



METHODOLOGY

BANK OF THE YEAR

SMALL BUSINESS AWARD

What are the CANSTAR Business Banking Star Ratings?

CANSTAR *Business Banking Star Ratings* use a sophisticated rating methodology, unique to CANSTAR, which compares the dominant business banking products in Australia. The ratings are aimed at small businesses of varying sizes, with profiles and loan sizes to suit. The specific loan and deposit values are outlined below, and range up to \$500,000.

The results are reflected in a consumer-friendly five-star concept. The star ratings from the CANSTAR *Business Banking Star Ratings* go from a “rising star” through to a five-star product signifying outstanding value.

Rising Stars are allocated to those products that would be rated five-star but have not been in the market for more than six months. Rising Star products will be formally rated in the next rating period once more historical data is available for the applicable product area.

The three business banking products that are given star ratings include:

1. Business loans
2. Business deposits
3. Business credit cards

What is the CANSTAR Bank of the Year – Small Business award?

In conjunction with the Business Banking Star Ratings, CANSTAR *Bank of the Year – Small Business* is awarded to the institution that provides the strongest combination of products across the Business Banking Star Ratings profiles, as well as excelling in a range of institutional factors. The award aims to give recognition to the institution that backs up quality products with great service to small businesses. Institutional factors that were considered include:

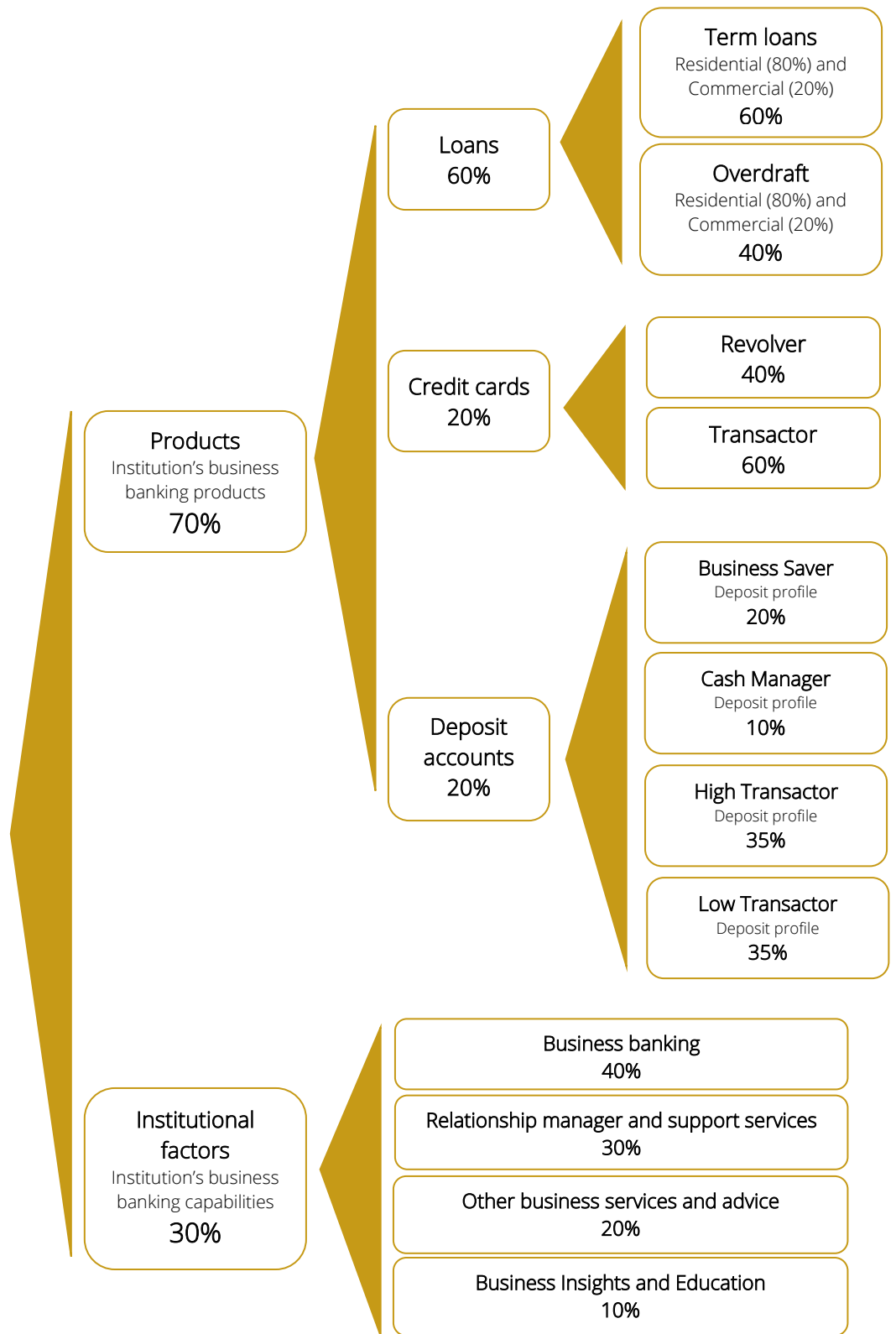
- Branch coverage
- Relationship manager availability
- Online banking functionality
- Merchant services
- Other business services and advice
- Business insights and education

