

**ISLAMIC CREDIT CARD IN BRUNEI DARUSSALAM:
A CASE STUDY ON BIBD**

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بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

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A CASE STUDY ON BIBD**

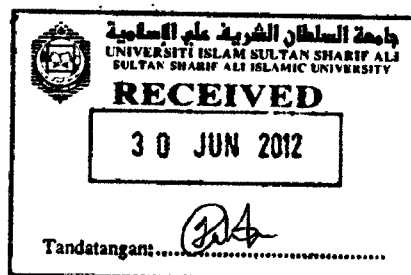
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An academic exercise submitted in partial fulfillment
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**Faculty Of Business And Management Sciences
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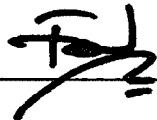


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**ISLAMIC CREDIT CARD IN BRUNEI DARUSSALAM: A CASE
STUDY OF BIBD**

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DECLARATION

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I hereby declare that the work in this academic exercise is my own except for quotations and summaries which have been duly acknowledged.

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ABSTRACT

ISLAMIC CREDIT CARD IN BRUNEI DARUSSALAM: A CASE STUDY OF BIBD

The objective of this study was to research further on credit card in the Islamic perspective, to identify the factors applying Islamic credit card and to investigate the Islamic Bank of Brunei Darussalam as a *Shariah* compliant credit card. This study is limited to the Bank Islam Brunei Darussalam only, as BIBD is the only Islamic bank that offers Islamic credit card. The methodology used in this study is primarily based on survey questionnaires, which were distributed randomly to respondents who have BIBD MasterCard, and an interview was done with the BIBD Card Centre to know the framework of BIBD MasterCard as *Shariah* compliant credit card. The study also shows that the credit card used are as secondary money which are mostly used to settle payments where cash is hardly used.

Keywords: BIBD, MasterCard, a *Shariah*-compliant.

ABSTRAK

KAD KREDIT ISLAM DI BRUNEI DARUSSALAM: KAJIAN KES KE ATAS BIBD

Objektif kajian ini adalah untuk mengenal lebih pasti tentang kad kredit dalam perspektif Islam, untuk mengenal pasti kumpulan dan faktor pengguna pakai kad kredit Islam dan untuk mengkaji Bank Islam Brunei Darussalam sebagai pengeluar kad kredit yang berlandaskan Syariah. Kajian ini adalah terhadap kepada Bank Islam Brunei Darussalam sahaja kerana BIBD adalah satu-satunya bank Islam yang menawarkan kad kredit Islam di Brunei Darussalam. Metodologi yang digunakan dalam kajian ini berdasarkan soal kaji selidik yang telah diedarkan secara rawak kepada orang ramai yang memiliki BIBD MasterCard, dan satu temu bual yang dilakukan dengan Pusat Kad BIBD memeriksa rangka kerja BIBD MasterCard sebagai kad kredit yang berlandaskan Syariah. Hasil kajian ini menunjukkan bahawa kad kredit yang digunakan adalah sebagai pengganti wang tunai, yang kebanyakannya digunakan untuk membuat pembayaran yang jarang menggunakan wang tunai.

Kata kunci: BIBD, MasterCard, berlandaskan Shariah.

الملخص

البطاقة الائتمانية الإسلامية في بروناي دار السلام

وكان الهدف من هذه الدراسة للتحقق من بطاقات الائتمان في المنظور الإسلامي، وتحديد العوامل تطبيق بطاقات الائتمان الإسلامية، والتحقق في البنك الإسلامي للبروناي دار السلام والائتمان المتوافقة مع أحكام الشريعة الإسلامية هو البنك الإسلامي الوحيد BIBD بطاقة. وتقتصر هذه الدراسة إلى دار السلام بروناي البنك الإسلام فقط، كما الذي يقدم بطاقات الائتمان الإسلامية. ويستند في المقام الأول على المنهجية المستخدمة في هذه الدراسة على ماستر كارد، وجرى مقابلة مع BIBD استبيانات الدراسة الاستقصائية، التي وزعت عشوائيا على المشاركين الذين ومتوافقة مع أحكام الشريعة بطاقة الائتمان. وتظهر الدراسة BIBD لمعرفة إطار ماستر كارد BIBD المركز بطاقة أيضا أن بطاقة الائتمان المستخدمة هي من أموال الثانوية والتي تستخدم في الغالب لتسوية للمدفوعات حيث يستخدم بالكاد النقدية.

