

## **Economical Mutual Provides Members with Reasons to Support Current Board At Annual Meeting**

- **Management Proxy Circular Mailed to All Mutual Policyholders**
- **Board Recommends Members Reject VC & Co.-sponsored Dissident Proposal**

WATERLOO, ON, April 11, 2011 – Economical Mutual Insurance Company, one of Canada’s largest property and casualty insurance companies, today announced that it has mailed its Management Proxy Circular and related materials to all mutual policyholders in preparation for the Company’s Annual and Special meeting on May 26, 2011.

The Circular provides information on Economical’s progress on its demutualization process, announced on December 14, 2010, as well as the Board’s recommendations on resolutions to be considered at the Meeting.

Economical’s Board recommends that mutual policyholders use the BLUE proxy included in the mailing to vote:

- FOR Resolution 1 - the election of the Company’s nominees to the Board of Directors;
- FOR Resolution 2 - the appointment of the auditors, Ernst & Young LLP, and;
- AGAINST Resolution 3 - the Dissident Proposal to replace the Board of Directors with Nominees selected by VC & Co Advisory Limited, the Toronto firm that organized the dissident mutual policyholders.

“Mutual policyholders are being asked to make a crucial decision about the future of their Company as they cast their votes,” said Gerald Hooper, Chair of the Board of Directors. “It is a question of trust. One choice is to support the Board they know – the Board that has been driving the demutualization process forward in the best interests of Members. The other choice is to disrupt that process by giving control of the Company to VC & Co. which has no experience with Economical, has a clear conflict of interest, and is motivated solely by the potentially millions of dollars in fees and expenses it hopes to extract from Economical, diminishing the Company’s value to its Members.”

Accompanying the Management Proxy Circular is a letter to mutual policyholders signed by Mr. Hooper, Katherine Mabe, President and Chief Executive Officer, and Karen Gavan, Chair of the independent Special Committee of the Board that has oversight of the demutualization.

The letter to Members, as well as the full Notice of Meeting and Management Proxy Circular and Appendices, will be available shortly at the Company’s website, [www.economicalinsurance.com](http://www.economicalinsurance.com).

The letter notes the benefits of demutualization for the Company and Members and that, although it is unprecedented for a property & casualty mutual insurance company, significant progress has already been made. Handing control of Economical over to VC & Co., through its chosen nominees to the Board, would delay and possibly threaten a process designed to deliver the highest possible value to Members. The letter states:

“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.

“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.... 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. “

The Management Proxy Circular includes comprehensive background on demutualization, corporate disclosure consistent with that provided by a public company, and detailed reasons to reject the Dissident Proposal as well as the following summary:

Economical’s Board has determined that the Dissident Proposal – Resolution 3 - is not in the best interests of Members. There are compelling reasons for you to vote against the Dissident Proposal. They include:

1. **A change with no purpose.** The Dissidents, at the instigation of VC & Co., who is affiliated with a Toronto-based law firm and its associated company that is in the business of “shareholder activism”, are hoping to replace the Board with nominees selected by VC & Co. Economical is already on course for a demutualization to realize value for you. VC & Co.’s proposed change is unlikely to result in a better outcome for Members and will delay and potentially derail the demutualization and your right to receive demutualization benefits. A hand-picked VC & Co. Board, inexperienced in the affairs of Economical, could very well engage in an improvident sale of the Company: a transaction at less than fair value for Members.

Members could receive less value under such a transaction, but VC & Co. would get its significant fees in any case.

**2. Change means delaying the demutualization process.** Your existing Board is already implementing its decision to demutualize Economical and has made significant progress in pushing the process forward, internally, with Economical's regulators, and in the marketplace. That progress would inevitably be delayed and could be derailed by a new Board that would have to get up to speed before moving ahead.

**3. Lack of experience with Economical's business.** VC & Co. has not yet disclosed who its nominees would be, but they will not have the existing Board's detailed knowledge of Economical business. Inexperienced oversight of Economical's operations at this critical juncture could reduce the value of your Company as an operating business, and thus what you receive on demutualization (since value received on demutualization depends largely on the overall value of Economical).

**4. Your interest in Economical will be reduced by VC & Co.'s substantial fees.** VC & Co. has no interest in Economical as a policyholder but has a large financial interest in replacing the Board with its own nominees. VC & Co. is not a mutual policyholder, but stands to make millions of dollars in fees if it succeeds in taking over the Board. VC & Co. has stated that, if the Dissident Proposal succeeds, it will seek to have its hand-picked Board direct Economical 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 Dissident Members to all Members should Economical 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.

**5. An apparent conflict of interest at VC & Co., the leader of the Dissidents.** VC & Co.'s principals were advising Westaim, the company that proposed a transaction to merge its subsidiary JEVCO Insurance with Economical. VC & Co.'s principals were advising Westaim on how to gain control of Economical at the lowest price. Such price would not be in the best interests of Members as it would not maximize the value of Economical for Members. Yet, within days of purportedly severing ties with Westaim, VC & Co.'s principals were soliciting Members with a promise of maximizing value for the Members. This sudden switch in loyalties should be cause for concern, particularly since Westaim has continued to express an interest in acquiring Economical or its assets (and would be doing so from the VC & Co.-nominated Board if the Dissident Proposal is successful). VC & Co. did not disclose its relationship with Westaim to anyone, most importantly you, the mutual policyholders, until forced to do so in court.

**6. Secret Dealings.** An internal investigation into the activities of former Chief Financial Officer of Economical, Sandeep Uppal, indicates that both Westaim and VC& Co. were dealing with him, well before and after VC & Co. began its Dissident solicitation. These dealings were kept secret from the Board of Directors of Economical and, most importantly, from you, the mutual policyholders. Mr. Uppal has since been dismissed from his employment at Economical.

Economical has filed a statement of claim against Mr. Uppal alleging misappropriation of funds, and breach of fiduciary duty to Economical in relation to these activities.

In the interest of fairness in allowing all mutual policyholders to have the benefit of seeing both sides of these issues, Economical will distribute the Dissident Proxy Circular to members when it has been provided by VC & Co. The distribution will be completed by our mailing agent so as to continue to protect the privacy of our Members – a Company commitment that was supported by the recent decision of the Ontario Superior Court of Justice.

Mutual Policyholders with questions or who require assistance in completing and returning the BLUE form of proxy can call Georgeson, the Company engaged by Economical to assist in proxy solicitation toll-free at 1-866- 909 6468.

**About The Economical Insurance Group**

*Founded in 1871, The Economical Insurance Group (TEIG) is one of Canada's leading property and casualty insurers, with over \$4.6 billion in assets and policyholders' equity of approximately \$1.3 billion. Canadian-owned and operated, TEIG provides a wide range of insurance products throughout North America. TEIG Member Companies include Economical Mutual Insurance Company (including Western General Farm Division), Waterloo Insurance Company, Perth Insurance Company, The Missisquoi Insurance Company, Federation Insurance Company of Canada, Family Insurance Solutions and The Mattei Companies.*

*A mutual insurance company since it was founded, The Economical Insurance Group, announced its intention demutualize in December, 2010, making it the first to take this step under current Canadian legislation. It is currently developing a demutualization plan for approval by regulators and the Group's mutual policyholders.*

**For Further Information:**

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