



# 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.

Products specific to certain groups or with restrictions on eligibility are not included in the ratings. Business accounts are rated separately as part of the CANSTAR Credit Card Star Ratings.

#### Eligibility Criteria

To be eligible for a star rating in the Low Rate and Low Fee profiles, the product must have been on offer for at least six months. Products that do not have the required six-month information can only achieve a rising star. Rising stars are those products that would have received a five-star rating but have not been in the market for more than six months. Rising star products will be formally rated in the next period once more historical data is available.

### 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.

The star ratings methodology differs for each customer segment in terms of the relative importance placed on the fees and features of the products assessed. The table below provides a description on each profile.

Profile	Description
Low Rate Credit Card	For consumers seeking a credit card with a low interest rate and flexible repayment conditions.
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.
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.
Rewards Credit Card	For consumers seeking a credit or charge card that gives them the optimal return on their everyday spending.
Frequent Flyer Credit Card	For consumers seeking a credit card or charge card that will allow them to redeem points for flights.

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.



	Eligibility
Low Rate	<ul style="list-style-type: none"> <li>Personal, unsecured credit cards.</li> <li>A credit limit of \$6000 must be available on application.</li> </ul>
Low Fee	<ul style="list-style-type: none"> <li>Personal, unsecured credit cards.</li> <li>Minimum credit limit cannot be higher than \$6000.</li> </ul>
Premium	<p>At least four out of seven of the following features must be available:</p> <ul style="list-style-type: none"> <li>Extended warranty cover</li> <li>(International) Travel Insurance</li> <li>(Domestic) Travel Inconvenience Cover</li> <li>Pricing Guarantee Scheme</li> <li>Rental Vehicle Excess Cover</li> <li>Rewards</li> <li>Concierge</li> </ul>
Rewards	<ul style="list-style-type: none"> <li>The card must offer a rewards program that provides direct access to merchandise, cash-back, gift cards, lifestyle rewards or food and beverage rewards</li> </ul>
Frequent Flyer	<ul style="list-style-type: none"> <li>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.</li> </ul>

### How does it work? How are the 'stars' calculated?

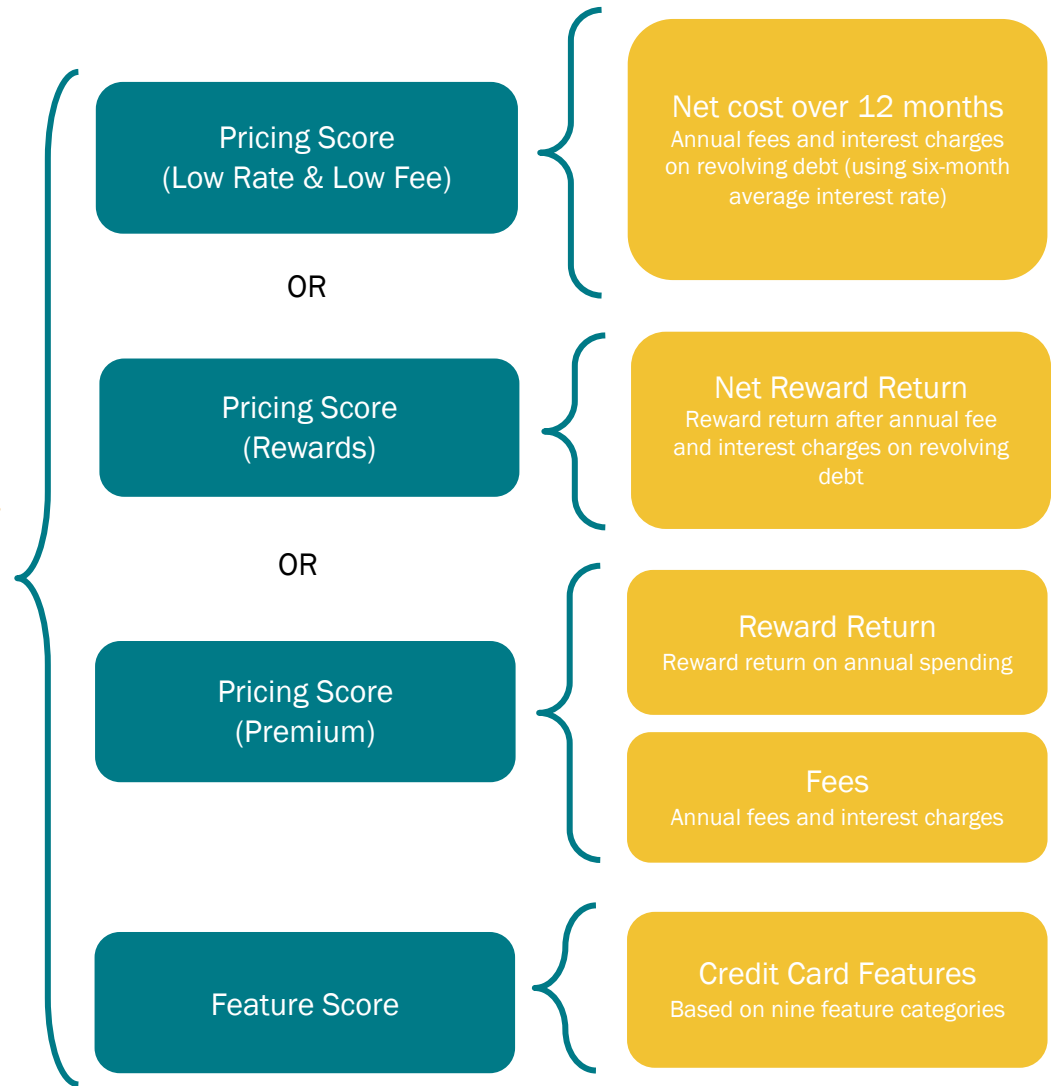
Each credit card reviewed for the CANSTAR Credit Card Star Ratings is awarded points for its comparative Costs and for the array of positive Features attached to the card. These features include rewards programs, premium card facilities, repayment capabilities and conditions attached to interest charging.

