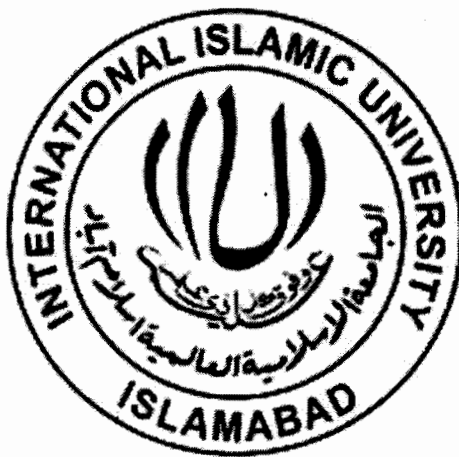


**Shariah Appraisal of Credit Cards in Islamic Banks: A Case Study of
Saadiq Visa Card of the Standard Chartered Bank**



A thesis submitted in partial fulfillment of the requirement for the degree of

MASTER OF LAW

Supervised: Professor Dr. Muhammad Tahir Mansoori

Submitted: Khalid Mahmood

LLM Corporate Law

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In the name of Allah (S.A.W.T) the most merciful and the most beneficent

Final Approval

It is certified that we have read the dissertation submitted by Khalid Mahmood entitled "The Credit Cards in Islamic Banks, a case study of Saadiq Visa Card of Standard Chartered Bank" as partial fulfillment for the award of the degree of L.L.M (corporate law).

We have evaluated the dissertation and found it up to the requirement in its scope and quality for the award of degree

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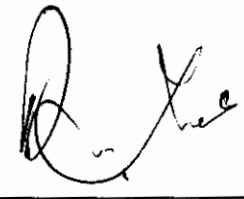
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DEDICATION

*Dedicated to my parents Haji Rab Nawaz (late) and
Zohra Begum, who always make me to understand the
meanings of love and affection*

Khalid Mahmood

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Khalid Mahmood

List of Abbreviations

(AAOIFI)	Accounting and Auditing organization for Islamic Financial Institutions
AGCC	Arab Gulf Cooperation Council
ATM	Automation Teller Machine
BIC	Bank Islam Card
CNP	Card Not Present
DIB	Al Islami Credit Cards
EMV Chip	Europe MasterCard-Visa Chip
ICF	Interchange Fee (Received by the issuer bank from the merchant Acquirer)
IFA	Islamic Fiqh Council
MSC	Merchant Service Charge (received by the merchant acquirer)
PIN	Personally Identification Number
POS	Points of sale
SBP	State Bank of Pakistan
SCBP	Standard Chartered Bank Pakistan
SVC	Saadiq Visa Card
T&E Cards	Travel and Entertainment Cards
TBT	Trans Border Trade

. ABSTRACT

The Credit Cards are considered as plastic money all over the world. If you are within country or abroad, you do not feel any problem in traveling or shopping; just you should have a credit Card in your wallet. The Credit Cards are convenient to use not only for a cardholder but also reliable for merchant, due to the assurance of Issuer Company. Initially the Credit Cards were introduced in United States and Europe but very soon these Cards get attention in other parts of the world, especially in the Muslim countries and Middle East.

The Credit Cards were introduced by the banking companies and institutions for business purposes and designed on interest based schemes, which is not permissible according to Islamic Shariah. On the other hand Islamic banks and the conventional banks with Islamic desks are working on the principles of Islamic finance and have introduced Islamic products with interest free plans. It is claimed that Islamic Credit Cards issued by the Islamic institutions are interest free, and completely Shariah compliant, but even then Shariah experts notice involvement of interest in Credit Card's schemes in term of Services Charges or Bank's Late Payment Charges, which are believed unIslamic, since it is one of the form of Riba i.e. Riba al Jahiliyya.⁽¹⁾

1. *PLD 1992 SC 1*

The Islamic Banking system is based on Islamic modes of finance. Islamic banks have launched products free from element of Riba or interest. On the same lines Credit Cards have been launched by some Islamic banks and are claimed completely Shariah compliant and free from interest or interest based charges.

The Standard Chartered Bank Pakistan is leader in Islamic banking in Pakistan.⁽²⁾ They are also the pioneer in launching an Islamic Credit Cards in Pakistan in the name and style of Saadiq Visa Card. It is claimed by the bank that Saadiq Visa Card is 100% Shariah compliant, free from interest and interest based charges. The Standard Chartered structured their scheme of card on the concept of Ujra or Service Charges, which are received from the cardholders on services provided by the bank. It is claimed that Saadiq Visa card is completely Shariah compliant with no sign of Riba.⁽³⁾

In this research work we will thoroughly study Saadiq Visa Card and we will also analyse the under line scheme, it is structured. The working as well as the process flow of Card's scheme will be checked inquisitively. In this study we will investigate, whether the scheme of Saadiq Visa Card is Shariah Complaint or not? And if it is not so, then what may be an Islamic substitute?

2. www.standardchartered.com.pk

3. www.standardchartered.com.pk/saadiqvisacard

Succinctly speaking, after my research I reach to the conclusion that Saadiq Visa Card is structured on interest based scheme especially in presence of “*Account Maintenance Fee*” which is charged on Service Account corresponding with the limit of card, which comes in after the default committed by the cardholder, when does not deposited the outstanding amount within the stipulated period . At the end of my study I suggest “*Islamic Murraba Card*” being a substitute and Islamically solution of Credit Cards.

INTRODUCTION

Credit Cards are introduced by different business entrepreneur and financial institutions to facilitate their customers in hours of needs. It is believed that the idea of Credit Cards came out accidentally to over come problems faced in a restaurant by a pioneer of cards in USA.

⁽¹⁾ Initially the Credit Cards were introduced by different hotels, Filling stations and Shopping Malls for their customers and every one get acquaintance with the significance of Credit Cards. ⁽²⁾ The convenience and comfort found in Credit Cards made people attractive towards their use. Gradually companies, multinationals and big champs launched their own Credit Cards and harmonized their business systematically.

The Credit Cards were brought from US to Europe and other parts of the world by multinationals. Then international institutions like Visa and MasterCard came into existence with the idea of global acceptance of Credit Cards and they set the system in line to bring it with existing requirements. ⁽³⁾ The Credit Cards issuing institutions were business oriented and they were seeking earning of profits. That institutions structured Credit Card's schemes in such a way that these cards were attractive for the customers but beneficial for them. Actually the usage of credit cards confirmed their convenience but reveal some set backs there also.

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1. *The Credit Card Industry, A History*, by Lewis Mandell, p.2-5, Twyne Publishers, Boston, U.S.A., 1990
(*Gulf marketing Review*, March 1996, p.29.30)
 2. *Credit Cards: User and Consumer Attitudes*, Published by the Federal Reserve Bulletin Washington D.C., Sep.2000 p. 623-624
 3. www.visa.com

No doubt the Credit Cards come in aid to their holders in hours of need. They are used if one has to purchase required item or hire services but he has not sufficient money with him. The card may come to rescue of its holder in abroad, when he is traveling but facing the problem of short of money with him. One need not to take risk and keep funds with him rather he just has a Credit Card with him and visit the world enjoyably. The Credit Cards are used for internet business transactions as well as in hour of needs. He can make use of Credit Cards any where in the world at any time.

The significance of credit cards is not denied but Muslim have their reservations on credit cards. The Credit Cards involves interest structure in their schemes and interest is not permissible in Islamic Shariah. In Holly Qurran it narrated *"Allah has permitted trading and forbidden Riba, so whosoever receives an admonition from his lord and stops eating Riba, shall not be punished for the past; his case is for Allah (to judge); but whoever returns (to Riba) such are the dwellers of the fire---they will abide therein"* ⁽⁴⁾ and in another verse it is stated *"O You who believe! Fear God and give up what remains of your demand of Usury, if you are indeed believers. If you do it not, take notice of war from God and his apostle, but if you turn back you shall have your capital sum"*.⁽⁵⁾ The benefits of interest or Riba are prohibited in Shariah, and not allowed in any form. *"That which you give in usury in order that it may increase on other people's property has no increase with Allah, but that which you give in the charity seeking Allah's pleasure, has increase manifold."*⁽⁶⁾

4. Sura al-Baqara, Chapter # 2 Verse # 275

5. Sura al-Baqara, Chapter # 2 Verse # 278

6. Sura Al- Rome Chapter# 30 Verse # 39

Some Islamic banks and institutions make the credit cards Islamically acceptable by removing impediments in their way and made efforts to launch Islamic Credit Cards, which are considered Shariah compliant independent of interest free. We have the example of Kuwait Finance House Credit Cards⁽⁷⁾, Emirates Islamic Bank International⁽⁸⁾, The Sharja Bank⁽⁹⁾, The First Gulf Bank⁽¹⁰⁾, Bank Islami Malaysia⁽¹¹⁾ and The Standard Chartered Bank⁽¹²⁾ etc It was felt necessary to look in to Islamic Credit Cards and their working to check their schemes.

In Pakistan banking sector made tremendous development after independence. From very beginning different banks in public and private sectors came out to share the problems, the newly born state was facing after its independence. The State bank made it a challenge, to cope with the philosophy of an ideological state and very soon it bear out its challenge positively. Whatever might be the other policies, the banking sector did tremendous developments, which positioned our country up. The foreigner investors too felt attraction here in Pakistan to earn their profit, since they found great potential in this area.

