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## Annual Report 2001

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# chairman's report

*The year to June 2001 was a particularly busy and successful year for Australian Unity with important developments on several fronts.*

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The very large increase in membership of the health fund with its attendant administrative challenges and planning for major improvements to our health offerings to members was a major task successfully undertaken.

All of our other businesses also had important improvements ranging from the demutualisation of our pharmacy subsidiary to arrangements for the sale of the building society to IMB Building Society (which was finalised after the end of the financial year). Important further developments in funds management, in our general insurance business and in retirement accommodation also occurred.

Our foremost objective is to deliver value and service to members. We believe we have done that although we cannot ever be satisfied with performance in this respect.

## THE YEAR IN REVIEW

Our Managing Director's report more fully covers our operations during the year. I will comment briefly on some key matters.

We have continued to strengthen the financial base of the business in order to be able to deliver increased services and security to members. Our management fund, analogous to shareholders' funds in companies with shareholders has now risen to just over \$140 million, an almost ten fold increase since Australian Unity was formed through merger some eight years ago.

This year, as a result of strong growth in health insurance, we have been able to add substantially to the group members' funds.

Health insurance is a cyclical industry and already the tide is moving so as to increase our costs of hospital care and squeeze the cash reserves of health funds. It is fortunate that Australian Unity has been able to substantially increase its reserves to better carry the organisation through any cyclical downturns and also positioning us to improve our services to members.

We have a number of initiatives which are directed at helping our members stay healthy. We aim to be seen increasingly as a fund interested in the "health" of its members rather than a "sick fund" which only reimburses expenses of sickness. Our improved financial position has enabled us to commence valuable initiatives in this area.

We have continued to develop our interests in the health area through the demutualisation of our pharmacy subsidiary and its full absorption into the Group. We are working to strongly develop this area of related health service.

Our activities in retirement accommodation continue our strong focus on the health and wellbeing of the older or retired community.

In the financial services area we have continued to rationalise the financial products on offer and moved increasingly into property related products which can offer our members better returns with a high level of security.





The sale of our small building society to the much larger Illawarra Mutual Building Society was part of a comprehensive alliance. Our building society clients now benefit from being part of a larger building society but are still serviced by Australian Unity. We will continue to operate in these areas as agents for IMB and they will sell our products including health insurance in NSW and elsewhere. We regard this new alliance as particularly important and valuable.

Our General Insurance subsidiary has continued its strong growth.

The financial services sector is becoming increasingly regulated and we must applaud a strong focus on ensuring the safety of funds entrusted to us. However, I do caution that the high cost of regulation, much of which is remote from the real cutting face of funds security, serves to place smaller organisations at serious risk of becoming financially uncompetitive. This may ultimately lead to there being less competition as this area is dominated by internationally owned financial institutions.

## **DIRECTORS' RESPONSIBILITIES**

The very substantial increase in directors' responsibilities being imposed by new regulation has led us to modify some of our board arrangements.

All Australian Unity Limited directors are now also directors of Australian Unity Health Limited, Australian Unity Funds Management Limited and Australian Unity General Insurance Limited, being our principal operating subsidiaries.

We concluded that as the group has for good reasons restructured its businesses into separate subsidiaries, it was nevertheless desirable to have all directors involved at subsidiary board level to be more directly involved in operational activities, as well as exercising overall strategic review of the group from the board of Australian Unity Limited.

## **CAPITAL STRUCTURE**

The capital structure of the group continues to be reviewed by the Board. Virtually all our businesses now are 100% owned subsidiaries of the mutual parent and provide us with mechanisms for capital raising via subsidiaries should that be desirable. We consider our mutual structure to be appropriate in the foreseeable future for the businesses of the company but as previously mentioned we continue to keep this matter under review.

I want to acknowledge the conscientious and substantial contribution made to the Board deliberations by all directors, the excellent work of our various management teams and by all staff in the conduct of our businesses during the year.

Staff development is a very important component of our business and we are continually striving to ensure that our people have every opportunity to develop their skills and talents to the benefit of us all.



# managing director's report

*The Australian Unity Group's sound performance in 2001 is evidence of our successful approach in managing a diverse portfolio of businesses with complementary product & service offerings.*

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The Group's trading results for the year were buoyed by the excellent result for the health fund. In addition, our funds management, general insurance and pharmacy businesses strengthened their respective positions in each market, individually leveraging off the collective strength of the Group's resources. Our Group reserves now stand at over \$140m, compared with \$11m in 1993 at formation.

## STRATEGY – MUTUALISM

As a mutual enterprise, owned by its members, we have no recourse to the sharemarket for fundraising and so rely principally on retained earnings from trading. These funds are used for the development of our businesses, optimising our use of technology, providing modern distribution arrangements for products, product development and the like. We aim to continue to serve our members for many years to come, through economic cycles with characteristics possibly not yet encountered and so are developing a portfolio approach to our businesses: when one business activity is experiencing adverse trading, another will be producing a surplus for investment internally.

Such an internal allocation of funds was made by predecessors of the Australian Unity Group in the early 1990's, leading to an injection of capital into the health insurance fund from surpluses from investment activities over previous decades. Now, some eight or nine years later the wisdom of this rebalancing has been recognised with the re-payment by the health insurance fund to Australian Unity Limited of this investment, with earnings, in the year just finished. The health fund was converted on 1 June 2001 to a for-profit entity, still owned by Australian Unity members, to facilitate this.

## BUSINESS PERFORMANCE

Overall, the health fund increased its number of customers at a greater rate than the overall market due to highly effective TV advertising and other promotions and our ability to deal with the large influx. This increase in contributors helps keep rates down; profitability has been high in the short term. Although claiming rates on the health fund have been relatively low, we have been subject to a rising tide of demands by private hospitals for price increases. This, together with the cost of funding the medical "gap" and rising utilisation will ultimately flow through to our health insurance premiums.

Our small general insurance business is growing very strongly. It is now fully capitalised well in advance of prudential standards being implemented from 2002. We are well placed to take advantage of a market where there is considerable uncertainty about the stability of major companies or where their ownership has recently changed. We remain a very tightly focussed general insurer, specialising in domestic buildings and property and small commercial risks. We have added to our product range by the purchase of Mansions of Australia, a Lloyds agent with an extensive portfolio of new customer relationships who require premium domestic coverage. We expect a very rapid growth in the coming year and have allocated substantial resources to achieving this both through brokers and direct via our Call Centre and website.

Our retail pharmacy business is also growing, principally through acquisition. We are the largest single owner of pharmacies in Victoria. Discounts at these pharmacies, which are available

to health fund contributors, add further value to our overall healthcare offering. The platform has been built to provide a unique service for our customers, combining consistency of service across a number of outlets, with uniformly high professional standards.





Our investment bonds achieved modest tax-paid returns for members, consistent with our low interest rate environment. Other benefit fund (or life insurance-style) products continued to be developed. These include funeral bonds and our High Growth Bond which attracts interest as a partial substitute for superannuation in the right circumstances. The recently launched Education Savings Plan for post-secondary education has been met well by the public, being recognised as a sound investment for parents, grandparents and other sponsors.

Our funds management business has extended itself further into property products with the acquisition of property syndicators York Capital and Waltus Investments Australia, which together have funds under management of \$310m, and the purchase of three New South Wales hospitals for the Healthcare Property Trust. Key products have been rated highly by ratings agencies ASSIRT, InvestorWeb and Property Investment Research.

Shortly after the close of the financial year we formed a strategic alliance with the Illawara Mutual Building Society (IMB), which also involved the sale of our building society to this

Wollongong-based building society. We now have a very strong relationship with IMB where we provide their banking style products to our customers via our Victorian and South Australian Sales Centres and IMB will promote Australian Unity health insurance and other products to their (predominantly NSW) customers. There are likely to be other areas of co-operation (eg, in shared costs for sales centres) elsewhere. This arrangement gives our customers the immediate benefit of access to transaction accounts and internet banking, to name two areas.

Hence overall, we have made substantial progress toward our objective of developing a stronger portfolio of businesses. This progress has been somewhat at the expense of profitability in the smaller businesses while the necessary investments in growth are made.

#### **PRODUCT DIFFERENTIATION**

Australian Unity's Wellplan is an innovative offering at no extra cost to our health insurance customers, designed to assist them to stay healthy. Part of the program operates by assessing the health

status of participants and then suggesting suitable interventions ranging from change of diet to seeking medical assistance. The assessment and the interventions have been verified by a panel of Australian medical practitioners and specialists. We expect that our members will progressively enjoy better health as a result of their voluntary participation in the programme.

The Wellplan arrangement is one example of how our healthcare offering is progressively developing more value for our members and differentiating Australian Unity from its competitors in a very tough market. Other benefits to contributors include pharmacy discounts, use of our high quality dental care clinics, and discounts on Australian Unity general insurance. We are constrained by law however in not rewarding directly those who care to look after their own health: no-claim discounts etc are not permitted. We believe there is a case for allowing insurers to provide incentives for maintaining a healthy lifestyle.

In Funds Management we are emphasising certain niche asset classes to give us differentiation in a very busy market. We are focusing on property and property-

related assets as a clear differentiator. This embraces the Mortgage Income Trust, Property Securities Fund, Healthcare Property Trust and various property syndicates, totalling some \$600m of property under management. Tax-paid products also are a clear niche for us.

