STATEMENT OF ORIGINALITY

I, the undersigned

Name	: Donny Julyanto Dwi Hayadi
Student ID (NIM)	: 125020307121003
Faculty	: Economics and Business
Department	: International Undergraduated Program in Accounting
Address	: Akordion St, De Green Pavilion Village, C-19, Malang

Hereby certify that I am the sole author of this minor thesis entitle:

"Analyzing the Impact of New Restriction of Credit Card Ownership Based on Bank Indonesia Regulation Number 14/2/2012 to Bank: A Multiple Case Study in Bank 'X' and Bank 'Y'".

And this minor thesis has not previously been submitted for a degree in any other university or institution.

I certify that, to the best of my knowledge, my minor thesis does not infringe upon anyone's copyright nor violate any proprietary rights and that any ideas, techniques, quotations, or any other materials from the work of other people included in my minor thesis, published or otherwise, are fully acknowledged in accordance with the standard referencing practices.

If my statement is proven to be incorrect, I agree to accept existing academic sanctions. This Statement was made under full awareness and conciousness, to be used when necessary.

Malang, August 22nd, 2016

Author,

Donny Julyanto Dwi Hayadi

NIM. 125020307121003

LETTER OR RESEARCH

I, undersigned explained that:

Name	: Donny Julyanto Dwi Hayadi
Student Number	: 125020307121003
Faculty	: Economics and Business
Department	: International Undergraduated Program in Accounting

Has conducted research in the Bank X and Bank Y in preparing the minor thesis with the title:

ANALYZING THE IMPACT OF NEW RESTRICTION OF CREDIT CARD OWNERSHIP BASED ON BANK INDONESIA REGULATION NUMBER 14/2/2012 TO BANK: A MULTIPLE CASE STUDY IN BANK 'X' AND BANK 'Y'

Thus, this letter of research is made to be used as appropriate.

Malang, August 8^{th}, 2016

Noval Adib, Ph.D., Ak., CA.

NIP: 19721005 200003 1 001

APPROVAL PAGE

Minor Thesis Entitled:

> "Analyzing the Impact of the New Restriction of Credit Card Ownership Based on Bank Indonesia Regulation No. 14/2/PBI/2012 to Bank: A Multiple Case Study in Bank 'X' and Bank 'Y'"

Written by:

Name	: Donny Julyanto Dwi Hayadi
Student ID	: 125020307121003
Department	: Accounting
Faculty	: Economic and Business

Has been examined by the Board of Examiners on August 15th 2016 and certified as the requirement for the degree Bachelor of Economics.

BOARD OF EXAMINERS

1. Noval Adib, Ph.D., Ak., CA.
   NIP. 19721005 200003 1 001
   (Supervisor)

2. Dr. Bambang Hariadi, M.Ec., Ak., CPA.
   NIP. 19570813 198303 1 004
   (Examiner I)

Malang, August 23th 2016
Acknowledged by,
Head of Accounting Department

Nurkholis, Ph.D., Ak., CA.
NIP. 19660706 199103 1 001

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This minor thesis is dedicated as a partial requirement for granting the Degree of Bachelor in Economics with the concentration of Accounting in Faculty of Economics and Business, University of Brawijaya

The author realised that the progress of this writing depend’s on the others’ supports. For that reason, the writer felt that this is an honour for the writer to express his gratitude to:

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Finally, the writer hopes that this writing can be much of help for a lot of people and institutions, Amen.

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By:

Donny Julyanto Dwi Hayadi

(125020307121003)

Supervisor:

Noval Adib., Ph.D., Ak., CA

ABSTRACT

To enhance consumer protection aspect for credit card users in Indonesia and to support the practice of granting credit card that put more attention in risk management aspect, on 1 January 2015, Bank Indonesia issued Bank Indonesia Regulation Number 14/2/PBI/2012 about the Provision Payment Instruments using Card. There is new restriction of credit card ownership in terms of age and income based on that regulation. It feels that regulation beside have a positive impact to bank but also have negative impact. The purpose of this is to find out the important of credit card for bank as well as the impact of the regulation to bank. In addtion, this research is aimed to find out how Bank Indonesia carries out their supervision function regarding the regulation. The type of this research is qualitative research with descriptive method and uses a multiplecase study approach. The objects of this research are Bank X and Bank Y. Based on the analysis, the finding show that credit card has an important role for bank and the regulation have positive impact to Bank X and Bank Y. In carry out their supervision function, Bank Indonesia identifying, checking whether the regulation is executed or not, conducting periodic communication, both in verbal communications or audit to bank, and give a punishment if there is a bank violated the regulation.

Key word: Credit Card, Bank Indonesia Regulation, Risk Management, Supervision.

ANALISIS DAMPAK PEMBATASAN KEPEMILIKAN KARTU KREDIT YANG BARU BEDASARKAN PERATURAN BANK INDONESIA NOMOR 14/2/PBI/2012 TERHADAP BANK: MULTI KASUS PADA BANK ‘X’ DAN BANK ‘Y’

By:

Donny Julyanto Dwi Hayadi

(125020307121003)

Supervisor:

Noval Adib., Ph.D., Ak., CA

ABSTRAK

Untuk meningkatkan aspek perlindungan konsumen pada pengguna kartu kredit di Indonesia dan juga untuk mendukung praktek pemberian kartu kredit yang memberikan perhatian lebih pada aspek manajemen risiko, pada 1 Januari 2015, Bank Indonesia mengeluarkan Peraturan Bank Indonesia Nomor 14/2/PBI/2012 tentang Penyelenggaraan Kegiatan Alat Pembayaran Dengan Menggunakan Kartu. Ada pembatasan kepemilikan kartu kredit yang baru bedasarkan umur dan pendapatan menurut peraturan tersebut. Ini dirasa peraturan tersebut di samping memiliki dampak positif bagi bank tetapi juga dampak negatif bagi bank. Tujuan dari penelitian ini adalah untuk mengetahui seberapa penting kartu kredit bagi bank dan juga dampak dari peraturan tersebut terhadap bank. Selain itu, penelitian ini juga bertujuan untuk mengetahui bagaimana Bank Indonesia menjalankan fungsi pengawasannya terhadap peraturan tersebut. Jenis dari penelitian ini adalah kualitatif dengan metode deskriptif dan menggunakan pendekatan studi multi-kasus. Objek dari penilitian ini adalah Bank X dan Bank Y. Bedasarkan hasil analisis, temuan menunjukan bahwa kartu kredit memiliki peranan penting bagi bank dan peraturan Bank Indonesia memiliki dampak positif bagi Bank X dan Bank Y. Dalam menjalankan fungsi pengawasannya, Bank Indonesia melakukan identifikasi, mengecek apakah regulasi dijalankan apa tidak, melakukan komunikasi secara periodik, baik komunikasi verbal atau audit, dan memberikan hukuman jika ada bank yang tidak menjalankan peraturan.

Kata Kunci: Kartu Kredit, Peraturan Bank Indonesia, Manajemen Risiko, Pengawasan.

CHAPTER I
INTRODUCTION

1.1 Background

Sale and purchase transactions recently seem less familiar with cash. The term of thick wallet can no longer imply that person is rich. The consumers today use a payment instrument in the form of a “magic” card that can buy all they need and desire, credit card. In a transaction that uses credit card, typically involves four parties: the consumer, the merchant, the card-issuing bank, the acquiring bank (Berlau, 2009). For credit card users, the benefits obtained in using credit cards are the speed of payments, payment assurance, safety & security, and the convenience (ListField & Montes, 1994). While costs derived from the use of credit cards are financial cost and psychological cost. Financial cost includes economic costs, while psychological cost is psychological impact on the credit card user (Kapoor, Dlabay, & Hughes, 2012, p. 173). Furthermore, the person's education factors and social class have a relationship with consideration of cost and benefit of credit cards (Gunawan & Linawati, 2013).

Non-cash transactions provide many advantages for the bank; one of them is consumer awareness of the reputation of a bank. If there are many consumers who swipe their credit card, it will increase the volume of use of a bank’s credit card. Another advantage banks perceived is reduce the cost of cash handling and reduce operational costs for branch offices and employees (Rochmawati, 2013). In terms of credit card, bank gets their benefit from the interest late-payers of paying his/her credit card debt or making cash withdrawals at ATM with credit cards. The interest is not obtained if the consumer pays their transactions with debit cards. That might be the reason why we often see a bank salesmen promoting and selling credit cards and see bank advertisement about their credit card in television whereas the payment for that advertising is not cheap. The thing that must be considered by bank as the credit card issuer, according to Mann (2006) is credit card issuers have a greater stake than other lenders in public policy related profligacy.

A bank also could experience some losses from credit card; Hazembuller (2007) stated that as credit becomes more available to riskier consumers, banks and card issuers face the possibility of higher delinquencies and losses due to the inability of consumers to repay their debt. If the cardholder cannot pay their credit bills, it will appear a term known as bad credit. If there is a bad credit, it will be difficult to recover, because a bank gave a letter of agreement for credit cards to customer usually without warranty of valuable things. Besides that, Barajas (2007) stated that larger and more prolonged credit booms and those coinciding with higher inflation and, to lesser extent, low economic growth are more likely to end in crisis.

