

## **Brown and Goolsbee(2002)**

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

This paper indicates the relationship between the life insurance industry and internet comparison shopping sites, and also the impact of the internet on life insurance prices as the search cost and markups. Furthermore, the authors try to illustrate how important the internet can make markets more competitive. The individual life insurance policies are included with Term life policies and whole life policies. Still, this paper mainly focused on term life policies, which are the homogenous product with high search costs and high markups.

The econometrics of hedonic type regression is used as a method for the price of life insurance on characteristics of the policies and the individuals. The Stahl model is used to analyze the impact of search cost and differential information on the distribution of market prices. Moreover, the data is collected from LIMRA international on the prices of insurance in order to analyze the relationship between internet and term life insurance. The panel data was received since the study covered the period from 1992-1997.

The dependent variable is the log of the annual premium per \$1,000 of the face value of insurance, and there is no direct calculation of the survival probability for the individual. Thus, the standard variable is used for approximate the likelihood of the individual, which consists of age dummies, gender dummy, non-smoking dummy, material status dummies, policy rated dummy, state dummies, occupation dummies, etc.

The result indicated that when the on-line insurance sites and comparison price sites started, it showed that the faster a group obtained the internet, the faster the price of term life insurance will fell for the group. Therefore, the internet has the ability to decrease the search cost and significantly impact market power, which may lead to significant consumer welfare gain.

The question of this research is interesting in part of the evidence in the Life insurance industry. This paper shows that the financial product on the internet can reduce search costs. Besides, the chance of mortality rates also reduces the cost of life insurance. The implication of the life insurance product also applies to other products.

The method adopted is appropriate, but the variable does not include the effect of branding, which consists of the name of the company and the range of price in each policy. Therefore, people have to opt for policies without knowing the company data, and they will get a policy of lower quality than it should be. The result is quite convincing since the author followed the search cost theory, the Stahl model, and regression.