

Interview with Shariah Supervisors in Malaysian Islamic Banks

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Article History

Received: 10.12.2017

Accepted: 17.12.2017

Published: 30.12.2017

DOI:

10.21276/sjbms.2017.2.12.15



Abstract: Shariah Supervisors plays a significant role in the Islamic banking system, and it has a significant impact on their performance as well as stability. The study focused on the banking system and on the Shariah Supervisors as a significant element of it. The study aims at showing the impact of the Shariah Supervisors on the Islamic bank stability. It also exposes the significance to be Independent department in the completion of its decisions. The study concluded that Shariah Supervisors Interview and their responds are significant in the Islamic credit card, compliance of Shari'ah requirement. The interfering of decision-making and as well as Supervisors are adversely affect for the Islamic credit card in Malaysia.

Keywords: Interview with Shariah Supervisors, Importance of the Islamic Credit Cards, Debt Problems, Shari'ah Compliance Requirement.

INTRODUCTION

Islamic Banks as those banks or institutions that establishment and its statute law explicitly states adhere to the principles of Shariah, and not to deal the usurious interest (Riba) [1-2]. Islamic credit cards are becoming popular more than ever and are available in Many Muslim countries like Malaysia, United Arab Emirates and Bahrain. This paper focuses on the Islamic credit cards from the following perspectives: concepts, practice, importance and explanation to the debt problems of conventional credit cards.

The paper consists of few concepts as like; the introduction to the topic and the general concepts of different products used in issuing Islamic credit cards respectively and current practices of Islamic credit cards in Malaysia are discussed, the significance of Islamic credit cards in Modern Muslim world, and the Shari'ah Supervisors of BSN Bank and Bank Rakyat are presented in detail.

Supervisory is in the idiomatically meaning, means to verify the implementation of Fatwa that issuance by the authority to find the legitimate alternatives and formulas in any acts that contradict the legal requirements [3]. The Supervisors have the responsibilities for using the appropriate legitimate tools and methods, with the indication of mistakes and corrections, at the same time, find a legitimate alternative [4]. By the way, Supervisors also known as the preventive, remedial and complementary process of control, review and analysis of all the Islamic Financial Institutions (IFIs) activities, products, contracts and transactions starting from the incorporation of the IFI onwards to ensure compliance with Islamic Shariah for the purposes of generating legitimate profits (Halal) and improving on the IFIs performance [5]. They are also

responsible for supervising the activities of the IB to ensure the conformity of its works to Islamic legal precepts and principles [6].

Problem Statement

In the conventional financial system, the use of credit card where the customer is charged interest is permissible and is considered legal. The customers under conventional financial system have the right to buy goods and services using credit cards in which the payment (principal plus interest) due is deferred. Therefore, the banks charge interest for the credit service provided to the customers. Of course, the credit cards provided the customers and merchants considerable advantages over cash and cheques. In contrast, there were also disadvantages that both customers and merchants were facing in business dealings while using credit cards. As Islamic banks started their operations, the need for credit card that is Shari'ah compliant and is free from the prohibitions that are obtained in conventional credit cards has arisen. Therefore, Islamic banks started providing these services to their customers but based on real transactions (not money lending) and earning return not derived from debt as conventional banks do.

This paper is trying to find out how Islamic banks adopted conceptually and practically in providing credit card services. The paper also aims at investigating what are the importances that are achieved after the implementation of Islamic credit cards and can Islamic credit card overcome the debt problems of the customers of Islamic financial institutions.

OBJECTIVES OF THE STUDY

This paper, Islamic credit cards: concepts, practices, importance and solutions to debt problems, have a number of objectives that include the following:

- To examine the implications of shariah provisions and the available structures of credit cards that are in use in today's Islamic financial system,
- To establish the benefits and importance that contemporary Muslim societies derive from the usage of credit cards,
- To explain how Islamic credit cards can be solution to the debt problems of conventional credit cards.