To be eligible for the award, institutions must:

- Offer loans, credit cards, and deposit accounts to businesses
- Have a branch network in a majority of states/territories.

The breakdown of weighting for each category is displayed in the following methodology tree.

Bank of the Year – Small Business – Methodology tree



Institutional factors

Institutional Factors	Weighting
Business Banking	40%
Branches	50%
Branch Coverage	95%
Branch and ATM Functionality	5%
Online Banking Functionality	25%
Payment Services	25%
Relationship Manager and Support Services	30%
Relationship Manager Coverage	80%
Support Services	20%
Other Business Services and Advice	20%
Start Ups	10%
Risk Management	25%
Small Business Packages	30%
Equipment Finance	25%
Disaster Relief and Support	10%
Business Insights and Education	10%

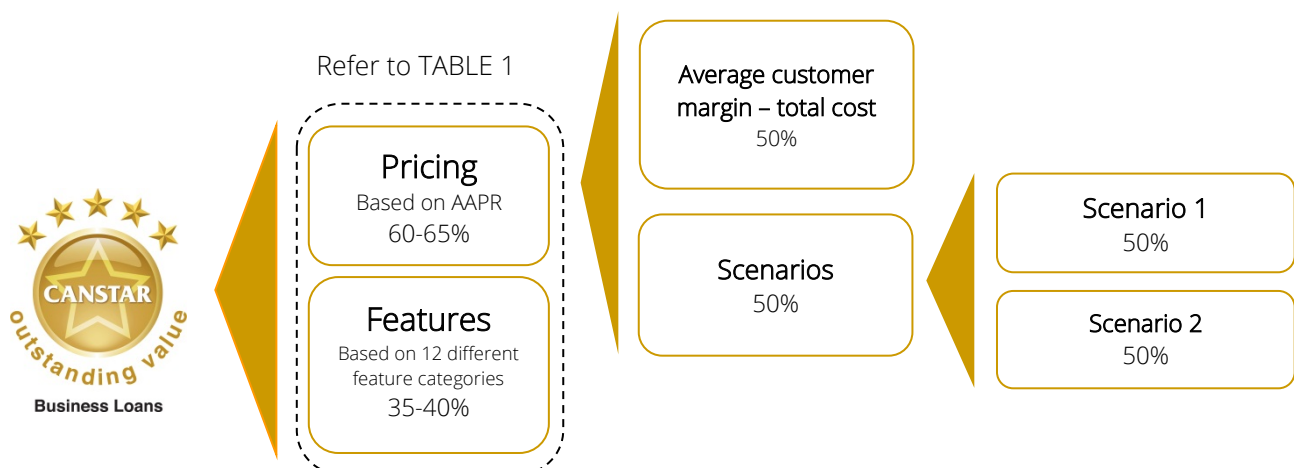
Institutional factors	Weighting
Online banking functionality	25%
Transaction history	25%
Payroll	25%
Payments	15%
Security limits	15%
Self service	20%

