



METHODOLOGY

Credit Card Star Ratings

MARCH 2019

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
- Premium Features
- Number of Free Days
- Reward/Loyalty Programs
- Standard Features
- 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 *Business 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 5-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.

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.

Profile	Description	Eligibility Requirements
	<p>For consumers seeking a credit card with a low interest rate and flexible repayment conditions</p>	<ul style="list-style-type: none"> • Personal, unsecured credit cards • A credit limit of \$6000 must be available on application • Minimum credit limit cannot be higher than \$6000 • Six months' worth of rates required to receive a Star Rating
	<p>For consumers seeking a credit card with low ongoing fees and who may be looking to access some premium card facilities</p>	<ul style="list-style-type: none"> • Personal, unsecured credit cards • Minimum credit limit cannot be higher than \$6000 • Six months' worth of rates required to receive a Star Rating
	<p>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</p>	<p>At least four out of seven of the following features must be available:</p> <ul style="list-style-type: none"> • Extended warranty cover • (International) Travel Insurance • (Domestic) Travel Inconvenience Cover • Pricing Guarantee Scheme • Rental Vehicle Excess Cover • Rewards • Concierge
	<p>For consumers seeking a credit or charge card that gives them the optimal return on their everyday spending</p>	<p>The card must offer a rewards program that provides direct access to merchandise, cash-back, gift cards, lifestyle rewards or food and beverage rewards</p>
	<p>For consumers seeking a credit card or charge card that will allow them to redeem points for flights</p>	<p>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.</p>

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 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 against the Price Score and the Feature Score. 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.

TOTAL SCORE = PRICE SCORE + FEATURE SCORE

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

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

Low Rate and Low Fee Credit Card Price Score

The Price Score for the Low Rate and Low Fee credit card profiles is based on the net cost of owning the credit card for 12 months. The lowest cost product will receive the top score.



Profile	Annual Purchases	Revolving Balance	Borrowing Period (months)
Low Rate	\$12,000	\$6,000	12
Low Fee	\$6,000	\$750	2

Additional factors included in Price Score:

- ✓ Annual fee waivers based on specific spending behaviours.
- ✓ Average interest rate from previous six months.

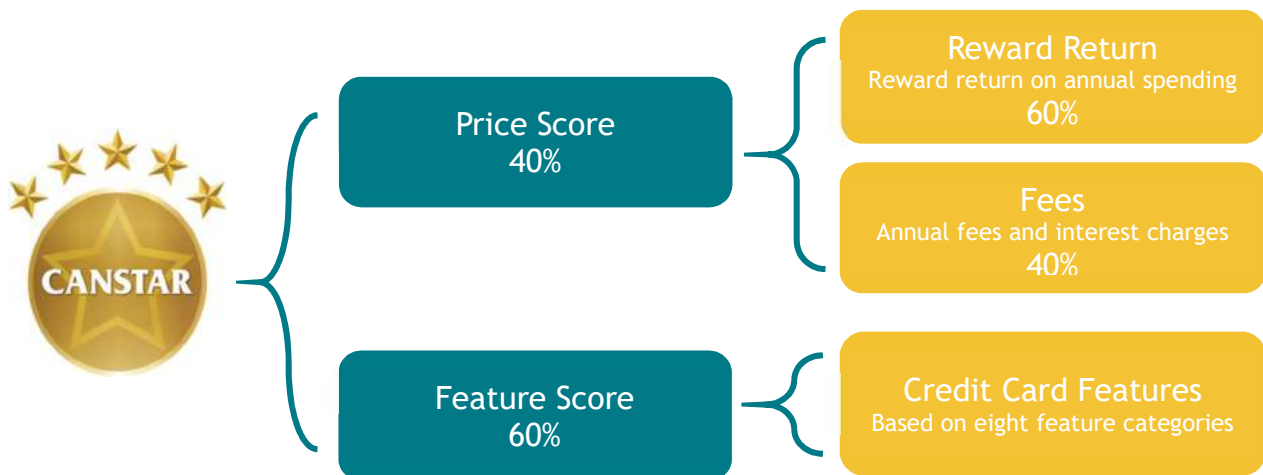
Not considered in Price Score:

- ✗ Promotional annual fee waivers.
- ✗ Availability of rewards points (see Feature Score).
- ✗ Balance Transfer or Promotional Rate offers (see Feature Score).
- ✗ Additional Fees and charges (see Feature Score).
- ✗ Interest charging methodology e.g. Interest charged from purchase date, statement date, or due date (see Feature Score).

