



# **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.



# METHODOLOGY– PROFILES

## Low Rate Credit Card

For consumers seeking a credit card with a low interest rate and flexible repayment conditions.



### Pricing Score

- Ongoing Cost of a constantly revolving debt of \$6000.
- Includes annual fee waivers where applicable.

### Feature Score

- Emphasis on additional fees and charges.
- Ability of minimum repayments to cover interest and fees.

### Eligibility

- Personal, unsecured credit cards.
- A credit limit of \$6000 must be available on application.



# METHODOLOGY– PROFILES

## Low Fee Credit Card

For consumers seeking a credit card with low ongoing fees and who may be looking to access some premium card facilities.



### Pricing Score

- Ongoing cost of keeping account open.
- Occasional use of card to revolve a balance.
- Includes annual fee waivers where applicable.

### Feature Score

- Purchase of durable goods are more likely than everyday spending so benefits may be derived from features such as:
  - Extended warranty
  - Price guarantee schemes
  - Purchase protection insurance

### Eligibility

- Personal, unsecured credit cards.
- Minimum credit limit cannot be higher than \$6000.



# METHODOLOGY– PROFILES

## Premium Credit Card

For consumers seeking a credit card or charge card that comes with extensive benefits beyond the standard offerings. Rewards are an added benefit, but not a necessity.



### Pricing Score

- Ongoing cost of keeping account open.
- One month revolving debt scenario.
- Includes annual fee waivers where applicable.
- Rewards are given weight in the pricing score do not directly offset fees and charges.

### Feature Score

- Focus on the depth of the premium card facilities.

### Eligibility

- At least four out of seven of the following features must be available:
  - Extended warranty cover
  - (International) Travel Insurance
  - (Domestic) Travel Inconvenience Cover
  - Pricing Guarantee Scheme
  - Rental Vehicle Excess Cover
  - Rewards
  - Concierge



# METHODOLOGY– PROFILES

## Rewards Credit Card

For consumers seeking a credit or charge card that gives them the optimal return on their everyday spending.



### Pricing Score

- Reward return is calculated at different spend levels.
- Net benefit over 12 months is calculated after ongoing fees and the interest on a one month revolving balance.
- Includes annual fee waivers where applicable.

### Feature Score

- Terms, conditions and features of the credit card.
- Choices and conditions of the rewards program.

### Eligibility

- The card must offer a rewards program that provides direct access to merchandise, cash-back, gift cards, lifestyle rewards or food and beverage rewards.



# METHODOLOGY– PROFILES

## Frequent Flyer Credit Card

For consumers seeking a credit card or charge card that will allow them to redeem points for flights



### Pricing Score

- Reward return is calculated at different spend levels.
- Net benefit over 12 months is calculated after ongoing fees and the interest on a one month revolving balance.
- Includes annual fee waivers where applicable.

### Feature Score

- Terms, conditions and features of the credit card.
- Choices and conditions of the rewards program.
- Other features relevant to a frequent flyer such as airline lounge access.

### Eligibility

- Rewards points must be able to be transferred to one or more frequent flyer programs that collectively offer flights between Sydney and the six destinations considered.