RESEARCH METHODOLOGY

In collecting the data of this paper, three sources are used. An interview was conducted with two of Shari'ah supervisory board members of two of the Malaysian Islamic banks (one from BIMB and the other from the Bank Rakyat) that use types of the models of Islamic credit cards. The interview also included the solutions of debt problems that Islamic credit cards can provide to the customers. Moreover, the importance of the Islamic credit cards was discussed by the interviewees. Finally, the websites of the Malaysian banks that its Shari'ah Supervisory Board members were interviewed were surfed to get the real picture of the service they provide.

Interview with Shariah Supervisors in Malaysian Islamic Banks

Operations of the Islamic Cards

An interview was conducted with two of the Shariah supervisors of two of the Malaysian Islamic banks that use Islamic credit cards to get a better understanding regarding three major issues in Islamic credit cards products. One of the two Shariah Supervisors works for the Bank Rakyat (Bank Kerjasama Rakyat Malaysia Berhad) where he joined it two years ago. Moreover, he is the professor of Islamic Finance in International Islamic University Malaysia (IIUM). The other supervisor is working under the BSN bank (Bank Simpanan Nasional Malaysia) Shariah Supervisory council. Additionally, she works for International Islamic University Malaysia (IIUM) as a professor of law.

The Sample Banks Operations and the Type of Credit Cards Used

The Malaysian Islamic banks use different products that are shariah compliant in implementing Islamic credit cards. These products include Tawarruq,

Murabahah (inah), Ujrah, Ijarah, wakalah and Hiwalah. According to our sample banks of the interview, BSN bank is planning to use Ujrah and waiting just approval from BNM (Bank Negara Malaysia), but before that it was using Inah concept. The Bank Rakyat uses inah in dealing with Islamic credit cards.

Justification for the selection of this type of Product

The interviewees justified the selection of these products as a mode of financing that can be used for Islamic credit cards on the top of other varieties of products. The justification of supervisor from Bank Rakyat was that Inah is the easiest structure in operation where it involves "sell and buy back" between the bank and the customer only. In contrast, the other Shariah Supervisor from BSN bank supported their selection of Ujrah and transferred from Inah. The answer came straight forward that is the concept of Inah was controversial and hence the bank needed to avoid and come up with an alternative to it.

Late Payment Fee and Beneficiaries

Normally, Islamic banks charge small fee on the amount due from the customer in order to encourage the customer meet his or her due date of payment. Some banks in Malaysia like BSN call this fee as compensation fee (Ta'widh). If the customer fails to pay the amount due on time, he or she will be charged a fee which is (in the case of these banks) 1% on the amount due or a range of Ringgit amount that cannot be less than RM5 and cannot be more than RM50. The late payment fee proceeds are channeled to the religious or charity organizations on the basis of random selection (like BNS) or according to priority list of the bank (such as Bank Rakyat). In the priority list, religious organizations is the on the top. Consideration is also given to the applications of contributions coming from charity organizations. Providing Janazah vehicles and building mosques are among the uses of these funds.

Dealing with Default Customers

When the customer defaults and cannot pay the amount that he or she withdrew from the bank account, first, the credit facility is stopped and the Islamic banks restructure the loan like "term loan" which they call financing and the balance is charged say like 4%. But this is not like a normal loan which interest is charged. It is still based buying and selling. So, the customer will sign new agreement that he or she will pay the loan balance in installments. In the case the customer defaults a second time, he or she will pay the balance as a lump sum.

Islamic Credit Cards and Usage of Collateral

Do the Islamic banks ask customers to pledge an asset so that in the case of default the pledge can liquidated in order to settle the debt balance? If no, what is the basis of the amount of the credit facilities

that is given to the customer? According to the interviewees (shariah supervisors from BSN and Bank Rakyat), the Islamic banks do not use collateral so far. In terms of the bases of the credit facilities, the customers are categorized based on their monthly income and experience. Bank BSN required, for example, one year of experience but now it is reduced to six months.

Annual Fee on Islamic Credit cards facility

The Islamic credit cards charge a fee that is called annual fee. In some Islamic banks, the fee is called membership fee. The amount charged depends on the type of the credit card such as platinum, gold card and classic card. The amount of the annual fee charged is between RM60 to RM175.

