

CHAPTER I FOREWORD

1.1 Overview of PT. Bank Negara Indonesia, Tbk

1.1.1 Company History

Figure 1.1

PT. Bank Negara Indonesia



Source : www.bni.co.id

Bank Negara Indonesia was established by the Indonesian government in 1946 and initially served as the country's central bank, before acquiring its status of commercial bank in 1955. In 1996, BNI became the first state-owned bank to go public on the Indonesia Stock Exchange (IDX) when it sold 25 percent of its equity to the public.

BNI's role as the circulation and central bank was duly terminated in 1949 following the government's appointment of the former Dutch-controlled bank, De Javasche Bank, as Indonesia's Central Bank. The Bank, subsequently designated as a development bank, was later granted the rights to provide foreign reserve services that allowed it access to direct foreign transactions.

Enhanced by increased capitalization, the Bank's legal status was formally changed to that of a state-owned commercial Bank in 1995. This provided the Bank with the foundation to provide better and wider range of both access and services for the country's business sectors.

In its quest to competitively differentiate itself from its competitors, the Bank decided, towards the end of 1968, to attach its year of establishment to its corporate name to become Bank Negara Indonesia 1946. The Bank was therefore popularly referred to, for decades, as 'BNI 46'. The simpler name of 'Bank BNI' was adopted in 1988 along with the change of the corporate identity.

BNI's legal status was upgraded in 1992 to that of a state-owned limited corporation under the name of PT Bank Negara Indonesia (Persero) and the bank decided to become a public company through its initial public offering of its shares in 1996.

1.1.2 Vision & Mission PT. Bank Negara Indonesia

1. Vision

- To be a bank that excels, prominent and advanced, in delivering services and performance.
- BNI strives to become a Bank with superior performance that deliver satisfactory returns on investment for shareholders, to be the bank of choice through excellent service

quality, and to be a dominant player through the provision of high quality products and services in its market segments.

2. Mission

1. To become the bank of choice, providing excellent service and value added solutions, to all customers.
2. To enhance investment value to our shareholders
3. To provide the best environment for our employees, to be the source of pride to perform and excel
4. To improve socially and environmentally corporate responsibility
5. To become the benchmark of good corporate governance practice

1.1.3 Organization Structure

BNI organization structure consist of Board of Commissioners that supervise the Board of Directors that consist of President Director, Deputy President Director and 9 Director that manage their own division. The complete figure of BNI's organization structure is attached in the appendix.

1.1.4 Product and service

Products and services offered by PT Bank Negara Indonesia divided by two types of customer, which is individual and Business. For individuals, BNI offer Loans, Savings, Treasury and Service. And for Business, BNI offer Loans, Savings, Treasury, Service, Trustee and Trade Finance.

Table 1.1

BNI Products and Services

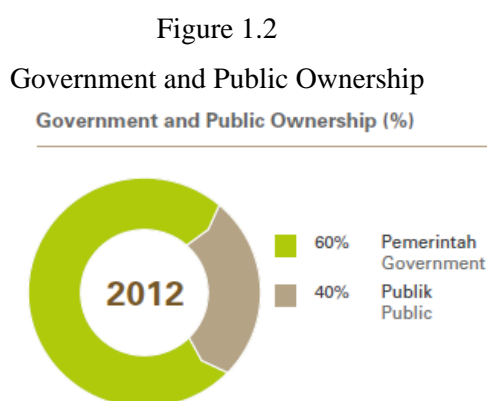
| No | Individuals | Business |
|----|--|--|
| 1 | Loans (Mortgage Loan, Auto Loan, Multipurpose Loan, Unsecured Loan, Cash Collateral Loan, Credit Card, Enterpreneurship Loan) | Loans (Cash Collateral Credit, Credit Card, Export Facility, Import Facility, Investment Loan, Prime Cooperatives Loan, Working Capital Loans, Syndicated Loan, Small Scale Business Program, Two Step Loan |
| 2 | Savings (Current Account, Deposits, Savings, Business Savings, Educational Savings, Children Savings, Youth Savings, Employee Savings, Student College Savings, Emerald Savings, Indonesian Migrant Workers Savings, Hajj Savings, Debit Card), | Savings (Debit Card, Pension Fund, Current Account) |

| | | |
|---|---|--|
| 3 | Treasury (Foreign Exchange, Fixed Income, Money Market, Banknotes) | Treasury (Foreign Exchange, Fixed Income, Money Market, Banknotes) |
| 4 | Services (ATM, Phone Banking, SMS Banking, Internet Banking, Private Banking, Emerald Banking, Payment Services, Domestic Remittance, Overseas Remittance, Rupiah Traveller's Cheque, Traveller's Cheque Collections, Haj Pilgrim Payment, Bank Reference, Safe Deposits Box, Foreign Bank Notes, Mobile Outlet) | Services (Advisory, Paying Agent, Arranger for Syndicated Loan, Collection, Commercial Paper, Export, Escrow Agent, Facility Agent, Bank Guarantees, Import, Cash Management, Investment Services, Custodian Services, Payment Centre, Repo & Reverse Repo, Security Agent, Bank Settlements, Sinking Fund, Domestic L/C) |
| 4 | | Trustee (Funding, Investment Financing-Murabahah, Working Capital Financing-Mudharabah, Working Capital Financing Musyarakah, Investment-IMBT, Bank Guarantee, Qardhul Hasan) |
| 5 | | Trade Finance (Services, Transfer Settlement/RTGS, Banknotes, Remittance, Draft, ATM, Internet Banking, SMS Banking, Phone Banking, Payroll Center, Cash Management, Virtual Account, Cash Pickup, Student Payment Center, Remittance, Collection, Bank Guarantee) |

Source : www.bni.co.id

1.1.5 Shareholder and Business Scale

At the end of 2012, the Government of Republic of Indonesia held 60% of the shares of BNI with the remaining 40% held by individual and institutional shareholders, both domestic and overseas.



