
You Need to Make A Crucial Decision to Protect Your Interests. Now.

Dear Members,

On behalf of the Board of Directors of Economical Mutual Insurance Company, we are pleased to invite you to join us at the 2011 Annual and Special Meeting of Members of Economical on May 26, 2011 at 1:00 p.m. (Eastern Time) in Bingemans Marshall Hall at 425 Bingemans Centre Drive, Kitchener, Ontario.

This Annual and Special Meeting is one of the most important in the 140-year history of Economical. It will provide you with an opportunity to learn more about the Board's initiative to transform the Company through demutualization, a process designed to strengthen Economical's ability to compete effectively in a changing industry, as well as to deliver significant financial value to you as a mutual policyholder.

YOUR VOTE IS IMPORTANT

You will also make a vital decision about who should guide the critical demutualization process on your behalf, through the votes to be held for the meeting. Your choice will determine whether demutualization – the future of the Company – is overseen by the current Board you know. The alternative is the removal of the entire Board and its replacement by so-far-unnamed nominees proposed by a small group of dissident mutual policyholders. The Dissidents are led by VC & Co. Advisory Limited, a financial activist firm with no prior involvement with Economical but with significant ties to a competitor which recently proposed to take over Economical. If it succeeds in replacing the Board, VC & Co. wants its director nominees to have the Company pay the substantial fees and the expenses for its activities – a potential cost of millions of dollars that will diminish the value of Economical and what you will receive on completion of the demutualization.

The business to be conducted at the meeting is described in detail in the enclosed Management Proxy Circular. We urge you to read it and to use the BLUE form of proxy to vote as recommended by your Board on three resolutions:

Resolution 1: Vote FOR the election of Economical's nominees to the Board of Directors

Resolution 2: Vote FOR the appointment of the auditors

Resolution 3: Vote AGAINST the ouster of all the current directors and their replacement by the Dissident Nominees

Voting is simple by using the enclosed BLUE form of proxy. Members may complete, sign and return the BLUE form of proxy by following the instructions on the proxy and provided in the Circular. Alternatively, you may vote in person at the Meeting.

The enclosed Management Proxy Circular provides the full background and reasons for the Board's recommendations, but we have summarized them here.

DEMUTUALIZATION: BENEFITS FOR YOU AND YOUR COMPANY

On December 14, 2010, your Board announced that it had begun a process to demutualize Economical, meaning that it will convert from a company with its mutual policyholders as its only voting members into a corporation with share capital and shareholders. This important decision followed a recommendation from a Special Committee of independent directors that demutualization is in the best interests of the Company and its stakeholders, including the Members, based on three compelling factors:

- Economical needs to change its structure as our industry becomes increasingly competitive. The mutual insurance company structure has provided stability and the ability to maintain a long-term perspective.

However, it also restricts Economical's access to the additional capital required to continue to fund growth and to obtain strong ratings for "claims-paying ability" which will enhance competitiveness in the commercial insurance business. Our major competitors are not mutual insurance companies and do not face this capital restriction. Demutualization can level the playing field for the long term.

- The time is right. Economical has weathered the worst of the global financial crisis of the past few years. As our results for 2010 show, the Company is now in a much stronger position to demutualize.
- Demutualization provides Economical with the opportunity to realize the substantial value in the Company and deliver proceeds to Members in the form of cash or transferable shares. We expect the proceeds to be distributed will be significant and we are working with the Federal Department of Finance to determine the specific value allocation methodology.

As you know, no regulations exist that provide a framework for demutualizing property and casualty mutual insurance companies such as Economical. The process is complex, but we believe the model used in the demutualization of life insurance companies in the 1990s can be adapted. We have already made substantial progress and are confident that, with continuity of stewardship under your current Board, we can successfully complete the process. Following numerous Company meetings with, and submissions to, the Department of Finance, the Federal Government recently committed to developing a "fair and equitable" regulatory framework for the demutualization of federally regulated property and casualty mutual insurance companies.