Credit Limit, its basis and spending the Limit

The sample Islamic banks of the study both practice the credit limit to control the spending of the customer. The salary of the customer is the basis of the credit limit. The more income you earn monthly, the larger the credit limit you are allowed. The customer can, for example, withdraw 75% of the balance in the credit limit in cash. The customer can use the remaining 25% of the credit limit to buy goods and services only. It means he or she can not withdraw as a cash.

Importance of Islamic Credit Cards in the Modern Muslim World

Using the credit card is appreciated using the modern banking structure. The majority of the modern banks are interest-based and Muslims have to consider them because interest free banks are not obtainable with expectations. It is permitted to use the services of these banks without getting involved in interest.

Above the characteristics that are discussed in chapter four, the interviewee from Bank Rakyat rated the importance of Islamic credit cards as necessity (Darruriyah) of the Muslims today especially when travelling locally or overseas. That is due to the convenience you can enjoy when you are using Islamic credit cards. The other interviewee from BNS gave Hajiyat rating and not Tahsiniyat because using it in emergence cases is making it more important than other times. According to her, Since, Muslims can survive without using Islamic credit cards, it cannot be made Daruriyah.

Overspending and Credit Control of the Card Holders

One study that was conducted in U.S found d that when using credit cards the spending or consumption of the individuals increased 47 percent. In contrast, what about the Muslims? Or are they divinely instructed not to overspend? The reflections of the Shari'ah supervisors of BSN and Bank Rakyat were definitely the use of Islamic credit cards will increase the spending of the Muslims. Overspending and the

level of indebtedness of the Muslims will be increasing because the availability of the card with you all the times and the payment mode which is installment are encouraging the customers.

The solution for this pattern among the Muslims is to use credit control through their BIS (Business Intelligence System), they suggested. BIS is the tracking technique of the amount the customer is spending per transaction and the location of the customer. Moreover, to control the overspending, the credit limit can be lessened than the current amounts. Although, the objective of the banks is that the customers use more and more so that they can earn more. One of the Shari'ah supervisors shared with the researchers her experience confessing that it is easy to create credit card account and in contrast it is too difficult to cancel your account because of the due processes and the bankers urging you to retain your account and the card.

Islamic Credit Cards as Solution to the Debt Problems of the Conventional Banks

As we discussed in the earlier section, we saw the opinion of the Shari'ah Supervisors relating to over spending (Israf) that resulted from the usage of the Islamic credit cards. That means that customers' debts are becoming more and more when using Islamic credit cards. Besides that negative impact of the Islamic credit cards, there are several pros that make the Islamic credit cards to better able to solve some of the debt problems of conventional credit cards. The absence of the compounding effect is one of these factors. This can be made clear in the event of default of the customer and the loan is restructured, the amount due will remain the same. The customer will pay only the fixed amount. Moreover, the proceeds from the late payment fees are channeled to the needy and charity organizations and they are not considered profit in any way whatsoever. This shows the absence of the notion "rich will be richer and the poor will be poorer" that was true under the conventional credit cards that see the penalty fee as a profit. On the other hand, it can be argued that each transaction involves asset or something tangible and hence it is not like selling money. In other words, it is like asset-backed economic activity.

Islamic Credit Cards and the Shari'ah Compliance Requirement

It is allowed to use the credit cards without getting involved in Riba. Credit cards are a convenience. They help us to charge goods and services to the card account, devoid of carrying too much cash all the instance otherwise tying the cash for a credit intention. These cards are now common and are used in Muslim countries as well. The card companies derive money from yearly fee and from commission they receive from the establishments. Some companies give their credit card free of any yearly fee, for the reason

that they anticipate that may gather interest from those who will charge these cards and then they will pay interest on unpaid balance. Conversely, one does not have to pay interest if one pays the card bills fully on instance. There is nothing un-Islamic in using this service as long as one does not delay paying the bills and pay the whole amount on instance. It is as a matter of haram to pay interest. Conversely, one is allowed to use the credit cards to charge the amount that one can pay while the bill comes. Other than if one uses the card to borrow money on interest or to purchase what one cannot pay on time, then one is indulging in Riba which is forbidden in Islam.

