

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

Since the usage of the internet has more roles in every activity of people, including the information search, people usually use the internet to search the best price for them, this occasion makes the effect to the price of an insurance, the research finds out that internet makes the price of term life insurance declines.

The methodology of this seminar paper uses cross-sectional data to analyze the outcome. The amount of observation is conducted for 100,000 responses. The information that we get for the surveys are computer ownership, Internet use, on-line buying behavior, and the like, as well as demographic and geographic information on the individuals. The regressions will attempt to explain the price paid for term policies

The results that we gather after the data are run through the regression, the overall price of term life insurance is reduced by 8-15 percent. Increasing the probability of using the Internet tends to raise price dispersion initially and then reduce it as Internet usage continues to grow. In this sense, our results show that, at least for some financial products, the ability of the Internet to reduce search costs can have a significant impact on market power. When it does so, it may lead to large consumer welfare gains, potentially at the expense of supplier profits. The implications for the market value of on-line and off-line companies could not be more important.

In my opinion, the result tends to convince me, because normally if the information apparently be shown, in this case is the information available on the internet, there will be less asymmetric information in the market, it means that information distributes more to consumers,

the price of the products will be reduced since people can compare and know the real price of the product, in this case is the price of term life insurance. The theoretical frameworks of the paper discussion are the asymmetric information as I have mentioned before.