# METHODOLOGY– OVERALL WEIGHTS

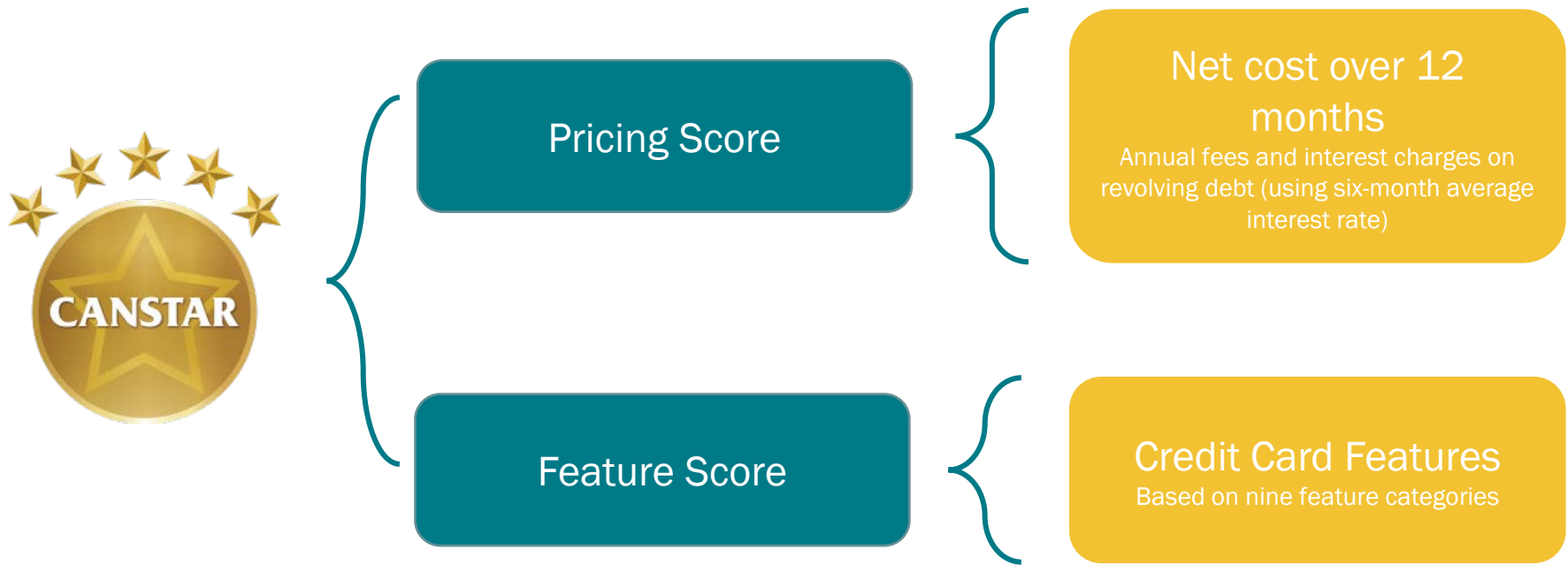
Profile	Pricing Weight	Reward Return	Charge Cards Included	Six-month average rate used	Feature Weight
Low Rate	70%	×	×	✓	30%
Low Fee	70%	×	×	✓	30%
Premium	40%	○	✓	×	60%
Annual Fee	40%				
Reward return	60%				
Rewards	70%	✓	✓	×	30%
Frequent Flyer	70%	✓	✓	×	30%

