

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

The internet may reduce searching cost by enabling price comparison online. This paper try to explain the empirical evidence on how internet comparison shopping sites affected the prices of life insurance. With micro data on individual insurance policies and with individual and policy characteristics controlled for, hedonic-type regressions show that increases in Internet use significantly reduced the price of term life insurance. Further evidence shows that prices did not fall with rising Internet usage in the period before the sites began, nor for insurance types that were not covered on the sites.

The methodology of this paper is using cross-sectional data to analyze the outcome. The amount of observation is 100,000 responses. The information from the surveys are computer ownership, Internet use, on-line buying behavior and the like as well as demographic and geographic information on the individual. The regression try to attempt to explain the price for term policies.

The results suggest that the growth of the internet has reduce term life prices and also show that he initial introduction of the internet search site. In the initial price dispersion is increase within demographic groups. The result show that, at least for some financial products, the ability of the internet to reduce searching cost can have a significant impact on market power. Therefore, it may lead to large consumer welfare gains, potential at the expense of supplier profits.

In my point of view, the result tends to convince me because normally the information apparently be shown, in this case the information available on the internet, the asymmetric

information will be less, can describe that the information can distributes more consumers and the price of the products will be reduced since the customer can compare the price and realize the actual price of the product. In this case, the price in term of life insurance. The theoretical frameworks of the paper discussion are the asymmetric information.