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.

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

The table below outlines the weights allocated to price and features by profile:

Profile	Pricing Weight	Feature Weight
Low Rate	70%	30%
Low Fee	70%	30%
Premium	40%	60%
Rewards	70%	30%
Frequent Flyer	70%	30%



## Pricing Score

The following scenarios are used for the various profiles to calculate the 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 different amounts of annual spending. A range of spending levels 20% either side of the target values below are considered, to account for caps or earning tiers.* Premium cards are not rated for \$12,000 or \$36,000 spending levels.						
Premium*	○	✓				
Rewards	✓	✓	\$12,000	\$500	1	✗
			\$24,000	\$1,000	1	✗
			\$36,000	\$1,500	1	✗
			\$60,000	\$2,500	1	✗
Frequent Flyer	✓	✓	\$120,000	\$5,000	1	✗

✓ Included   ✗ Not Included   ○ Partially Included

## Premium Card Pricing Score

The Pricing Score for Premium Card profiles is made up of the following weights of the Pricing Score components:

Component	Weighting
Reward Return	60%
Fees	40%

The pricing score of the Credit Card Star Ratings is determined by a combination of the following factors:

### 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).

### 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

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

## 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:

<b>Staple:</b>	Supermarkets
<b>Discretionary:</b>	Department stores
<b>Petrol:</b>	Major petrol stations
<b>Holidays:</b>	Airlines, Tour operations, Car Rental, Travel Agencies etc.
<b>Dining:</b>	Restaurants
<b>Other:</b>	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
\$36,000	28%	\$194	18%	\$125	7%	\$48	5%	\$35	7%	\$48	35%	\$242
\$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.

## General or Cash Reward Return

If a product offers either 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.

## 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%
\$36,000	30%	70%
\$60,000	40%	60%
\$120,000	40%	60%

## 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.

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%
Rewards Program (see weighting table for details)	-	-	25%	35%	35%
Application Process	5%	5%	5%	5%	5%
Card Security	10%	10%	10%	10%	10%

**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 receive the top score.

## Rewards Programs Weightings

The following table outlines the weightings that are given to individual features of rewards profiles for both the Rewards and Frequent Flyer profiles

Feature Category	Rewards	Frequent Flyer
<b>Airline Lounge Access</b>	5%	5%
<b>Rewards Choices</b>	75%	40%
Shopping Rewards	25%	-
Frequent Flyer Rewards	10%	50%
Merchandise Rewards	20%	-
Travel/Accommodation Rewards	10%	50%
Point For Cash / Credit	15%	-
Entertainment Rewards	5%	-
Food & Beverage Rewards	5%	-
Lifestyle Rewards	5%	-
Additional Rewards	5%	-
<b>Program Conditions</b>	20%	55%
Earning Policies	20%	40%
Bonus Points Partner Information	10%	-
Points Capping Information	10%	-
Customer Service Information	10%	15%
Reward Program Fees	10%	-
Earning Policy Flexibility	10%	-
Account Status Information	10%	15%
Top-Up Policies	10%	15%
Expiration Policies	10%	15%

**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).

## Does CANSTAR rate all products in the market?

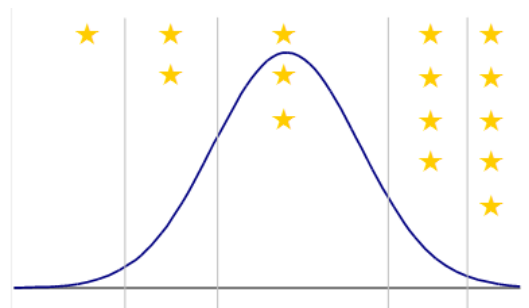
We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that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

## How often are *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.

## 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 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
- Agribusiness
- Business banking
- Business life insurance
- Car insurance
- Credit cards
- Deposit accounts
- Direct life insurance
- Health insurance
- Home & contents
- Home loans
- Life Insurance
- Managed investments
- Margin lending
- Online banking
- Online share trading
- Package banking
- Personal loans
- Reward programs
- Travel insurance
- Youth banking & education

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