✓ Included    × Not Included    ○ Partially Included

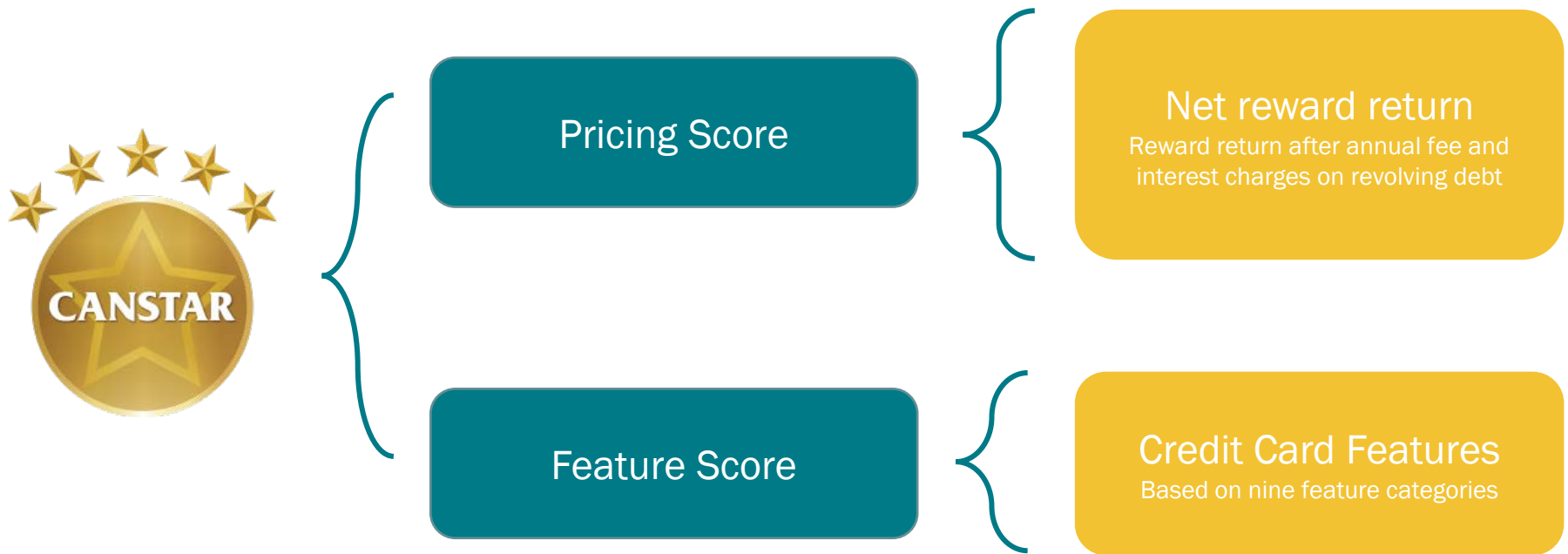




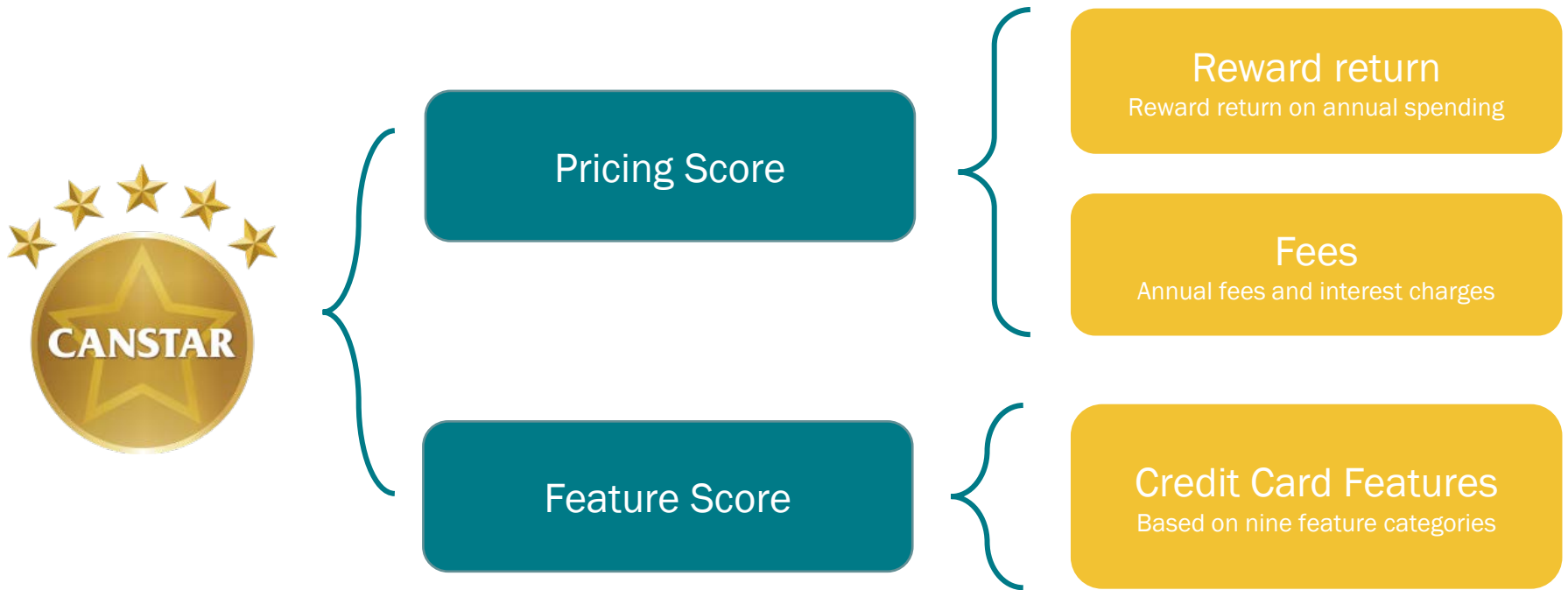
# LOW RATE AND LOW FEE OVERALL METHODOLOGY