كلمات البحث: BIBD، ماستر كارد، والمتوافقة مع الشريعة الإسلامية

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CHAPTER 1

A STUDY ON ISLAMIC CREDIT CARD IN BRUNEI

1. Overview

Islamic Banking is banking for anyone who wants to base their financial decisions on **Islamic values**. Just as Islam inspires Muslims to live rightly in other areas of life, it **also** offers guidance on commerce. Islamic guidelines on trade, investments, **borrowing** and other financial activities ensure that we build and exchange wealth in **ways** that are beneficial to each other and to the wider society.

In the Holy Quran states, "*And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed...*"¹

And again in the Holy Quran states, "*Allah has permitted trade and forbidden interest...*"²

Islamic scholars, bankers and regulators have set up rules for Islamic banking based on a dynamic understanding of Islamic teachings. These efforts allow bank customers to benefit from the convenience of modern banking without sacrificing their religious values and principles.

Brunei Darussalam is an ideal environment for Islamic banking. It is already practiced by the country's largest bank, Islamic Bank Brunei Darussalam (BIBD). With Islamic Banking Order 2008 and Takaful Order 2008, the Government of Brunei has taken steps to strengthen Islamic banking further and to level the playing field for conventional and Islamic banks.

Islamic banking market in Brunei Darussalam was initiated in 1991 with the set-up of the *Tabung Amanah Islam Brunei Darussalam*. Next was the Island Development Bank, a conventional bank, was converted into the Islamic Bank of

¹ Al-Jumu'ah, 62:10, (All Qur'anic translations in this writing are based from: <http://quran.com/62>).

² Al-Baqarah, 2:275, (All Qur'anic translations in this writing are based from: <http://quran.com/2>).

Brunei on the 13th January 1993 which the bank has since merged into the Bank Islam Brunei Darussalam (BIBD).³

The impetus for Islamic banking into Brunei was a *Titah*⁴ of His Majesty the Sultan and Yang Di-Pertuan on the 25th September 1990 in a meeting of the Majlis Ugama Islam of Brunei.

Material legislation to support and regulate Islamic capital market products and activities is still pending. Significant legislation introduced recently includes:⁵

- The Deposit Protection Order 2010 for the protection of ordinary depositors who deposit money in banks, including Islamic banks, against default.
- The Autoriti Monetari Brunei Darussalam 2010, a central bank for Brunei with functions including the supervision and regulation of Islamic banks.
- The Accounting Standards Order 2010, which seeks to set and regulate accounting standards in Brunei. It is not yet known whether there is any need to cater for certain aspects of Islamic banking and finance under the standards.

Bank Islam Brunei Darussalam (BIBD) ensures that it adheres to Islamic banking principles. The customers of Bank Islam Brunei Darussalam place a lot of trust in the bank and they trust them with their money, with their personal information and with the responsibility to follow Islamic banking principles in all their decisions. And the bank will take this responsibility very seriously. Before any new product or service is introduced to customers, it must be approved by two different *Shariah*⁶ authorities. First, Bank Islam Brunei Darussalam, BIBD's own *Shariah* Advisory Body, and then the *Shariah* Financial Supervisory Board of Autoriti Monetari Brunei Darussalam (formed by Section 3 of the *Shariah* Financial Supervisory Board Order 2006). When BIBD reports the year's activities at the Annual General Meeting, the *Shariah* Advisory Body Report is an integral part of its submission.⁷

³ Chiew J. (2012). "Brunei Darussalam: Islamic Banking and Finance". *Islamic Finance News*. http://www.islamicfinancenews.com/listing_article_ID.asp?nm_id=25611

⁴ Titah means simply a command usually given by a king.

⁵ See: Chiew, J. (2012). "Brunei Darussalam: Islamic Banking and Finance". *Islamic Finance News*.

⁶ Shariah is known as Islamic rulings or guidelines.

