

April 29, 2011

## Economical Mutual Members: *Now* is the time to vote the BLUE proxy

### Proxy Voting Deadline is Monday, May 16 at 1 pm

- **Support the Board's Demutualization Plan**
- **Say NO to VC & Co.'s proposed change with no benefit**

Dear Member:

The deadline for voting your BLUE proxy for the Company's crucial Annual and Special Meeting is only days away. We are writing you now to remind you how important your vote is to the future of Economical. We ask you to complete and return the BLUE form of proxy to ensure your voice is heard at the meeting.

As you know, the Board of Directors has determined that demutualization is the best strategic direction for Economical. It also holds significant financial benefits for you. The question you are being asked to decide at the Meeting is who should guide the Company through that process: the Board that began it, has advanced it, and is committed to completing it for your benefit - or the VC & Co. nominees whose motivation is questionable.

VC & Co.'s Dissident Proposal offers no alternative to what the Board is already doing, except for extracting value from the Company that is rightfully yours. While VC & Co.'s promises are empty, its threat to the Company is not.

**As a Member, you have a vote. Every vote is needed to support the Board's demutualization. We urge you to submit your BLUE proxy today to be sure your vote is counted.**

We have been contacted by many members over the past three weeks and have been answering their questions. We want to take this opportunity to tell you more about some of the key areas they have been asking about:

#### **The Board's Commitment to Demutualization:**

There can be no doubt that this Board is fully committed to completing the demutualization of Economical expeditiously in the best interests of the Company and to provide members with the greatest possible financial benefit. As we said in our April 15<sup>th</sup> letter to you:

***"That commitment remains in place and is not in question – there is no turning back."***

If further evidence is needed, we have included in this mailing a *Commitment to the Mutual Policyholders of Economical Mutual* signed by every independent member of the Board of Directors. You will see that it not only reinforces our commitment to demutualization but also to preserving the values that have made Economical a company you can be proud to own.

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**Vote only the BLUE proxy to reject the Dissident Proposal. Discard the Yellow proxy.**  
**For more information, contact the Company toll free at 1-800-265-9996 ex. 42997 or e-mail**  
**karen.gavan@teig.com**

**Update on Activities:**

The Special Committee is continuing to work to advance the two paths to demutualization. Discussions continue with a number of third parties who have expressed an interest in a sponsored demutualization transaction. These include Canadian and international insurance companies, as well as financial companies from outside the industry. At the same time, the Special Committee has received proposals from several investment banks seeking to lead a potential initial public offering of Economical shares. We expect to announce our choice within a few days.

The Company also expects to announce the financial results for the first three months of 2011, ended March 31. All expectations are that they will reveal that the trend towards stronger financial performance shown in the latter part of 2010 is continuing.

VC & Co. has brought yet another application to the Ontario Superior Court of Justice which was heard on April 29. VC & Co. sought to require the Company to send repeated dissident communications to you. We expect the court to make a decision on Monday, May 2. The Court may decide that you should receive even more communications from VC & Co., but we can assure you that VC & Co. will not have your personal contact details and should not be able to call you, which we know has been a concern.

We are aware that VC & Co. is attempting to organize a meeting of mutual policyholders in an effort to promote the dissident position. You should be aware that, if you attend, you will almost certainly be required to register and divulge your contact information to VC & Co. If you do, the Company will no longer be able to protect your privacy; VC & Co. will then be able to contact you directly at your home or work.

**Allocation of Financial Benefits of Demutualization to Members:**

This is a key issue and the Special Committee, with the assistance of its advisors and the management of Economical, has focused considerable effort on it to date. While our work has not been completed, and whatever is developed—by the Board or anyone else—must be approved by our regulators before our demutualization can proceed, we are being guided by the following:

Because there has never been a demutualization of a Canadian property & casualty company under the current Insurance Companies Act, we have examined precedents within the broader insurance industry in Canada and internationally. These precedents, along with demutualization regulations in place for Canadian life insurers, are directing us to a model where the allocation would consist of two financial components:

1. a component which would be a uniform fixed amount payable in equal shares to all mutual policyholders, and;
2. another component which would vary from policyholder to policyholder, based on a formula which will consider various factors such as length of time as a mutual policyholder with Economical.

