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Credit Cards: Contemporary Issues from Economic and Sharīʿah Perspective

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Abstract. Over the past few decades, the Islamic finance industry has witnessed exponential growth, intensified innovation and fast development in its products and services. This paper discusses the contemporary issues of credit cards from economic and Sharīʿah perspective and explains the implication of an optional interest clause. Islamic finance providers have experimented with different structures for Islamic credit cards, which, however, have attracted wide-reaching criticism regarding the underlying contracts and whether the concept in itself is in line with the Sharīʿah. From an analysis of the different market practices of Islamic credit cards, we notice that Islamic banks are struggling to find an appropriate approach to provide an Islamic credit card facility which is profitable and meets their financial intermediary purpose. We then propose the concept of prepaid Islamic credit cards and the idea of Master *Murābaḥah* Credit Card Agreement which would be more suitable and generate Sharīʿah-compliant returns. This paper also tackles the issue of consumerism and mounting indebtedness from the Sharīʿah perspective, and calls for restrictions and control by Islamic credit card issuers including limiting credits and blocking non-Sharīʿah compliant usages.

Keywords: credit cards, contemporary issues, economic and Sharīʿah perspective, Islamic credit cards, non-Sharīʿah compliant usages

KAUJIE Classification: Q22, Q4, Q5.

1. Introduction

Islamic finance is a fast-growing industry. Although Islamic finance assets represent less than 1% of global financial assets (Kammer et al., 2015), the global Islamic finance industry stood at an estimated asset of USD 1.87 trillion as at first half of 2014, and revealed a double-digit compound annual growth rate (CAGR) of 17% between 2009 and 2013 (IFSB, 2015). Islamic banking remains by far the dominating sector capturing a market share of 80% (KFHR, 2014), with more than 300 banks present in over 75 countries and according to Ernst & Young (2013), Islamic banks serve approximately 38 million customers globally.

The past decade has been characterized by increased innovation and an upsurge in hybrid and new Islamic financial products on Islamic banks' counters. Islamic banks are in a rat race to invent new Islamic financial products which mimic or serve as alternative to every single product or service offered by their conventional competitors in the market, in a rushing attempt to fill in all gaps and satisfy every financing need that may be thought of. This rivalry is the result of competitive forces on two levels: the first level, between the conventional banking sector and the Islamic banking sector in markets at national and international levels; and secondly, between the Islamic banks themselves.

With advances in technology, increased internet usage and e-commerce, the credit card has become an indispensable tool for effecting payment. The invention of credit cards was a turning point in banking history as they opened an avenue for easier personal financing through the concept of mobile money. Since then, credit cards have proliferated, and today, are indispensable to consumers especially in the West. According to the World Payments Report 2015 (Capgemini and RBS), global non-cash transactions volume reached 357.9 billion transactions, a year-on-year growth rate of 7.6% in 2013 and accelerated to 389.7 billion transactions in 2014. Cards make up the higher proportion of the payment services mix in all markets indistinctly. However, credit cards are being frowned upon as the promoters of consumerism and the cause of high levels of indebtedness. But due to its benefits and advantages, Muslims have been querying and questioning Sharīʿah scholars on the permissibility of the credit card usage as it involves the practice of *ribā* (interest).

Nevertheless, Islamic bankers and Sharīʿah scholars have found it imperative to develop an alternative to the conventional credit card, to cater for their 'Islamic' customers and be more competitive in the market. Thus, one of the latest developments of Islamic financial engineering is the Islamic credit card. The traditional credit card may not be permissible in Islam as it merely amounts to debt-financing and debt is a mute asset for which any increment to the principal is not justified. The concept of Islamic credit card has received a lot of attention from Sharīʿah scholars with differing opinions about its inherent nature and characteristics and what makes its returns permissible from the Sharīʿah point of view, because any increment outside sale, lease and sharing relationships may be in violation of the Islamic law.

The present paper aims at studying the contemporary issues of credit cards from economic and Sharīʿah perspective. The paper is herewith organized as follows: Section 2 discusses the main economic issues in credit cards; Section 3 presents the Sharīʿah perspectives and alternatives to credit cards and will be followed by the concluding Section 4.

In Section two, we will discuss the positive and negative points of credit cards including consumer and business facilities, payment and cash balances safety and security, increased consumer spending, debt-compilation, mounting indebtedness, etc. The operational characteristics of the various types of credit cards as well as the benefits to issuers, merchants and intermediary companies (Master, Visa, American Express, etc.) will be reviewed. We will also discuss the effects of credit cards on money supply and the securitization of their debts and the effects of these practices.

Section three deliberates the Sharīʿah vision of credit cards. This section discusses how credit cards have been treated in the Sharīʿah perspective. Some consider it to be *qarḍ* (loan) contract, *kafālah* (guarantee) contract or *ḥawālah* (transfer of debt) contract. The resolution of the OIC Fiqh Academy on credit cards will also be discussed including the permissibility of issuance fees and the charge on merchants. We will study the Sharīʿah perspective of the different kinds of cards and what are the Sharīʿah problems with them, including the Sharīʿah consideration of issuance fees, charge deduction from merchants and fees on cash withdrawals. The current market practices of 'Islamic credit cards' are critically analyzed, as well as the rollover effect on consumerism and debt accumulation. Finally we also discuss the issue of blocking certain usages like casinos, cash withdrawals, and the like. Lastly, the conclusion section will end our discussion.

2. Main Economic Issues in Credit Cards

2.1 Definition and Mechanism of Credit Cards

The modern credit card has been defined physically as a rectangular piece of plastic, graphite, or a metallic alloy, which represents a financial account.

Credit cards contain a magnetic strip on the back (or some have an RFID chip) and an account number and account name are usually imprinted on the front (Landes, 2013).

Yee et al. (2007) defined the credit card as a means of payment that involves the concept of buying first and paying later (cited in Amin, 2012).Similarly, Dali et al. (2007) defined the credit card as a system of payment named after the small plastic card issued to users of the system. In contrast, others have identified the credit card as the concept of 'plastic' money. The Bank Negara Malaysia defined the credit card as 'plastic' money which grants credit facility to the cardholders (cited in Gustina et al., 2010), and Billah (2012) stated that credit cards, known as plastic money, is an essential payment mode nowadays.

The OIC Fiqh Academy, in its seventh session in Jeddah, Saudi Arabia in 1992 (Resolution No. 63/1/7) defined the credit card as: "*a document given by its issuer to a mutual or a juridical person on the basis of a contract between them enabling it to buy goods or services from a vendor who approves the document, without paying the price immediately as the document includes the issuer's commitment to pay.*" This definition seems to be in need of updating because nowadays merchants receive credit in their accounts immediately while the customer' credit account is debited but the latter's payment to his banker is delayed.

Although the concept of merchant credit existed throughout all ages and civilizations, the modern credit card industry dates back to the 19th century. According to MacDonald and Gastmann (2001), the idea of the modern credit card was most probably originated by the journalist Edward Bellamy in 1888 in his book 'Looking backward: 2000 – 1887' where he visualized a world without coins, notes or currencies in circulation, and where people would use 'pasteboard credit cards' to make payment. Akers et al. (2005) explain that in the early 1900s, the concept of credit card was limited to only one merchant or a group of merchants or bounded within a limited geographical area. At that time, major U.S. hotels and department stores issued paper identification cards to their most worthy customers and the card was a symbol of the customers' creditworthiness and status. The cards then enabled merchants to secure loyalty from their privilege customers and cardholders were able to benefit from purchase of goods and services by drawing on pre-established lines of credit.

The first modern credit card was introduced by Western Union in 1914, which was a scheme to charge-and-settle-up-at-the-end-of-the-month and identification was used in the form of metal dog tags (MacDonald and Gastmann, 2001). However, it was the General Petroleum, a chain of California gas stations, who was the first to employ the term 'credit card' in its General Petroleum credit card in 1924 which was soon followed by its competitors Mobil Oil and Shell (Ibid.). One of the notable developments in the history of credit cards is the Diners Club which was invented in 1949 by Frank McNamara, with the idea of enabling payment at many restaurants with one card. It was the first general purpose charge card which enabled its cardholders to purchase goods and services from many different merchants and was designed to be used for entertainment and travel expenses.

Slowly, the concept of credit cards in the United States became popular and gained momentum with the issue of credit cards by banks. The Bank of America was the first in late 1950s to issue the first general purpose credit card program. Since banking laws at that time restricted the operation of individual banks by geography, Bank of America allowed other banks to license its credit card to increase the number of cardholders and its acceptability among retailers and merchants. As the network expanded and became more complex to manage, the Bank of America created a separate entity for its credit card operations into what we know today as 'Visa' (Akers et al., 2005). Following Bank of America's eminent success with the credit card, other banks created a rival card network in 1966 into what is today the MasterCard. In addition, many other firms and companies created their own card network such as Diners Club, the American Express (a charge card system introduced by the American Express Company in 1958), the Discover credit card (introduced by Sears, Roebuck and Co. in 1986) (Ibid.). The credit card network has known leaps and bounds in the last decade, and today, regroups a large number of cardholders and merchants who accept the card for payment of purchases.