Beside it, some economists and scholars had been making efforts to eliminate interest from the financial and banking sector, prevailing in the conventional side. It was the result of those efforts that very soon understanding developed, which made the concerned to think about a banking system based totally on the principles of Islamic Shariah, where we find no

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7. <http://kfh.bh/en/consumer-banking/financing/kfh-visa-credit-card/islamic-visa-card-faqs.html>
 8. www.emiratesbank.com
 9. www.sharjabankinternational.com
 10. www.thefirstgulfbank.com
 11. www.bankislamimalaysia.com
 12. www.standardchartered.com.pk/saadiqvisacard

place for exploitation and misuse of sources. With the coming out of this idea different banks endeavored to adapt the prevailing practices to the Shariah compliant system and introduced reforms in this regard. We cannot ignore here the role of some international players, who for attraction of passive masses, which had reservations for conventional bank due to interest based, banking activities, worked for Islamic banking, which have gone in the double figures in Pakistan.

The conventional banks had been working in the field of Credit Cards after their introduction with the recommendations of international institutions. Thereafter it was felt that Credit Cards based on Islamic principles should be introduced, having complete compliance with Shariah, free from interest. Keeping this idea in mind, some Islamic Banks or conventional banks with Islamic set up have launched Islamic Credit Cards claiming to be interest free and Standard Chartered is one of those banks. The Standard Chartered launched its Credit Card in the name of Saadiq Visa Card, first of its kind in Pakistan.

Standard Chartered is a British bank that makes two-thirds of its profit in Asia, started its business in Pakistan on the conventional side. The Standard Chartered is an international bank working in almost 150 countries, with over 50,000 thousands employees. It invested big amount to buy the Union Bank in 2007 with an investment of \$ 487. Sooner it planed to expand Islamic financial services in Pakistan to tap the world's second-biggest Muslim population after Indonesia. The Standard Chartered Bank incorporated in Pakistan and has its branches in every notable city of Pakistan. Standard Chartered has entered in the field of Islamic banking and has opened its 8 branches in different locations, mostly in big cities. Standard Chartered introduced some of its Islamic products from its Islamic banking branches, it especially SCB launched Saadiq Visa Card (Credit Card) by the approval of its Shariah supervisory committee, which is claimed the first Shariah complaint, interest free credit card first in Pakistan, with fixed fee (service Charges).

Standard Chartered offers Islamic banking services in eight countries, including Malaysia and Indonesia. This is the first overseas lender in Pakistan, to offer Shariah-compliant banking services. Standard Chartered is expanding in South Asia, where it acquired Australia and New Zealand Banking Group's Grindlays unit in 2000 to become the biggest lender in India. Apart from other banking products, Standard chartered Pakistan introduced Saadiq Visa Cards. As far as the Saadiq Visa card is concerned, the Standard Chartered claims it to be 100% Shariah compliant card, free from interest etc.

The topic of research is pertaining to the credit card issued by the Standard Chartered in the name and style of Saadiq Visa card, claimed as purely Islamic credit card, free from interest and other Riba based charges. It will be analyzed in this study that whether the Saadiq Visa Card is working in accordance with the principles of Shariah or not, as claimed by the bank.

CHAPTER 1

INTRODUCTION AND SIGNIFICANCE OF STUDY

1.1 Introduction of topic

The Credit Cards have achieved great significance in today life. Every one feels comfort to use Credit Cards to fulfill his needs. The credit cards are used by the people in place of money, in case one does not have funds or has limited funds. The Credit Cards have been in use since last few decades but their use has increased to millions today. Initially the credit cards were introduced in west but with the passage of time these have become in the hands of every one in other parts of world. In the last years the banking institutions working in Muslim states launched credit cards to attract customers; these banks are issuing Credit Cards in the name of Islamic Cards. Islamic banks have introduced their own “Credit Cards” in the name of “Islamic Cards”. Such institutions claim these Cards are in complete ‘compliance with the principles of “Islamic finance” set by Shariah’. It is important to investigate, whether the Credit Cards are working in conformity with Shariah’s rules or not?

1.2 Significance of study

The Credit Cards are issued by the banks to their valued customers, with different denominations and definite credit limits. The credit cards are issued by the bank against a specific fee, and Cardholder pays fixed charges to the bank in case of use.

In this transaction, another party also involves apart from the bank and Cardholder, who is merchant or seller.

In past efforts were made by some scholars to evaluate the use of credit Cards from Islamic perspective but these studies were mostly theoretical. Practical applications were rarely studied and analysed. In this research we have selected a specific scheme for our study i.e. Credit Card by Standard Chartered, in the name of “Saadiq Visa Card”. We will study here objectives and the out put of the scheme. Previously we had limited material available on the working of Islamic Credit Cards. Mostly the scholars tried to discuss the concepts of agreements possibly concerned in the credit cards agreements, the element of interest involved in credit cards in case of late payment, and consequence of use.

In this research, we will study about significance and importance of credit cards, their working, and operation on the one hand and we will check the validity of Credit Cards under the principles of Shariah on the other hand.

1.3 Purpose of study

The purpose of this study is twofold, firstly to analyse the status of conventional credit cards and we will investigate ‘whether the Credit Cards are in conformity with the principles of Shariah or not?’ and secondly to evaluate the scheme of Saadiq Visa card, by the Standard Chartered Bank Pakistan Ltd. No doubt the Credit Cards

are useful and convenient instrument. These have been in use by the conventional banks since decades in abroad but in recent years these cards are introduced in Islamic countries a big capital market. Islamic as well as foreign banks launched some credit cards being a new product of Islamic finance. They tried to adapt these cards according to the “principles of Islamic Shariah”. They claimed that these cards are free from element of interest and prohibited charges or exploitation. It is a new product in the sense that it is different from the conventional cards because these cards are structured on a scheme that is compliant to the principles of “Islamic finance” and there is no possibility of Riba or Riba based fee. It is necessary to study, the cards and their schemes to determine whether these are working on the principles recognized by Islamic Law.

The importance of credit cards can not be denied in these days, because cards have brought dynamic change in the life of people generally and in the business community specifically. People are used to depend on cards, when they feel any problem in terms of finance available in their bank accounts. They feel comfort to use their credit cards and get every thing they need, but at the same time they feel some reservations on the use of cards due to the charges on the cards by the banks since Islam prohibit levying charges on the borrowing of money. The people of Pakistan have great concerns to their religious convictions, in this situation the demand to study the credit cards and their scheme becomes twofold.

Here under this study we will analyse, “whether the credit cards launched by the Islamic banks or Islamic Cards by the foreign banks are in complete compliance with the principles of Shariah or not?” If they are working in complete compliance with the “principle of Shariah” then these deserve our anticipation and if they are not then they should be made in line, while to point out those shortfalls. At the end some modifications can also be suggested to make these credit cards on the requisite patterns and further more to study whether an Islamic substitute can be developed or structured?

1.4 Objectives of research

In introduction it has been discussed that the purpose of our study is to analyse, “whether the credit cards are working in conformity with the ‘principles of Shariah’ or not?” The objective of our study is concerned with second part of purpose of our research, the position of Saadiq Visa Card by the Standard Chartered Pakistan. Here we will explore the position of Saadiq Visa Card in Islamic perspective and if any shortcoming is found, what substitute can be developed on the lines set by Shariah. In simple words we will not only investigate the working and process flow of scheme of card but at the end, we will conclude our study whether it is working in conformity with the principles of Shariah or not prescribed by Shariah, if it is not then we will discuss, what may be the best possible Islamic substitute?

1.5 Questions of research:-

- i. What is the significance of Credit Cards in Modern life?
- ii. Do the Credit Cards issued by the conventional banks conform to the principles of Shariah?
- iii. What is the view point of modern Muslim scholars, regarding the Shariah legitimacy of Credit Cards?
- iv. What is the Shariah position regarding Saadiq Visa Card of Standard Chartered Bank?
- v. What may be the best Islamic substitute to the credit cards?

1.6 Literature review

- There is classical work in the form of a book on credit cards ***CREDIT CARDS KEY SHARI AHKAM*** by Maulana Muhammad Ussama. In this book the writer not only discusses the evolution and development of credit cards but he also comments on the validity of cards in Islamic perspective. He discusses about the agreement and its nature which the parties entered in to for borrowing and lending the cards. He concedes the importance of Credit Cards in today life and equally points out some short falls of the cards. The writer discusses different kinds of “Credit Cards” mostly offered by the banks along with their “features”. The book gives details of process flow of cards

and their working of credit cards. According to writer the credit Cards issued by the conventional banks are interest based which is prohibited in Shariah.

- Another work we have is the ***ALMEEZAN'S GUIDES TO ISLAMIC BANMKING*** by Dr.Muhammad Imran Ashraf Usmani. Al Meezan's Guide to Islamic Banking is basically a guide to understand the basic principles of Islamic finance. In this book the concept of Riba is discussed in light of Qurran and Sunnah. It is proved that Riba is prohibited in its all forms. The writer discusses different forms of contracts recognized by Shariah, which are applicable even today according to the prevailing situation in a very simple way; this distinguishes this book from others. It is a big effort to make people understand the concept of agreement in Islam. This is an exceptional work, distinctive in the sense that the writer practically discusses the issues of daily life in "Islamic perspective". He endeavors to give affect to financial concepts set by the "Islamic Shariah" in current situation.
- The ***Organization of Accounting and Auditing for Islamic Financial Institutions*** set some standards regarding the Credit Cards. The organization discussed different forms of cards and their features in detail. The organization investigated the operations and working of cards, their feature, attached facility, fee structure and charges received by the parties of cards. According to the AAOIFI in case of Debit cards, it is permissible to use the

card to utilize the funds available in cardholder's account and he can withdraw amount from his account as well as to purchase another currency subject to payment of normal fee but not the interest. Whereas Charge Card are permissible under Shariah, with some conditions i.e. Number one no interest based charges are received, especially in case of late payment secondly the card should be used for the permissible purposes and the institution should has the right to withdraw the facility in case of its violation and thirdly the card is issued against the amount available in the cardholder's account as a security and the amount should be invested by the institution on Madarba basis and the profit should be divided between the individual and institution. The organization set its standards for Credit Cards issued by the banks, and it is held that Credit Cards are not permissible under the Shariah according to that standards.

