

Innovations in Islamic Credit Card in Malaysia: Towards a Promotion Growth and Strengthen Resilience

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Abstract: The credit card is a phenomenally successful development of modern banking and retailing based on technological advancement and the increase in individual wealth and spending power. There are many types of credit card issues based on the income and the services which are provided by issuer. Over time the credit card has invaded the Islamic markets. A Muslim individual has applied it in daily life in spite of the fact that it may contain provisions contradicting with the Islamic rulings. According to conventional credit card, the cardholder must pay the debts arising from the use of his card to its issuer within a specified period. If he defaults, the cardholder will have to pay back in form of installments plus interest. This interest increases until full payment is made. This paper is going to analyze the current trends of Islamic Banking application in Islamic credit card products in Malaysia.

Key words: Applications • Credit Cards • Finance • Islamic Banking • Trends

INTRODUCTION

Many Muslim scholars had examined the legality of the credit card and its provisions under Islam Religion. The Islamic Fiqh Academy has found that the conventional credit card involves an interest (Riba) when the cardholder fails to pay full amount by due date. Therefore, a credit card is not suitable for Muslims since it involves Riba. In addition, the application of credit card seems to be involved in the pillars of Al-Murabahah. Islamic law is renewed whereby it can keep up with developments especially toward transactions, for it possesses flexible legitimacy principles that do not make it a stumbling block to those developments. The card issuer allows the holder to pay the debts either in installment, or in whole payment. These facilities lead to an increased interest over time. Abdul Wahab sees that the jurisprudential ruling for these paid conditioned interests on loans is impermissible for that these interests which are imposed on the loan amount for deferment payment does not differ from Riba Al-Nasi'ah which is considered forbidden by all scholars. Riba Al-Nasi'ah is an increase in interest in return for allowance of deferred payment. Islamic credit card is issued by the Islamic banks to fulfil the demand of Muslim customers to make

transactions without holding any cash on hand. In Malaysia, the first issuer Islamic credit card is Bank Islam Malaysia in 2003, namely Bank Islam Card (BIC) used the contract which also known as bay al inah.

Problem Statement: The establishment of Islamic credit card come in the force with Islamic principles. Therefore, the Islamic credit card can also be defined as payments that meet with at least three criteria of Islamic principle. First, card must meet the shariah requirement on lending which is prohibited riba, gharar and maysir. Interest in transaction it clearly prohibited in holy quran. Therefore Islamic credit card is not allowed to charge any interest even if the cardholder does not pay on time. Secondly, an Islamic credit card must have certainty to be accepted worldwide it should use payment scheme like visa or master card. Moreover, the merchant charge and issuer's fee should not be withheld. Thirdly, an Islamic credit card should not bring such behaviour that considers haram. However, it is to be noted that there are many problems and challenges of legal issues arose from this facility. Until today, Islamic credit cards still confront with several of limitation under *Maqasid Shariah*. *Shariah* generally permits banks to issue credit cards as long as they are structured in a manner consistent with Islamic principles.

Table 01: Comparison between conventional and Islamic Credit Card

Conventional Credit Card	Islamic Credit Card
Money lending because the transaction based on loan	No money lending because the transaction of the card is based on trade (bay')
Compound of profit based on the remaining balanced due	Non compounding of profit as the profit margin is already fixed
Cardholders can buy and made payment of services for whatever they want	Control on transactions or the merchants to be purchased as the card holders are only allowed to deal with halal items or services

One of the challenges faced by Islamic credit cards is that *Shariah* compliant credit cards cannot be used to make “*sinful*” or haram purchases. In order to prevent impermissible purchases, Islamic banks usually rely on two basic approaches. Firstly, they reject a charge at the point of sales.

Research Questions: The research question for this study was what are the current trends of Islamic Banks or financial institutions in offering Islamic credit cards to their customers?