In all the above, we find that the Australian Unity reputation as a trusted partner is valued by our customers. Our challenge is to ensure that this brand value is maintained and propagated widely beyond our traditional markets. This is being achieved through partnerships such as with the IMB and also other large groups such as the CPAs who are progressively introducing our products and wealth protection solutions to their own members.

Our other approach is to concentrate our marketing efforts on provision of service to our customers in response to their needs defined by life events, such as birth, marriage, house purchase, retirement and the like. Our growing capacity to manage this activity will be tested over the coming year with the on-going development of customer relationship management systems, which have been under development for most of the year.



We are conscious of respecting our customers' privacy and right not to receiving marketing material if they so wish and have established a Privacy Steering Committee to this end. The Committee will ensure we are compliant with the coming legislation, and our customers' wishes so that we will be actively approaching those customers who have indicated their interest and permission.

## REGULATION

In the challenging environment in the wake of the HIH collapse, some mention must be made of the regulation of institutions such as Australian Unity. The turmoil in general insurance offers opportunities for us as a trusted long-term player with a stable capital structure. However there are signs that there may be a severe over-reaction to HIH by the authorities, perhaps spawned by political considerations. This would possibly not be in the interest of consumers.

As an organisation owned by its customers Australian Unity believes that the starting and finishing point for consideration of regulation should be the consumer interest. Unfortunately, regulators often base their standards on the activities of other regulators

overseas or "world's best practice". The consumer interest is sometimes last mentioned: resourcing for regulatory authorities and allocation of political blame for failures, sometimes appear to take precedence. The style of regulation being followed in Australia is very interventionist and mandates penalties for breaches of regulations which relate only remotely to the consumer. This is very expensive and eventually puts up the price of products or forces small players, who may have excellent products, from the market. It also discourages new entrants, particularly in funds management. This is not in the consumer interest.

There is also a challenge for government in increased regulation: if the regulator, (an arm of government) is deeply involved in the affairs of financial enterprises, then is there not an implied (political) guarantee of viability? Will not voters demand that governments rescue failed institutions if they are so closely regulated? This question of "moral hazard" has not received much media attention. Increased regulation also reduces the capacity and willingness of organisations to innovate and be flexible in meeting market demand.

For instance regulators found it difficult to come to terms with the sale of financial products over the internet. On one occasion recently, Australian Unity was prevented because of regulatory interference from continuing to pay certain claims in the manner we thought best, to over 20,000 health insurance customers who had enjoyed that entitlement benefit for years in some cases.

## INFRASTRUCTURE

Despite our relatively small size, our internet presence is increasingly rich in functionality enabling purchase of home and contents insurance and health insurance. It is becoming one of our most reliable and cost effective channels of customer service and facilitates our presence on web "portals" where several companies' products are available. Our overall IT capabilities are magnified by the personal efforts of the key individuals involved, especially in the IT Facilities Group, who maintain a myriad of devices on a network which ranges from Adelaide to Bundaberg. Our Call Centre, which now operates at two sites (South Melbourne and at our fully-equipped disaster recovery site in Melbourne CBD) for reliability, is available seven days a week, with hours

edging towards 24/7. Recent unplanned power and telephone outages demonstrated the effectiveness of this dual facility. A full-scale disaster simulation conducted in June also showed that core Group technology and telephony functions will continue even if our principal site in South Melbourne is unexpectedly inoperable.

Our staff, now numbering in excess of 700, are the backbone of our business. We have increasing numbers involved in our newer activities such as pharmacies, posing fresh challenges for communication across all parts of the Group. Nonetheless, our latest staff attitude survey found that on virtually all measures, staff were more positive and with higher morale than 12 months previously. The management team has agreed some actions to further enhance this vital series of performance measures. This infrastructure of human resource is our best guarantee of growth and success in the future.

# corporate governance

*Australian Unity is limited by shares and by guarantee and is regulated by the Australian Securities and Investments Commission.*

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The investment products of Australian Unity Limited and its subsidiaries are regulated by the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission, as appropriate.

The Board sees its duty to members as including ensuring the security and satisfactory value delivery on the various products of the Group in the context of meeting statutory requirements and high ethical standards.

The Australian Unity Group comprises Australian Unity Limited, "the company", its wholly-owned subsidiary companies and two controlled companies.

Corporate governance within this Group is exercised by the Board of Directors of the Company supported by the Boards of the other entities. Some of these other entities' boards include directors other than directors or executives of the parent Company, who bring specialist expertise to these Boards.

It is board policy that the subsidiary company is chaired by a director of Australian Unity Limited.

In all cases, directors of each subsidiary have primary duties to represent the interests of its shareholders and to fulfil their obligations under the various regulatory regimes for each subsidiary. The Australian Unity Limited Board additionally exercises a general stewardship relating to the overall nature and scope of business activities conducted by each subsidiary and controlled company.

## **COMPANY MEMBERSHIP – REGULATION**

Australian Unity Limited is a mutual (ie. member controlled and owned) company. Membership of the Company, which carries an entitlement to vote at General Meetings, is established by the Company's Constitution. Broadly speaking, a person becomes a member by purchasing a product of the Company or its health insurance subsidiary. The purchase of products from other subsidiaries does not confer membership. Each member is taken to have given a guarantee in the event of wind-up of the Company, but the amount of this guarantee, until the Company in general meeting decides otherwise, is effectively zero. The Company is also entitled to issue shares, subject to various

provisions, including extensive arrangements for prior member approval and changes to its Constitution, for which approval has not been sought.

## **BOARD OF DIRECTORS AND ITS COMMITTEES AND SUBSIDIARIES**

The Board of Directors of the Company is responsible for the approval of Group strategic directions and assisting management in the establishment and monitoring of goals. It has established a number of Board Committees to assist in the execution of its responsibilities and a framework for the management of the Group, including a system of internal controls and the establishment of appropriate ethical standards.

## **COMPOSITION AND EFFECTIVENESS OF THE BOARD**

The Australian Unity Limited Board currently comprises seven directors of whom one, the Group Managing Director, is an executive director. All directors are expected to bring relevant expertise to activities of the Board and the Company. Each non-executive director is subject to

election by members every three years, or if filling a casual vacancy, at the next Annual General Meeting.

The Chairman annually reviews with each director his or her own performance and the Board also discusses its collective performance at least annually, with a view to identifying strengths and weaknesses in Board processes and composition. Where the need for a new director arises, the Board, assisted by the Remuneration and Nominating Committee, sets the criteria for selection of the new person, who will then be sought as determined. (Any such appointed Board member must submit for election at the next Annual General Meeting).

The number of directors is determined by the Board from time to time within limits set by the Constitution. The present Policy of the Board is to maintain its size at seven directors. The Board annually elects the Chairman and Deputy Chairman and appoints Committees and their Chairmen. The Board also approves appointment of directors to the subsidiary Boards and determines their terms of appointment.



## **INDEPENDENT PROFESSIONAL ADVICE**

Each director has the right to seek independent professional advice at the Group's expense. However, prior approval of the Board Chairman is required, which would not unreasonably be withheld.

## **REMUNERATION AND NOMINATING COMMITTEE**

The role of the Remuneration and Nominating Committee is to review and make recommendations to the Board on the remuneration packages and policies applicable to the Chief Executive Officer, senior executives and directors themselves (within the limits specified by members in General Meetings). This role also includes responsibility for benefit packages and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract and retain qualified and experienced directors and senior executives.



External remuneration consultants are employed as required.

The Committee meets as and when required. Current members are A J Castleman (Chairman), M W Campbell, E Crestani and M W Sibree, except when the latter's remuneration is being considered.

Further details of directors' remuneration, superannuation and retirement payments are set out in Note 7 to the financial statements.

## **AUDIT AND COMPLIANCE COMMITTEE**

The role of the Audit and Compliance Committee is to give the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements. The Committee also monitors the progress of the Group in complying with the growing number of regulatory requirements and reviews the Group's achievement against a Corporate Diary of compliance events.

Members of the Audit and Compliance Committee during the year were Messrs M W Campbell

(Chairman), A J Castleman and M W Sibree. The external auditors, General Manager - Finance & Administration, Company Secretary/General Counsel, Compliance Manager and other financial, accounting and audit staff are invited to Committee meetings at the discretion of the Committee.

The responsibilities of the Committee include: liaising with the external auditors and ensuring that the annual statutory audits/reviews are conducted in an effective manner; ensuring management implement appropriate and prompt remedial action to any deficiencies identified; monitoring compliance with regulatory requirements, and the Law relating to corporations and regulatory matters; and improving the quality of the accounting function.

Australian Unity operates within a highly regulated framework and is subject to supervision by both APRA and ASIC. Over the last 12 months we have continued to develop the processes necessary to meet the new compliance requirements of the Corporations Law, and have worked to satisfy the new provisions relating to investor directed portfolio services ("IDPS").

In addition, as our superannuation business grows, we have implemented new processes to ensure that we comply with the increasingly complex rules governing superannuation. Changes to the regulatory environment continue to be made, and we are preparing our businesses for compliance with the new Privacy regime and the new rules to be introduced under the new Finance Services Reform legislation.

Subsidiary Audit and Compliance Committees also comprise a majority of non-executive directors.