The extension and acquisition of a large network has known some difficulties because some merchants were reluctant to honor credit cards that would compete with their own store-branded credit cards, but most importantly, the fees charged by the credit card network was a deterrent. However, once merchants realized that credit cards boosted sales, things changed, and nowadays credit cards are widely accepted worldwide with stores and retailers being increasingly included to the credit card network.

The credit card is used for both at-the-counter payment and e-shopping and is thus, convenient and safer. In many instances, the credit card is a pre-requisite in online transactions as a guarantee of genuine transactions such as in hotel booking. Therefore, it can be defined as follows: the credit card is a payment card issued by a bank or finance company to a cardholder enabling him either to pay for goods and services directly at points of sale or online or to obtain cash advances up to an agreed credit limit to be repaid in future. It must be realized that the credit card is not a means of payment and the credit limit on it is not counted as part of the money supply. It is rather a means to effect payment so that the amount of payment itself, as a credit in the account of the seller/merchant is the money created by the card use. In other words, the credit card is similar in this regard to a cheque which is considered not as money but a means to transfer money. An important difference here is that the seller gets immediate credit in his bank account while the demand deposits of the cardholder is not reduced by a similar amount. A point which means that the use of credit card is an activity of money creation at the same time which represents an increase of money supply until this created money is killed when payment is deducted from the cardholder account.

The credit card is different from the debit card as the latter uses the funds directly from the holder's account for each transaction. A charge card is also different from a credit card as the charge card requires the customer to repay the balance in full by a due date whereas the credit card grants the customer a revolving debt balance subject to a ceiling and interest charges.

According to AAOIFI (2010), the credit card has the following main characteristics:

1. It provides a revolving credit facility within the credit limit and credit period determined by the issuer of the card. It is also a means of effecting payment.

2. The holder of the credit card is able to pay for purchases of goods and services and to withdraw cash, within the approved credit limit.

3. When purchasing goods and services, the card holder is given a free credit period, during which the amount due should be paid and no interest is chargeable during this grace period. The cardholder is also allowed to defer paying the amount due and is charged interest for the duration of the credit. In the case of a cash withdrawal, there is no free credit period.

We must add however, that most cards charge interest on cash withdrawal from the day of withdrawal until the actual day of payment which means that the grace period for payment does not apply to cash withdrawal.

The credit card system involves three parties: the issuer which is usually a bank or a finance company (e.g., a credit card company), the merchant and the cardholder. However, in most cases, another party is also involved, that is, the credit card intermediary companies or networks like Visa or Master Cards companies. The difference between a credit card issuer and a credit card network, which may sometimes be the same institution, is that credit card issuers are the financial institutions which issue credit cards to consumers, offer them credit, service their accounts, provide the card's rewards and privileges and are responsible for card security. Conversely, the credit card network, operated by credit card companies, defines the acceptability of the credit card, determines where it can be used and facilitates the payment process between credit card users, merchants, and credit card issuers. However, some credit card network companies (American Express and Discover) also issue their own credit cards while credit cards of the Visa or MasterCard network could be issued by banks and other companies independent from Visa or Master Card companies.

2.2 Benefits and Advantages of Credit Cards

The credit card system confers benefits to all parties concerned (cardholders, issuers and merchants). This is why they have become so popular within a short span of time. The credit card is a convenient and secure payment tool accepted worldwide in consumer and business transactions, whereby cardholders benefit from increased purchasing power, and if good use of the card is made, the cardholder can derive maximum advantage by borrowing and repaying on time without any additional charges and possibly even rewarded in terms of points or cashback. Cardholders can purchase goods and services by drawing on the line of credit if they do not have sufficient cash. Credit cards often offer a grace period during which cardholders are effectively taking an interest-free loan. This may be useful in managing cash flow for both consumers and businesses provided the facility does not seduce the beneficiary to over use it, i.e., use it beyond one's capacity to pay by the end of grace period. The credit card is ideal as a safe means of effecting payment, curbing the need for people to carry cash and they are widely accepted around the world. Credit cards are also an easy and secure way to pay for e-shopping and are useful in case of emergencies. A credit card is more safe and secure than other means of effecting payment, and if a card is used fraudulently, the cardholder is not responsible because he did not make that use. Credit cards help its users keep track of their expenses and when used wisely, build a good credit history which may qualify the cardholder for better credit facilities in future. Some credit cards have a special consumer protection feature in the sense that if a cardholder pays for a purchase with a credit card, he/she can claim his/her money back from the credit card provider in case the transaction is not executed (for instance, if the purchased item is defective or is not delivered).

Although merchants have to pay an interchange fee to be able to accept payment cards, the resulting benefits are rewarding including guaranteed payment, enhanced competitiveness and increased sales, fraud protection and cash balances safety and security. The credit card system is safe and secure as merchants now hold much less cash than without the use of payment cards, therefore reducing the merchants' risk of being targeted for theft. In addition, the credit card payment system boosts sales and increases revenue for merchants as consumers spend more on impulse than they usually do when they pay in cash. Since many businesses now accept payment through credit cards, other competing ones should follow the same trend so as not to lose out customers and some innovations, such as the contactless functionality of MasterCard's Pay Pass™, are very convenient and useful during peak shopping periods for merchants who may lose out customers simply because of long queues at the counter. The credit card has opened up global access and merchants can do business with cardholders worldwide safely as the credit risk of cardholders is shifted from the merchant to the issuing bank and merchants are guaranteed payment whether the cardholder repays their credit card balance or not. Therefore, accepting payments through credit cards reduces the risk of fraud and non-payment and improves the cash flow of businesses as transactions are processed electronically and settled quickly, without going through the hassle of handling other means of effecting payment such as, check verification and processing, bounced checks or counting and transporting cash. In some cases, such as e-commerce, the most useful payment mechanism for merchants is the credit card.

Issuing a credit card is always conditional upon the approval of the issuer, and it is subject to a credit limit. Issuers are willing to provide credit cards to their customers as it is a profitable business and they benefit in both tangible ways, which directly increase their profitability, and intangible ways by enhanced customer loyalty. First of all, credit cards carry different types of fees ranging from fees for issuing the card, an annual fee for being a cardholder, renewal fees upon renewal of the card. Fees are also associated with specific transactions such as upon cash withdrawals while others are in the form of penalties such as fees for exceeding the credit limit or making a late payment. Second, the credit card is a means for issuers to lend money on interest. When the credit card is used to make purchases, interest is charged at very high rates if it is not repaid within the grace period, while there is no grace period for cash withdrawals for most credit cards. The credit card is also a means for issuers to benefit in terms of brand and customer loyalty. For example, in the case where banks issue credit cards, most likely the cardholders will have an account at the same bank and that they will use the same bank for additional financial products. Issuers also profit from part of merchant fees. Merchants have to pay a fee which is associated with the cost of the technological infrastructure necessary to be able to accept payment through credit cards and process a range of major credit cards.

There is a lot of cost involved in maintaining the credit card system including the cost of processing data to handle payment authorization, clearing and settlement, maintenance of cardholder account histories, payments, operation of a safe and secure system, amongst other functions. Merchants are charged a merchant fee (which may take the form of a monthly service fee, fees for particular services and/or a per-transaction fixed fee or a percentage of the purchase transaction amount) to access the system through the payment processor. The merchant fee, often referred to as the 'merchant discount rate', is shared between the payment processor (the entity which connects the merchant to the credit card company's network), the credit card issuer and the credit card company. The merchant fee also includes an interchange fee which is a market-based fee set by the credit card company for accepting credit cards and often varies by credit card company, by retailer type and by card type (regular, premium or commercial).

2.3 Types of Credit Cards

Credit cards, once simple and standard, today are differentiated with varying interest rates, fees, rewards and privileges and a single issuer often provides an array of credit cards each with different features. There are various types of credit cards available in the market, namely: the standard credit card, credit cards with rewards programs, airline miles/frequent flier credit cards, bad credit and/or credit repair cards and specialty credit cards. We will consider the most common ones.

Standard Credit Card

It is the most common and general purpose credit card provided by banks and institutions. They have revolving credit lines, unsecured and do not require security deposits although customers usually need to have a minimum monthly income to be issued a credit card. There are different ways the interest rate is calculated and the card can be a balance transfer credit card (which enables customers to transfer a high interest credit card balance to a credit card with low interest rate) or low interest credit card (which offers either a single low fixed rate, or a low interest rate which increases to a higher rate after a defined time period).