⁷ Bank Islam Brunei Darussalam. (February 16, 2012). "About Credit Card". Retrieved from Bank Islam Brunei Darussalam on February 16, 2012: <http://www.bibd.com.bn/consumer/cards/credit-card/>

1.1 Research Background

A credit card is a small plastic card issued to users as a system of payment or known as 'plastic money'. It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services which is an essential mode of payments in today's society. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user. Most credit cards are issued by banks or credit unions, and are the shape and size specified by the ISO/IEC 7810 standard. A credit card is different from a charge card: a charge card requires the balance to be paid in full each month. In contrast, credit cards allow the consumers a continuing balance of debt, subject to interest being charged. A credit card also differs from a cash card, which can be used like currency by the owner of the card.⁸

People own credit card for various reasons such as to obtain credit facility, cash advance, easy payment, charge card and prestige. It has becoming way of life in the society nowadays that different types of credit card such as Master and Visa and category gold and platinum, represent the wealth status of a person. Undoubtedly the role of a credit card is more than that. It is important role in e-commerce transaction is undisputable. Credit cards are appealing to the people and small businesses for a number of reasons:

First, they help them manage their finances and streamline payments. Second, they are easier to get than traditional bank loans or government business grants; getting one does not require a business plan or months waiting for the loan to be approved. Third, they are useful for smoothing revenue streams, especially at the start-up phase of operations for the businesses. Fourth, they are accepted almost everywhere. So, a variety of supplies and even cash can be obtained with credit cards. Finally, credit cards are a somewhat anonymous funding source. Unlike other types of loans (those from family, friends, banks, etc.), credit card companies will never ask where their money went. They are mainly concerned with a credit card user's ability to make at least the minimum payment. The main problem with credit cards is that they are an expensive way to finance a business. Interest rates on personal and

⁸ n.a.. (n.d). "Payment Card". *Wikipedia*. http://en.wikipedia.org/wiki/Payment_card

business credit cards average around 15 percent and can be above 30 percent in extreme cases.⁹

1.2. Islamic Credit Card in Brunei Darussalam

Brunei Darussalam, officially the Nation of Brunei, the Abode of Peace, is a sovereign state located on the north coast of the island of Borneo, in Southeast Asia. Apart from its coastline with the South China Sea, it is completely surrounded by the state of Sarawak, Malaysia, and it is separated into two parts by Limbang, which is part of Sarawak. It is the only sovereign state completely on the island of Borneo, with the remainder of the island belonging to Malaysia and Indonesia.

In Brunei, only one Islamic bank that offers credit card facilities which is the Islamic Bank Brunei Darussalam (BIBD), it has introduced the *Shariah* compliant BIBD MasterCard, which is open to both Muslims and non-Muslims, has now been given a new look and can now be offered to the public with fantastic promos and benefits, such as cash benefits, special privileges and discounts from merchants, 24 hour customer service and reward points. Equipped with the MasterCard Merchant Category Code (MCC), it is accepted over 32 million merchants all around the world.¹⁰

There are many people who use their credit cards for monthly expenses and others who use interest free feature on their cards for big purchases. The Brunei Economic Bulletin from the Department of Economic Planning and Development released in September said that as of end-September 2008, bank lending to consumers fell 2.3 per cent to BND\$3.64 billion from BND\$3.72 billion in the same period in 2007¹¹.

Due to high debt in the country, the government is trying to reduce the credit card debt by issuing a new guidelines, terms and conditions for credit card applicants. Financial regulators in Brunei have placed restrictions on how small the amounts

⁹ Manning R. D. "Credit card nation: The consequences of America's addiction to credit". New York: N.Y.: Perseus Books Group. 2000.

¹⁰ n.a. "BIBD holds roadshow". *Brunei Times*. Bandar Seri Begawan: Brunei Times Newspaper. December 20, 2008.

¹¹ Ya'akub I. S. "Credit card debt to be curtailed". *Brunei Times*. Bandar Seri Begawan: Brunei Times Newspaper. January 10, 2010.

credit card issuers can set for monthly repayment of credit card debts, according to a directive from the country's Ministry of Finance.

Cardholder incomes also will determine credit card spending limits, the directive states. Government officials say the moves will help reduce card debt in the country, according to press reports. Starting in March 2010, issuers in Brunei must require cardholders to pay back at least 5% of their card bills monthly. The rate increases to 8% in June 2010. Banks now set their own limits for monthly repayments. Additionally, consumers may receive a credit card only from the bank with which they hold another account.¹²

In addition, the establishment of the Autoriti Monetari Brunei Darussalam (AMBD) and the Deposit Protection Scheme, on January 1, 2011, marked the milestones in building strong financial institutions and strengthening financial sector stability. As a result of the prudent credit policies that has been set by the AMBD, banks' excessive exposure to personal and in particular, credit card, and debt have been reduced.