# REWARDS AND FREQUENT FLYER OVERALL METHODOLOGY



# PREMIUM OVERALL METHODOLOGY



# METHODOLOGY– PRICING SCORE

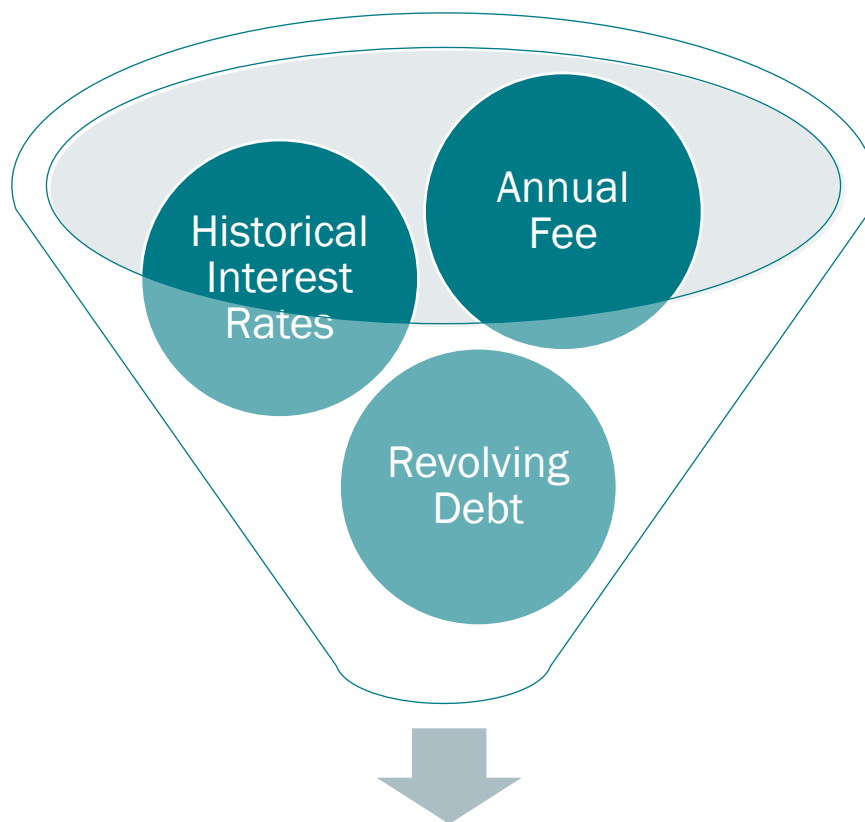
Profile	Reward Return	Charge Cards Included	Annual Purchases	Revolving Debt		
				Amount	Period (months)	Six-month average rate used
Low Rate	✗	✗	\$12,000	\$6,000	12	✓
Low Fee	✗	✗	\$6,000	\$750	2	✓
The below profiles are each rated for three different amounts of annual spending.						
Premium	○	✓	\$24,000	\$1,000	1	✗
Rewards	✓	✓	\$60,000	\$2,500	1	✗
Frequent Flyer	✓	✓	\$120,000	\$5,000	1	✗

✓ Included   ✗ Not Included   ○ Partially Included



# METHODOLOGY– LOW RATE/FEE PRICING SCORE

Products are scored based upon the net cost to the cardholder over 12 months with the lowest cost product receiving the top pricing score.