Credit Cards with Rewards Programs

These cards give their users incentives to use their cards in purchase transactions in the form of rewards. For each unit of currency used on the card, the cardholders accumulate points and can redeem them for the rewards as per the terms and conditions specified by the card issuer. Credit cards with rewards programs come in different forms and the most common ones are the cash back credit card, the general reward points credit card and retail rewards credit card.

The cash back credit card provides the cardholder with cash rewards for using the card to make purchases. The more the card is used, the more cash rewards are earned. Some cards carry a higher cash back percentage with increased usage while others may offer higher cash back rewards at selected merchants or for specific types of purchases. Similarly, with the general reward points credit card, cardholders accumulate points (depending on usage of the card) which can be redeemed for a reward. The only difference is that in a general reward points credit card, the cardholders are offered different items instead of cash points such as gift cards, electronic items, restaurant vouchers, hotel stays, amongst others which are often limited reward programs or promotional offers.

The retail rewards credit cards are credit cards which are co-branded with a major retailer, such as Amazon.com, and cardholders earn rewards for purchasing from the co-branded retailer. However, these points have limited redemption features as they should be redeemed for products and services provided by that same retailer. Credit cards under this category also take the form of hotel or travel points credit cards which earn points for all payments and purchases at hotels and travel depending on the card type. Another reward credit card is the gas card with points or rebates which can be general (applies to all companies) or brand-specific (earn rewards only when purchasing from that particular company).

The type of credit cards and associated reward programs also depend on customers' creditworthiness. For instance, we have premium credit cards ('gold' and 'platinum card') which are for private banking and high net worth customers who have excellent credit rating and are high-income earners and heavy spenders. Some of these cards are offered only by invitation and may include first-class privileges such as international concierge services, valet parking, membership club privileges, priority passes, worldwide travel assistance and insurance.

There are many other types of credit cards with reward programs available in the market but, these types of credit cards often come with a high annual fee and higher interest rates. Customers normally weigh the rewards and benefits to the cost and charges before subscribing to a particular credit card type. Such credit cards have many rules and restrictions, and for the consumer to actually benefit, he/she should minimize finance charges by repaying on time, or the trade-off (finance charges against rewards) may not be a profitable one. The interest cost may often outweigh the rewards. For instance, if a person is not a frequent traveler, the hotel or travel points credit card may not be beneficial.

Bad Credit and/or Credit Repair Cards

Such credit cards are usually designed for customers with poor credit histories which may be the result of poor budgeting, over-consumption of the credit line, loss of job, low income, etc. In most cases, banks are not willing to provide credit cards to customers with poor credit card histories unless the card is a secured or a prepaid one. The secured credit card requires the customer to provide collateral and/or pre-determined security deposit as security for the credit card which is generally equal to or more than the credit limit. Secured credit cards are also issued for those who have no credit history and usually carry an application fee. In contrast, prepaid credit cards do not provide a line of credit and do not carry any interest costs, but are used and are accepted like the standard credit cards. The prepaid credit card helps consumers avoid excessive debt since the credit line is limited to the sum transferred to the card (similar to a debit card), although the prepaid credit card carries different fees (application fee, monthly fee, reload fees, etc.) and sometimes charges a margin over the amount withdrawn.

Specialty Credit Cards

These credit cards are tailor-made for consumers with unique needs, such as business professionals and students. Business credit cards carry many identical features as the traditional credit cards (rewards and privileges) but some additional benefits are exclusive to businesses such as consolidated statements, supplementary cards for employees, higher credit limits, convenient billing cycle, amongst others. The students credit card is especially designed for students as in most cases, they are not eligible for the traditional standard card as they have little or no credit history. The rewards and privileges are restricted as compared to consumer credit cards but, some cater for student needs by offering discounts on purchase of books or university materials from selected stores.

2.4 Uses and Drawbacks

Credit cards are popular as they are an easy way of obtaining personal financing and cash in advance as well as an easy and safe means of payment. According to Mansor and Mat (2009), there is an increased interest in marketing credit cards in most countries of the world and organizations are constantly innovating and seeking competition edges by attempting to segregate the market through creating different market segments and differentiated services. Some companies have strengthened their competitiveness in the market through coordination and building relationships with retailers to ensure their credit cards are the most acceptable, preferable and convenient in handling purchase transactions (Howarth, 1990; cited in Mansor and Mat, 2009). For example, Diners Club card is a type of credit card which provides an array of payment options, benefits and exclusive offers by partnering with leading merchants, restaurants and service-industry brands around the world. Similarly, affinity cards not only provide the basic functions of the usual credit card, but it also offers incentives, rewards and privileges to use the card in purchase transactions.

The assortment of credit cards with varying attractive rewards and privileges fused with the ease in swiping a credit card voguishly no doubt appeals to and fascinates many consumers. However, Landes (2013) states that the credit card is one of the most divisive products among all available financial tools and, if put in the wrong hands, can be dangerous. This is because credit cards have both their benefits and drawbacks, but the probable outcomes will depend on the skills and knowledge of the user and the way he/she chooses to use it.

One of the advantages of being a credit cardholder is that the consumer experiences a boost in purchasing power because the credit line can be used to purchase goods and services and repay in installments. It is also useful in case of need for emergency cash and unexpected events. The cards can generally be used everywhere (points of sale, internet and ATM machines) and some even overseas, thereby enabling people to make purchases and payments without the need to carry cash. Rewards and privileges (in the form of discounts at selected stores, collecting and redeeming points for free items and cash back) are unique features benefited by being a credit cardholder. Moreover, some credit cards can help build one's credit history (such as special cards for students) or improve the credit history (when payments is always made within the due date) and make the consumer eligible for better borrowing rates on loans. In many instances, the role of credit cards is undisputable in e-shopping and e-commerce or as guarantee for online booking transactions. According to Fineberg (2013), the concept of using credit cards to guarantee payment sparked explosive sales growth for expenditures on transactions which required a system of insuring payment (such as in hotel booking or car rental to mitigate risks that customers shirk reservations later), as well as extending to second-hand markets where exchange transactions could take place between sellers and buyers using services such as Amazon.com and eBay.

However, what was designed to be a facilitator of transactions and financing, has today become a source of prestige and the cause of debt-compilation, mounting indebtedness and financial instability in a society. Credit cards have become a way of life in the society, especially the younger generation, where different types of credit card such as Master and Visa and category gold and platinum, represent the wealth status of a person. The credit card is a double-edged sword which if used unwisely, can have harmful consequences. First of all, the very concept of credit card encourages consumerism and debt-taking. According to Landes (2013), it has been scientifically proved that consumers are more likely to complete a purchase transaction when they use credit cards than with cash, because cash acts as a psychological barrier in making people feel it is more scarce and ought to be conserved. With cash, consumers do not spend more money than what is in their wallet, but once a credit card is approved with a certain limit, the bank will make payments for all purchase transactions executed until the limit is reached. Sometimes, even if execution of payments for a transaction exceeds the credit limit, banks approve the transaction and charge their consumers for exceeding the limit (Ibid.). Most consumers would tend to roll over a balance for several months for which they would be charged interest and if they default, additional late fees are charged, therefore increasing their total debt load.

2.5 Consumerism and Mounting Indebtedness

Wright and Rogers (2009) define consumerism as a perception that the happiness and wellbeing of individuals is very much dependent on their level of personal consumption, particularly consumption of material goods. The whole concept of consumerism does not only mean that welfare depends upon certain living standard threshold, but most importantly, that happiness and utility is derived from increased consumption and material possessions. In consumerist societies, the culture of consumerism nurtures immediate consumption at the expense of savings and even, taking on debts. Countries in the West are mostly consumerist societies, for instance, the USA, and no other tool has fostered consumer credit and consumerism more than the credit card.

Credit cards, until the 1950s, were in very limited use and took the form of mostly specific cards issued by specific merchants or groups of merchants. It was only in 1958 that the Bank of America created a bankcard, the first general purpose credit card, which eventually became the Visa card. Afterwards, in 1966, the Master Card was created by a group of banks and from then on, the credit card industry experienced growing acceptability and popularity on all fronts; consumers, merchants and issuers (Ibid.) Fineberg (2013) explains that the very unique credit card network structure served as a pedestal for the proliferation of credit cards in the U.S., because it assembled banks, merchants and consumers under the same umbrella and each party found its own benefits from issuing or using it. He also explains that if any one party had found the credit card structure in conflict with his own interests, the credit card would have remained economically unviable. Following the advent and prevalent use of internet in personal and commercial life, the credit card gained even more importance and increased use as it developed a new hassle-free mobile payment mechanism.

