

This notice is provided pursuant to the *Mutual Property and Casualty Insurance Company with Non-mutual Policyholders Conversion Regulations* (SOR/2015-168) (the “Regulations”) and with the authorization of the Office of the Superintendent of Financial Institutions (“OSFI”). None of the statements in this notice are made by OSFI or the Government of Canada. The statements are made by Economical alone. This notice is being sent to you in accordance with section 6 of the Regulations, because you have been identified as an eligible policyholder. As per section 6(1)(a) of the Regulations, this is to notify you that eligible mutual policyholders of Economical passed a special resolution on December 14, 2015, authorizing negotiations over benefit allocation with eligible non-mutual policyholders.

This notice is provided for general information purposes only and does not constitute legal, business, or other general advice. Persons seeking advice with regard to legal, financial, tax, business, or other matters should contact a licensed professional.

## Background

Economical Mutual Insurance Company (“Economical”) is currently a mutual company. Unlike most companies which are share companies, mutual companies do not have shareholders who own shares of the company.

On November 3, 2015, the Board of Directors of Economical initiated a process to convert Economical from a mutual company into a company with shareholders. This process is called demutualization. Once the process is complete, Economical will be a share company and ultimately it expects to become a publicly listed company.

Demutualization is a new and exciting journey for Economical. It creates the opportunity to unlock Economical’s strategic potential - allowing Economical to continue its pursuit of innovation, growth and exceptional service. Our goal is simple - to transform our successful business into a leader in the property & casualty insurance industry with the flexibility needed to drive new strategies for growth.

This is the path forward we have chosen.

## Policyholder Eligibility to Participate in Economical’s Demutualization

### *How is policyholder eligibility determined?*

Only policies issued by Economical Mutual Insurance Company are used to determine whether a person is eligible to participate in the demutualization of Economical (an “Economical Policy”). This includes policies sold under the Western General or Family Insurance Solutions brands. For greater certainty, policies issued by Perth Insurance Company, Waterloo Insurance Company (also known as Economical Select), Federation Insurance Company of Canada and The Missisquoi Insurance Company are not Economical Policies.

There are two types of Economical eligible policyholders: **eligible mutual policyholders** and **eligible non-mutual policyholders**.

Each eligible policyholder should have received a letter from Economical with this notice stating whether the person is an eligible mutual policyholder or an eligible non-mutual policyholder.

Economical identified the eligible policyholders based on the definitions of “eligible mutual policyholder” and “eligible non-mutual policyholder” in the Regulations and guidance on the definitions from OSFI that Economical is required to follow. The Regulations can be found at [laws-lois.justice.gc.ca/eng/regulations/SOR-2015-168/index.html](http://laws-lois.justice.gc.ca/eng/regulations/SOR-2015-168/index.html) and OSFI’s guidance can be found at [www.osfi-bsif.gc.ca/Eng/fi-if/app/aag-gad/Pages/demu-MPCIC.aspx](http://www.osfi-bsif.gc.ca/Eng/fi-if/app/aag-gad/Pages/demu-MPCIC.aspx).

Accordingly, the following criteria are used to determine whether a person is an eligible policyholder:

- An **eligible mutual policyholder** is a person who holds a mutual Economical Policy if he or she
  1. held it on November 3, 2015 (the date the board of Economical decided to proceed with demutualization), and

2. held that mutual Economical policy until December 14, 2015 (the date of the first special meeting of eligible mutual policyholders).
- An **eligible non-mutual policyholder** is a person who holds a non-mutual Economical Policy and
  1. has done so for the 12-months ending on November 3, 2015, or meets the special circumstances described below, and
  2. held the same or a similar non-mutual Economical Policy until December 14, 2015.

## PLEASE NOTE:

1. **Most Economical Policies are non-mutual policies and being a customer of Economical does not mean a person has a mutual policy.** A mutual policy is a special type of insurance policy that has specific rights to participate in the governance of Economical (e.g. holders of such policies can vote at Economical's annual general meeting). A mutual Economical Policy is identified by a seven digit policy number starting with "25". If your policy number does not start with "25", you do not have a mutual policy.
2. You should be aware that it is possible our demutualization process may become subject to legal challenges, which may include challenges as to how eligibility is determined. **Accordingly, if you are an eligible mutual or non-mutual policyholder, you should consider continuing to hold your policy in order to maintain your eligibility under demutualization for any benefits distribution.**

## *What are the special circumstances to be an eligible non-mutual policyholder?*

As mentioned above, there are special circumstances where a person who holds a non-mutual Economical Policy will be eligible. These circumstances are fixed and cannot be changed or expanded. They are meant to cover situations such as a person being added to an existing policy, certain policy number changes or small gaps in coverage.