Business Loan Star Ratings

To arrive at the total score, CANSTAR applies a weight (w) against the Pricing (P) and Features (F). This weight will vary for each product category and will reflect the relative importance of either costs or features in determining the best business loan. This method can be summarised as:

$$\text{TOTAL SCORE (T)} = \text{PRICING (P)} + \text{FEATURES SCORE (F)}$$

Refer to TABLE 1



Residential and commercial-secured term loans and overdrafts were eligible to be considered in the *Business Loans Star Ratings*. CANSTAR understands that businesses use different forms of security. We also understand that some businesses require a one-time loan while others require access to a revolving line of credit. CANSTAR has separated the Business Loans star ratings into the four categories listed in TABLE 1 in recognition of these differences.

TABLE 1 also highlights the contribution of the pricing and features value components for each of the four categories.

TABLE 1 - Business Loans star ratings components

PRODUCT CATEGORY	PRICING	FEATURES
Residential secured term loans	65%	35%
Commercial secured term loans	65%	35%
Residential secured overdrafts	60%	40%
Commercial secured overdrafts	60%	40%

Pricing component

The purpose of the *Business Loans Star Ratings* is to determine which products are best suited for a broad cross-section of business loan users. Because of this general focus, CANSTAR calculated the total cost for each product using a combination of the base rate, customer margins supplied by institutions, upfront and ongoing fees on two different loan amounts and also for two different business scenarios (see TABLE 2). The product with the lowest average total cost is then awarded the highest pricing score for the product category to which it belongs.

TABLE 2 – Business Loans pricing scenarios

	RESIDENTIAL PROPERTY SECURITY		COMMERCIAL PROPERTY SECURITY	
	TERM LOAN	OVERDRAFT	TERM LOAN	OVERDRAFT
LOAN CALCULATION TERM	10 YEARS	5 YEARS	10 YEARS	5 YEARS
AMOUNT 1	\$250,000 (50%)	\$50,000 (50%)	\$250,000 (50%)	\$50,000 (50%)
AMOUNT 2	\$500,000 (50%)	\$125,000 (50%)	\$500,000 (50%)	\$125,000 (50%)

The overdraft pricing calculation is based on a 50% utilisation of the facility.

Features component

More than 100 individual features of each loan and overdraft are scored for positive traits and awarded a FEATURES score. TABLE 3 below highlights the contribution of the various groups of information to award the business loans FEATURES score.