During the last decades, the number of issued credit cards has grown exponentially. The total number of credit cards in circulation worldwide totaled 14,440.5 million as end of 2012 and is forecasted to cross the threshold of 20 billion by 2017 (Nilson Report, 2013). The Visa credit and MasterCard credit accounted for 22.1% and 14.4% of all purchase transactions at merchants worldwide in 2013 (Nilson Report, 2014). The level of credit card debt was at its lowest in 2014 in U.S. since 1990 (Nilson Report, 2015). The same source states that total household debt in U.S. was $13.512 trillion at end of 2014 and credit cards debt accounted for only 6.52% ($881.57 billion). However, statistics also showed that the credit card debt increased by $38.23 billion in real terms while the total U.S. household debt also increased by $341.70 billion, which may account for the lower percentage of credit card debt to total debt. The credit card debt per U.S. household was $7,154 as end of 2014, which is a rise from $6,887 in 2013.

Such high levels of debt are alarming and actions are required from the part of the regulators to tame or control mounting indebtedness, especially since it is a contributing factor to consumer bankruptcies and financial instability. There has also been an intensified solicitation of college students in the past decade, especially in countries where the credit card industry has reached maturity stage and more flexibility is seen in offering credit cards to students with no credit history and no parental signature. Johnson (2015) explains that amendments were made to the U.S. law through the Credit Card Act of 2009 to add protections and make it more difficult for students to fall into credit card debt, especially since the average student loan debt is estimated at nearly $35,000 for 2015 graduates.

The Credit Card Act of 2009 (TITLE II – Enhanced Consumer Disclosures; Sec. 201) also requires that credit cards should contain a warning: *'Minimum Payment Warning: Making only the minimum payment will increase the amount of interest you pay and the time it takes to repay your balance'*, or a similar statement the Federal Reserve Board develops. The reforms made in the finance sector also require that the card issuer informs the cardholder in his statement how long it will take and how much it will cost to repay his/her balance if he/she only makes the minimum payments as well as informing him/her how much he/she must pay in order to pay off the balance in three years or less and the savings made as compared to paying only the minimum payments. The objective behind such amendments is to tame rising credit card debts among the population and ensure people take informed decisions. It is often the case that most credit cardholders do not know that if they make only the minimum payment, it costs them more in terms of finance costs, whereas if they are provided such detailed information, they can choose the most cost-efficient option.

Many factors contribute to the prevalence of credit cards, among them, the willingness of lenders themselves to provide credit either by providing incentives and issuing credit cards with rewards and privileges or simply relaxing the requirements for providing credit cards and extending the credit line. Reckard and Starkman (2015) reported that banks are more readily increasing borrowing limits for credit card customers recently although, many of them are subprime customers. This change comes about as a result of lower interest rates where banks seek to make more money by flexing lending standards, but this may also mean defaults in credit card repayments or delinquencies in the future.

2.6 Securitization of Credit Cards Debts

Another practice which has gained momentum in the past decade is securitization of loans and debts, among which, is the credit card debt. According to

Kahf (2006), securitization is a mere representation of assets in financial forms. Opstal (2013) defines credit card securitization as a mechanism by which credit-card-issuing banks pool credit card receivables and raise funds by selling securities backed by the cash flows generated from those receivables.

Financial institutions use securitization as a funding instrument (to manage liquidity), a risk management tool (to manage interest rate risk), as well as generate fee income. Securitization may be an attractive source of funding or a way to diversify funding sources for issuing banks, as they usually benefit from a lower cost source of securities selling than from other sources, especially institutional funding. This is because asset-backed securities are rated based upon the securitization structure of underlying assets and credit enhancements rather than the ability of issuing institutions for repayment, which is opposite to bonds which are normally asset-based issues that depend on the credit rating of the obligor. Therefore, even low-rated companies can obtain attractive rates on funding from the market through securitization. Credit card securitization also benefits issuing banks as it enables them to separate the credit risk of securitized assets from the credit risk of the bank. Securitization of credit card receivables is an important source of funding for many issuers, and the level of credit card asset-backed securities outstanding in the U.S. was estimated at $324 billion in 2007. Following the crisis, the package of reforming the American financial market of 2010 aimed, inter alia, at reducing this easy way of liquidity by introducing dramatic regulatory and accounting rule changes which caused this number to drop to $128 billion in 2012 (Opstal, 2013).

However, the Sharīʿah does not allow the securitization of credit cards receivables and trading them as they are simply debts which, by their own nature, are mute and non-increment generating assets. In other words, the Sharīʿah applies the rules that are appropriate to the transactions of the underlying properties to the securities representing them. Therefore, from the Sharīʿah perspective, securitization is permitted only for physical properties (goods, inventories, fixed assets), intangible and economic rights (patents, publication rights, trademarks, etc.), usufructs and services. In contrast, securitization of credit cards receivables would not be permitted in Sharīʿah as they are simply debts packaged and issued to the security holders who will be entitled to a fixed or variable interest payable by the credit cards' debtors.

3. Sharīʿah Aspects of Credit Cards

In this section, we discuss the modern credit card and the different contracts involved between the parties (credit card issuer, cardholder, merchant, and intermediary network company) from the Sharīʿah perspective. We will analyze the contract of credit cards and discuss its appropriate classification in Islamic law. We deliberate on the interest clause present in credit cards and discuss the permissibility or impermissibility of a multitude of fees charged at different transaction levels by credit card issuers and intermediary network companies. We refer to the resolution of the OIC Fiqh Academy on credit cards including permissibility of issuance fees and the charge on merchants. We also consider the structure of 'Islamic credit cards' currently practiced in the market and discuss their pros and cons on consumerism and debt accumulation and assess whether such cards and what they entail of behavior and practices are in line with Sharīʿah principles. As a final point, we explain that Sharīʿah permissibility, which is one of the conditions in Islamic finance contracts, should also be observed in Islamic credit cards and hence, non-Sharīʿah compliant usages like casinos, bars and discos, and the like should be blocked.

3.1 The Sharīʿah Stand on Conventional Credit Card

Before the introduction of the Islamic credit card, many issues and queries were raised on the permissibility of the credit card, its Sharīʿah implications and negative impacts of promoting consumerism and debt-compilation. There is no doubt that a credit card is a very useful payment mechanism and in itself has no violation of any Sharīʿah rule. However, when the same credit card is also used as a legal device to provide loans to consumers subject to interest charges, the Sharīʿah treats it differently. Al Hakim (2012) noted that there is great disparity between Sharīʿah scholars regarding the permissibility of credit cards with certain conditions or their prohibition. However, generally, contemporary Sharīʿah scholars have adopted two broad stands: some scholars consider it permissible if certain conditions are fulfilled, while others consider conventional cards as not permissible due to the interest element. Those who consider the credit card usage as permissible in Sharīʿah, laid down two conditions which should be strictly adhered to: one, paying off the full outstanding balance within the grace period and two, shunning any cash withdrawals and any action which trigger the interest clause.

The Council of the Islamic Fiqh Academy of the Organization of Islamic Conference, after debating and researching on the issue, in its Twelfth Session (Resolution No. 108, 2/12 on "Credit Cards") held in 2000, resolved that the conventional credit card is not permissible in Islam if its conditions include imposition of interest, even if the intention of the cardholder is to repay within the moratorium period that precedes imposition of interest. However, the OIC Fiqh Academy also explained that it is permissible in Sharīʿah to issue credit cards that do not carry a condition of imposing interest on the debt, and in this regards, two things are permissible. First, the issuer can take a specific sum of money from the cardholder at the time of issuing or renewing the card (issuance and renewal fees) as it is a fee for a service provided. Secondly, it is permissible for the issuer to take a commission on the goods or services purchased by the cardholders, provided that such goods or services are sold at the same price whether in cash or credit. This means that the issuer may take a commission from the merchant provided the latter does not increase the price when a card is used. However, the commission charged will be equivalent to charging the cardholder for provision of a service, that is, the ability to make purchases with the credit card.

According to al-Hakim (2012), Ibn Manīʿ believes that the use of conventional credit cards is permissible, whereby the issuer actually bears the indebtedness that results from making either purchases or cash withdrawals as long as this indebtedness does not carry any interest as all Muslims know that interest is not permissible, especially that the cards have many advantages and conveniences. However, Ibn Manīʿ further opines that if the card is based on Islamic requirements such that it does not generate *ribā*, but there are issuance or replacement or cardholder fees or even fees imposed on the withdrawals at ATM machines or so, then this situation represents benefits derived from the services provided by the issuer. Therefore, there is nothing wrong in taking and paying such fees.

The OIC Fiqh Academy also came to the conclusion that it is permissible to make cash withdrawals with credit cards provided it does not entail any interest. This would be similar to a loan contract and the issuer can charge only a fixed amount of money as a fee for the actual cost of services, which is not conditional upon the loan amount or its duration. But any charge over and above this fixed amount is not permissible because it is *ribā*, as indicated in Resolutions No. 13 (10/2) and 13 (1/3) of the FA.