The Audit and Compliance Committee reviews the performance of the external auditors on an annual basis and meets with them to discuss audit planning matters, audit fees, and statutory reporting as required for any special reviews or investigations deemed necessary by the Board.

## **INVESTMENT COMMITTEE**

The Board has delegated to the Investment Committee the authority to review and as delegated to control matters relating to the investment of Group assets and investment products managed by the Group.



The Committee is chaired by Mr M W Sibree and comprises directors L D Hickey and I N Ferres, and senior executives responsible for investment matters.

The Investment Committee meets monthly or more when required.

## RULES COMMITTEE

The Board has delegated the task of detailed drafting of Constitution amendments, to put into effect Board policies and decisions, to the Rules Committee. This comprises Messrs M W Sibree (Chairman) M W Campbell and S R Grant.

## MARKETING COMMITTEE

This committee reviews matters relating to the marketing strategy of the Group. It is chaired by Mr B Siney and also comprises directors E Crestani and M W Sibree.

## INTERNAL CONTROL FRAMEWORK

The Board acknowledges that it is responsible for the overall internal control framework but recognises that no cost-effective internal control system will preclude all errors and irregularities. The system is based upon written

procedures, policies and guidelines, an organisational structure that provides an appropriate division of responsibility, and the careful selection and training of qualified personnel.

## BUSINESS RISKS

The Board recognises that business risk management is a key issue for the Company and works with management to identify and resolve key business risks.

## ETHICAL STANDARDS

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. The Group aims to exceed customer expectations with regard to the quality of our products.

Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Group has firm policies on affirmative action and sexual harassment in the workplace.

## THE ROLE OF MEMBERS

The Board of Directors aims to ensure that members are informed of all major developments affecting the Company's state of affairs. Information is communicated to members as follows:

- ▶ The annual report is available to all members. A member will be automatically mailed the report if they indicate they wish to receive it. The annual report includes relevant information about the operation of the economic entity during the year, changes in the state of affairs of the economic entity and details of future developments, in addition to other disclosures required by relevant laws.
- ▶ The Company publishes a quarterly newsletter which is sent to all customers and members. This includes reviews of current and new products, topical articles on regulatory matters and information on a range of topics of interest to our customer base.
- ▶ In addition, specific reports are sent to members detailing the performance of investments managed for them by the Company or its subsidiaries.

The Board encourages participation of members at the Annual General Meeting to ensure a high level of acceptability and identification with the Group's strategy and goals.





**ALAN J CASTLEMAN** BCom, Dip EE., FIE (Aust.), FAICD – Age 60

Mr Castleman is the Chairman of Australian Unity Limited, Australian Unity Funds Management Limited and York Capital Group Limited and of the Remuneration and Nominating Committee. He is also a director of Australian Unity General Insurance Limited and Australian Unity Health Limited.

His career experience consists of 24 years with BHP in numerous general manager positions. He is also a former Chairman and director of various public and private sector organisations including Swanston Trams (METRAM1), Monash Medical Centre and Auseon Limited. Additional external Directorships include Chairman of the National Ageing Research Institute Inc., Western Melbourne Regional Economic Development Organisation, CSIRO's Built Environment Sector Advisory Committee, Western Metals Limited and Australian Energy Limited. He is also a director of Orbital Engine Corporation Limited, a member of the CSIRO's Minerals Exploration & Mining Sector Advisory Committee, a councillor of the Australian Mineral Industries Research Association Limited and a Trustee of the Committee for Economic Development of Australia (CEDA).



**BRUCE H SINEY**

Age 61

A director of Australian Unity since May 2000.

**Career Experience**

During his executive career, Mr Siney has worked predominantly for The Foster's Brewing Group where he was responsible for the marketing strategies of the Australian and international businesses and additionally held a number of general management positions. He was formerly Chairman of the Victorian Olympic 2000 Committee.

**External Directorships/Positions**

Director of Australian Char Pty Ltd and a director of the Volante Group Limited. He was a member of the Victorian Government's Centenary of Federation Committee and the NSW Government's Olympic Business Round Table. He is also a Victorian director of the Starlight Children's Foundation and a member of the Alfred Foundation Board.



**IAN N FERRES**

FFA (Edin.), FIAA – Age 62

A director of Australian Unity Limited and Australian Unity Funds Management Limited and a member of the Investment Committee.

**Career Experience**

34 years with the National Mutual Group, including 7 years as an Executive Director, a former President of the Monash Medical Centre, director of Swiss Re Australia and captain of the Commonwealth Golf Club.

**External Directorships/Positions**

Chairman of Treasury Corporation of Victoria, the MAB Corporation Group and CMG CH China Limited. He is director of Victorian Funds Management Corporation and Amrad Corporation.



**LEONARD D HICKEY**

LLB, BA – Age 60

A director of Australian Unity Limited and Chairman of Australian Unity Building Society Limited, Mr Hickey is also chairman of Australian Unity General Insurance Limited and Australian Unity Staff Superannuation Pty Ltd. He is a member of the Investment Committee and chairman of both Building Society and General Insurance Audit & Compliance Committees.

**Career Experience**

Mr Hickey is Principal of legal firm, J P Metcalfe & Co, and was Chief President of the ANA Friendly Society at the time of its merger with Manchester Unity in 1993 to form Australian Unity.

**External Directorships/Positions**

He is a director and member of the Executive of the Lord Mayor's Charitable Fund (as representative of the Victorian Friendly Societies' Association) and a director of Lion Equities Ltd.

# senior management

*Our Senior Management Team continue to create and exploit synergies from our various complementary businesses by connecting our employees' skills and experience to the vision set out by Australian Unity's Board of Directors.*



## FRANCIS X O'CONNOR

ARMIT, MACS – Age 54

**General Manager – People & Technology (Appointed 1994)**

### Group Responsibilities

Management of the Group's Information Technology, Human Resources and Training functions and a director of several Group-related entities.

### Career Experience

More than 30 years in the information technology industry, including roles with the Departments of Agriculture and Industry Technology & Resources, and the Port of Melbourne Authority. He was Mayor of South Melbourne from 1992 to 1994 and is a former director of various aged care and community health organisations.

### External Interests

Chairman of the Board of the inner South Community Health Service, a Board member of the St Kilda Community Group Limited and an Aged Care organisation.



## SIMON R GRANT

BCom, LLB, FCIS – Age 40

**Group Secretary/General Counsel (Appointed 1996)**

### Group Responsibilities

Management of the Group's legal, internal audit and library functions and Company Secretary of Australian Unity Limited and several Group subsidiaries.

### Career Experience

The focus of Mr Grant's career has been in corporate law (local and international) and commercial and company secretarial practice, having held positions with various organisations including the Foster's Brewing Group, Datacraft Limited and Freehill, Hollingdale & Page. He is immediate past Chairman of the Legislation Review Committee.

### External Interests

Victorian Branch Councillor of the Chartered Secretaries Australia Ltd.



## CRAIG M DUNSTAN

BCom, LLB, MBA, ASIA, AAMI – Age 41

**General Manager – Funds Management (Appointed 1995)**

### Group Responsibilities

Management of the Group's investment operations, and a director of Australian Unity Funds Management Limited, York Capital Group Limited, Waltus Investment Australia Limited, Permanent Friendly Society Limited and Acorn Capital Limited. He is a member of the Investment Committee and Compliance Committees.

### Career Experience

Solicitor of the Supreme Court of NSW, Mr Dunstan has held numerous marketing and senior management positions in the funds management industry, including roles with the Australian Bank, Australian Fixed Trusts, Lend Lease Group and National Mutual Group.

### External Interests

A member of the Standards & Community Relations Board Committee of the Investment & Financial Services Association.

# senior management



## **ANTHONY V CONNON**

BA, FCA – Age 51

**General Manager – Finance & Administration (Appointed 1995)**

### **Group Responsibilities**

Chief Financial Officer and management of the Group's General Insurance business and Finance and Administration functions, and a director of Australian Unity Funds Management Limited, Australian Unity Dispensaries Friendly Society Limited, Australian Unity Health Limited, Australian Unity Retirement Villages Limited and several other Group-related entities.

### **Career Experience**

28 years in senior finance and administration roles with various organisations including Price Waterhouse, Grindlays Bank, Elders Finance Group and the Australian Wheat Board.



## **DAVID E HATCHER**

BA, MBA, AFAIM, AAMI, FAICD – Age 57

**General Manager – Retirement Villages (Appointed 1995)**

### **Group Responsibilities**

Management of the Group's aged care and retirement living operations.

### **Career Experience**

Diverse management experience in a number of major companies spanning several industries, as well as founding and operating Business Partners Australia, a strategic management consulting firm.



## **DEREK A McMILLAN**

B Sc (Hons) Dip Ed – Age 38

**General Manager – Sales & Corporate Marketing (Appointed 1999)**

### **Group Responsibilities**

Management of the Group's Sales and Distribution, Call Centre and Corporate Marketing Functions and a director of Australian Unity Dispensaries Friendly Society Ltd.

### **Career Experience**

The focus of Mr McMillan's career has been sales, marketing and strategic development. His broad commercial background includes senior sales, marketing and management positions in the pharmaceutical and agricultural industries.

### **External Interests**

Member of the Australian Direct Marketing Association (ADMA) Financial Services Council.