### Special circumstances

*A person added to a policy that was already in force for at least 12 months:* a policyholder can be eligible even if they did not hold their policy for the entire 12-month period, so long as the policy they held on November 3, 2015 was at least 12-months old at the time.

*A person who changed Economical policies part way through the 12-month period, so long as they changed to a "similar" policy:* a policyholder can be eligible even if they changed Economical policies during the 12-month period before November 3, 2015, so long as they held two or more "similar" Economical policies during that 12-month period which added up to 12 months of coverage.

A policy is "similar" to another policy if both policies are personal property policies, both policies are auto policies or both policies are commercial property policies.

*12-month policyholder with small gaps in coverage:* a policyholder who would have been eligible (including in the above circumstances) but for gaps in coverage each up to 30 days. A gap in coverage occurs when none of the applicable policies are in force.

### Examples (illustrations only)

Some time during the year from November 4, 2014 to November 3, 2015, you bought a house with another person. The other person has had an existing Economical home policy for many years and you were added as a joint policyholder and held the policy on November 3, 2015. You and that other person are jointly eligible under this policy.

You insured your house with Economical for years. Some time during the year from November 4, 2014 to November 3, 2015 you moved to a different province and Economical replaced your existing policy with a new policy for the new home.

You have insured your business with Economical for a few years. However, you were a little late with your renewal and as a result there was a small gap in coverage (less than 30 days).

See Appendix A for full details on these special circumstances.

## Summary of the demutualization process

### What is the process?

Economical is a federally regulated property and casualty mutual insurance company and the process for it to demutualize is set out in the Regulations. The Regulations may be found at [laws-lois.justice.gc.ca/eng/regulations/SOR-2015-168/index.html](http://laws-lois.justice.gc.ca/eng/regulations/SOR-2015-168/index.html). This process is also described in OSFI's "Guide for the Demutualization of Mutual Property and Casualty Insurance Companies with Non-mutual Policyholders", which may be found at [www.osfi-bsif.gc.ca/Eng/finance/app/aag-gad/Pages/demu-MPCIC.aspx](http://www.osfi-bsif.gc.ca/Eng/finance/app/aag-gad/Pages/demu-MPCIC.aspx).

The demutualization process is complex, requires many steps to complete and involves significant participation by eligible mutual and eligible non-mutual policyholders. The process is overseen by Economical's primary regulator, OSFI. We expect that the entire process, if successful, may take more than two years to complete.

The following is a general summary of the demutualization process, which has been broken down into 4 phases. Each phase must be completed successfully before moving on to the next phase. A more detailed description of phases 2, 3 and 4 of the process is in Appendix B.

**Phase 1 - Board Decision:** the board of directors of a converting company initiates the demutualization process by passing a resolution recommending demutualization - Economical's board of directors passed this resolution on November 3, 2015.

**Phase 2 - First Special Meeting:** the eligible mutual policyholders vote to proceed with demutualization by passing a resolution authorizing negotiations over benefit allocation with eligible non-mutual policyholders - Economical's eligible mutual policyholders passed this resolution on December 14, 2015.

We have just completed phase 2 of this process and are moving to phase 3.

**Phase 3 - Policyholder Counsel and Policyholder Committees:** legal counsel are appointed by the Ontario Superior Court of Justice to represent each class of eligible policyholders (mutual and non-mutual). The Court then appoints a policyholder committee to represent each class. The committees, with the assistance of the appointed counsel, negotiate the allocation of financial benefits from demutualization. This includes the method of allocating the value of Economical and whether any benefits will be provided to any persons other than eligible policyholders as a result of demutualization. At the same time, Economical prepares a detailed document setting out the terms of the demutualization (the "Conversion Proposal"). The Conversion Proposal incorporates the negotiated allocation, along with other non-allocation terms. The Conversion Proposal must be completed within 1 year of the committee appointments, after which it is sent to OSFI for review. In the coming months, Economical's website will have more information about the counsel and policyholder committee appointment process.