Public Ownership (%)



Source : BNI Annual Report 2012

At present, PT. Bank Negara Indonesia Tbk (BNI) is the fourth-largest bank of Indonesia in terms of assets, lending and third party funds. It provides financial services that are supported by its subsidiaries in shariah banking (Bank BNI Syariah), financing (BNI Multi Finance), the capital market (BNI Securities), as well as insurance (BNI Life Insurance).

At the end of 2012, BNI had total assets of Rp333.3 trillion and employed more than 24,861 employees. To serve its customers, BNI leverages on its wide ranging service network, comprising 1,585 domestic outlets and 5 overseas branches in New York, London, Tokyo, Hong Kong and Singapore, 8,227 proprietary ATMs, 42,000 EDC as well as Internet banking and SMS banking facilities. BNI always strives to be the bank of choice by providing excellent service and value added solutions to all of its customers.

1.1.6 Subsidiaries PT. Bank Negara Indonesia

BNI's subsidiaries were established to support the provision of one stop financial service, including banking products, insurance, financing, capital and remittance. Strategic alliances and synergy between these companies and BNI as the parent company are expected to be able to improve services and contribute optimally to all stakeholders of BNI.

As at end of December 2012, BNI had equity participation in 10 subsidiaries. Majority ownership in some subsidiaries is intended to develop strategic alliances in order to give added value for BNI's customers. Meanwhile, BNI's minority ownership (1%- 8%) in other subsidiaries is done in order to comply with prevailing policies/regulation such as from Bapepam, as well as in business cooperation with BNI's partners.

BNI has majority shareholdings in BNI Remittance Ltd (100%), PT Bank BNI Syariah (99.90%), PT BNI Multifinance (99.98%), PT BNI Securities (75.00%), and PT BNI Life Insurance (99.99%). To support the business of the subsidiary companies, the management of BNI commits to place professional workers to lead each company's business, as well as conducting regular performance reviews.

The impact from the crisis in United States of America and Europe has influenced the domestic and global economic condition, however, some of BNI's subsidiary companies still showed a positive performance in 2012.

The subsidiary companies where BNI holds majority ownership attributed profit in the amount of Rp172 billion in 2012. Other strategic developments in 2012 was the takeover of minority shareholders of PT BNI Life Insurance, which increases the bank's ownership in the company to 99.99% from 91.52% previously. This corporate action was done using funds from the proceeds of BNI's rights issue in 2010 amounting to Rp93 billion.

(Source : BNI Annual Report 2012)

1.1.7 Business Strategy of PT. Bank Negara Indonesia Persero (Tbk)

With reference to the Company's vision and mission statement, Management has formulated the strategic direction of the Bank in the 2009-2013 Corporate Plan. In the period of 2009-2011, Bank policies were directed towards strengthening the Bank's financial foundation. Meanwhile, in 2012, bank policies were focused more on achieving sustainable financial growth.

In order to meet targets, the bank continued to utilize various methods and steps to perfect their operating model (system and process). Organizational restructuring and current technologies were used to support strategic steps such as:

- Strengthening synergy between Business Banking and Consumer & Retail Banking in order to raise market share.
- Advancing business expansion focused on the economic sectors, rural areas, and customer segment deemed prospective in each business field.
- Strengthening efforts to increase assets quality.
- Increasing the customer experience and service quality such that shall affect business performance specifically with regards to low cost funding and fee based income.

Success of achievements stemming from following strategic policy is seen from the positive growth of company profitability. Profit and credit growth were observed. Profit growth in 2012 reached 20.9%. The rentability ratio experienced an improvement. Return On Asset (ROA) reached 2.9%, Return On Equity (ROE) reached 20.0%.

The year 2012 showed a significant growth of credit of 22.8%, credit from the corporate segment grew 25.4%, credit to medium enterprises grew 24.0%, credit to small enterprises grew 16.8% and credit to the consumer segment grew 26.4%. In line with the company's strategy to focus on credit expansion in distinct sectors and segments with a better yield, this affected the ratio of Net Interest Margin (NIM) that reached 5.9%.

