

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

This paper seeks to demonstrate the impact of the internet on life insurance price as the search cost and markups is high before the internet. The Stahl model is used to analyze the impact of search cost and differential information on the distribution of market prices. The data is collected from LIMRA. The panel data was used since the study covered the period from 1992-1997.

The dependent variable is the log of the annual premium per \$1,000 of face value of insurance and the independent variable are The % research variable in the years before the comparison sites existed is the on-line usage in the year times the share of the group having researched insurance on-line in 1998. The result shows that the internet has a significant impact on market power. It may lead to large consumer welfare gain.

The question of this research has an interesting point from the evidence in the Life insurance industry. It shows that the financial product on the internet can reduce search costs and can have a significant impact on market power. Plus, the alternative explanation also explains the chance of mortality rates that reduce the cost of life insurance. This may lead to the implication of other products. The variable does not include the effect of brading since the author cannot acquire the name of the company and the range of price cannot be observed for each policy.

The result is not convincing because it follows the search costs theory. However, the lack of company information may violate the hypothesis that the Internet comparison sites caused people to choose policies from companies with lower quality