

January 14, 2011

## ***TOWARDS A NEW ERA FOR ECONOMICAL: DEMUTUALIZATION PROGRESS REPORT***

When the Board of Economical announced its decision to pursue demutualization on December 14, we promised to keep you informed of the progress of the Special Committee that has been given the mandate to oversee this important step. This is the first of our planned updates and, although it is very early in what will be a complex initiative, there are already several things to tell you.

First, we can tell you now that your Company is very well positioned to undertake demutualization. We have emerged from the worldwide financial crisis of 2008 and 2009 with much improved results for 2010, the year just completed. We don't have the final numbers yet, but we are expecting significant improvement in the key measures of profitability such as the combined operating ratio, claims ratio, and net profit. We are forecasting an increase of 6% to 7% in Policyholders' Surplus for the year. What is particularly encouraging is that the final three months of 2010 are expected to be one of the Company's best quarters in the past three years.

Against that backdrop, the Special Committee has been proceeding down the two alternative tracks described in the initial announcement: *conversion*, through an initial public offering into a corporation with shares traded on a stock exchange, or *sponsored demutualization* which would involve a transaction with a strategically aligned company that would invest to acquire a significant ownership position in Economical.

Actions since December include:

- We have met with officials of the Department of Finance, which has responsibility for developing regulations to govern the demutualization of property and casualty insurance companies. As we informed you earlier, no such regulations currently exist and Economical will need to work with the government to make our demutualization possible.
- We also met with the Office of the Superintendent of Financial Institutions, which is the regulator for our industry, to discuss its role in the demutualization.
- We can report that a number of qualified third parties have expressed to us an interest in a transaction such as the sponsored demutualization.
- We have created an internal project team that has been assembling company and financial information to be used in confidential discussions with interested parties. Our financial advisor, Blair Franklin Capital Partners, has been actively engaged in the development of this

information, working with Company executives. This work includes the development of a secure electronic data site which will be used to facilitate discussions with third parties.

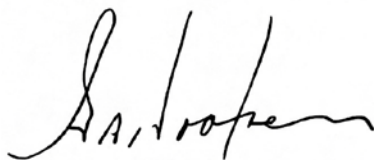
- As part of our responsibility to protect the interests of mutual policyholders, we have applied to the Ontario Superior Court of Justice for a determination as to the legality of the proposals submitted by mutual policyholders led by VC & Co. Advisory Limited on December 30, 2010. We hope to have a decision from the court soon.
- We have engaged the accounting firm Deloitte to review Economical's financial reporting to ensure it meets reporting practices for public companies. The Company has hired an interim Chief Financial Officer, Phil Mather, effective January 10, a senior partner with the accounting firm PWC, who has extensive insurance and public company experience.
- We have also engaged KPMG to consult with our Chief Actuary in this process.

All these steps are designed to capture the advantages of demutualization. For the Company, it removes the current restrictions on raising capital that can be used to invest in the business to allow for greater competitiveness and growth. We also expect significant direct financial benefits for mutual policyholders, but specifics have yet to be determined.

We believe demutualization is the right direction for the Company and are committed to ensuring that it is achieved in the best interests of Economical and all the Company's stakeholders. These include our brokers, employees, customers, communities and, especially, our mutual policyholders.

Your Board is expediting the development and implementation of our demutualization plan, which is continuing on schedule. There is much work ahead, but we are pleased with our progress to date and will continue to provide you with regular updates. Meanwhile, if you have any questions, we encourage you to contact us. To help make communications more timely, we invite you to provide us with your e-mail address if you have not already done so. You can email us at [getthefacts@teig.com](mailto:getthefacts@teig.com).

Yours sincerely,



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