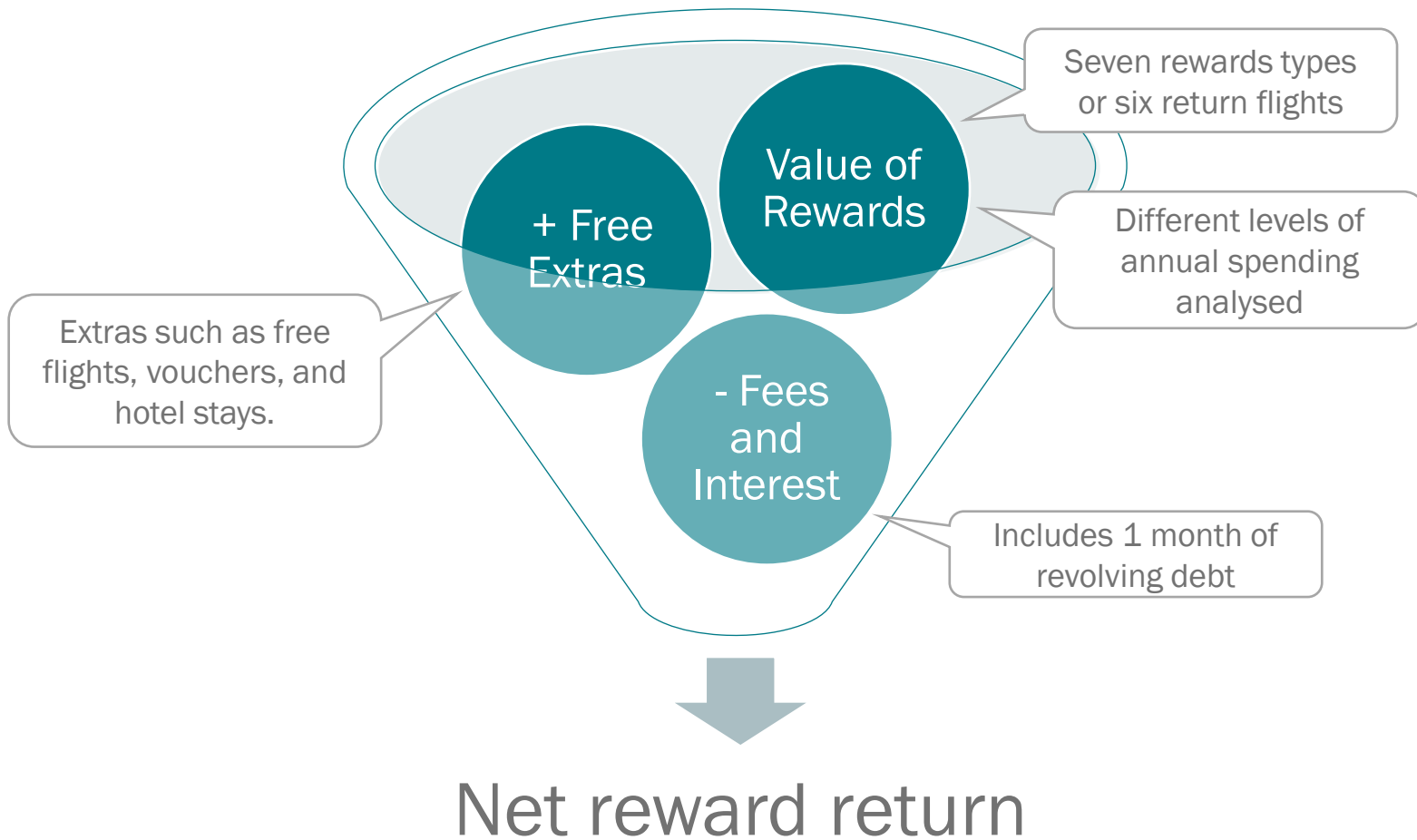


Net cost over 12 months



# METHODOLOGY– REWARDS PRICING SCORE

Products are scored based upon the net benefit to the cardholder over 12 months with the best performing product receiving the top score.



# METHODOLOGY– PRICING SCORE

## Annual Fees

- Annual fee waivers included depending on spending behaviour profile.

## Interest Charges on Revolving Debt

- Six-month average historical interest rate used in Low Rate and Low Fee profile.
- Where a charge card is included the “liquidated damages” fee will be considered in lieu of an interest rate.

## Reward Return

- Reward return based on annual spend amount.
- Includes bonus points.
- Monthly and annual caps are considered as well as tiered earning structures.
- All airline transfer rates are considered where there are multiple options.
- Reward redemption rates are divided into seven categories: Cashback or statement credit, major retail shopping voucher, lifestyle, food and beverage, merchandise and additional rewards.

## Free Extras

- Free extras are considered for inclusion where their value is measurable in dollar terms and where relevant to the consumer profile.
  - Free flight or travel voucher considered as a free extra in the Frequent Flyer profile.
  - Free extras must be ongoing (not sign-up bonuses).



# METHODOLOGY – MERCHANT CATEGORIES

Where credit cards offer bonus earn rates for spending at different types of merchants, an assumption is made that a proportion of total card spending will fall into one of six different categories:

Staple:	Supermarkets
Discretionary:	Department stores
Petrol:	Major petrol stations
Holidays:	Airlines, Tour operations, Car Rental, Travel Agencies etc.
Dining:	Restaurants
Other:	All other merchants where a 'standard earn rate' would apply

Purchases Per Annum	Proportion of spending / Purchases per week											
	Staple		Discretionary		Petrol		Holidays		Dining		Other	
\$12,000	35%	\$81	10%	\$23	10%	\$23	5%	\$12	5%	\$12	35%	\$81
\$24,000	30%	\$138	17%	\$78	8%	\$36	5%	\$23	5%	\$23	35%	\$162
\$60,000	25%	\$288	19%	\$219	7%	\$81	6%	\$69	8%	\$92	35%	\$404
\$120,000	20%	\$462	20%	\$462	6%	\$138	7%	\$162	10%	\$231	37%	\$854

