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Does the Internet Make Markets More Competitive? Evidence from the Life Insurance Industry

On the rise of e-commerce, there is an explosion in the growth of e-commerce and the internet marketplace. Consumers have gained significant benefits from reducing search cost, able to compare prices between online shops with much less effort. Therefore, the internet should turn the markets to be more competitive and create more competitive prices. The authors choose life insurance products for this case to examine the impact of growing internet usage to the life insurance market and price. The results show that internet usage caused life insurance prices to fall and the market became more competitive. The growing number of internet usage does not affect price of life insurance that much until there was a beginning of insurance sites which caused prices to reduce 8-15 percent. The results also shows that increasing the probability of using the Internet tends to raise price dispersion initially and then reduce it as Internet usage continues to grow. Furthermore, internet comparison sites have increased consumer surplus by a significant amount. Overall, reducing consumers' search cost from the internet can have a significant impact on suppliers' market power and when it happens, it leads to increased consumer surplus potentially at the expense of supplier profits.