

August 5, 2011

## ***TOWARDS A NEW ERA FOR ECONOMICAL:***

### **DEMUTUALIZATION PROGRESS REPORT VIII**

In the month since our last report to you, Economical has passed an important milestone on the road to demutualization.

**Submission to public consultation on regulations:** On July 30, Economical filed its submission with the Federal Department of Finance in response to the department's request for public comment on its consultation paper "*Demutualization Framework for Federal Property & Casualty Insurance Companies*". As you know, regulations governing demutualization were developed for the mutual life companies in the 1990s but do not currently exist for Federally regulated P&C companies, such as Economical. The government's consultation paper asked for written public input on a series of questions, generally focused on what, if any, differences there should be in demutualization regulations for P&C companies from those that guided the life company process.

Economical's submission provides detailed answers to each of the Finance Department questions and reiterates the Company's commitment to demutualization as being in the best interest of all its stakeholders, the industry and consumers. The submission is 43 pages long, but its principal conclusions can be summarized as:

- the policy objectives and demutualization process for the demutualization of federally regulated P&C mutual insurance companies should be essentially the same as those reflected in the regulations used for the demutualization of federally regulated mutual life insurance companies – the *Mutual Company (Life Insurance Conversion Regulations)* – which have proven to be robust and effective;
- mutual policyholders of federally regulated P&C mutual insurance companies enjoy at least as strong ownership rights as participating policyholders of federally regulated mutual life insurance companies and, accordingly, have exclusive rights to demutualization benefits, as did the participating policyholders of the demutualized federal mutual life companies;
- holders of mutual (i.e. voting) policies are the only policyholders of a federal P&C mutual insurance company who should be entitled to vote on a demutualization and to receive demutualization benefits;
- permitting federal P&C mutual insurance companies to demutualize would affect so few companies and such a small percentage of the overall Canadian P&C industry that we do not believe there would be any material adverse impacts; and
- Economical needs to demutualize in order to compete more effectively over the long term with the large publicly held P&C companies that operate in Canada.

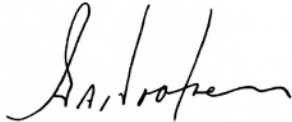
The full submission is available at the Company's website: [www.economicalinsurance.com](http://www.economicalinsurance.com). Mutual policyholders can also request a printed copy by calling 519 – 570 – 8500 ext 48386 or email [getthefacts@teig.com](mailto:getthefacts@teig.com).

Your Board is encouraged by the progress being made in the development of effective Federal demutualization regulations and the timely efforts being made by the Department of Finance. Like you, we await the government's response to the submissions it has received.

**Corporate progress on the demutualization plan:** Meanwhile, our internal work continues on schedule led by our new President and Chief Executive Officer Karen Gavan under the direction of the Special Committee and Board of Directors. Economical is one important step closer to the development of P&C demutualization regulations which are key to our process. When the new regulations are clear, we can make the crucial decision about which of our two tracks is best for Economical and its stakeholders: an initial public offering (IPO) or a sponsored demutualization.

We cannot predict the timing of the new P&C demutualization regulations, but you can be assured your Board and the Special Committee are doing everything possible to be ready to act when that time comes. We will continue to keep you informed with these regular Progress Reports, and would be pleased to answer any questions you may have. Please feel free to contact us, or our CEO Karen Gavan at [karen.gavan@teig.com](mailto:karen.gavan@teig.com).

Sincerely,



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