Premium Credit Card Price Score

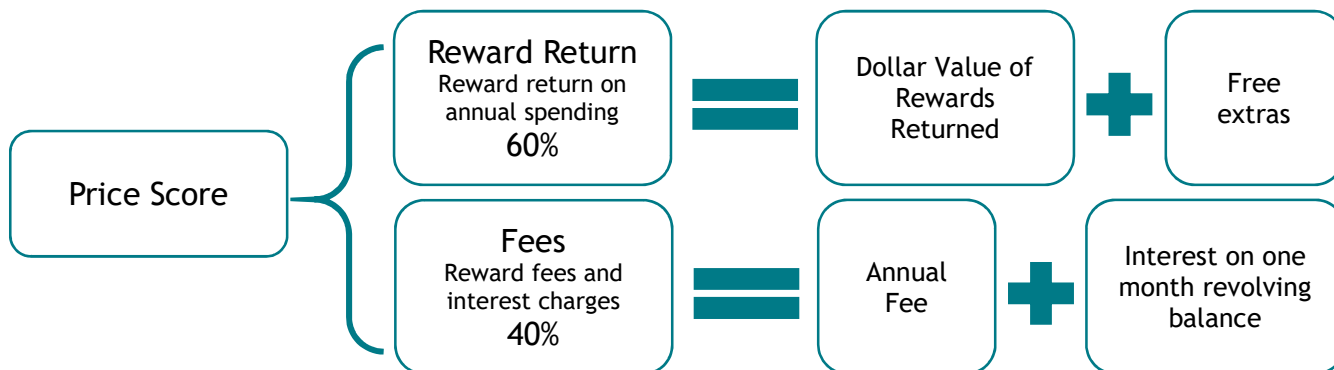
Premium Credit Cards are those which have a certain number of “premium” features as per the eligibility requirements.

There is recognition of the value of rewards points earned in the price score, but these rewards points do not directly offset any annual fees and interest charges.



The *reward return score* for Premium cards is based on the Reward Return over 12 months. The card with the **highest reward return** will receive the top score. Both traditional and frequent flyer rewards are considered.

The *fees score* for Premium cards is based on the annual fee and interest charges over 12 months. The card with the **lowest fees** will receive the top score.



Annual Spend Profile	Monthly Spend	Revolving balance	Borrowing Period
\$24,000	\$2,000	\$1,000	1 month
\$60,000	\$5,000	\$2,500	
\$120,000	\$10,000	\$5,000	

Rewards Credit Card Price Score

Rewards credit cards are those that allow the cardholder to access one or more of the following types of rewards: cash, gift vouchers, lifestyle, food and beverage, merchandise and additional (charity donations, bank fees, etc.).



The *Price Score* for the Rewards credit cards is based on the Net Reward Return over 12 months. The card with the **highest net reward return** will receive the top price score.



Annual Spend Profile	Monthly Spend	Revolving balance	Borrowing Period
\$12,000	\$1,000	\$500	1 month
\$24,000	\$2,000	\$1,000	
\$36,000	\$3,000	\$1,500	
\$60,000	\$5,000	\$2,500	
\$120,000	\$10,000	\$5,000	

Additional factors included in Price Score:

- ✓ Annual fee waivers based on specific spending behaviours.
- ✓ Bonus points earned at different merchants.
- ✓ Capping/tiered earn rates on spending.
- ✓ Liquidated damages fee in lieu of interest rate (for charge cards)
- ✓ Free extras where measurable in dollar terms and relevant to consumer profile.

