

November 24, 2010

Corporate Response: Solicitation of Mutual Policyholders (1 of 2)



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IMPORTANT: DO NOT SIGN AWAY YOUR INTEREST IN ECONOMICAL MUTUAL

Recently you may have been contacted by a company called VC & Co. or you may have seen a newspaper advertisement asking mutual policyholders of Economical Mutual Insurance Company to call them.

Your Board of Directors believes it is vitally important that you understand what VC & Co. is attempting to do:

VC & Co. wants you to pay them while they take control of your Company. It is not in your best interests to cooperate.

VC & Co. is asking mutual policyholders to sign a contract that, in effect, gives VC & Co. the right to organize an attempt to replace your elected Board of Directors. It would install its own undisclosed nominees and then pursue a course that could lead to the sale of part or all of the Company, a merger or re-organization. The outcome is unknown. This is presented behind a legalistic smokescreen of acting for the benefit of all mutual policyholders. In fact, it appears to be about collecting fees from you and weakening the Company so that it could potentially be sold to a third party at well below fair value.

Here are some facts to consider:

- You already have a Board of Directors that has been elected by you and that has a fiduciary duty to act in the best interests of the Company – and you. The Board has created a Special Committee with a mandate to evaluate alternatives to deliver the maximum possible value to you. VC & Co. is not promising to do anything your Board and the Committee are not already doing.
- The difference is that VC & Co. wants to take part of your financial interest in the Company. Under its agreement, VC & Co. would be entitled to 12.5% of *any* proceeds that would be payable to you for the next six years, other than normal course dividends or premium refunds. The agreement is irrevocable and VC & Co. would expect payment even if it does not succeed in replacing the Board and even if any amounts payable to you were the result of actions in which VC & Co. played no role at all.
- At a minimum, mutual policyholders who sign the agreement are being asked to require your Company to pay \$1 million in fees to VC & Co. if it succeeds in replacing the Board with its own hand-picked nominees.
- By signing the VC & Co. agreement, you would give it irrevocable authority to receive payment directly from the Company, before you received anything.
- If successful, VC & Co. would also be entitled to have any expenses reimbursed by the Company, which effectively means you would pay *again*.
- Since the fees and expenses would be paid directly by the Company if VC & Co. is successful, the financial interest of all mutual policyholders would be diminished to pay for an agreement that not all of them signed.

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- In return for signing over a significant share of your financial interest in the Company, you are not being given any specific information about what VC & Co. will do with your Company if it is successful in installing its own directors and gaining control of the Board. It has not disclosed who it would nominate and whether they would be qualified to sit on the Board. There can be no assurance that its nominees would act in your interests or solely in the interest of VC & Co.
- VC & Co. provides no information about its intentions for the Company's employees, other policyholders or vital broker relationships.
- One of the options it proposes is the demutualization of Economical Mutual. There is no precedent in Canada for the demutualization of a property and casualty insurance company and there are no regulations in place to permit or govern such a change. The process and potential outcome are unknown.
- The large fees that VC & Co. wants to collect from you and your fellow mutual policyholders may be sufficient motivation for it to undertake this disruptive course of action. However, it does not disclose if it is acting on behalf of another company or individual. It is not clear whether there is a conflict of interest in its efforts.
- VC & Co.'s interest in taking control of Economical Mutual is understandable: your Company has grown significantly over the past several years and has successfully withstood the most recent financial and economic crisis – under the guidance of your current Board.

The essential truth is this:

VC & Co. is attempting to gain control of your company. But rather than offer you a fair price for your interest, it wants to charge you a substantial fee instead.

Your Board is convinced that it is not in your interests to pay VC & Co. and give it the power to control your Company. We urge you not to sign the agreement and to ignore any contact it attempts to make with you.

Your Board and the Special Committee, with the assistance of legal counsel and an independent financial advisor, are actively seeking avenues to make your interest in Economical Mutual more rewarding. We ask you to wait until this review is completed before taking any action.

We will contact you about any new developments. In the meantime, if you have any questions, we encourage you to contact your broker or to speak to us directly by calling us or by email.

Yours sincerely,



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