**Phase 4A - Second Special Meeting:** eligible mutual policyholders are sent the Conversion Proposal, including the allocation of benefits, and vote to amend Economical's by-laws in order to permit the third and final vote of all eligible policyholders. At least two-thirds of the eligible mutual policyholders voting at this meeting must approve the by-law amendment for it to pass. This meeting of eligible mutual policyholders will not be scheduled unless the policyholder committee process in phase 3 is successfully completed.

**Phase 4B - Third Special Meeting:** the Conversion Proposal is sent to all eligible policyholders (both mutual and non-mutual), who will vote together to approve it at the third and final meeting of eligible policyholders. At least two-thirds of the eligible policyholders voting at this meeting must approve the Conversion Proposal for it to pass. This meeting of eligible mutual and eligible non-mutual policyholders will not be scheduled unless the resolution to amend Economical's by-laws is passed at the second special meeting in phase 4A.

**Phase 4C - Application to Demutualize:** if the vote in phase 4B passes, Economical applies to the federal Minister of Finance for approval to complete the demutualization. If approved by the Minister, Economical then converts from a mutual company into a company with shares, and distributes the financial benefits from demutualization (such as shares of the demutualized company) in accordance with the negotiated allocation and Conversion Proposal.

## How do eligible policyholders participate?

Eligible policyholders have a significant role in the demutualization process:

- 1) they can apply to serve on the policyholder committees that will separately represent eligible mutual and eligible non-mutual policyholders to negotiate and determine the allocation of demutualization benefits (phase 3);
- 2) they have the right to vote for or against the Conversion Proposal in the final policyholder vote (phase 4B); and
- 3) if the demutualization is approved, they will receive financial benefits in accordance with the negotiated allocation and the Conversion Proposal.

For those who may be interested, eligible mutual policyholders can apply to serve on the eligible mutual policyholder committee and eligible non-mutual policyholders can apply to serve on the eligible non-mutual policyholder committee. More information will be provided on our demutualization website ([joininourfuture.com](http://joininourfuture.com)) well in advance of any application deadlines. Interested persons can also subscribe for updates on demutualization, including the policyholder committee appointment process on our demutualization website.

See Appendix C for information about how the allocation of financial benefits will be determined.

## When and where can policyholders get more information?

If you have more questions, you can visit our website, email us or give us a call:



**Website (news releases, FAQs, updates):** [joininourfuture.com](http://joininourfuture.com)



**Email:** [joininourfuture@economical.com](mailto:joininourfuture@economical.com)



**Telephone:** 1-866-302-6046 (toll-free) or 1-514-982-8708 (international)

As events occur throughout the demutualization, Economical will post relevant demutualization information to the above website with the ability to save or download key documents. An eligible policyholder can also see his or her individual details with respect to the demutualization, such as eligibility status or applicable policies held with Economical, in the post-login secure portion of the website. Eligible policyholders can log in using their Login ID and password provided in the letter they should have received by mail with this notice.

Note that you may contact us and request hardcopies by mail of information or documents posted on our website.

## What can you do if you have a concern or complaint?

We have established a process to investigate and review concerns and complaints relating to demutualization.

To raise a concern or make a complaint, you may contact us at

Telephone: 1-866-302-6046 (toll free anywhere in Canada)

Email: [joininourfuture@economical.com](mailto:joininourfuture@economical.com)

There is more information about this process on our demutualization website ([joininourfuture.com](http://joininourfuture.com)).

## Appendix A - Special Circumstances Where Non-Mutual Policyholders Of Economical Mutual Insurance Company (“Economical”) Will Qualify as Eligible Non-Mutual Policyholders

The *Mutual Property and Casualty Insurance Company with Non-mutual Policyholders Conversion Regulations* (SOR/2015-168) (the “Regulations” - accessible at [laws-lois.justice.gc.ca/eng/regulations/SOR-2015-168/index.html](https://laws-lois.justice.gc.ca/eng/regulations/SOR-2015-168/index.html)) define an eligible non-mutual policyholder to include a person who belongs to any other group of policyholders specified in the Board resolution that initiated the demutualization process. The Regulations also set out the circumstances under which the Board resolution can qualify other non-mutual policyholders as eligible non-mutual policyholders, but do not allow the Board resolution to qualify otherwise ineligible mutual policyholders.

