



METHODOLOGY

Credit Cards

What are the CANSTAR Credit Card Star Ratings?

CANSTAR *Credit Card Star Ratings* use a sophisticated rating methodology, unique to CANSTAR, which compares the dominant credit card products in Australia and presents the results in a simple, user-friendly format.

Our rating methodology is transparent and extensive. The methodology compares all types of personal unsecured credit cards in Australia and accounts for an array of characteristics such as:

- Fees/Interest Rates
- Number of Free Days
- Standard Features
- Premium Features
- Reward/Loyalty Programs
- No Frills

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

What are the profiles used for CANSTAR Credit Card Star Ratings?

CANSTAR appreciates that credit card users have different spending habits and therefore value different features in their credit cards. In recognition of these differences, the CANSTAR *Credit Card Star Ratings* reflects a range of spending styles and credit card usage patterns.

Profile name	Description
Constant Credit	Keeps spending on credit card before it is paid off
Occasional Spender	Makes the occasional big purchase and then slowly pays it off
Everyday Spender	Spends \$2,000 each month and then pays off the balance
Big Spender	Spends \$5,000 each month and then pays off the balance
Major Spender	Spends \$10,000 each month and then pays off the balance

CANSTAR has adopted five different credit card user profiles in an attempt to cover the majority of card spending and payment patterns. The star ratings methodology differs for each profile in terms of the relative importance placed on the fees and features of the cards assessed. For example, the methodology recognises that interest rates will be more important to those who rarely pay off their card balance each month than they will be for those who always pay the balance owing on their card.

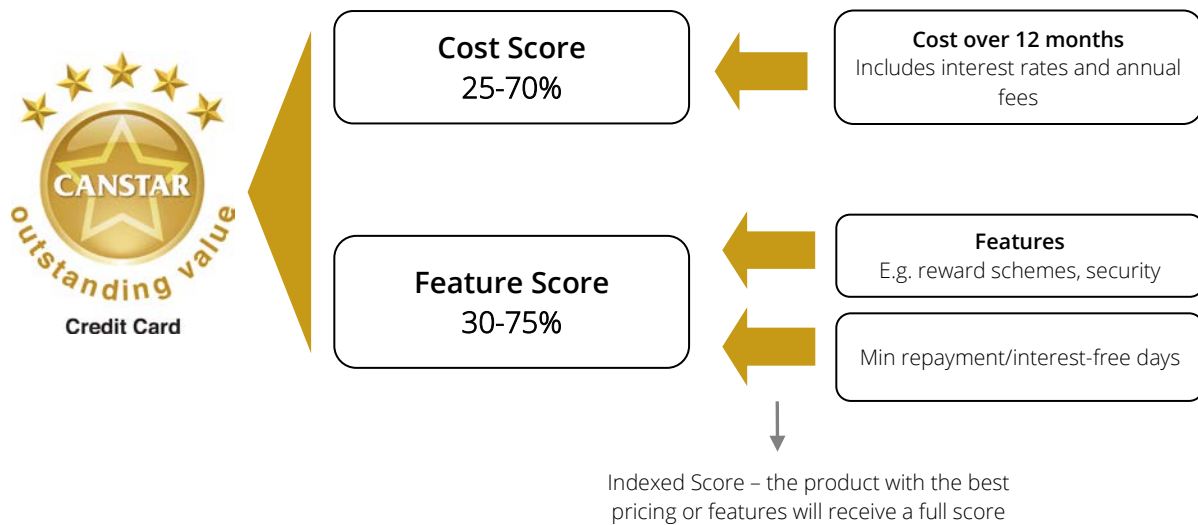
How does it work?

How are the 'stars' calculated?

Each credit card reviewed for the CANSTAR *Credit Card Star Ratings* is awarded points for its comparative Costs and for the array of positive Features attached to the card. These features include rewards programs, premium card facilities, repayment capabilities and conditions attached to interest charging.

To arrive at the total score, CANSTAR applies a weight (W) against the Cost score (C) and the Feature score (F). This weight will vary for each profile of credit card usage. The weight will reflect the relative importance of either costs or features in determining the best value card for the type of credit card usage and payment.

$$\text{COST SCORE (C)} + \text{FEATURE SCORE (F)} = \text{TOTAL SCORE (T)}$$



Weightings

	COST	FEATURES			
Profiles	Fees and interest over 12 months	FEATURES	Product features	Interest Free days	Minimum repayment
Constant Credit	70%	30%	80%	-	20%
Occasional Spender	60%	40%	85%	15%	-
Everyday Spender	35%	65%	90%	10%	-
Big Spender	25%	75%	90%	10%	-
Major Spender	15%	85%	90%	10%	-

Costs (C)

CANSTAR compares both current and historical credit card pricing data to calculate the COST (C) component of each product's overall score. The six-month average interest rate and current fees are used to calculate the annual cost to the cardholder for using each card. The cost of each card varies depending on the characteristics of the spending profile. Below are some of the spending and revolving details used in the calculation of the cost of each credit card.