- The resolution of *Council of Islamic Fiq Academy* is very important source about Credit Cards. According to the resolutions of Council Credit Cards are not allowed in their present form but if no interest based charges are levied then there is no impermissibility. According to the verdict of Council sale purchase of goods and lawful services provided under the cards and fee thereon is permissible, provided the fee corresponds with the service offered. The council held that it is not permissible to issue a "Non-Covered Credit

Cards”, if interest is stipulated (predetermined) even if the card applicant is determined to pay within the free period.

- Dr. Manzoor Ahmad Al-Azhari, writes an article “*Credit Cards in Islamic Legal Perspective*. In this article the writer discussed the concept of credit cards and their possibility under the principles of Shariah. The writer covers all the concerned issues involved in credit cards especially the underline contract, parties to credit cards agreement and validity of cards. The same writer contributed another article on Credit Cards “*Credit Cards Tassawar Aur Ajtamai Ijtahadi Ara*”. In this article the writer discusses different forms of contract may be involved in Credit Cards agreement. He held that prevailing Credit Cards are structured on interest based schemes, which is prohibited under Shariah. The writer surprisingly finds himself, unable to suggest an agreement working under line the Credit Cards schemes and reiterates on developing a card based structured on purely Islamic form of contract recognized by Shariah. In this article critically examined the views of renowned muslim scholars of different institutions and universities regarding the credit cards.
- The Fatwas of Mualana Muhammad Taqi Usmani are compiled in a book title “*Contemporary Fatwas*”. There are some Fatwas regarding the Credit Cards, their operation and fee structure. The writer suggests that if the cardholder is

having confidence that he will pay the bills within fix period without fail and takes some preliminary measures in this regard, he can have a credit card and should always be careful to pay the bills promptly before any interest becomes due thereon. Since the credit cards are provides solution for the credit sale purchase and payments through internet etc. He also opined that card issuance fee, renewal fee or annual fee and commission charged by credit cards companies are permissible. The service fee charged by the credit card issuing institutions are permissible, provided it corresponds with the services provided and it is not made an excuse for charging interest.

- ***“Developing a financial model for Islamic Credit Card for the UK”*** is a remarkable work of Adil Manzoor Bakhsi. Who was a formal student of MSc of International Banking & Finance, at University of Salford in 2006. He was interested to develop an Islamic Credit Cards for United Kindom and Europe structured on Islamic principles in complete compliance with Shariah.
- The article ***“Credit cards: it is a long way for most local Islamic Banks”*** Babu Das Augustine discusses the present system of credit cards and their possibility in Islamic perspective. He presents his view that it is not unlawful to use credit cards if Riba (Interest) is avoided and this can be assured by making payment every month without utilizing the facility of credit in the next month. He suggests that asset backed cards can be developed to avoid interest from their schemes. According to him sale purchase and buy back agreement between bank and customer can be made applicable in case of credit cards. Alternatively he suggests that bank may offer such credit cards

charging yearly service charge comparatively high than to the conventional cards but without further interest etc.

- Dr. Muhammad Kahf (Jun 2002) a prominent Muslim economist in his article *“Is it allowed to use credit cards?”* explains the ‘credit cards’ “a new innovation and Muslim scholars define it as either a guarantee given by the issuer to the seller who accept it or as a transfer of the debt by the debtor to another party, the issuer, hence falls within the permissible transaction”. According to him the problem only arises, when the cash is withdrawn and the payment is delayed, issuing such a card putting a condition of interest is not permissible in Shariah. Islamic bank can not issue such a card with such condition. The writer reiterates that credit cards gives convenience and removes hardships. According to him, the cardholder does not sign a loan contract with interest but he signs an agreement, which gives him a choice to avail an opportunity of loan with interest or without interest and it depends on him to avail or avoid, to secure the roots of his believe. Consequently if the cardholder is feels confidence that he can use it without applying any interest, he can make the prohibited clause ineffective by making payment within time and it is permissible to enter in to such a contract and use such a card.
- The article *“The emergence of ‘Islamic Credit Cards’ an understanding and awareness among Malaysians”* written by Svahidawati Shahwan professor in Faculty of Economics and Muamalat, Islamic University Malaysia

contributed well on the subject. He defined the credit cards as a method of purchasing goods, whereby a person can purchase and take possession of something and pay it later under a binding contract of agreement. He also referred the credit cards as plastic money. According to him banking companies offer both type of credit cards in Malaysia, “Islamic Credit Cards” and “Conventional Credit Cards”, both are based on two different modes of contracts. In the country according to him most of the banks structure their credit cards on the contract of Bai al Inah, comprising on two agreements.

- The remarkable *Judgment of Supreme Court on Riba* (PLD 1992 SC 1)
The Shariah Appellate Bench of Supreme Court consisted of 1) Mr. Justice Khalil-ur-Rahman, 2) Mr. Justice Munir A Shaikh, 3) Mr. Justice Wajeehuddin Ahmad, and 4) Maulana Justice Muhammad Taqi Usmani delivered this remarkable judgment on Riba. The full judgment of the court consists of about 1100 pages. The main part of the judgment was written by Mr. Justice Khalil-ur Rahman (550 pages) and Maulana Justice Mufti Taqi Usmani (250 pages). A note of 98 pages was written by Mr. Justice Wajeehuddin Ahmad. The order of the court consists of 106 pages. The august court discussed the concept of Riba, in all its possible meaning and declared Riba prohibited under Shariah. The part written by Maulana Justice Taqi Usmani is an extremely valuable document that should benefit the entire world and not just Pakistan.

CHAPTER 2

CREDIT CARDS THEIR CONCEPT, SIGNIFICANCE AND EVOLUTION

A man had not been self sufficient in all spheres of life in the past and the case will be the same, in future as well. He has to depend upon others in hours of need to fulfill his requirements. His requirements might had been comprised of commodities, like food stuff, household daily used items, armaments and earning substance or the sources like silver or gold to get these items alternatively. Anyhow men had been practicing “give and take” among themselves to meet their needs since centuries, which is known as “Barter system” and this is an actual fact.

2.1 Concept of Cards

The barter system remained in practice for centuries but gradually men leaned towards convenience and then phase of metal started, which was more comfort than the former one, but the paper money substituted it latter on. The paper money in the shape of bank notes were considered easy mode of exchange of value of services, which were easy to transport and carry for the holders.

The development in science and technology brought drastic changes, in the field of communication and alternatives were tried to be invented. The development of technology also improved the living standard of the people, they changed their life

style, which result to their extravagance. The development in technology brings peoples closer to each other and the world has become a global village. They take the benefits from experiences of others and adapt good norms in practice. New trends and fashions travels in minutes, depart of Arial gapes set the way for Trans Border Trade among the individual as well as the nations.. The people are interlinked with each other individually and are inter-dependent in most of the matters. They are used to borrow loans from the banks to meet their needs but the problem is there for those having less funds. This was the case in past but since couple of decades it was tried to solve this problem by introducing such a system of payment that a person may avail the required amount as loan from the banking institution, at any time any where with a facility to repay through installments. This becomes possible by the introduction of plastic card or plastic money. ⁽¹⁾. The cards have been introduced to use in place of money. These cards are issued to the valuable customers by the bank, who are trustworthy, having good financial repure. The cardholders can use the Credit Cards, when they need money as a loan. The confidence is attached to their good financial position, the assurance of repayment.

The concept of using a card for "Hire Purchase" was iintroduced in 1887 by Edward Ballamy and expressed in his famous novel "looking Backward". Ballamy used the term "credit card" specifically eleven times in his novel. That was the first time when

1. *Credit Cards: Use and Consumer Attitudes by Thomas Durkin, Published by the Federal Reserve Bulletin Washington D.C., Sep.2000 p. 623-624*

an imaginary concept was introduced and no one dream of it, at the moment, very soon it had become a reality.

2.2 Significance of Credit Cards in today life

The credit cards have great significances in today life. The people are pre-occupied in their daily life. They have to plan for their routine life in advance and have to manage schedule for months. They are doing their jobs from early morning to late night, and all this is done just to earn money to facilitate to their lives to meet their wishes. Some times they have money in their hands to bring home the required leisure but some time they do not have sufficient funds to manage all this. The credit cards are introduced to handle this situation.

The credit cards are usually accompanied during traveling within the country and abroad. We do not need to take money in our wallets or brief cases, to create panic on tours but to avoid this problem just include a credit card in your luggage and feel comfortable. The credit cards come in use every where every time, where money may be used. In credit card transaction, the problem of exchange, language or venue does not come in the way; it is the matter of seconds. The cardholders may use their cards not only for shopping but they may withdraw their amount. The credit cards bring confidence, convenience and safety to users.

2.3 The Credit Cards and their possibility

2.3.1 Benefits of Credit Cards

The importance of credit cards is evident on the following points:

- Availability of funds
- Fast funds transfer
- Deferred and installments payment
- Payment in Withdrawal of money
- Universally acceptability
- Discount rates
- Loaning facility
- Reliable partners

1.3.2 Short comings of Credit Cards

On the other hands the credit cards have some demerits, enumerated below:

- Misuse of credit cards
- Involvement of risk
- Multiple charges
- Late payment fee
- Interest based schemes
- Compound interest
- Artificial demands results in increase of rates

- Extravagancy by the cardholders

2.4 Evolution of Credit Cards in the West

Using of credit cards has become very important part of daily life in the 21st century. Some people use it for the convenience for not carrying cash in their hands whereas others use it for shopping, dinning, and buying things, they cannot afford at present.