The performance of individual banks and the banking system as a whole are very determined by the behavior of banks in managing assets (placements) and liabilities (funding). Management of assets and liabilities aim to gain profits and enhance corporate value within certain limits (Wuryandani et al, 2012). Bank industry, especially commercial banks are in the risk business. In the process of providing financial services, they assume various kinds of financial risk; one of them is credit risk. The losses suffered by the bank when the cardholder cannot pay their credit bills, is one of credit risk of a bank. Credit risk could be overcome by improve the bank's management of risk. The definition of risk management according to Bank Indonesia Regulation No. 5/8 /PBI/2003 Chapter 1 Article 3 is a set of procedures and methodologies used to identify, measure, monitor and control risks that arise from the business of banks.

Besides being able to harm bank with credit risk, credit cards can also be harm the cardholder through compulsive buying. Brito & Hartley (1995) argue that compared to another bank's loan, credit cards could allow borrowers to borrow if and when consumption exceeds income, while many bank loans are costly to set up, in particular when the periods for which credit is required are relatively short or are unpredictable. In addition, Scholnick et al (2007) explain that the basis for credit card use is the attempt by consumers to smooth their income and consumption streams over time, and also the very high transactions costs involved in accessing noncredit card bank credit for small periods of time. Furthermore, Littwin (2006) explained that psychology and behavioral economics research has begun to show that credit cards can operate as "spending facilitating stimuli." Several studies have shown a correlation between using credit cards and spending more. Two particularly thorough studies used multiple approaches to show that subjects say they will spend more and actually spend more when exposed to credit cards and credit card insignia. Compulsive buying as a result of the credit card usage will provide financial cost and psychological cost to cardholder so that a credit card can be harm cardholder. In order to prevent the potential harm of credit card for card issuer and cardholder, there should be a regulation that regulate credit card.

In Indonesia, the third party that concerns about bank industries is Bank Indonesia as central bank. Bank Indonesia has a function to supervise the banking sector in Indonesia. To improve and strengthen the supervisory function, Bank Indonesia issues some regulations whether for conventional commercial banks, *syariah* banking, as well as Rural Banks (BPR). In general, the purpose of issued regulation are support the economic growth and stimulate the real sector through domestic financial deepening, creating a health banking system and being able to grow and compete nationally and internationally, improving the function of banking supervision, being compliance with international standards, improving customer protection, supporting the development of micro, small and medium enterprises (UMKM), as well as other provisions that are institutional and prudential (Bank Indonesia. 2012).

Regarding credit card, Bank Indonesia issued Bank Indonesia Regulation Number 14/2/PBI/2012 was implemented per 1st January 2015. The purpose of this regulation is to strengthen consumer protection for credit card through increased card security as well as strengthen risk management (www.bi.go.id). This regulation has some impact to the growth of credit card in Indonesia. Based on reports from the Indonesian Credit Card Association, credit card growth in Indonesia at year 2015 in number of cards, transactions, and transaction value was increased but was not significant like last 5 years. The following table 1.1 shows the growth of credit card in Indonesia from 2009 until 2015.

Table 1.1

The Growth of Credit Card in Indonesia

Year	Number of Cards	Number of Transactions	Transaction Value (Millions)
2009	12.259.295	177.817.542	132.651.567
2010	13.574.673	194.675.233	158.687.057
2011	14.785.382	205.303.560	178.160.763
2012	14.817.168	217.956.183	197.558.986
2013	15.091.684	235.695.969	219.026.985
2014	16.043.347	250.543.218	250.177.517
2015	16.863.842	274.719.267	273.141.964

Source: www.akki.org.id

Indonesian Credit Card Association (AKKI) stated that there are at least 450 thousand credit cards were closed or pulled in 2015, because of restrictions on the ownership of the card based on age and income according to Bank Indonesia Regulation Number 14/2/PBI/2012 on January 1, 2015 (republika.co.id), This restriction includes main ownership, which is at least 21 years old or married. Then the additional cardholder should at least 17 years old or married. Not only that, Bank Indonesia also defined the limits on the revenue side. Income below 3 million is not allowed to have a credit card. While income between Rp 3 million to Rp 10 million are allowed to have two publishers, but the total maximum ceiling held in two credit cards may only be three times the revenue. Revenue above 10 million is not restricted. But the issuance of the card depends on the consideration of risk analysis of each issuer (bi.go.id).

Littwin (2007) stated that one of the strongest arguments against regulating credit card is if a restriction on credit card decreases access, borrowers will respond by using other, less desirable forms of credit. This statement might be the reason why the growth of credit card at year 2015 in Indonesia not so significant likes last 5 years. As it seen from the benefits of credit card for cardholders, this regulation is considered detrimental to the community, and it will affect the bank. Social contract theory argues that an organization can only continue to exist if the society in which they operate recognizes they are operating within value system that is consistent with society's own (Rankin, 2012), if the bank implicate that regulation, they will take a risk that the community will abandoned them in term of how useful a credit card in community as a payment instrument. It would open up the possibility of a bank that not implement the regulations set by Bank Indonesia.

Based on the background that has been described, researcher intended to do a research with the title: "**ANALYZING THE IMPACT OF NEW RESTRICTION OF CREDIT CARD OWNERSHIP BASED ON BANK INDONESIA REGULATION NUMBER 14/2/PBI/2012 TO BANK: A MULTIPLECASE STUDY IN BANK 'X' AND BANK 'Y' ".**

1.2 Problem Statements

Based on the background that has been described, the problem statements in this research are:

1. How important is credit card to bank?

2. What is the impact of credit card ownership restriction by central bank to bank?

3. How Bank Indonesia carry out their supervision function regarding to the regulation?

1.3 Purpose of the study

The purpose of conducting this research is to obtain empirical evidence regarding:

1. The important of credit card for bank

2. The impact of credit ownership restriction by central bank to bank.

3. Bank Indonesia supervision function regarding to the regulation

1.4 Research Contribution

1. **Theoritical Contribution**

   This study aim to know how important credit card for the bank and the impact of new restriction of credit card ownership to bank as well as how Bank Indonesia carry out its function of supervision.

2. **Practical Contribution**

This paper can provide an answer to issues that will investigated and are expected to be used as input for the parties or reader.

CHAPTER II

LITERATURE REVIEW

The consequence of banks as intermediary institutions that profit motivated is distributing funds in the form of credit. For banks, credits are assets that generate interest income or profits. Due to credit is an income-producing asset, the portion of credit in banking assets is dominant. Under normal conditions, based on empirical experience, bank credit is a plus or minus 70% of the total assets of a bank. How important and strategic of credit in the banking industry led to the credit management becomes very important (Manurung & Rahardja, 2004).

The fact that at least 450 thousand credit cards were closed or pulled in 2015, because of restrictions on the ownership of the card based on age and income and profit from credit card that soars in last 5 years and have to decrease significantly in 2015 create a dilemma for bank, whether to stay or not with the regulation that issued by Bank Indonesia. Therefore this is the literature review for that issue:

2.1 Bank

2.1.1 Definition of Bank

According to act No. 7 of 1992 concerning Banking as amended by Act No. 10 of 1998 definition of banks is an entity that raise funds from the public in the form of savings and channel them to the public in the form of credit or other forms in order to improve the standard of living of the people.

While based on the decision of the Minister of Finance No. 792 of 1990 definition of a bank is an entity whose activities in the financial sector doing the collection and distribution of funds to the public especially to finance the company's investment.

Meanwhile, according to Kasmir (2004), the bank can be interpreted as a financial institution whose its business activities are collecting funds from the public and distribute funds back to the community and provide other banking services. Financial institutions are every company that engaged in the financial sector that its activities are only collect funds or simply distributing funds or both to collect or distribute funds.

2.1.2 Bank’s Sources of Funds

Kasmir (2007) describes the Bank's sources of funds obtained from:

1. Funds from the Bank itself. The source of these funds is a fund of its own capital, referring to the capital deposit from its shareholders.
2. Funds from the public. Sources of funds from the general public can be done in the form of demand deposits and savings deposits.
3. Funds sourced from other institutions. Funds coming from other institutions are a source of bank funding if the difficulties in finding the source of the funds obtained from the Bank itself or from the community. Obtaining funding from these sources among others can be obtained from:
    1. Liquidity Support from Bank Indonesia means Bank Indonesia’s loans to banks who experiencing liquidity difficulties.

2. The inter-bank loans (call money), usually these loans given to banks who have lost a clearing in the clearing house.

3. Loans from foreign banks.

4. Money Market Securities (SBPU), in this case the banks issuing money market securities and then traded to the interested parties, whether financial and non-financial companies.

