



Vip Patel's Treatment Plan for the E-health Insurance Business

Published : April 11, 2001 in [Knowledge@Wharton](#)

Although the e-commerce sector has clearly suffered an unrelenting fall in its fortunes, Vip Patel, 38, founder and chairman of eHealthInsurance Services, Inc. in Sunnyvale, Calif., believes it would be wrong to paint the whole e-commerce sector as unworkable.

Good Internet companies based on sound economic principles and solid fundamentals exist and are thriving, while the publicized failures are the result of poor execution, unfocused strategies and low-margin products or businesses that simply don't make sense on the Internet, Patel said during a talk on April 6 sponsored by the Leonard Davis Institute of Health Economics.

In his speech, titled "From e-Commerce To e-Healthcare: Characteristics of a Thriving Exception," Patel made the case that his Internet health-insurance brokerage will be a success story, although his company is not yet profitable.

The 180-employee eHealthInsurance offers thousands of insurance products online in 50 states and has written policies in 43. It carries on its web site 4,000 different health plans, with their applications, from 54 carriers. It is a private company and does not disclose the number of policies it has written, but its literature describes the company as a "leading distributor of health insurance to individuals and families, online or offline, and one of the few companies that sells health insurance to individuals and businesses nationwide."

Its target customers are individuals and small businesses employing between two and 50 people. This is an under-served segment of the insurance market, Patel says, because the "corner (insurance) broker" typically concentrates attention on large employers and the sizeable fees they generate. eHealthInsurance earns a monthly commission of about 10% on policies done via the web.

The ehealthinsurance.com site was designed with the goal of boiling down a complicated task to something closer to "brain-dead simple," Patel said. It uses sophisticated software to direct people to the health-care offerings in their state and attempts to further narrow their choices based on price and needs. As for attaining the goal of simplicity, "We have a long way to go, but we're the best thing out there," Patel noted.

Volumes of health-care insurance information are stored on the web site. A small number of health plans will electronically approve a person's application, if the applicant is a healthy individual. Otherwise, a person will be required to visit a physician as part of the approval process, as he or she would with a traditional application process.

About 90 executives, managers, programmers and marketers work at the company's Sunnyvale office. eHealthInsurance Services employs another 90 people to answer questions from web site users and help customers with problems on coverage or reimbursement. "We only hear about the dissatisfied customers after going to bat for them," Patel said in response to a question about the quality of the carriers on the site.

The last few years have allowed the company to jump out in front of the insurance industry in building its web site and business, and the firm now enjoys a significant strategic advantage, Patel said. "Our biggest problem has been assembling the supply. We have had to go state-by-state. Health insurance is a bundle of health services. It's a local product and must be built zip code-by-zip code and town-by-town. There are significant barriers to entry."

Down the road, Patel hopes to sign up new carriers to boost competition and lower health-care insurance



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prices for consumers. "I would like us to be a tool that makes the market more efficient," he said.

eHealthInsurance was started in 1997 and has received three rounds of venture capital funding totaling \$85 million. The most recent infusion came in January when an investor group, led by venture capital firm Questmark Partners and the Sprout Group, a division of Credit Suisse First Boston, gave the company \$32 million. As part of the funding, the third-round venture group put a valuation of \$100 million on eHealthInsurance, which is slightly lower than a previous valuation in late 1999, the company's chief executive officer, Gary Lauer, noted in a recent *Wall Street Journal* article.

"We are not an exception yet; we have not reached our profitability point," said Patel, who previously worked at Hewlett-Packard, Healtheon/WebMD and Silicon Graphics. "We have not made back the money that we have thrown at the problem." But he said the most recent round of venture capital "should last well beyond the profit point, which should be the first quarter of 2002."

Patel said he spends about 95% of his time pushing for legal reforms that will extend health-care insurance to an estimated 44 million uninsured Americans. He has spoken to elected officials at the national and local levels, and other organizations, on the topic. He and his company hope to promote measures that will cut the number of uninsured in the U.S. by half by 2010.

In an interview with *Knowledge@Wharton* after his presentation, Patel noted that his interest in this issue stems from experiencing first-hand what it means to have no health insurance. "After I graduated from school, I had no job, no health insurance, and I got food poisoning," he said. "I was really sick and went to my student health facility [where] I was told to go to the county hospital. I didn't know where that was, so I lay rolling in pain on the floor of my friend's room. I got worse before I got better."

To assist those who might be caught in similar circumstances, eHealthInsurance supports using federal tax credits to help uninsured and low-income individuals get health insurance. The tax credits, as they have been presented in Washington, would be worth about \$1,500 for an individual and \$2,500 to \$3000 for a family.

In a letter dated April 3, sent to House Majority leader Dick Armey, a Republican from Texas, the company noted that an analysis of 20,000 approved applications on the eHealthInsurance web site showed that a tax credit would be a significant benefit. The letter pointed out that 40% of the 20,000 approved applicants were previously uninsured. Many of the remaining uninsured, Patel noted, are employed by small business owners – eHealthInsurance's primary customers.

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