across the distribution organization. To prevent variability, insurers must align governance, incentives, and execution around the objective of maximizing customer lifetime value. Five structural enablers are critical:

- **Governance and Decision Frameworks.** Clear ownership across the distribution organization ensures that retention is managed as a value lever rather than a reactive task. Standardized decision rules reduce dependence on individual negotiation style and enable consistent execution across channels.
- **Performance Tracking and Transparency.** Structured scorecards at the channel, office, and agent level provide visibility into retention outcomes, discount discipline, and value creation. Transparency exposes performance variations, enables benchmarking, and drives continuous improvement.
- **Incentives Aligned with Value.** Compensation models must reward profitable retention rather than volume-based renewals. Aligning incentives with customer lifetime value and discount efficiency reinforces AI-driven recommendations and reduces margin leakage.
- **Capability Building and Targeted Improvement.** Individualized action plans, coaching, and continuous enablement help elevate lower-performing sales agents and accelerate adoption of best practices across the network.
- **Smart Case Assignment and Automation.** Intelligent routing and clear allocation rules ensure that the right people are assigned to handle complex or high-value cases. Automation reduces execution variability and embeds consistent decision making.

Rewiring Retention for Structural Advantage

When these enablers evolve together, retention becomes a structural competitive advantage. The impact is already apparent in leading organizations. Improvements in retention performance and reductions in discount leakage are translating into substantial margin uplift.

Personalization increases promotion acceptance rates, while standardized, AI-driven decision making reduces performance variations across channels. As variability declines and decision

quality improves, retention becomes more efficient and predictable. Over time, the effect compounds. Each interaction feeds back into the system, improving model accuracy and sharpening decision making. What begins as incremental improvement evolves into a self-reinforcing cycle of increasing precision and economic efficiency.

However, these results do not come from models alone. They depend on combining a robust customer-level data foundation, tightly integrated decision engines, frontline tools that embed AI into daily interactions, and the governance and incentives needed to ensure consistent execution.

With AI-driven personalization, retention is no longer a reactive lever but a core capability. Insurers move from managing churn episodically to optimizing customer value continuously, with every interaction guided by data and aligned with economic outcomes. This shift strengthens decision quality and embeds discipline into frontline execution. The result is not just better retention but a more resilient and predictable growth engine.

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