1.3 Objectives of the study

The purpose of the study is;

- To identify the groups for Islamic credit card holders
- To explore factors affecting the adoption of Islamic credit cards of Bruneians.
- To research furthermore about BIBD MasterCard as the *Shariah's* compliant credit card.

1.4 Problems (Issue of interest) and questions related to the study

There will be some issues arises in this study regarding Islamic credit card;

- What are the underlying principles required by *Shariah* in the functionality of credit card?

¹² Goh. D.N.. (2010). "Banks told to raise minimum credit card payments". *Brunei Times*. Bandar Seri Begawan: Brunei Times Newspaper. January 12, 2010.

- What are the differentiation factors between the Islamic credit cards and the conventional ones?
- How is the operation of BIBD MasterCard, the underlying contracts, whether it really follows the real Sharia principles or not.

1.5 Importance of the study

The significant of the study is also measuring the awareness of the Islamic Bank Brunei on the operations of credit card whether it is based on Sharia law as well as Sharia compliant and also measuring the consumer behavior in choosing to have a credit card. It also focuses on the issue of credit card in Brunei and how Islamic Bank Brunei tries to help in order to minimize the debt.

1.6 Scope and Limitations

Limitations of this study only include small sample size of Islamic Bank Brunei Darussalam (BIBD) credit card holders in Brunei Darussalam. It is concentrated only to BIBD bank as it is the only Islamic bank that offers credit card. In addition, due to time constraint, collecting the data was challenging and very time consuming.

Another limit in this study is the sincerity of respondents to answer all of the surveyed questions. Some respondents maybe just read through and answer it right away, without reading the surveyed questions properly. From this, of course will produce not-so-perfect results from the respondents that needed for the study's analysis.

On the side of BIBD staff's limitation, some information is confidential and being disclosed. If only the bank give the information of BIBD MasterCard holders, it will be easier to target those Islamic credit card holders.

The study itself is also a limitation, as there is difficulty to find data and reviews about BIBD's products and services and the time given in doing the research is also a main concern. The researcher has only to rely from the current information of BIBD MasterCard which can be obtained from BIBD's website, internet and the Bank's staff.

CHAPTER 2

LITERATURE REVIEW

2.1. Definitions of Credit Cards

Modern economies are marked by the extensive use of diverse financing methods, including credit cards. Credit cards aim to facilitate the spending process by replacing hard currency, and, hence, make life easier. This chapter, therefore, aims to survey the relevant literature of credit cards with the objective of developing a better understanding of the functions of credit cards, as well as reviewing issues relating to credit cards. Several researches have been conducted based on Islamic credit card. Most of the studies are related to Islamic credit cards, but different scope of studies with different approaches in collecting the data. Some studies are taken from other country where the author is from, and some are in general context on Islam and credit cards.

Some authors viewed to a credit card from the perspective of a cardholder; therefore, they have defined it as a plastic card issued by a bank or finance organization, which enables its holder to obtain credit when making purchases. The credit cards usually denote token which allow the cardholder access to extended credit with an instalment payment facility and, most significantly. The credit card enables the holder to whom such a card issued to obtain goods and services without payment in cash or by cheque, and to obtain cash. Thus, the credit card is a payment instrument that enables cardholder to make purchases of goods and payment for services instead of using cash. The cardholder can obtain funds at interest from a credit institution, at her own discretion, up to some limits. It is crucial to stress that, these definitions consider the credit card as an important instrument which enables its holder to obtain goods and services by using a credit card without paying in cash. Furthermore, the credit card enables a cardholder to pay for his purchases with instalments. It notes on

these definitions that they did not consider a comprehensive view to the credit card they just focused on the functions of the card toward its holder.¹³

Another view is that a credit card as a mean of electronic payment. It is the most familiar E-payment type in the world and it is a convenient form of payment mode acceptable everywhere. The above definition does not give an obvious image a credit card. It has considered the credit card as a means of payment but there are other types of cards such as debit or charge cards that also consider as means of electronic payments, thus, it will be difficult to distinguish between them.

