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COMPETITOR UPDATE

TO: DISTRIBUTION

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IF YOU HAVE TIMELY COMPETITOR INFORMATION THAT YOU CAN FORWARD TO REFUTE ANY OF THE INFORMATION PRESENTED OR ADD TO THE COMPLETENESS OF THE EMERGING SITUATION ANALYSIS, MARKETING RESEARCH WOULD BE EXTREMELY INTERESTED IN YOUR INPUT.

METROPOLITAN LIFE INSURANCE COMPANY - TRAVELERS INSURANCE COMPANY JOINT VENTURE

Metropolitan Life Insurance Company and Travelers, Inc. signed a letter of intent yesterday to combine their group health insurance businesses into a new company with a long term strategic focus on managed care. The new company, which is yet to be named, will be the country's largest provider of health care insurance, covering approximately 13 million people in 42 states.

Travelers and MetLife will each own 50% of the new company. Travelers will contribute $370 million to capitalize the company, while MetLife will pay $280 million but will bring more managed care networks and members to the organization. Most of Travelers' contribution will come from the sale of its group life business to MetLife for $350 million. MetLife will also acquire Travelers' remaining non-medical group business. The companies plan to sign binding agreements by September 1st, and pending state and regulatory approval, expect the two-part deal to close by 1/1/95.

Wall Street was quick to register its approval, as shares of Travelers, Inc. rose $2, or 6%, to $35.50. Many analysts and health care experts, though, are skeptical as to whether sheer size alone will ensure long term success. Travelers and MetLife are widely seen as laggards in the conversion of indemnity business into managed care business. Of the two carriers' current 13 million health insurance customers, MetLife has about 3.1 million enrolled in HMO or PPO arrangements, compared with Travelers' 1.8 million, leaving about 8.1 million customers who buy indemnity policies. Only 17% of the two companies' total group health business is HMO. Former United Health Care Corporation CEO Kenneth Simmons, who will head the new company, acknowledged that none of the company's HMOs will rank in the top five by market share in any of their respective locations, and will have a significant presence in not more than ten of about 70 markets in which it will compete.

If the new company can convert its traditional indemnity base into HMO enrollment over time, then it will become a formidable competitor. Mr. Simmons is expected to cut costs by reducing duplicated services and overhead, producing substantial savings that can be directed toward investment in HMOs and managed care.