(Source : BNI Annual Report 2012)

1.1.8 Milestone PT. Bank Negara Indonesia

Table 1.2

Milestone Bank Negara Indonesia

| Year | Milestone |
|------|-----------|
|------|-----------|

| | |
|------|---|
| 1946 | Under the name “Bank Negara Indonesia”, BNI was established by the fledgling Republic as the first wholly-owned state bank, entrusted with the issuance and management of Rupiah banknotes. |
| 1955 | The status of BNI evolved to that of a commercial bank. |
| 1958 | BNI, now renamed “Bank Negara Indonesia 1946” was charged with the primary task of improving the economy of the nation, with emphasis on the industrial sectors. |
| 1986 | BNI underwent corporate restructuring and repositioning initiatives, including the foundation of a Vision and a Mission, and on a more practical level implemented a Performance Improvement Program (PIP). |
| 1988 | BNI launched a new “bahtera berlayar di tengah samudra” or “Sailing the Seas” logo, as an expression reflecting a fresh corporate direction. |
| 1992 | The legal entity of BNI was modified, becoming PT (Persero) in line with contemporary Banking Laws. |
| 1996 | This was the year BNI conducted its first initial public offering of shares, through listings on the Jakarta and Surabaya Stock Exchanges. With this corporate action, BNI became the first state- owned bank to be public- listed company. |
| 1997 | Asia, and Indonesia most acutely, was engulfed in a titanic financial crisis. BNI, like all other banks, was adversely affected by the crisis, as reflected in its severely reduced financial performance. |
| 1999 | BNI received additional capital from the Government through a recapitalization program. In the same year, BNI Mutual Processing Unit qualified for ISO 9002 certification, as an acknowledgment of its quality standard. |
| 2004 | BNI launched a new logo and corporate identity, in line with the effort to build a strong Corporate image. |
| 2007 | BNI issued new shares with preemptive rights (a rights issue), listed on the Jakarta and Surabaya Stock Exchanges. This corporate action was conducted together with a government divestment program. Following this program, public ownership of BNI shares peaked to 23.64%. |
| 2008 | Under a new management team, BNI strived to create higher value while facing the challenges of the global financial crisis, by strengthening its financial foundation through a 5-point main strategy of provisioning coverage, improving asset quality, focusing on profitability, creating a sustainable business model, and maintaining an efficient cost structure. |
| 2009 | The shareholders approved the spin-off of BNI’s Syariah division into a separate independent business entity. |

| | |
|------|--|
| 2010 | BNI issued new shares through a rights issue, resulting in an increase in public ownership of shares to 40%. |
| 2011 | BNI entered the implementation phase on a business transformation process called BNI Reformasi 1.0. |
| 2012 | BNI acting through its London Branch has issued Global Bonds with nominal value of USD500 million with 5-year tenor and fixed interest rate at 4.125% p.a., payable semi-annually, with the first payment made on October 27, 2012. The Global Bond issuance listed in the Singapore Stock Exchange. |

Source : BNI Annual Report 2012

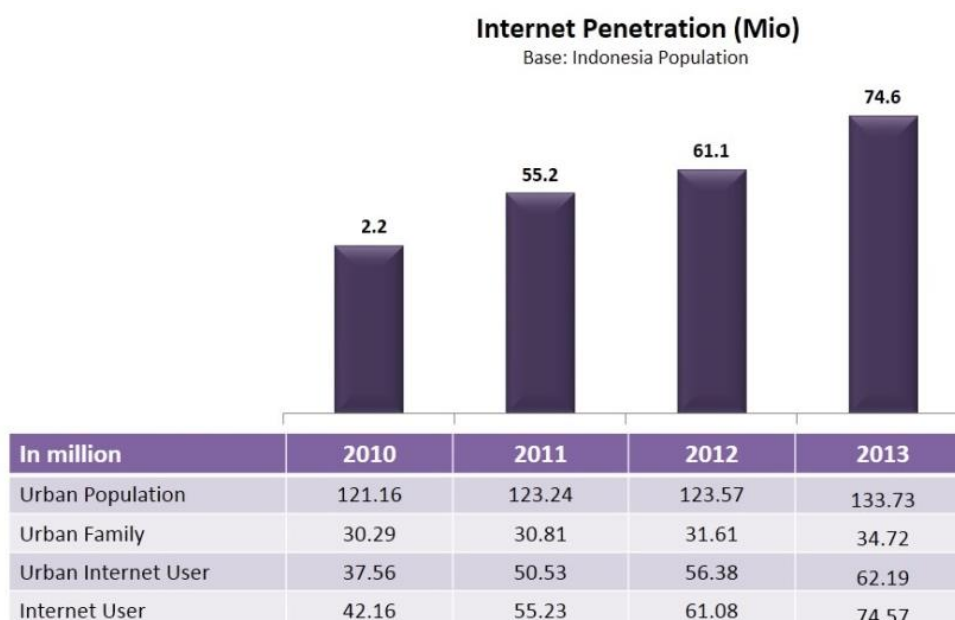
1.2 Research Background

The development of electronic commerce industry or e-commerce, especially in Indonesia has spurred competition in providing a product and services in a virtual world. The development of online business is supported by a significant improvement of the internet users themselves. That caused a lot of business people were interested in doing online business by looking at prospective internet users in Indonesia.

The Internet users in Indonesia is growing rapidly from year to year. The number of Internet users grew 22% from 2012 - 2013. The internet users is growing from 62 million in 2012 to 74.57 million in 2013. According to the research agency, MarkPlus Insight, the number of Internet users in Indonesia will penetrate up to 100 million people in 2015.

