

Concept of Islamic Credit Card Based on Malaysia

Mohi Uddin¹, M M Ismail Hossin², AHM Yeaseen Chowdhury³, Mohd Aminul Islam^{4*}

¹Asia Graduate School of Business, Unitar International University, Kelana Jaya, Malaysia

²Department of Business Administration, Faculty of Economics and Management Sciences, International Islamic University Malaysia

³Faculty of Business Studies, Bangladesh University of Professionals, Dhaka, Bangladesh

⁴Department of Computational and Theoretical Sciences, Kulliyah of Science, International Islamic University Malaysia

***Corresponding author**

Mohd Aminul Islam

Article History

Received: 28.01.2018

Accepted: 14.02.2018

Published: 28.02.2018

DOI:

10.21276/sjbms.2018.3.2.9



Abstract: The intention of this study is to consider the possibility of credit card usage intention with Islamic banks' customers. Concept of Islamic credit card was express in edict to greet out whether these are persuading the Islamic credit card usage intention otherwise not. It means a conceptual form toward design the features essential the Islamic credit card usage intention. The significance descriptions to "concept on Islamic credit card" are widely moving the Islamic credit card usage intention as well as terminate that to have no consequence on the Islamic credit card usage intention. Although it gives the hold up for prospect researches in the outlook of Islamic credit card and it favor the advantage to the academic awareness over detaching in a superior way tumble on affecting Islamic credit card usage intention. This particular significance is toward bank executives; given them through an enhanced conception pertaining to the Malaysian bank customers' usage intentions for Islamic credit cards also helps them toward better plan for Islamic credit card services, in edict to bring for the financial requirements of Malaysia bank customers. The attaining a additional weighty point of view of Malaysia bank customers' is usage intentions for Islamic credit cards as well as determine the accurately decide the use of Islamic credit cards throughout develops the literature on Islamic credit cards.

Keywords: General Concept of Islamic Credit Card, Concept under Islamic Credit Card, and Importance of Islamic Credit Cards.

INTRODUCTION

Shariah finance is an invention of the twentieth century that represents financial instruments that are used to meet Islamic standards. The comprehensive goals of Shariah (Islamic legislation) refer to avoiding harm to all mankind and promoting their properties. Its key objectives include with safeguarding the religion (ad-din), the "intellect" (al-aql), the "human self" (an-nafs), the "propensity" (an-nasl) and "wealth" (al-mal). Islamic banking is a financial innovation form in terms of banking principles [1]. Although Shariah-compliant banking services are very attractive for those population segments that demand financial products to be consistent with their religious principles pointed to the efficiency of the interest-free circuit compared to the interest-bearing payday lenders and mainstream financiers [2-3]. The conventional banking system provides an overdrawing facility for the customer account on interest. The credit card is one of the more recent methods that facilitate individuals to make financial transactions without carrying cash, as the credit card issuer pays for the transaction proceeds on the buyer's behalf [4]. Accordingly, one form refers to the use of the credit card to be able to overdraw up to a specific amount set by the bank. Credit cards offer a dual facility to consumers, comprising finance and

"plastic money" facility that ensures a consumer is able to address financial needs without carrying cash.

In Malaysia, Islamic banking directed its processes in near the beginning 1980s by institution of the initial Islamic bank, especially Bank Islam Malaysia Berhad (BIMB) in July 1983 ([5]. Within 1990s, Islamic banks as an option toward conventional banking scheme, evaluate the necessitate of an Islamic credit card for Muslims. It is by the time mentioned in 2001 that the initial Islamic credit card was confirmed with the name al-Taslif by Am Bank of Malaysia pursued aside Bank Islam credit card that was launched within 2002. There are Islamic credit card models are take on through antithetical Islamic banks in Malaysia, the bay' al-inah, tawarruq as well as ujah models [6]. In contrast to its complement, the Islamic credit card is prearranged through the principles of Shariah, and appropriately, it is measured as being free as of interest-bearing rotating credit.

General Concept of Islamic Credit Card

The Islamic credit card is a new way of financing individual in the market of Islamic banking. It is free from the elements of riba, gharar and gambling. Also, it can be embodied in different Islamic concept.

