CHAPTER I

INTRODUCTION

1.1   Research Objective Overview

1.1.1   PT Bank Muamalat Indonesia Tbk.

PT Bank Muamalat Indonesia Tbk. (BMI) was initially founded in November 1st 1991. BMI was the pioneer of commercial bank in Indonesia that operates under the principles of Islamic Banking. Initiated by Indonesian Council of Ulama (MUI), BMI start to form the bank under the auspices of Bank Indonesia (BI). BMI then commenced banking activity in May 1st 1992 and was followed by foreign exchange service in 1994. Despite the Asian financial crisis in 1997, which hit the banking industry in Indonesia, BMI has proven its resilience toward the crisis and continue to grow. It had successfully attracted foreign investors thereafter, namely Islamic Development Bank (IDB), Boubyan Bank, and Sedco Group to become major stakeholders till now. The bank continues to grow in term of asset and its presence in Indonesia. As September 2014, BMI's total asset stood at 59.3 trillion rupiah *(www.bankmuamalat.co.id)*.

In 2009, BMI established first overseas branch in Kuala Lumpur − Malaysia. Named the first local bank to open its operation outside Indonesia. BMI has awarded International Islamic Banking (IIB) license by Bank Negara Malaysia (BNM). As a pioneer of Sharia bank in Indonesia, BMI established pure Sharia banking system. BMI independently stood in the market. That is why they could maintain its pureness in Sharia banking system *(www.bankmuamalat.co.id)*.

Several awards have been achieved by BMI:

- The Best Islamic Financial Institution in Indonesia
  2009, 2010, 2011, 2012, 2013, 2014
  By Global Finance Magazine, New York.

- The Best Islamic Financial Bank in Indonesia
  2009, 2010, 2011, 2012, 2013, 2014

By Alpha Southeast Asia Magazine, Hong Kong

- The Best Islamic Finance Bank in Indonesia
  2006, 2008, 2009, 2010, 2012, 2013
  By Islamic Finance News Magazine, KualaLumpur

- The Most Innovative Islamic Bank in the world
  2012
  By Islamic Finance News Magazine, Kuala Lumpur

Figure 1.1: PT Bank Muamalat Indonesia Tbk. Logo

Source: *www.bankmuamalat.co.id*

1.1.2   Company Overview PT Bank Muamalat Indonesia Tbk.

Table 1.1 Company Overview Bank Muamalat Indonesia (BMI)

The brief explanation of BMI

	PT Bank Muamalat Indonesia Tbk.
Location	Jl. Jend Sudirman Kav. 2 (Arthaloka Building), Jakarta Pusat, DKI Jakarta 10220, Indonesia

Major Shareholder *(December 2014)*	• Islamic Development Bank *32.74%* • Boubyan Bank Kuwait *22%* • Atwill Holdings Limited *17.91%* • National Bank of Kuwait *8.45%* • IDF Foundation *3.48%* • BMF Holdings Limited *2.84%* • Abdul Rohim *2.69%* • Rizal Ismael *2.34%* • KOPKAPINDO *1.39%* • Public *6.16%*
Number of Customer	
2014	3.9 Million
Year Established	November 1st 1991
Number of Branch	456 Branches
Number of ATM	1.483 ATM