2.1.3 Types of Banks

Under Article 5 of Law No. 10 of 1998 on the amendment of Law No. 7 of 1992 concerning Banking, Banking types are:

a. Commercial Banks

Commercial banks are conducting conventional business and / or based on Sharia Principles in its activities providing services in payment traffic.

b. Rural Banks

Rural Bank is a bank conducting conventional business or based on Sharia Principles in its activities do not provide services in payment traffic.

Furthermore on Article 5 (2) commercial banks can be specialized to carry out certain activities or give greater attention to the specific activities.

The type of Bank in terms of ownership is classified based on the deed and mastery of shares held by Bank. Bank in terms of the type of ownership is as follows (Kasmir, 2007):

a. Government-owned bank (BUMN)

Where the good deed and the capital are owned by the Government, as well as the entire profit of the Bank is owned by the Government. Included in the government-owned bank are Bank Negara Indonesia, Bank Mandiri, Bank Rakyat Indonesia, and the Bank Tabungan Negara. While Bank Owned Local Government (BUMD) located at the Regional Level I and Level II of each province, such as: BPD Central Java (Java Bank) and BPD DKI Jakarta.

b. National private-owned bank

A bank which is wholly or largely owned by the national private sector, as well as profit sharing is taken by the private sector. Examples of National private-owned bank are Bank Central Asia, Bank International Indonesia, and others.

c. Foreign-Owned Bank

Foreign-Owned Bank is a branch of the bank that is outside the country, either private foreign and foreign government of a country. Examples of Foreign-Owned Bank include: ABN AMRO Bank, City Bank, Standard Chartered Bank, and others.

d. Mix-Owned Bank

Mix-Owned Bank is a bank that is owned by foreign and national private sector. Where the ownership of shares, majority held by the Indonesian citizens. ANZ Panin Bank and Niaga Sumitomo Bank.

The classification of the Bank in terms of the status is a classification based on the position or status of the Bank. This status indicates the position or size of the

Bank's ability to serve the public in terms of whether number of products, capital or quality. Therefore, to obtain that status, it is necessary to do assessing with certain criteria. Types of bank viewed from status are divided into two kinds (Kasmir, 2007):

a. Foreign Exchange Bank

A Bank that can carry out transactions abroad or dealing with foreign currencies as a whole, such a transfer abroad, the collection abroad, travelers checks, clearing and payments Letters of Credit (L/C) and foreign transactions other.

b. Non-Foreign Exchange Bank

A bank with non-foreign status banks status is bank that does not have yet a permission to carry out the transaction as a foreign exchange bank so, it cannot carry out the transaction like what foreign exchange banks do.

In terms of determining the services, it can also be interpreted as a way of determining the benefits that want to be obtain. Types of bank when viewed from the side or the way in determining the selling price and the purchase price is as follows:

a. Bank based on Conventional Principles

It is bank based on the conventional principles methods:

1. Establishing interest as selling prices, whether for deposit products such as checking accounts, savings and time deposits. Similarly, the purchase price for the product loan (credit) is also determined based on a particular interest rate. This pricing is known as spread-based.

2. For the other services of banks, bank of conventional uses and applies various costs in certain nominal or percentage such as administrative costs, fees, rental fees and other costs. This charging system is known as fee-based.

In addition to the types of banks above, there is other type of banks which is central bank. This bank set up a variety of activities related to the banking and financial world in a country. Bank Indonesia held function as central bank in Indonesia. The functions of Bank Indonesia beside as central bank are (Kasmir, 2004):

1. Bank of Circulation

   The function of Bank Indonesia as bank of circulation is to regulate a country's financial circulation.

2. Bank to bank

   The function as Bank to Bank is to set up the bank in a country.

3. Lender of the last resort

   Function as a lender of last resort is as a last borrowing. Services that provided by Bank Indonesia is given to the government and banking world. In other words, customers of Bank Indonesia are the banking institutions.

Bank Indonesia as the central bank has the primary goal to achieve and maintain the stability of rupiah. To achieve these objectives the Central Bank has the task to formulate and implement monetary policy, regulate and maintain the smoothness of the system of foreign exchange as well as regulating and supervising banks.

2.1.4 Bank Regulations

The banking sector is a system that is closely interrelated to one another. The failure of one bank not only causes problems in individual banks. Furthermore, bank failures can cause a domino effect in the banking industry. Since bank provides a medium of payment, then the failure of the banking sector or bank failure would cause a failure in the corporate sector if the obstacle in the settlement of payments occurs. As a result of the failure in this sector, it could have a negative impact on the entire system, so the failure of one bank can cause problems in the banking system as a whole and may lead to massively withdrawal of funds to healthy banks (Sunarsip and Peace, 2003)

Bank is a financial institution that is closely related to regulation (Muqaddam-Petersen & Petersen, 2008). Regulation of banks is related to banking institutions as well as products and services offered by the bank. The purpose of regulation in the banking industry is to protect the customers and increase their confidence in the products of the banking industries. Regulation carried out against banks is different to the regulation of other industries. The impact of the bad management of any bank will have an impact on the overall economy. In other industries, regulation generally includes standardized the product and business competition, however, the regulation of the banking industry cover the entire bank comprehensively (Idroes, 2008).

According to Barth et al (2004), there are five main theoretical reasons for restricting bank activities and banking commerce links. First, conflicts of interest may arise when banks engage in such diverse activities as securities underwriting, insurance underwriting, and real estate investment. Such banks, for example, may attempt to "dump" securities on ill-informed investors to assist firms with outstanding loans. Second, to the extent that moral hazard encourages riskier behavior, banks will have more opportunities to increase risk if allowed to engage in a broader range of activities. Third, complex banks are difficult to monitor. Fourth, such banks may become so politically and economically powerful that they become "too big to discipline." Finally, large financial conglomerates may reduce competition and efficiency.

2.2 Credit

2.2.1 Definition of Credit

Definition of credit according to the Banking Act No. 10 of 1998 is the provision of money or bills that can be liken with it, based on the approval or the borrowing-lending's deal between banks and borrowers to repay the debt after a certain period of time with interest.

Supramono (2009) explained that the word credit comes from the Roman languages, namely *Credere* which means trust. While Kasmir (2012) explains the difference in meaning between conventional banks and *sharia* banks related to the terms of loan, conventional bank use credit term, while *sharia* banks use financing term.

2.2.2 Characteristic of Credit

Debt and credit is actually the same thing seen from two different angles. Both of them are the obligation to pay in the future, and because the money is used so widely as a standard of delayed payment, then the debt and credit are usually obligations to pay certain amount of money. From the point of view of the person who will receive these payments, this obligation is a credit: a bill payment to another person. But from the point of view of the person who is obliged to pay, that obligation is a debt, so that the amount of debt outstanding in on time shall be equal to the amount of credit outstanding in that time (Goldfeld and Chandler, 1996).

2.2.3 The Elements of Credit

Kasmir (2007) laid out the elements of a credit are:

a. Trust, means that the lender believes that the achievement that it provides in the form of money, goods, or services, will actually return within a specified period in the future.
b. The agreement, contained in an agreement that is signed by each party about the rights and obligations of each. Lending agreements set forth in the loan agreement were addressed by both parties which are the bank and the customer.
c. Period, is the loan repayment period that has been agreed.
d. Risk, the risk of losses factors can be caused by two things: the risk of losses caused intentionally customers that unwilling to pay his credit when he is capable and the risk of loss resulting from unintentionally customers, which is

due to the occurrence of disasters such as natural disasters. The cause of uncollected actually is due a repayment grace period (period of time). The longer the time period, there would be greater the credit risk being uncollectible, *vice versa*. This risk is borne by the banks, whether the risk of intentional or unintentional risks.

e. Logrolling, in the form of interest fees, and commissions and administrative costs of credit are the advantages of Bank. Meanwhile, the Bank that based on Islamic principles determined the logrolling by profit sharing.

2.2.4 Types of Credit Based on the Objective

Based on the objective, the credit can be classified into commercial loans, consumer loans, productive credit (Manurung & Raharja, 2004):

a. Commercial Loan

Commercial loan granted to facilitate the activities of customers business that its field of business is trading. Some examples of commercial loan are credit to the shop business and export credit.

b. Consumer Loan

Consumer loan is credit granted to meet the funding requirements for debtors that want to buy goods or consumptive needs. Generally a borrower for consumptive purposes is a household unit. Examples of consumer loans mortgage and credit purchases of raw materials and payment of wages.

c. Productive Credit

A productive credit is given to expedite debtor's production activities. This credit may include credit for the purchase of raw materials and the payment of wages.

2.3 Credit Card

2.3.1 Definition of Credit Card

Based on Indonesian bank regulation No. 14/2/PBI/2012 Article 1 (4) Credit card is a payment instrument with a credit card that can be used to make payments on the obligations arising from an economic activity, including purchase transaction and/or to perform cash withdrawals, where the cardholder payment obligations met first by acquire or issuer, and the cardholder is obligated to make payments at the agreed time both with the settlement as well (charged card) or by payment in installments.