On November 3, 2015, Economical’s Board passed the resolution initiating the demutualization process and specified the following additional policyholders who are to qualify as eligible non-mutual policyholders, for reasons of fairness and equity:

Any person who is not otherwise an eligible policyholder under the Regulations shall irrevocably qualify as an eligible non-mutual policyholder for the purposes of the Regulations if

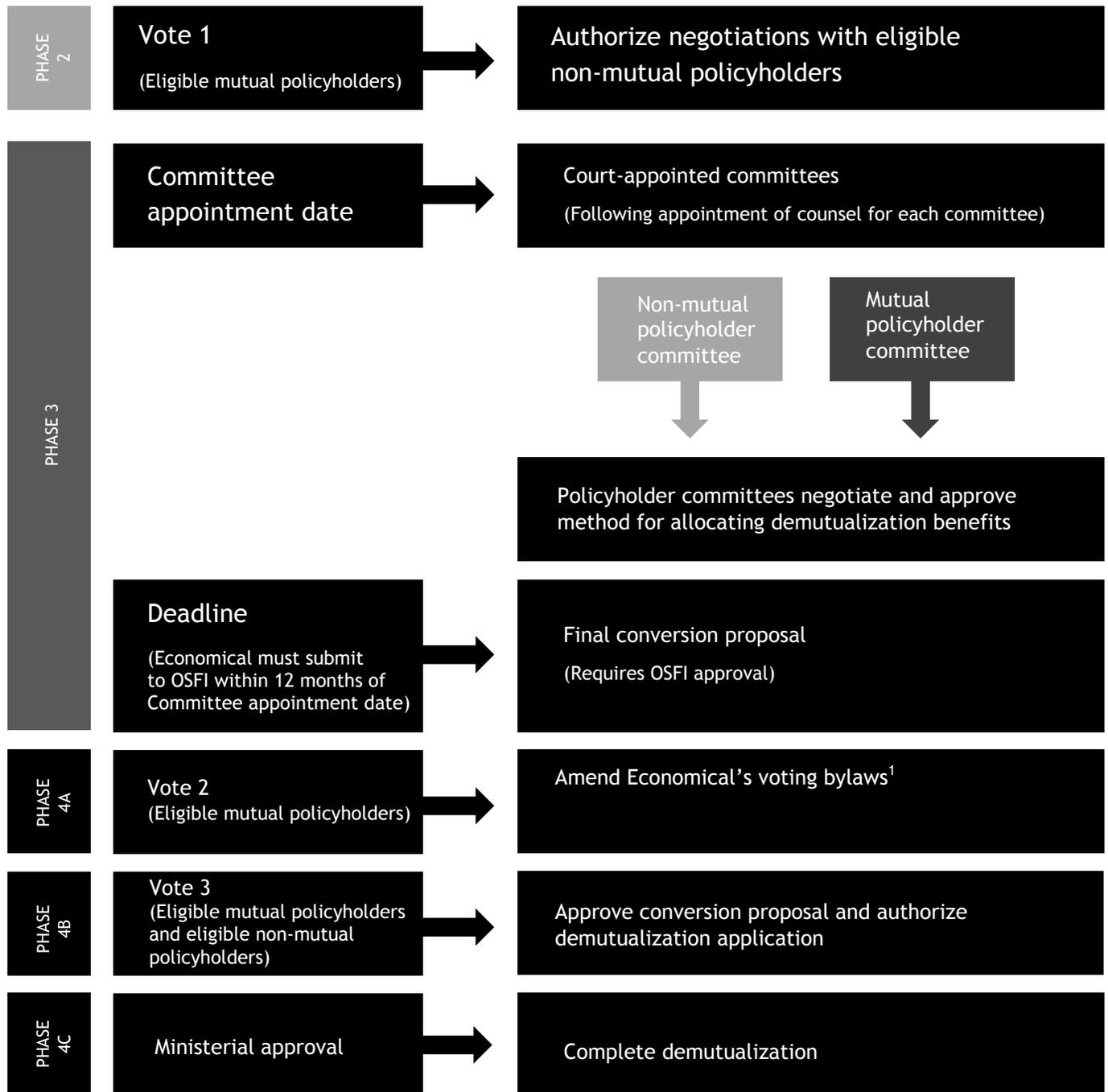
- a. such person held a policy issued by Economical on November 3, 2015 (the “Eligibility Date Policy”), and
  - i. the Eligibility Date Policy had been in force throughout the entire 12-month period ending on November 3, 2015 with no gap in coverage during that 12-month period of more than 30 days; or
  - ii. held one or more policies that were Similar to the Eligibility Date Policy, which when taken together with the Eligibility Date Policy, had been in force throughout the entire 12-month period ending on November 3, 2015 with no gap in coverage during that 12-month period of more than 30 days; and
- b. in the event the definition of eligible non-mutual policyholder under the Regulations requires a policyholder to hold a policy after November 3, 2015 to remain an eligible policyholder, the person will have held the Eligibility Date Policy, or a combination of the Eligibility Date Policy and one or more policies issued by the company that are Similar to the Eligibility Date Policy, in force throughout the entire period from and including November 3, 2015 until and including such later date that is required for eligibility in paragraph (a) of the definition of eligible non-mutual policyholder under the Regulations with no gap in coverage during that period of more than 30 days.