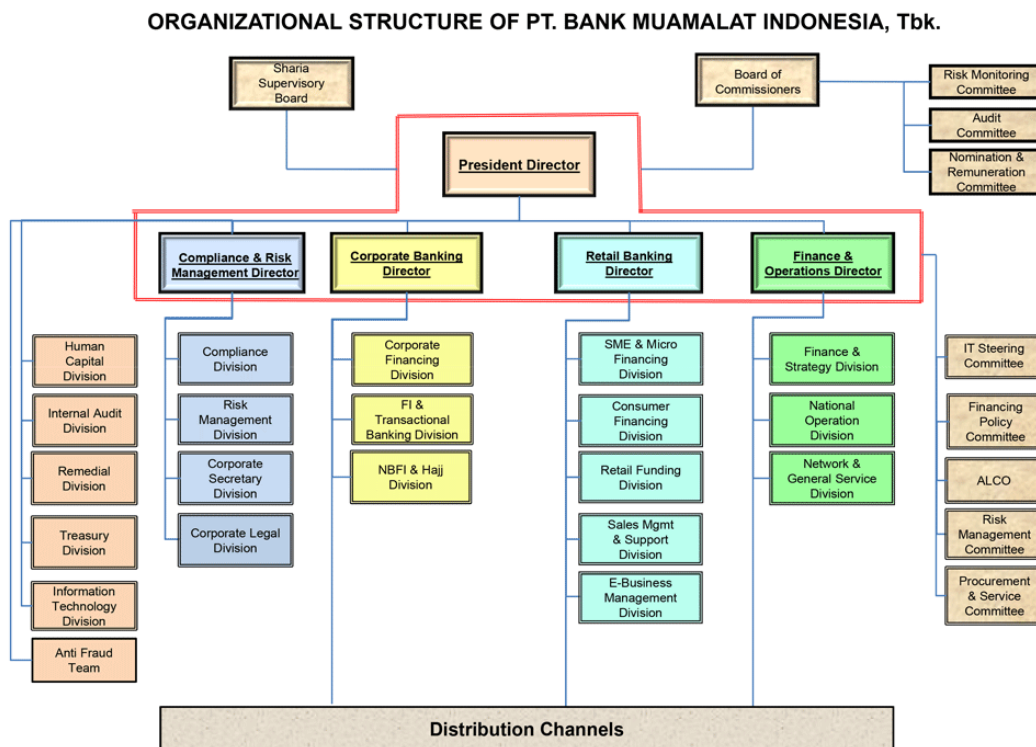*Source: www.bankmuamalat.co.id (reproduced data)*

1.1.3   Vision and Mission

Vision Statement:

To become the premier sharia bank in Indonesia, dominant in the spiritual market and admired in the rational market.

Mission Statement:

To become a role model among the world's sharia financial institutions, emphasizing in entrepreneurial spirit, managerial excellence and innovative investment orientation to maximize value for stakeholders

1.1.4   Organization Structure

Figure 1.2: Organizational Structure *(Source: www.bankmuamalat.co.id)*

1.2   Research Background

Islamic Banking is a banking activity that is consistent with the principle of Sharia (Khan, 2003). In Indonesia, Islamic Banking is really attractive for many banking players. Namely dozens of local and international banking players are taking chances.

Company acquisition, FDR, and many other methods are being used to enter Islamic Banking market in Indonesia. Not to mention, local-commercial banking players are also opening their branches in Islamic Banking. Take the example of Bank Mandiri that open its branches in Islamic Banking under the brand of Bank Syariah Mandiri (BSM), Bank Rakyat Indonesia under the brand of BRI Syariah, Bank Central Asia under the brand of BCA Syariah and many more players in national scale to regional scale.

1.2.1 Indonesia's Macroeconomic Situation

Indonesian GPD per capita is not the highest among South East Asia (SEA) Countries. Placed the 5th place after Singapore, Brunei, Malaysia, and Thailand, Indonesia recorded USD 1.731 GDP per capita as 2014 according to Trading Economics. However, Indonesia placed the most populous country among SEA countries. As Indonesian population reach approximately 250 million people, Indonesia became a very tempting market to invest to. SEA market, especially Indonesian market, has widely known as a highly consumptive market. *(Trading Economics, 2015)*

GDP reflects the economic progress condition of a country. Increasing GDP's of a country it means the economics of a country is grown also the purchasing power and living standards will grown, and it will affect to the lively hoods of the people. Gross Domestic Product is the market value of all final goods and services produced during a given period by factors of production located in a country" (Case &Fair: 2009). Improved purchasing power and living standards have ensured the continued shift of Indonesian consumers towards buying the import retail industry product, and away from the more traditional practice of buying from traditional market to modern retail outlet. *(Trading Economics, 2015)*

Table 1.2 GDP Per Capita Southeast Asia (USD)

GDP Per Capita Southeast Asia in (USD)					
Country	**2009**	**2011**	**2012**	**2013**	**2014**
Singapore	30,750	29,601	33,380	34,378	33,988
Brunei	25,186	24,341	24,586	24,746	24,947