Figure 1.3

Internet Penetration in Indonesia



Source: *Indonesia Netizen Survey by MarkPlus Insight, Marketeers Magazine November 2013.*

The continuous strike of business to increase productivity, efficiency, and the use of technology to continually innovate in order to expand and create new markets is not new. Competition is much more fierce and change the business drivers to take the advantage of the technology. And also customer behavior is shifting to a more flexible, faster, easier, cheaper and also secure way in doing a transaction is the other aspects that make the banking sector have to make an alternative in giving their customer a more convenience way to conduct in banking transaction.

Electronic commerce is now hold the promise of a new commercial revolution by offering an inexpensive and direct way to exchange information and to sell or buy products and services. This revolution in the market place has made a revolution in the banking sector for the provision of a payment system that is compatible with the demands of the electronic marketplace.

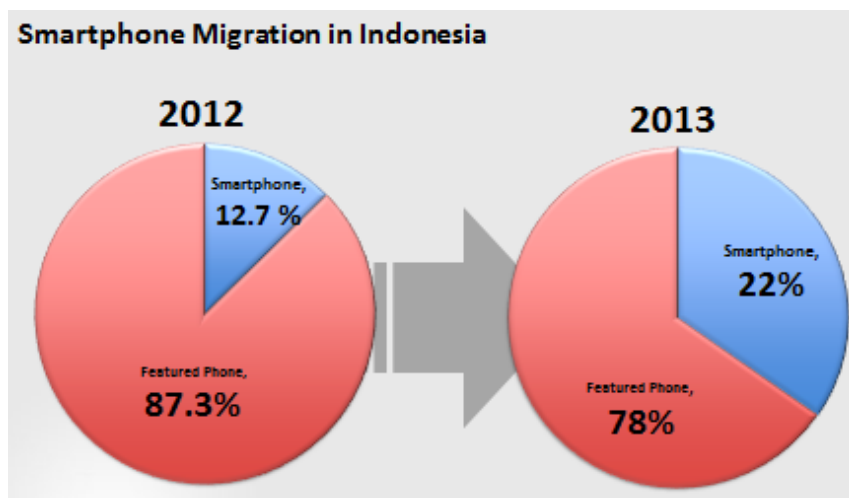
Electronic-commerce in Indonesia is now important. The term "*electronic banking*" or "*e-banking*" covers both computer and mobile banking. It refers to the use of information and communication technology by banks to provide services and manage customer relationship more quickly and most satisfactorily (Charity-Commission, 2003).

Electronic banking according to Al-Abed (2003) is an umbrella term for the process by which a customer may perform banking transactions electronically without visiting a brick and mortar institution. Lustsik (2004) describes *electronic banking* as a variety of the following platforms: Internet banking, telephone banking, TV-based banking, mobile phone banking, and PC banking.

In the past few years, Indonesian banks and generally the financial services industry embraced electronic banking, which has been made possible by the advancements in information technology (IT). More advanced technology of mobile phone has made our life easier in every aspect. Including the invention of a useful application in smartphone now make us possible to have a banking transaction via mobile phone such as transferring money, account management and electronic bill payment as long as we have an internet connection. According MarkPlus Insight, nearly 95% of Internet users were using mobile devices to access internet (smartphones).

Figure 1.4

Smartphone users in Indonesia 2012-2013



Source : *Android Extends OS Market Share as Indonesians Go "Smart"*, International Data Corporation (IDC) 2012

From the figure above we can see that smartphone users in Indonesia are increasing. According data from IDC Q3, Smartphone in 2012 reach 12.67% with Android taking 64% from total smartphone. And IDC also predicted smartphone will grow to 22% at the end of 2013. Feature phone shipments remained the highest contributor as the demand in rural and sub-urban areas for a lower-price phone still exist.

"The rise of the middle income group in Indonesia, as well as the continued push towards an information based society has caused for many individuals to embrace mobile devices. It's just a

matter of time before this gets further infused in both their personal and work lives, as traditional thinking gives way to an evolving mobile workforce", says Sudev Bangah, Head of IDC Indonesia.

According to IDC, half of the smartphone shipments in Indonesia constituted devices between the range of Rp 1.200.000 to Rp 2.400.000, with screen sizes of 4 inches and above. This has caused some enthusiasm amongst Indonesians who crave smartphones for social media and entertainment purposes.

