

# The Islamic Credit Card Based on Ujrah Concept: Conceptual Review

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## ARTICLE INFO

### Article history:

Received 30 May 2020

Accepted 18 September 2020

Published 30 September 2020

### Keywords:

Islamic Credit Card

Ujrah

Rebate

Penalty Charge

Muslim Scholars' View

Islamic Banking

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## ABSTRACT

Islam is a way of life that seeks to protect the human being from financial harm through prohibiting *riba*, *maysir*, and *gharar*. Islamic credit card is one of the alternative banking products offered by Islamic financial institutions to replace the conventional credit card. The Islamic credit card was initially based on the *Inah* concept. However, this concept was criticized by both contemporary and classical Islamic jurists, especially in the *Hambali*, *Maliki*, and *Hanafi* school of thought. Therefore, some Islamic banks of Malaysia offer a better alternative, developing the credit card on the concept of *Ujrah*, which is less ambiguous among Islamic scholars. This study will explore the background of Islamic credit card base on the concept of *Ujrah*. It will then further discuss the justification for the permissibility of the concept. Finally, this paper will highlight the issues related to the practice of *Ujrah* in Islamic credit card operations. The findings indicate that the credit cards based on *Ujrah* (fee) are permitted from the *Sharia* perspective as long as they do not involve any element of *riba* (interest). However, it involves *Shariah* issues on its practice of *ibra* (rebate) and penalty charge. To fulfil the objectives of the study, it will refer to the *Quran*, *Hadith*, classical Islamic jurisprudence, juristic opinion of Islamic scholars, *Shariah* standards of international Islamic standard-setting bodies, and other policy documents of the Islamic banks.

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## 1. Introduction

Islam is a way of life that is committed to protecting humans from any harm and providing a better experience from what is *halal* (Johan & Hussain, 2019). The Principal aim of *Sharia* is to avoid practicing

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what is wrong in all activities of humankind and protecting their din (religious), the nafs (human self), the nasl (progeny), the aql (intellect), and mal (wealth) (Uddin, Hossin, Chowdhury, & Islam, 2018).

Islamic banking and finance is a discipline whereby all of its activities are consistent with the principals of Sharia. Globally, up to date, a majority of Muslim nations practise Islamic banking, such as Malaysia, Egypt, Sudan, and United Arabs are now demanding to be a centre, and even the Britain is not left out in aiming to be a hub for Islamic banking and finance (Ogunbado, Islam, Sharrif, & Ahmed, 2017).

Globally, Islamic banking was introduced in the middle east, in the 1970s, when Egypt established an Islamic bank. Dubai established an Islamic bank in 1975. These banks developed banking services under Islamic law (Belwal & Al Maqbali, 2019). According to Putit & Johan (2015), Islamic banking is an aspiration of the Muslim society, which is suppose to practice the business by Sharia law. However, Islamic banking is different in its operations and techniques when compared to conventional banks in many aspects. The Islamic banking industry avoids dealing with *riba* (usury), *maysir* (gambling), and *gharar* (uncertainty) as all of them are prohibited in the Islamic financial transactions.

The beginning of the Islamic credit card in Malaysia can be traced back to 1996. The first bank to present an alternative credit card was AmBank Malaysia Berhad in 1996. After that, in 2002, Bank Islam Malaysia Berhad followed. The Bank Simpanan Nasional (BSN) then introduced Islamic credit cards in the year 2006. Maybank Islamic, CIMB Islamic, Bank Rakyat, and HSBC Amanah introduced their Islamic credit cards in 2008, and RHB Islamic in 2010 (Azman, 2015). This study will analyze the permissibility of Ujrah-based Islamic credit card in Shariah together with the issues related to its practice. The study has chosen Malaysia as a case study. The study aims to fill the gap by the previous investigations as previous studies discussed bay al-inah and tawarruq-based credit cards. The findings and recommendations of this research may encourage a re-thinking in the development of Islamic credit card based on Ujrah concept.

There are some issues in the operation of Islamic credit cards based on the concept of Ujrah. Under the Ujrah concept, there is an issue of practising *ibra* (rebate). Another issue is the penalty charges on the card when the cardholder is not able to settle the outstanding balance.

This study investigates the background of the Islamic card based on the concept of Ujrah, clarifies the justification on its permissibility and highlights issues related to the practice of Ujrah in Islamic credit card operation.