Since the beginning, we have focused on proceeding toward demutualization down two alternative tracks: *conversion*, through an initial public offering of shares in the capital of Economical, to become a public corporation with shares traded on a stock exchange; and a *sponsored demutualization* or an asset transaction which would involve a transaction with a strategically aligned company that would invest to acquire a significant ownership position in Economical or acquire substantially all of its assets and liabilities. We are developing both tracks and comparing their benefits to you and the Company.

In just the past four months, your Board and the management team have made significant progress in advancing this process. We have reported on the steps taken in our update letters to you and at the Company's website www.teig.com. More information is provided in the enclosed Circular.

SUPPORT DEMUTUALIZATION AND YOUR BOARD

At the Meeting, we intend to provide you with more information about demutualization but there will be no vote on it at the Meeting. The Board will provide a detailed plan and recommend the preferred route to demutualization for your approval by a vote at a Special Meeting at a later date.

However, there will be votes recorded at the Meeting that will be vital to the outcome of the demutualization process and, therefore, the future of the Company. *Resolution 1* is the election of the three independent directors nominated by Economical to fill the available positions this year through the Company's traditional staggered election of directors. Two nominees are currently serving Directors and have been active in guiding the demutualization process. One nominee is new and brings both business experience and a fresh perspective. The election of these nominees provides you with expertise, continuity and commitment.

*Your Board believes that demutualization is in your interests – and that those interests are best served by maintaining the experienced, stable and committed Board that began the process and that will serve Economical and its Members effectively and appropriately through each complex step towards completion. For Resolution 1, we **recommend you vote the BLUE proxy in favour of the Economical nominees.***

*For Resolution 2, your Board also recommends that you **vote the BLUE proxy in favour of the appointment of Auditors.** This resolution is not affected by the Dissident Proposals.*

REJECT THE DISSIDENT PROPOSAL

The other critical vote is on a resolution proposed by the Dissident Members, led by VC & Co. Advisory Limited. *Resolution 3* is a Dissident Proposal that seeks – at this crucial time – to replace the entire Board with nominees selected by VC & Co.

Your current Board and Special Committee believe they are in the best position to complete demutualization while continuing their stewardship of the Company for your benefit. As well as having a wealth of experience with Economical, its community, and its broker network, the current Board established a relationship and dialogue with the Department of Finance who must develop the new framework to permit demutualization and must approve any demutualization or other reorganization. This experience, and these relationships, will be crucial as Economical reinvents itself to provide further value to its Members and to better serve its stakeholders.

There can be no assurance that a new board consisting of nominees hand-picked by VC & Co. can be relied on to serve the best interests of all Members. By definition, they will have been nominated to serve the interests of VC & Co. and the Dissidents, not you. Although VC & Co. has not yet identified the Dissident nominees, by definition, a new board will lack experience in Economical's business and will lack the strong track record of the current Board with the Company. VC & Co. is motivated by their fees and its nominated Board may pursue a transaction that delivers its fees but does not provide fair value to you.

*Your Board has carefully reviewed the Dissident Proposal and, based on its review, believes that Resolution 3 is not in the best interests of the Company and its Members. A Board selected by VC & Co. and nominated by the Dissidents may not provide proper balance and focus to guide the Company through the complex process ahead. We recommend you **vote the BLUE Proxy against the Dissidents' Resolution 3.***

A MATTER OF TRUST

Economical is already well underway with its demutualization. So the only real question is who you will entrust to complete the process – your current Board or VC & Co.'s new nominees. There are several important facts you need to know about VC & Co., the Dissidents, and their Proposal. We ask you to consider whether their activities give you confidence that they are likely to act for you or for themselves:

- In the course of the court application to determine the validity of the Dissident Proposal, VC & Co., the sponsor of the Dissident Proposal, was required to admit for the first time that its principals had acted as advisors to The Westaim Corporation. Westaim is the company that, in October, 2010, had proposed an unsolicited transaction that would have seen Economical merge with Westaim's subsidiary JEVCO Insurance Company, a property and casualty insurer that competes with Economical. Even before Economical declined the proposed transaction, VC & Co. began the solicitation of mutual policyholders that resulted in the Dissident Proposal. In a matter of days, its principals switched from advising Westaim on acquiring Economical at the *lowest* price, to claiming to help members extract the *highest* value for the Company. This lacks credibility. VC & Co. never acknowledged to Economical its relationship with Westaim and its clear conflict of interest and, in fact, denied this conflict existed. More importantly, VC & Co. did not disclose this to you, the mutual policyholders.
- The court application also revealed that Westaim and VC & Co. had been secretly communicating with Sandeep Uppal, then Economical's Chief Financial Officer, and that Westaim received confidential Company information from Mr. Uppal. It demonstrated that Mr. Uppal had numerous unauthorized communications with VC & Co. before and after VC & Co. initiated the solicitation of mutual policyholders. Mr. Uppal has been dismissed from Economical and the Company has filed a Statement of Claim against him alleging misappropriation of funds and breach of fiduciary duty. Neither VC & Co. nor Mr. Uppal

Your Vote is Important. If you have questions or need help in completing and returning the BLUE Proxy, please call Georgeson toll free at 1-866-909-6468

disclosed this activity to Economical. More importantly, VC & Co. did not disclose this activity to you, the mutual policyholders.

- VC & Co. has stated that, if the Dissident Proposal succeeds, it will seek to have its hand-picked Board direct the Company to pay millions in fees and expenses which many of the Dissidents have personally agreed to pay VC & Co. The fee is a substantial 12.5% of their proceeds from any action taken by Economical over the next six years, except normal course premium refunds and claims payments. If the Dissident Proposal succeeds, this would effectively extend the liabilities of a minority of members to *all* mutual policyholders who would have to pay for VC & Co.'s fees and expenses, whether or not they support the Dissident Proposal. We believe this inequity indicates how VC & Co. would expect its Board to approach its responsibilities to Members. At the very least, this will decrease the value of Economical and what will be paid to you upon completion of the demutualization.

THE QUESTION IS: WHO DO YOU TRUST TO COMPLETE THE DEMUTUALIZATION PROCESS?

You may receive separate proxy materials from VC & Co. or the Dissidents. We urge you to discard them.

THE DECISION

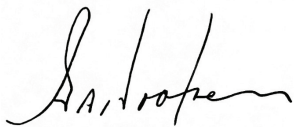
The Dissidents, under the leadership of VC & Co., have already launched unfounded personal attacks on the Board. We expect the Dissidents to continue to attack the Board's integrity and credibility because that is VC & Co.'s track record. We ask you to consider the mercenary motivation for these attacks and their source, given the questionable activities of VC & Co. to date.

We urge you to examine the facts in the Management Proxy Circular carefully and compare them to any promises that may come from VC & Co. and the Dissidents. Consider the proven track record of this Board in serving the Company and its progress towards demutualization. Contrast that with the apparent conflicts and self-interest of VC & Co. as it solicited its Dissident followers. In the end, your decision must be based on who you trust to protect your best interests and to expeditiously deliver the benefits of demutualization.

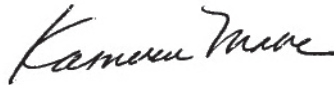
We believe you will decide to support the Board by voting the BLUE proxy FOR Resolutions 1 and 2 and AGAINST Resolution 3. Your decision will help determine the future of Economical Mutual Insurance Company.

We appreciate and welcome your support and participation in the Annual and Special Meeting of Members. If you have any questions, please contact us at 519-570-8500 ex 42997 or by e-mail at karen.gavan@teig.com.

Yours truly,



Gerald Hooper, FCA
Chair of the Board of
Directors



Katherine Mabe, CPCU, CLU, ChFC, ARM
President and Chief Executive
Officer



Karen Gavan, FCA, ICD.D
Chair of the Special Committee

YOUR VOTE IS IMPORTANT

Your participation is important to the success of our Meeting. If you are unable to attend, complete, sign and return the attached BLUE proxy form and discard any materials that you receive from the Dissidents. If you cannot attend the Meeting in person, we urge you to exercise your vote by proxy, as described in the attached documents. If you have any questions or need assistance in completing or returning the enclosed BLUE proxy, please call GEORGESON, the firm assisting us in the solicitation of proxies, toll free at 1-866-909-6468.

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