# senior management



## PETER F KERESTES

MBA, FCIS – Age 44

**General Manager – Healthcare  
(Appointed 1997)**

### Group Responsibilities

Management of the Group's Health Insurance operations and Dental and Healthcare Clinics and a director of Australian Unity Health Limited.

### Career Experience

A former Senior Adviser to a Federal Cabinet Minister and 22 years with various businesses within the Southcorp Holdings Limited Group in general management and senior executive roles, both in Australia and overseas.

### External Interests

Vice President – Health Benefits Council of Victoria.



## ALFIE G PEZZI

BBus, AIM, ARA, ADMA – Age 38

**General Manager – Pharmacies  
(Appointed 2000)**

### Group Responsibilities

Management and expansion of the Group's pharmacy operations.

### Career Experience

Mr Pezzi brings 13 years experience in the pharmacy management area having held senior management positions with a major pharmacy group that included retail services expansion and national brand management



## MARK W SIBREE

B.Sc. (Hons), MBA, MACS, FAICD – Age 57

Group Managing Director of the Australian Unity Group and a director of all operating Group subsidiaries. He is Chairman of the Investment Committee and a member of the Audit & Compliance and Rules Committees.

### Career Experience

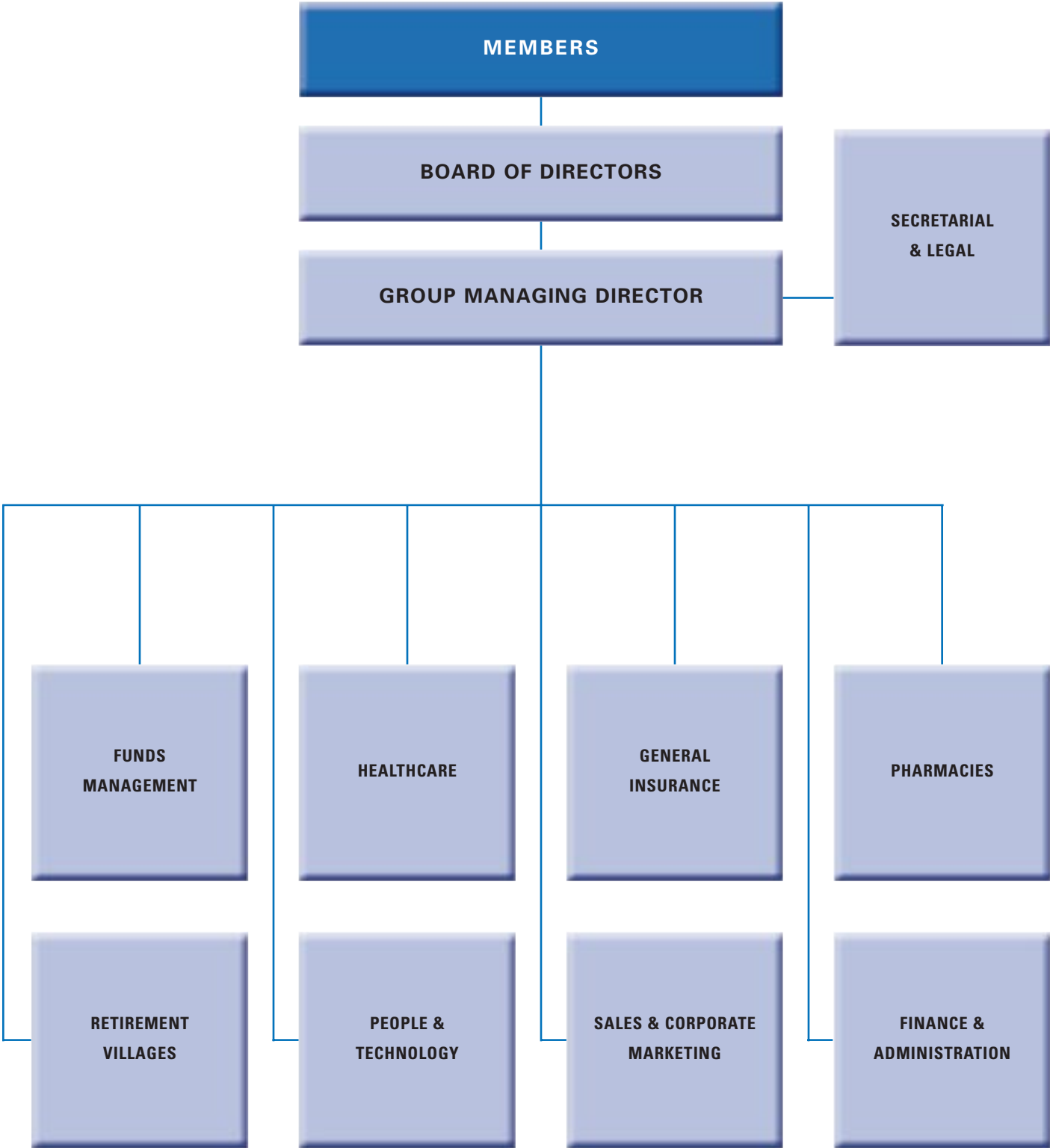
Manager with the Amcor Group and Senior Consultant with PA Management Consultants. Mr Sibree also held various senior management positions with other organisations including APPM Limited and CSIRO. He is a former President of the Victorian Employers' Chamber of Commerce and Industry (VECCI) and former director of the Urban Land Corporation.

### External Interests

A director of the Australian Health Services Alliance Limited, the Australian Health Insurance Association Limited and a member of the board of the Australian Chamber of Commerce and Industry (ACCI). He is also a Trustee of the Committee for Economic Development of Australia.

# operational structure

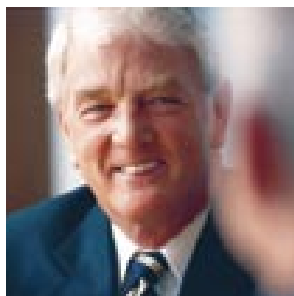
*Each individual business unit focuses on its own core competency, while contributing to an overall synergistic range of 'wellbeing services', looking after the physical and financial needs of Australians.*





**MARK W SIBREE** B.Sc. (Hons), MBA, MACS, FAICD – Age 57

Mr Sibree is the Group Managing Director of the Australian Unity Group and a director of all operating Group subsidiaries. He is Chairman of the Investment Committee and a member of the Audit & Compliance and Rules Committees. A former General Manager with the Amcor Group and Senior Consultant with PA Management Consultants, Mr Sibree also held various senior management positions with other organisations including APPM Limited and CSIRO. His is a former President of the Victorian Employers' Chamber of Commerce and Industry (VECCI) and former director of the Urban Land Corporation. In addition to his role as Group Managing Director of Australian Unity, he is also a director of the Australian Health Services Alliance Limited, the Australian Health Insurance Association Limited and a member of the board of the Australian Chamber of Commerce and Industry (ACCI). He is also a Trustee of the Committee for Economic Development of Australia.



**MURRAY W CAMPBELL**

FCPA, FCIS, FAICD, JP – Age 65

Deputy Chairman of Australian Unity Limited since 1995, Chairman of the Audit and Compliance Committee, a member of the Remuneration & Nominating Committee and director of a number of Group subsidiaries.

**Career Experience**

21 years as Managing Director of Manchester Unity IOOF in Victoria Friendly Society, before its merger with ANA Friendly Society in 1993 to form Australian Unity. Following the merger, he was Joint Managing Director for 2 years. Mr Campbell is a former Chairman of the Federal Government's Health Insurance Advisory Committee and the State Friendly Societies' Advisory Committee. He is also a former President of the Rotary Club of Melbourne.

**External Directorships/Positions**

National President of the Australian Friendly Societies Association. He is a member of the Advisory Board of Comcover, the Advisory Panel to the Office of Asset Sales & IT Outsourcing and a director of Sail & Adventure Limited.



**EVE CRESTANI**

Dip. Law (BAB), FAICD, MHKSI – Age 47

A director of Australian Unity Limited, Deputy Chairman of Australian Unity Funds Management Limited and a member of the Remuneration and Nominating Committee.

**Career Experience**

Ms Crestani is a consultant in finance, strategic planning, marketing and management and previously held senior management positions with the National Mutual Funds Management Limited and James Capel Australia Limited. She is a former director of NSW Land & Water Consulting, NSW TAFE Commission and Chairman of the Sport Fashions Group.

**External Directorships/Positions**

She is a Founding Fellow of the Australian Institute of Company Directors and a Trustee for the Committee for the Economic Development of Australia (CEDA). Additionally, Ms Crestani is a member of the Sydney Futures Exchange Business Conduct Committee and Invesco's Compliance Committee.