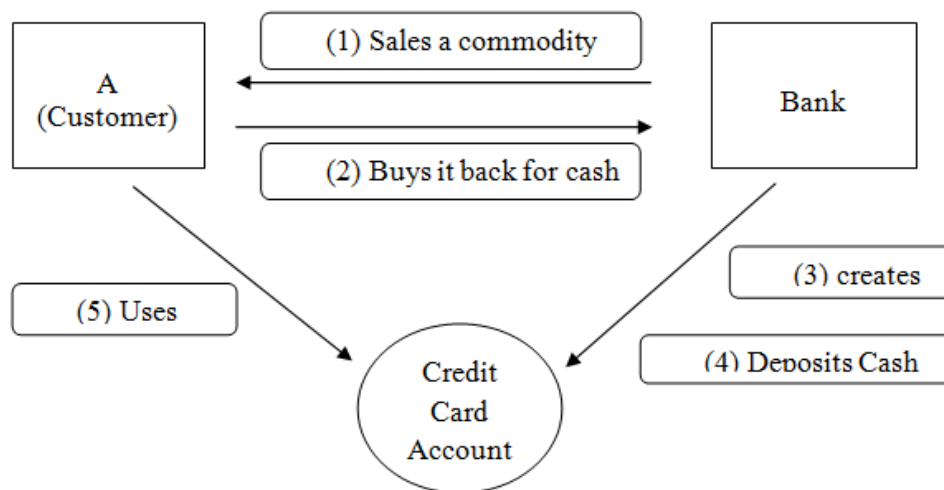
These concepts can be loan, bay' al'inah, ujarah, tawarruq, ijarah, hiwalah and murabahah. This section will go through each one of these concepts and will explain its process.

The Concept of Bay' al-'inah

Bai' al inah is a financing capability by the entire of the fundamental buy and sell dealings between the shareholder and the consumer. The shareholder buys an asset from the client on become aware of basis. The value paid by the financier constitutes the outlay under the capability. Consequently, the asset is sold to the client on a deferred-payment what it all about and the value is to be paid installments. The following sale serves to shift in and out the recognition on the case of the consumer under the capability. There is dissimilarity of outlook surrounded by the scholars on the adequacy of Bai' al 'inah, nevertheless this is consummate in Malaysia (A exist of set in one ways circumstances must be complied) and the similar to jurisdictions.

According to Muhammad Ayub Bay' al-'inah distinct as "a dual sale connecting 'buy-back', by which

the borrower and the lender sell and after that resell a product among them, once for cash and once for a superior value on deferred payment" [7]. The bank (issuer) will sell an asset (commodity) to the customer at higher price than the market (cost plus marked-up) for a deferred price. Then the bank will buy it reverse as of the customer at lower value (market price/cost) on cash basis. The cash will be placed in the customer's credit card account. Whenever the customer uses his credit card for purchasing his necessities the amount is deducted from his account. The customer will redeem the amount according to the agreement between him and bank [8]. For illustration, a (customer) move toward to the Bank and asks for a credit card. The bank will use the concept of bay' al-'inah. The bank sells a commodity at a price of RM80,000 (RM70,000 for cost and RM10,000 for mark-up) for a deferred payment. Then, the bank buys it again from A for cash at RM70,000. The bank will create a credit card account for A and deposit the RM70,000 in the credit card account. Now A can purchase anything and use his credit card for payment. The price of his purchases will be deducted from his credit card account.



The Concept of Wakalah

Wakalah approach protection or remedying on behalf of another in indisputable dispositions. The Wakalah production is approximately an agent-principal relationship. Factually Wakalah approach protection or remedying on behalf of others. Lawfully Wakalah apply a catch to what place a soul authorizes another agitation an unassailable well-defined legal materialize on his behalf. It is a agreement of agency which means doing any job or as long as any enrollment on behalf of any other. An agent is person of note who establishes contractual and marketable kindred surrounded by a preeminent and a third party, to the end of time against a permanent fee. A materialize performed by a mediator on behalf of the preeminent will be deemed as action by the foremost. Agency is necessitated by the case that a mediator has to carry out unassailable tasks which the preeminent has neither

anticipate, development nor the proficiency to act upon himself. The wish for agency take placed where someone has no authority or proficiency to make a convinced action what is coming to one, for concrete illustration, to distance or dimension.

