

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

Using empirical evidence on how internet comparison shopping sites affected the prices of life insurance in the 1990s, this paper examine how important the internet can be for market competition. **The results show that increasing number of internet usage can lead the market to be more competitive due to reducing search cost.** Moreover, the result is supported by the empirical evidence that the growth of internet price comparison sites reduce the price of term insurance.

There are 2 basic types of insurance - term life policy and whole life policy. The results in table 3 and table 4 indicate the reducing term price due to the growth of internet price comparison. In table 3, the result seems intuitive because term price is lower for high internet access city and high skill worker based on the coefficients. Reducing magnitude of coefficient from D93 to D97 imply the reducing term price from the rise of internet usage. This result is also true in table 4 which focuses on demography. Even if the table 4 has large noise from the composite effect, the coefficients are still significant. Moreover, from the envelop calculation, increase in online usage from 1995-1997 generated an annual increase in consumer surplus of about \$115-\$215 million.

There are some concerns about the result. First, the data set collected from LIMRA does not ask whether the internet user search on internet price comparison site, so the result is only appropriated to interpret for age and state which are matched with Forrester data. Second, there might be some hidden relationship for our result. The important one is increasing mortality rate which may lead to lower term price. However, this one is proven to be false relationship. The paper also claim that it also checks other variable by including it in table 5. Fortunately, the result is still the same. Third, the different in level cannot be compare because the paper use dummy but the result is still the same. Finally, the situation that people select the easiest finding insurance may happen. This can deteriorate the result of the paper. However, the rise of internet does not appear to reduce the probability of getting a rider suggesting that policy characters is correlated with price (if this situation happens, them policy characters should not correlate with price).