As it has been discussed that the concept of "credit" covers thousands of years but the Credit card itself is a relatively new invention. Rallph Schineider and Frank X Mc Namara dreamed an idea of paying merchants using a card in 1950⁽²⁾. It is reported that in 1949, Frankie X Mc Namara head of the Hamilton credit corporation went for a meal with Ralph Schineider his attorney, Alfred Bloomingdale a close friend and his grand son. At that time some business companies had introduced their cards for some purposes, like shopping at departmental stores etc to their customers. The topic of conversation at the dinner was the problem faced by the customer of the 'Hamilton Credit Corporation'. It was discussed that the "customers, in question fell into trouble when they managed to get a number of cards borrowed from the individual gas stations and departmental stores for their poor neighbors who needed items in emergency. In return the man required his neighbors to pay him back the

2. *The Credit Card Industry, A History*, by Lewis Mandell, p.2-5, Twyne Publishers, Boston, U.S.A., 1990 (Gulf marketing Review, March 1996, p.29.30) & *Credit Cards: User and Consumer Attitudes*, Published by the Federal Reserve Bulletin Washington D.C., Sep.2000 p. 623-624

cost of the original purchase plus some additional money. Unfortunately for him many of his neighbors were unable to pay him back quickly enough, which led him to borrow money from the Hamilton credit corporation”.

At the end of the meal, Mc Namara reached to the counter to pay the bill but when he tried to bring out his wallet from his pocket, he could not find. He called his wife at home and asked her to bring him the required amount. Annoyed by the incident, he got idea that some one with enough funds would have paid on the spot for a purchaser in hour of needs. Mc Namara vowed at the spot never to let this happen again in future. Thus Mr. Mc Namara shared his idea with his friend Bloomingdale about the establishment of a club for their friends based on "*Dine & Sign*". That was the beginning of the famous Diner's club, through a merger with "*Dine and Sign*", produced the first "General Purpose" charge card, which is similar but required the entire bill to be paid within a short period of time, usually less than 90 days.

Merging the two concepts from that dinner Mc Namara came up with a new idea of a credit card, which could be used at multiple locations with a middleman between companies and their customers. In 1951 New York's Franklin National Bank introduced the first modern credit card to its customers. Then Dinner Club launched the "*Travel and Entertainment*" (T&E) Cards. A national credit card emerged in 1966 when the Bank of America granted its credit card license to other banking institution and interchanged transaction among the licensees, a credit card was

introduce in the name of Americard in 1966, Barclays made a deal with the Bank of America to issue credit card in the UK. The Barclays introduced the entire operation of Bank of America and made it practical for the UK purposes. ⁽³⁾

In order to increase usage, a “Bank Card Association” was started, which would change the name of one, which was not linked with any bank and in this way in 1977 the Visa name was introduced. A membership corporation was formed, and thus Visa USA started its operations. At the same time, three different groups of banks that were not Bank of America franchisees began actions that would later merge to become today's MasterCard International. In the start both organizations were working separately, in a competitive environment with their own customers. The banks offered a card of one organization could not work with the other, thus they may lose their customers, more importantly the merchants were losing their sales from customers, who did not carry the same card the merchant accepted.

In 1978 the master card and Visa organization agreed to a concept of duality, in other words, reached to understanding, that banks would issue both cards Visa and MasterCard and will give honour and accept them. Then a tourist company introduced their own card in the name of American express and after that number of banks made efforts in the field. ⁽⁴⁾

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3. *The Cashless Society* by Robert A Hendrickson, p.11, printed by the Cornwall Press, Inc Cornwall, N.Y. 1972.
 4. *Visa Leaflet for customers. Association National Bank (Delaware), MasterCard and Visa agreement Tx USA.*

2.5 Description and definition of Credit Cards

Description of Credit Cards

Credit cards are issued by the financial company to their valued customers, which are usually considered as the alternate of money. The card holder can use the credit cards for payments instead of money in hands. The card holder can travel in the country and abroad as well, they do not need to carry cash but credit cards has solution of their problems during voyage in case of shopping, lodging and services. Credit cards are usually named as the “plastic money”.⁽⁵⁾ The utilization of credit cards has become common, especially amongst the business community. It has been the easiest medium of dealing in business transaction in the recent years⁽⁶⁾.

In order to get understanding of credit cards, not only the knowledge of their description is necessary but awareness about the philosophy behind their working is also important.

As far as the description of credit cards is concerned, it has some similarity with other cards like ATMs, Debit Cards or Charge cards but are different from those in nature and characteristics. In case of credit cards, the issuer lends money to the customer (user) to be paid to the merchant. A credit card is different from the debit

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5. Syahidawati Shalwan, lecturer of Islamic Science University Malaysia "The emergence of Islamic credit cards, an understanding and awareness among the Malaysians"
 6. "Developing a financial model for Islamic credit card for the UK" A research paper by Adil Manzoor Bakhshi,

card in this way it does not remove money from the user's account after every transaction. It is also different from the charge card, which is usually considered as credit card, but it requires the balance to be paid in full each month, contrary to the credit card wherein the customers have the facility to revolve their balance at the cost of having interest charge. Visibly credit card is a card issued by banks and other financial institutions to a person with his particulars (name and picture etc) and 13-16 numbers on it. These numbers express bank's membership, type of card, bank branch, and serial number of card whereas number 16 is usually computer number⁽⁷⁾.

In the following lines we will discuss the signs a credit card has and its description in short.

Frontal side

Issuing bank's logo

The credit cards bears, issuing bank logo on it which give the impression that the issuing bank has been authorized to issue the credit cards to its customers.

Monogram of association

A credit card also bears the Monogram of credit cards issuing association, which have world wide recognition and a card is accepted all over the world at different points, sites and places, and a card holder faces no problem in using a card.

7. *Dr. Gilani Mehmood, Legal System of Payment Card, P.O. 54, Published by Darul Nahzat alArabia, Misr-1998, Prof. M. Abdul Haleem Umer, Shariah Bankari of Credit Card and Accounting System, p.115, Published by Itrak 1997, Misr. Payment with Plastic, by Events and Schmalensee, p.7, The Mirt Press U.S.A.2000.*

Card number

The cards also bear card numbers on it of 16 digits, corresponding different informations.

Card brand logo

The credit card bears a card brand logo, which shows the kind of the card i.e. Classic, Gold or Diamond etc.

Expiry date

Every credit card bears an expiry date on it, which indicates the period of its utility.

Cardholder's name

The card carries the card holder's name, whom the credit card is actually issued to avoid any chance of fraud or misuse of card.

EMV chip

Modern technology is used in issuing Credit Cards to avoid the misuse of cards and now some Institutions are adopting “*Europe MasterCard-Visa*” (EMV) ‘Smart Card chip’ for safety.

Reversal side**Magnetic stripe**

The credit card also has a magnetic stripe, which indirectly bears the details about the card and card holder.

Signature stripe

On a credit card we find a signature strip, where the card holder puts his signature,

which minimize illegal use of credit card.

Card security code

The card holder is assigned personal security code.

2.6 Definition of Credit Cards

The Credit cards have been defined by the different persons in a different style; no one can be called perfect. The definitions we have are their own perspective and approach. Following are the definitions, which have some recognition by the scholars;

- **Linguistic definition:** Credit means Bank balance, bank account, confidence, good fame, dignity and pride. Almost all these meanings apply to credit cards:
 - i Bank balance applies to the debit card (issued on bank balance)
 - ii Free bank account for a credit card
 - iii Other meanings also harmonize with card because a bank relies on a person to give him a credit card for his good fame and personality. As it is considered sometime a reason of pride for some people⁽⁸⁾

8. *Credit Cards in Islamic Legal Perspective, research paper by Dr. Manzoor Ahmad Al-Azhari published in Journal of Islamic Banking & Finance – Oct-Dec 2006. Visa Leaflet for customers. Association National Bank (Delaware), MasterCard and Visa agreement Tx USA.*

- **General definition:** "Credit card can be defined as a method of purchasing goods, where a person can purchase and take possession of something and pay it latter under a binding contract of agreement".⁽⁹⁾
- **Economic Definition:** It is a debt used by a card holder to purchase things or to withdraw money from ATMs, payable to the card issuer within a limited period in all or in installments with interest.⁽¹⁰⁾
- **Legal definition:** In the opinion of legal experts credit cards enable holders to purchase or get money from certain points.⁽¹¹⁾
- **Banker's definition:** It is payment instrument used instead of money between card holders, traders, and issuers. The card holder signs the bills, which traders send to the issuers for payments. It is also called electronic payment.⁽¹²⁾

Keeping in view the above definitions, we may summarize that credit cards are a mean of debt, used by the card holder for certain purposes or cash, to be returned in a certain period with grace time for purchase and with interest on cash withdrawals.

9. "Developing a financial model for Islamic credit card for the UK" A research paper by Adil Manzoor Bakhshi (www.Islamicmortgages.co.uk/index.php?id=28)

10. Dr. Khalid Wohai, *Transaction of External Banking*, P.O 30, Darul Manahij, Uman-2000.

11. *Crimes of Credit Card* by Riaz Fathullah, P.O Published by Darul Sharooq, 1995.