Malaysia	6,185	5,984	6,302	6,512	6,764
Thailand	3,104	2,940	3,163	3,158	3,350
Indonesia	1,451	1,498	1,570	1,650	1,731
Philippines	1,332	1,325	1,403	1,433	1,501
Vietnam	775	808	854	895	931
Laos PDR	561	591	628	666	707
Cambodia	588	580	605	637	671

Source: Trading Economics, 2015 (Reproduced Data)

With the GDP of USD 870 billion by 2013, Indonesia has the largest Southeast Asia economy and became the emerging market economy in the world. Indonesia has a GDP Growth of 5.78% in 2013 (Wiharta, 2014) and a GDP per capita of USD 5,477 in 2014. (World Bank, 2015) Indonesian GDP has been very good for the past few years compare to other developing countries. Even though Indonesian GDP in 2014 reached the lowest growth for the past 5 years, Indonesia still receives positive growth.


Figure 1.3: Indonesia GDP Annual Growoth Rate

1.2.2 Finance Market in Indonesia

In 2014, finance service and insurance market recorded the highest annual growth rate of 10.20%, followed by the information and communication sector (+10.03 percent); the company services (+9.69 percent); other service (+8.37 percent); construction (+7.67 percent); transport and warehouse (+7.15 percent); governance administration, defense and mandatory social security (+6.86 percent); education service (+7.13 percent), gas and electricity (+6.50 percent), health service and social activities (+6.09 percent), real estate (+5.30 percent); accommodation and food and beverages (+4.86 percent); processing industry (+4.24 percent); wholesale and retail trading, bicycle and car reparation (+3.46 percent); water supply, waste handling and recycling (+2.65 percent);agriculture (+2.77 percent) and mining & quarrying (+2.22 percent). (Trading Economics, 2015)

The growth of the finance service is very high. It is because Indonesian penetration on credit market is the lowest among SEA market. Recorded at 33% credit penetration, Indonesia finance market is very promising industry for investors. The higher credit penetration, the higher income for the company. With low non-performing loan, it would be very pleasant for company growth. Not to mention, finance market itself has a vital role in country's economic cycle. This low market credit penetration condition has invited many foreign banks to invest in Indonesia. Namely Maybank, CIMB, and OCBC are acquired local bank to enter Indonesia market. Maybank acquired Bank International Indonesia (BII) and formed BII Maybank. CIMB acquired Bank Niaga and formed CIMB Niaga. OCBC acquired Bank NISP and formed OCBC NISP and many others.

Low credit penetration (2012)
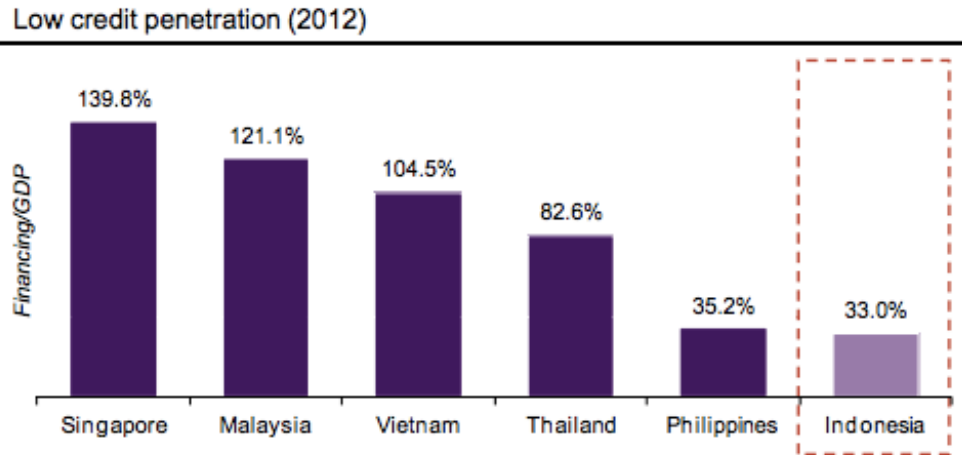
Source: Business Monitor International, World Bank

