

Takaful coverage and “Burial Services” for the first 50,000 successful applicants for the first year and free Group Family Takaful Coverage and “Burial Services” for the first 10,000 successful Gold Card applicants⁸

Conclusion

In conclusion, Islam accept the role of credit card as a medium of payment as it does not contravene with principle of Shariah and under the doctrine of Masalih Al-Mursalah it give comfortable life to Muslim community in term of socio economy and practicality of bai Al Inah in the modern environment. Indeed the justification in deriving that secondary source harmonizes with Quran and Sunnah.

The underlying principles required by Shariah in the functionality of credit card is validated under Masalih Al-Mursalah, even though the used of doctrine Bai Al-Inah is debated among the Muslim scholar.

Finally the differentiation factors in the Islamic credit cards like no compounding on profit, control mechanism by merchant give additional features that give Islamic credit card advantages over the conventional.

⁸ Islamiconline news on BIMB credit card launching

واحسن منك لم تر قط عيني
واجمل منك لم تلد النساء
خلقت مبراء من كل عيب
كانك قد خلقت كما تشاء

Bonus points and rewards

Many banks which bonus points and rewards system in the credit card in order to maintain loyal customers and as well ass increasing total sign ups. Are bonus point and rewards not permissible? We think it is permissible because it is like a gift (hibah) so long is not interest-lending base.

The differences between Islamic and conventional credit cards

1. No money lending. Since the transaction of credit card is based on trade (Bai'), the element of usury will be eliminated from the loan transaction that is applied in the conventional money lending
2. None compounding of profit. Profit margin for the cardholders is fixed for the whole tenure (between three and five years) and the actual profit is charged based on the remaining balance. The monthly profit is calculated on a monthly basis, based on outstanding due or total transactions made for that particular month.
3. Control on transactions/merchants. Users are allowed to carry out only halal, or Islamically permissible transactions. The bank will decline transactions for six categories of non-halal related activities, including bars, discos, night clubs, purchase of beers, escort and massage services and gambling
4. Islamic credit card can attract non-Muslim customers due to the attractive features offered. There will be no compounding factor for cardholders and the financing charges are on par with other credit cards offers.
5. Some credit card issuer like Bank Islam Malaysia Berhad also offers free Group Personal Accident

administrative costs to maintain problematic credit facilities, then it is acceptable. But if it is meant as a means of interest then it is haram. Nonetheless, the question is why late charges computation is by multiplying the percentage (%) with outstanding balances, not by imposing flat and fixed rate? Although the Banks claims that the late charges are for maintenance costs, it does not make any sense, why the computation is done in percentile. Maintenance costs should be fixed and does not depending on the amount of outstanding. The value of the outstanding should not be the baseline to compute the late charges fee. Does it make any administrative differences whether the unsettled minimum payment is RM1 million or RM 200 Therefore, we recommend that the credit cards impose flat rate for the late charges irregardless of the minimum payment amount.

Control

There is risk in lack of validation the parties involved in the contract of exchange may pose some security issues. As example, nowadays purchasing online is easy by using credit cards. In the sale and purchase in e-commerce, the parties involved in the transaction has never met and don't know each other. What happens if a minor committed in the transaction without the consent of the credit card owner (e.g. parents)? Is the transaction valid? In common situation the transaction is valid so long the service has been rendered and the benefits of the service have been utilized by the purchaser. But how can we minimize this unethical conduct? As a recommendation maybe we can implement pin code system for the credit cards. As example, pin code must be entered before transaction can be made. Pin code would help to minimize any misuse of credit cards by the unauthorized personnel.

The used of Masalih Al Mursalah can be applied in the credit card transaction, since Allah want us to have easiness in the life but off course to be harmonized with the Quran and Sunnah so it will not deviate from the Shariah teaching.

In the credit card transaction among the advantages of using it is convenience to the buyer, security wise, and cost effective are considered to benefits the user in term of giving comfortable life.

Although the usage of credit cards is unlimited especially in the digital world, issues surrounding the applications of credit cards need to be addressed so that the acceptance among Muslims can be improved. However we don't intend to give answers as views among the members of Fuqaha' differs. Therefore our intention is more of addressing potential issues and some humble opinions.

Free rate on cash advance

If you withdraw cash advance from your credit cards, there shall be charges on the outstanding balance until fully settlement is made. If not, the charges (or interest) will accumulate throughout. The question is whether Islamic credit card is ready to forgo charges on the cash advance withdrawal. If that possible, Islamic credit card is offering free cash line to the customer. However looking from the bank's view, this option is expensive due to the asset and liability management conflict. In other words the return rate for the deposit is higher than the interest rate charged to the credit facility. This may cause liquidity mismatch.