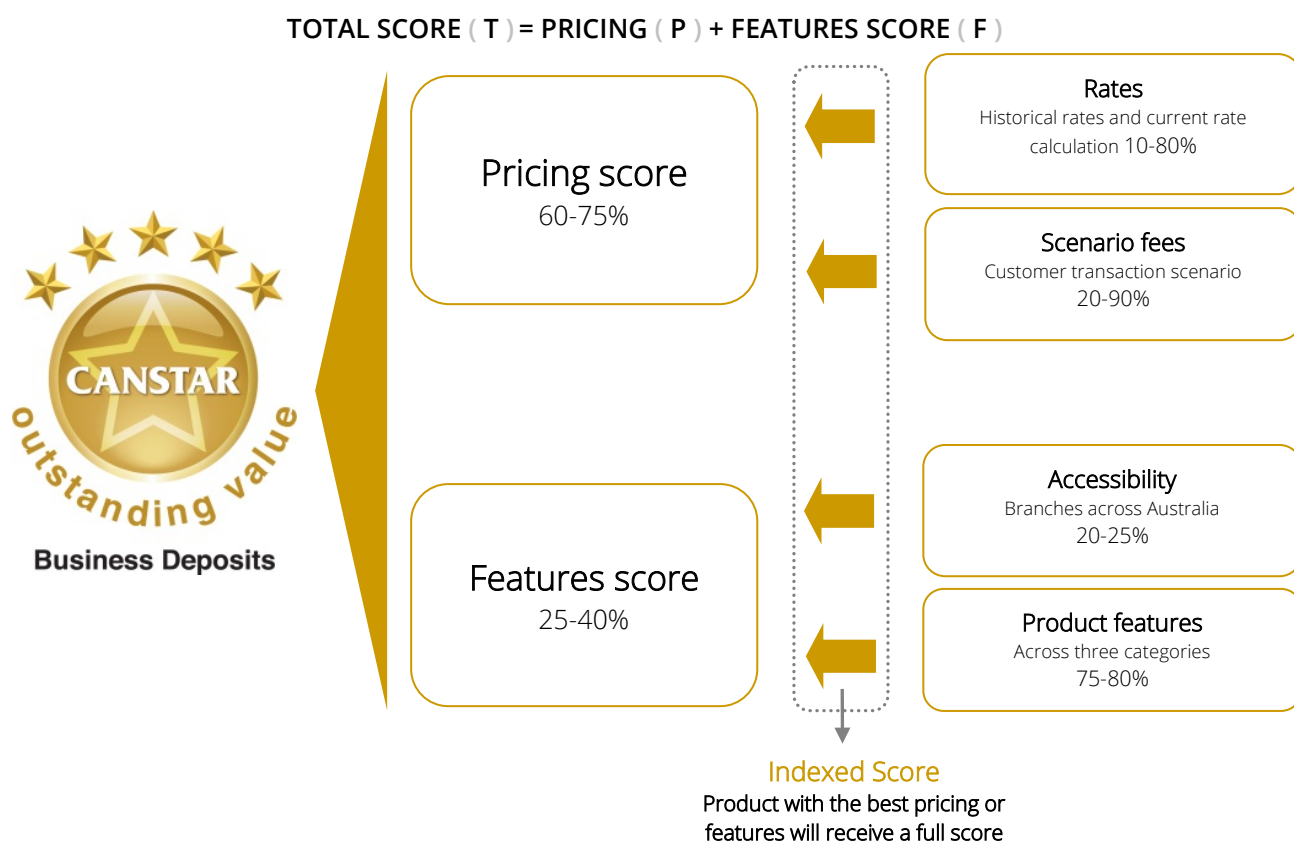
TABLE 3 – Business Loans feature weights

Feature category	Term loans	Overdrafts
Lending terms	30%	20%
Security accepted	5%	5%
Redraw facility	15%	-
Lending area	5%	5%
Portability	10%	5%
Loan purposes availability	10%	10%
Repayment capabilities	10%	-
Split facility	5%	-
Switching facility	5%	-
Overdraft terms	-	50%*
Online security	5%	5%

*Overdraft terms takes the linked accounts score from the business transaction account star ratings with a weighting of 50% High and 50% Low Transactor.

Business Deposit Account Star Ratings

To arrive at the total score, CANSTAR applies a weight (w) against the P and F. This weight will vary for each profile and will reflect the relative importance of either costs or features in determining the best value business deposit account. This method can be summarised as:



All cash management accounts, transaction accounts and internet accounts specifically marketed to small businesses are eligible to be included in the *Business Deposit Account Star Ratings*.

Profile	Pricing score	Features score
Low Transactor	60%	40%
High Transactor	60%	40%
Cash Manager	60%	40%
Business Saver	75%	25%

Pricing score

The pricing score of the business deposits is broken down into two components; Rates and Fees. The weighting of each component to the customer profile differs and the weightings we apply are displayed in the table below.

Profiles	Rates	Transaction Scenario	Saving Scenario
Business Saver	60%	10%	30%
Low Transactor	10%	90%	-
High Transactor	10%	90%	-
Cash Manager	60%	40%	-

Interest Rate

Interest paid on business savings accounts is an important component of the business saver profiles. The average interest rate paid across three nominated account balances is used to establish the account that pays the highest

overall interest. The product found to pay the highest average rate based on the weightings in the table below receives the highest Rate score.

Historical rate balances

	Business Saver	Low Transactor	High Transactor	Cash Manager
Balance 1	\$10,000	\$5,000	\$5,000	\$10,000
Balance 2	\$50,000	\$10,000	\$10,000	\$50,000
Balance 3	\$150,000	\$20,000	\$20,000	\$100,000

Balances weightings

The historical balances have a different level of importance to the profiles. The historical rates score is calculated using the percentages below.

Balances	Business Cash Manager	Other profiles
Balance 1	25%	35%
Balance 2	40%	35%
Balance 3	35%	30%

Rate Type Weightings

The types of rates relevant and offered in the market are considered in our calculations and weight is applied appropriately depending on profile.