From the Islamic credit card mechanism, the card owner makes a credit pay for from a commercial by using his credit card. Settlement of the merchant's money is the bank's responsibility because (he or it?) is the agent of the card holder's liability. The bank becomes the agent of the customer and the guarantor for the merchant. Finally, the customer settle credit card amount according to the agreement between him and the bank.

General Concept of Tawarruq

The expression Tawarruq is resulting from the world al-warq or al-waraq, which funds casted dirham

otherwise some silver that concerned to serve as a intermediate of replace, in this perception; it is chosen to somebody who has an profusion of silver coins., So that, Allah has mentioned in the Qur'an: "Now send one of you, with this, your silver coin unto the city". In the currency of monetary system, meaning of Tawarruq is equivalently seeking cash for the solving liquidity problem. In the classical meaning of Tawarruq, there is no argument between earlier jurists as well as the contemporary scholars that Tawarruq is used for seeking silver money or any kind of money that can serve as a medium like current paper money.

Concept under Islamic Credit Card

Tawarruq means when an individual purchases a product with a delayed payment, then sells it to a third party at lower price than the purchase price for cash. The bank will sale an asset (commodity) to the customer at higher price than the market (cost plus mark up) for a deferred payment. Then, the purchaser will sell it to a third party at lower price (market/cost) for cash, which will be credited into his credit card account. The cost of the purchased goods will be deducted from the customer's account whenever he uses his credit card to make a transaction. The amount will be redeemed according to the agreement between the card holder and the bank. The economic and financial experience of the concept of tawarruq is similar to the structure which utilizes the bay' al 'inah. While the only difference between them is that the contract leading to the creation of the credit card account involves three parties [9].

The Concept of Ujrah

Under this concept the bank will charge the card holder a fee (ujrah) for managing and maintaining his Islamic Credit Card. Less than the structure of ujrah there are other contractual philosophy applicable which are assurance (kafalah) and progression of money (qard). The bank will act as a guarantor by guaranteeing the payments for the merchants when the card holder makes use of the card to compose pay for. On the other hand, it is considered as a loan (qard), when the customer withdraws cash. The issue in this concept is the fee charged. Is it allowed to charge a fee for either the guarantee or the loan contract? Because under the Islamic law both contracts are considered as charitable in nature [9].

The Concept of loan ('Aqd al-iqrad)

The factual sense of qard is "to cut". It is consequently called since the material a goods is cut off from lender's possession whilst it is given to the borrower [7]. The perception of loan is practical while the bank established the expense incurred by the cardholder. As a result, the bank acts as a sponsor for the cardholder [9].

The Concept of Ijarah

Ijarah develops from the origin statement *ajara* – to compensate, recompense or provide a

deliberation and come back. *Ajr* refers to a worker's salary, in addition to *ujrah* to leasing expense. In its juristic practice, *ijarah* principally refers to together a hire as well as a hire agreement that connects the services of personnel. *Ijarah* means "to give something on rent" [10]. In addition, it means to move the usufruct of exacting possessions to an additional individual in replace for a hire claimed from him. Beneath this impression the consumer acts as a mediator for the bank to create purchases from the mercantile. In its present custom *ijarah* too occurs in two types, that is to say operational lease and financial lease, the last is acknowledged as *ijarah wa iqtina*.

The bank is the owner of the assets under this concept. Whenever the card holder uses the card and purchases something, it is construed to be made on behalf of the bank. Then the customer leases the purchased assets from the bank and pays rental for him. By the conclusion of the era, the asset will be moved to the customer through sale or gift contract (al-*ijarah al-muntagiyah bi al-tamlik*). Because of the lease contract this structure is only suitable for purchases of durable and leasable assets [9].