It is apparent that credit cards have several characteristics and involve different parties with more than one contract involved. The main contract however, is the credit card contract between the issuing company/bank and the card holder. But this contract could not be functional without the other two background contracts which regulate the relationships between merchants and the intermediary network company on one hand, and between the latter and issuing financial institution on the other hand. These last two contracts are also mingled together one way or the other. We will start with the last two contracts because they set the ground for the use of credit cards.

Network companies such as Visa and Master Card contact merchants to accept the credit card and offer them guaranteed immediate transfer to their bank accounts of the charges owed by the card users (let us note here that this guarantee is executed through the contract between the network company and the issuing institution, not by the network company itself) in exchange for a fee ranging usually between 1.5% and 5% of the amount of sale. The merchant's benefit of this contract is safety of avoiding cash handling and assurance of payment in addition to expanded and increased sale. The income of the network company is this fee deducted from payments to merchants.

The second contract, which is between the issuing financial institution (FI) and network company, offers the FI the right to issue the plastic card carrying the name and logo of the company and using its network facilities. Network companies charge a handsome amount of fee for this contract and the FI enjoys the privilege of card issuance. The latter is also committed to immediate transfer of network fees to the network company and immediate transfer to the account of merchants of amounts of sale net of the network fees, while they charge the total price of sale to the credit card account of the cardholder. The benefit of issuing FI from this contract is only the mentioned privilege which has a potential of earning fees and interest from cardholders, while the income of network company is the yearly fee payable by FI.

These two contracts are usually standard templates with the amount of fee being the only negotiable item and with giant counter parties only. These two contracts are discussed by Sharīʿah scholars and ruled Sharīʿah compliant as it is not unlawful to charge a fee or commission in return for services provided. The OIC Council of the Islamic Fiqh Academy, in its Fifteenth Session (Resolution No. 139, 5/15 on "Credit Cards") held in 2004, resolved that it is permissible to charge fees from merchants and service providers (issuers) as explained in resolution 108 (2/12), since they are simply fees charged for providing a service. The fees claimed by an issuing bank to merchants or by the network companies to the FI are against the provision of a service and the authorization to use the system. There is no interest element as such fees are charged independent of the relationship between the issuer and the cardholders. Such fees are permissible from the Sharīʿah point of view and they represent a valid charge for services rendered.

The conventional credit card contract between issuing FI and cardholders offers the latter the right to use the card and enjoy the grace period for payment against (what FIs know from their experience) huge expected interest earning, because most people do not pay the entire balance within the grace period. Additionally, many FIs charge annual fees for the card. Several writers attempted to analyze this contract and find in it elements of *qarḍ*, *kafālah*, *wakālah* and *ḥawālah*.

The credit card is used to make payments for purchases of goods and services or used for cash withdrawals. When it is used for cash withdrawals, the resulting contract is a *qarḍ* (loan) contract, since the cardholder is given cash money and the rules and conditions for the trade of debts apply. In this case, it is not permissible for the issuer to charge the cardholder an increment on the amount withdrawn. But, in the case where payment for purchases is made, the resulting contract is not really a *qarḍ*, especially that *qarḍ* in Sharīʿah requires handing the loaned item as part of the *qarḍ* itself without which there is no *qarḍ* contract. It is simply buying and having another party to pay for the purchase.

According to Abu Suleiman, in his book on 'banking cards', writers have differed on whether the credit card transaction consists of one single contract or combined contracts or multiple independent contracts. Some said that it includes only a single contract and that it is only a *kafālah* contract, while others said it is only a *ḥawālah* contract. Others view it as *juʿālah* and/or *kafālah*, and other opinions were raised that it is a combination of either two contracts of *kafālah* and *wakālah*, or *ḥawālah* and *kafālah*, or *ḥawālah* and *juʿālah*. As for those who said the credit card contains multiple independent contracts, said it is credit, *wakālah*, *kafālah* and *ḥawālah*. (IBRC, 2015).

Some writers consider that the relationship between the cardholder and the issuer has elements of *wakālah* and *kafālah* (IBRC, 2015) because it has a promise of lending from the issuer to the cardholder, and when the card is swiped, the contracts of *wakālah* and *qarḍ* are triggered. The issuer pays the merchant on behalf of the cardholder and the issuer acts on behalf of the cardholder and collects from him later. Therefore, they argue that the undertaking and guarantee of payment provided by the issuer on behalf of the cardholder form the basis of a *kafālah* contract. However, there are several elements which should be present to make a contract into *kafālah*, such as, the creditor must call on the debtor first, and if he failed to pay, then he calls on the *kafīl*. This is not the case in credit cards as payment is already guaranteed by the issuer whether the cardholder has the funds or not. But we must keep in mind that the credit card is very often used for identification, personal verification and for assurance of payment (guarantee), especially in online transactions.

Some contemporary scholars view the relationship between the cardholder and the merchant as that of the debtor passing on the responsibility of payment of his debt to a third party, known in Sharīʿah as *ḥawālah* (transfer of debt). This is because in purchase transactions, the responsibility of payment for the goods and services is transferred to the issuer. The seller initially owned a debt on the cardholder by virtue of the sale contract between them, which has been transferred to an issuer's liability toward the seller in the dual relationship between them and, at the same time, as in *ḥawālah*, a debt on the cardholder to the issuer (*al-muḥāl ʿalayhi*). The Sharīʿah does not allow trade of debts, and hence, the issuer cannot charge the cardholder any increment on the purchase amount as the goods or services were not owned previously by the issuer. Only a debt was transferred from the seller to the issuer.

Here apparently when the credit card is used to withdraw cash from the machine it becomes a loan contract effected by actual handing over of the withdrawn amount of cash to the cardholder. Accordingly, it is only the actual usage of the credit card at points of sale or on the internet or for guarantee and identification purposes or for receiving a loan that triggers its functionality and classification under what classical form of contract if falls. One may have a credit card without actually generating any interest charges on it. While a promise of lending at interest is forbidden for a Muslim to issue, if the association of any interest entailed in that promise is conditional on the will and decision of the promisee, it is permissible for the latter to accept the promise, even with the interest provisional condition, as long as the promisee knows, and is able to realize de facto, that he/she is not going to invoke the application of the interest clause. Hence, using a conventional credit card may therefore be conditional on a very certain ability to pay in full within the grace period and on complete avoidance of any action that triggers the interest clause such as cash withdrawal.

3.2 The Interest Clause

The conventional credit card contract normally contains an interest clause which sets interest increments on any balance not paid within the grace period.[(1)] This interest condition may be looked at as an interest optional clause, since interest is charged only if the credit card holder chooses to make a partial payment of the amount of debts incurred by using the card during the grace period and leave a balance unpaid to be settled in the future, and most types of credit cards do not grant any grace period for cash withdrawals and interest is charged starting from the date of withdrawal.

There is no doubt that signing a contract that contains an interest clause as basic to the contract, such as interest in a lending contract, is forbidden for both parties. However, Kahf (2001) makes a distinction and explains that in credit cards, we are dealing with a different kind of interest clause. This clause is optional and only invoked by the choice of the user/holder of the credit card. This is because, even with this clause, you have the option to pay the credit card bill within its given grace period and to abstain from any cash withdrawals if it triggers interest. In this manner, the card user would benefit from the credit card facility without being involved in any interest, given or taken. Therefore, signing a contract that gives an option to deal on interest or to have all transactions completely interest-free is permissible and cannot be prohibited in the Sharīʿah, because the matter is left to the person's choice and Muslims should certainly choose not to deal with interest[(2)]. However, this optional clause must not exist in Islamic finance contracts or in credit cards issued by Islamic institutions or by institutions owned by Muslims. An Islamic bank cannot issue a credit card with such a clause even if it deals with non-Muslim customers. In other words, while it is not permissible for a FI to put such a clause in a template contract it offers customers, this prohibition does not apply to the counterparty in the conventional credit card contract as long as he/she has the option of invoking the interest clause or avoiding it completely.

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(1) Although some rare conventional credit cards are issued without interest clause.

(2) We have here the Ḥadīth of *miʿrāj* and the example of Prophet Muhammad (ﷺ) where he was offered a drink of milk or liquor. Narrated by Abu Hurayrah: On the night Allah's Apostle was taken on a night journey (*miʿrāj*) two cups, one containing wine and the other milk, were presented to him at Jerusalem. He looked at it and took the cup of milk. Gabriel said, "Praise be to Allah Who guided you to *al-fiṭrah* (the right natural path); if you had taken (the cup of) wine, your nation would have gone astray." (*Ṣaḥīḥ Bukhārī*, Vol. 7, 482)

The credit card facility is an exception made for individuals to accept such a contract on the basis of either taking it all with all of its clauses or leaving it all. It is given on the basis of the choice given in the contract provided the person is confident that he/she will repay within the grace period and abstain from any transaction which will trigger the interest clause element. But, signing the credit card contract and using it in ways that generate payable interest is not permissible in Sharīʿah as it amounts to borrowing on interest. The same opinion was held by Ibn al-Manīʿ who believed that there is no harm in using the conventional credit card as long as its repayment does not include interest (al-Hakim, 2012).