Profile	Base Rate	Total Rate
Business Saver*	70%	30%
Cash Manager	100%	-
High Transactor	100%	-
Low Transactor	100%	-
*The total rate for Business Saver includes the base rate and any promotional rate offered		

Fees – transaction scenario

The scenario analysis is conducted using CANSTAR's unique transaction calculator, which prices the transaction behaviour of 500 customer scenarios. The calculation incorporates transaction fees, fee rebates and free transaction limits. The product with the lowest overall cost for the 500 customer scenarios receives the highest Scenario score.

Transaction fee scenarios

	Business Saver	Low Transactor	High Transactor	Cash Manager
Average minimum balance	\$50,000	\$10,000	\$10,000	\$50,000
Monthly Deposit	\$5,000	\$20,000	\$100,000	\$10,000
Average number of transactions/month	10	40	100	15
Internet Transaction	100%	35%	30%	30%
Branch cash withdrawal	-	5%	5%	5%
Branch cash deposit	-	7%	10%	5%
Cheque withdrawal	-	5%	5%	7%
Cheque deposit	-	5%	5%	8%
Direct Credit	-	22%	27%	25%
Direct Debit	-	8%	8%	5%
ATM	-	5%	5%	5%
EFTPOS	-	8%	5%	10%

Features

More than 100 individual features of each account are scored for positive traits and awarded a features score. The table highlights the contribution of the various groups of information to award the business deposit accounts a features score.

Feature component	Transactor	Cash Manager	Online Saver
General features	65%	50%	30%
-Reporting options: passbook statement, internet, email			
-Access channels: ATM, eftpos, phone, internet, cheque			
-Facilities: offset, overdraft, sweep, periodic payment			
Specific conditions	20%	35%	50%
-Interest details: calculations and payment frequency, balance used			
- Open/closed/min/max, entire/portion, bonus interest			
-Minimum: opening/subsequent deposit, ongoing balance, w/d			
-Maximum withdrawals per d/w: ATM, eftpos, combined			
Internet security and online functionality	15%	15%	20%
-Secondary authentication: security, higher transfer limit available with secondary authentication			
-Online banking functionality such as file export to accounting package, individual limits and "2 to sign" functionality			

