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MEDIA STATEMENT:

The Federal Government has proposed demutualization rules for property and casualty insurers: What does this mean for policyholders, especially those holding policies issued by Economical Insurance?

Ottawa has unveiled a set of draft regulations under which federally regulated property & casualty mutual insurance companies will be able to convert to stock companies owned by their shareholders. The process is called demutualization. These rules were developed following a request by Economical Insurance (Economical Mutual), which in December 2010 announced its intention to demutualize.

There is a lot of money at stake and CAMIC believes that the company's policyholders need to pay close attention to ensure a just and fair result.

CAMIC and its member companies across Canada are opposed to the use of corporate equity in this fashion. We believe the equity earned by many generations of insureds belongs to the community and should be preserved.

Formed in 1871, Economical has grown significantly over the years, and it now has a surplus exceeding \$1.5 billion. As a mutual insurer, that value belongs to policyholders. Economical has hundreds of thousands of policies outstanding but only a small fraction — less than 1000 — are mutual policies, entitling holders to voting rights. Economical proposed that only this group be entitled to share in financial benefits from demutualization. If one does the math, that would mean each mutual policyholder could get, on average, in excess of \$1million. The regular policyholder would get nothing.

CAMIC believes this outcome would be unfair because it fails to recognize the contribution of all policyholders, both past and present, who contributed to the success of the company.

“Like other mutual insurance companies, Economical has grown significantly over the last 140+ years with the contribution of all its policyholders,” said Normand Lafrenière, president of CAMIC. “You don’t take that value and just give it to a small group that represents less than one per cent of all current policyholders. That would be very unfair to say the least”.

Fortunately, the draft demutualization regulations proposed by Ottawa set the stage for some sharing of benefits between the mutual and the regular (non-mutual) policyholders. However, the rules don’t specify if the regular policyholder will get anywhere near what the mutual policyholder will get.

Individuals who own policies with Economical Insurance should contact their broker or the company to find out if they have a mutual policy. If the answer is no, was there a discussion with the client with respect to obtaining a mutual policy?

Regular (non-mutual) policyholders should also contact their Member of Parliament and ask why the federal government refuses to require that all policyholders be treated equally.

CAMIC is the voice of the mutual property and casualty insurance industry in Canada. Mutual insurers were formed 100-175 years ago by communities to provide insurance in areas where it was not available at a fair price.

For more information, please contact Normand Lafrenière, president of the Canadian Association of Mutual Insurance Companies, at 613-789-6851 or nlafreniere@camic.ca