

Current Practices of Islamic Credit Cards in Malaysia

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Abstract: The practice of Islamic credit cards today is still controversial among Muslim scholars particularly concerning to its contracts and as well as its efficiency to attain Maslahah. The Islamic credit card is very important and some studies have done on it. Conversely, studying about the contrast of the various product of Islamic credit cards practiced in Malaysia, although in the recent year is still limited. Consequently, this paper would like to undertake this concern by comparing the various products of Islamic Credit Cards in Malaysia. Islamic credit card known as Credit Card-i is such of the alternate banking products instigated through Bank Negara Malaysia (BNM), also Islamic financial institutions in Malaysia to exchange the conventional credit card. This article aims on evaluating the bay' al-'Inah, Tawarruq as well as Ujrah development while practiced over Bank Negara Malaysia (BNM) as well as Islamic Financial Institutions in Malaysia with Shariah compliance perceptions. The method used is explanative along with positive absorbed criticism which aims next to well the offered structure.

Keywords: Current Practices of Islamic Credit Cards, the concept of Bay-Inah, Bay-Tawarruq, Ujrah.

INTRODUCTION

The Islamic banking structure is obviously more than just an "interest-free" method of banking [1]. Although the primary studies on Islamic finance and Shariah-based banking services were not conducted before the mid-twentieth century, Muslims have been consistently using the Islamic financial values since fifth century [2, 3].

Comparatively, a debit card is specified "buy now" and "pay now" option. This explains that one does not approximately ask for loan as he performs a payment of a purchase by his own cash instead of a bank's credit. A credit card is referred like the process of payment which engages the inspiration of buying first and paying later [4]. For effortlessness, credit card is prosperous described as "buy now" and "pay later" choice. Credit card enlarges the purchaser a loan that does not have responsible for to be paid off instantly. Different authoritative message, credit cards desire to such to carry out a payment of a purchase exclusive of cash as well as its probable significant with modern individuals. Within Malaysia, credit cards are practicable in two forms specifically conventional as well as Islamic credit cards. It is considerably separate than debit [5]. Comparatively, a debit card is named "buy now" and "pay now" choice. This give details with one doesn't approximately request for loan as he or she act upon a payment of a purchase by his or her own cash instead of a bank's credit.

Islamic credit card has standard as the Shariah acquiescent product through Shariah Advisory Council of Bank Negara Malaysia (BNM). This comprised through the BNM under the guiding principle of Islamic Credit Card dated on 1st August 2004. Commonly, a figure of models have concerned to construct the Islamic credit card around world which is based scheduled bay' al-'inah, tawarruq, hiwalah, murabahah, ijarah and kafalah or wakalah. Within Malaysia, the Islamic credit card is entire through the contract of bay' al-'inah, tawarruq as well as ujrah. By the way, 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 few concepts as like; current practices of Islamic credit cards in Malaysia are discussed and the significance of Islamic credit cards in Modern Muslim world.

Current Practices of Islamic Credit Cards in Malaysia

Islamic credit card or in other term known as Credit Card-I has been highly develop and adopt by nearly all of the banks with Syariah Compliant based in Malaysia. Each bank will implement the concept which has been agreed by the consensus of their Syariah advisors. There are several concept of Islamic credit card that can be implemented as discuss in earlier chapter. However, in Malaysia, there are only three concept of Islamic credit card accepted and adopt by majority of the banks here and they are the concept of Bay-Inah, Bay-Tawarruq and Ujrah.

The concept of Bay Inah is adopted by Maybank Islamic and its product name is "Ikhwan Card", and AM BANK lunched its "Al-Taslif Card" on the basis of Bay Inah model. Whereas, Bank Kerjasama Rakyat has adopted the concept of Tawarruq, CIMB, HSBC and BSN have implemented the concept of Ujrah in their Credit Card. There are also banks which accept more than one concept such as BIMB which accept both Bay-Inah and Bay-Tawarruq as the base if its credit card.

In this section, we will discuss the current practices and applications of above three concepts namely Bay Inah, Tawarruq and Ujrah in different Islamic Banks of Malaysia.

Bay-Inah Islamic Credit Card concept Bank Islam Malaysia Berhad (BIMB)

Bank Islam Malaysia Berhad is one of the banks that offer Islamic Credit Card using Bay-Inah concept. The customer who wants to have this credit card will need to enter into several contracts. Even though it is the concept of Inah, but there are two more elements inserted which is Qard-Hasan and Wadiah to complete the Credit Card contract.

