

## **Does the Internet Make Markets More Competitive?**

### **Evidence from the Life Insurance Industry**

Since the internet allows consumers to reduce their searching and comparison costs, this article by Brown and Goolsbee would like to find out how the growth of the internet will affect competition on prices and dispersion offline, particularly with the life insurance industry. To examine the relationship, the authors applied hedonic regression by collecting the microdata sets from LIMRA International for the prices of insurance policies as well as several owner and policy characteristics. Thanks to the insufficient data from the LIMRA International, the authors matched the microdata with the same owner characteristics of the increasing role of the internet usage and online insurance from the Technographics 1999 survey of Forrester. By using the data from Forrester, the authors were able to utilize the survey's demographic information, for instance, age, state, occupation, and income with the data from LIMRA International. The insurance variables as independent variables were listed as insurance premium, age dummies, a nonsmoking dummy, a gender dummy, marital status dummies, state dummies, occupation dummies and a dummy if the individual belongs to a special risk, and dummies for whether the policy was purchased from an own agent. They also included a real amount of policy and length of policy to allow for economies or diseconomies of scale

The regressions attempted to illustrate the price paid for term policies. By the overview results, policies for men cost about 20% more than the same policies for women and costs 45% for smokers more than for non-smokers. Moreover, the results show a significant reduction in the term life insurance prices compared between different years with different levels of internet usage. The price, therefore, seems to have decreased while internet insurance comparison websites were adopted online. Nevertheless, prices have dropped sharply for the term policy while the life policy remains stable or slightly increased. This study also reveals that prices for similar policies in states with faster internet adoption drop faster than the one which accepts slowly. As the internet had become more widespread, price dispersion fell. The total impact of internet prices comparison sites from 1995-1997 implies about \$115-\$215 million annually increasing in consumer surplus.

From my point of view, the article can convince me since it emphasizes how important the internet is, as a tool for both producers and consumers to access the information systems which serve as intermediaries between sellers and buyers in a market. They adopted the appropriately matched variables with the theory of search when the information is imperfect and costly. Therefore, the authors identify the internet's ability to lower the consumers' cost to acquire data as well as its potential to reduce inefficiency in the market. I think this proof could encourage the buyers to have more incentive in using the internet to gather information and reach the best price for their sakes. On the other hand, this study could be beneficial to the firms too. Although this paper indicates the less opportunity to exploit the market from asymmetric information, price comparison using the internet of things could be applied in the firms' pricing strategy as well.