RESEARCH BRIEF

# Virtual Competition: Online Platforms, Consumer Outcomes and Competition in Insurance

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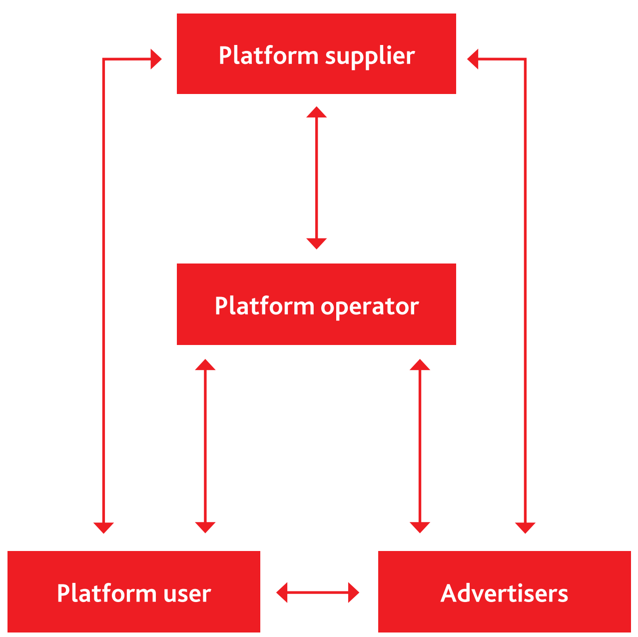
*Online platforms promise large economic and societal benefits. At the same time, however, they may pose certain risks for consumers. This paper focuses on the increasing importance of online platforms and their implications for the economic and societal role of insurance. It aims to contribute to an informed and fact-based debate by assessing the impact of online platforms on new business models in insurance, on consumer outcomes, and competition.*

## *New business models in insurance*

Online platforms play an important role in insurance. Some of these platforms, such as digital comparison tools, have existed in some markets for many years and are important for insurance distribution. Others are relatively new, such as peer-to-peer insurance, self-organisation and self-administration of one's own insurance. Moreover, insurers buy advertising services from search engines and social media platforms such as Google and Facebook.

**Box 1: Types of platform participants**




The importance of platforms in insurance is likely to increase further, due to the deployment of new technologies and shifting consumer expectations. A global consumer survey (unpublished) by The Geneva Association and Edelman Intelligence revealed that 60% of respondents would go online to look for information about insurance. Platforms such as Google, Amazon, and Alibaba have entered into agreements with insurance companies or are otherwise weighing up their entrance to the insurance space.

Online platforms provide an opportunity for insurers to differentiate themselves in the market, for example by providing new types of value-added services alongside insurance cover. At the same time, insurers face hard choices with regards to their platform strategy. Some insurers are establishing their own platforms, while others choose to participate in existing platforms or to enter into supplier agreements. Such a strategy requires insurers to become part of a digital ecosystem and create interfaces at different stages of the insurance value chain. There is a risk that insurers could become increasingly dependent on a relatively small number of platforms that may try to exploit a data-driven competitive advantage.

## *Online platforms and consumer outcomes*

Online platforms have the potential to enhance market transparency and consumer convenience, and to help overcome consumer bias regarding the purchase of insurance by making information easily accessible, facilitating the comparison of offers and efficiently matching buyers and sellers. Moreover, through the use of big data analytics, artificial intelligence and cloud computing, online platforms could enable the role of insurance to develop from one primarily concerned with loss indemnification to a broader advisory service for insureds on how to prevent, mitigate and manage risks.

However, consumers need to be assured that the information provided by platforms is in their best interests and that their privacy is preserved. Inaccurate or biased information, search results and rankings as well as loss of privacy represent potential risks for consumers. Biased information could result from conflicts of interest between the platform operator and platform participants, e.g. if the platform operator is itself an active participant on the platform.

Platforms with a business model based on the collection of data (e.g. Facebook or Google) may not have an incentive to provide high standards of privacy to their users. In addition, it might be difficult for consumers to defend themselves against biased search results, rankings or distorted information—provided they are even aware of such issues—, because they would have to resort to cumbersome civil law procedures in many jurisdictions.

### *Competition in the digital era*

There is no consensus among researchers about the possible impact of online platforms on market power. Over the last two decades, online platforms have intensified competition by reducing search, switching and transaction costs and making it easier for consumers to shop for the product that best matches their needs. Platform strategies are, however, likely to change over time due to the specific dynamics of platform markets.

The role of data as a market entry barrier has increasingly been emphasised. Large volumes and a large variety of data collected by platforms may be a source of competitive advantage over traditional firms. If new entrants are unable to collect or buy access to the same kind of data in terms of volume and/or variety, they would face a de facto market entry barrier.

In the presence of market entry barriers, large platforms may act as gatekeepers for their users and assume a position of a buyer's monopoly (monopsony), or oligopoly.[1] Their position may enable them to capture a disproportionate share of the value provided by insurance, e.g. by charging excessive commissions. For example, a survey by an Australian regulator revealed that some platforms charge their participating insurers commissions of up to 79% of the premium paid by consumers.

### *Implications for public policy*

The platform economy has the potential to deliver substantial economic and societal benefits. At the same time, the rise of online platforms creates new challenges for consumer protection and competition policy. Inherent features of platform markets such as network effects and data-driven economies of scope may ultimately lead to large platforms that act as a gateway for consumers. To the extent that market entry barriers exist, such platforms could abuse their position by charging excessive prices to one or several user groups, or by extending their dominant position to adjacent markets.

In order to ensure a thriving and competitive marketplace, policymakers should consider the role of data as a production factor and a potential barrier to entry when assessing market power and potential anti-competitive conduct. Competition authorities are advised to pay particular attention to practices that have the potential to create market entry barriers, such as best price regimes (often called 'MFN clauses'). Even so, transparency and non-discrimination requirements for online platforms—such as those imposed on Google by the EU Commission in its antitrust litigation—may play an important role in ensuring consumer trust and a competitive insurance market place in the long term.

1 A buyer's monopoly–or monopsony–is a market condition similar to a monopoly. However, in a monopsony, a large buyer, not a seller, controls a large proportion of the market and drives prices down.