# board of directors

*Australian Unity is committed to enhancing and protecting people's wellbeing by providing a contemporary range of investment, insurance and healthcare services. To guide us, each Australian Unity board member contributes their particular experience and capabilities to help shape our strategic direction. The diversity of their individual backgrounds adds strength to the organisation in planning for future growth.*



# MEMBERS

## AUSTRALIAN UNITY LIMITED

### Directors:

A J Castleman (Chairman), M W Campbell (Deputy Chairman)  
M W Sibree, E Crestani  
I N Ferres, L D Hickey, B H Siney

## NATIONAL FRIENDLY SOCIETY LIMITED

### Directors:

M W Campbell (Chairman)  
M W Sibree  
A V Connon  
S R Grant  
F X O'Connor

Holding Company

- Corporate direction
- Benefit Funds

## YORK CAPITAL LIMITED

## WALTUS INVESTMENTS AUSTRALIA LIMITED

## AUSTRALIAN UNITY FUNDS MANAGEMENT LIMITED

## AUSTRALIAN UNITY HEALTH LIMITED

## AUSTRALIAN UNITY RETIREMENT VILLAGES LIMITED

- Property Syndicates
- Property Trusts

### Directors:

A J Castleman (Chairman)  
E Crestani (Deputy Chairman)  
M W Sibree, M W Campbell,  
A V Connon, C M Dunstan,  
I N Ferres, J A Fraser,  
L D Hickey, B H Siney

### Directors:

M W Campbell (Chairman)  
M W Sibree  
A J Castleman  
A V Connon, E Crestani,  
I N Ferres, P F Kerestes,  
B H Siney

### Directors:

M W Campbell (Chairman)  
M W Sibree  
A V Connon  
D E Hatcher

- Unit Trusts
- Master Trusts
- Superannuation
- Allocated Pensions
- Mortgage Administration Services

- General and lifestyle-specific Hospital Cover
- Extras Cover on Ancillary Benefits
- Dental, Physiotherapy, Podiatry and Myotherapy services, and a General Medical Practice

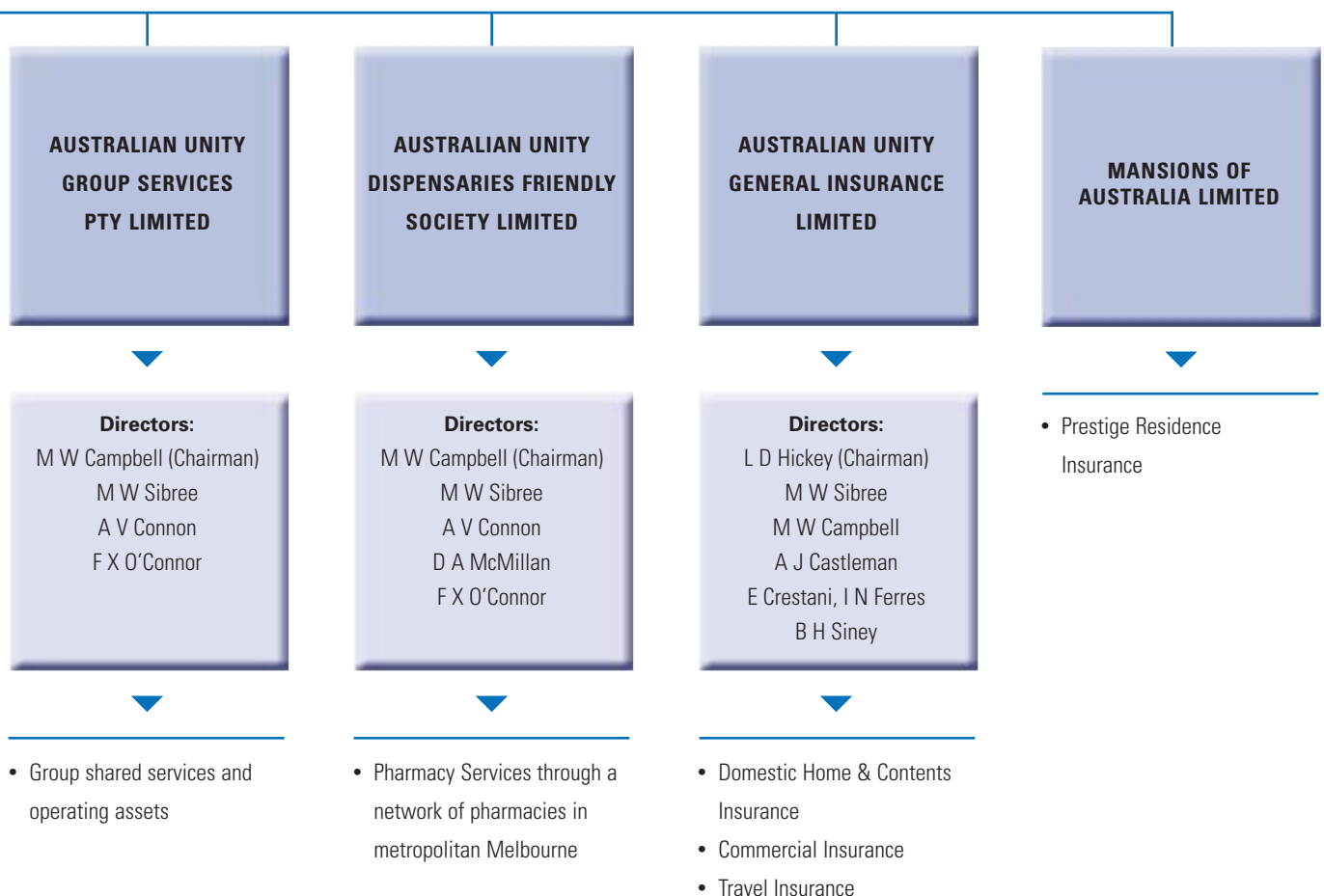
- Retirement, hostel and nursing home accommodation

# group organisational structure

*Australian Unity operates a portfolio of distinct business entities which combine effectively to provide a diverse range of financial solutions for every stage of people's lives.*

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# healthcare

*Buoyed by the strong results from 2000/2001, our future focus remains on distinguishing ourselves as a health insurer who provides 'a little extra care'. Central to this are our activities to help our members enjoy good health.*

## THE YEAR IN REVIEW

Our dramatically increased advertising, better understanding of our customers' needs and the strong motivation provided by The Lifetime Health Cover initiative introduced by the Federal Government resulted in Australian Unity outperforming the market and a 58% growth in membership.

During this time, the Member-Get-Member program proved to be a resounding success, with existing members heartily endorsing our products and services.

With this enhanced membership base, our task for the future is to improve services to members and add to the value of their health insurance cover. Efforts over the past year have been concentrated on this area which will assist us retain existing customers and attract new ones.

## BUILDING AWARENESS

Communications concentrated around the use of TV commercials and print advertisements and continued to use William McInnes as the "Personal Guardian" representing Australian Unity.

Research and anecdotal evidence demonstrate strong recognition of our core values of offering a little extra care and looking after our members.

## MORE VALUE FOR OUR MEMBERS

For the second year running, Australian Unity did not increase the cost of its Health Cover. In addition, we have significantly enhanced existing benefit levels and introduced new benefits, such as Quit Smoking courses and Health Checks.

Australian Unity has improved its Gap Cover scheme which pays for doctors' accounts for in-patient services provided to members. Our efforts to educate members and the medical community about Gap Cover over the past year has seen an increase in take up rates of Australian Unity Gap Cover, resulting in lower out of pocket payments of doctors' bills for members. In the first quarter of 2001, approximately 72% of all medical claims did not incur out of pocket costs to members.

Thousands of people have enjoyed the ease and convenience of our on-line internet buying facilities. The website is constantly evolving and now includes new products,

such as Overseas Student Health Cover, and services, such as the Cover Selector. Future plans focus on providing new functionality for existing members and improving content to encourage return visits to the site.

Members have also benefited from better access to ancillary services through the electronic claiming facilities, including HICAPS and HealthPoint. Development work has been conducted for hospitals to make claims via Electronic Simplified Billing on behalf of members.

The Member Support Program, which allows members to return home from hospital early, has grown significantly, with more members enjoying the many benefits of this service.

## DENTAL CLINICS

The network of Australian Unity Dental Clinics has now been increased and includes dental practices in Melbourne, South Melbourne, Bendigo, Geelong, Brisbane and Cleveland. Members who visit an Australian Unity Dental Clinic are able to access high-quality dental care, with no out of pocket costs for preventative services.

A major customer satisfaction survey was conducted on our Dental Clinics in 2000. The survey results indicated that dental and healthcare centres operated by Australian Unity Health Limited returned significantly higher satisfaction levels across all measures when compared to members' experiences when visiting other dentists.



# retirement villages

*The past year has been one of success and steady achievement for the Retirement Villages Division, despite an increasingly difficult funding and regulatory environment in the aged care sector.*

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The Division is now building on what has already been achieved and is laying the foundations for growth over the next decade.

## **FOUNDATION FOR FUTURE GROWTH**

A major component of the Retirement Villages growth strategy has been the establishment of the joint-venture alliance with Becton Corporation for the development of Classic Residences up-scale retirement communities. The first stage of Classic Residences Brighton was completed in October 2000 and sales rates far exceeded budgeted expectations, with all units sold prior to financial year-end. The next stage of independent living units will become available in December 2001 and already pre-sales are demonstrating unprecedented demand. There is also a 92 unit serviced apartment facility due or completion on the Brighton site by the end of August 2001, which will provide short-term respite care as well as apartments for sale. In total, the Classic Residences Brighton project will be a six-stage development spread over about four years.

Walmsley and Wahroonga Friendship Villages continue to operate at full capacity, and both villages have substantial and growing waiting lists. The sale of strata titled units to new residents continues at Walmsley as leased units become vacant. Another 14 units were turned over for the year on this basis, bringing the total strata sales to date to 73 units.

