

Understanding the concepts of Islamic credit cards

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TYPICALLY debt taking is of two forms. The first form is cash financing and cash loan for Islamic and conventional banks, correspondingly. The second form is credit financing and loan for an Islamic bank and its conventional peer, respectively.

Debt taking has three rulings in the religion of Islam. The first ruling is *haram* (i.e. forbidden) if a debtor recognizes the debt applied is used for the proscribed purposes like liquor intake, gambling and horse racing, to mention some. The second ruling is *makruh* (disapproved) if a debtor believes the debt earned is utilized for the show-up purposes or incapable to service the debt according to the duration stated. The third ruling is *wajib* (obligatory) if a debtor understands the debt earned is used to maintain one's life and his family where the debt taking is the only way out.

Credit card is another way of debt taking. In Malaysia, however, credit cards are of two kinds. One is conventional credit cards (CCC) while the second is Islamic credit cards (ICC). Unlike the former, the latter deliberates the primary sources (e.g. the *Quran* & the *Hadith*).

This week I intend to draw your attention pertinent to debt taking from the context of ICCs. Three questions are in need of answers. Question #1 – What is meant by the term ICC? Question #2 – What are *Shariah* principles used to govern ICC? Question #3 – What is the modus operandi of ICC?

By definition, an ICC is a plastic money that ponders “buy first pay later” option provided it is strictly conducted on the basis of *Shariah* values, principles and objectives. As such, ICCs can only be employed to finance *halal* transactions while *haram* transactions are strictly verboten. In history, AmBank was the first bank to introduce an Islamic credit card known as the AmBank Al-Tasliif Credit Card on 30th September 1996, followed by BIMB known as Bank Islamic Card (BIC) on 23rd July 2002. During that time, AmBank employed *bay al-inah* principle to govern its credit card transactions while BIMB's worked on the basis of *bay al-inah*, *wadiah* and *qardhul hassan*.

What makes an ICC important? The reasons are two-fold. First, ICC is introduced to meet the demands of customers who intend to possess a card that can deal with Islamic financial transactions only. Evidently, the first and most important feature of Islamic banks is the prohibition of interest, regardless of its form or source. ICC is explicitly consistent to this requirement. Second, ICC is vital for assisting an Islamic bank to diversify its source of financing. The bank's source of financing is presently limited to deposit taking activities, the Islamic money market and *sukuk*. The availability of Islamic credit cards helps to increase the customer base of Islamic banks. Hence, it mends the banks' sources of funding.

Overtly, an ICC is different than its conventional peer. I provide three discrepancies for lucidity. The first one is the types of transactions involved. In an ICC, the transactions must be *halal* to finance. ICC is used for items or transactions that are permissible. A CCC, however, is used to capture both *halal* and non-*halal* transactions. One is surely can buy a liquor and groceries without any restrictions. The second point is the use of *Shariah* principles. In 2017 onwards, the banks that offer ICCs have used two *Shariah* principles, namely *ujrah* and *tawarruq*. The former is known as a based-fee transaction while the latter is defined as a deferred payment basis involving three parties (i.e. making it differs than *bay bithaman ajil*). A CCC, however is silent on this issue. The third discrepancy is on the pricing mechanism. In an ICC, one believes it is done on the basis of profit rate and fee. Profit rate is used out of the notion that the bank employs *tawarruq* while the latter is *ujrah*. A CCC uses interest charges to generate income for the banks.

As noted earlier, *ujrah* and *tawarruq* are two key *Shariah* principles used. Out of 8 banks examined, I discover 6 banks, viz., AmBank Islamic, Maybank Islamic, Bank Simpanan Nasional, RHB Islamic, CIMB Islamic and HSBC Amanah use *ujrah* while only two banks use *tawarruq* viz. BIMB and Bank Rakyat. I explain my findings selectively as follows: #1 - AmBank Islamic - The underlying *Shariah* principle for its credit cards (e.g. AmBank Islamic MasterCard/VISA Credit Card-*i* (Credit Card-*i*) is *ujrah* that defines as fees charges to customer for using the bank's facility. #2 - Maybank Islamic – Maybank Islamic PETRONAS Ikhwan Visa Gold Card-*i* and Platinum Card-*i* are based on the *ujrah* principle (i.e. fee on service). #3- BIMB – Bank Islam's Visa Infinite Card, MasterCard, Platinum Card and Gold & Classic Card use *tawarruq* concept that is the purchase of a commodity on deferred payment basis by way of either *bay al-musawamah* or *bay al-murabahah*.

In terms of modus operandi, I shall provide an example for educational purposes. I consider BIMB given the fact that the bank is the first Islamic bank operated in Malaysia as well as the innovation factor. The modus operandi comes with 6 stages as follows: #1 – The customer enters into an arrangement with the bank where the customer promises to buy a specified commodity from the bank. The customer also appoints the bank as his agent to sell the said commodity. I believe the customer does not have time to do so, which is alternatively considered by the bank. #2 – The bank buys a specified commodity from a trader (say Trader A) on spot basis. #3- The bank sells the same commodity to the customer on deferred basis at cost plus profit. #4 – The bank sells the same commodity to another trader (say Trader B) on spot basis. #5 – The bank pays the selling proceeds to the customer by crediting his designated *wadiah* account and the amount becomes his card limit. This is the stage where the customer can buy a good he intends on credit according to the limit assigned to him # 6 – The customer pays the bank the amount he uses either on monthly basis or the full amount.

Yet, ICCs are mixed blessings. Although they offer a convenient way for payment purposes, new issues are of raising. Issue #1 – Do ICCs free from *hilah*? Issue #2 – Does actual sale occur in ICCs? Issue #3- Are ICCs clear from *bay al-inah*? Hence, mitigating these issues via research is of essential for an improved profit and enhanced consumers' receptivity.

All told, this write-up provides an introductory note pertinent to ICCs. For better use of ICCs, 5Cs must be applied by banks, notably character, capacity, capital, collateral and condition. The customers, instead, should be given a proper education to comply with another C that is (Compliance to *Shariah*) to warrant the real purposes of *maqasid* are met. By the same token, the banks are called to improve the fallacies of ICCs for better future of corporate image and turnover, at least.

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