In the case of the Canadian life insurance demutualizations, the uniform fixed component represented a smaller proportion of the aggregate amount distributed (between 15% and 25%), while the variable component represented the majority of the aggregate amount distributed to policyholders.

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We believe it is important for members to understand that the final benefit allocation will be based on criteria set out in the regulations to be determined by the Minister of Finance – not by Economical. Unlike VC & Co., we do not want to make promises that are not in the Company's power to keep. Neither VC & Co. nor the Board will determine the ultimate value of your mutual policy. However, we recognize Members' interest in this question and want to provide our views and the approach we have already suggested to our regulators.

### **How You Can Help the Demutualization Process and Your Company:**

Make no mistake: your Company is under threat from people who may not have your best interests at heart.

The most important thing you can do is vote the BLUE proxy as soon as possible. If you have already done that, or intend to, you can help further by contacting any other mutual policyholders you may know and encouraging them to also vote the BLUE proxy. If you do, you are doubling or tripling the weight of your vote and increasing the likelihood that your views will be reflected in the vote at the meeting. We are here to help you, so please contact us if there is anything we can do.

If you or the people you know need another BLUE proxy—if it is lost or you mistakenly used the yellow proxy—we will quickly send you another. *Time is of the essence now.*

### **How to Vote:**

- **If you have already voted using your BLUE form of proxy, you do not need to do anything more. Thank you.**
- **If you have not yet voted:**
  - We are including with this mailing another copy of the BLUE form of proxy that was sent to you with the Management Proxy Circular dated April 11, 2011. Using the BLUE proxy is simple, convenient, and guarantees that your vote will be counted if you choose not to attend or if, for any reason, you are unable to attend the Annual and Special Meeting on May 26. However, under Economical's By-laws, the deadline for submitting the BLUE proxy is 1:00 p.m., Monday May 16<sup>th</sup> 2011.
  - Please complete this BLUE form of proxy now and return it by pre-paid courier using the enclosed waybill.

The Board of Directors of Economical unanimously recommends that you vote:

FOR Resolution 1: Vote For Each of Economical's Director Nominees;

FOR Resolution 2: Vote For the Appointment of the Auditors, Ernst & Young LLP;

AGAINST Resolution 3: Vote Against the Ouster of All of the Current Directors and their replacement by the Board of Directors with Nominees selected by VC & Co. Advisory Limited, the Toronto firm that organized the dissident mutual policyholders.

- **If you have voted using the YELLOW form of proxy:**

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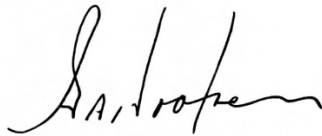
- Please complete the BLUE form of proxy now and return it by pre-paid courier using the enclosed waybill (if you wish to change your vote and support the Board and management of Economical).

We are confident you recognize the importance of the key question to be decided at the Annual Meeting for the future of Economical and you, as well as our responsibility to keep you informed. The intrusion of this vital matter into your life was unavoidable. Unfortunately, the Court may decide you will be receiving more materials from VC & Co. You can disregard them, if you choose.

On the other hand, if you believe you do not have sufficient information to make an informed decision for the Annual and Special Meeting, it is available at the website [www.economicalinsurance.com](http://www.economicalinsurance.com) or by calling us at 519-570-8500 ex 42997 or emailing Karen Gavan, Chair of the Board's Special Committee at the address below. We would be pleased to answer any questions you may have.

We thank you for your continued support and, once again, urge you to vote your BLUE proxy right away if you have not done so already.

Sincerely,



Gerald Hooper  
Chairman of the Board  
Phone 519-570-8280  
Email: gerald.hooper@teig.com



Karen Gavan  
Chair of the Special Committee  
Phone: 519-570-8500 x 42997  
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