From the view of Graham Stephenson, he defined a credit card as means of providing a revolving credit to the debtor. With same meaning, some others say, that the credit cards provide a means of immediate obtaining goods and services on credit, in other words, any card, plate, coupon book or other credit device existing for the purpose of obtaining money, property, labor, or services on credit. Others opined that a credit card must offer options of revolving credit.¹⁴

The final opinion is nearest to the concept of credit card, due to the fact that those cards are connected with a close association with the revolving credit which they confer to the cardholder. Furthermore, the grant revolving credit to the cardholder represents most important aspect of the credit card which distinguishes the credit card from other cards which do not provide a revolving credit to their holder such as debt, ATM cards. Thus, from a practical view, focusing on providing of revolving credit to the cardholder gives an accurate description from the fact and function of the credit card.

In Islamic perspective, Islamic sources did not include an explicit definition of the credit as well as credit card. That is why the Contemporary Muslim scholars find a difficulty to define a credit card according to the Islamic perspective. Also, that subject of credit card is not fall generally under one contract of the legitimate contracts. It contains numerous contracts which govern its relationships. Therefore, it is difficult to define or adapt the credit card within one contract. Nonetheless, there

¹³ Mohammed, M. J., Ismail, R., & Markom, R. March 27, 2012. "The Jurisprudential Differences about the term Credit Al-I'timan and credit card". *Universiti Kebangsaan Malaysia*. http://www.ukm.my/ijwas/components/com_docman/dmdocuments/v3n2-2011-4.pdf

¹⁴ Stephenson G. (1987). "Consumer Credit". London: Collins Professional Books. First Ed.

have been some attempts of researchers to define the credit card from the perspective of Islamic jurisprudence.

Mohammad Al-Qari views that the credit card has a three-way relationship as the first part is the issuer of card (which is usually a bank), the second is the cardholder and the third is the merchant who accepts the card instead of cash.¹⁵ The note on this definition, it is a general definition for all types of cards issued by banks, in addition, it does not include a standard distinguishes between the credit card and other cards.

Al-Sheikh Hassan Al-Jawahiry has defined a credit card as a card issued by a bank or institution which allows a cardholder to obtain goods and/or services without payment of cash immediately, as to repay the prices of those purchases, it will be from his account in the bank or institution if he has a balance, or through a loan grants to him by the card issuer, then the cardholder repays that loan during a specific period.¹⁶ The definition involves an explanation about the mechanism of payment the prices of purchases. The card issuer pays those prices to the merchant instead of cardholder, either by withdrawing from his account or by lending if he does not have a balance. The definition did not explain the revolving credit which is the most important operation in the credit card; where the cardholder is not obliged to repay the full sum during specific period but he can repay by instalments for an opened period.

Mohammed Al-Ausemi has defined a credit card as a tool (local or regional or international) for payment (immediately or revolving credit) arising from a contract (a bilateral or trilateral) issued by Market or bank or company, allows its holder from a procedure of special contracts to obtain special services.¹⁷ The definition denotes a very important issue which is a revolving credit. This issue is the most important characteristic for credit card which distinguishes it from other cards such as charge card which it has a credit but it is short-term not revolving credit. With respect to Islamic jurisprudence, there is the difference in the meaning of credit its effect on explaining the meaning of credit card and its adaptation; That is why the Islamic Fiqh Academy was later agreed on the precise definition of the above of the credit card

¹⁵ Mohammed Ali Al-Qari Bin Aid. (1994). "Al-It'iman Al-Muald Ala Sheikl Bitaqah". *Journal of Islamic Fiqh Academy*. Eighth session, The Eighth issue, Vol 2.

¹⁶ Hassan Al-Jawahir., (2004). "Credit Cards (Lending)". *Journal of Islamic Fiqh Academy*, fifteenth session, the fifteenth issue, Vol 3.

¹⁷ Mohammed Al-Ausemi. (1424H). "Plastic Cards". Saudi Arabia: Dar Ibn Al-Jawzi.

until the year 2000, when it issued the final definition of a credit card, where we see that this date was too late in comparison with the date which the conventional jurisprudence reached in defining the credit card, where it was in the seventies.