## **ACCREDITATION SUCCESS**

After achieving Federal Government accreditation for our Nursing Homes and Hostels last year, our facilities have continued to work on achieving 'best practices' and improved efficiencies within the businesses. Walmsley Friendship Village was also granted accreditation status during the year from the Retirement Villages Association, again proving that we are providing the highest standards of excellence to our customers.

Recognising the changing regulatory environment, Retirement Villages are developing ten-year master plans for its existing facilities to ensure that they will comply with all expected certification standards in the foreseeable future as well as meet changing market needs in their local catchment areas.

Although the Division was granted approved provider status by the Federal Government during the year for the provision of government funded Community Care Packages, we were not successful in getting any of the Packages in the annual competition for places. We are quietly confident that our application for new Packages in the forthcoming year will succeed.

## **NEW OPPORTUNITIES**

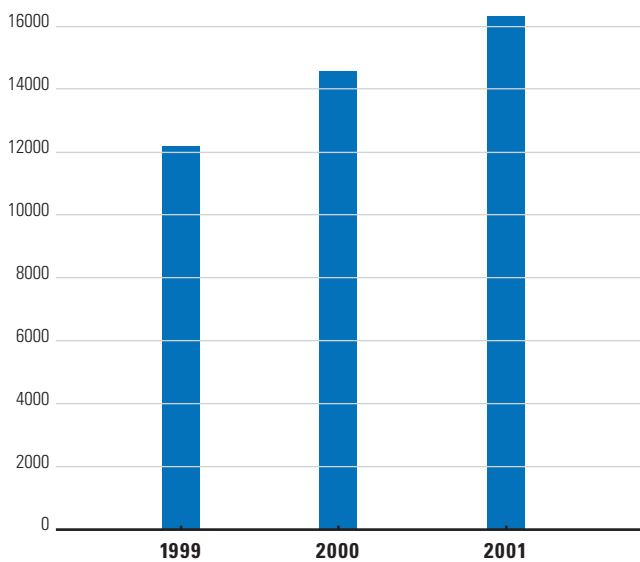
We are continuing to investigate new opportunities to expand both within the aged care and retirement accommodation sector, and in the community and home care areas. Our research has shown that there is increasing demand within all aged care sectors, but particularly in home care services, and this trend will continue for many years given the ageing population of Australia.



# who's looking after you?

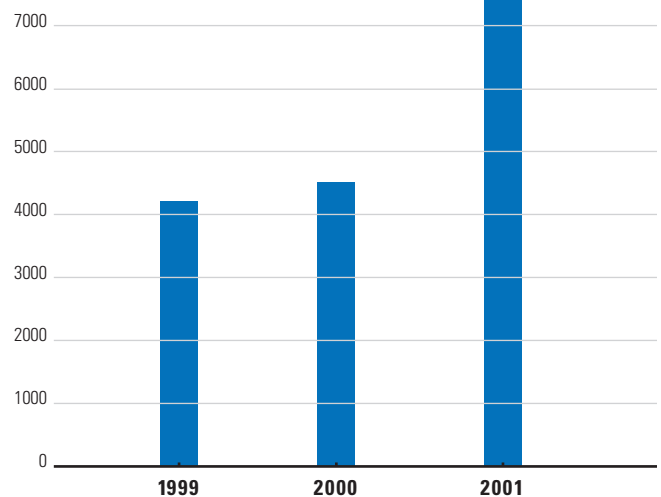


## OPERATING REVENUE



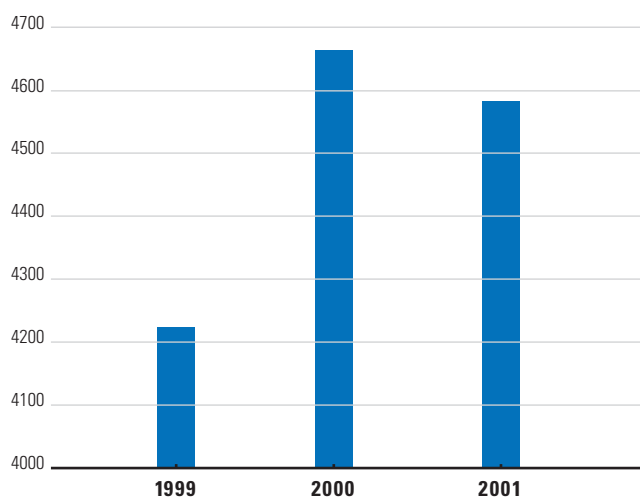
- ▶ Total operating revenue increased by 12.4% in 2000/2001.
- ▶ Excellent growth in our Elizabeth and Queen Street pharmacies throughout the year.

## OPERATING EXPENSES



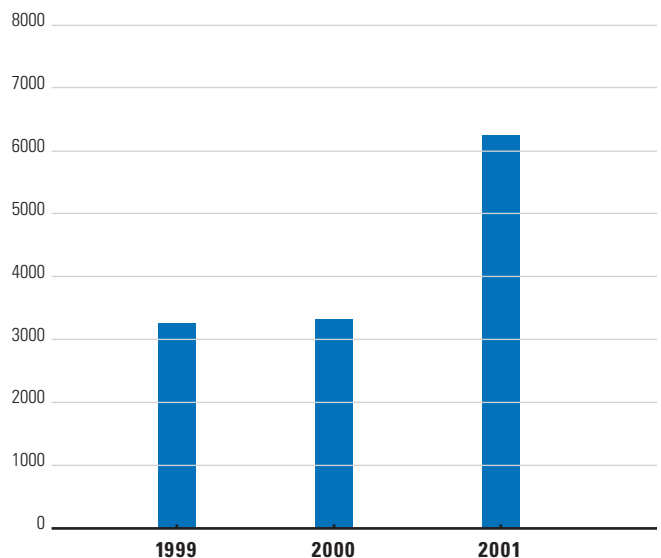
- ▶ Operating expenses grew by \$1,026,000 or 25%.
- ▶ The increase in operating expenses can be attributed to: occupancy costs, refinancing of computer systems, infrastructure expansion at store level and central office.

## GROSS PROFIT



- ▶ Overall gross profit decreased by 1.7% in 2000/2001.
- ▶ A continued lull in consumer demand; the GST phase-in and the resulting strong short term shift in purchasing patterns and prolonged deep discounting in certain sections has affected our margins.

## MEMBERS FUNDS



- ▶ Member's funds rose by 90%.
- ▶ Total assets increased by \$3.7m.

# pharmacies

*Australians turn to their pharmacist as the trusted professional who offers expert advice on many health-related issues. This ability to provide support and advice to customers on health issues makes pharmacy an indispensable community resource.*

Pharmacy plays a vital role in the community. It is an integral part of the healthcare chain linking patients, doctors, medical specialists, nurses and pharmacists.

In recent years, Australian Unity's share of overall retail sales has increased as the role of pharmacy has continued to expand in response to changes in our healthcare system.

From a financial perspective, 2000/2001 showed strong, positive trends, with key performance targets being exceeded.

## WHOLLY OWNED SUBSIDIARY

Australian Unity Dispensaries Friendly Society Limited ("Pharmacies") has been using the Australian Unity name since 1995. Over this period and with the assistance from Australian Unity Limited, Pharmacies has been seeking to improve its delivery of pharmacy services to members in a number of ways, including by improving its existing retail outlets and by disposing of poorly-performing stores and opening new ones.

At our AGM on 15 December 2000 our members unanimously agreed to make Pharmacies a wholly owned subsidiary of the Australian Unity parent, rather than continuing as a separate associate company.

This structure will give Pharmacies the ability to obtain finance and other resources from the parent company to meet future competitive challenges and provide the very best in professional care, advice and service.

## BUSINESS RESTRUCTURING PROGRAM

Throughout 2000/2001 a number of business restructuring programs were completed:

- ▶ Sale of freeholds have generated \$1,950,000 of capital which will be reinvested in acquiring future pharmacies and the redevelopment of our existing pharmacies;
- ▶ Sale of our Preston and Reservoir pharmacies, which have been unprofitable due to poor locations and store traffic;
- ▶ Removal of the retail centre at our Oakleigh pharmacy in October has created an extended area of retail selling floor space.

## FUTURE DIRECTION

The next year will see some business restructuring to further strengthen our market position. Our focus on the unity of our resources – in the form of brand, people, products and retail services – will serve as our sustainable advantage in the future.

The Australian Unity Pharmacy key strategies involves:

- ▶ co-ordination of clearly branded stores featuring distinctive exteriors and interiors;
- ▶ a consistent range of merchandise promoted in partnership with suppliers;
- ▶ a strong consumer marketing program comprising quality catalogues, in-store promotions, relationship marketing and public relations activities;
- ▶ utilisation of common fixturing and merchandising philosophies;
- ▶ implementation and co-ordination of key competencies base learning.

Pharmacy is both a people and knowledge intensive business. Our human resources management and learning strategies underpin our leadership role in community pharmacy.



# funds management

*Funds Management has built on previous years successes – focusing on core competencies and fostering internal expertise to move closer to a significant point in its six-year history.*

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Funds Management is verging on achieving its goal to become “one of the 20 largest retail fund managers in Australia”.

This development has resulted in the sale of Australian Unity Building Society Limited and renaming Financial Services to Funds Management.