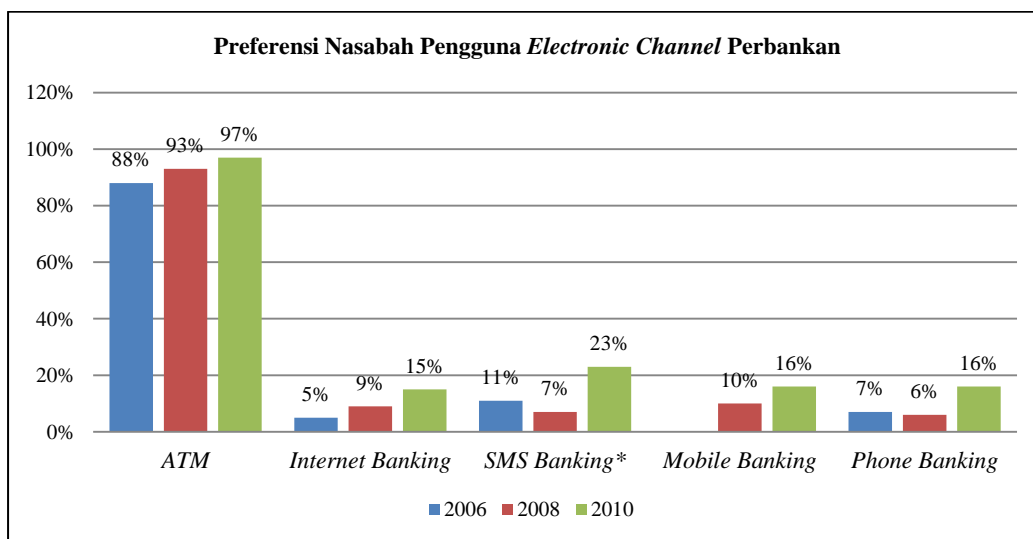
"The current trend of affordable smartphones with large screens has caused excitement within the market. IDC expects that smartphone shipments will continue to increase through to next year, where smartphones will then constitute close to 22% of total shipments by the end of 2013. As competition heightens, more affordable devices will emerge, benefiting consumers on a whole," says Darwin Lie, Market Analyst for Client Devices Research at IDC Indonesia.

With the raising numbers in the smartphone users in Indonesia along with the advancements in information technology thus used by the banking sectors to create an alternative in their service delivery by making *mobile banking*.

M-banking provides services almost like an ATM in customer's hands. With personal mobile devices, customers do not need to go to the location of the ATM or bank branch, but can conduct transactions anywhere and anytime as long as the phone signal and internet connection is good enough. We can see from the figure below that mobile banking and SMS banking have been the customer preferences of Electronic Banking Channels.

Figure 1.5

The Percentage of Customer Preference of Electronic Banking Channels



Note: *SMS and Mobile combined in 2006

Source: *Info Bank*, No. 394, Januari 2012, Vol. XXXIII, hal.67

Based on a survey entitled "*E-Channel MRI Study (Marketing research Indonesia) 2010*" which was conducted among 1,300 respondents in five major cities in Indonesia (Jakarta, Bandung, Semarang, Surabaya and Medan), showed that the preferences of customers in using *electronic*

banking channels from 2006 to 2010 has increased, both the *e-channel* ATM, *internet banking*, *SMS banking*, *mobile banking*, and *phone banking*.

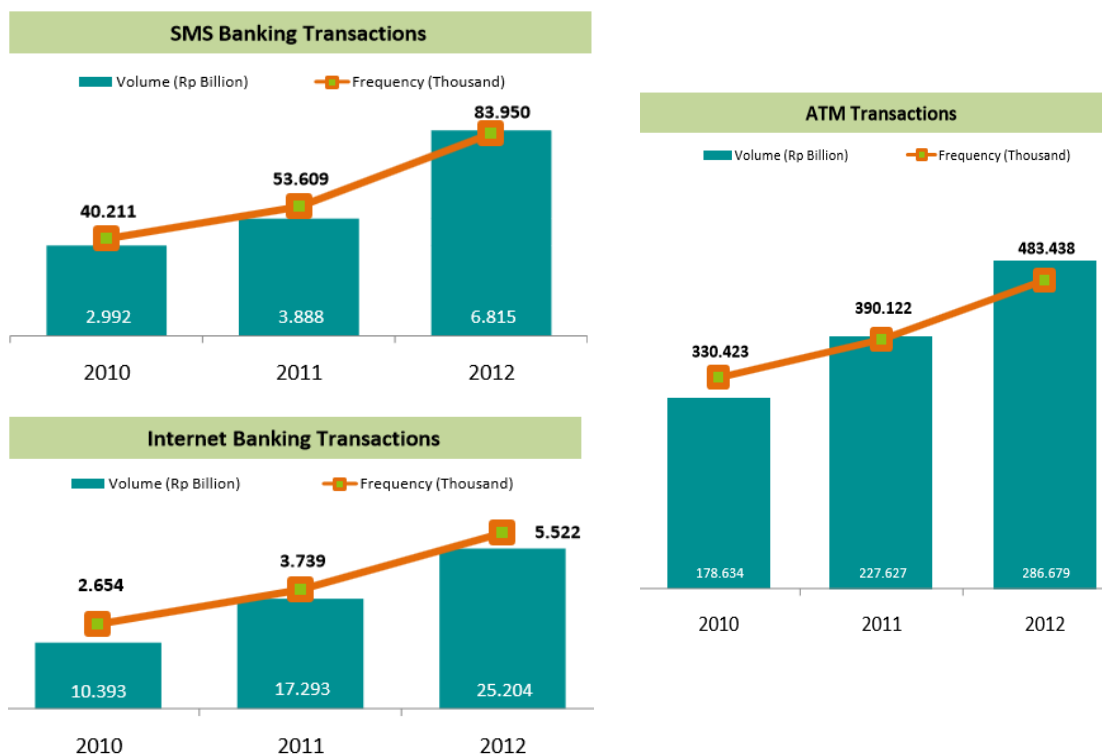
Although in 2008, *SMS banking* users decreased from 11% to 7%, in 2010, *SMS banking* users showed an excessive rise, which is from 7% to 23%. From the survey we can see that in 2010 *SMS banking* (23%) become the first choice for e-channel, compare to Internet banking (15%), mobile banking (16%), and Phone banking (16%).