For the purposes of the resolution described above,

1. a policy is “Similar” to another policy if both policies are personal property policies, both policies are auto policies or both policies are commercial property policies, regardless of whether one of the policies is a mutual policy;
2. a gap in coverage occurs when none of the applicable policies are in force;
3. a person held an Eligibility Date Policy if that person was a named insured on that policy on November 3, 2015, regardless of whether the person was listed as a named insured on that policy for the entire duration the policy was in force or any event after November 3, 2015;
4. except for an Eligibility Date Policy, a person held a policy that is no longer in force if that person was a named insured on that policy on the last date that policy was in force, regardless of whether the person was listed as a named insured on that policy for the entire duration the policy was in force; and
5. except for an Eligibility Date Policy, a person holds an in-force policy on a date if that person is a named insured on that policy on such date, regardless of whether the person was listed as a named insured on that policy for the entire duration the policy was in force.

## Appendix B - Detailed Summary of Demutualization Process

The following is a brief outline of the steps in the demutualization process (assuming success at each step):



<sup>1</sup> Required to permit eligible non-mutual policyholders to vote on the conversion proposal. If the eligible mutual policyholders do not approve the bylaw amendment, demutualization will not proceed.



# DEMUTUALIZATION

Notice under the *Mutual Property & Casualty Insurance Company with Non-mutual Policyholders Conversion Regulations*

## Next Steps

ACTIONS THAT MUST OCCUR	WHEN ACTION MUST OCCUR OR HAVE OCCURRED
<b>PHASE 2. FIRST SPECIAL MEETING (ELIGIBLE MUTUAL POLICYHOLDERS ONLY) - APPROVAL TO NEGOTIATE</b>	
At least two-thirds of eligible mutual policyholders voting at the first special meeting approve the Negotiation Resolution, thereby agreeing to negotiate the allocation of demutualization benefits with eligible non-mutual policyholders	The first special meeting was held on December 14, 2015
Economical submits notice of intent to negotiate to the Office of the Superintendent of Financial Institutions (“OSFI”) for authorization to send to eligible policyholders	Notice was submitted after the first special meeting and authorization was granted
Economical sends notice of intent to negotiate to all eligible policyholders	Following receipt of OSFI’s authorization
<b>PHASE 3. PROCESS AND DEVELOPMENT OF CONVERSION PROPOSAL</b>	
Economical files application with the court for an initial order setting out procedure for appointment of legal counsel and policyholder committees, among other matters	Between 30 and 45 days after sending notice of intent to negotiate to eligible policyholders
Court makes an initial order	Within 60 days after the filing of the application
Applications and selection by the court of legal counsel to represent eligible mutual policyholders and eligible non-mutual policyholders	After initial order issued
Applications and selection by the court from eligible policyholders for membership on policyholder committees	After legal counsel appointed
Negotiation of allocation terms by policyholder committees	After committee members are appointed
Policyholder committees approve allocation terms by two-thirds majority of the members of each committee and allocation terms are included in conversion proposal prepared by Economical	Following negotiation of allocation terms
<b>PHASE 4A. SECOND SPECIAL MEETING (ELIGIBLE MUTUAL POLICYHOLDERS ONLY) AMENDING BYLAWS OF ECONOMICAL</b>	
Economical submits materials to OSFI in relation to second special meeting of eligible mutual policyholders to amend the bylaws of Economical to permit eligible non-mutual policyholders to vote on conversion proposal  Materials include conversion proposal, opinions of actuaries and independent valuation and financial market experts	Within one year after the court’s appointment of members of the policyholder committees
Economical sends notice of the second special meeting and related materials to eligible mutual policyholders	Following receipt of OSFI’s authorization
At least two-thirds of eligible mutual policyholders voting at the second special meeting approve amendments to bylaws to permit eligible non-mutual policyholders to vote on conversion proposal	Special meeting will be held between 21 and 60 days after notice of meeting was sent to eligible mutual policyholders
<b>PHASE 4B. THIRD SPECIAL MEETING (ALL ELIGIBLE POLICYHOLDERS) APPROVAL OF CONVERSION PROPOSAL AND APPLICATION</b>	
Economical submits materials to OSFI in relation to the third special meeting of eligible policyholders to approve conversion proposal and demutualization application	After special resolution is passed to amend bylaws at the second special meeting
Economical sends notice of the third special meeting and related materials to eligible policyholders	Within one year after receipt of OSFI’s authorization
At least two-thirds of eligible policyholders voting at special meeting approve the conversion proposal and authorize Economical to apply to Minister of Finance to demutualize	Special meeting will be held between 45 and 75 days after notice of meeting was sent to eligible policyholders
Economical sends notice to all policyholders informing them of eligible policyholders’ approval of the conversion proposal and the intention of Economical to apply to demutualize	Within 30 days after approval of conversion proposal by eligible policyholders
<b>PHASE 4C. APPLICATION TO DEMUTUALIZE</b>	
Economical applies to the Minister of Finance to demutualize (application is submitted through OSFI)	Within three months after approval of conversion proposal by eligible policyholders
Minister of Finance issues letters patent of conversion, converting Economical from a mutual company into a company with shares	