Based on KBBI (*Kamus Besar Bahasa Indonesia*) credit card is small card issued by a bank which guarantees the holder to be able to shop without paying cash and spending it will be taken into account in the card holder's account at the bank (kbbi.web.id). Meanwhile, according to Simorangkir (1988) credit is the provision of achievement (such as money, goods) with ballast achievement (contra-achievement) that will occur in the future. Modern economic life is the accomplishment of money, so credit transactions pertaining money is a credit instrument. Credit function cooperatively between the lender and the loan recipient or between creditors and debtors. They take advantage and mutual risk. In short, the credit in the broad sense is based on components, trust, risk, and economic exchanges big in the future.

2.3.2 Functions of Credit Card

Hamidin (Khaeruddin, 2012) mention that there are 3 functions of credit card which are:

a) As a Payment Instrument

Credit card is one of the special payment instruments. Various kinds of payments that the nature is emergencies can be addressed immediately by credit card.

b) As a Venture Capital

Not a few people who use the money from the credit card for venture capital and this is fine as long as they could rotate their money to make a profit and do not disrupt the schedule of payment of credit card bills.

c) As part of the Lifestyle

One side of the financial life that grew so fast in following global culture is the use of plastic cards, and one of its products is a credit card. This financial instrument provides various facilities, in transaction either cash flow management. However, it should be remembered in the use of a new cultural product is an adjustment to our behavior. Do not get stuck only on their lifestyle, but also how to exploit to the maximum benefit for our benefit.

2.3.3 Parties in Credit card

Transactions that made by credit card involves many parties that are concerned. Each party is bound to each other, whether on rights and obligations. There are three parties, which are (Kasmir, 2011):

1. Bank and Financial Institution

   Functions of banks and financial institutions are as the publisher or party payers in the credit card billed by merchant.

2. Merchant

   Merchant are partner of banks and financial institutions, as a shopping place for cardholders

3. Cardholder

   A customer whose name is listed in the credit card as well as a party that entitled to use the credit card.

2.3.4 Condition of Granting Credit Card

Kasmir (2007) stated that to determine whether a credit application can be granted or not, then performed a credit check through the factor of "the 5 C's of Credit", as a condition of confidence of banks on the ability of debtors in lending, which are:

1. Character is the nature or character of a person in this case is the candidate for the debtor. The aim is to give confidence to the Bank, that the nature or character of the people who will be given credit can really be trusted.

2. Capacity (capability), to take look at the ability of prospective customers to pay the loan associated with the ability to manage the business and the ability of gain profit.

3. Capital, where to know financing sources of businesses owned by that prospective customer who will be financed by the Bank.

4. Collateral, a guarantee that given by prospective customers whether physical and non-physical. Collateral should exceed the amount of credit granted.

5. Condition, in assessing the credit, it should be judged through current economic conditions and for the future according to each sector.

Besides 5C principles, there are other concepts which are 7P and 3R that can be also applied in making credit granting decisions (Manurung & Raharja, 2004)

a. 7P concept

There are seven elements in 7P concepts, which are:

1) Personality

What covered in personality assessment of borrowers is the behavior, life history that includes attitudes, emotions, and actions in dealing with problems.

2) Purpose

Assessing the purpose of borrowers in applying for a credit and how much credit that proposed.

3) Prospect

Assessing the prospects planned by debtor, in short term or long term

4) Payment

Assessing how prospective borrower pays off his/her credit, from any sources of funds, and the level of certainty.

5) Profitability

Assessing the level of profit expected to be achieved by prospective borrowers; how pattern is growing, bigger or *vice versa*..

6) Protection

Assessing how prospective borrower protects the business and gets the protection, whether in the form of a guarantee of goods, persons, or insurance.

7) Party

Aiming to classify prospective borrower based on his/her capital, loyalty, and character. This classification will determine the treatment in terms of providing facilities.

b. 3R Concept

3R concept gives an emphasis on financial aspects of credit analysis. The three components of the 3R concept are:

1) Return

2) Repayment

3) Risk Bearing Ability

In addition to the principles previously mentioned, there are other parameters that play a role in credit decisions, which is reference bank policies, that allow the filing of a prospective borrower credit approved by the bank, but was rejected by the other banks. Basically every bank has a way to analyze the same credit, but the credit policies between banks with other banks are different, for example (Supriyono, 2011):

1. Related to vision and mission of a bank

2. Portfolio of business sectors allocated according to plan

3. Each bank standard of target market (tier 1, tier 2, tier 3),

4. Target Market Lending bank: retail, corporate, consumer, etc
5. Policy of intern bank related to LDR (Loan to Deposit Ratio) maximum for security level.
6. Management policy and another policy.

2.3.5 Working System of Credit Card

Working system of credit card are credit card operation from the issuance of credit cards, payment transactions or cash withdrawals up to payment transactions by bank that involving the parties that concerned with each other. Working system can be described as follows (Kasmir, 2011):

1. Customers applying for a cardholder to compliance with all rules set by the bank or financial institution.
2. Bank or financial institution will issue a card, if approved, after a study of the credibility and capability of prospective customers, and then the card is handed over to the card holders.
3. With cards approved, the cardholder can perform a variety of purchase or payment transactions in various places that bind agreement with the bank or financial institution or take cash in various ATMs.

Furthermore, if the cardholder conducting transactions, the system of billing works as follows:

1. Cardholders conduct transactions with showing the card and signed the proof of payment to ensure ownership of the card.
2. The merchant will billed the bank or financial institution based on the evidence of transactions between customers and merchant.
3. Bank or financial institution will be paid back to the merchant in accordance with the agreements that they have agreed.
4. Bank or financial institution would charge to cardholders based on evidence of the transaction until the time limit that has been determined.
5. The cardholder will pay a stated nominal amount until a limit of time that has been determined and if there is a delay, then the customer will be fined accompanied by interest rate that has been set.

2.3.6 Benefits and Losses of Credit Card

1. Benefits for bank and financial institution (Kasmir, 2011):

    a) Annual Fee

    The annual fee is an obligation that imposed to each cardholder. This acquisition of fees is very big in each year to the bank or financial institution.

    b) Interest

Interest will be charged to the customer when shopping or withdraw cash or paying late to payment transactions up to a certain time limit.

c) Administrative Fee

A fee that charged to each cardholder that wants to withdrawing cash at various ATMs.

d) Fined Fee

A fee that required when there is a delay in payment, beside to the cost of the interest that should be pay.

2. Benefits for Cardholder

a) Convenience in Shopping

It means that spending on credit provides convenience, so that customers do not need to carry cash to make any payment transaction.

b) Convenience in Withdrawing Cash

Customers at any time can withdrawing cash in 24 hours and 7 days in various strategic places including in holiday.

c) Bonafides

For some people holding credit cards give an impression of bonafides, thereby giving matter of pride.

3. For Merchant

a) Increasing the Turnover

The presence of the specified minimum spending can increase sales turnover, this is due to the cardholder should be spending at least the minimum limit that has been set. Then, because of the cardholder was not paid in cash, so they will use it for whatever they want to buy. Sometimes they will buy an unnecessary thing.

b) As a Service

It is a way to provide the best services for their customers. Thus the customer feels being valued if using a credit card and always come back to do the same thing over and over again.

Besides the various benefits of credit cards, it also contains some losses. The losses that would be experienced by the parties that involved in credit card transaction are:

1. Loss for Bank

If there is a congestion payment by customers who are shopping or take cash then it will be difficult to recover, considering the approval of the issuance of credit cards usually without a guarantee of valuable objects like credit.

2. Loss for Cardholder

Usually the customer more extravagant in shopping, this is because customers are not dispensing the cash to spend, so sometimes there are things that are actually not needed it but they still buy it. Then another loss for customer is also caused by some merchants who charge an additional fee for each transaction.

2.3.7 Credit Card Regulation

The essence of the credit card is debt. Therefore, there should be a regulation to protect the parties that involved in credit card transactions, whether creditor side or debtor side. On the creditor side, the needs of a regulation is for protect the debt that given by creditor to debtor so that there is no bad debts due to the debtor's inability to pay their debts. On the debtor side, regulation is needed to protect their rights of lending so that the debt given by creditor becomes an advantage not a burden for them.

In Indonesia, the regulation of credit cards is issued by Bank Indonesia as the central bank in Indonesia. The latest Bank Indonesia Regulation related to credit cards is Bank Indonesia Regulation No. 14/2 / PBI / 2012 and Circular Letter No. 14/17 / DASP about the Provision Payment Instruments using Card. The application of this provision is a step of Bank Indonesia to strengthen consumer protection for credit card through increased card security as well as strengthen risk management (www.bi.go.id).

The contents of these regulations is per January 1, 2015, the 6-digit PIN must be used as a medium of verification and authentication of credit card transactions from domestic publishers and used at merchants in Indonesia. Credit card users may no longer use the signatures as a medium of verification and authentication of transactions, except for transactions with credit cards from foreign publishers or transactions in other countries that still apply with signature verification and authentication.