According to Research Institute of Telematics, Sharing Vision, survey in late 2011 with 105 respondents in Jakarta and Bandung, which mainly confirms that more and more people aware at SMS / mobile banking. From the communication budget of the majority of SMS banking users, comes from the majority group who have relatively small monthly mobile budget. As many as 48% of respondents are those who have a cellular budget of less than Rp100,000 per month and 30% who have a cellular budget Rp100.000 up to Rp300.000. Only 12% have a budget Rp300.000 - Rp1 million and 21% above Rp1 million. This showed that almost 50% of small monthly budget use SMS banking service.

They are most widely use SMS/mobile banking to check the balance (83%), transfer money to fellow bank (28%), purchase vouchers (26%), information relating to your account such as credit card bills (25%), bank transfer (24%), and payment of bills (20%). (www.infobanknews.com)

Figure 1.6

E-Banking Transaction BNI 2012



Source: Corporate Presentation PT Bank Negara Indonesia (Persero) Tbk 2012

From the figure above of E-banking transaction PT. Bank Negara Indonesia, we can see that other than ATM transactions, *SMS banking* have more transactions than Internet Banking

transactions in term of frequency. So the majority of BNI customers prefer using *SMS Banking* rather than Internet Banking. It also concluded that SMS banking user is increasing from 2010 until 2012. Transaction frequency of SMS banking was increasing 33% in 2011 and increased 56% in 2012.

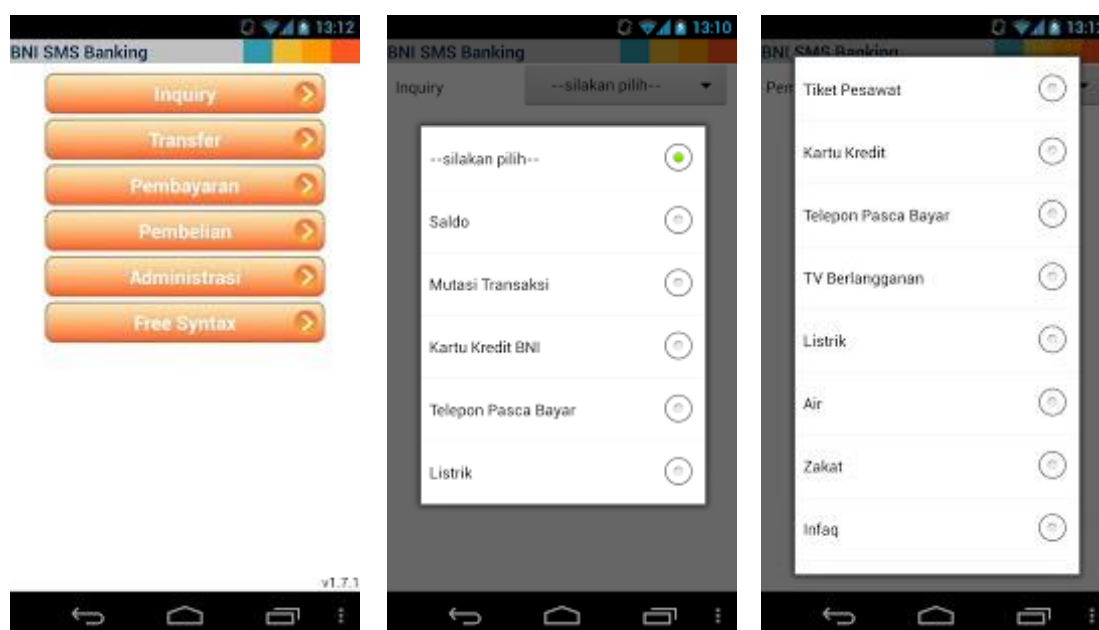
Moreover there is an increasing volume in *SMS banking* transaction each year from 2010-2012 along with the increase customer that used SMS banking. In 2011 there is a large increase in SMS banking transaction volume from 3,8 billion to 6,8 billion. Which mean the transaction volume that was conduct by SMS banking customers was reaching 78%.

BNI SMS banking has changed from the old days, we don't have to use a specific format and send it to conduct SMS banking transaction. Now BNI SMS banking transaction have been upgraded to a much simpler format and easier to use. BNI SMS Banking Menu is an SMS-jacket application for Smartphone Platform. BNI SMS Banking Menu allows you to conduct every transaction simply by choosing the transaction menu such as cellular phone reload, bill payment, credit card payment, transfer to another BNI account or interbank fund transfer. To use the application, you have to be a registered-user. You can simply do the registration process through BNI ATM or any BNI Branches.

To be the financial registered user, you have to come to every BNI branches to do the activation process. As a financial registered user, you can conduct all non-financial transactions and also these following financial transactions: Fund transfer to another BNI accounts and also interbank fund transfer, Reload prepaid Telco products, BNI and Non-BNI Credit Card payments, Telkom and PLN billing payments, Zakat, Infaq, and Qurban, and Airplane ticket payments.