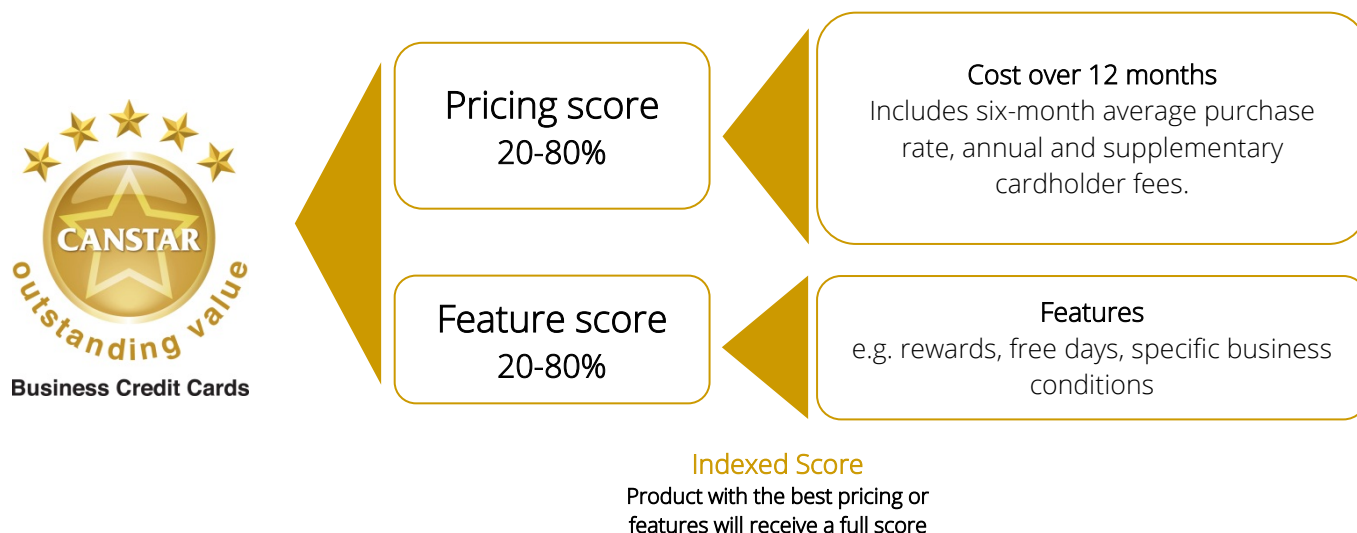
Branch coverage

While most banking these days is done electronically there are still important business functions that can only be solved by the presence of a branch, e.g. cash deposits and product application. APRA points of presence data and ABS Population data are used to determine the number of branches per person in each state. The institution's top state is taken into account and those with a ratio of one branch to 30,000 of population are given the top score and the remainder indexed of this mark.

Business Credit Card Star Ratings

To arrive at the total score, CANSTAR applies a weight (w) against the Pricing and Features. This weight will vary for each customer behaviour profile and will reflect the relative importance of either costs or features in determining the best business credit card. This method can be summarised as:

$$\text{TOTAL SCORE (T)} = \text{PRICING (P)} + \text{FEATURES SCORE (F)}$$



Unsecured business credit and charge cards are eligible to be included in the *Business Credit Card Star Ratings*. All eligible cards are assessed against two distinct business consumer behaviour profiles (Revolver and Transactor). Revolvers carry an outstanding balance on their card while transactors pay off their outstanding balance each month. As charge cards do not allow revolving, they are only eligible to be assessed against the transactor profile.

The star ratings consider Pricing and Features to be the two components in the card user's value equation. The contribution of each of these components to the value proposition for the business revolver and the business transactor are explained in the table below.

Business Credit Card Star Ratings components

Profile	Pricing score	Features score
Business Revolver	80%	20%
Business Transactor	20%	80%

Pricing score

The pricing score for the Revolver profile is based the total annual cost of the card including fees and the interest charges on a revolving debt of \$10,000 for six months. The interest rate used in the calculations is the six-month average purchase rate.

The pricing score for the Transactor profile is based on the annual cost of keeping the account active, as well as the cost for a secondary card issued to someone else in the business. Cards that do not charge ongoing fees automatically receive the maximum pricing score while other cards are awarded a score based on their annualised fees.

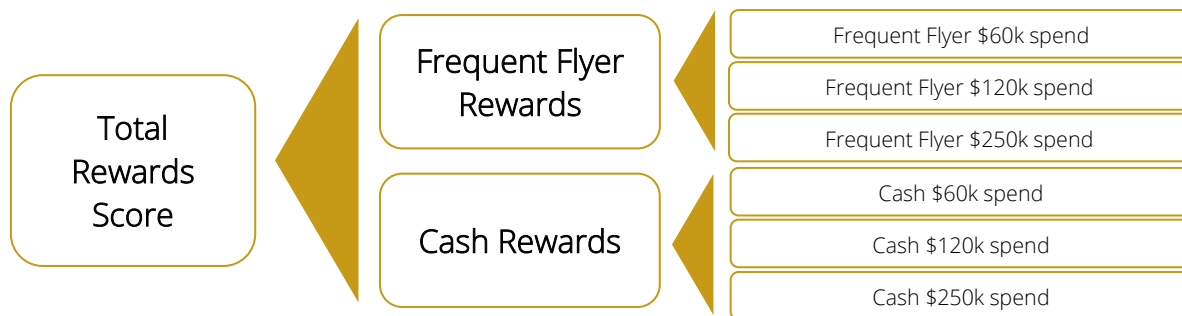
Features score

More than 100 individual features of each card are scored for positive traits and awarded a Features score. The table below highlights the contribution of the various groups of information to award the business credit/charge card Features score.