Purpose of the Study: One of the most significant aims in *Shariah* is prohibition of interest (*riba*). This is also clearly provides in (2:275) of the Holy Quran that: Trade is like usury, but Allah hath permitted trade and forbidden usury (*riba*). Therefore, Islamic banks have to allow Islamic credit cards to be cost effective and profitable but do not result in the imposition of interest. In order to overcome the challenge of prohibition of *riba*, Islamic banks are allowed to impose fees (or known as *ujrah*), for services provided. Banks may charge merchants a fee for accepting the card. Another approach practice by Islamic Banks is *Tawarru' and Bay'alinah*. It allow the banks to issue credit cards that charge a percentage of unpaid balance carried over from month to month. However, both *Tawarru'* and *Bay'alinah* have been criticized and are not widely accepted by *Shariah* scholars. The Hanafi, Maliki and Hanbali schools declared *Bay'AlInahas* prohibited [1]. On the other hand, some scholars see that *Tawarru'* is just a masked form of *riba* because the primary purpose of *Tawarruq* is to receive a fund and delay payments while adding amounts to the amount loaned and this is not permissible in Islamic jurisprudence [2].

MATERIALS AND METHODS

We were approaching two methods in conduction this research paper which are by using primary and secondary data. Both data are seems to be significant in derived the finding of our objective and to counter the problem statement that we are highlight in this research paper.

Primary data we are collecting by conduct interviews with practitioners of Islamic Banking and financial institutions in Malaysia to get clear view regards the Islamic Credit Cards issues and challenging in modern world today that considered credit cards as part of necessary items in every business transactions. The interviews session is conducted by appointment and held at the office of the interviewees. In addition to that, for the secondary data, previous studies done by past academic scholars were referred to make our research paper more reliable. Both data are essential to build up findings and also suggestion and recommendation to contribute to the Islamic Financial Institution to develop a product that is *Shariah* comply and fulfil the *Maqasid Shariah*.

RESULTS

The Application of Credit Card in Malaysia: An Islamic credit card which is also known as credit card-i in Malaysia, proposes a worthwhile choice for Muslims to have the expediency of a credit card while keeping true to their belief. Besides, it is also an alternate choice for non-Muslims as one does not certainly have to be Muslim in order to own an Islamic credit card. An Islamic credit card would give the non-Muslims a choice apart from the conventional credit card. This is especially for them who favor the idea of Islamic banking [3]. There are also numerous suggestions of the models of credit card that are available in the Islamic financial field. It clarified that any model of an Islamic credit card had utilized many contracts to assist the numerous purposes.

Bai Inah and Wadiah: Islamic credit cards have implemented some of the *Shariah* contracts. Firstly, it will be the *Shariah* contract of *Bai Inah* which includes of two agreements. For the first agreement, the Islamic financial institution will sell a property at a settled price to the customer with delayed payment terms of three years. While in the second agreement, the Islamic financial institution will re-purchases the property from the customer at a lesser price. This will be payable on cash basis. The variance would be the fixed maximum profit for the bank. Therefore, it can be said that the application of

Bai Inah is to increase fund for the determination of offering credit facility to customers. In addition, the following Shariah contract that was implemented by Islamic credit cards is Wadiah. The Islamic financial institution will distribute the cash profits of the second agreement into the customer's Wadiah account made and sustained by the bank. The customer can use his or her account for cash withdrawals similar like the conventional credit card, except that every imbursement will be supported by the cash held in his or her Wadiah account and it is allowed by Shariah principles [4]. In other words, this means that the reimbursement of the purchase price will be removed from the current customer's Wadiah account. The sale proceeds will then be credited into the Wadiah account in the Islamic financial institution to ease the acquisitions of goods or services by the customer. Both of the sale and purchase transactions will be repeatedly implemented in two distinct and autonomous contracts. The acceptability of bai Inah which is the perception and application in the credit card product is consistent with the agreed arguments and sources on bai Inah. Hence, in other words, the Shariah contract of Wadiah is to provide custody services for the fund raised under the Bai Inah contract.