Moreover, there are restrictions on credit card ownership divided into two which are in terms of age and in terms of income. In terms of age, main cardholder is at least 21 years old or married and additional cardholder minimum of 17 years old or married. In terms of income, individual with incomes less than 3 million rupiah is not allowed to have a credit card. Individual with incomes between 3 million to 10 million Rupiah must have a credit card maximum from 2 publisher, by limiting the total credit limit of all credit cards maximum three times of his/her monthly income. Individuals with incomes of more than 10 million Rupiah is not limited their ownership of their credit card but considering the risk analysis of each card issuer.

2.4 Credit Risk

Bank industry, especially commercial banks are in the risk business. In the process of providing financial services, they assume various kinds of financial risk, one of them is credit risk. Bielecki and Rutkowski (2013) explained that there is a possibility that a counterparty in a financial contract will not fulfill a contractual commitment to meet her/his obligations stated in the contract; this is call as default risk. In general, credit risk is a risk that associated with any kind of credit-linked events, such as: changes in the credit quality (including downgrades or upgrades in credit ratings), variations of credit spreads, and the default event.

According to Mursiyah (2002) the main cause of the credit risk is the bank is too easy to provide the loans or make an investment because bank is highly required to utilize the excess of liquidity without any careful assessment of credit and anticipation of various possible business risks that they financed. This will lead to a severe liquidity for bank, if they have huge bad loans.

To overcome these risks, Bank Indonesia as the central bank in Indonesia in Bank Indonesia Regulation no. 5/8/ PBI/2003 regarding Implementation of Risk Management for Commercial Bank, requires each bank to develop a set of procedures to identify risks of the business of banks in order to minimize such losses through a risk management.

2.5 Risk Management

2.5.1 The Definition of Risk Management

Risk management is a mechanism for managing exposure to risk that enables us to recognize the events that may result in unfortunate or damaging consequences in the future, their severity, and how they can be controlled (Dickson, 1995). The definition of risk management according to Bank Indonesia Regulation No. 5/8 / PBI / 2003 Chapter 1 Article 3 is a set of procedures and methodologies used to identify, measure, monitor and control risks that arise from the business of banks.

While Tampubolon (2004) defines risk management as a whole system of management and control of the risks that faced by banks, consisting of a set of tools, techniques, process management (including authority, systems, and operational procedures) and organization that indicated to maintain the level of profitability and the soundness of bank as stipulated in corporate plant or other bank strategic plan in accordance with applicable level of bank health.

As conclusion based on some of definition above, risk management is a series of activities to prevent the emergence of risks that have a less favorable impact for the bank as a result of the operations of the bank to maintain the soundness of banks.

2.5.2 The Principles of Risk Management

In running the risk management activities, the principles, which must be held in order to the implement of risk management, according to Taswan (2006) are:

1. Transparency, it means that all potential risks must be disclosed openly, because the risk that was hidden would bring a disaster in the future

2. Proper assessment, it means that there must be a concept, methodology, tools, and techniques.

3. Qualified and timely information

4. Verified risk, because the risk that is concentrated in a particular activity would be very harmful for the bank.

5. There should be independent in relation to the organizational units to manage the risks.

6. Discipline and its necessary to implement the internal control.

2.5.3 Treatment of the Risk

Not all the risks must be avoided or eliminated by the bank, because the more profit rate that expected, the risks that faced by the bank would also be getting bigger, and vice versa. This will make the management of a bank would faced with the choice between benefits and risks. Tampubolon (2004) stated that the bank usually will impose the risk in several ways, among others:

1. Avoidance, if the risk is still under taken consideration, for example because it goes to the desired category of banks or the possibility of harm is much greater than expected profit
2. Accepted and maintained, if the risk is at most economical level
3. Raised, lowered, or eliminated, if the risks can be managed with good governance, or through the operation of an exit strategy.
4. Reduced, for example, by diversify the existing portfolio, or share the risk to another party.
5. Hedging, if the risk can be protected artificially, such as the risk is neutralized to some extent with the derivative instruments.
6. Liquidated or insured, if the risks can be transferred to other parties without an obligation to ensure (without recourse).

While for manage the risk, according to Santomero (1997), management risk system for bank industry consists of 4 sequences of steps, which are:

1) Standard and report

The first step that bank should do to manage the risk is setting the standard and financial reporting of bank so the risk could be categorized, which risk that must be mitigated and which one that must be absorbed. Consistent evaluation and rating of exposure of various types are essential to understand the risks in portfolio.

2) Position Limits and Rules

The domain of risk taking is restricted to only those assets or counterparties that pass some pre-specified quality standard. That is the example of the use of position limits, and/or minimum standards for participation. However, limits are imposed to cover exposure to counterparties, credits, and overall position concentrations relative to various types of risks.

3) Investment Guidelines and Strategies

The third step is investment guidelines and recommended positions for the immediates. Here, strategies are outlined in terms of concentrations and commitments to particular areas of the market, the extent of desired asset-liability mismatching or exposure, and the need to hedge against systematic risk of a particular type. Those things would lead to passive risk avoidance and/or diversification.

4) Incentive Schemes

The need for elaborate and costly controls would be less if the management can enter incentive compatible contracts with line managers and make compensation related to the risks borne by these individuals. However, such incentive contracts require accurate position valuation and proper internal control.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Type of Research

The type of this study is qualitative research with descriptive method and uses multiplecase study approach. Qualitative research inquiry employs different philosophical assumptions; strategies of inquiry; and methods of data collection, analysis and interpretation (Creswell, 2009). A qualitative approach emphasizes the qualities of entities, processes and meanings that are not experimentally examined or measured in terms of quantity, amount, intensity or frequency (Denzin & Lincoln 2000). Moleong (2012) argued that qualitative research aims to understand the phenomenon experienced by the subjects of the study such as behavior, perception, motivation, action, etc, holistically, and with the way of description in the form of words and language, in a specific context that is naturally and with using various scientific methods.

The method that used in this research is descriptive method with case study approach. This study describes the social phenomena exist by developing the concept and gathering facts, but does not to test the hypothesis. According to Nazir (1988, p63) descriptive method is a method in researching the status of a group of people, an object, a set of conditions, a system of thought or a class of events in the present. The purpose of this descriptive research is to create a description, picture, or painting in a systematic, factual, and accurate information on the facts, nature and the relationship between the investigate phenomenon.

A multiple case study enables the researcher to explore differences within and between cases. The goal of the study is to replicate findings across cases. Because comparisons will be drawn, it is imperative that the cases are chosen carefully so that the researcher can predict similar results across cases, or predict contrasting results based on a theory (Yin, 2003). Furthermore, Yin described multiple case studies can be used to either:

a. Predicts similar results (a literal replication), or
b. Predicts contrasting results but for predictable reasons (a theoretical replication) (p. 47).

In addition, Baxter & Jack (2008) explained that a multiple case study will allow the researcher to analyze within each setting and across settings and in a multiple case studies, or the researcher is examining several cases to understand the similarities and differences between the cases.

3.2 Source of Data

The data used in this study obtained from the primary data. Primary data refer to information obtained first-hand by the researcher on the variables of interest for the specific purpose of the study (Sekaran & Bougie 2013). The primary data used is from the result of interview with the authority that has a capacity to carry out the credit card issue in Bank X and Bank Y.

3.3 Data Collection Method

The data used in this study was collected using interview and library research. In interview, the researcher directly conducted both formal and informal interview with related parties in the issues discussed in writing research. The purpose of the interview according to Lincoln & Guba (1985, cited in Moleong, 2012) are constructing about people, events, organizations, feelings, motivations, demands, concerns and others.

While in library research, the author gathered information from the library and books related to the issues related to credit card ownership restriction by central bank to reaction of bank against that regulation. The data obtained through the study of literature is the source of the information that proposed by competent experts relevant to the discussion under study.

3.4 Informant

The informants for this study are executive credit operation of Bank ‘X’ and deputy head of e-banking of Bank ‘Y’. Informants are people that used to provide information about the circumstances of background research (Moleong, 2012). Bodgan & Biklen (1981, cited in Moleong, 2012) argues that the use of informant for the researchers is that in a relatively short time a lot of information that gathered, so as internal sampling, due to informants used to talk, exchange ideas, or compare an event found of other subjects.

One of the main characteristics of qualitative research is as a tool or as an instrument to collect data. Researchers realized that this research raised the sensitive issue. Ethical issues will arise if researchers do not respect, do not obey, and ignores the values of the society and the private (Moleong, 2012). Therefore, researchers will not use the real name of the branch manager and bank used in this study.

CHAPTER IV

FINDINGS AND DISCUSSIONS

4.1 General Overview of Bank X and Bank Y

Bank X was established on October 2, 1998, as part of the bank restructuring program implemented by the government of Indonesia. In July 1999, four state banks, namely Bank Bumi Daya, Bank Dagang Negara, Bank Export-Import Indonesia and Bank Pembangunan Indonesia merged into Bank X afterward, where each bank has an integral role in the development of Indonesia's economy.