Feature Category	Revolver (20%)	Transactor (80%)	Examples of data captured
Credit Terms and Conditions	45%	25%	
Business Specific Conditions	35%	55%	Max number of cards, GST Statement, Limits
Card Terms	25%	15%	Min repayments, balance transfers, introductory rates
Additional Fees and Charges	25%	15%	Overdrawn, late fees, etc.
Interest Charging	15%	15%	Grace period, date interest is calculated from
Accessibility and Security	30%	10%	
Repayment Capabilities	40%	30%	Branch, ATM, BPAY, Cheque, Internet
Online Transaction Security	30%	30%	Chip, online shopping password, fraud protection
Merchant Acceptability	30%	40%	Number of merchants card is accepted at.
Benefits and Options	20%	60%	
Rewards	50%	70%	Rewards score calculated at different spend levels.
Premium Card Facilities	50%	30%	Insurances (Loss, theft, price protection, travel, warranty), concierge, special events.
Interest Free Days	5%	5%	Number of interest free days.

Rewards

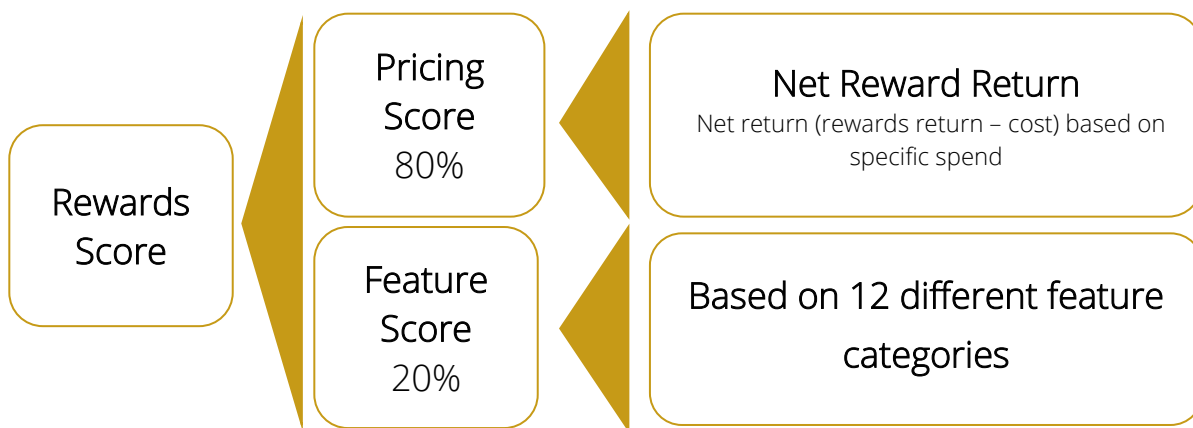
The rewards component of both profiles is made up of the best score from the Frequent Flyer or Cash Rewards methodologies.



Business Credit Cards Profile	\$60k	\$120k	\$250k
Revolver	60%	40%	-
Transactor	35%	45%	20%

Frequent Flyer and Cash/Voucher Rewards Score

The Frequent Flyer rewards and Cash/Voucher reward programs scores are calculated in the same way, with the majority of the total score coming from the net benefit to the cardholder.



Cash Rewards – Net Reward Return

The net reward return is derived by calculating the average reward return for shopping vouchers and cash, aggregating these returns and subtracting the annual fee.

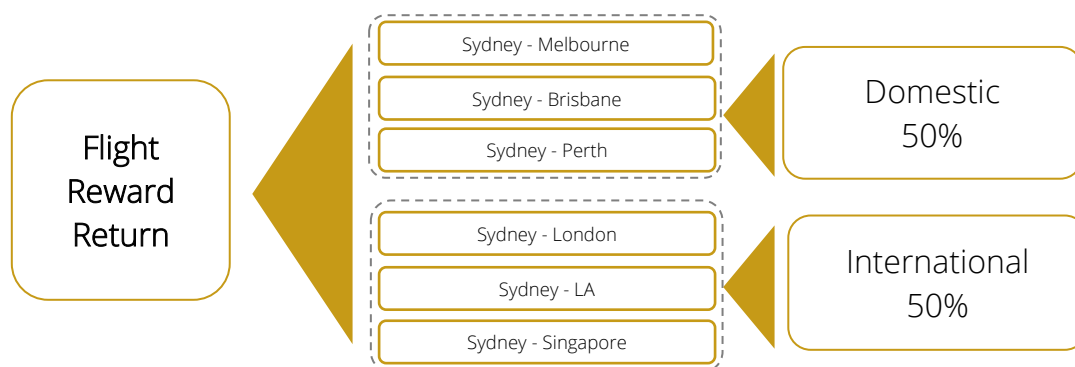
Flight Rewards – Net Reward Return

Only programs that include at least one flight redemption partner are considered. Where a program includes multiple flight partners, then all will be considered.