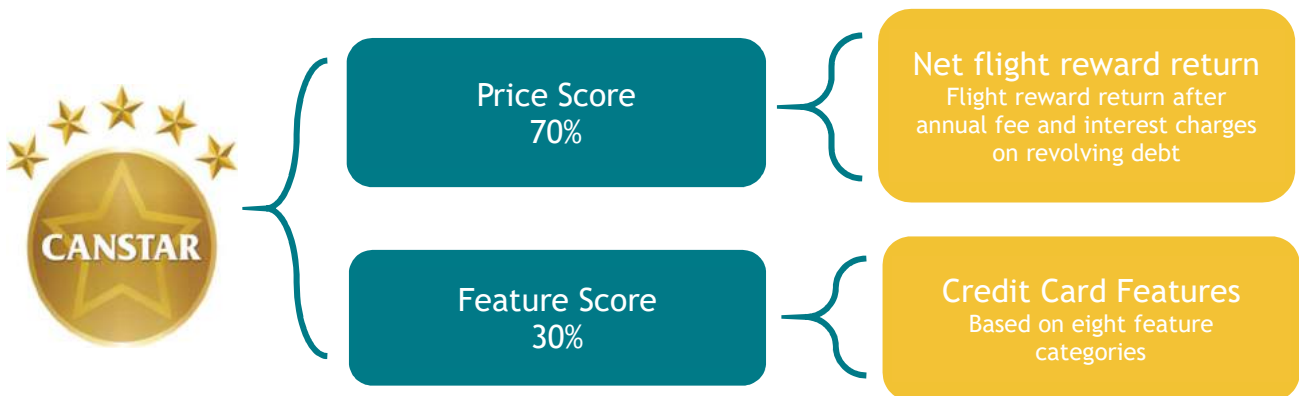
Not considered in Price Score:

- ✗ Promotional annual fee waivers (except when waived/lowered “for life”).
- ✗ Points/vouchers/other incentives available only to new customers.
- ✗ Bonus points earned through rewards program that are not exclusive to the credit card (i.e. scanning a rewards card barcode to receive bonus points—these bonus points can be attained without the use of the credit card)

Frequent Flyer Credit Card Price Score

Frequent Flyer Credit Cards are those that allow access to flight redemptions through frequent flyer programs on six routes flying return from Sydney: Brisbane, Melbourne, Perth, Singapore, Los Angeles and London.

Current airline programs considered include those from: Qantas, Virgin Australia, Etihad, Singapore Airlines, Malaysia Airlines, Emirates, Air New Zealand, Cathay Pacific, Thai Airlines, Delta Airlines, and American Airlines.



The *Price Score* for Frequent Flyer cards is based on the Net Flight Reward Return over 12 months. The card with the *highest net flight reward return* will receive the top price score.



Annual Spend Profile	Monthly Spend	Revolving balance	Borrowing Period
\$12,000	\$1,000	\$500	1 month
\$24,000	\$2,000	\$1,000	
\$36,000	\$3,000	\$1,500	
\$60,000	\$5,000	\$2,500	
\$120,000	\$10,000	\$5,000	

Additional factors included in Price Score:

- ✓ Best airline redemption option for six different routes
- ✓ Taxes, fees and airline charges levied on reward redemptions
- ✓ Market value of the flight (based on airline quoting over five timpoints quoted over 12 months)
- ✓ Free flights and travel vouchers (when offered on an ongoing basis)

Not considered in Price Score:

- ✗ Promotional annual fee waivers (except when waived/lowered “for life”).
- ✗ Points/vouchers/other incentives available only to new customers.
- ✗ Bonus points earned through rewards program that are not exclusive to the credit card (i.e. scanning a rewards card barcode to receive bonus points—these bonus points can be attained without the use of the credit card)
- ✗ Redemption of frequent flyer points for other types of rewards (e.g. gift cards or merchandise)

The price 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 that are not exclusive to the credit card (i.e. scanning a rewards card barcode to receive bonus points—these bonus points can be attained without the use of the credit card).
- 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.