In conducting its business, Bank X running the process of transformation consists of three phases, which are Phase I (2005-2009), phase II (2010-2014) and Phase III (2015-2020). In the first phase of the transformation program is to increase the performance of Bank X as reflected in an increase in various financial parameters, including:

- Nonperforming loans declined significantly, reflected in the consolidated NPL net ratio dropped from 15.34% in 2005 to 0.62% in 2010.
- Bank X's net profit also grew significantly from Rp 0.6 trillion in 2005 to Rp 9.2 trillion in 2010.

Accordingly, the Bank X also conducted cultural transformation to redefine the cultural values to be guidelines for employees to behave, which is the 5 company's cultural values called "TIPCE" which translated into:

- Trust: Building confidence and well thought among stakeholders in a sincere and open relationship based on reliability.

- Integrity: Whenever think, speak and act truthfully always comes with dignity and uphold the professional code of ethics.
- Professionalism: Committed to completing work accurately on the basis of competence and with fully responsible.
- Customer Focus: Always making customers as key partners that mutually beneficial for sustainable growth.
- Excellence: Developing and improving in all areas to achieve optimum added value and the best results continuously.

In the phase II program transformation, occurred a credit growth of 12.2% at the end of 2014 to Rp.530 trillion from Rp.472.4 trillion in the same period of previous year, with the NPL ratio maintained at the level 2.15%. As the implementation of the intermediation function in supporting the national economy, Bank X continued to spur financing to productive sectors. As a result, at the end of 2014, a credit to the productive sectors grew 13.9% reach Rp 410.6 trillion. Credit of investment grew 9.1% and working capital loans grew 16.7%.

As seen from segmentation, the increase in loan portfolio occurred across the business, with the highest growth in the micro segment reached 33.2% to Rp.36 trillion in December 2014. Meanwhile, the credit channeled to micro, small and medium enterprises (SMEs) recorded a growth of 13.6% to Rp 73.4 trillion. Bank X also distributed special financing with government guarantee scheme, by channel *Kredit Usaha Rakyat* (KUR). By the end of 2014, the number of customer of Bank X KUR increased by 34% reached 396 thousand customers.

In the transformation program phase III, bank X composed the main target in 2015, which was maintaining liquidity conditions with LDR <86%, maintaining the quality of earning assets with credit growth (net) amounted at 19% and non-performing loan (NPL) at the level of 2:08% , increasing the portion of Cheap Fund that reach at least 64.9%, increasing profitability with growth in fee-based income ratio at 28.81% and Cost Efficiency ratio (CER) under 40%, and the implementing corporate strategic initiatives plan.

“Become Indonesia Financial Institution that most is admired and always progressive” is the vision from Bank X, while the mission from Bank X are:

- Oriented to the market needs.
- Developing professional human resources.
- Giving the maximum benefit for the stakeholders.
- Implementing open management.
- Caring about the interests of society and the environment.

Meanwhile, Bank Y is one of the largest state-owned banks in Indonesia. Initially, Bank Y was established in Purwokerto, Central Java by Raden Bei Aria Wirjaatmadja under the name of *De Poerwokertosche Hulp en Spaarbank der Inlandsche Hoofden* or "Helping and Savings Bank of the Aristocrats in Purwokerto", a financial institution which served people of the Indonesian nationality (the natives). The institution was incorporated on December 16, 1895. In the period after the independence of the Republic of Indonesia, pursuant to Government Regulation No.

1 year 1946 Article 1, it is stated that Bank Y is the first State-Owned Bank in the Republic of Indonesia.

After law No. 14 year 1967 concerning Basic Banking Law and Law No. 13 year 1968 concerning the Central Bank Law essentially restored the function of Bank Indonesia as the Central Bank and separated Bank Negara Indonesia Unit II for the Rural Sector from the Export-Import Sector to become two Banks, namely Bank Y and Bank Ekspor Impor Indonesia, respectively. Subsequently, Law No. 21 year 1968 re-stipulated the basic tasks of Bank Y as a commercial bank. Since August 1, 1992, under the Banking Law No. 7 year 1992 and Regulation of the Government of the Republic of Indonesia No. 21 year 1992, Bank Y’s status has been changed into a limited liabilities company. At that time, Bank Y’s ownership was still in the hand of the Government of the Republic of Indonesia for 100%. In 2003, the Indonesian Government decided to sell 30% of the bank’s shares, and therefore the bank became a public company under the official name of PT. Bank Y (Persero) Tbk., which is still used until now.

Bank Y’s vision is to become a leading commercial bank which always puts priority on customer satisfaction. While Bank Y’s mission is to carry out the best banking activities by putting priority on service to micro-, small- and medium enterprises in order to support the economy of the community, to provide prime service to customers through a widespread network which is supported by professional human resources by implementing the good corporate governance practice, to provide the optimum profit and benefit to stakeholders..

4.2 Terms and Condition of Credit Card in Bank X and Bank Y

The credit card issuer of Bank X is Bank X itself without collaboration with the other parties. Bank X provides a wide range of payment facilities for cardholder to pay his/her credit card bills, among others through ATM, internet, SMS, hotline call, direct debit instruction, and overbooking. The credit card will be charged to interest over purchases and cash withdrawal transactions that expired from the date of the transaction until the date of printed bill. The interest will appear in next month's bill if:

1. The payment exceeds the due date.
2. The payment is less than the minimum.
3. The payment is minimum or not full.
4. The presence of cash withdrawal transactions.
5. A Full payment after the due date of payment.

The cardholders of Bank X credit card will have some rights and obligations that determined by Bank X. The rights owned by the cardholder are:

a. Using the entire facility in a credit card, in accordance with the provisions of each product/program/service with a good purpose which does not violate any laws or regulations in Indonesia;
b. Obtaining easy access to information of bill/sale/features/benefits/other information through the media that determined by Bank X, among others: the website, invoices by mail/email, via customer service call, SMS, internet or other media;

c. A petitions in writing by attaching the supporting documents on transactions that have been printed on your statement, the application would be received no later than maximum 30 calendar days after the date of the invoice printing;
d. Asking the termination of the credit facility, when all the bills are either already included in the bill or has not been charged by the merchant, has been declared fully paid;
e. Submitting complaints in writing/verbally which is then documented by Bank X through customer service call or the website or the entire branch of Bank X;
f. Applying for a password through the media that determined by Bank X, customer services call or Bank X nearest branch.

While the obligations that owned by the cardholder are:

a. Paying the bills over purchase and cash withdrawals using his/her credit card along with additional cards (if any), at least 10% from Payable Balance (Minimum Payment) no later than the due date;
b. Providing the latest data for easy access to information and facilities provided by credit card through the means that have been determined by the Bank;
c. Paying fees, fines, and interest arising from the use of his credit card along with additional cards (if any) no later than on the due date;
d. Maintaining the confidentiality of password from anyone, including bank staff;
e. Completing the entire bill, including fees, penalties, and interest if the credit card holder will terminate their credit facility;

f. Immediately reporting lost/stolen to avoid the use from the unauthorized person. If the cards are later returned for any reason, then immediately scissors your old card to avoid the mistakes of card usage;

g. Being Responsible for the completion of all bill of transaction using his/her credit card before reporting a loss in writing/verbal conveyed to Bank X.

Besides the rights and obligations of the cardholder, Bank X also establishes the rights and obligations for card issuers in the terms and conditions. The rights that owned by the card issuer are:

a. Approving or rejecting transactions made by cardholders under consideration and the applicable provisions in Bank X;

b. Determining/adjusting the credit limit of the credit cardholder in accordance with the applicable rules and regulations;

c. Blocking/freezing/closing/cancelling/ not extending credit facilities granted to the card holder in accordance with the rules and regulations in Bank X, among others because of death, the credit cardholder apply for the closure of the credit facility, suspected of involvement in suspicious transactions or other crime cases, have a bad record of accounts, and received a report from the credit cardholder to do blocking for reasons lost/stolen.

d. Providing information in a limited/unlimited credit cardholder data in order divert and/or bill from Bank X to other parties who have cooperated with the Bank;

e. Moving the outstanding balance on someone credit card to a third party in accordance with applicable policies in Bank X;

f. These terms and conditions may change entirely at any time on the basis of the Bank X’s policy;

g. Setting a rate/exchange rate for transactions with currencies other than Rupiah based on Bank X’s exchange rate, VISA and MasterCard. The nature of exchange rate is fluctuating, so that the rate difference is likely to occur;

h. Stopping the credit facility automatically upon status/quality of credit that decreased to substandard, doubtful, and/or loss;

i. Adjusting the limit or shutting down the facility if the transactions of credit cardholder are prohibited or use the card inappropriate with designation.

j. If the credit cardholder does not meet the obligations to pay, then the credit card holder hereby authorize the Bank to block and/or debit or disburse the fund of credit cardholder in check, saving or any type of other deposits in Bank X either exist or will be exist in a later to complete the cardholder's obligation to Bank X.