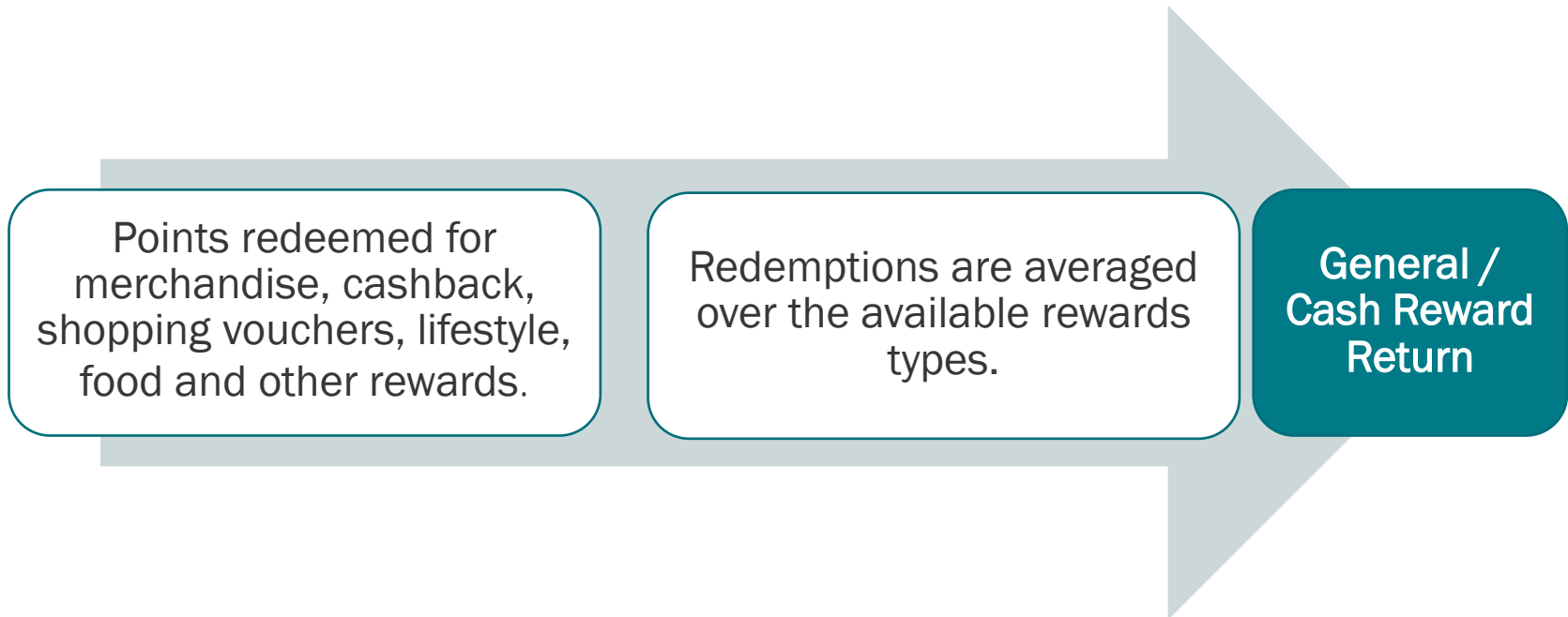
- For companion cards, 60% of spending is assigned to the higher earning card (American Express or Diners Club) and 40% to the lower (Visa or MasterCard).
- For American Express and Diners Club cards, 40% of the "Other" spending earns no points, whilst the remaining 60% will earn points at the 'standard earn rate'. This recognises the lower rates of merchant acceptability of these cards.