At first, the customer needs to undergo into two separate contract of Inah. The first comprise of the contract by which BIMB will sell the agreed property in which they purchase from London Metal Exchange (LME) through a broker to the customer based on the price determined by the consensus of both the bank and customer. In the second contract, the Bank re-purchases the related property from the customer at an inferior price. The different between the prices indicate the bank's income. The income rate levied through Islamic bank is recognized in move forward.

Then, both customer and BIMB will enter into Wadiah contract in which the cash in the second contract will be deposit into a Wadiah account that is created and will be maintained by BIMB. This account will be acting as a safe house for the customer. Obaidullah [6] intended the wadiah account is created as well as preserved through the bank. Afterward, the customer be able to use his or her card to purchase products and services alike as the conventional credit card. The simply difference is that the Bank Islam card is relieved with cash held in the wadiah account. When the customer uses the credit card, the payable cash will be deducted from this account. The maximum amount the customers are allowed to used is the full amount from the second contract (In which the bank buys back the property from the customer).

The customer will not be given any overdraft facility unless they enter into a contract of Qardul Hassan. By this contract, BIMB will give the customer the ability to exceed their credit card limitation. With BIMB website information, the customer is only subjected to pay the additional amount without any charges but it must be settle within a specific period.

To illustrate this Bay Inah concept, we can take an example:

1. At first, the customer purchases an advantage from the bank on deferred conditions (the purchase price comprises cost plus profit). i.e. RM11, 800 (RM10, 000 + RM1, 800) which is to be paid within one year by the customer.
2. The customer afterward will sell back the advantage to the bank on cash basis (at cost value); for example, RM10, 000. The selling price of the advantage is lower than the purchase price. This is the amount which will be credited into a marginal *wadiah* account of the bank for customer's use.

Moreover, for Bank Islam Card the income is promised on monthly bases as well as it is based on the sum of transaction made throughout that contrasting month, the prosperity is not compounded different conventional bank and the total earnings cannot be greater than the prosperity stated in the contract of aperture al inah.

Dioramic illustration of Bay Inah concept adopted by Bank Islam

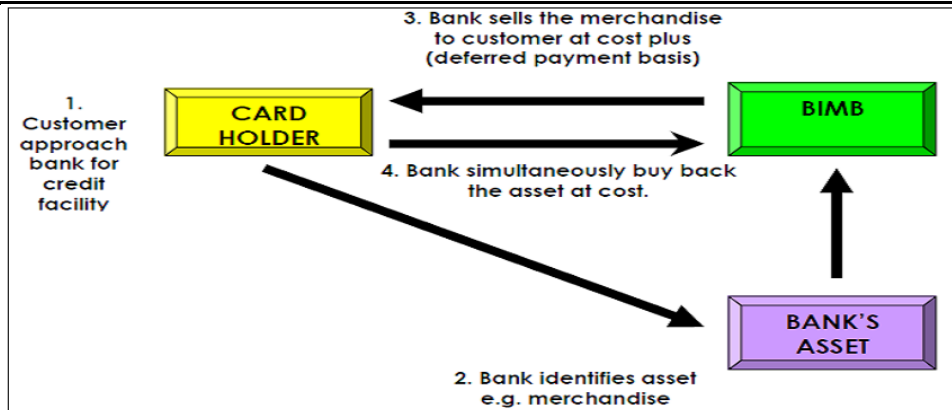


Fig-1: SCHEME of BIC

Bay-Tawarruq Islamic Credit Card Concept Bank Kerjasama Rakyat (Bank Rakyat)

Bank Kerjasama uses the concept of Tawarruq, which is merely the same as Bay-Inah. Similar to Bay-Inah concept, in Tawarruq customer has to enter into several contracts. First, both Bank Rakyat and the customer will enter into Murabahah contract in which the customer will purchase an asset from the bank on deferred payment basis [7]. What make it different from Bay-Inah is that, both Bank Rakyat and the customer will enter into wakalah contract whereby, Bank Rakyat will act as the agent and the customer as the principal. The bank will then sell the commodity to the third party

through current commodity market rather than in Bay-Inah, the commodity will be selling back to the bank. After that, both Bank Rakyat and the customer will enter into Wadiah contract in which the selling amount of the commodity will be deposited. The deposited amount will be act as the limit for the credit card. This Wadiah account will act as a guaranteed deposit account for safekeeping of the amount. At the end, the customer will be given a piece of credit card. As similar to Bay-Inah, each purchases amount will be deducted from the Wadiah account as the payment to the seller.

