

December 10, 2010

BOARD ANNOUNCES DEMUTUALIZATION OF ECONOMICAL MUTUAL

An Important Strategic Step To Delivering Value

Dear

As you know, the Board of Directors created a Special Committee of independent directors which, with the help of its own financial and legal advisors, has been evaluating strategic alternatives to deliver the maximum possible value to you. This committee was formed to examine strategic alternatives about a potential transaction several months ago.

We are pleased to advise you that the Board has unanimously accepted the Special Committee's recommendation that Economical Mutual immediately undertake a process to convert the Company from its existing mutual ownership structure to a share capital corporation. This would make Economical Mutual the first property and casualty insurance company in Canada to demutualize. The conversion is targeted to be completed in 2011, subject to approval by mutual policyholders, the industry regulator, the Office of the Superintendent of Financial Institutions (OSFI), and the Minister of Finance.

The Board of Directors has determined that demutualization holds the greatest potential benefits for the Company and is in the best interests of the Company and all its stakeholders, including our mutual policyholders.

The mutual insurance company structure has served the company well, providing stability and the ability to maintain a long-term perspective. However, the structure restricts the Company's access to capital to fund growth in a highly competitive and consolidating industry. Demutualization will help us remove this restriction.

The Board, through its Special Committee, will develop and execute a plan to demutualize. The Special Committee has examined several alternative approaches and, at this stage, intends to focus on two:

- *conversion*, through an initial public offering, from a mutual company to a public corporation with shares traded on a stock exchange;

- a *sponsored demutualization* which would involve a transaction with another strategically-aligned company that would invest in Economical to acquire a significant ownership position, perhaps as much as 100%.

This dual-track approach allows us to focus on maximizing long-term value for mutual policyholders, while considering the interests of our other policyholders, brokers, employees and community

We intend to expedite this process and to be prepared to present a final recommendation as well as the details and schedule of the demutualization plan no later than the next annual meeting scheduled for May 26, 2011. The Board has instituted a moratorium on the issuing of new mutual insurance policies.

The timing of this process will largely depend on our work with the regulators who will be responsible for oversight of an entirely new development in the Canadian financial services sector and one that may require new regulation and new legislation. When completed, we expect there will be significant direct financial benefits for mutual policyholders but, at this point, no one can predict the timing or the size of the benefit individual mutual policyholders will receive.

In our previous letter, we made you aware of the efforts of VC & Co. to persuade mutual policyholders to sign an irrevocable six-year agreement. We advised you that it was not in your best interests to sign these agreements with VC & Co. which would only result in you paying substantial fees to VC & Co. for its promise to pursue the very course of action the Special Committee was examining. With the Board's decision to pursue demutualization, VC & Co.'s efforts will serve no purpose except the potential enrichment of VC & Co. We continue to recommend that you ignore VC & Co.'s attempt to exercise control over the future of your Company.

Economical Mutual is undertaking a complex and innovative process that is best managed by the current Board which understands both its duty to you and all aspects of the Company and our industry.

We will continue to provide you with updates as we progress towards demutualization. If you have any questions, we encourage you to contact your broker or us directly.

Yours sincerely,

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