## 2. Literature Review

### 2.1 The concept of Ujrah (service charge)

The word Ujrah (service charge) in Arabic means wages and remuneration (Husaeni, 2018). The Malikiyyah school of thought has defined Ujrah (service charge) as a contract that provides some benefits (Al-Dasuqi & Ahmad, 2003). According to the majority of the scholars, Ujrah (service charge) means possession of profit for a particular reward for labour or service given (Ghazzālī & Faris, 2009). According to Securities Commission Malaysia, (2004), Ujrah (service) is income received by employees in the form of money given as a service or labour within a specified period as long as they do their work. Nevertheless, Islam prescribes that the submission of Ujrah (service charge) should be complete when the job finished.

Therefore, as mentioned in Surah al-Qasas, verses 26 and 27, is supported by the Quran, in which the indication of 'service charge' is made. One of the women said, "O my father, hire him. Indeed, the best one you can hire is strong and trustworthy." He said, "Indeed, I wish to wed you to one of these, my two daughters, on [the condition] that you serve me for eight years; but if you complete ten, it will be [as a favour] from you. And I do not wish to put you in difficulty. You will find me, if Allah wills, from among the righteous" (Quran, 28:26,27). And which Musa A. S. honourably accepted. This verse means that all conditions have to be said, as mentioned in the attendance of the members included, and there should be no

force or obligation. Indeed, it is not allowed to exchange the wage of service for food or clothing, as mentioned in the Quran (Thoarlim et al., 2017).

In this study, Ujrah (fee) means the service charge that the bank takes when the client or cardholder uses the Islamic credit card, and it is permitted for the bank to charge for providing services to the client. However, under the procedure of the Ujrah structure, banks are managing and maintaining the cardholder's Islamic card and charges for the services (Bilal & Mydin Meera, 2015). In this practice, the bank will charge the holder a Ujrah (fee) for managing and maintaining his Islamic Card (Uddin et al., 2018). In Ujrah underlying structure, the customer will settle the annual service charge for using a credit card, such as bank statements, or requesting for bank statements at the end of the month and other issues. The service charge in the Ujrah credit card is often hidden, but it is a high cost compared to conventional banks (Siraj et al., 2015). Islamic Credit Cards may also introduce another Ujrah structure where only a fixed fee will be charged to the cardholder. (Zaharim Yaakob, 2011).

## 2.2 The Concept of Islamic Credit Card

Sajna & Nairoos (2017), defined the Islamic credit card as an instrument that meets with the three principles of Islamic ideologies. Firstly, the credit facility must meet the Shariah request on borrowing, which differs from area to area. Besides, it must avoid the three necessary prohibitions in Islamic finance, which are Riba (usury), Gharar (uncertainty), and Maysir (gambling). Riba (interest) is prohibited in the Holy Qur'an and the Hadith. Therefore, it is not permitted in the Islamic credit card to charge any customer a fee of any amount even if the customer is late in paying a service charge. Gharar (uncertainty), should be avoided by excluding a charging scheme in the practice of Islamic credit card in service charge for monthly repayment. Maysir (gambling), is also forbidden. (Abdeen, Sajna, Haniffa, & Nairoos, 2018). Secondly, an Islamic credit card must be acknowledged widely. The card should allow international withdrawals, like MasterCard or Visa Card. Also, the banks should provide a credit card that is not available on debt like conventional banks. Thirdly, an Islamic credit card should not practice haram or encourage behaviour that is considered unlawful including all manners of prohibited practices and transactions of an inappropriate nature (Sajna & Nairoos, 2017).

### 2.2.1 Application of Ujrah Concept in Islamic credit card

Historically, the first Islamic Ujrah (fee) card introduced by Skywards Emirates Islamic Bank (EIB). The Ujrah-based credit card was structured based on Shariah rules in which no additional interest or cost-plus was charged to the client. The element that makes Ujrah based credit card different from the conventional bank credit card is that its fixed service charge. In the Ujrah credit card, only a fixed service fee is made to the cardholder or customer. On the other hand, the card is charged depending on the remaining balance and not accused of any floating percentage rate as a conventional bank. However, in this issue of the banking products, the fee will be depending on the type of customer card (Uddin et al., 2018).

Usually, Ujrah based credit cards can be considered as the simplest form out of other structured presently used in Islamic banks. In this concept, the Islamic bank will facilitate the purchase by the clients. Then, the Islamic bank also has the right to charge a fee to the client for the service provided. Thus, an Islamic bank is depended on the management for other service charges like monthly and annual charge, fixed management charge as their main profits. (Jamaan et al., 2014).