Figure 1.4: Credit Penetration in Southeast Asia

1.2.3 Indonesia Sharia Banking Industry

As 2010, Indonesian Muslim population is 88% of the total population. It is approximately 205 million people of Indonesia are Muslim. According to Pew Research, 2010, Indonesia is the highest Muslim populous in the world. Followed by Pakistan with 178 million Muslim and Egypt with 80 million. Sharia banking industry is widely known as banking system adopted from Islamic law and cultures. However, Sharia banking system is not only adopted by Muslim country, but also by many developed countries that Muslim is minority of the society. Sharia banking system has proven to struggle financial crisis. For example, BMI successfully struggled in 1997 Asia crisis. Later on, Sharia banking system becomes major financial instrument. It was not only alternative in finance service market.

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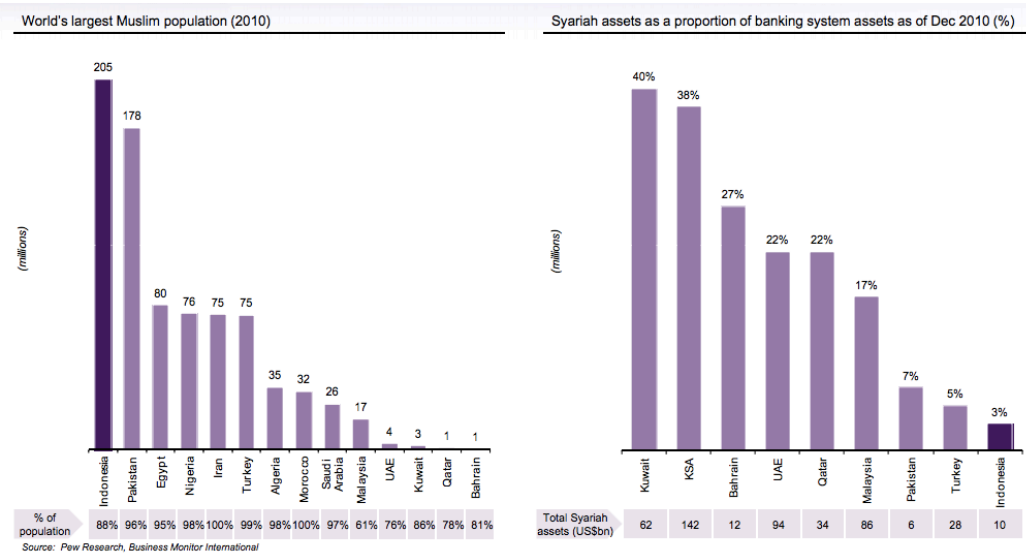
Figure 1.5 World's Muslim Population & Sharia Assets as a Proportion of Banking System *(Source: Pew Research, Business Monitor International)*

Compare to many other countries that Muslims are the majority; Indonesia has the lowest proportion of Sharia assets. In Indonesia, Sharia banking service only own 3% of total USD 333 billion of asset proportion for finance service and insurance.

Sharia financing growth has been very high. It caused by the fact that the market is still in a good product cycle. On the other hand, conventional bank is not as high as Sharia bank due to the fact that the market has on top of its lifecycle. It is averaged 47.5% between 2010 and 2012. Compare to conventional bank with only averaged 23.7% in the same period.
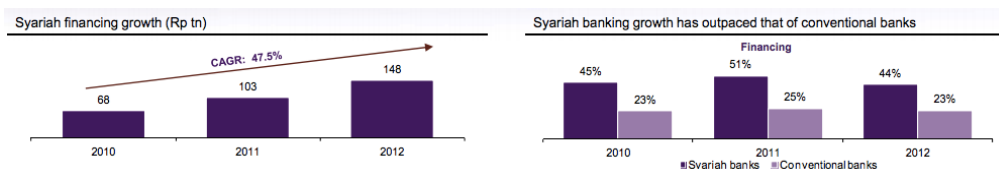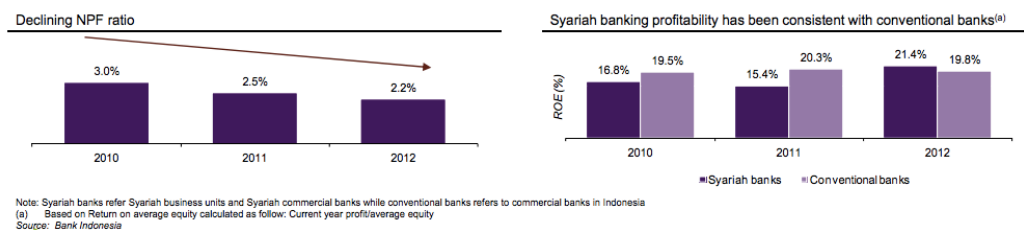