After the definition of the Islamic Fiqh Academy of the credit card which did not notice a difference in the above definition and the definitions of conventional jurisprudence and legislations, it is arguable that both two jurisprudences agreed that the card is a document depends on the three parties (the issuer, the cardholder and the merchant) that allows the cardholder to purchase goods and services from merchants who accept the card, at the same time the card issuer obligates to pay the prices of those purchases from the issuer account which have to be paid by the cardholder that on the a regular times. But the point of contention between both jurisprudences stand out in the question of interest (*riba*), which the banks takes from the cardholder but that interest is prohibited under Islamic law and permissible under conventional law.¹⁸

In relation to the word 'card', there is no difference between the perception of Islamic and conventional jurisprudence to the word and meaning of card, the meaning of card is mentioned in Arabic dictionaries and the saying the Prophet peace be upon him as it can see in *Hadith al-Bitaqah* when he says:

"I bear witness that there is no god but Allah and that Muhammad is His slave and His Messenger".

Arabic dictionaries have interpreted the word 'card' as paper that bears, price of goods. The Islamic Fiqh Academy has adopted this view when it defined the card as a document. By this definition, the Islamic jurisprudence agrees with conventional jurisprudence in the meaning of word 'card', which is also indicative of any paper, document, coupon, stamp, form or booklet as it is defined in the books of conventional jurisprudence. The definitions of conventional jurisprudence concentrated on the revolving credit which represents the most important aspect of credit card, as with the definition of Islamic Fiqh Academy under resolution No.108 that mentioned the revolving credit impliedly and considered it the most important point in operation of credit card which distinguishes it from the other cards.

¹⁸ See: Mohammed, M. J., Ismail, R., & Markom, R. March 27, 2012. "The Jurisprudential Differences about the term Credit Al-Itiman and credit card". *Universiti Kebangsaan Malaysia*.

2.2. Islamic Credit Card in Practice

Islamic credit card defined as a payment instrument that meets with at least three criteria of Islamic principles. Firstly, the card must meet the *shariah* requirements on lending, which vary from region to region. In general, it must avoid the three essential prohibitions in Islamic finance, which are *riba*¹⁹, *gharar*²⁰ and *maysir*²¹.²²

Riba, as applied in the interest concept, is clearly proscribed in the Holy Qur'an and the Hadith of Prophet Muhammad. Therefore, an Islamic credit card is not allowed to charge any interest to payments even if the user is late in paying. *Gharar*, or uncertainty, in the practice of Islamic credit card should be avoided by excluding a charging scheme where the monthly repayment or service charges are variable based on a number of factors. *Maysir* or gambling is also prohibited. Thus, apart from preventing the card holder to access sites such as online gambling, Islamic cards need some other form of insurance cover.

Secondly, an Islamic credit card must have certainty to be accepted widely. It has to use international payment schemes, such as MasterCard or Visa. Besides that, the card should provide facilities that are not available on debit cards such as CVV numbers for "card not present" transactions and hold amounts. Furthermore, the merchant charges and issuer's fees should not be withheld.²³

Thirdly, an Islamic credit card should not encourage behavior that is considered haram. This includes all manner of forbidden behaviors and transactions of an inappropriate nature.²⁴

Islam itself permits the use of credit card as long it does not involve the element of usury and at the same time it does not contravene with principle of Sharia's. Therefore, if the credit card serves as a charge card, where the holders only

¹⁹ Riba means interest or usury.

²⁰ Gharar is translated as any element of absolute or excessive uncertainty in any business or a contract about the subject of contract or its price, or mere speculative risk. It leads to undue loss to a party and unjustified enrichment of other, which is prohibited.

²¹ Maysir means gambling.

²² Massey J. (September, 2007). "What is so special about Islamic credit cards?". MONEYworks.

²³ Rahman, F. K., Ferdian, I. R., & Dewi, M. K. (n.d.). "The practice of Islamic Credit Cards" A Comparative look between Bank Danamon Indonesia's Dirham Card and Bank Islam Malaysia's BI Card on February 6, 2012:

http://staff.ui.ac.id/internal/060603200/publikasi/200808IAEICConference_IslamicCreditCard.pdf