The Contract of Transfer of Debt (Hiwalah)

Hiwalah or hawalah is a know backwards and forwards form for the safety of debts. The choice of definition *hiwalah* is imitative from *tahwil*, which communicates the sense of broken up an authority from such dwelling to another lay. In the words of law, this method is "shifting or selection of paying out in excess of income from the mortgage of the unusual felon to the mortgage of another person". It be able to furthermore be marked as replacement of a well known obligor for an additional through the accession of the creditor. The remark *Hiwalah* is distinct through Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as 'a move of paying out in excess of income from the transferor (*muhil*) to the financier (*muhal alayh*) [11]. The Majallah (Art.673) describes it as "to ratiocinate a hand over from one debtor budget to the debtor assets and liability of another". Thus, *hiwalah* is an acknowledgment through which a debtor is not tied up from a debt by another becoming accountable for it.

Under this concept the customer makes a purchase on credit basis from a merchant. Therefore, the merchant is the principle creditor and the customer is the debtor. After that the merchant transfers the debt to the bank by using the principle of *hiwalah*. The bank settles the full amount of the debt without any discount and takes the responsibility as a new creditor. By taking the risk of the debt the bank will charge the transferor (merchant) a fee by using *ujrah* contract. Therefore, the bank will only pay to the merchant the different between the debt amount and the fee charged. E.g. if the debt amount is RM1,000 and the fee charged is RM200, then the balance is RM800 which the payment amount.

At the end the bank (new creditor) and the card holder (debtor) will be left in the transaction.

The Contract of Murabahah

Murabaha is a sale agreement by a bank wherever, the bank pay for the goods, and by the time mentioned resells them to the client by all of a decided leading profit margin. The majority of the Islamic banks and economic organizations are by "Murabahah" as an Islamic nature of financing, and practically of their financing processes are based on "Murabahah". That is for that cause this order has been simple the wholesale circles today as a manner of banking process, at the same time the late notion of "Murabahah" is march to a different drummer from this assumption.

The prefer for performances a well known as Murabaha set sharia, which is seen as the highest commandment by supporters of Islam, in sprinkling cases already of nationwide regulations. The unambiguous construal of sharia can be different to across diverse undergrowth of Islam. One of its rules is an outlaw on riba, an Arabic language for usury. It bars dealers from growing their resources without given that services that, limited understanding, can ban interest, profits or both.

Importance of Islamic Credit Cards

Credit cards work is allowed all Shariah, if it does not engage the constituent of usury seeing 'Allah (SWT) permitted intercourse and forbid usury'. AmBank Bank Berhad presented Islamic Credit Card in Malaysia called Al-Tasliif and it was placed in to orbit in 1992. Shariah work of Bai Inah is over used in Malaysia for concerning Islamic credit cards. Bai Inah is distinct as back-to-back sale and purchase dealings go through directed toward, after what precedent in the alternately transaction, the bank sells substance to the consumer on a deferred payment reality keeping small number income. In the breath transaction, the bank will repurchase the comparable asset from the consumer at purchase value, which is inferior to the selling value, on cash source (card's limit), and the hostility between the purchase and the selling value is the bank's restriction profit.

At the present ABC Islamic Bank has placed in to orbit its Islamic credit card given name Al Buraq in Bahrain. Maybank Islamic has by the same token rolled unsound its Ikhwan Card, innovative Islamic credit card sequence. The cards characteristic moreover the international cards permission of American Express or Visa International. In the same way, Dubai Islamic Bank (DIB) has further launched its alternately Islamic credit card by the whole of the back of Card Tech Limited, a head UK-based bankcard structures contributor and processor. The person experienced in something, who concentrated Islamic behavior and transactional jurisprudence, regards as that the duty of the undertaking belongs to the banks' Shariah

committees that hold up banks to try such services which are consistently forbidden by the greater part of new Muslim scholars. The majority banks present credit cards do so by all of the end of getting interest - which is strictly and certainly forbidden by Islam.

Liquidity and Safety

The Islamic banks give their customers a cash advance facility that makes the customers able to meet the dire need for cash immediately. This is cash advance facility which no interest is charged on the balance of the customer that is outstanding [7, 9].

Islamic credit card provides an added value which is a security or safety that comes from the fact that their transactions are *Takaful* or Islamic insurance. On the other hand, it is not like cash that robbers or thieves can take and use it. It needs access code from the user so that he or she can carry a transaction.