12. *Working Paper on Credit Card of National Bank of Misr for the Seminar of Police Academy, Cairo, on December 14, 1998.*

2.7 Types of cards

2.7.1 Debit cards ⁽¹³⁾

This type of card is issued upon bank balance, so it is not considered a credit card. This card can be used to get money from ATMs and buy commodities and service also. The money is transferred from the card holder's account to the service provider. There is no credit limit but all payments are bound to the balance available. With debit cards users forgo cheque writing, card issuing banks need not to prepare monthly billings and credit risk is normally eliminated.

2.7.2 Revolving Credit Cards

Revolving credit card apart from the debit card provides the card holder credit line facility, that enables him to purchase or get cash to certain limit, and pay back in installments with finance charges i.e. interest except a regular minimum payment of 5% or 10% monthly. Credit period of such credit cards varies and may differ from the other like 30, 40, 50 days.

Characteristics of revolving credit cards ⁽¹⁴⁾

This card demonstrates a real credit for a person

- i) Some of its type are issued without fee
- ii) No bank balance is required for this card

13. wikipedia.org/wiki/Debit_card – accessed on 15.2.2007

14. wikipedia.org/wiki/Credit_card – accessed on 15.2.2007

- iii) Additional cards for kids and wives are issued on behalf of a Revolving c
- iv) This credit card can be used nationally and internationally.
- v) It can be used to purchase on line.
- vi) No interest on purchasing but on withdrawal of cash from the first transaction.
- vii) There are interest and penalty on defaulters

2.7.3 Charge Card ⁽¹⁵⁾

Charge card has the features like credit cards; it can be used for shopping, traveling and services without having money in hand, just by using the charge card but a charge card holder has to pay the used money in full after month for the smooth operation of the card. These are also called Travel and Entertainment Cards.

Characteristics of Charge cards

- i) It is issued by the banks and commercial companies.
- ii) The payment is made within the credit period; otherwise the card would be cancelled.
- iii) This type of card is issued on fee in general and can be used for purchasing online also.
- iv) These cards are also available with different credit limits, in name and style, as Visa Silver card, or Visa Classic or Commercial Card.

(15) *Practical Banking and Building Society Law, p.242, by Prof. Anu Arora Blackstone Ltd, London, 1997*

2.7.4 ATM Cards

ATM (automation teller machine) cards are issued by the banks to their customer, to withdraw available money from their accounts. Usually banks put some conditions on the limit of the withdrawal money per transactions. The issuing banks charge from the card holder the annual fee on the card.

2.8 Agreement of Credit Cards ⁽¹⁶⁾

The credit cards are issued to the users in consequence of an agreement between the parties. These agreements are mainly same that includes:

Important definitions:

The agreement relates to the definitions of card, its holder, the issuer, the buyer, the acquirer and additional cardholder.

Bond of agreement

The card holder, the issuer, the acquirer, the buyer and additional cardholder are held responsible in the card agreement.

Period of validity:

The period of card validity is mentioned in the agreement along with the card itself.

Card Fee

If the card has issuance fee, it is mentioned in the card agreement. It may be \$ 100 in the beginning, then reduced or abolished.

(16) *Visa Leaflet for customers*

Signature of card holder:

The card holder undertakes to sign the bills properly according to the signs on the card.

Undertaking of the bank:

The bank (acquirer) undertakes to pay all bills to the buyer.

Credit line:

The agreement relates to the maximum amount to be used for purchase or cash.

Usage of card:

The card agreement limits the usage of the card in purchasing or withdrawal of money or the both.

Promise of payment:

The cardholder promises to make payments in time and to bear penalty in case of default.

Usage of the account:

The agreement includes the details about the account to use the card for purchasing cash withdrawal from ATMs, get debts from other banks, attain traveler's cheques etc.

Change in Conditions and Terms:

Only the bank (issuer) or the mother issuer can amend the agreement.

I.D number:

A secret password is issued to the cardholder with the issuance form.

To pass the personal informations

The cardholder allows the issuer to pass his particulars to the concerning authorities.

Complaints of bills:

The cardholder undertakes to solve the problems with the buyers not banks.

Misuse of card:

The cardholder accepts the responsibilities of misuse of the card by his family etc.

Foreign currency:

The cardholder allows the bank to fix prices of the foreign currency, in case of purchasing or getting cash abroad.

Finance charges:

Cardholder allows the issuer to buy finance charges monthly or yearly. The wall street journal announces the interest rates regularly in USA along with the prime rate.

Mode of payment:

The agreement expresses the type of payment, in full or installments.

Fee of execution:

If the issuer is forced to execute the holder in court the fee will be borne by the holder.

Final law for decision:

The problems of card are solved according to the regional or international law. Beyond these common terms and conditions every bank can make its own frame of conditions.

2.9 Parties to Credit Cards⁽¹⁷⁾

A credit card is the consequence of an agreement and it is termed as multipartite agreement. The following persons participate in a credit card transaction.

Card issuer

Card issuer is the institution or banking company, which issues the credit card to the customer, under a credit card agreement.

Cardholder

The cardholder is the person, who applied for attaining a credit card, from the banking company etc and agrees to fulfill the agreement's terms and conditions.

Trader or merchant

Trader or merchant is the person who accepts the payment through card, when some cardholder shows his interest to make use of the card after shopping etc.

Bank of trader or acquirer

The acquirer or trader's bank makes payment to the trader, when card is used and after that acquirer receives funds from the issuer bank.

International association

International association is the institution who issues the banking companies etc licenses to use their logo, and credit cards are accepted world wide due to their acceptance.

(17) Association National Bank (Delaware), MasterCard and Visa agreement Tx USA.

2.10 Working of Credit Cards

The credit card transaction begins when a cardholder decides to buy some goods from a retailer, such like as shopping, lodging or services. When some shopping is made, the credit cardholder (user) presents his card to the merchant and he put in to the card reading machine then the cardholder feeds his security code, his credit limit and validity of card is checked. This indicates the consent of the cardholder to make payment through credit card. The merchant gets a receipt signed by the cardholder, to put forward through acquirer bank to the issuer. The acquirer bank by the completion of sale through credit card, adds its commission and receives the same from the issuer. The issuer bank pays to the acquirer bank but deducts interchange fee. Many merchants now admit verbal authorizations via telephone and electronic authorization using the Internet, known as a card not present transaction (CNP). In credit card transaction, when the card holder opts to use the card, the following steps come in;

Steps in a credit cards Transaction

Firstly: The card holder first of all when go to a shopping mall or store to purchase the required item and after selecting the required item, if he decides to pay through credit card, he hands over the card to the merchant, engaged at the sale point.

Secondly: The merchant puts that card in to the electronic machine, and the card holder feeds the PIN code number, which verifies the card holder, and magnetic

stripe on the card gives detail information about the card holder and his shopping capacity.

Thirdly: The merchant gives the shopping details to the card machine, and prepares a receipt from the machine, and the user gives his consent and the receipt is printed and gets signed by the customer.

Fourthly: As soon as the card holder gives his consent and the merchant confirms the transaction, the transaction completes and the funds are paid by the acquirer and the acquirer receives the same from the issuer.

Fifthly: The merchant sends that receipt to the acquirer bank and acquirer / merchant bank send it the issuer bank, for further process and its compliance.

2.11 Credit Card System

The card holder initiates with a credit card transaction, if he wishes to pay by using a card, issued under a particular scheme and the retailer agrees to accept the cards with a specific scheme. The customer gives his cards details to the retailer and confirms his identity, for example with a signature or PIN code. The retailer then proceeds details to the merchant acquirer. When he satisfies about the payment by the acquirer bank, he gets a bill prepared and signed by the cardholder and sends it to the acquirer bank, which transfers the money to the merchant's account after deducting the

service charges. Transaction details may either be sent in a batch at the end of the trading day or line. The acquirer forwards transaction to the relevant card issuers, usually through a telecom network. The merchant acquirer pays the retailer, the retail price less a fee known as a "*Merchant Service Charge*" as earlier shown. The issuer in turn pays the merchant acquirer the retail price less a further fee known as an "*Interchange Fee*". The final stage is for the issuer to deduct the amount from the customer's account; this might be a formal bank account or credit card account. Once the transaction is completed, the customer ends up with the goods for which he has paid the retail price plus any fee levied by the issuer. The merchant receives the retail price less the merchant service charge, and no longer hold the goods. The merchant's acquirer bank receives the merchant service charges less the interchange fee. The issuer has the two source of revenue in a card transaction, revenue from the customer, such as annual fee, interest payments, and interchange fees paid by merchant acquirers.

At the end every month credit card holder is informed via a statement of accounts indicating the purchases made through card, any payable fee, and the amount to be paid. After receiving the statement, the cardholder may dispute any charges that he or she thinks are incorrect. Otherwise the cardholder must pay a defined minimum proportionate amount of bills up to the fixed date, or may opt to pay a higher amount up to the entire amount billed.

Credit card issuers usually give up interest charges if the balance is paid in full each month, but charge full interest on the entire outstanding balance from the date of each purchase if the total balance is not paid. For example, if a user had Rs. 100,000 balance and pays it in full up to the stipulated period, there would be no interest, If however even Rs. 1000 of the total amount remained un paid, interest would be charged on Rs. 100,000 from the date of purchase until the full payment is received.

2.12 Charge back

In the formal paragraph, we discussed the steps which come in a credit card transaction, which involves different parties and institutions. In that situation the possibility can not be ruled out that some dispute may take place during the transaction or after completion of transaction. When there is an error in processing the card transaction or the cardholder disputes the transaction, it is called the “*charge back*” and the issuer returns accounts to the acquirer for resolution. The acquirer then forwards the chargeback to the merchant, who must either accept the chargeback or contest it.