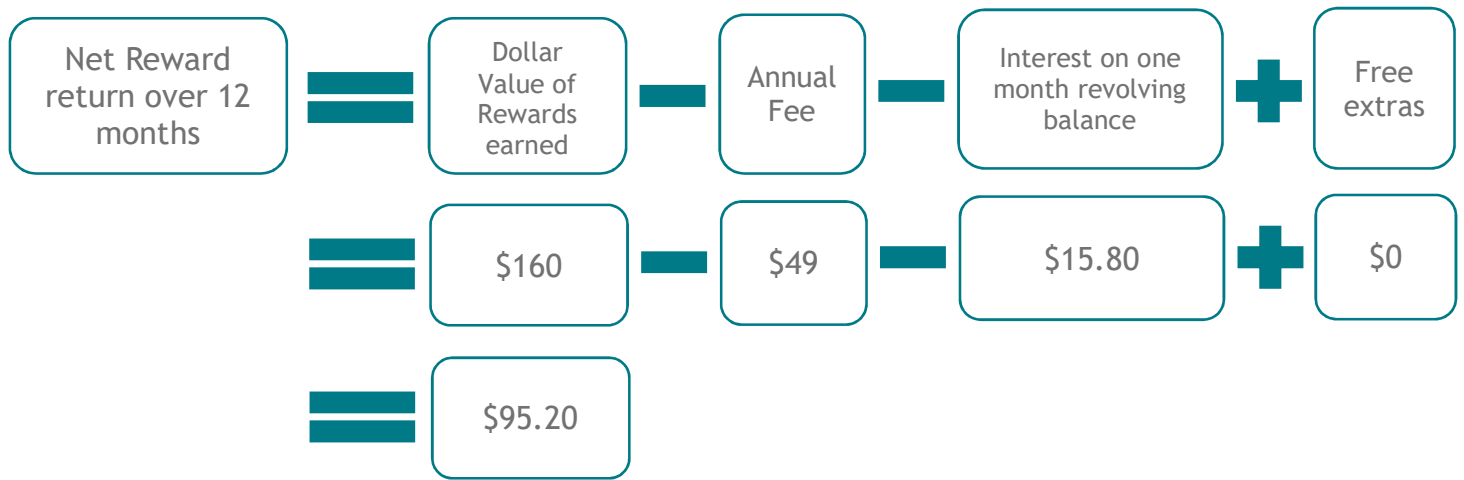
Free Extras

- 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
- \$24,000 spent in one year on the credit charge card

$$\text{Dollar value of rewards earned} = \frac{24000 \text{ points}}{150 \text{ points per } \$1} = \$160$$



Sample Frequent Flyer Calculation

- 1 rewards point per \$1 spent
- 1 rewards point converts to 1 frequent flyer point
- \$24,000 spent in one year on the credit card

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

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:

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
\$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, Canstar assumes that companion cards are used optimally when earning points, therefore, the assumption is that AMEX/Diners Club is used on Staple, Discretionary, and Petrol, whereas Visa/MasterCard is used on Holidays, Dining and Other.

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 over five timepoints quoted over 12 months.
- 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%

Price Score Summary

The following scenarios are used for the various profiles to calculate the Price 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*	○	✓	\$12,000	\$500	1	✘
Rewards	✓	✓	\$24,000	\$1,000		
			\$36,000	\$1,500		
Frequent Flyer	✓	✓	\$60,000	\$2,500		
			\$120,000	\$5,000		

✓ Included ✘ Not Included ○ Partially Included

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	Low Fee	Premium	Rewards	Frequent Flyer
Credit Terms and Conditions	45%	30%	10%	10%	10%
Card Terms	40%	60%	60%	60%	60%
Special Purchasing Policies	10%	20%	20%	20%	20%
Interest Charging	10%	20%	20%	20%	20%
Minimum Repayment Score**	40%	-	-	-	-
Additional Fees and Charges	20%	15%	5%	5%	5%
Cash Advance	25%	25%	10%	10%	10%
Foreign Currency Purchase	25%	25%	25%	25%	25%
Miscellaneous Fees & Charges	25%	25%	15%	15%	15%
Additional Cardholder	15%	15%	40%	40%	40%
Replacement Card	10%	10%	10%	10%	10%
Digital Wallet & Security	15%	15%	15%	15%	15%
Ease of access	5%	5%	5%	5%	5%
Repayment Capabilities	50%	50%	50%	50%	50%
Merchant Acceptability	50%	50%	50%	50%	50%
Interest free days***	5%	20%	5%	5%	5%
Premium Card Facilities	5%	10%	35%	20%	20%
Rewards Program*	-	-	20%	35%	35%
Application Process	5%	5%	5%	5%	5%

*see weighting table for details of **Reward Program**

****Minimum repayment score**: 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
Airline Lounge Access	5%	5%
Rewards Choices	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%	-
Program Conditions	20%	55%
Earning Policies	20%	20%
Bonus Points Partner Information	10%	10%
Points Capping Information	10%	10%
Customer Service Information	10%	10%
Reward Program Fees	10%	10%
Earning Policy Flexibility	10%	10%
Account Status Information	10%	10%
Top-Up Policies	10%	10%
Expiration Policies	10%	10%

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?

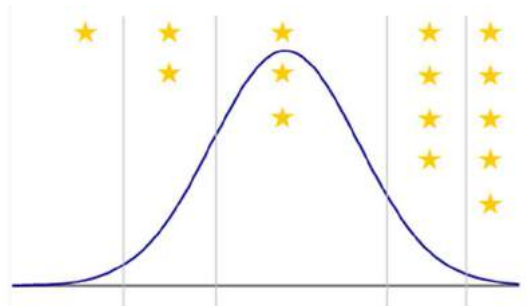
We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that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