However, al-ʿUthaymīn (Shaykh al-ʿUthaymīn, 2002) believed that the conventional credit card contract is not permissible and a cardholder commits himself/herself to pay interest if payment is delayed. In the same *fatwá*, he goes on to explain that credit card transactions are not permissible even if the cardholder believes that he will repay it within the grace period because circumstances may change and he may not be able to do so; and since this is an unknown matter in future, such dealings are not permissible. Dr. Abdul Wahhab Abu Sulaiman was also of the opinion that it is absolutely prohibited because it is based on borrowing on interest. In his opinion, the term "Credit Card" in its economic and legal terminology in English and America denotes that it is lending, and that the parties to this transaction are known as a lender (creditor) and borrowers (borrower). And, as such, he believes the real name of these cards should be "Lending Cards", not credit cards (al-Hakim, 2012). This opinion is arguable as judging a contract as permissible or not does not reside in its name but in its structure, substance and underlying implications. By this, we mean that contracts may carry good names and still be not permissible as they violate the Sharīʿah fundamentals and *maqāṣid*.

3.3 Islamic Credit Cards

Since the Sharīʿah takes a very bold stand in that no Muslim can issue a credit card with any interest clause, Islamic banks and financial institutions had to find an alternate way to provide the same service to their customers and maintain their competitiveness in the market. With that came the concept of Islamic credit cards. There are in the world today credit cards issued by Islamic banks which have a new small share of the market.

The Islamic credit card is based on the same principle of 'purchasing now and paying later', but modelled using Sharīʿah rules and principles to provide credit card's facilities to clients of Islamic banks. The first Islamic credit card was introduced in Malaysia under the brand of 'al-Taslif' by Am Bank of Malaysia (formerly Arab Malaysian Banking Group) in December 2001, which was subsequently followed by the issue of Bank Islam Card (BIC) in 2002 by Bank Islam Malaysia Bhd (Mansor and Mat, 2009; Gustina et al., 2010). The Islamic credit card has become an essential mode of effecting payment in Muslim societies today as it is a Sharīʿah-compliant alternative to the conventional credit card and serves the same purpose. However, many of the early Islamic credit cards issued were, and some still are, based upon *bayʿ al-ʿīnah*. There are different market practices of 'Islamic credit cards' and we will briefly discuss their pros and cons depending on the essential features of each kind.

3.3.1 Credit cards with full payment at the end of grace period

This type of credit card is used as a charge card whereby the cardholder is required to repay the full balance at the end of the grace period without any charges and without giving any credit facility, full or partial, beyond the grace period. This practice is prevalent in Qatar whereby Islamic banks are more careful in issuing credit cards and require cardholders to either transfer their salary to the bank or to make a cash deposit before issuing the credit card. In case of the salary transfer, the outstanding balance is automatically paid, often in fifteen days after the billing date, from the available balance on the holder's account while the deposit is used to back the credit card and the assigned credit limit. Such measures ensure cardholders have the required payment capacity and payment is made within the grace period, therefore eliminating any possibility of incurring interest element.

3.3.2 Credit cards with wakālah fees of cash withdrawals

Islamic banks offering Islamic credit cards based on the concept of *wakālah* will make payments for purchase transactions to merchants and charge the cardholder fees (*ujrah*) under the *wakālah* concept. Similarly, cardholders are charged cash withdrawal fee that is a fee for using the facility of cash withdrawal with the card. The agency fees and charges can be in terms of a fixed amount per transaction, or a pre-determined percentage of the transaction amount. The card has no interest elements or other charges but the cardholder often has to pay other associated fees for being a cardholder and for using the card such as an issuance fee, an annual service fee, renewal fee, card replacement fee and currency conversion fee. To enable the bank to charge *wakālah* fees on cash withdrawals, the Jordan Islamic Bank, for instance, disabled the function of cash withdrawal from its own machines when its own-issued credit cards are used and enabled it if the cardholder uses machines of other banks, so that it can argue that using the card is a *wakālah* given to pay the amount to the other banks from whom money is withdrawn. According to a *fatwá* of the Central Bank of Malaysia (CBM), proposals were made to offer Islamic credit cards based upon a structure combining the concepts of *wakālah* and *kafālah*. Under this type of Islamic credit card, Islamic bank guarantees payment to credit card networks as well as payment for goods or services purchased by the cardholder from the merchant and therefore, acts as a *kafīl* (guarantor) for the purchase transactions of its cardholders. The Islamic bank assigns a credit limit to the cardholder and makes payment for purchase transactions to the merchants on behalf of the cardholder. Owing to the *wakālah* concept, the bank would then charge the cardholder *ujrah* (fees) which would be calculated based on a specific percentage of the approved credit limit as a consideration for agency services provided by the Islamic bank to settle the cardholder's payment obligations. The *kafīl* would then be entitled to repayment of the principal amount and the *ujrah* fees (determined as a specific percentage of the credit limit). However, the CBM ruled that the concept of *ujrah* on *wakālah* in this particular proposed Islamic credit card structure is not accurate and that the method of calculating *ujrah* is against the Sharīʿah as it confers conditional benefit on loan (*qarḍ*), and thus involves the element of *ribā* (I-FIKR, ISRA, 2013).

This credit card with *wakālah* fees of cash withdrawals structure is similar to the *ajr-based Islamic credit card*, where the issuer charges service fees to the cardholder for all services, benefits and privileges provided related to the credit card including the above-mentioned charges in addition to fees for bank statements and likewise. The concept of *ujrah* or fee based Islamic credit card is based purely on fee structure in which no interest costs are charged to the cardholder. Islamic banks charge their cardholders fees on the premise that they are providing a payment mechanism for purchases executed with the credit card. Therefore, cardholders are charged a fixed service fee for each transaction irrespective of the transaction amount, and the total amount outstanding is to be repaid over an agreed period of time at no further costs. Although the idea of no profit charges may be appealing to consumers, the *ajr* credit card sometimes comes with an additional fixed management fee which is calculated and paid daily or monthly on cash advances from the date the cash advance is taken from the machine until it is fully repaid. For instance, HSBC Amanah Credit Card-i comes with a fixed monthly management fee which varies by credit card type and calculates the actual monthly management fee based on the actual usage of the card (with different rates per annum for purchases, cash withdrawals and balance transfer) and the bank grants a monthly rebate on the difference between the fixed and actual monthly management fee (HSBC, 2014)[(3)].

3.3.3 Credit cards with tawarruq settlement

In initial stages of the invention of Islamic credit cards, many were based on the *bayʿ al-ʿīnah* structure, especially in Malaysia. Over the past few years, it has evolved into the *tawarruq*-based model and today, credit cards are increasingly being issued and modelled based on *tawarruq*.

(3) For more information see: https://www.hsbcamanah.com.my/1/PA_ES_Content_Mgmt/content/amanah/website/pdf/credit_card/amanah_credit_card_pds.pdf

In the *bayʿ al-ʿīnah* structure, Islamic banks used to sell an asset to the customer on deferred payment basis and buy back the asset on cash at a lower price, and therefore profit from the difference between the two prices. The customer will be entitled to the cash which is used on his behalf to settle the full balance of the credit card. This is done on the last day of the grace period. When the cardholder makes payment for purchase transactions, the Islamic bank pays the merchant and the cardholder will settle his outstanding balances by creating a new *ʿīnah* balance to be paid at a pre-determined new maturity date and this is repeated every month.

The *bayʿ al-ʿīnah* structure in credit cards in Malaysia also takes a slightly different form of combining two contracts: *bayʿ al-ʿīnah* and *wadīʿah*. In this practice, the Islamic bank sells an asset to the customer on deferred payment basis and buys back the asset on cash at a lower price. The market value of the assets sold is equivalent to the credit facility and the customer will be entitled to the cash advanced when the Islamic bank buys back the asset. The cash proceeds are deposited into a *wadīʿah* account of the customer, which becomes the customer's credit limit. According to Obaidullah (2005, p. 106), the Bank Islam Card was structured based on three main contracts (*bayʿ al-ʿīnah*, *wadīʿah* and *qarḍ*) and the bank sells a piece of land to the customer at an agreed price for deferred payment which is re-purchased at a lower price. The bank profits from the difference which is a pre-determined amount and disburses the cash proceeds into the customer's *wadīʿah* BIC account created and maintained by the bank. The customer can then use his credit card for retail purchases and cash withdrawals and each transaction will be backed by the cash held in his *wadīʿah* BIC account.