2.13 Agencies and channels involved in the Credit Cards working ⁽¹⁸⁾

International institutions behind the Credit Cards

For the working of a credit card it is a basic requirement that it should have coverage

(18) *Credit Cards in Islamic Legal Perspective, research paper by Dr. Manzoor Ahmad Al-Azhari published in Journal of Islamic Banking & Finance – Oct-Dec 2006. Visa Leaflet for customers. Association National Bank (Delaware), MasterCard and Visa agreement Texas USA.*

of internationally recognized credit card companies or institutions, bearing their logo. The credit cards are honored and accepted worldwide, by the appearance of that logo being the name of trust, confidence and assurance of payments which is internationally recognized by the financial institutions and banking companies.

Among others there are Visa card, Master card, American express, Euro card and Diners club etc which are most known and recognized name in the field of credit cards. These institutions issue the credit cards or authorize other financial institutions to issue the credit cards with their logo. These international institutions play an important role and pivotal function in the working and use of credit cards.

Now we will discuss how these international institutions and associations come out and work but Visa Card International, is discussed as an example and see how it was established, developed and works in the field of credit cards.

It has earlier been discussed that during the evolutionary days different companies, hotels and oil pumps issued their own cards to their customer which were not credit cards but they could use those cards instead money. Bank of America of San Francisco came up with the novelty of franchising their cards to other banks nationwide In this way banks in many states started issuing a "*Bank Americard*", however these banks were still directly competing with each other from the ground to up and many other credit cards were attempting to franchise.

During a “*Bank Americard Franchisee*” meeting in 1968, a vice president of bank Mr. Dee Hock stepped forward and said may I have a solution to the problem by incorporating a company by one logo and he found Bank Americard as a independent company and eventually renamed it as “*Visa*”. It is a privately held company that sells only one thing and that is collaboration. Anyone who wants to have “Visa logo” on their Credit Cards and this may be received worldwide, wherever the Visa is accepted then he has to follow some basic procedure lay down by the company and that is “Visa logo” which should appear on the lower right corner of the card etc.

Then company reset its policies and started going to major retailers in the country showing that they had millions of peoples with these cards ready to spend money and expressed how easy it was to operate, so that these businessmen could offer the services by having a visa card and connect their business with this chain for just a little fee per transaction. You know it, after this almost every business in America suddenly had a visa logo on their door.

2.13.2 How these organizations works

Dee Hock found, Bank Americard as a separate product, eventually renamed it Visa. As it has been stated earlier that if one wants to use the Visa logo on his card, he has to follow some prerequisites set by the company but they were left to adopt business

strategies according to their planes. This means it was left to the banks or other institutions to make use of the visa card logo, and fix fee and rates whatever they want to charge and they are authorized to issue the Visa card, used and accepted at any business point, which accepts the Visa cards, with the Visa logo.

These organization or institutions like Visa or American Express provide number of facilities to their member banks. For example credit cards are issued by different banks with their own names, and these cards are accepted, operated and made use of them across the borders. They help the members' banks and their customers whenever and wherever they feel any need of assistance.

These institutions receive fee from the member banks on the issuance of cards, renewal of cards and on every transaction made through the credit cards every where in the world. These institutions charge a very little percentage, out of the business transaction through a credit card from the member banks.

CHAPTER 3

SHARIAH APPRAISAL OF CREDIT CARDS

3.1 General perception of Credit Cards

Credit card is a very convenient method of making purchases without carrying cash. It is so convenient, safe and easy way of payment, so that every one has a credit card in west and majority in other parts of the world. Normally a credit card works in the way that you make buy something using your card and the issuing bank will pay on your behalf to the merchant, providing you have purchased product or service. The cardholder can easily make payments of goods and services purchased from the merchant. "When the cardholder goes to the shop and buys some thing, the details of transactions are sent to the merchant acquirer, who sent the details to the issuing bank by adding money to the merchant's account but deducts a certain percentage from the merchant against processing the transaction being 'Merchant Service Charge' (MSC) and whereas the issuer bank makes the payment to the merchant acquirer deducting a percentage as interchange fee." ⁽¹⁾ On the other side the customer is given a loan for the amount used for shopping or hire services subject to the grace period to repay the given amount interest free and if the cardholder does not pay the full amount, he pays the minimum and the rest of the unpaid balance gets deferred in the form of a loan with compound interest.

1. Adil Mazoor Bakshi, *Developing a financial model for Islamic credit card for the U.K, a dissertation of Msc in International Banking & Finance. University of Staford 2006*
www.Islamicmortgages.co.uk/index.php?id=28

We all know the various advantages of credit cards for example they enable us to make purchases with deferred payments over a period of time, sometimes credit cards become prerequisite for the hire purchase transactions across the borders such as in case of internet purchase and rental collateral for hiring cars etc.

It is general perception about the credit cards that these are structured on interest based schemes. The problem for Muslim consumer is that the whole concept of the formal credit card is not permissible on the religious grounds. Interest is prohibited almost in all religion for several setbacks. The banking institutions which are mean to earn profit are strongly propagating their products, among them are credit cards. These cards provide debt for short and long term periods. People need these cards to run their life in many disciplines, especially while traveling abroad; they don't want to face theft, security problems and bankruptcy etc. ⁽²⁾ So having no care of the demerits of cards they use them frequently.

3.2 Islamic perspective on credit cards

The credit cards were introduced in Muslim area of the world in 1980 and till 1990 these had become need of people, specially the business class. At the same time Muslims have reservations to use the credit cards due to involvement of interest. The Credit Card can smoothly be used, but if the cardholder defaults in payment and

1. *Dr. Mazoor Credit Cards in Islamic legal perspective, published in Journal of Islamic Banking and finance- Oct-Dec 2006*

deferred payment to the next month, then he is burdened with extra payments. The extra payment is an interest based payment, made when the outstanding balance is not repaid, it is also called Riba payments, and therefore not acceptable in Islam. However there are some exemptions that permit Muslims to believe that credit cards system can be done within religious limitations by paying off the full outstanding balance falling within every billing month and never putting it over any balance to the next statement period and avoiding cash withdrawals. According to some Shariah scholars Riba can be avoided, by not carrying the outstanding balance to next billing period and by avoiding the cash withdrawals. The use of credit cards on these lines could be made Halal. In this way most of the Islamic banks present their cards which suggest to the customers to pay off the entire use ups at the end of each month.

The Muslim community has a remarkable financial influence over the world economy, which is not ignorable for the business masses. But at the same time, they are attracted to the products free from interest based credit, however if this aspect is rectified it will set the way for huge profits. Conversely, given that adherence of the Islamic faith represents 24 percent of the world's population, there is significant opportunity for card issuers to build volume.

The Islamic banks as well as the conventional banks with Islamic banking endeavored to introduce such scheme avoiding interest based charges. In the case of

available Islamic credit cards in the UAE market today, most are payment cards (debit cards) or cards with credit option under the scheme of yearly service charge cards substituting the interest payments. Here we have examples of Kuwait Finance House Credit Card and Sharja Islamic Bank Credit Cards, where annual fee is charged from the cardholder with some high tune, but not interest, in any case.

3.3 Scholar's opinions about Credit Cards

Moulana Taqi Usmani

During this research, the serious efforts has been made to take the view point of Justice Maulana Muhammad Taqi Usmani, a renowned Shariah scholar, about the working and legality of Saadiq Visa card but unfortunately a very short meeting can be held and the author was advised to consult his internet work. Mr. Usmani's work about credit cards is consisted on his Fatwas on different questions asked by different individuals. Even these Fatwas are of great significant and useful to understand his views about the credit cards.

Question: The scholars of Fiqh Academy have approved the use of credit cards as reported by Arab News, 15th May. As you know, banks charge a fixed annual fee for credit cards use; can I ask the bank to issue a credit card to me and off set their annual fee against the interest, which I do not take from them?

Answer: “The report of Arab News is not correct. In fact, the Islamic Fiq Academy, after a preliminary discussion on the issue of credit cards, has deferred the matter to the next session without adopting a specific resolution in this respect. However, in my view, the annual fee charged on a credit card cannot be termed as interest or Riba. In fact, it is a service charge fee claimed by the bank from the cardholder against the different services provided by it. That is why the amount paid by the bank to the merchant on behalf of the cardholder. This annual fee is charged even if the cardholder does not use the card through out the year. The fee charged is a lump sum irrespective of the actual amounts of purchases. Moreover the annual fee is so nominal that it has no relation to the prevalent rate of interest. Particularly the issuing bank or institution has to provide different facilities to the cardholder, and the annual fee is not more than a reasonable charge for such services.

It is clear that the annual fee for the credit card is neither interest nor any impermissible charge according to Shariah and it is a valid charge for the services rendered. Therefore it will not be permissible in Shariah to off set this annual fee against the interest accrued to the cardholder in the same bank. The reasons are twofold:

Firstly; it is not permissible in Shariah to open an interest bearing account. Surplus money should always be deposited in a current account where no interest receivable.

Secondly; if somebody has deposited his money in an interest bearing account erroneously, he can not use the amount of interest for his own benefit nor he can use it to settle any rightful claim against him. Since the annual fee of a credit card is a rightful

claim against the cardholder, he can not set it off by the amount of interest accrued on his account.”⁽³⁾

Question: What is the stand of Shariah about the use of credit cards and validity of their scheme?