²⁴ *Ibid.*

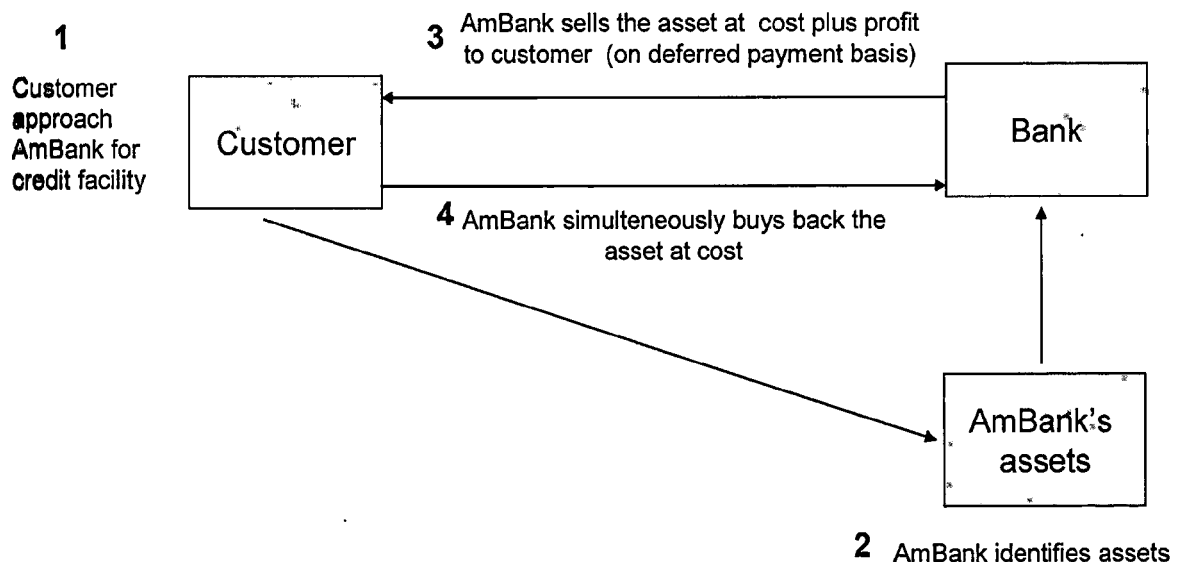
pay the principle amount plus the service charge, the transaction is permitted because **does not** involve any element of usury. The advantages of credit card transaction **includes** of it is convenience to the buyer, security wise and cost effective are **considered** to benefits to the user in term of giving comfortable life.²⁵

2.2.1. Al-Taslif Credit Card

An example taken from a bank in Malaysia, AmBank Bank Berhad offered Islamic Credit Card called Al-Taslif and it was launched in 1992. A study on how Al-Taslif Islamic credit card applies the Islamic principles in the product. Al-Taslif credit card uses bay al-inah. In bay al-inah two separate contracts, namely *al-bay' al-mutlak*, means cash sale, and *al-bai bithaman ajil* or known as deferred sale, both of which are carried out after one another. However there are times where the deferred sale precede cash sale but this is not an issue because the end result is the same.

For example, the bank sells an asset to the customer and the buyer is required to pay on equal installment for a specific time period (deferred sale). The installment sale by the bank saw the buyer to execute his rights to sell back the asset to the Bank on cash basis (cash sale). The deferred sale should be higher than the cash sale in order for the Bank to gain profit from the transaction.

Figure 1: AmBank Al-Taslif Card Modus Operandi



²⁵ Ma'sum Billah (2007) "Modern Financial Transaction under Shariah".

The customer who wishes to apply for credit card facility will approach any counters of AmBank Bank Berhad or AmFinance Berhad. They will complete standard form and the application will be processed thereon. If the standard requirement is fulfilled by the applicant, then the process of bay al-inah will commence. AmBank will identify collective or individual assets owned by AmBank, whereby the market value of the assets is equivalent to the credit facility. For example if the credit facility worth RM10,000 then the value of the identified assets must equivalent to RM10,000 too. Here the criteria of the assets or the subject matter under Shariah compliance shall be taken into the considerations such as²⁶:

- The subject matter should exist at the time of the contract. However exception is given to some types of contracts such as Salam²⁷, Istisna'²⁸, Jualah²⁹ and Ijarah³⁰
- The subject matter must be legally owned
- The subject matter should bring benefit or significant result for the contracting parties
- The subject matter should have commercial value.

After that, AmBank will sell the identified assets to the customer. The selling price is the sum of cost and profit (which is normally quoted in percentage). The next contract will be executed when the AmBank buys back the asset at cost and cash will be given to the customer. Customer will then use this cash to buy goods and services using the credit facility provided. The reason that is transaction is not considered as usury is that the mark-up price is based on trade and services not on loan. Any transaction which is backed by assets is permissible under the Shariah in Malaysia. Therefore in the theoretical sense, an Islamic credit card is not based on lending but rather business in trade and services, whereby the Bank sell and buy back at lower cost to gain profit.