Figure 1.6 Sharia Financing Growth & Sharia Banking Growth Compare to Conventional Bank *(Source: Bank Indonesia)*
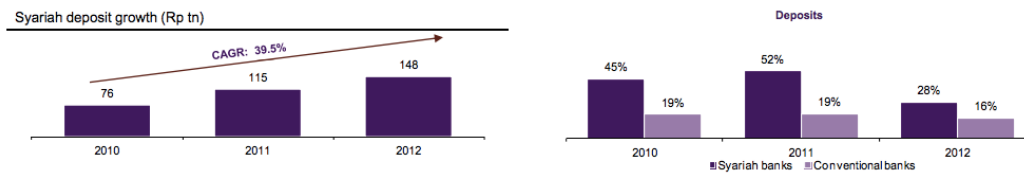
Figure 1.7 Sharia Bank Deposit Growth & Comparison to Conventional Bank *(Source: Bank Indonesia)*

Non-Performing Loan (NPL) ratio in Finance Service Company is very important. The lower the ratio means that the people who could not payback the credit is low. If the NPF ratio high it could harm the company existence in long run. In Indonesia, Sharia banking companies has decreased the NPF ratio from 2010 to 2012.

Sharia banking profitability has been consistently growing higher than conventional banks. It reflects by the industry Return On Equity (ROE) ratio. In financial, the company to measure the company performance usually uses ROE. (Copeland, *et al* 1996; Finegan, 1991; Firer *et al* 2004).


Figure 1.8 Sharia Bank NPL Ratio & ROE Comparison to Conventional Bank *(Source: Bank Indonesia)*

1.2.4 BMI in Sharia Banking Industry

BMI is the pioneer of Sharia banking service provider in Indonesia. Although they are the pioneers, they lose the market leader position to their biggest competitor several years ago. They lose it to Bank Syariah Mandiri (BSM), subsidiary of Bank Mandiri. BMI placed 2nd highest market leader after BSM. Then followed by Bank Syariah BRI, Bank Negara Indonesia Syariah, and Bank Syariah Mega

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respectively. Losing the market leader position does not mean they have a bad performance. It needs several studies to understand why they lose the position.
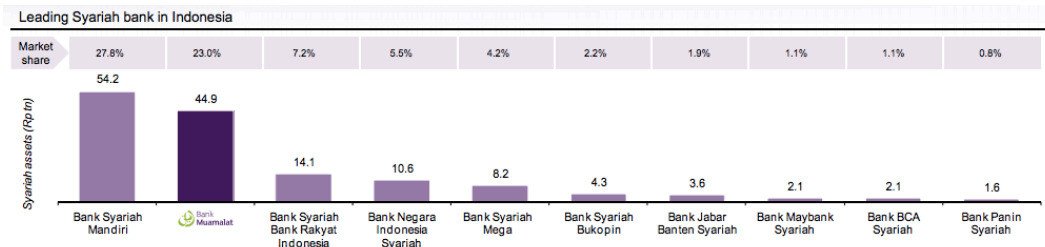
Figure 1.9 Sharia Bank Market Share in Indonesia *(Source: Bank Indonesia)*