Late charges

Sometimes late charges are imposed to customer who delays payment. Is this acceptable? In the case of Al-Taslif credit card, there shall be no charges for late payment which is outstanding not more than 30 calendar days. In our opinion, if the late charges become effective due to

“ O you believe! Obey Allah and Obey the Prophet and those charged with authority among you. If you differ in anything among yourselves, refer it to Allah and His Messenger, if you do believe in Allah and the last Day: that is the best, and most suitable for final determination⁶. (Q:4:59)

In the primary sources there are no clear indications of validity in Bai Al-Inah transaction. But there is one hadith saying that this type of transaction is not valid however the authentic of the hadith and the class of the hadith is unknown.

Since the Quran and Sunnah are silent about Bai Al-Inah Transaction, Islamic scholars use second sources of rulings to justify the validity of Bai Al Inah. Ulama in Malaysia consider all the aspects from primary sources to the socio economy and practicality of bai Al Inah in the modern environment. Deriving the secondary sources however will be harmonize with primary sources.

In the context of bai Al Inah, the use of doctrine Al Masalih Al Mursalah is adopted in order to justify the using of such transaction in the credit cards or personal financing in the case of Bank Rakyat. In the new era of globalization, many financial dealings were not exactly the same to the practice in time of prophet (s.a.w.). Innovation of financial products was evolved due to the changes in the technology and time. People try to innovate a new thing that can make life better off. This is not only goods and service innovation but to the financial products as well. The idea was to ensure a comfortable life, which is also a wish of Allah(s.w.t.) as evident in the following ayat:

“ Allah (s.w.t.) intends every facility for you; He does not want to put you to difficulties.⁷”

⁶ Al Quran, Surah An Nisaa, 4:59

⁷ Al Quran, surah Al Baqarah 2:185

After that, AmBank will sell the identified assets to the customer. The selling price is the sum of cost and profit (which is normally quoted in percentage). The next contract will be executed when the AmBank buys back the asset at cost and cash will be given to the customer. Customer will then use this cash to buy goods and services using the credit facility provided.

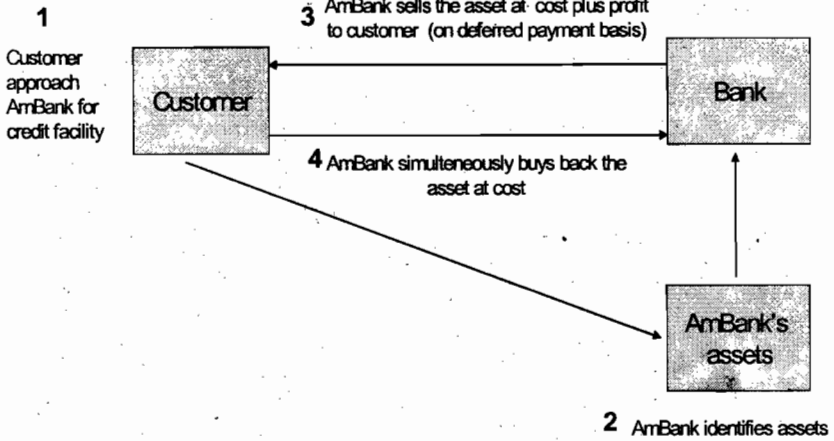
Why this transaction is not considered as usury? The reason being is that the mark-up price is based on trade and services not on loan. Any transaction which is backed by assets is permissible under the Shariah in Malaysia. Therefore in the theoretical sense, an Islamic credit card is not based on lending but rather business in trade and services, whereby the Bank sell and buy back at lower cost to gain profit.

What would be the possible legal issues pertaining to the use of credit cards and how Islam addresses these issues?

In credit card transaction, the doctrine of Bai Al-Inah is used to validate the transaction. The argument of validity of bai al Inah is debated between Muslim. The doctrine of bai al-Inah or buy back sale is not recognized by some scholars including the Ulama from the Middle-East. But in Malaysia, the doctrine of Bai Al-Inah is recognized, and is used as one of the basis to justify the implementation of credit card under the Shariah discipline. Here I am going to analyze the grounds for the Islamic scholars in Malaysia to base the implementation of Islamic credit card.

In the general sources of Islamic Law start with Al Quran and Sunnah of Prophet (s.a.w.). The two sources are vital for other secondary sources to be derived like Ijma, Al Masalih Al Mursalah, istihsan as those secondary sources must be in the boundary of two primary sources. Allah mentioned in the Holy Quran

☆ ما حرم اخذه حرم اعطاؤه ☆ جس چیز کا لینا حرام ہے اس کا لینا بھی حرام ہے۔ ☆



bay al-inah will commence. AmBank will identify collective or individual assets owned by AmBank, whereby the market value of the assets is equivalent to the credit facility. For example if the credit facility worth RM10,000 then the value of the identified assets must equivalent to RM10,000 too. Here the criteria of the assets or the subject matter under Shariah compliance shall be taken into the considerations such as⁴:

- The subject matter should exist at the time of the contract. However exception is given to some types of contracts such as Salam, Istisna', Jualah and Ijarah⁵
- The subject matter must be legally owned
- The subject matter should bring benefit or significant result for the contracting parties
- The subject matter should have commercial value.