## Appendix C - How will the allocation of financial benefits be determined?

As part of demutualization, there will be a distribution of financial benefits at the end of the process, primarily to the eligible policyholders. These financial benefits may take various forms, including for example, shares in the new Economical share company.

The allocation of benefits is determined by the eligible policyholders, not Economical. As described above, there will be two policyholder committees - an eligible mutual policyholder committee and an eligible non-mutual policyholder committee - appointed by the court who will negotiate the allocation of benefits (phase 3). The policyholder committees will be assisted in their negotiations by court-appointed counsel representing each eligible policyholder group and an independent actuary, valuation expert and financial market expert.

The Regulations set out certain requirements on allocation:

- the method of allocation must be described in detail and set out
  - (a) the basis on which any variable amount of benefits will be calculated;
  - (b) any fixed, minimum or maximum amount of benefits to be provided to each of them;
  - (c) the rationale for choosing the method of determining and allocating the benefits; and
  - (d) the aggregate value of the benefits.
- the variable amount of benefits must, in respect of each eligible policyholder, be calculated having regard to at least the following factors:
  - (a) their obligations, rights and benefits;
  - (b) the premiums paid by them;
  - (c) the length of time they have held a policy with the company; and
  - (d) the historical growth of the company's surplus account.

(this means that some eligible policyholders may receive more than others)
- the committees must establish a list of persons or classes of persons (other than eligible policyholders), if any, who may be provided benefits as a result of demutualization
- the appointed actuary of Economical and an independent actuary must each provide an opinion stating that
  - (a) the financial benefits to be provided to eligible policyholders and others established by the committees and the method of allocation of those benefits are fair and equitable to the eligible policyholders; and
  - (b) the financial strength and vitality of Economical and the security of its policyholders with respect to the continuation of their policies will not be materially adversely affected by the conversion.

Once the committees agree on the allocation of benefits, Economical will include those terms in the Conversion Proposal submitted to OSFI for review. The allocation terms, along with the rest of the Conversion Proposal, are subject to approval by a vote of eligible policyholders and approval by the Minister of Finance, upon the recommendation of OSFI.

It is too early in the process to estimate what benefits (if any) any individual eligible policyholder may receive from the demutualization. The amount of benefits you may receive will likely be based on the policy(ies) you hold with Economical (which you can review by logging into our website - [joininourfuture.com/login](http://joininourfuture.com/login)). Later in the process we expect to provide specific estimates of benefits a policyholder may receive. It is not possible to estimate those benefits now.