

January 28, 2011,

TOWARDS A NEW ERA FOR ECONOMICAL :

DEMUTUALIZATION PROGRESS REPORT II

As promised, we are providing you with another update on the progress of demutualization at Economical, which was announced by the Board on December 14, 2010. As you know, the Special Committee that has been given oversight for the demutualization process has determined to proceed down two alternative tracks: *conversion*, through an initial public offering into a corporation with shares traded on a stock exchange, or *sponsored demutualization* which would involve a transaction with a strategically aligned company. We are well under way on both tracks.

We appreciate the interest in the process that has been expressed by our stakeholders and want to take this opportunity to respond to questions received from a number of mutual policyholders:

No new mutual policies: We confirm that the Board's moratorium on accepting new mutual policy applications instituted in mid-November remains in effect.

Record date: The mutual policies that will have the rights and entitlements for benefits upon demutualization are those in force as of a record date that is still to be established. The Insurance Companies Act prohibits us from setting the record date at this time, since this must be done in conjunction with settlement of the demutualization terms with the Office of the Superintendent of Financial Institutions (OSFI). If OSFI agrees to deal with this matter as they did for the large life insurance companies, then the record date would be set as December 14, 2010, being the date when we announced our intention to demutualize. However we cannot guarantee this since it is something we do not control.

Developments since the January 14 Progress Report include:

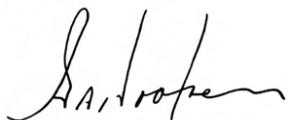
- Economical's Chief Executive Officer Kathy Mabe announced a corporate reorganization on January 24, designed to create a model that will meet the current needs of the demutualization process and, more importantly, the Company's future requirements when the process is completed. The new structure draws on Kathy's extensive insurance industry experience and is designed to promote efficiency and enhance our ability to seize the new opportunities we expect to be created through the demutualization. It also maintains our strong commitment to our broker partners which will always be a critical part of our focus.
- Our internal team, along with the financial and legal advisors, has been developing the non-disclosure agreements and confidential financial information to be provided to qualified third parties who may want to pursue the sponsored demutualization route.
- In preparation for the alternative route of an initial public offering, our internal financial team led by interim Chief Financial Officer Phil Mather, and the accounting firm Deloitte have continued to align Economical's financial reporting and disclosure with best practices for public companies.

- Following an extensive investigation, and as part of our duty to protect the interest of the Company, we have filed a statement of claim in the Ontario Superior Court of Justice against Economical's former Chief Financial Officer, Sandeep Uppal, and two of his brothers-in-law, Binesh (Ben) Malik and Arvind Mohni, for misappropriation of \$126,000. We are also seeking a declaration that Economical had cause to dismiss Mr. Uppal for that misappropriation and for breach of fiduciary duty related to his secret support of, and participation in, an unsolicited approach in October by a competitor, The Westaim Corporation, regarding a sponsored demutualization as well as the activities of VC & Co. Advisory Limited that followed.
- We are continuing to meet regularly with officials of the Department of Finance, which is responsible for developing the regulations to guide the demutualization of property and casualty insurance companies. Similarly, we are also meeting with the industry regulator, the Office of the Superintendent of Financial Institutions, regarding our demutualization.
- Our Chief Actuary has begun to work with actuarial consultants and financial advisors on the process of determining the allocation of demutualization benefits.

We remain committed to demutualization and to ensuring that it is completed expeditiously in the best interests of Economical and our mutual policyholders as well as our brokers, employees, customers, and communities.

The work of the Special Committee continues on schedule and we are making significant progress. We will keep you informed with regular Progress Reports but encourage you to contact us if you have any questions. To help make communications more timely, we invite you to provide us with your e-mail address if you have not already done so. You can email us at getthefacts@teig.com. E-mail communications will be sent to you from Get The Facts. This will allow us to communicate with you more quickly and effectively.

Yours sincerely,



Gerald Hooper, FCA
Chairman of the Board
Phone: 519-570-8250
Email: gerald.hooper@teig.com



Karen Gavan, FCA, ICD.D
Chair of the Special Committee
Phone: 519-570-8500 ext 42997
Email: karen.gavan@teig.com