In *tawarruq* credit card model, purchase transactions made with the card are done on the basis of *qarḍ* and cardholders are given a grace period. If full repayment is not made within the grace period, a *tawarruq* transaction is executed on behalf of the customer for the remaining balance of the outstanding amount based on pre-agreed profit rate and payment tenure. For each not settled balance, a *tawarruq* transaction will be executed and many such Islamic credit cards are available in the market, such as SABB Credit Cards, Al-Ahli Islamic Credit Card.

3.3.4 Prepaid Islamic credit cards

The Islamic prepaid card is similar to conventional prepaid cards and any other credit cards with the exception that the cardholder can only spend money up to the amount that has been loaded into the card. Although this limitation seems similar to the credit limit imposed in most or almost all credit cards, this card is not popular among customers because it requires an advance payment of desired credit limit. This type of card comes with different fees including first time top up fee, subsequent top up fees, card replacement fees, balance transfer fees and currency conversion fees. Some services may be offered free of charge to customers although, for this type of card, the issuer can only make money through its investment of the unused balances of the prepaid deposits in addition to fees. This is why some Islamic banks also impose an additional monthly inactivity fee after usually 6-12 months of inactivity. For instance, the prepaid Islamic cards of Emirates Islamic Bank carry a nominal monthly inactivity fee (after 6 months of inactivity) and contain a clause that any card with no balance for six months will be closed. This is because it usually costs the bank certain expenses to maintain the credit card service and if a credit card is dormant, it usually costs more to the bank than bring benefits.

3.3.5 Ijārah credit card

This type of credit card is less common. It is issued for the purpose of enabling the cardholder to purchase fungible assets from suppliers on a lease basis. The issuer pays for the asset while enabling the cardholder to take possession of it, and the cardholder pays a pre-determined rent for an agreed period of time, and the asset is released upon full payment of the total rentals (which is equivalent to the total outstanding amount due including profit). The application of this type of credit card is somewhat limited since not all assets can be leased and therefore, can be used only at selected merchants and cash withdrawals cannot be entertained.

The Kuwait Finance House (Bahrain) is one of the rare providers of the *ijārah* credit card finance through the introduction of the Baytik Ijarah card. This innovative credit card concept enables customers to purchase and own goods and commodities that they may otherwise not be in a position to access on a cash-and-carry basis and repayment is deferred on a 'lease to own' basis. Once the credit card facility is approved by the KFH-Bahrain, the customer can use it at the bank's pre-approved list of merchants. At check-out, when the card is swiped and the transaction is authorized and executed, the bank on the spot computes the repayment schedule of the customer and enables him/her to take possession and/or delivery of the products purchased on behalf of the bank. When the customer completes repayment of his last *ijārah* installment, ownership of the durable goods is automatically transferred to him/her. However, the KFH-Bahrain has blocked certain usages due to the conditions and nature of *ijārah* contracts and hence, only purchases at approved merchants displaying the *ijārah* logo can be made (KFH-Bahrain, 2015).

The above structures of Islamic credit cards have been devised and issued by Islamic banks on the assumption that they are Sharīʿah compliant credit cards which can justify charging fees and/or profits. Of course some of them are controversial and their Sharīʿah legitimacy may be very much questionable. But we are not going to discuss in this paper the issues of *ʿīnah* and *tawarruq* as they fall outside the objectives of this paper.

3.4 Proposed *murābaḥah*-line-of-credit basis for Islamic credit card

The *murābaḥah* line of credit card may work on the same principle of a *murābaḥah* line of credit Master Agreement with a *wakālah* agreement assigning the credit cardholder to buy for the issuing bank, take delivery for the bank and on its behalf and then sell to itself and take delivery of this last sale. According to al-Qari [Journal of the Islamic Fiqh Academy, 12(3)], the bank issuing the credit card on the basis of the *wakālah* shall be the purchase orderer, not its cardholder, and it will buy on his behalf in cash within the pre-determined conditions between them and then, the client sells based on the same agency to himself and the price is repaid over a pre-determined agreed period and installment amount (cited in Arafat, S.M.F., 2007).Therefore, in this type of credit card structure, the Islamic credit card issuer appoints the cardholder as a purchasing agent on its behalf for all purchase transactions made by using the card. Therefore, the cardholder makes purchases from merchants on behalf of the issuer and the latter owns the purchased goods and assets and remits payment to the merchant. Consequently, after taking delivery on behalf of the bank as its agent, the cardholder will purchase the goods and assets from the issuer by using the authority given to him by the owner to sell to himself and take immediate delivery. Al-Qari also explains that under this proposed model, the cardholder acts as first a salesman (when buying on behalf of the bank) and also a buyer (Ibid.).

The purchaser is also authorized to determine the payment date of each buy or group of buys in accordance with the guidelines agreed on in the agreement. The issuer will calculate the sale price depending on maturity chosen by the cardholder and the profit rate agreed in the agreement and will inform the buyer through the periodical/monthly bill. Later, at each maturity, the cardholder fulfills his contractual obligation by making payments at their due dates. Unlimited purchase transactions can be executed up to the credit limit extended by the issuer. To render the contract genuine and make the profit margin justifiable from the Sharīʿah perspective, a clause may be added whereby the cardholder acknowledges that as the issuer's agent, he/she will make all purchases and take possession of the goods and assets on issuer's behalf and that the issuer is deemed to be effectively the owner until the second sale is executed by the agent. However, cash withdrawals will not be permitted under this structure or if it is allowed, it will be without any profit charges for the benefit of issuing bank.

A major inconvenience of this card is the impermissibility of changing maturity once set as well as of delaying any due balance or smoothing payment through months. However, to add flexibility to the credit card, Islamic banks may add different profit rates for different range of purchase transactions and repayment options and enable the customer to make multiple easy payment plan transactions, provided the purchase transactions are within his/her available credit card limit. For example, NBF Islamic credit card repayment options will be defined and executed based upon the customer's request to convert the purchase transaction into pre-defined monthly instalments. Of course when this idea was first discussed in a workshop held in Bahrain on invitation from the Bahrain National Bank in late 1990s, people thought that we need to change the approval statement issued to the merchant by the network company. This requirement turned out to be unnecessary with the development and spread practice of *murābaḥah* line of credit in Islamic banking. Apparently a master agreement between the parties may be sufficient to determine their relationships and the use of the card is a sufficient evidence of intention to buy for the issuing bank and triggers a buy for the cardholder/agent. Furthermore agent selling to itself is already solved by detailed conditions in the contract which remote any conflict of interests.

3.5 Other Sharīʿah Considerations in Islamic Credit Cards

It is important to note that the concept of Islamic credit card also involves blocking certain usages which are ruled non-Sharīʿah compliant such as, using the credit card at casinos, on-line gambling, bars, night clubs as well as purchase of prohibited goods and services such as tobacco and alcohol, weapons, adult entertainment and the like. This also turns out possible in most of the cases except when a non-compliant item is sold within stores that sell many permissible items. Besides, it may be made into a contractual clause in the credit card agreement that such purchases may be not recognized by the issuing Islamic bank requiring purchase details and developing a computer program which allows detecting such items and excluding them. Today, there are different product codes or barcode symbology used around the world such as Universal Product Code (UPC), Price Look-up Codes (PLU codes or numbers) as identification numbers tracking products in grocery stores and supermarkets to make check-out processes and inventory control easier, faster and more accurate. A similar technology can be developed and used to exclude products which are not permissible by indicating an operator error when the Islamic credit card is swiped, and therefore, suggesting that a wrong barcode is included or a non-Sharīʿah-compliant product is identified by the program. Therefore, the Islamic credit card issuer would be able to block all non-Sharīʿah-compliant usages and products on two levels: first, the merchant level, by building a database for all approved merchants and making it easily available to customers (as practiced by KFH-Bahrain for its Baytik Ijarah credit card and the approved merchants can easily be traced from its website); and second, the product level, by blocking payment access for non-Sharīʿah-compliant product codes.

The rewards programs and privileges offered to credit card holders in the conventional system can be practiced by Islamic credit cards too provided such rewards and privileges are permissible in Sharīʿah (non-Sharīʿah-compliant rewards and privileges cannot be provided by an Islamic credit card issuer such as, free tickets to prohibited places or shows or any others prohibited item or service). It is permissible for Islamic credit card issuers to reward cardholders by giving them points when using their cards for purchases which can be redeemed for rewards or even provide them with certain privileges of being a cardholder. The Sharīʿah requires that rewards, bonuses and prizes given for using credit cards are permissible as long as the use of the card is permissible. There is no issue with general reward points, retail rewards or even cash back rewards from a Sharīʿah perspective. Such rewards are considered as a gift from the credit card company to the cardholder for using the card and causing them to profit from fees from merchants who accept their cards. Additionally these are gifts from the lender to the borrower which makes them opposite to *ribā*. This may also include cash withdrawal as long as it does not generate interest.