²⁶ Mohd Ma'sum Billah. "Modern Financial Transaction under Shariah" pp48 – pp55

²⁷ Salam means a contract in which advance payment is made for goods to be delivered later on.

²⁸ Istisna' means it is a contractual agreement for manufacturing goods and commodities, allowing cash payment in advance and future delivery or a future payment and future delivery.

²⁹ Jualah literally means as constitutes wages, pay, stipend or reward.

³⁰ Ijarah means letting on lease. Sale of a definite usufruct of any asset in exchange of definite reward.

2.2.2. Bank Islam Card³¹

In the operations of Bank Islam Card (BIC), there are 3 main Shariah contracts being used. Namely, *bai al inah*, *wadiah* and *qardhul hassan*.

Bai Inah comprises two agreements (*akad*) which are same as discussed for Al taslif card. The Bank disburses the cash proceeds of the second agreement into the customer's Wadiah BIC account created and maintained by the bank. Then, the customer can use his BIC for retail purchases and cash withdrawals just like a conventional credit card, except that each transaction will be backed by the cash held in his or her Wadiah BIC account. *Qardhul Hassan* is a facility by which the Bank may, at its own discretion, allow the customer to use more than the available balance in his Wadiah BIC account. The cardholder will not be levied with extra charges or fees but will be required to repay the over limit amount used.

For BIC, the monthly profit is calculated on monthly basis based on outstanding due or total transaction made for that particular month. This profit is not compounded as compared to conventional card where the interest is compounded. The total monthly profit could not be more than the total profit earned by the end of the contract, as it was determined upfront during the "*akad*". The cardholder will be able to know the maximum profits which will be imposed within the contract period while the conventional credit card interest charged is undetermined. Cash Withdrawal Fee for BIC is RM12 for every RM1000 or below for withdrawal made at Bank Islam ATM, while conventional credit card is 3% or RM50 (whichever lower) of the withdrawal amount. For BIC, cardholder will have to perform new "*Akad*" or contract while conventional credit card is solely based on the MCI/ Visa agreement. Transfer Balance is treated as retail transactions where customer is given 20 days grace period to pay back the minimum repayment.

2.3. Islamic Credit Card holders

In this paper, it is a study that conducted to analyse the factors influencing the perception between Islamic Banking Credit Cards by using factoring analysis. In the

³¹ Bank Islam. (n.d.). "About Bank Islam Card (BIC)" *Bank Islam Malaysia*. <http://www.bankislam.com.my/en/Pages/AboutBankIslamCard.aspx?tabs=2>

introduction is specifying other research study of Soo Yee Choo where it is found that there are two distinctive processes in whether to use the credit card or not and do credit card holders have Islamic-based credit card or not.

The study by Soo Yee Choo of Islamic credit card holders in Malaysia, found that the higher probability of choosing Islamic-based credit card consist of those the government staffs compared to private sector staffs. Besides that, they also found that the actual frequency of using credit card for online purchase increase the probability of choosing Islamic-based credit card. But, it does not increase the probability of having credit card. The paper also suggests that the Islamic-based credit card may have some attractive features for online purchase to encourage people to use this product.

2.4. Bank Credit Card Adoption and Credit Spending

Every people have their own needs and necessities. They will spend on these two factors either by cash or credit. Usually the people or consumers spend on food, clothing and foot wear, housing, cars, utility bills, furniture, household appliances, Communication technology and phone, internet bills, wellness, hobbies, education, and entertainment and services such as plumbing services, changing bulbs and others.

Credit is a growing part of our day-to-day lives, especially in urban cities. Most of us have loans, or other credit, which can be managed without difficulty if the person has the discipline to repay a minimal amount every month. Borrowing can be a useful tool to help households smooth their expenditure over time. Credit spending is necessary because of changing needs associated with changing living environment, paradigms and mechanisms for transaction. In Brunei, credit spending is unlikely to lead to economic growth because a significant amount is spent outside the local economy.

In the case of Thailand, a study has been carried out which focused on credit card adoption criteria of the respondents and marketing implications. Data were collected from 206 respondents in Bangkok metropolitan areas. The results indicated that customer characteristics affecting credit card choice criteria included age, marital status, education, and income level. In addition, customer profile was developed to

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