

July 7, 2011

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

Since our last report to you on June 13, there have been some important developments at your Company and in the progress of the demutualization of Economical.

**Public consultation on regulations:** The Federal Department of Finance released its paper “*Demutualization Framework for Federal Property & Casualty Insurance Companies*” on June 30 and called for public comment and consultation. The paper notes that regulations governing demutualization do not exist for P&C companies although they were developed for the mutual life companies in the 1990s. It refers to the principles that guided the life company demutualizations and, while acknowledging the differences between life and P&C companies, asks for input from the public about whether other factors should be considered for P&C demutualizations, including Economical’s.

Since the government plays such a central role in our demutualization, we are pleased that it has acted so promptly to advance the development of regulations for the demutualization of property & casualty insurers, as promised in the last Federal Budget. We are also gratified that the principles raised by the Department of Finance are closely aligned with the objectives of Economical’s own demutualization process. These include: fair and equitable treatment of policyholders; maintaining the safety and soundness of the Company; enhancing efficiency and competition, and; an orderly and transparent process.

The Department of Finance is welcoming written submissions from all interested Canadians until July 31, 2011 and, if given permission by the submitting party, will post them on its website. We believe this open process strikes the right balance between providing sufficient time for submissions and avoiding undue delay in the vital development of regulations that will allow our demutualization to proceed in a timely way. The Company will, of course, make its own submission this month and it will be available at our website [www.economicalinsurance.com](http://www.economicalinsurance.com)

**Appointment of President and Chief Executive Officer:** On June 21, Economical announced the appointment of Karen Gavan as the Company’s new President and CEO, replacing Katherine Mabe who resigned for personal reasons. Ms. Gavan should be familiar to you by now. She has been a Director since 2008 and Chair of the Special Committee on demutualization since its creation last year. She has more than 25 years’ experience in the Canadian financial services industry and was formerly the Chief Operating Officer and Chief Financial Officer of Transamerica Life and AEGON Fund Management Inc. Prior to that, she held senior management positions with Imperial Life Assurance Company and with Canada Life Assurance Company during its demutualization. She is a Chartered Accountant, a Fellow of the Institute of Chartered Accountants of Ontario and holds the ICD.D designation from the Institute of Corporate Directors.

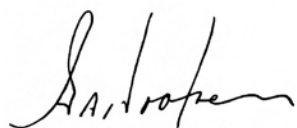
In the Board’s view, Karen’s proven leadership and her knowledge of the Company and its stakeholders make her an excellent choice to lead the management team as it completes the demutualization and positions Economical to be an even stronger competitor in the future.

**New Chair of the Board's Special Committee:** As a result of her appointment as President and CEO, Ms. Gavan is no longer considered an independent director under best corporate governance practices and is not eligible to sit on the Board's Special Committee overseeing the demutualization process. John Bowey has been selected by the Board to be the new Chair of the Special Committee. He was elected to the Board at the May 26<sup>th</sup> Annual and Special Meeting and was appointed to the Special Committee at that time. Mr. Bowey spent more than 30 years at the accounting firm Deloitte and was named Chairman for Canada in 2006. He was also a member of the global Board of Deloitte and its global Governance Committee and Audit Committee. Mr. Bowey retired from Deloitte in 2010. He has served on a number of corporate and not-for-profit boards including Princess Margaret Hospital Foundation, Wilfred Laurier University, and Brick Brewing Co. Limited. He was named a Fellow of the Institute of Chartered Accountants of Ontario for his professional and community contributions.

**Progress on the demutualization plan:** The development of P&C demutualization regulations remains the pivotal step in our process. When we have a solid understanding of the new regulations, we can make our own key decisions such as whether to pursue either an initial public offering (IPO) or a sponsored demutualization as being in the best interests of the Company and its stakeholders. Meanwhile, our actuaries continue to examine the allocation of benefits to mutual policyholders, in consultation with our regulators. We are also working with our two investment banks on the IPO alternative and with our financial advisor in discussions with interested parties on the possible sponsored demutualization.

Your Board and the Special Committee are very encouraged by these developments. Each marks an important and supportive step towards demutualization of Economical. We will continue to keep you informed with regular Progress Reports, and welcome any questions you may have. Please feel free to contact me, John Bowey, as Chair of the Special Committee at [john.bowey@teig.com](mailto:john.bowey@teig.com), 519-570-8500 extension 42997, or Karen Gavan in her new role as CEO at [karen.gavan@teig.com](mailto:karen.gavan@teig.com), 519-570-8208.

Sincerely,



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