The Shari'ah Supervisors of the Sample banks of the study, generally speaking, believe that Islamic credit cards are Shari'ah compliant. According to them, some of the important qualities that Islamic credit cards have include the coding of the products that the customer is buying using the card. In other words, the customer can not buy non-Shari'ah compliant goods and services though there are some limitations like in the case of hotels which sell liquor. Moreover, the contractual agreement is based on 'Aqad which is based on Islamic law guidelines.

The modus operand of the Islamic credit cards is different from their conventional counterparty in that the former do not involve the effect of compounding. This means that the Islamic credit card, the credit amount is fixed. Nevertheless, they see that the need for improvement is a long way to and Islamic credit cards must go through in the right time. The objections of the Shari'ah Supervisors mentioned include the charges which they see them as too excessive. Withdrawal fees, for example, needs revision which they said it is per transaction and too high compared to other Islamic banks such as al-Rajih. The other problem regarding the Shari'ah issues is that banks are more "profit-oriented" instead of being social responsibility-oriented.

SUMMARY AND DISCUSSIONS OF THE FINDINGS OF THE INTERVIEW

The interview focused three main issues namely the operations of the Sample banks that use credit cards, the importance of Islamic credit cards and how the Islamic credit card is a solution to the debt problems of conventional credit cards. The first part, the Shariah supervisors of the Islamic banks of BSN and Bank Rakyat focused on the operations under the Islamic credit cards. How the Islamic credit cards work, the reason why these banks selected this type of product (Inah & Ujrah) in particular, the fees charged to the customers and dealing with defaults were among the major issues discussed under this section.

In the second part, the interviewees elaborated the Islamic credit cards importance and they rated as necessity and Hajiyat. In the final part of the interview,

the debt solutions that Islamic cards can provide to the Muslims were explained and the Shariah supervisors in the sample of the study were supportive to that Islamic credit cards are definitely different from conventional cards.

CONCLUSION

Islamic banking system is based fundamentally on the exclusion of usury in all its appearances. In spite of that, there are a set of services given by it, which is entirely dissimilar from interest-based system services, comprise the services of funding. The operations of the Islamic credit cards in Malaysia are striving to become the leading in modernizing and complying with the Shari'ah principles, as the whole industry is in development and improvement. The charges on the customers are too excessive compared to some other Islamic credit card providers. These charges include annual fees and transaction based charges. The mind-set of the Islamic credit cards issuers is still similar to conventional and they obsessed to profit-making and hence no enough control to overspending. This makes the customers to spend more and more which may put them in the long-run a difficult position that they cannot get out. The risk of defaulting is pertinent in the Islamic credit cards users and there are enough mechanisms to ensure minimizing and managing of this risk such as overspending manage and foreword of collateral to the credit given to the customers. The Islamic credit cards are among the necessities and/or Hajiyat for most of the Muslim individuals in these modern societies especially when convenience, emergencies and travelling are concerned. The Islamic credit cards are free from the effect of compounding by fixing the amount due. Even, the proceeds from the late payments are used for benevolent ways such as charity. Finally, Islamic banks have long way to go to improve the status quo of Islamic credit cards. Thorough research, in terms of technology and Shariah point of view are needed.

RECOMMENDATIONS

The researchers, after having read the recently written literatures about Islamic credit cards, conducted an interview with two of the Shariah Supervisors in Islamic banks in Malaysia and surfed the materials presented in the websites of the sample banks in this study we recommend the following issues to be considered:

- Introduction of collateral to the issuance of Islamic credit cards as this will minimize the risk of default.
- The Islamic banks or the concerned regulatory authority (such as BNM) should reduce the fees charged to the withdrawal and the annual fees.
- To control the overspending of Muslims, the Islamic Banks should control by using their BIS (Business Intelligent System) track.

- The Islamic banks should organize Islamic conferences to address the issues in the Islamic credit cards issuance.

ACKNOWLEDGEMENT

This study gratefully acknowledges financial support from Research Management Centre (Grant No. EDW B14-212-1097), International Islamic University Malaysia

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