Answer: “The Cards prevalent in the market today are of different kinds. If the cardholder has an account in the bank, which has issued the card and the bill of the purchases are directly debited to his account, there is no bad with such an arrangement, because there is no possibility of the charge of interest because the bank charges interest only in case where the cardholder defaults in the payment of bills. In the case of direct debit, it is permissible to use such cards but if the card is not obtained on the basis of direct debit system, some contemporary scholars are of the view that this type of card should not be used by a Muslim for the reason that it may happen that the cardholder delays in the payment of the bill of the issuer of the card, whereby he will be liable to pay interest. But in my personal views as well as in the view of the some other scholars, if a card holder is not confident that he will pay the bills within the specified period without fail, he can avail of this credit card and should always be cautious to pay bill promptly before any interest is due thereon”.

“Maulana Taqi Usmani allows the using of credit cards by a purchaser and considering it permissible in Shariah, no matter whether the card is issued by a banking institution or some other company. However the following point must keep borne in mind in using the credit cards according to him.

(3) www.daruliftaa.com accessed on 24.08.2008

- (1) The best way of using these card is to authorize the card issuer to directly debit your bank account for payments to avoid the possibility of default which may in some cases, carry risk of interest.
- (2) If the system of direct debit is not arranged, one must always be careful to pay the bills within the stipulated time without failure, so that interest may not be imposed.
- (3) The annual fee paid by a card holder to the card issuing company is not interest; rather it is a fee charged for certain services rendered by the company for the benefit of the holder. That is why it is charged irrespective of the amount actually spent by the holder.⁽⁴⁾

3.4 Council of Islamic Fiqh Academy on Credit Cards

The Council Islamic Fiqh Academy is an institution formed by the OIC, which has the representation of Muslims scholars around the world. Islamic Fiqh Academy is aimed to develop consensus among the Muslim Ummah about the issues arise before them.

Before taking the view of council on credit cards it is equally important to be acquainted with its views about the loan giving, which is one of the main factor in credit cards. The council of Islamic Fiqh Academy after intensive discussion and lengthy deliberation on all questions submitted to the academy by the Islamic development Bank (IDB):

A. Regarding service fee for IDB loans

(4) www.albalagh.net/taqi.shtml retrieved on 24.08.2008

- 1) It is allowed to charge a fee for loan related services. The said fee should be within the limit of the actual expenses.
- 2) Any fee in addition to the actual service related expenses is prohibited (haram) because it is considered as Riba (usury)

The council has also passed different statements about the credit cards and its related transactions. The Islamic Fiqh Council issued a statement No. 108 (1/12) answer to question No.97530

Based on the statement of the council No5/6/1/7 on the subject of financial markets and credit cards, it was decided to give a definitive answer on the Shar'i way of dealing with credit cards and the ruling on these cards in a subsequent session.

In reference to the statement of the council in its tenth session No.1023/4/10 on the subject of non-covered credit cards. After listening the discussion on this subject by Fuqah and economists, and referring to the definition of non-covered credit cards as given in statement No.63/1/7. According to this definition the:-

Non-covered credit card is a financial document given by the issuer (the issuing bank) to an individual or company (the card Carrier) on the basis of a contract that enables him to buy goods or services from companies who accept it without having to pay on the spot because the issuer of the credit card has to pay according to the contract, and the payment comes from the account of the issuer, then this payment is demanded from the card-carrier at regular intervals. Some of them (Card issuers) charge interest on the unpaid balance after a certain amount of time from the date of the bill, and some do not charge interest.

The council has decided the following;

Firstly: It is not permissible to issue a non-covered credit cards if interest is stipulated (predetermined) even if the card applicant is determined to pay within the free period.

Secondly: It is permissible to issue non-covered cards if there is no condition of paying interest on the original loan.

Based on that:

(b) It is permissible for the one who issues the card to charge set fees when issuing or renewing a card, because these are fees to cover the actual services.

(c) It is permissible that accepts this card and sells on that basis, provided that the company sells the product by credit card for the same amount as it sells if for cash.

Thirdly: Cash withdrawals by the card carrier are a loan from the issuer, and there is nothing wrong with that from a Shar'i point of view so long as it will not result in interest. Set fees that are not connected to the amount or length of this loan are not regarded as interest.

Any charges in addition to the set charges, such as if the charges exceed the amount required to cover the services offered, are haram because that is Riba which is forbidden in Shariah as was stated by the council in its report No.13 (10/2) and 13 (1/3)

Fourthly: it is not permissible to buy gold and silver or currency (cash) with the non covered card ⁽⁵⁾.

Islamic Fiqh council in a statement in question No. 97530 asked about the permissibility of taking commission on credit cards sale by the issuing bank says:-

“that it is permissible for the issuing bank to take the commission from the company (seller) that accept this card and sells on that basis, provided that the company (seller) sells the product by the credit card for the same amount as it sells for cash” ⁽⁶⁾

A card clear from such faults or slip shorts, if introduced by a bank will be permissible subject to non involvement of element of Riba.

3.5 Standards of Accounting and Auditing organization for Islamic institutions

Accounting and Auditing organization is non profit taking association, established by the renounced scholars of Muslim world. The main object of this organization is to evaluate and check the financial system prevailing in the Muslim countries and their institutions and to regulate them according to the settled rules of Shariah. It is also a basic task of the organization to suggest the suitable solutions to new problems faced by such institutions in present or in future, according to the general principles set by the Shariah. The business of credit cards was brought to the notice of organization, and it was suggested that some acceptable stance may be

5. www.ummah.com retrieved on 25.8.2007

6. <http://www.islam-qa.com> retrieved on 23.8.2007

developed. The organization undertook to set out an acceptable solution to credit cards, so the standards are set for the use of credit cards.

- **Statement of standards and rulings regarding cards ⁽⁷⁾**

The standard is applicable to debit cards, charge cards and credit cards that are issued by the institutions to their customers to enable the latter by using the cards, either to withdraw cash from their accounts or to obtain credit or to pay for goods or services purchased.

3.5.1 Debit Cards

It is permitted for institutions to issue debit cards, since in case of debit cards the institution issues the card to a customer with the available funds in his account. The card confers on its holder the right to withdraw cash from his account or to pay for goods or services purchased up to the limit of the available funds (credit balance) on his account and does not provide credit facility. It depends on the policy of institution to charge a fee for issuing debit card, or issue without any fee. The customer normally pay charges if the debit card is used to withdraw cash or to purchase another currency through another institution different from the institution that has issued the card.

Shariah's rulings on Debit Cards

It is permissible for institutions to issue debit cards. The debit cards are used to utilize the available funds in the account of cardholder, so the cardholder does not exceed the balance available on his account and therefore no interest charge arises

7. [http://en.wikipedia.org/wiki/Accounting_and_Auditing_Organization_of_Islamic_Financial](http://en.wikipedia.org/wiki/Accounting_and_Auditing_Organization_of_Islamic_Financial_Institutions)
Institutions accessed on 12.7.2010

out of the transaction. In case of withdrawal or purchase of money no time factor is involved, corresponding with the charges, so that charges can not be termed as interest. It is permissible to issue debit cards subject to the condition, the cardholder does not exceed the amount available in his account against the interest charged, because such issuance does not incur any Shariah prohibition.

3.5.2 Charge cards

The charge card provides a credit facility up to a certain limit for a specified period of time, as well as providing a means of repayment. This card does not provide revolving credit facilities to the cardholder and he is bound to make payment of outstanding amount up to the stipulated period for the purchase of goods, services or to obtain cash. If the cardholder delays payment of the amount due beyond the period of free credit, an interest charge is imposed on the cardholder but none is imposed by the institution.” The institution issuing the card is obliged to pay the party, accepting the card for purchases made by the cardholder within a specified transaction credit limit. The issuing bank receives commission from the accepting party but not from the cardholder.

Shariah’s rulings on Charge Card

“It is permissible for institutions to issue Charge Cards if the cardholder is not held liable to pay interest in the case of delay in paying the amount due. The institution obliges the cardholder to deposit a sum of money as a guarantee and this amount is not available for the use of the card holder, then it must be made clear that the institution will invest the money for the benefit of the cardholder on the basis of Mudaraba and that any profit accruing on this amount will be shared between the cardholder and the institution according to a specified percentage. The institution must stipulate that the cardholder will use the card for the purposes permitted by the

Shariah and institution has the right to withdraw the card in case its violation.” The issuance of charge card does not incur Shariah prohibition because the contract involved does not grant credit facility to the cardholder in exchange for interest. Prohibition might be caused by condition incorporated in the contract, or by dealings of the cardholder, which contravene the Shariah.

3.5.3 Credit Cards

The Credit Card is a means of payment. “It provides a revolving credit facility within the credit limit and credit period determined by the card. The holder of a credit card is able to pay for purchases of goods and services and to withdraw cash, within the approved credit limit. In case of purchasing goods or services, the cardholder is given a free credit period during which the amount due should be paid and no interest is chargeable. The cardholder is also allowed to defer paying the amount due and is charged interest for duration of the credit. In the case of cash withdrawal, there is no free credit period”.

Shariah’s rulings on Credit Cards

It is prohibited to issue credit cards because such issuance is based on a contract granting the cardholder the right to a revolving credit on terms that involve interest, because Riba is prohibited in terms of either taking or giving. The prohibition of Riba is established through the Qurranic texts direct and certain traditions of Prophet (prayers and peace of Allah be upon him) and the consensus of Muslim Scholars, rendering its prohibition well known in the Muslim community as self-evident. So it is not permissible for an institution to issue credit cards that provide an interest-bearing revolving credit facility, whereby the cardholder pays interest for being allowed to pay off the debt in installments corresponding with the time involved

delayed payment. However the issuance of credit cards free from Riba, or from any other legal prohibition is permissible.