⁴ Mohd Ma'sum Billah, Modern Financial Transaction under Shariah, p48 – p49

⁵ Mohd Ma'sum Billah, Modern Financial Transaction under Shariah, p50 – p55

grace period and making no cash withdrawals (whenever cash withdrawals generate interest), is permissible because it amounts to a contract that gives you a choice to deal or not to deal with interest”²

Bay al-Inah principle in Islamic credit card

Credit cards concept is allowed by the Shari’ah, if it does not involve the element of usury because “Allah (SWT) permitted sale and prohibit usury”³. AmBank Bank Berhad offered Islamic Credit Card in Malaysia called Al-Taslif and it was launched in 1992. We shall study how Al-Taslif Islamic credit card, apply the Islamic principles in the product. Al- Taslif credit card uses bay al-inah. In bay al-inah two separate contracts, namely al-bay’ al-mutlak (cash sale) and bay al-bai bithaman ajil (deferred sale), both of which are carried out after one another. However there are times where the deferred sale precede cash sale but this is not an issue because the end result is the same.

For example, the bank sells an asset to the customer and the buyer is required to pay on equal installment for a specific time period (deferred sale). The installment sale by the bank saw the buyer to execute his rights to sell back the asset to the Bank on cash basis (cash sale). The deferred sale should be higher than the cash sale in order for the Bank to gain profit from the transaction.

How does AmBank apply this concept of al-Inah in its Taslif Islamic Credit card?

The customer who wishes to apply for credit card facility will approach any counters of AmBank Bank Berhad or AmFinance Berhad. They will complete standard form and the application will be processed thereon. If the standard requirement is fulfilled by the applicant, then the process of

² Monzer Kahf, Live Fatwa on Islam, Islamonline.net

³ Al Quran, Surah Al Baqarah ,2:275

Islam and credit cards

It is often the case that the battle between Islamic and conventional credit cards is on product features. The impact of the competition in this lead the consumer's preference to ask:

- Which one offers more value for money?
- Which one offers low penalty rate?
- Which one offers free bonus points more?
- Which one looks fancier?
- Which one gives annual fee waiver?

However one should ask, are these the selling point for Islamic credit card? It is sad to see that many marketing strategies for Islamic credit cards talked about product features rather than selling the ethical values and concept underneath to the consumers. The equation that always in the mind of consumer about Islamic financial product is cheap. Meaning to say that, in any Islamic debt-financing facilities, the rate of return to the financier should be at the lowest point of the profitability quadrant. Why such discriminations exist?

Islam permits the use of credit card so long it does not involve the element of usury. As an example if the withdrawing cash advance from the credit facility will result payment of an interest, it is prohibited. Similarly if there is an additional interest charge due to delay in payment, it is prohibited also. Therefore, if the credit card serves as a charge card, where you only pay the principle amount that you use plus the service charges, it is permitted. Dr Monzer Kahf in Live Fatwa on Islam on line dated August 8, 2001 responded, "*Signing a credit card contract and using it in a way that generated payable interest is haram. It is then borrowing on interest. Signing the contract, using it, and making the payments within the*

Islamic Credit Card in Practice

©Prof. Dr. Mohd. Ma'sum Billah¹

Introduction

The credit card, which is known as 'plastic money', is an essential mode of payments in today's society. People own credit card for various reasons such as to obtain credit facility, cash advance, easy payment, charge card and prestige. It has becoming way of life in the society nowadays that different types of credit card such as Master and Visa and category gold and platinum, represent the wealth status of a person. Undoubtedly the role of a credit card is more than that. Its important role in e-commerce transaction is undisputable.

However, how does Islam accept the role of credit card as a medium of payment? What are the underlying principles required by Shariah in the functionality of credit card? What would be the possible legal issues and how Islam addresses these issues? What are the differentiation factors in the Islamic credit cards?

¹ Professor of Islamic Financial Regulations, King Abdul Aziz University, Jeddah. Professor of Islamic Financial Applications, University of Camden, USA. Assoc. Professor of Law (Insurance, Takaful, Islamic Banking, Finance & E-Commerce), Faculty of Economics and Management Sciences, International Islamic University Malaysia. He is also an Adviser and Consultant to several Companies and Institutions (Internationally & Locally) on Insurance, Banking, Financial and IT regulations, Wealth & Asset Management, Islamic Bond Market, Gold Dinar and so on under both modern principles and *Shari'ah* Discipline. Also the author of <http://www.islamic-insurance.com>. E-mail: masum2001@yahoo.com