As a non-financial registered user, you can only conduct non-financial transactions such as: Balance inquiry, Last historical transaction inquiry, Billing inquiry, such as: Credit Card, telephone and electrical billing, etc. (SMS charges are depend on your cellular provider). BNI Call center is at 500046 or (021)500046. (www.bni.co.id)

Figure 1.7: BNI SMS Banking application



Currently, BNI SMS Banking application can be downloaded in the App World (Blackberry), Play Store (Android) and the App Store (iPhone / iPad). The phones criteria that can use the application BNI SMS Banking Menu: Support Java MIDP 2.0., Operating System (OS) type symbian, Blackberry, Windows Mobile with midlet manager ready, Have navigation button (for touch screen used virtual keyboard), have internet connection (for download application BNI SMS Banking). (<http://www.bnisyariah.co.id/en/produk/faq-sms-banking>)

The presence of *SMS banking* has change the delivery channels to a self-service channels where the customer can easily do a non cash transaction without wasting time going to a teller in banks as well as ATM. Convenience and easiness that was provided by SMS banking and It was also coupled with transportation cost savings and time savings made SMS banking more popular than other e-banking channels.

The benefits of this 21st century banking are numerous. Its introduction would increase the potential of business to attain greater productivity and profitability, as trading and transactions, which would be carried out via communication networks, would be a lot faster and distance would no longer be barrier to effective transactions (Fagbuyi, 2003).

According to Sergeant (2000), the benefits of E-banking are manifold and are to be seen from the point view of the banks themselves, customers and even the Regulators. According to him, for banks, *E-banking* brings different and arguably lower barriers to entry; opportunities for significant *cost reduction*; the capacity to rapidly re-engineer business processes; and greater opportunities to sell cross border. For customers, the potential benefits are: *more choice*; greater competition and better value for money; more information; better tools to manage and compare information; and *faster service*.

One of the benefits bank give from electronic banking products and services delivery is improved *efficiency and effectiveness* of their operations so that more transactions can be processed faster and most conveniently, which will impact significantly on the overall performance of the banks. The customers on the other hand, stand to enjoy the benefit of *quick service delivery, reduced frequency of going to banks* and *reduced cash handling*, which will give rise to higher customer satisfaction and higher customer value.

Thus, Indonesian banks today are seriously into new electronic delivery channels for banking products and services with a view to delivering better services and satisfying customers the more. Banks that cannot offer these services are increasingly losing their customers.

We can see a wide opportunity for SMS banking service in Indonesia. However to maintain customer value there is a big responsibility to keep the product and service quality of SMS/ mobile banking. According to *Research Institute of Telematics, Sharing Vision*, 64% disappointment was emerge (105 respondents) from the three dominant service quality problem. Which is the service was failed but it cut their mobile credit balance, a message confirmation of a successful transfer but actually failed transfer, and there was no success confirmation of the service. Other disappointment

issue from the rest of respondent in SMS/mobile banking is associated with a service that never carried out, often network error, the tariff is considered expensive, transfer only one time but debited twice, failed activation, as well as transfer failed to a different bank. (www.infobanknews.com)

Technology development in gadgets is growing fast, especially on a tablet computer and smartphone products. For example, Android operating system, need to be upgraded up to three times in a year. Not to mention the variations and modifications of tablet computer are highly dynamic. This can be a challenge for the national banking industry in providing application software that can be adaptable in an upgraded OS and also compatible in smartphone.

The author was doing an observation and finding several article that stating their disappointment in BNI SMS banking. We can see several disappointment articles in the table below.

Table 1.3
Customer Disappointment of BNI SMS Banking

| Posting Date | Source | Customer Disappointment |
|-------------------|--|---|
| 5 September 2008 | Arry Akhmad Arman (http://kupalima.wordpress.com/2008/09/05) | - Transfer money and got a confirmation message “Please wait, your transaction is now being processed....”. - Wait for the success confirmation, after 6 days when he check, the order never been processed with SMS banking system. |
| 7 July 2010 | Satrio (http://satrioja.wordpress.com/2010/07/07) | - Transfer money to fellow BNI account and got a reply “sorry, you have entered wrong order” - He tried many times and already browsing to BNI website but his transaction still not succeeded. Although it already cut his balance up to Rp25.000 |
| 29 May 2012 | Wanda Zakaria (http://www1.kompas.com/suratpembaca/read/32666) | - Transfer money to other BNI customer, after sending a confirmation message, the reply is “sorry transaction can’t be processed”. - After trying 2 times, when she check her account, there is a debit twice with the same amount Rp3.000.000 total Rp6.000.000 |
| 11 September 2013 | Indra Gunawan (http://www1.kompas.com/suratpembaca/read/41166) | - He did a Debit Online SMS banking transaction Rp200.000 and got a success confirmation. - 2 days after transaction, the service was stopped by the merchant. They say that BNI did a charge back from the transaction which is Rp139.309. |

| | | |
|-------------------------|---|--|
| 21 September 2013 | Wisnu Surya Wijaya (https://twitter.com/searich?q=sms%20banking%20bni&src=typd) | - Cannot purchase smartfren credit balance when using BNI SMS banking. |
|-------------------------|---|--|

From the author observation, there are several complaint that was emerge by BNI SMS banking users. This event is highly fatal because it concerns their interest and postponed their activity. According to the Kotler and Keller (2012: 153), the critical value is about quality. Quality is a value that hopes by customer to fulfil their needs. If the quality is good it makes the customer satisfied and impact to their loyalty. The level of product quality and service that are given by the company will be very influential on customer value. This incident will undoubtedly affect customer satisfaction of BNI *SMS banking* and eventually lower our customer value.

