THE STUDY ON ISLAMIC CREDIT CARDS
(PRACTICE BY ISLAMIC BANKS IN MALAYSIA)

By

NOORHIDAYAH BINTI MOHD SAAD

Project Paper Submitted to the Ghazali Shafie Graduate School of Government,
Universiti Utara Malaysia
in Fulfilment of the Requirements for the Degree of Master of Law
PERMISSION TO USE

In presenting this project of the requirements for a Master of Corporate Law (LLM) from University Utara Malaysia, I agree that the University library may make it freely available for inspection. I further agree that permission for copying of this project paper in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor(s) or in their absence, by the Dean of Graduate School. It is understood that any copying or publication or use of this project or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to University Utara Malaysia for any scholarly use which may be made of any material from my project paper.

Request for permission to copy or make other use of materials in this project, in whole or in part, should be addressed to:

Dean of Research and Postgraduate studies
University Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
ABSTRAK

ABSTRACT

The practice of Islamic credit cards nowadays is still debatable among Muslim scholars especially regarding to its contracts and its effectiveness to attain maslahah. Study about Islamic credit cards is very essential and some studies have done on it. However, studying about the comparison of the various product of Islamic credit cards practiced in Malaysia in the recent year is still limited. Therefore, this paper would like to tackle this issue by comparing the various product of Islamic Credit Cards in Malaysia. From the research, the researcher found that Muslim in Malaysian cannot completely escape interest and credit even in Islamic countries, some may think it is just better to go with the flow and use it anyway, despite it being unlawful in the light of Shariah. Nevertheless, it is highly essential to try as best as possible to avoid it and the venues are available if Muslims look for them and embrace the sincerity to pursue them. Instead of submitting into the temptation of using credit card, Muslims should consider a clear alternative, for instance the debit card in order escape from the malicious trap of riba. Apart from that, debit cards can instil financial discipline that credit cards, in most cases, destroy. With a debit card, all the purchases and expenses are directly deducted from customers’ banking account. So, the expenditures are always limited to what the money in their banking account can cover. Likewise, the primary advantage of this arrangement is that customers do not get haunted, by purchases or other financial decisions they made in the past. Therefore, the usage of debit card will not only evade interest, but it will also enable Muslims to be more vigorous in controlling their financial expenditure.
ACKNOWLEDGEMENT

Praise be to Allah, the Most Gracious and the Most Merciful for the blessings and mercy that He has given. The greatest gratitude dedicates for my family especially my mother, Puan Hamriah binti Ahmad and my father Encik Mohd Saad bin Mohd Din, for their understanding and support.

The success of this academic project attributed largely from the encouragement and guidelines of many individuals. I would like to take this opportunity to extend my sincere thanks to all of them.

Special appreciations to my supervisor Dr. Fauziah binti Mohd Noor for the useful comments, remarks and engagement through the learning process of this academic project.

Deepest appreciation to my superior officers, colleagues, lecturers, friends, classmates, the staffs in COLGIS and all those who have rendered helps towards me. The lecturers in UUM have been very knowledgeable, kind and understanding and are always ready to provide guidance.

I would also like to thanks to the crucial role of Dr. Alias bin Ishak as the coordinator of Academic Project Paper for 2013/2014 session and others who are not mentioned
here for their teaching and guidance during my studies at UUM.
TABLE OF CONTENTS

Permission to Use...........................................................................................................i

Abstract (Bahasa Melayu)...........................................................................................ii

Abstract (English).........................................................................................................iii

Acknowledgements......................................................................................................iv

CHAPTER 1: INTRODUCTION

1.1 Introduction.............................................................................................................1-3
1.2 Research Background...............................................................................................4-5
1.3 Problem Statement....................................................................................................6-6
1.4 Research Questions..................................................................................................6
1.5 Research Objectives.................................................................................................6-7
1.6 Justification of the Study..........................................................................................7
1.7 Research Methodology..............................................................................................7
  1.7.1 Research Design.................................................................................................8
  1.7.2 Research Method...............................................................................................8
  1.7.2.1 Historical Study..............................................................................................8
  1.7.2.2 Descriptive and Exploratory Studies...............................................................8
  1.7.2.3 Comparatives Study.......................................................................................9
  1.7.2.4 Analytical and Critical Studies.....................................................................10
  1.7.3 Data Collection................................................................................................10
  1.7.4 Data Analysis..................................................................................................10-11
1.8 Scope and Limitation of the Study.........................................................................11
1.9 Literature review....................................................................................................11-18

CHAPTER 2: HISTORICAL DEVELOPMENT AND CHARACTERISTIC OF
ISLAMIC CREDIT CARDS

2.1 Introduction..........................................................................................................19
2.2 Historical Development of Credit Cards...............................................................19-23
2.3 Structure of Conventional Credit Cards...............................................................23-25
CHAPTER 3: ISLAMIC CREDIT CARDS MODEL