3.6 Purchase of gold, silver and currencies with credit card payment

Gold and silver and currencies can only be sold on cash basis which implies delivery of price and sale object at the time of contract. Payment through the use of credit card nowadays effects immediate payment to the merchant at the time of card use, which satisfies the delivery requirement of the famous agreed upon *ḥadīth* of the 6 items. This purchase is not affected by the fact that the customer pays later to the bank. Some contemporary scholars, including Abdul Sattar Abu Ghudda, Nazih Hammad, and Wahbah al-Zuhayli and others, opine that it is permissible to buy gold and silver with credit cards, because the credit card payment by the cardholder is similar to payment by cheque (Arafat, 2007). The OIC Fiqh Academy, in its ninth session in 1995 (Resolution 84/19) on the subject of ‘Gold trade, Sharīʿah Solutions for combined cash and transfer payments’ resolved that gold and silver may be purchased by certified cheques with the provision that the exchange should be "in the *majlis*", (i.e. be there and then). The OIC Fiqh Academy in Resolution No. 108 (2/12) on "Credit Cards" in 2000, however, resolved that it is not permissible to use credit cards for purchasing gold, silver or currencies, but this resolution was given because credit cards at that time, and as per OIC Fiqh Academy definition, involved delayed payment ("…*without immediate payment of the price as commitment will thus fall on the issuer...*") which has today, become immediate payment and is thus, irrelevant.

However, *murābaḥah*-based Islamic credit card, and similar to it all credit cards that make profit on the holder's individual transactions, may have a problem when the holder buys gold, silver and foreign currencies with their Islamic credit cards. This is because the second sale contract between the bank and holder is selling gold, silver and foreign currencies for deferred payment, which is not permissible in Sharīʿah. Although the first contract between the Islamic credit card issuer and the merchant is perfectly permissible, the second contract would not be permissible if there is a second sale on deferred payment in the transaction. Islamic credit card issuers would then have to block another usage for their credit cards based on *murābaḥah* and their like, that is, excluding it from purchase of gold, silver and foreign currencies. Other types of Islamic credit cards such as the prepaid card, however, can be used to purchase gold, silver and foreign currencies as they are the cardholders' own funds. The credit card with *wakālah* fees may also be used for purchase of gold, silver and currencies since it is based upon the concept of *ajr* for provision of services, which in this case, is providing the service of paying through credit cards.

3.7 Issues and challenges of Islamic credit cards

Credit cards are an essential mode of payment in today's societies, especially since they confer wider and ever expanding acceptability, particularly in online transactions. Islamic banks struggle to mimic the conventional credit cards in terms of encouraging their use by offering similar rewards and privileges because, in most cases, consumers choose the more convenient and cost-effective card. As discussed above, the conventional credit card may be permissible provided the consumer does not violate the two circumstances that trigger interest. Islamic credit cards, similar to conventional credit cards, are frowned upon as promoters of consumerism and debt accumulation. Debts are not highly encouraged in Islam and debtors are urged to repay their debts as they become due. There are several *aḥādīth* to this effect which come as warnings about dying without repaying one's debts. However, debts are permissible if they fulfill three basic conditions: first, the borrower should, de facto, be determined to repay it; second, he should have the capacity to fulfill his debt obligations; and third, the debt should be for something permissible in Sharīʿah.

The issue with credit cards is that, in itself, it encourages impulsive consumerism and very often, the rewards programs and privileges associated with them appeal for greater usage. Islamic credit cards, similar to their conventional counterpart, if used unwisely, can easily trap consumers into major debts. The concern should then be to educate people about taking reasonable levels of debts. However, when credit cards are misused and people take on unreasonably high levels of debts beyond their repayment capacity on the basis that it is not their money and they may delay payment, then this is immoral and unethical from the Sharīʿah perspective. In this regard, the Prophet (ﷺ) condemned a person who can and has the means to repay his debts but does not do so.(4)

Islamic banks, as issuers of Islamic credit cards, can limit the consumerism and debt-compilation effect by establishing strict rules and eligibility requirements when issuing the cards such as restraining the credit limit to those below a certain income level and providing credit within a band covered by either the cardholder's income or cash deposit. In this case, the charge and prepaid cards may seem very useful since in the first case, the cardholder's line of credit will automatically be deducted from his salary when it is credited to his bank's account, and in the latter case, the amount used will be limited to the amount loaded on the card by the cardholder. The *murābaḥah* line of credit card

(4) Narrated by Abu Hurayrah: "The Prophet (ﷺ) said, 'Procrastination (delay) in paying debts by a wealthy man is injustice. So, if your debt is transferred from your debtor to a rich debtor, you should agree.'" (*Ṣaḥīḥ Bukhārī*, Vol. 3, Book 37, No. 486).

may also be effective as a Sharīʿah-compliant credit card that limits consumerism effects, since cardholders know in advance that they will be liable to pay a fixed profit margin on each purchase transaction executed and hence, are most careful about not using the credit card unnecessarily and falling beyond the credit limit. This is in contrast to Islamic credit cards which charge only fees as they do not put such a constraint.

4. Conclusion

The credit card has become almost an indispensable tool of effecting payment today, especially in the West and in many Muslim communities. The development of Islamic banking and finance calls for innovative products which fulfill the Sharīʿah requirements and the Islamic credit card is one of the latest inventions of the industry as an attempt to facilitate purchase and payment transactions. This paper discussed conventional credit card, its kinds as well as its benefits and drawbacks. We noticed that there are several economic issues with credit cards especially rollover effects on consumerism, money supply and mounting indebt-edness and we mentioned the trend of securitization of credit card debts, a practice which disconnects transactions from the real market. We also analyzed the Sharīʿah aspects of credit cards with regards to the different parties involved and the permissibility of issuance fees, merchant fees and interchange fees. We noticed that writers have differed in explaining the contracts present in a credit card transaction, and the market practices of 'Islamic credit cards' differ from one to the other. Islamic credit cards in the market are mostly fee-based since it is not easy to justify earning returns for making payments on behalf of buyers for purchases at points of sale or online or for cash withdrawals. We then suggested the *murābaḥah* line of credit card as a potential alternative. Yet it remains difficult to tame the appeal for consumerism even in such Islamic credit cards. Although the condition of being void of *ribā* is a necessary condition in providing Islamic credit cards, it is not sufficient. Islamic credit card issuers need to comply with three more conditions to pass the criteria of Islamicity: first, the underlying structure should be a sale or lease transaction otherwise no profit charges can be claimed on the amount paid to the merchants; second, no fee can be charged on cash withdrawals as it amounts to interest; and third, control on transactions and merchants to limit credit cards usage to Sharīʿah compliant purposes only. The co-existence of these three elements in an Islamic credit card is not at all easy although, it is necessary to make it, by the nature of described processes, subject to the moral/ethical screening that the Sharīʿah at large calls for and aims at.

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بطاقات الائتمان:
قضايا معاصرة اقتصادية وشرعية

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المستخلص. نمت صناعة التمويل الإسلامي خلال العقود القليلة الماضية نموا متميزاً شمل إبداعات كثيرة وتطورا سريعا في المنتجات والخدمات. تناقش هذه الورقة القضايا الشرعية والاقتصادية لبطاقات الائتمان وتشرح مآلات الشرط التخيّريّ للربا.

ولقد جربت مؤسسات للتمويل الإسلامي إصدار أشكال عديدة من بطاقات الائتمان، مما أثار سلسلة من الانتقادات التي لم تقف عند العقود التي صدرت بموجبها هذه الأشكال بل بلغت حد التساؤل عن مشروعية فكرة بطاقة الائتمان نفسها. ويتضح من تحليل هذه البطاقات "الإسلامية" أن البنوك الإسلامية تحامل جاهدة البحث عن طريقة لإصدار بطاقة ائتمان تتوافق مع الشريعة وتستطيع من خلالها تقديم الخدمات الائتمانية بشكل يحقق لها هدف التربح من خلال الوساطة المالية. وقد اقترحنا في الورقة مفهوما عاما لبطاقة ائتمان تقوم على الدفع المسبق وبطاقة ائتمان تقوم على فكرة المرابحة مع الوكالة مما يمكن أن يطور ليؤدي إلى تحقيق فكرة التمويل بالبطاقة مع عائد مجزٍ ومتوافق مع الشريعة. وقد ناقشت الورقة أيضا باختصار مسألة علاقة بطاقات الائتمان بالعقلية والسلوك الاستهلاكيين وبتراكم المديونية وناقشنا ذلك من الجانب الشرعي كما ناقشنا قضية حجب استعمال البطاقة عن السلع والخدمات غير المسموح بها في الشريعة وقضية تقييد إصدار الائتمان للتخفيف من المديونية.

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