# METHODOLOGY

## GENERAL OR CASH REWARD RETURN



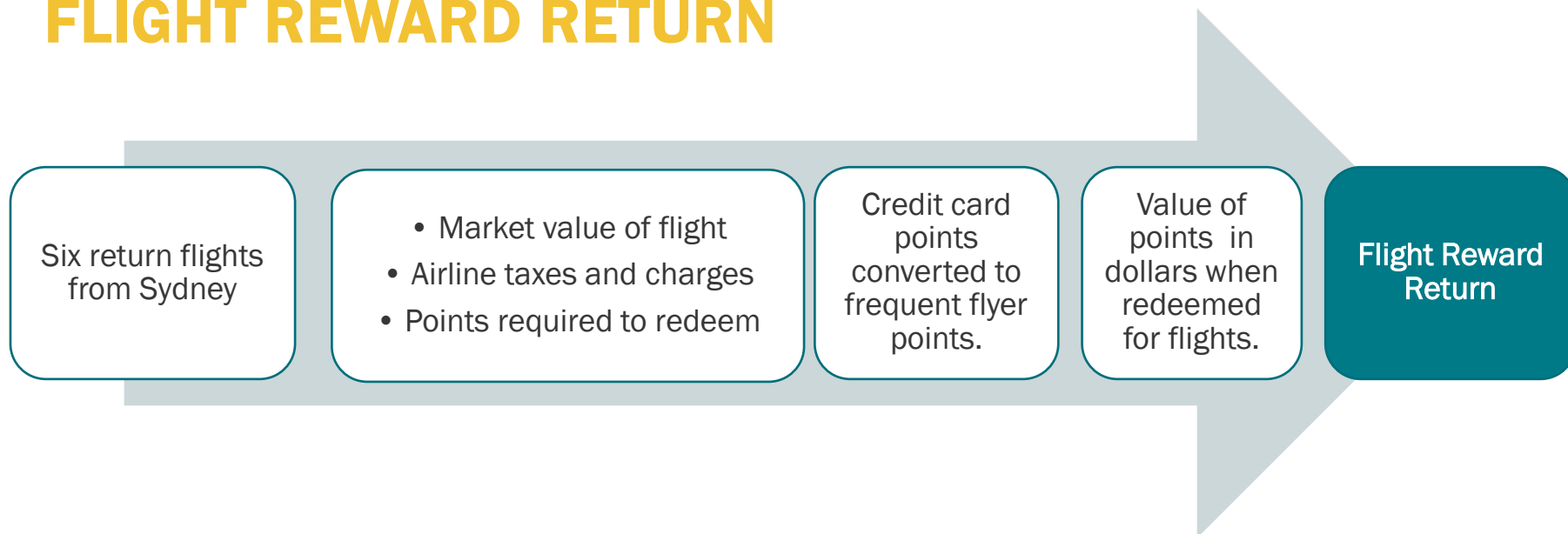
### Cash back Rewards vs General Rewards

- If a product offers both cash back (or shopping voucher) and other types of rewards, its Price and Feature scores are calculated separately for both rewards categories. The highest total score between the two is then chosen as the product's final score.



# METHODOLOGY

## FLIGHT REWARD RETURN



- If more than one airline partner is available, the best airline redemption option is considered for each route.
- Quotes are undertaken for flights six months in advance, out of peak travel periods.
- Routes considered are Sydney return from Brisbane, Melbourne, Perth, Los Angeles, London and Singapore.

Annual Credit Card Spending	International Flights	Domestic Flights
\$12,000	-	100%
\$24,000	20%	80%
\$60,000	40%	60%
\$120,000	40%	60%



# METHODOLOGY

## SAMPLE REWARDS CALCULATION

- 1 rewards point per \$1 spent
- 150 points can be redeemed for \$1 in cashback
- 1 rewards point converts to 1 frequent flyer point
- \$24,000 spent in one year on the credit or charge card

### GENERAL REWARDS

$$\text{Cash Reward Return} = \frac{24000 \text{ points}}{150 \text{ points per \$1}} = \$160$$

### FREQUENT FLYER REWARDS

$$\text{Flight Reward Return} = \frac{\$160 \text{ return flight} - \$40 \text{ taxes}}{16,000 \text{ FF points to redeem}} \times 24,000 \text{ points earned} = \$180$$



# METHODOLOGY – FEATURE SCORE

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.

Price 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 Price plus Feature scores are indexed and totalled to provide the Total Score. Together they form the basis of CANSTAR's *Credit Card Star Ratings*.