The strategy driving our future success is to:

- ▶ Focus on the management of property and mortgage assets internally, while continuing the multi-manager approach for equity and fixed interest assets.
- ▶ Focus on niche products and those with a significant design point of difference.
- ▶ Achieve consistent 1st or 2nd quartile investment performance.
- ▶ Make it easy for clients to do business with us.
- ▶ Distribute our products predominantly through financial planners.
- ▶ Recruit, train and retain a quality team of employees.

## PROPERTY AND MORTGAGE FUNDS

Our reputation as a leading manager of property and mortgage investment products continues to grow.

Research firm InvestorWeb stated in a June 2001 report that they regard Australian Unity as “one of the premier managers of property related assets, with a clear mandate to drive growth in this division of the Group”.

Australian Unity's property and mortgage related investment products now have over \$800 million of funds under management. The portfolio includes direct properties such as hospitals and shopping centres, as well as over \$150 million invested in listed property trusts, over \$200 million in commercial and residential mortgages, and a growing business in administering mortgage portfolios on behalf of third parties.

Property investment activities were expanded with the acquisition of property syndicator, York Capital Group Limited and Waltus Investments Australia Limited.

We will continue to consolidate our position as a leader in the property syndication market.

The Australian Unity Healthcare Property Trust continues to expand its portfolio through the acquisition of three hospitals in New South Wales. The Trust received an AA- from Property Investment Research Pty Ltd, one of the highest ratings for unlisted property trusts or syndicates.

Our Mortgage Income Trust and Capital Guaranteed Mortgage Bond recently received a 4 star rating by research firm ASSIRT Pty Limited.

The Mortgage Income Trust and mortgage administration business also have sound growth potential, which we will pursue in the coming year.

## MULTI-MANAGER APPROACH

As well as property and mortgages management, Australian Unity manages a range of fixed income and equity based investment funds for investors.

In 1999 we adopted a multi-manager approach by selecting a range of leading domestic and global fund managers to invest the assets of the products on a day-to-day basis.

Australian Unity's key strengths in the product design and investment strategy and the management of the underlying manager provided more consistent investment performance for our clients.



# who's looking after you?



Our multi-manager approach has met with support from leading researchers such as InvestorWeb who in a June 2001 report stated that:

“One of Australian Unity’s core competitive strengths is the expertise it has developed in-house with regard to “managing the manager”. Its investment process is well articulated and highly transparent, ensuring that the portfolio is administered in line with mandated expectations and guidelines”.

Fellow research firm ASSIRT Pty Ltd classified 13 of our investment funds as investment grade in their June 2001 report. Four of the funds including the Defined Income Trust and the Leader’s Imputation Trust, received a 4 star rating. This trust was also one of the top performing Australian sharemarket funds over the past year – further enhancing our reputation as a manager of sharemarket based funds.

## NICHE PRODUCTS

During the year we launched a number of innovative investment products including the Education Savings Plan, Two-in-One Investment Account, Socially Responsible Sharemarket Trust and Emerging Companies Trust.

The Education Savings Plan is a tax effective means of saving for a child’s post-secondary education. Since its launch, the product has attracted much interest particularly for its uniqueness and flexibility.

The Two-in-One Investment Account received over \$10 million in a six-month period. It combined the benefits of a term deposit with our Mortgage Income Trust.

The Socially Responsible Sharemarket Trust utilises our multi-manager approach and gives investors access to Australian and international companies who conduct their business in a socially responsible manner.

Our Emerging Companies Trust gives investors access to mid, small and micro cap listed companies utilising the specialist stock picking capability of investment managers BNP, JB Were and Acorn Capital.

Our 50%-owned specialist wholesale investment manager, Acorn Capital Limited, launched a pooled fund for wholesale investors in 2001. Acorn is Australia’s only specialist micro cap sharemarket investment manager, investing only in companies listed on the Australian Stock Exchange that are not in the top 250 by market capitalisation. Acorn was appointed to manage a \$20 million portfolio on behalf of the Emergency Services Superannuation Fund.

## CLIENT SERVICE ENHANCEMENTS

Our objective is to make it easy for financial planners and investors to deal with us. To better understand our client’s needs, we have conducted a number of research programs during the year which have already led to improved services, including enhancements to the Australian Unity and Freedom of Choice websites.

Over the year our investment products were listed on a variety of websites such as Comsec, Fairfax’s f2 Trading Room, Channel 7’s My Money and InvestorWeb, TDWaterhouse and Ethical Investor.

Through our alliance with IMB, a NSW-based building society, we will provide clients with access to a broader range of banking products, including home loans and internet banking. We will also provide ATM, cheque book and credit card access through the launch of a cash management trust.

## FINANCIAL PLANNER SUPPORT

While some investors choose to deal with us directly, the majority invest with Australian Unity as a result of a recommendation from their financial planner.





During the year we expanded our team of business development managers and have looked for ways to assist financial planners conduct their business, including product and technical workshops to broaden their understanding of our products. Sponsorships of the Paraplanner of the Year Award and Financial Planning Association also strengthen our position in the marketplace.

Next year we plan to launch a range of wholesale funds so that financial planners that utilise master funds and wrap accounts have greater access to our investment funds.

### STRONG MARKETING APPROACH

While many people may see Australian Unity as predominantly a health insurer, with \$1.6 billion of funds under management, we are a leading retail fund manager and rank 23rd out of over 100 retail managers.

During the year we sought to raise our profile as a fund manager through television and trade and consumer magazine advertising.

As an organisation with a heritage of over 160 years, many new investors are being attracted by our focus on our clients and our innovative range of investment opportunities.

### EXPANDED INVESTMENT TEAM

With our expansion in the property field in particular, we now employ over 70 people in our funds management business, which includes over 15 investment professionals. These people are supported by a team of product managers, business development managers, solicitors, accountants, administrators, marketers and client service staff.

In a fast moving industry and in a business that has undergone significant change and growth in recent years, our staff have achieved a sound job and should be congratulated.

### CONSISTENT INVESTMENT PERFORMANCE

Investment returns across all our funds have been competitive this year with the vast majority achieving our aim of consistent 1st or 2nd quartile performance.

	AU RETURN % PA	BENCHMARK RETURN % PA	EXCESS RETURN OVER BENCHMARK % PA
Australian Shares	21.5	10.1	+11.4
International Shares	15.8	9.3	+6.5
Australian Fixed Interest	13.9	13.5	+0.4
International Fixed Interest	11.8	10.6	+1.2
Property Securities	21.0	20.2	+0.8
Mortgages (to 31/3/01)	6.17	6.36	-0.19

June 2001 ASSIRT report rating of Australian Unity's investment performance across various asset classes over the year to 31 January 2001.

We appreciate that clients invest predominantly to achieve competitive returns. Enhancements to our investment processes over the past couple of years have enabled these improved returns to occur.



# general insurance

*General Insurance is one of the key growth areas for Australian Unity over the coming year as the current market position is consolidated and business opportunities through both the direct and intermediary market channels are maximised.*

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Growth during the past twelve months has been remarkable, reflecting a wide recognition of Australian Unity as an underwriter of quality home and contents insurance.

The recent acquisition of Mansions of Australia, insurers of prestige residences, builds on the rapidly expanding customer base and gives both companies access to an extended portfolio of products, further strengthening our position in the home and contents insurance market.

## **MORE PRODUCTS TO MORE PEOPLE**

Quality products and developments in electronic trading have supported sales throughout all Australian States. Additions to our Internet site include an online quote and purchase facility for our accidental damage policy, Triple A. Clients can now compare our two policies and decide immediately on the level of cover appropriate to their needs. Further improvements to web site functionality are currently underway and will include a quote and purchase facility for travel insurance.

BIMnet, an electronic trading system for brokers and agents, which allows immediate policy issue, is currently being used by an increasing majority of our agents and brokers. Expansion of this system to the wider Australian Unity broker community continues to be a priority and an integral part of our service offering to intermediaries.

General Insurance has secured links with two of the biggest broker networks in Australia, comprising over 300 brokers, many of whom conduct business outside Victoria. This new venture accelerates our development in the national market and increases the number of brokers committed to working with us. Extra Business Development Managers have been employed to ensure our personal service remains of the highest standard.

## **QUALITY PRODUCTS**

This coming year we will introduce two new products targeted at strategic niche markets and increased distribution of existing products. Annual product reviews ensure our policies maintain their 'best of breed' position in the marketplace.

Recent favourable reports in a leading consumer magazine confirm that Australian Unity home and contents insurance is highly competitive, both in terms of price and the range of benefits offered. Likewise, our travel insurance policy compared very well, further endorsing our reputation as a provider of value for money, quality products.

Australian Unity's Business Insurance policy was a significant contributor to overall sales. This policy is popular with small business owners as it allows them the flexibility to tailor cover to the particular requirements of their business.

## **ALL ROUND PERFORMANCE**

Excellent customer service is a major focus driving the success of the general insurance business. Efficient underwriting, prompt claims management, friendly staff and accessible management all contribute to satisfied clients, brokers and agents alike.

Australian Unity has a claims-loss ratio remaining well below the industry average and a prudent underwriting philosophy supported by reinsurance treaties that are securely placed with mainly AAA/AA providers.