Structure of Tawarruq

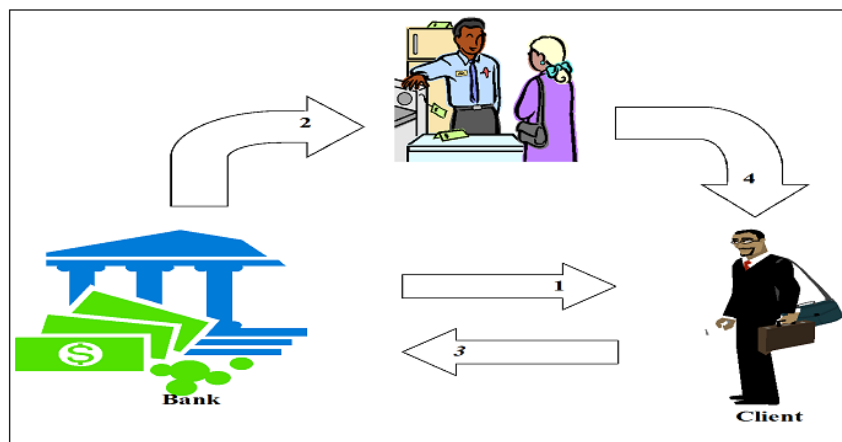


Fig-2: Sources [6]

Activities concerned:

1. Client approaches Bank with a specified need for cash.
2. Bank purchases commodity X of value equivalent to the Client’s need, (say Y) from Vendor.
3. Bank sells commodity X to Client on a deferred basis for Y+I.
4. Bank as Agent of Client sells X back to Vendor for Y* on cash basis.

In activity 3 & 4 there is flow of funds.

Note: That Y* may be dissimilar from Y if prices are fluctuating in the market and there is a time gap among

the various activities. The client receives Y* - an amount that closely matches its financing need.

Ujrah Islamic Credit Card Concept Bank Simpanan Nasional (BSN)

In the case of Ujrah, we will refer to BSN bank operation. First, both BSN bank and the customer will enter into a contract of Qard Al-Hassan. In this contract BSN bank will give a loan without interest to the customer. Then the amount will be deposited into a service account bank and at the same time, an Islamic Master Card will be issued to the customer. The loan will be act as the limitation for the credit cards. In other

words, the total purchase amount must be equal to the total deposit.

Then they will enter into a contract of Kafalah (guarantee) in which the BSN will act as a guarantor for the customer and will promise payment to the merchant or the seller [8]. When the customer went to purchase goods, the payment will be automatically deducted from the bank account. BSN earns based on the fees charge upon the card credit facility which give the customer the ability to make transactions without involving any cash. Customer has flexibility of payment in either to pay it lump sum or making it fixed monthly fees. The most important thing is that these fees will not depend on the credit card outstanding amount or the duration of the balance in the service account. However, it will be based on the amount they have agreed upon in the first place.

CONCLUSION

The process of the Islamic credit cards in Malaysia are striving to turn out to be the leading in modernizing and complying with the Shari'ah principles, as the whole production is in expansion and improvement. The charges on the customers are too extreme evaluated to some other Islamic credit card givers. These charges comprise annual fees and transaction based charges. The viewpoint of the Islamic credit cards issuers is still similar to conventional and they passionate to profit-making and as well as hence no enough control to profligacy. This makes the customers to use up more and more which may put them in the long-run a difficult circumstance that they cannot get out. The risk of defaulting is relevant in the Islamic credit cards users and as well as there are enough mechanisms to make sure minimizing and managing of this risk such as overspending control and foreword of collateral to the credit given to the customers. The Islamic credit cards are among the provisions and/or Hajiyat for most of the Muslim individuals in theses modern societies particularly when convenience, emergencies and travelling are concerned. The Islamic credit cards are free from the effect of compounding through fixing the amount due. Constant, the proceeds from the late payments are used for munificent ways such as charity. Lastly, Islamic banks have long way to go to get better the status quo of Islamic credit cards.

Islamic banking can be explained as the shariah or Islamic law reliable way of banking. There are assured strict rules that should be observed in Islamic banking. If these essential rules are breached, the conception of Islamic banking would be lost. In Islamic banking, *riba* (interest), *maysir* (gambling) and *gharar* (uncertainty) shall be eradicated. Separately from it, the investments made, shall also be for shariah compliant products, which shall not comprise commodities classified as *haram* (prohibited) like alcohol and pork.

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