While the obligations that owned by the card issuer are:

a. Informing the bill/sale/features/benefits/other information through the media that has been determined by Bank X;

b. Delivering the bill to cardholders in Rupiah

c. Processing the rebuttal transactions that have not passed 30 days from date of printing invoice password in accordance with the provisions and rules that applicable whether in Bank X, VISA, or MasterCard;

d. Processing the complaints submitted by the cardholder of a credit card and informing the results of the follow-up of complaints at the earliest opportunity;
e. Noting and recording all transactions occurred by using a credit card into each account to be delivered through bill statement.

Meanwhile, the terms and conditions of credit card in Bank Y are Bank Y's credit card issued by Bank Y Limited Liability Company with a license from MasterCard and Visa. Cardholder of Bank Y is the person whose name appears on the card and is entitled to use the card. The transactions and other outstanding balance will be billed on monthly basis and will fall on the same date. The outstanding balance is the balances outstanding on the date of billing include the last month outstanding loans plus transactions up to the date of billing, costs, interest and correction of reduced payments and credits. The ways to pay the bills can be done by: a minimum payment, partial payment or full payment and medium of payment may be made by: cash, book-transfer, clearing internet banking, mobile banking, SMS banking, ATM Bank Y.

Bank Y also applying interest system on its credit card. For interest in spending (retail), the interest will be added to the next billing if the cardholder does not pay the entire outstanding balance at the maturity date. The interest would be billed monthly based on the daily balance from the date of transaction with interest rate as listed on the billing sheet. Furthermore, the interest on withdrawing cash would be charged from the date of transaction based on the interest rates listed on the billing statement. The reasons cardholder gets the interest due to the cash withdrawal transaction, the minimum payment or not full, late payment and over limit. If there is a disclaimer on the transaction on the billing sheet, submitted no later than 30 days from the date of print billing sheet and enclose the information on the following data:

- Name and number of card
- The total and detail of transaction
- Name of merchant
- Place/city
- Date of transaction
- Reason of disclaim
- Signature accord with in credit card

4.3 The Role of Credit Card for Bank

According to the data from the Indonesian Credit Card Association (AKKI), the development of credit card in Indonesia always increases in last five years, although the growth in 2015 is not as significant to the growth in the previous year, neither on the increase of the quantity of credit card nor the number of transactions using credit card. This is due to the implementation of Bank Indonesia Regulation No. 14/2 /PBI/2012 per 1 January 2015 related to a new restriction of credit card ownership.

The trend of the increased use of credit card in Indonesia was agreed by Informant X, according to her, the development of credit card users in Indonesia is getting better indicated by an increase in types of credit card that offered by banks X and number of credit card customers of Bank X. Informant Y added, the increasing of credit card users in Indonesia is due to almost all transactions are running online in nowadays, so that the cash is rarely used. In addition, Indonesian people want to avoid the risk of cash, among other being damaged, stolen, lost, and so forth. Therefore, people prefer to use or carry a card rather than cash.

Informant Y stated that with the increased of credit card users in Indonesia, that would decrease the amount of money circulated in the community, thus preventing inflation. This data in line with a research that conducted by Azizah (2013) regarding analysis the influence of payment instrument using the card on the inflation rate, the results of that research stated that the development of payment instrument using the card has a positive influence on inflation, both in the long term and short term. Informant X added that these increase indicated that income per capita has increased and credit card has become a part of the lifestyle of most people of the city.

Although credit card users in Indonesia continue to increase, it does not mean that credit card does not have a bad impact for cardholder. Informant X explained that the bad impacts that are owned by credit card like interest-bearing if the bill is paid or not paid in full, the security systems of credit card that does not work so well would allow a break-in to someone's credit card, and can make people become consumptive. As the advantages for the payments that made using credit card include auto installment, discount offers from several stores, and reduces the risk of holding cash like lost or stolen.

It is in line with Hartosumaryo (2012) who stated that when credit card used in the wrong way, the credit card will result in a greater burden for the users in the form of financial cost and psychological cost because with credit card, people will tend to be more consumptive than before, so they will potentially into debt due to unable to pay. Whereas for profits. It is in line with the explanation of Linawati & Gunawan (2013) who stated that the benefits which are clearly visible from credit card are a convenience in transaction, thus someone does not need to carry a lot of cash. Credit cards also provide many attractive offers including discounts and installment programs that can ease the burden on consumers in the transaction.

As seen from the disadvantages and advantages of credit card, so how important is credit cards for banks? Informant X stated that:

> “Credit card is quite important for Bank X, because from credit cards, bank would receive income from an annual fee charged to each cardholder, an interest charged when shopping with a credit card, an administration fee from cash withdrawal using ATM, late payment penalties of credit card bills, and credit cards are also a promotion tool in order to improve the bank's image as one of the indicators of a healthy bank that is being able to issue credit cards.”

Meanwhile, informant Y sees credit cards as one of the facilities provided by Bank Y to the community for help the economy of community.

Related to the credit cards as a facility provided by the bank to the community, it is in line with Act No. 7 of 1992 as amended by Act No. 10 of 1998 regarding Banking defining the bank as a business entity that raises funds from the public in the form of deposits and distribute to the public in order to improve the standard of living of the people. Basically, the bank performs three main functions, which are:

1. Receiving a saving fund from public in the form of check, deposits, savings and/or other forms that equivalent to them.
2. Distributing funds in the form of a credit to the targeted community, both in order to develop their business and personal interests.
3. Carrying out various community services needed in trading activities domestically and internationally as well as a variety of other services, such as collection, transfer, credit cards, and so on.

By providing credit card services to the community, According to Kasmir (2011) the bank will get some benefit through:

c) Annual Fee

The annual fee is an obligation that imposed to each cardholder. This acquisition of fees is very big in each year to the bank or financial institution.

d) Interest

Interest will be charged to the customer when shopping or withdraw cash or paying late to payment transactions up to a certain time limit.

e) Administrative Fee

A fee that charged to each cardholder that wants to withdrawing cash at various ATMs.

f) Fined Fee

A fee that required when there is a delay in payment, beside to the cost of the interest that should be pay.

Credit cards provide interest income for the bank, and interest income is the main income for the bank (Priyatmoko, 2013), in addition, the distribution of credit facility is an obligation for bank as to perform one of its functions are as financial intermediaries. Therefore, it can be concluded that the credit card has an important role for bank due to credit card is an obligatory facility that should be granted by the bank to the community to help the community's economy and a credit card can provide income for banks.

4.4 The Impact of New Credit Card Ownership Restriction to Bank

Indonesian Credit Card Association stated there were at least 450 thousand credit cards closed or pulled in 2015 causing the increase of the quantity of credit card and the number of transactions using credit card even still showed an increase, but that was not so significant compared to the development of credit card in Indonesia in the previous five years. Logically, this poses impact on the income of a bank, and each bank would regret the implementation of these regulations by Bank Indonesia.

However, Informant X and Informant Y gave a opposing opinion regarding to the regulation. Informant X stated that:

> “I think the regulation is very good, I agree with the implementation of the regulation. The regulation can enhance consumer protection; the cardholder may be wise in using his/her credit card in accordance with the needs and ability to pay credit card bills, so the cardholder can be protected from indebtedness”.

While Informant Y argues that:

> “The regulation issued by Bank Indonesia is quite good, because the regulation can make business of credit card industry healthier”.

The above data is in line with Bank Indonesia reasons to implement the regulation. The stipulation of the regulation is a step of Bank Indonesia to strengthen consumer protection for credit card through strengthening card security as well as strengthening risk management.

Regarding the reducing of income as a result of this regulation, Informant X and Informant Y both stated that the income from credit cards is not the only source of income of the Bank so that if income from credit card is reduced, bank can maximize another bank’s sources of income. Putri (2013) explained that although credit activities are the backbone of bank’s main activities and become a bank’s source of income and profit, but credit activities are also a type of investments activity that usually became the main cause of a bank in facing some big problems, in example a situation where the customer is not able to pay his/her obligation, partially or fully, to the bank as it has been engaged, so that the credit become a non-performing loan and bad debt.

Aside from source of income through credit interest, another source of income for banks is through noninterest income. DeYoung & Rice (2004) explained that the interest margin banks earn by intermediating between depositors and borrowers continues to be the primary source of profits for most banking companies. But banks also earn substantial amounts of noninterest income by charging their customers fees in exchange for a variety of financial services. Many of these financial services are traditional banking services: transaction services like checking and cash management; safe-keeping services like insured deposit accounts and safety deposit boxes; investment services like trust accounts and long-run certificates of deposit (CDs); and insurance services like annuity contracts. While according to Stiroh (2002) noninterest income has always played an important role in banking revenue, because there is a sense that it can lower the volatility of bank profit and revenue, and reduce risk. The ability to reduce risk is obviously a topic of considerable importance for individual banks, as well as their regulators and supervisors. If noninterest income lowers the volatility of bank profits and reduces risk, it might be reasonable to reduce capital requirements for banks with a diversified revenue portfolio and for supervisors to reallocate their scarce resources.