According to Roig et al. (2009) perceived value consists of two elements: benefits and sacrifices associated with a certain transaction. Value is a consumer perception about final worth of a service or product with respect to its benefits and costs. According to Heskett et al. (1994), value perceived by customer is formed by a judgment about what is given and what is obtained in a certain transaction. Overall, firms who want to have a strong and stable relationship with their customers should provide high value products to customer. Also they should provide this value in a distinctive way to create a competitive advantage and in turn enhance their viability.

Except service quality, customer cost is also a factor that will affect customer value and customer satisfaction (Kotler and Keller 2012: 405). Customer cost is the sacrifice of the customer to get the product or service. The customer also hopes that what they sacrifice is a same with the product or service that they wish. For example, the customer wants the affordable price compare within other product or service brand. If the price has decided by company is matched with the customer wishes, so they will be satisfied and always use that product or service.

The problem here is: are customers really enjoying these services? Related to this problem, empirical evidence implies that customers' patronage for and reaction to a particular product depend on their level of understanding of what the product can do and what they stand to benefit there from (Balachandher, 2001). Overall, firms who want to have a strong and stable relationship with their customers should provide high service quality and service value to customer. Also they should provide this value in a distinctive way to create a competitive advantage and in turn enhance their long term profit.

Related to this, increasing and improving the service delivery of BNI *SMS banking* is important so that BNI can remain competitive and stay ahead in providing their services to its customers. Knowing that the *service quality and customer cost* of *SMS banking* is an important factor influencing *customer value*, the author is interesting to find out how it affects the *customer*

value as a whole. Then BNI will be able to determine the development strategy and enhancement of *SMS banking* services according with the customer needs.

Then from the research background above, the author made a research titled: **“The effect of E-Service Quality and Customer Cost towards Customer Value and its impact on Product Usage (Case Study of BNI SMS Banking Users in Bogor).”**

1.3 Problem formulation

Some customers were disappointed by BNI SMS banking. Whereas, BNI has already invested a lot of money to develop BNI SMS banking application for smartphone platform. Meanwhile, there are no solutions yet regarding SMS banking customer value. In this connection, it is relevant to find out the perception of SMS banking by customers. Based on background the research questions are as follow:

1. Is there any positive significant effect between e-service quality and customer value of SMS banking users in Bogor Area?
2. Is there any positive significant effect between customer cost and customer value of SMS banking users in Bogor Area?
3. Is there any positive significant effect between e-service quality and product usage of SMS banking users in Bogor Area?
4. Is there any positive significant effect between customer cost and product usage of SMS banking users in Bogor Area?
5. Is there any positive significant effect between customer value and product usage of SMS banking users in Bogor Area?

1.4 Research Purposes

Based on the background, the purpose of this studies is:

1. To know the level of Customer Value of BNI SMS banking users in 2013.
2. To determine and analyse whether exist or not the effect of service quality and customer cost on customer value of BNI SMS banking in Bogor Area.
3. To determine and analyse whether exist or not the effect of customer value on product usage of BNI SMS banking in Bogor Area.

1.5 Usability of Research

The author hope that this research can be used by all parties that need this research, which is:

1. For author, to apply knowledge gained during the authors study. Increase the author's knowledge and experience gained during the practice when doing the research, related to the correlation of *service quality*, *customer cost*, *customer value* and *product usage*.

2. For PT. Bank Negara Indonesia (Persero) Tbk, usefull as an evaluation of SMS banking service in order to improving their service delivery.
3. For The Other Parties, The results of this study are expected to add an insight to the readers and as a reference if you want to conduct further research on the correlation of *service quality, customer cost, customer value and product usage* of SMS banking.

1.6 Report Systematic

To give a clear picture or a description of the research conducted, it drafted a systematic way of writing that contains information about the material or concept and issues discussed in each chapter. The writing systematic of this research is as follows:

CHAPTER I : INTRODUCTION

This chapter is a general description of the research study objects, the background problem, problem formulation, purpose and usefulness of research approaching, scope of research and writing systematics.

CHAPTER II : LITERATURE REVIEW

In this chapter is clearly the result of literature review related to the problem to be inspected. This chapter includes a description of the theoretical basis that is used as the basis of analysis of the research, previous research and framework.

CHAPTER III : RESEARCH METHODOLOGY

This chapter describes the approaches, methods, and techniques used to collect and analyse data in order to answer or explain the research problem.

CHAPTER IV : RESULT AND DISCUSSION

This chapter describes the research object description, analysis result and data processing along with the discussion, presented chronologically and systematically in accordance with the scope of the research and consistent with the purpose of the research.

CHAPTER V : CONCLUSIONS AND RECOMMENDATIONS

In this chapter contains the conclusions of the research performed as well as suggestions and recommendations had given to companies and others with needs.