- Constant Credit – spends \$12,000 per year while revolving \$6,000 constantly
- Occasional Spender – spends \$6,000 per year and revolves \$750 four months each year
- Everyday Spender – spends \$24,000 per year and revolves \$3,000 for one month
- Big Spender – spends \$60,000 per year and revolves \$9,000 for one month
- Major Spender – spends \$120,000 per year and revolves \$18,000 for one month

Features (F)

Each card feature is allocated points. Points are awarded for positive traits such as low fees or greater flexibility. The total features score for each category of information (e.g. repayment capabilities) is ranked and weighted with each category contributing to the overall Feature score (F).

Weightings

The Costs and Features are weighted differently for each spending profile. This is done in recognition of the relative importance of the different product components to each profile.

The methodology for each profile is subtly adjusted to account for the differences between them. The process considers each profile separately and assigns weights representative of that profile (see table below). In Constant Credit, for example, the rates and fees associated with a card account for 70% of that card's total score and the features account for the remaining 30%. The cards targeting this demographic have fewer features, less flexibility

and compete mainly on price. The cards targeting the Big and Major Spenders on the other hand (e.g. Gold, Platinum and rewards cards) typically offer more features. The Big Spender and Major Spender profiles have therefore been adjusted so that features account for 75% and 85% respectively of the total score, while rates and fees account for 25% and 15%.

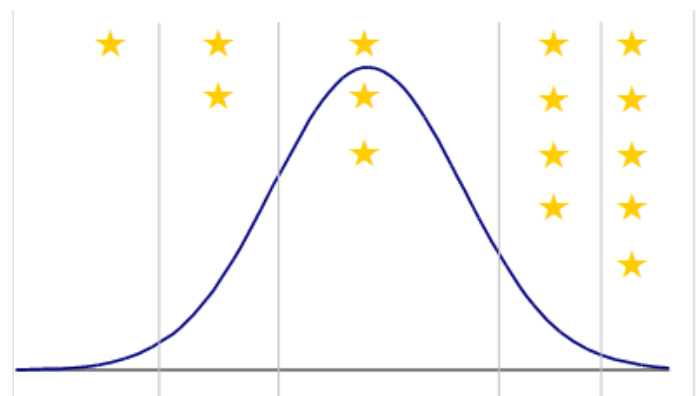
The Costs (C) plus Feature (F) point scores are indexed and totalled to provide the Total Index Points. Together they form the basis of CANSTAR's *Credit Card Star Ratings*.

Feature Category	Constant Credit	Occasional Spender	Everyday Spender	Big Spender	Major Spender	Examples of data captured
Credit Terms and Conditions	65%	45%	25%	15%	10%	
<i>Card Terms</i>	50%	20%	30%	30%	30%	<i>Min payments, balance transfers</i>
<i>Additional Fees and Charges</i>	40%	60%	30%	40%	40%	<i>Overdrawn fees, late fees, etc.</i>
<i>Late Payment Interest Charging</i>	10%	20%	40%	30%	30%	<i>How interest is charged e.g. when payment is late</i>
Accessibility and Security	20%	20%	20%	20%	15%	
<i>Repayment Capabilities</i>	40%	30%	30%	30%	30%	<i>Direct debit, branch, ATM, BPAY, Cheque</i>
<i>Card Security</i>	30%	30%	30%	30%	30%	<i>Chip, Online shopping password, Max fraud protection</i>
<i>Merchant Acceptability</i>	30%	40%	40%	40%	40%	<i>Number of merchants card is accepted at</i>
Benefits and Options	10%	30%	50%	60%	70%	
<i>Rewards Program</i>	10%	20%	70%*	70%*	70%*	<i>Rewards Program / Rewards Star Rating (depending on profile)</i>
<i>Premium Card Facilities</i>	10%	20%	15%	20%	20%	<i>Insurances (Loss, theft, price protection, travel, warranty), concierge, special events</i>
<i>Special Purchasing Policies</i>	80%	60%	15%	10%	10%	<i>Interest free finance at selected retailers or over spend level</i>
Application Process	5%	5%	5%	5%	5%	<i>Online, Approval time, Balance Transfer time, Online limit change</i>

*Based on best performing rewards products in \$24k, \$60k, and \$120k rewards respectively.

How are the stars awarded?

The total score received for each profile ranks the products. The stars are then awarded based on the distribution of the scores according to the following guidelines. Only the products that obtain a score in the top 10% of the of the score distribution receive a five-star rating.



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

Does CANSTAR rate all products available in the market?

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

How often are CANSTAR Credit Card Star Ratings re-rated?

All ratings are fully recalculated every six 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.



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- Deposit accounts
- Health insurance
- Landlord insurance
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- Package banking
- Reward programs
- Travel insurance
- Agribusiness
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