3.1 The Bay’ Al-Inah

3.1.1 The Bay’ Al-Inah Structure Applied in Bank Islam Card and the Business Operational Framework

3.1.2 First Stage: Application of Bank Islam Card by the Customer

3.1.3 Second Stage: Processing and Approval by the Bank

3.1.4 Third Stage: Acceptance and Execution of Agreement

3.1.5 Fourth Stage: Activation of the Credit Card

3.1.6 Procedure in Bank Islam Card Transaction

3.1.6.1 The Financing Limit

3.1.6.2 The Profit Charge

3.1.6.3 Mode of Payment

3.1.6.4 Default Payment

3.1.6.5 Annual Fee

3.1.6.6 Cash Withdrawal

3.1.6.7 Compensation Handling Fee

3.1.7 Privilege Given To Cardholder

3.1.8 Detail of the Bank Islam Card

3.1.9 The Figure of Bay’ Al-Inah in Bank Islam

3.1.10 Bay’ Al-Inah According To Muslim Scholar

3.1.10.1 First: Shafie Opinion

3.1.10.2 Second: Hanafi, Maliki and Hambali Opinion

3.2 The Structure of Tawarruq

3.2.1 The Commodity

3.2.2 The First Broker or Trader
3.2.3 The Second Trader.................................................................55-56
3.2.4 Wadiah Account...............................................................56
3.2.5 The Operational Framework of Bank Rakyat’s Credit Card-I...............57
   3.2.5.1 First Stage: The Application for Islamic Credit Card...............57
   3.2.5.2 Second Stage: Islamic Credit Card and Process......................57
   3.2.5.3 Third Stage: Tawarruq Process.........................................57
   3.2.5.4 Fourth Stage: Preparation of Issuing For Islamic Credit Card....57
3.3 The Structure of Ujrah Model..................................................58
   3.3.1 The structure of Ujrah Model applied in “Credit card-I” Introduced by
       HSBC Amanah.............................................................................58
   3.3.2 The Shariah Justification of Actual Management Charge.............58-59
   3.3.3 Withdrawal and Over Limit Charge.........................................59-60

CHAPTER 4: RESEARCH FINDING AND ANALYSIS
4.1 Some of Islamic Bank Which Offer Credit Card-I..............................61
   4.1.1 Maybank Islamic Berhad....................................................61-62
   4.1.2 Bank Simpanan Nasional (BSN).............................................62-63
   4.1.3 HSBC Amanah Berhad.......................................................63-64
4.2 Review on Islamic Concept of Inah and Ujrah..................................64
   4.2.1 Concept of Inah...............................................................64-69
   4.2.2 Concept of Ujrah.............................................................69
4.3 Legal Status of Ujrah (Fee) for Mudharabah Capital Guarantee............69-70
4.4 Legal Rule on Ujrah in Kafalah or Dhaman Contract..........................70
4.5 Views that allow Ujrah in Kafalah or Dhaman Contract.....................70-73
4.6 Views that Disallow Ujrah in Kafalah or Dhaman Contract................73
4.7 Criticism on Inah, and Tawarruq Structure....................................73-78
4.8 Criticism on Ujrah Structure.....................................................79-80

CHAPTER 5: CONCLUSION AND RECOMMENDATION
5.1 Conclusion.................................................................................81-83
5.2 Recommendation.........................................................................84

BIBLIOGRAPHY.............................................................................85-92
CHAPTER 1

INTRODUCTION

1.1 Introduction

Islamic banking can be described as the shariah or Islamic law consistent way of banking. There are certain strict rules that should be observed in Islamic banking. If these fundamental rules are breached, the concept of Islamic banking would be lost. In Islamic banking, riba (interest), maysir (gambling) and gharar (uncertainty) shall be eliminated. Apart from it, the investments made, shall also be for shariah compliant products, which shall not include commodities classified as haram (prohibited) like alcohol and pork.

Islamic banking refers to a system of banking that complies with Islamic law also known as Shariah law. The underlying principles that govern Islamic banking are mutual risk and profit sharing between parties, the assurance of fairness for all and that transactions are based on an underlying business activity or asset.

These principles are supported by Islamic banking's core values whereby activities that cultivate entrepreneurship, trade and commerce and bring societal development or benefit is encouraged. Activities that involve riba (interest), maysir (gambling) and speculative trading gharar (uncertainty) are prohibited.

Through the use of various Islamic finance concepts such as bay’ al-inah, tawarruq and ujrah, financial institutions have a great deal of flexibility, creativity and choice in the creation of Islamic finance products. Furthermore, by
The contents of the thesis is for internal user only
BIBLIOGRAPHY


Al-Qurtubi, al-Jami’fi Ahkam al-Quran. n.d.


Ariff, Mohamed. *Islamic Banking*. *Journal of Asian-Pacific Economic Literature*.  


Bakshi, Dr. Imran Usmani and Syakh Ibn Uthaymeen, interview by Adil.  

"Bank Islam Islamic Credit Cards Brochure." n.d.

Bernama. *BSN Aims At 50,000 Al Aiman Credit Cards*. 2006.  


87


Ilham Reza Ferdian, Miranti Kartika Dewi, Faried Kurnia Rahman. *The Practice of Islamic Credit Cards: A Comparative Look between Bank Danamon Indonesia’s Dirham Card and Bank IslamMalaysia’s BI Card*. n.d.


Kante, Aboubacar Salihou. “Credit Cards from the Islamic Legal Perspective”. Selangor: Ilmiah Publisher, 2006.


Muslim. “*Kitab al-Musaqat*”. n.d.


Nirigjuere, Manawee. "Credit Cards From Shariah Perspective." *International Islamic University Malaysia*, n.d.


"Resolution of National Shariah Advisory Council of Bank Negara Malaysia."


"Session Seventeenth Conference of OIC Fiqh Academy." 20/10/1424H.


Sloan, Irving J. *The Law and Legislation of Credit Cards: Use and Misuse.*