The Flight Reward Return is calculated firstly by finding the monetary value of a rewards point in the various programs (when redeemed for flights). This calculation considers that some programs charge taxes and fuel surcharges in addition to an amount of points required for a reward booking.

The benchmark used for assigning a monetary value to a reward flight on a particular route is the average market value of the flight on the various airlines considered. The quotes obtained from the different airlines must be like-for-like (for example meal and baggage inclusions must be comparable; no backtracking¹).

For each product, the airline with the best point value (taking into account conversion rates) is found for each of the six routes. These are then averaged to obtain the monetary value of a point in each rewards program.



Free Flights

If a product offers a free return flight (without onerous restrictions on its redemption) then the average market value of this flight is awarded in the Net Rewards Return calculation. This recognises that to a frequent traveller a free flight is a benefit worth its equivalent value in cash.

¹ For example, an airline would be excluded from price quoting if a flight from Australia to North America required a stopover in Singapore.

Features Score

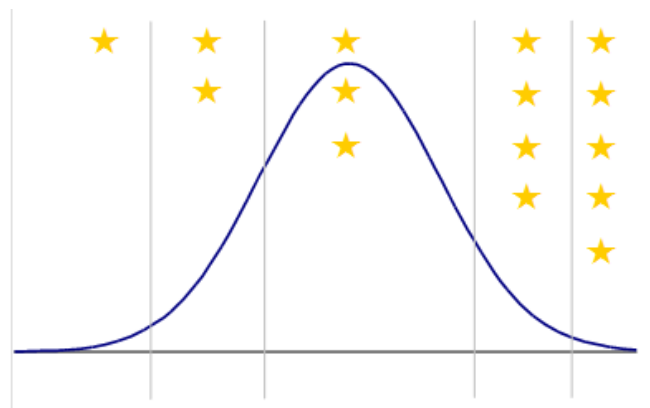
The features most relevant to the particular rewards profile are considered as a part of the rewards features score.

Feature Category	Cash	Frequent Flyer
Bonus Points Partners	5%	-
Points for Cash/Credit	30%	-
Points Capping Information	20%	5%
Instant Rewards Information	5%	5%
Earning Policies	20%	15%
Account Status Information	10%	5%
Points Expiration	10%	10%
Frequent Flyer Conditions	-	15%
Frequent Flyer Partners	-	10%
Travel Rewards	-	15%
Customer Service Information	-	10%
Top-up Policies	-	10%

How are the stars awarded?

Each business banking product reviewed for the CANSTAR *Business Banking Star Ratings* is awarded points for its comparative pricing and for the array of positive features attached to the account. Points are aggregated to achieve a Pricing score (P) and a Features score (F).

The total score received for each profile ranks the products. The stars are then awarded based on the distribution of the scores, with the objective to award the top 5-10% of products with the CANSTAR five-star rating.



The results are reflected in a consumer-friendly CANSTAR star rating concept, with five stars denoting outstanding value.

How often is the CANSTAR Bank of the Year – Small Business re-rated?

All ratings are fully recalculated every 12 months based on the latest features offered by each institution. CANSTAR also monitors rate changes on an ongoing basis.

Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at www.canstar.com.au if you would like to view the latest star ratings reports of interest.



- Account based pensions
- Agribusiness
- Business banking
- Business life insurance
- Car insurance
- Credit cards
- Deposit accounts
- Direct life insurance
- First home buyer
- Health insurance
- Home & Contents
- Home loans
- Life insurance
- Managed investments
- Margin lending
- Online banking
- Online share trading
- Package banking
- Personal loans
- Reward programs
- Superannuation
- Term deposits
- Travel insurance
- Travel money card
- Youth banking

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