# METHODOLOGY – FEATURE SCORE

Credit Card Features	Low Rate (30%)	Low Fee (30%)	Premium (60%)	Rewards (30%)	Frequent Flyer (30%)
Minimum Repayment Score	20%	-	-	-	-
Interest free days	5%	20%	5%	5%	5%
Credit Terms and Conditions	45%	40%	10%	15%	15%
Card Terms	40%	40%	40%	40%	40%
Additional Fees and Charges	40%	40%	40%	40%	40%
Interest Charging	10%	10%	10%	10%	10%
Special Purchasing Policies	10%	10%	10%	10%	10%
Ease of access	10%	10%	10%	10%	10%
Repayment Capabilities	50%	50%	50%	50%	50%
Merchant Acceptability	50%	50%	50%	50%	50%
Premium Card Facilities	5%	15%	35%	20%	20%
Airline Lounge Access	-	-	5%	5%	10%
Rewards Program	-	-	20%	30%	25%
Application Process	5%	5%	5%	5%	5%
Card Security	10%	10%	10%	10%	10%



# METHODOLOGY – FEATURE SCORE CONT'D

- **Minimum repayment score:** Where making the minimum repayment would not be enough to cover the annual fees and interest on a revolving debt, a product receives a score of zero. All other products receive the full score.
- **Interest free days:** The products in the market with the highest number of interest free days receives the top score.
- **Airline Lounge Access** is scored based on the availability of lounges to travellers in Australia and Overseas as well other factors:
  - Number of lounge passes (e.g. 2, unlimited, or a discount-only on membership)
  - Whether or not a purchase is required before the lounge passes are given (e.g. must use the credit card to make a purchase with the airline).



# METHODOLOGY

## REWARDS CHOICES AND CONDITIONS

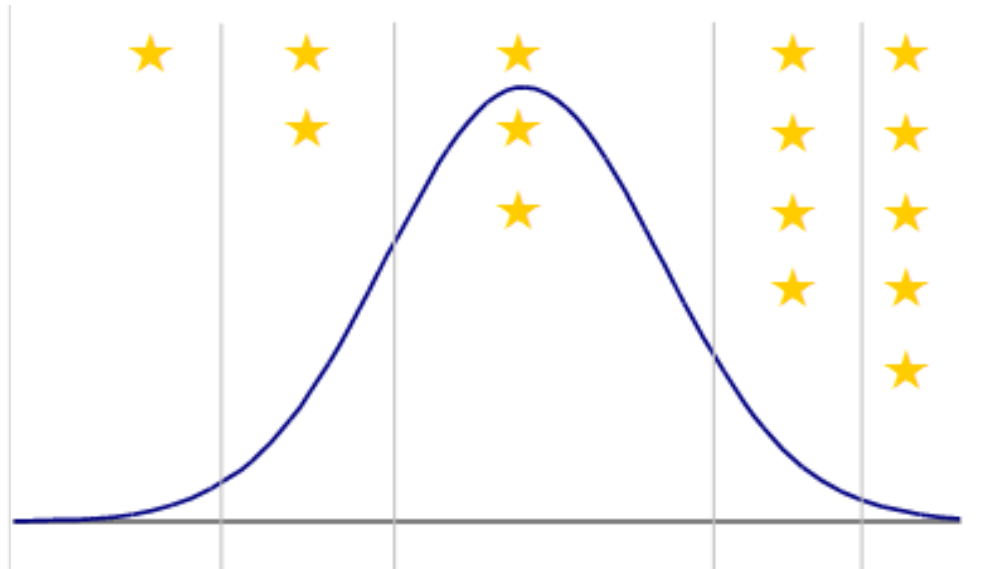
Feature Category	General	Cash	Frequent Flyer
<b>Rewards Choices</b>	<b>80%</b>	<b>30%</b>	<b>40%</b>
Shopping Rewards	25%	-	-
Frequent Flyer Rewards	10%	-	50%
Merchandise Rewards	20%	-	-
Travel/Accommodation Rewards	10%	-	50%
Point For Cash / Credit	15%	100%	-
Entertainment Rewards	5%	-	-
Food & Beverage Rewards	5%	-	-
Lifestyle Rewards	5%	-	-
Additional Rewards	5%	-	-
<b>Program Conditions</b>	<b>20%</b>	<b>70%</b>	<b>60%</b>
Earning Policies	20%	40%	40%
Bonus Points Partner Information	10%	25%	-
Points Capping Information	10%	25%	-
Customer Service Information	10%	-	15%
Reward Program Fees	10%	-	-
Earning Policy Flexibility	10%	-	-
Account Status Information	10%	5%	15%
Top-Up Policies	10%	-	15%
Expiration Policies	10%	5%	15%



# 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.





# HOW OFTEN ARE CREDIT CARDS 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](http://www.canstar.com.au) if you would like to view the latest star ratings reports of interest.

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



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