

June 13, 2011

TOWARDS A NEW ERA FOR ECONOMICAL: DEMUTUALIZATION PROGRESS REPORT VI

As Economical continues to execute its demutualization plan, we will also continue to provide you with these reports on our progress. There are several items you should know about, including answers to some questions we have received recently:

Commitment to demutualization: The Federal government's latest Budget reiterates its commitment to developing regulations that would allow for demutualization of Federally-incorporated property and casualty insurers. It first made the commitment in the March Budget that led to the recent Federal election. Combined with the public commitment of the Board of Directors to complete the demutualization, the government's position should provide you with a high level of confidence that you will be provided with a demutualization proposal for approval at a meeting of mutual policyholders as soon as possible after the Federal regulations are prepared. We understand that a government discussion paper is being prepared and public consultations will be underway soon.

Annual and Special Meeting: The Board of Directors was gratified by both the high level of participation at the May 26th meeting and the strong support demonstrated for its oversight of the Company and its demutualization efforts. The dissident proposal was defeated and all three Company nominees to the Board were elected. They were: Karen Gavan, Chair of the Special Committee, David MacIntosh, and new director John Bowey. Mr. MacIntosh remains a member of the Special Committee which is overseeing the demutualization plan and is now joined by Mr. Bowey.

Continued progress on the demutualization plan: At the Annual and Special Meeting, Karen Gavan provided a comprehensive update on demutualization, noting that the Company is on schedule in all the steps in its two tracks to completion. The final decision on whether an initial public offering (IPO) or a sponsored demutualization is in the best interests of the Company will be made, taking into account factors such as market conditions, when Federal regulations are in place – the timing of these regulations is the only significant unknown factor at this point.

The Company has selected two investment banks, BMO Capital Markets and RBC Capital Markets, as lead underwriters to manage the potential IPO. They were chosen for the depth of their capital markets operations and their experience in the demutualization of the Canadian life insurance companies. On the sponsored demutualization track, a majority of the 12 qualified parties who had executed Confidentiality Agreements and received a 150-page book of confidential company information have submitted preliminary proposals. Some of these parties will be invited to participate in a second round of information-gathering which will include access to an online electronic data room, site tours of Economical's operations, and meetings with key management people.

Participation in allocation of demutualization benefits: In response to inquiries, we are taking this opportunity to explain how we expect eligibility to receive a share of the financial benefits of demutualization will be determined. As we have said, we are working with the Federal authorities to develop regulations to allow Economical to demutualize. Assuming that these new regulations are consistent with those developed when the major life insurance companies demutualized more than a decade ago, a "record date" will be set under the new regulations. A policyholder with a valid Economical mutual policy as of the record date becomes eligible to receive the demutualization

benefit even if, for example, the mutual policy subsequently lapses or is cancelled. In the event of the death of the policyholder after the record date, their estate becomes entitled to the benefit.

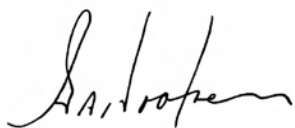
In the case of the life insurance companies, the record date was established as being within 30 days of the company's announcement of its intention to demutualize. For Economical, that would mean a record date within 30 days of December 14, 2010, when we announced our intention. This means that, assuming the regulations follow the life insurers' model, mutual policyholders, or their estates, will be able to participate in the allocation of demutualization benefits if they held a valid mutual policy up to a date no later than January 14, 2011.

Solid first quarter results: On May 6, 2011, Economical reported its results for the first quarter of the year, ended March 31. Highlights included an increase in net income to \$29.0 million, largely because of underwriting results which improved by \$27.2 million. The Company's combined ratio, a key measure of performance, improved by 6.6 percentage points to 93.6%. Total policyholders' equity increased by \$36.1 million since 2010 year-end to a total of \$1,246.6 million at March 31, 2011. The increases over the first quarter of last year continue the trend of the year-over-year financial improvement reported for 2010.

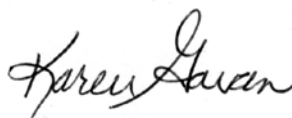
Protection of privacy: Just prior to the Annual Meeting, we became aware that some mutual policyholders were receiving letters from apparent supporters of the dissidents and that these letters included the addressees' mutual policy numbers, which represents a significant breach of the Company's confidentiality policies. We share the concern of mutual policyholders about this use of confidential information and have launched an internal investigation. We will report our findings when the examination is completed.

As always, we will keep you informed with regular Progress Reports, and encourage you to contact us if you have any questions.

Sincerely,



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