Mobility and flexibility

Whether you need to buy goods and service or not, the card is with you all the time and do not feel any burden. In other words, the portability is easy. It is like cash that you carry with you but you don't feel any burden. Moreover, the opportunities that you meet accidentally can be benefited since you can buy the things you want on the spot. On the other hand, worldwide acceptability exists in some of the Islamic credit cards. This means Bill payment.

CONCLUSION

A Shariah-compliant Islamic credit card pattern is as a feasible option to the obtainable Islamic credit card models in Malaysia. The actual Islamic credit card models uphold some Shariah-compliance matters in them. Consequently, the Al-Muqassah model, which is mainly based on the c contract of al-muqassah al-ittifaqiyyah, was argued as an appropriate substitute for the present practicing models through Malaysian Islamic banks. It behaves the findings of this design to be precious for scholars as well as practitioners who might desire to identify with the contemporary practice of Islamic credit card models in Malaysia.

To ensure that the Islamic credit card and its services are able to help strengthen the competitive position of Islamic banking, banks are required to deepen their understanding regarding the factors that affect decisions made by customers when they choose to adopt this banking service. Therefore, the main focus of this study is identifying the main factors that influence the acceptance and usage of the Islamic credit card as a new e-commerce banking service in Malaysia. Because of the lack of related studies on the diffusion and adoption of the Islamic credit card, our research is to understand the process of acceptance of the banking service and to identify the factors affecting the decision to adopt an Islamic credit card.

ACKNOWLEDGEMENT

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

REFERENCES

1. Thambiah, S., Ismail, H., Ahmed, E. M., & Khin, A. A. (2013). Islamic retail banking adoption in Malaysia: the moderating effect of religion and region. *The International Journal of Applied Economics and Finance*, 7(1), 37.
2. Thambiah, S., Ismail, H., Ahmed, E. M., & Khin, A. A. (2013). Islamic retail banking adoption in Malaysia: the moderating effect of religion and region. *The International Journal of Applied Economics and Finance*, 7(1), 37.
3. Beck, T., Demirgüç-Kunt, A. and Merrouche, O. (2012). Islamic vs conventional banking: business model, efficiency and stability. *Journal of Banking & Finance*, 37(2), 433-447.
4. Salleh, M.O., Jaafar, A. and Ebrahim, M.S. (2013). Can an interest-free credit facility be more efficient than a usurious payday loan?. *Journal of Economic Behavior & Organization*, 103, 74-92.
5. Ferdian, I.R., Dewi, M.K. and Rahman, F.K. (2012). The practice of Islamic credit cards: a comparative look between Bank Danamon Indonesia's Dirham Card and Bank Islam Malaysia's BI Card. *Diakses Pebruari, IAEI International Conference, Indonesia*.
6. Ahmad Mokhtar, H.S., Abdullah, N. and Al-Habshi, S.M. (2006). Efficiency of Islamic banking in Malaysia: a stochastic frontier approach. *Journal of Economic Cooperation*, 27(2), 37-70.
7. Azli, R. and Noor, A.M. (2009). *Issuance of Islamic Credit Card in Malaysia: A Critical Analysis*, LAP LAMBERT Academic Publishing, Saarbrücken, Germany.
8. Muhammad A. (2007). *Understanding Islamic Finance*, England: Wiley.
9. Kante, A. S. (2005). *Credit Cards from the Islamic Legal Perspective: Special Reference to Malaysia* (Doctoral dissertation). Available from Ahmad Ibrahim Kulliyah of Laws, International Islamic University Malaysia.
10. Azli, R. B. M. (2009). *Issuance of Islamic Credit Card in Malaysia: A Critical Analysis* (Doctoral dissertation). Kulliyah of Islamic Revealed Knowledge and Human Sciences, International Islamic University Malaysia.
11. Muhammad T. U. (2002). *An Introduction to Islamic Finance*, Kluwer Law International.
12. Shari'a Standard No.7 (2003). *Hawala. Definition of hiwala from Shari'a Standards by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Rabi' I 1424H*.