Speaking of bank's resources of income, whether from interest income or noninterest income, which one is become a main focus of bank for generating income? Informant Y posited that:

> "Between interest income and noninterest income, no one becomes a top priority, both are priority and in line, because if there is a source who has less attention, it would have an impact on the bank's income as a whole".

While Informant X argues that:

> "If it is viewed from the increase of the development of credit cards, it would be about interest income. But the credit card itself has a substantial risk, so it would be better if the bank does not only focus on the credit card. There should be a balanced focus on other income such as fee-based income and/or noninterest income because it can be easily maintained and more sustainable".

Based on the data, there should be a balance of focus between generating interest income or noninterest income, so there should be an adjustment from bank over the new restriction of credit card ownership, because that regulation decreasing the interest income of a bank. Informant X explained that:

> "Bank X update the latest data related to the age and income of their cardholder, if any user who violates the rules, he/she would be warned to close the credit card and Bank X also add other types of credit cards that offer to prospective cardholder as well as Bank X offer some advantages for credit card users".

While Informant Y explained that:

> "Bank Y adjusted the pattern of marketing and also adjusts some conditions of their credit card, but from the business side, it does not have any impact because Bank Y has a strong enough database of customers".

Due to adjustments made by Bank X and Bank Y to the regulations stipulation, Informant X and Informant Y stated that the number of application of credit card in Bank X and Y Bank did not decrease significantly.

4.5 Supervising Function by Bank Indonesia

The reason Bank Indonesia issued Bank Indonesia Regulation No. 14/2/PBI/2012 is to enhance consumer protection aspect for credit card users in Indonesia and to support the practice of granting credit card that put more attention in risk management aspect. The regulation has been deemed effectively enhancing the consumer protection aspect to the cardholder and risk management aspect to card issuer. Informant X stated that:

> "Up to now the risk of non-performing loans is still in the safe category that is below 2% in Bank X and this regulation also rearranges the verification of granting credit cards as a consumer protection measure to avoid difficulties in the payment".

While informant Y stated that:

> "Through this regulation, there is an increased on the level of value of credit card that holds by cardholder so there is no credit card that only a burden for his/her self".

An increase in risk management aspect in the banking industry is deemed necessary to avoid the credit risk at a bank. According to Mursiyah (2002) the main cause of the credit risk is that the bank is too easy to provide the loans or make an investment leading to less careful assessment of credit and anticipation of various possible business risks that they financed. This will lead to a severe liquidity for bank, if they have huge bad loans. Barajas (2007) stated that larger and more prolonged credit booms and those coinciding with higher inflation and, to lesser extent, low economic growth are more likely to end in crisis. So before granting credit card, bank as credit card publisher should take a notice to risk management aspect.

As seen from how effective these regulations increase the risk management aspect in a bank, this rule is considered must be executed by any bank in Indonesia. However, informant Y argued that it is possible that there is a bank that does not comply with the regulation, although each bank is obliged to carry out these regulations. In contrast, informant X believed that it is not possible that there is a bank in Indonesia that does not comply with the regulations set by Bank Indonesia, because all regulations in each bank should be based on Bank Indonesia regulations, and if violated, it would incur a penalty.

In Indonesia, the supervising function related to the compliance of a bank with the regulation that has been set, conducted by Bank Indonesia as the central bank of Indonesia. Some authorities held by Bank Indonesia are (www.bi.go.id):

1. Right to license, it is the authority to establish the procedures of grant permission and the establishment a bank. The scope granting permission by Bank Indonesia includes grant and revocation of business licenses of a bank, granting the opening, closing and displacement of a bank office, the approval of ownership and management of a bank, granting permission to a bank to carry out certain business activities.
2. Right to regulate, it is the authority to set regulations concerning aspects of the business and activities of banking in order to create a healthy banking that capable to fulfill bank services that people want.
3. Right to control, it is the authority to supervise banks through on-site supervision and off-site supervision. On-site supervision could be a general and/or special inspection, which aims to get an overview of the bank's financial situation and to monitor the level of compliance bank with the regulations as well as to determine whether there are practices that harm the continuance of a bank. Off-site supervision is monitoring through monitoring

tools such as periodic reports that submitted by a bank, inspection report and other information. In practice, if necessary, Bank Indonesia may conduct examination of bank included other parties that cover the parent company, subsidiaries, related parties, affiliated parties and bank debtors. Bank Indonesia may assign other parties on behalf of Bank Indonesia to carry out the inspection tasks.

4. Right to impose sanction, it is the authority to impose sanctions in accordance with the statutory provisions against bank when a bank is less or does not meet the requirement. This action includes coaching element, so a bank could operates in accordance with the principles of healthy banking.

In carrying out the task of bank supervising, Bank Indonesia using two approaches (www.bi.go.id):

1. Compliance Based Supervision

   Compliance based supervision approach basically emphasizes adherence of banks to implement the regulations that related to the operation and management of the bank. This approach refers to the condition of the bank in the past in order to ensure that the bank has operated and managed properly in accordance with the principles of prudence.

2. Risk Based Supervision

   Risk based supervision is a supervision approach that forward looking oriented. By using this approach, supervision/inspection of a bank focused on the inherent risks on the functional activity of the bank as well as the risk control system. Through this approach, the bank supervisory authority will further enable to be proactive in the prevention of potential problems arising in banks.

Related to the functions of supervision by Bank Indonesia, Informant X described that:

> "In carrying out its supervising function, Bank Indonesia identifying credit cardholder data in Bank X and checked if there is data that deviate from the regulation henceforth to conduct a further investigation and required actions."

While Informant Y explained that:

> "Bank Indonesia conducts periodic communication with Bank Y, both in verbal communications or audit, as well as checking whether the regulation is executed or not in the bank Y, because Y would be penalized if the bank violated the regulation that has been set."

In outline, supervisory function aginst tools of payment using card divided into 2: supervision of the operation of payment systems and supervision over the payment system providers. The role of bank is very important in national development which is the bank as intermediary institutions. If intermediation can be achived, the purpose of banking to support the implementation of national development towards improving the welfare of the people will be realized. Article 34 of law of Bank Indonesia mandates the need for separation of banking supervision, mandate established by OJK. After OJK law published, bank supervision is the task of OJK. Bank Indonesia will be focus on the monetary and payment system. In the implementation of bank supervision duties, Bank Indonesia and OJK coordinate to create the sound banking system as a whole and individual and able to preserve the interest of the community well. Macroprudential supervision is done by Bank Indonesia and microprudential supervison is done by OJK. The coordination is making the regulations in banking supervision. Bank Indonesia can do direct supervision (on site supervision) to bank and receive information from OJK if a bank is having trouble and then Bank Indonesia take action accordance with the authority.

CHAPTER V
CLOSING

5.1 Conclusion

Based on the previous data analysis, this research formulates the following conclusion as the answer of the research problem, which is:

1. Credit card has an important role for bank due to credit card is an obligatory facility that should be granted by the bank to the community to help the community's economy and a credit card can provide interest income for banks.
2. The implementing of new restriction of credit card ownership based on Bank Indonesia regulation No. 14/2/PBI/2012 have positive impact to Bank X and Bank Y due to this regulation make credit card industry healthier by enhance the risk management aspect. There is no significant decrease in the number of application of credit card. There is only an adjustment made by each bank against this regulation so bank’s credit card regulation in line with the regulation made by Bank Indonesia
3. In carrying out supervision function, Bank Indonesia identifies credit cardholder and checks if there is deviation from the regulation Indonesia, conducts periodic communication, both in verbal communications or audit to bank, as well as checks whether the regulation is executed henceforth to conduct a required action or give a penalty if there is a bank violated the regulation that has been set.

5.2 Suggestion

According to research conclusion, the author proposes several suggestions:

1. The bank is expected to offer vary credit card products to community, so the community could have credit card as seen from the advantage of credit card for community but it is still in accordance with existing regulation.
2. Bank Indonesia is expected to establish more regulations related credit card, so credit card could more beneficial for issuer as well as cardholder and no one would get harm from credit card.
3. The next researcher is expected to explore the impact of the regulation to the cardholder and to the economic condition of Indonesia.

5.3 Research Limitation

The limitations of the study are as follow:

1. The data collection of the study is very hard to get due to bank is quite strict to maintain their bank's confidentiality. The data related credit card contains all information related to the cardholder, so bank would strictly give the information related to credit card.
2. The process of conducting research in a bank would take a long time due to permission of conducting research would only be given after regional office branch of that bank give the permit.
3. Limitation of informant who can answer the question related credit card in a bank, because there is particular division in a bank that handle the credit card, not all bank's employee could give valid answer related credit card issue.

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