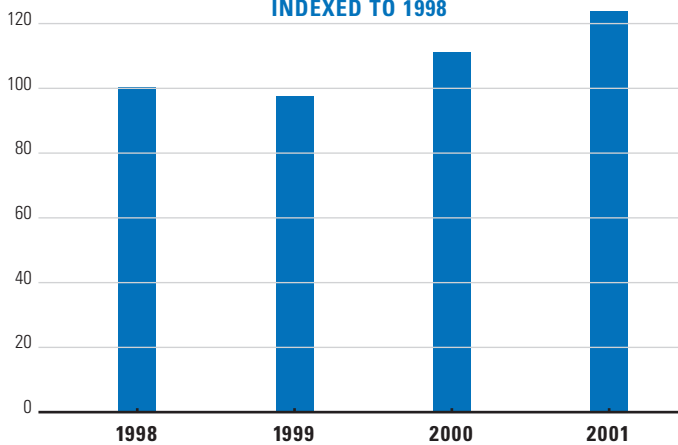
The combined forces of an expanded business development team, new products, increased distribution and more access to our products via the internet provide a good starting point for future growth.





This year, the focus has been squarely on supporting the company's evolution from predominantly healthcare to a more broad-based financial services organisation.

**GROWTH IN CUSTOMER RELATIONSHIPS  
INDEXED TO 1998**



Our geographic coverage continues to extend beyond our traditional Victorian base and supports our goal of establishing the organisation as an integrated, *national* financial services and healthcare group.

**SERVICE PHILOSOPHY**

Where possible, we aim to conduct business in the ways our customers wish it to be done.

As a result, the last 12 months has seen a continued investment in new technology and business systems to support the dual objectives of improved customer service and accelerated organisational growth.

This investment in the future has occurred at a time when current business, as measured by the number of customer relationships, continues to grow at a healthy rate.

**HIGHLIGHTS OF THE YEAR**

Highlights from a customer service and marketing perspective include:

- ▶ Supporting the acquisition and retention of a substantial number of new health members as a result of the Federal Government Lifetime Healthcover initiative;
- ▶ broadening the range of products available through the internet;
- ▶ enhancing customer relationship management systems to support a single view of the customer and improved capability for marketing analysis;
- ▶ an increasing proportion of business from beyond our traditional geographic regions;
- ▶ developing systems to streamline the call centre processing of general insurance enquiries;
- ▶ developing an expanded network of intermediaries in both general insurance and funds management distribution;

The recruitment of experienced personnel in Funds Management and General Insurance business development has allowed rapid growth through enhanced distribution services. This expansion of the business development team also supports the integration and expansion of the complementary businesses within the Group.



# sales & corporate marketing

*In recent years Australian Unity has consistently upgraded the quality and breadth of services offered, particularly through the internet, call centre and retail networks.*

- ▶ the successful use of William McInnes as a corporate “personal guardian” to aid in brand recognition and assist in the establishment of a common positioning across businesses within the Australian Unity Group;
- ▶ the recruitment of key personnel in brand and sales management to provide the horsepower for future growth;
- ▶ sponsorship of the innovative Australian Paraplanner of the Year, Australian Unity Tour and wide-ranging contributions towards the Centenary of Federation celebrations.

## FUTURE STRATEGIES AND GOALS

We plan to continue our wide-ranging program of enhanced customer relationship and distribution services to better meet the needs of customers, further improve service standards and enhance marketplace competitiveness.

As our business evolves into an integrated supplier of financial services and the demand for financial advice from the ageing “baby-boomers” increases, the face-to-face contact provided by our retail outlets will remain a feature of our organisational distribution strategy.

To this end, further improvements to our retail network will be evident during the year as the outcomes from a retail audit conducted over the last six months are implemented across the network.

We recognise that the rapidly increasing sophistication of investors, changing consumer preferences and the trend towards multi-channel service utilisation will continue to drive improvements and further integration across our distribution network.

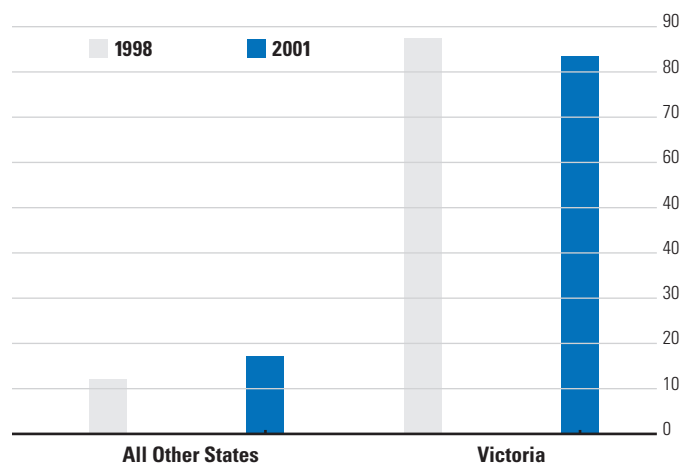
While we are proud of our position as one of the leading integrated service providers in our industry, we will be further developing our e-commerce and call centre capability over the next year to include a range of additional service features designed to support both existing and new customers.

Other initiatives for the coming year include:

- ▶ additional staff to support the rapid growth of our General Insurance and Funds Management businesses;
- ▶ further enhancements to our customer contact and profiling system to support privacy requirements;
- ▶ improving our systems and skills in Customer Relationship Management.



**PROPORTIONAL DISTRIBUTION OF CUSTOMERS BY STATE 1998 VS 2001**



# people and technology

*Australian Unity is a business that centres on people. The success of our business is integrally linked to our ability to attract, retain, motivate and develop the highest calibre people in our industry.*

## OUR WORK ENVIRONMENT

Over the past twelve months, we have focused on developing a work environment that emphasises job satisfaction, provides opportunities for professional development and learning, rewards outstanding performance and ensures a safe and healthy environment.

Our customers benefit when the company and its employees are committed to common goals. To help achieve this, we have enhanced our Performance Management Program to strengthen the link between staff members' individual objectives and our overall business goals.

We have continued to provide a number of wellbeing programs under the *healthy@work* banner, as well as promoting other activities to encourage and assist staff take an active interest in their physical and mental health and wellbeing, both at work and in their private lives.

These have included participation in the Juvenile Diabetes Foundation Walk for the Cure, Heart Week and Mental Health Week.

## TRAINING & DEVELOPMENT

We have placed a strong emphasis on the training and professional development of our people. This year there has been a significant increase in the number of staff days dedicated to training programs with a focus on technical and product training to enhance service delivery.

## STAFF OPINION SURVEY

Following the Staff Opinion Survey conducted at the end of 1999, we embarked on a program of specific actions and changes to make significant improvements in a number of key areas.

The results from a subsequent Survey at the end of 2000 showed not only excellent improvement in the targeted areas but significant improvement in nearly every area covered by the Survey. Again, we are establishing programs to put more focus on aspects of our workplace culture that can be even further improved.

## THE NEXT PHASE

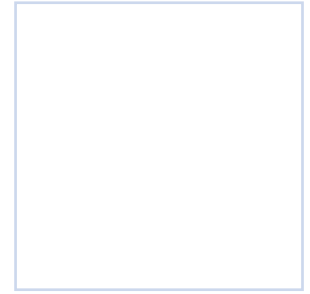
A number of new initiatives are being planned to ensure continued development of Australian Unity's human resources processes.

We will also continue to improve our recruitment and payroll systems so that our objective of being an employer of choice in our industry remains a reality.

## OUR TECHNOLOGY

Our systems and technology infrastructure help our staff serve our customers. It extends across the organisation in more than 50 locations and more than five hundred desktop personal computers. We have maintained our equipment and software at the latest levels through innovative leasing and software licensing arrangements.





## E-COMMERCE

Following the successful launch of our e-commerce facilities during 2000, we have enhanced the range of information and business transactions available to customers via the internet. Customers are now able to purchase any of our health insurance products on-line, as well as both Triple A and First Option home and contents insurance.

International students are able, from anywhere in the world, to make an on-line purchase of their health insurance, a requirement of their study in Australia.

In the coming months, we will be implementing a number of significant added value services for our customers through the website. In addition, we will enable our customers to transact with us on a 7 day, 24 hour basis via the web with a range of self service transactions, such as updating address details.

As internet transacting with a variety of companies becomes standard, our customers have a continuing expectation that they should be able to carry on their day-to-day business transactions at their convenience.

From the outset we decided that our website would represent an extension of our existing business practices and that all of the same controls and integration of information and services would form part of it.

This was recognised in an article written by the Australian Financial Review, which noted the successful development of our e-commerce area, at a time when many other companies struggled to achieve integration between their on-line business and their back office systems.

We have succeeded in combining the convenience of the internet with the solid security and privacy information-processing principles that protect our customers' interests.

## OUR CUSTOMER SYSTEMS

We are serious about managing the quality of information we hold about our customers and our systems have been designed to

facilitate this. We have enhanced these systems during this year in anticipation of the new national Privacy Laws which will be implemented in December 2001.

Our commitment to our customers' privacy means that we will only collect information that is necessary for what we do and we will only use or disclose information about customers in ways that are consistent with their expectations or that are required in the public interest. Full details of our privacy statement are available on our website at [www.australianunity.com.au](http://www.australianunity.com.au)

## THE FUTURE

We have spent several years establishing and expanding the appropriate technical infrastructure, and are now well placed to implement new services to our customers through the rapid strategic deployment of this technology. Our systems have been designed with future expansion in mind, enabling us to anticipate any future business needs.