## 3. Research Methodology

This study used the qualitative technique in carrying out of this research paper, with the help of secondary data from the library. This qualitative research relied mostly on primary and secondary sources

of Sharia through based on the discipline of *uṣūl al-fiqh* (principles of Islamic jurisprudence) because this study represents fully Sharia-based research.

Library search is an excellent place for the researcher to conduct research and explore the phenomenon. However, the researcher will know all the suitable sources of secondary data only by doing a thorough search. Library research is compulsory for the field of Islamic jurisprudence (*fiqh*) to come out with the suitable views of the previous and contemporary jurists. Library research includes reviewing the classical manuscripts, modern literature, journals, books, and fatwa of the scholars in the field of Islamic jurisprudence (Abdullah, 2016).

#### 4. Results and Discussion

The Islamic credit card based on the *Ujrah* concept has been carried out based on Shariah principles and objectives, so that, the bank will allow the cardholders to purchase goods or services using a credit card without immediate payment (Sabah, 2017). Therefore, the issuer has the right to charge any amount as a fee for the service done. Thus, an Islamic bank has relied on the management charge or other benefit service fees such as monthly charge and annual management charge as their primary source of income. The figure below explains the *Ujrah* concept applied in Islamic credit card.

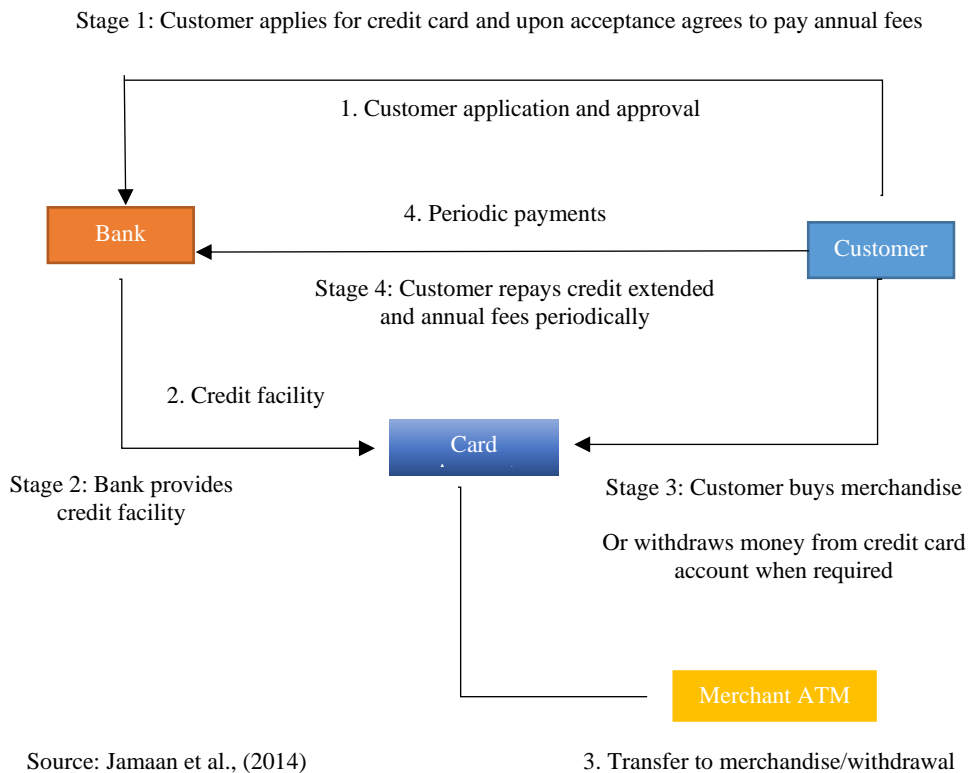


Fig. 1: *Ujrah*-Based Credit Card

According to the Fig. 1, the customer who wishes to get the credit card based on the Ujrah should apply and approach a bank. They will fill the agreement form, and the application will be processed thereon.

Stage 1. The contract should be concluded between the customer and the bank, and the customer will approach the bank and apply for the credit card.

Stage 2. Bank agrees to provide the credit card facility to the cardholder.

Stage 3. Customer has a guarantee from the bank to withdraw cash or to buy goods using the credit card at any time he wishes.

Stage 4. The customer will settle his credit extended and annual fee to the bank. So, the bank will charge the cardholder based on the outstanding balance for the service offered.

