

The Chilean Electronic Market for Annuities (SCOMP): Reducing Information Asymmetries and Improving Competition

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Resumen

The Chilean electronic market for annuities was created in 2004 in order to correct several malfunctions of the market for annuities. The Chilean pension system is composed of two phases. During the accumulation phase, savings are collected and managed by asset managers. The payout phase consists of pension payments mainly in the form of annuities and programmed withdrawals (offered by life insurance companies and pension fund administrators, respectively). The SCOMP or Electronic Consultations and Offers System for Annuities and Phased Withdrawals replaced the traditional way pensioners looked for and bought retirement products in the Chilean market. This electronic quotation system was created to help reduce search costs, as well as to allow pensioners to choose the best available deals offered by providers. Overall, this paper finds that, after controlling for other regulatory changes and the main determinants of annuity rates, the new quotation system raised annuity payments by 15 per cent. The database used for the econometric analysis goes from January 2001 to June 2008, with the implementation of the SCOMP located at the middle of the sample, and considering all 131,226 annuity policies sold during this period. The exogenous variables explaining the level of the annuity rates are a combination of individual and provider characteristics, given that the estimated equation corresponds to a reduced-form representation of the underlying structural supplydemand model for annuities.

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