Among its competitors, BMI has an outstanding market share growth. The market share growth is above the average of Sharia banking industry growth. In Sharia banking industry, they were reached 23% of market share. While in overall banking industry, they gained 1.1% of total market share.
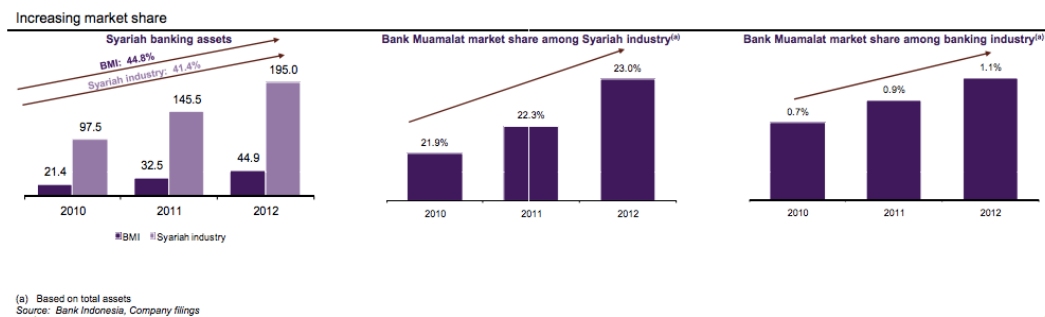
Figure 1.10 Bank Muamalat Indonesia Market Share in Indonesia Banking Industry *(Source: Bank Indonesia, Company Filings)*

Customer satisfaction is one of the biggest considerations for high scale business like BMI. There are many factors that influence customer satisfaction; one of them is service quality. The important of customer satisfaction has been widely known, and its correlation with service quality is really undeniable. Perceived service (PS) should exceed customer expectation (EX). The correlation between service and satisfaction will be shown in the equation between both of them:

PS < EX = Dissatisfied

PS = EX = Satisfied

PS > EX = Delight

BMI has been there in the Sharia banking industry for more than 20 years. In early 2000, many banking companies open their Sharia subsidiary. The need of maintaining customer satisfaction became more and more critical. It is not only to maintain its existence as the pioneer of Sharia banking, but also to maintain its customer. *(Othman & Owen, 2010)*

For companies, customer satisfaction index could be considered as the measurement for its brand performance in satisfying their customers. This satisfaction index could also be used to compare its performance with competitors'. Besides the satisfaction index per brand, the average satisfaction index for the industry can also be projected. *(Othman & Owen, 2010)*

1.2.4.1 Indonesia Customer Satisfaction Award (ICSA™)

Indonesia Customer Satisfaction Award (ICSA™), the organization that research focus on customer satisfaction index, has begun to undergo research in Indonesia to measure customer satisfaction by using customer satisfaction index. They do the research in multi industry in multi cities in Indonesia. ICSA™ is a trademark under Frontier Consulting Group. Frontier Consulting Group – Research Division conducts research for customer satisfaction simultaneously and independently. Indonesian Customer Satisfaction Index (ICSA™) is done nationally since 1999. ICSI involves 8400 respondents in 6 big cities (Jakarta, Surabaya, Semarang, Bandung, Medan and Makassar). 2400 respondents are allocated for each category. *(www.ICSA-indo.com)*

The ICSA is based on an annual omnibus survey conducted by Frontier Consulting Group since 1999. Frontier Consulting Group itself is one of the leading market research and consultant in Indonesia. Frontier has had an extensive amount of projects with clients across the globe, especially from US and Europe, with research experience in more than 200 industries over the last 16 years. Frontier Consulting

Group vast scope of research allows nationwide market research operations, where field networks are capable to conduct field interview in more than 100 cities in Indonesia simultaneously. Knowledgeable, experienced, and dedicated research team with a "can do" attitude supports these operations. To guarantee accurate data formulation, independent quality control system is applied, where strict quality control facility is separated from field office. *(www.ICSA-indo.com)*

Sharia banking industry has been in the category of ICSA award for many years. It is one of the most prestigious awards that pursued by company. In 2012, BMI won the award surpass all of the competitors in Sharia banking industry with the category of Sharia savings. The problem began when they lose ICSA award in the same category to its biggest rival, BSM, in 2013. Instead of gaining back, BMI lose again to BSM for the 2nd time in 2014. *(www.ICSA-indo.com)*

ICSA™ award for Sharia Savings contender:

2012: Bank Muamalat Indonesia (BMI)

2013: Bank Syariah Mandiri (BSM)

2014: Bank Syariah Mandiri (BSM)

Opposing the stable growth of BMI customers, BMI could not maintain its customer's satisfaction by losing the award. The problem could be either the company performance on maintaining its customers satisfaction is decreasing or the rival performance is getting better and better. The management should have aware of this problem. They should evaluate whether it is internal factors or external factors. Then, they have to do it accordingly.