Ujrah: Ujrah is a common word in Arabic which renders to fee. Nevertheless, it is typically utilised precisely in connection with a fee that is imposed in exchange for a service. However, the Shariah perception of Ujrah that is utilized by Islamic banks which concerns to the payment of a service fee in exchange for the services provided to customers. Most of the Islamic credit cards in Malaysia are also based on this perception. In Ujrah, the Islamic credit cardholder is charged with a fee for the benefits, services and privileges offered by an Islamic financial institution in reverse of being charged interest. Cash early payments are also available under the Ujrah concept. Some Islamic banks will offer it sideways with the service of an Islamic credit card. The example of Islamic credit cards which uses this perception are the Maybank Ikhwan and CIMB Islamic Master Card [3]. The Islamic credit cardholder is levied with Ujrah as a contemplation for the services offered along with the privileges and benefits proposed by the Islamic financial institutions to the Islamic credit cardholders. Nonetheless, the issue now is as to whether the suggested credit card structure based on the perception of Ujrah is allowed. Ujrah denotes to a

fee that is allowed in Shariah principles based on the sources from the verse of al-Quran and hadith in this manner:

Allah SWT utters:

"...The best of man for you is the strong, the trustworthy..."

Besides, a hadith of Rasulullah SAW also delivers that: *"Pay the worker his wages before his sweat dries off."*

Wakalah and Kafalah: The concepts of wakalah and kafalah were suggested by the Islamic financial institution to offer Islamic credit card product based on these concepts that integrate precise credit limit on the Islamic credit cardholder. The purchases of goods and services made by the Islamic credit cardholder will be paid by the merchant bank in the best interests of the Islamic credit cardholder.

The trading bank would then direct all the documents concerning to the deals to Visa or Master card, which functions as the transitional between the trading bank and the Islamic financial institution. Incidentally, Visa or Master card will claim from the Islamic financial institution the amount due to the trading bank. Under the concept of wakalah, the Islamic credit cardholder will be charged with Ujrah which concerns to the payment of a service fee in exchange for the services provided to customers. The charges will be counted based on a precise percentage of the permitted credit limit as a contemplation for agency services offered by the Islamic financial institution to pay the Islamic credit cardholder's payment responsibility to the trading bank. In the contrary, under the concept of kafalah, the Islamic financial institution will promise the payment to Visa or Master card as for the payment made to the trading bank and promise the payment for goods or services bought by the Islamic credit cardholder from the trading bank. The fiqh adaptation (takyiffiqhi) of ujrah on wakalah in the suggested Islamic credit card structure is not exact since the role of Islamic financial institution as representative to the Islamic credit cardholder is restricted to effect in the reimbursement of payment to the trading bank only. Nevertheless, Islamic financial institutions also propose other benefits and services to the Islamic credit cardholders in reality. Furthermore, the suggested way to control Ujrah for wakalah based on a certain percentage of the credit limit would bring about to the issue of conditional benefit on loan which is qard and it is forbid by the Shariah principles.

CONCLUSION

As mentioned, the Islamic credit card by Islamic financial institution in Malaysia from Shariah brings a lot of benefit to the society. It also bring issues compared with conventional Islamic credit card. The Islamic credit card which bring along with the Shariah Islamic credit card prohibit with the interest (Riba) since it is against the Shariah approach. The Islamic institutions have realized that the conventional credit card involves an interest condition; many of those institutions have trended to issue a credit card depending on the Islamic contractual structures in order to avoid the suspicion of Riba. These applications have varied due to diversity of Islamic structures that they adopt. In this article, we have also mentioned on the Wakalah and Kafalah which are suggested by the Islamic financial institution to offer Islamic credit card product based on these concepts that integrate precise credit limit on the Islamic credit cardholder. It is also suggested the way to control Ujrah for wakalah based on a certain percentage of the credit limit which would bring about to the issue of conditional benefit on loan which is qard and it is forbid by the Shariah principles. Nowadays, most of current Islamic credit card is merely replication of interest based credit cards and only beautify with Islamic slogans. Therefore, our findings throughout our research, imply that there is a crucial need to develop framework for Islamic Credit Cards that better suit both; current needs and Maqasid al-Shariah.

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