#### 4.1 The permissibility of Ujrah in Shariah

Ujrah (fee) is permissible in Islam based on sources from the verse of the Holy Quran and Hadith as follows:

The Almighty Allah said in the Holy Quran: One of the women said, "O my father, hire him. Indeed, the best one you can hire is strong and trustworthy." He said, "Indeed, I wish to wed you one of these, my two daughters, on [the condition] that you serve me for eight years; but if you complete ten, it will be [as a favor] from you. And I do not wish to put you in difficulty. You will find me, if Allah wills, from among the righteous." (Quran, 28:26,27). This verse is evidence for Ujrah as permissible in Islam because the prophet Musa (A.S) hired himself to get a reward at last.

Narrated Abu Huraira: The Prophet said, "Allah did not send any prophet but shepherded sheep." His companions asked him, "Did you do the same?" The Prophet replied, "Yes, I used to shepherd the sheep of the people of Mecca for some Qirats." (Al-Bukhari, 1997).

Narrated 'Aisha: The Prophet and Abu Bakr employed a (pagan) man from the tribe of Bani Ad-Dail and the tribe of Bani 'Abu bin 'Adi as a guide. He was an expert guide, and he broke the oath contract, which he had to abide by with the tribe of Al-'Asi bin Wail, and he was on the religion of Quraish pagans. The Prophet and Abu Bakr had confidence in him and gave him their riding camels and told him to bring them to the Cave of Thaur after three days. So, he brought them their two riding camels after three days, and both of them (The Prophet and Abu Bakr) set out accompanied by 'Amir bin Fuhaira and the Dili guide who guided them below Mecca along the road leading to the sea-shore." (Al-Bukhari, 1997).

The hadith narrated from 'Abdullah bin' Umar that the Messenger of Allah said: "Give the worker his wages before his sweat dries." (Albani, 1987).

Generally, the majority of Shariah scholars permitted Islamic credit cards, like as the Shariah Advisory Council of Bank Negara Malaysia (SACBNM), and the International Islamic Fiqh Academy of the Organization of Islamic Cooperation (IIFA-OIC), and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). AAOIFI stated that it is permitted for Islamic financial institutions to introduce Islamic credit cards, and there should be no cost-plus or interest increased to the client. However, the usage of the card should not break the principles of the Shariah, such as to buy khamr (alcoholic beverages), pornographic products, or being in illegal activities. Also, AAOIFI allows Islamic banks to offer services along with international credit card organizations, such as MasterCard, Visa, or American Express. It allows the bank to charge the customer, but not to engage in any payment which involves interest (Johan, 2018) (Azman, 2015) (Jamaan et al., 2014) and (BNM, 2010).

#### 4.2 The issues related to the practice of Ujrah-based Islamic credit card

A group of contemporary scholars have a contrary opinion on credit card application and operations. They argue that it is a modern way of reviving *riba* and a *hilah* (trick) to legitimize interest rate, which is a non-Islamic structure. The two models, that is, the concept of *inah* and *tawarruq* have been disapproved by the majority of the Islamic scholars in the Hambali, Maliki, and Hanafi schools of jurisprudence, are sales contract intended as a ploy to allow debt with *riba* (interest) (Azman, 2015; Jamaan et al., 2014); (Ibn Qudamah, 1968). However, this problem makes some Islamic banks come with other options that scholars agree with in the use of Ujrah as the best substitute for *inah* (Jamaan et al., 2014).

Credit Card is built based on a fee structure, which means that only the service charge is fixed by the card issuer. There are several issues in structuring the practice of Islamic credit cards based on the concept of Ujrah. Under the operation of Ujrah, there are a few problems in practising *ibra* (rebate). Another issue is regarding the penalty charges on the card.

##### 4.2.1 The issue of Rebate (*Ibra*)

In the perspective of Islamic transactions, rebate mentions as a discount given by somebody to another as a gift in a financial transaction such as business and rent transactions (Ishak, 2019). For instance, banks provide a rebate to their clients who fulfill their obligation on time that is agreed by both parties. There are some problems in practising *ibra*. However, a majority of scholars say that '*dho` wa ta`ajjal`*' is not allowed as it is similar to the concept of usury and is a kind of legal trick (*hilah*). Some of the Shariah scholars who claim the prohibition of '*dho` wa ta`ajjal`*' are Umar al al-Khattab, Ibn Umar, Zayd bin Thabit, al-Hakam, al-Hasan, Salim, Hisyam ibn 'Urwah, and Miqdad, Ibn Uyyaynah, al-Musayyib, Ibn 'Aliyah, al-Thawri, and scholars from the four Imams (Ibn Qudamah, 1968); (Abdul Hamid Mohamad & Trakic, 2013).