In this research, author aims to analyze the influence of service quality toward customer satisfaction in Bank Muamalat Indonesia. The other factor that influences customer satisfaction is product quality and price. Thus, the author propose the title as: ***"The Influence of Service Quality in Islamic Bank Towards Customer Satisfaction; Study Bank Muamalat Indonesia – Branch Bandung"***.

West Java is the most populated province in Indonesia. One per five people of Indonesia is living in this province. This province has become the supporting area for government center in DKI Jakarta. Its economy has grown really well. Started from the agro business until financial market. West Java is a very good pick to conduct a research if we look to their background in Badan Pusat Statistic Jawa Barat. *(Jabar.bps.go.id)*

According to BPS Bandung; Bandung citizen has reached the number of 2.4 million people *(Bandungkota.bps.go.id)*. It is the capital city of West Java. The author believes that Bandung is the suitable representative city of West Java. As its nickname called Paris Van Java (Paris of java), Bandung has a good development in economy including finance industry. Beside, Bandung also is the city where BMI was born back in 1991. *(Bankmuamalat.co.id)*

1.3   Problem Formulation

1. How is the Service Quality in Bank Muamalat Indonesia based on customer perception?
2. How is Customer Satisfaction in Bank Muamalat Indonesia based on customer perception?
3. Does Service Quality have significant influence on Customer Satisfaction simultaneously?
4. Does Service Quality have significant influence on Customer Satisfaction partially?

1.4   Research Objective

1. Determine how the performance of service quality in Bank Muamalat Indonesia based on customer perception.
2. Analyze the Customer Satisfaction in Bank Muamalat Indonesia based on customer perception.
3. To examine the significant relations between Service Quality toward Customer Satisfaction whether it is simultaneous or not.
4. To examine the significant relations between Service Quality toward Customer Satisfaction whether it is partially or not.

1.5   Purpose of Study

The purpose of this study is to examine the relationship between customer satisfaction and service quality in service sectors with respect to the service quality dimensions. A research like this is essential to assess and improve service delivery and design, because it will provide management with data that they can use in making inferences about the customers (Wilson et al. 2006, 27). Thus the results of this study should be proved useful for academics; business in the field of marketing and management researchers of customer satisfaction and service quality especially in service sector organizations. The results of this research are hopefully can give useful information to develop more knowledge in the field of Islamic Banking in Indonesia and Academic that related to the effect of service quality to customer satisfaction. This study is the way to investigate the relation between both variables.

a. Practical Aspect

Hopefully, this research can be adopted by Sharia Banking industry in Indonesia as well as a media to explore additional knowledge in the field that related to marketing management, especially in the customers satisfaction terms. The author hopes that this research is beneficial and adequate enough to be used for the development of the industry. Not to mention the growth of the industry that needs better customer handling, this research should be projected as one of the main aspects that provide answers for the problems.

b. Theoritical Aspect

Not only in business terms this research should also be used as a reference for the researchers that has something to do with this research, especially scholars. This research can be used to improve the understanding of customer satisfaction. The author is also hoping that this research is contributing to the new perception of service quality. Since the research is different form others, it complies with the industry and the nature of its business.

1.6   Structure of Research

Chapter one presented the Introduction, the next chapter will be to present existing literature and theoretical framework on the relationship between customer satisfaction and service quality. The chapter that follows; chapter three, will be the methodology of the research where the research design and research methods will be explained. Then the empirical findings and analysis will come in chapter 4; chapter five will presents the conclusion, implications and suggestions.