The scholars have views that '*dho` wa ta`ajjal`*' (offer discount and hasten the settlement) so far it is similar to the concept of *riba*; therefore, it is not acceptable. They argue that the percentage increase added as a result of the repayment period postponement is regarded to be *riba* (Saiman, 2017). Similarly, the decrease in the value of loans arising from shortening, the refund period is also counted as *riba*. Islamic scholars do not allow pre-agreed discounts in the Islamic banking product because this will lead to the issue of *gharar* (uncertainty) in the marketing price (Fairooz, 2016). Besides, some scholars argue that the concept of the rebate is similar to '*bai`atain fi al-bai`ah`*' (sale over the sale), which is prohibited by the Sunnah. The Hanafi school of jurisprudence banned refund if the practice is based on a pre-condition (BNM, 2010).

Whereas the views of scholars who claim that the '*da` wa ta`ajjal`*' is permitted are: Abbas Ibn al-Nakha'i and Abu Thawr. They allow it because it is to waive some of the creditor's rights and to release the debtor from debt. A group of the sect from Shafi'i have an opinion that '*da` wa ta`ajjal`*' has elements of well-matched tricks (*hilah*). However, if there is no trick, the concept is allowed (Ibn Qudamah, 1968); (Abdul Hamid Mohamad & Trakic, 2013) The SAC, in its meeting 101<sup>st</sup> has decided that bank Negara Malaysia should accord rebate to their clients who pay their debt obligation (BNM, 2010). The SAC, permit the bank to give *ibra* based on the evidence Hadith narrated by Ibn Abbas, "The Prophet (S.A.W) once ordered the people of bani Nadhir to leave Madinah, then he received delegates from the people who said: Oh Rasulullah! You ordered us to leave Madinah while we have outstanding debts that must be settled by the local people. Then Rasulullah SAW replied: Give discount and accelerate the settlement." (Al-Daraqutni & ibn'Umar, 2004).

#### 4.2.2 The issue of Penalty charges

The penalty is a fine imposed to the debtor who fails to make the settlement or late payment of loans that bank claimed. Muslim scholars have different views on the penalty charge.

The first group opined that no penalty charge for late payment should be charged at all because they have a concurred believe that the penalty charge is similar to riba. Among the contemporary scholars who believe this are Md Ali El-Gari and Nazih Hammad.

According to AAOFI and Abd Sattar Abu Ghuddah, the penalty charge is permitted for the late payment but it should be channelled to charity as the debtor donated as sadaqah (Binti Zulkipli, 2019).

The penalty is permitted to be imposed in the form of money, and it can be benefited by the bank as an income as opined by Sheikh Muhammad Sadiq al Dharir, Sheikh Mustafa Zarqa and some Shariah committee members of Islamic banks. The verses from the Quran, Hadith and the fiqh maxim has supported the compensation or penalty. The Almighty Allah said: ‘O you who have believed, fulfil [all] contracts.’ (Quran, 5:1). Abi Hurairah narrated that Rasulullah (S.A.W) had said: Delay by a rich person (in payment of the debt) is a tyranny.’ (Al-Bukhari, 1997). There is also a fiqh maxim derived from a Hadith related to this issue: ‘Neither harming nor reciprocating harm (in Islam).’ (Al-Zarqa, 1989).

The SAC in its 4th meeting 14/1998, 95th meeting 28/2010 and 101st meeting 20/2010 decided that the late settlement charge imposed by an Islamic financial institution including both concepts of gharamah (penalty) and tawi’dah (compensation) is permissible. (BNM, 2010).

## 5. Conclusion

This paper highlights the significant practice of Islamic credit cards based on the Ujrah concept. From the Sharia perspective, credit cards based on Ujrah (fee) are permitted as long as they do not involve any element of riba (interest). The majority of Islamic jurists, i.e. the Shariah Advisory Council of Bank Negara Malaysia (SACBNM), and the International Islamic Fiqh Academy of the Organization of Islamic Cooperation (IIFA-OIC), and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) approve that the bank is permissible to charge some fees, such as involvement, renewal or replacement fees, where no riba (interest) is involved. However, if the bank/issuer intends to deal with Islamic credit cards based on the Ujrah agreement, the bank should make sure that the charge is fixed and does not rely upon the amount of outstanding balance.

This paper is a qualitative study using secondary sources, from documentaries journals, Islamic books, manuscripts, banks document and library data. The data were analysed through document analysis.

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