General Provisions

- **The affiliation of the institution to membership of international card regulatory organization**

It is permissible for institutions to join the membership of International card regulatory organizations. Institution's affiliation to membership of international card regulatory organization is lawful because the contracts of the institutions with those organizations are free from Shariah's infringements. The fees that the companies pay are the charges for the services rendered by the international organizations, by granting a license, carrying out set-off in transactions and other services. The transactions do not relate to the advance of loans interest, since the dealing of the institutions are confined to debit and charge cards that are free from requirement to pay interest. These dealings do not involve credit cards of the type that are not permissible for the reason given above.

- **Fee and Charges:**

It is permissible for the institution to pay membership fee, service charge and other fee to International card regulatory organizations, so long as these do not include interest payments, even in an indirect way, such as in the case of increasing the service charge to cater for the granted credit.

- **Commission to the card issuer by merchants accepting the card**

It is permissible for institutions to charge the party accepting a card commission based on the prices of purchases or services made with the card,

as this can be considered as partly a brokerage and marketing fee as well as a service charge for the collection of the debt.

- **Fee charged by the institution to the cardholder**

It is permissible for institutions to the cardholder membership or renewal or replacement fees, because these fees are in exchange for the right given to the customer to carry the card and to get benefit from its services.

- **Purchasing gold, silver and currency with card**

It is permissible to purchase gold, silver or currency with a debit card or a charge card, in cases where the issuing institutions is able to settle the amount due to the party accepting the card without any delay.

- **Cash withdrawal using a card**

It is permissible for the cardholder to withdraw cash from his available funds at the bank using the card, because this is to withdraw his own money. Likewise, it is lawful to withdraw more than his available funds from the institution, if the latter has agreed that he may do so and has not stipulated that the interest is payable on such amount. This is permissible loan.

- **Privileges granted by the card issuing parties**

- a) It is not permissible for institutions to grant the cardholder privileges prohibited by the Shariah, such as conventional life insurance, entrance to prohibited places or prohibited gifts
- b) It is permissible to grant privileges to the cardholder that are not prohibited by the Shariah, such as a priority right to service or discounts on hotel, airline or restaurant reservations and the like.

3.6 Some Fatwas (verdicts) about the Credit Card

In this part of study, different questions and answers are provided about the usages, legitimacy and illegality of credit cards. These questions are available on net and easily accessible. These Fatwas are given by the worldly renounced Muslims jurists and scholars. It is expected that this effort will enable us understanding the true position of credit cards under Shariah.

Question: “Banks give their clients a card called “Visa” which enables customer to withdraw money from the bank even if there is no money in his account at that time, on the basis that after a specific amount of time has passed, he will repay the bank, and if he does not pay within the set time, the bank will charge interest, more than the amount withdrawn. The customer also pays an annual fee for using this card. Please tell us the rulings on using these cards, may Allah reward you with good.

Answer: This transaction is haram, because it involves a commitment to pay Riba (interest) if one does not pay within a certain time. This is an invalid commitment even if a person believes or thinks it most likely that he will pay before the time is up, because things may change and he may not be able to fulfill the commitment. This is a matter which has to do with the future and man does not know what will happen to him in the future. So this kind of transaction is haram. And Allah knows best.”⁽⁸⁾

8 <http://www.islam-qa.com> Shaykh Muhammad ibn Saalih al-Uthaymeen, *Al Da'qah* magazine, issue # 1754

Question: “I heard that using credit cards is haram, but if I am sure that I am going to pay the bank within the time limit, so the bank will not charge any interest, is this also regarded as haram. (9)

Answer: What you have heard about the credit cards being haram is correct. This has already been discussed in question No.13735. Using them is haram even if the user is certain that he will pay the bank within the time limit. It has been already explained in the answer to the question mentioned that they are haram because the bank lends money to the user in return for interest, and this is the price of the annual subscription of the credit cards, as well as other interest charges which are to be paid to the bank if the user is late in paying. The cost of the card is a kind of Riba which the user pays to the bank, and this Riba is paid by the user whether he pays in time or not. Also the user enters into a contract with the bank which means that he is obliged to pay interest if he delays payment. This is also haram, because it is not permissible for Muslims to commit himself for doing something that Allah has forbidden. The user may think that he can pay up on time but then something happens to him that prevents him from so, so he pays Riba to the bank.”

Shaykh Muhammad ibn Saalih al-Uthaymeen may Allah have mercy on him said concerning this kind of contract:

9 <http://www.islam-qa.com> retrieved on 24.09.2008

“A contract of this type is not permissible because it involves Riba which is the price of the card, and it also means committing to pay interest if payment is delayed”.

A question was asked from the penal of experts (Islamic jurists) given in web site “Islam question answers” about the use of a credit card and its permissibility, specifically under its schedule of payments; for the better understanding, the question and answer is reproduced here. The opinion (fatwa) of Shaykh Ibn Uthaymeen is provided for reference, which he gave about the credit cards.

Question: “Nowadays many people use ‘*Credit*’ cards which are issued by some of the banks. The gold cards cost 548 Riyals and the silver cards cost 245 Riyals. This amount is paid to the bank annually by the person who uses the credit card, like an annual subscription.

The way these cards are used is that allows the bearer to withdraw as much money as he wants from the bank’s branches as a loan, and he has to repay the same amount of money within a period not exceeding fifty four days. If he does not pay it back within the period stated, the bank will charge interest of 1.95 Riyals for each hundred Riyals of money withdrawn. The bank also charges 3.50 Riyals for every hundred Riyals of cash withdrawn by the carrier of the card, or a minimum of 45 riyals for each of cash withdrawn. The carrier of this card is also entitled to buy products in stores that the bank deals with, without paying any amount, and bank pays on behalf of the carrier and it becomes a loan from the bank. If he delays in paying off the cost of what he has bought for more than fifty four days, they will charge 1.95 Riyals for every hundred of the price of the product

purchased from the stores that the bank deals with. What is the ruling on using these cards and subscribing annually to the bank in order to use these cards?” (10)

Answer: This question was put to the standing committee, who replied:

“If the credit card is working as described, then it is new kind of Riba-based transaction and of consuming people’s wealth unlawfully, making them fall into sin and contaminating (pollute) their earnings and dealings. It comes under the same rulings as the Riba of the Jaahilliyyah which is forbidden in Shariah. (Either you pay it off at the appointed time or you increase the amount) Hence it is not permissible to issue such cards or to use them”

Shaykh Ibn Uthaymeen (may Allah have mercy on him) was asked about such card he said;

“the answer is that a contract of this type is not permissible, because it involved Riba which is the price and it also means committing to pay interest if payments is delayed”. (11)

Question: “What is the Islamic stand about credit cards intended to be used for business in no interest transactions? However when no cash is available, interest will be charged to the account. This might happen with any delayed payment of utility, installments and other bills”. (Fatwa No.84519) (12)

10. <http://www.islam-qa.com> retrieved on 24.10.2009

11. <http://www.islam-qa.com> retrieved on 24.10.2009

12. *ibid*

Answer: “Prays be to Allah, the Lord of the World; and may His blessings and peace be upon our prophet Muhammad and upon all his family and companions. The use of credit cards for purchasing goods and then paying the price of purchase by installments to the bank or authorities that issue the cards is in fact a form of loan to card-bearer. So an issuer is not entitled to receive more than the amount taken to purchase. But the issuer is permitted to take a fixed charge under the name of administration expenses and such a charge is not increasable due to an increase of money used for purchase. For sure imposing a percentage on the amount of money used by credit cards is Riba in itself, whether such a percentage is taken is taken as a charge service and administrative expenses or due to delay in settlement. Both forms are a usurious loan and the most well-known form of Riba of non-Islamic system old or new. Based on the above stated we believe that the arrangement mentioned in the question is not permitted, since it constitutes an endorsement to Riba and also it is a commitment to it in case of no funds”.

Question: “When using credit cards, some banks give bonus miles or bonus points for purchase and some other benefits. Please clarify it if we can use it. Every month I pay off the total of account without an extra cent of interest”. (13)

Answer: “If a credit card is used for purchase and the bills are paid promptly without requiring paying interest on late payment, it is permissible and the benefits given by the credit cards company as rewards can be

availed of. It is not permissible to benefit from such rewards”.

Fatwa by Mufti Taqi Usmani

- Question:**
- (1) Selling goods to someone who pays with a credit card and giving a commission to the bank which is added to the price of the goods.
 - (2) I work as an accountant in a company that has fairs. The customers pay through visa and master card machine in these fairs. The bank takes a commission from us on each selling process about 2 to 3 %. We consider it as bank charges and add to the price of the goods the customer buys.
 - (3) Is it Islamically permissible to use these machines? If it is not permissible to use them, then how by using it makes Riba easy? What we write as bank charges are they actually writing Riba? ⁽¹⁴⁾

Answer: *Firstly:* There is nothing wrong with issuing and using credit cards, so long as that is free of Shariah’s reservations such as charging interest in the event of late payment. Some Islamic banks have issued credit cards that are free of these reservations.

Secondly: There is nothing wrong with the seller being paid for the goods with a credit card, whether the card is acceptable according to Shariah or it is not acceptable. As for as the card, which is free

14. <http://www.islam-qa.com> retrieved on 24.10.2009

of Shariah's reservations situation is clear. As for the card that is not acceptable, the sin of doing Haram things is borne by the bank and customer, and the seller has nothing to do with that, because he can sell to someone who has taken a Riba-based loan, and the sin of Riba is borne by the one who engages in it.

Thirdly: It is permissible for the seller to pay commission to the bank, so long as he does not charge it to the purchaser, rather he sells the product to him as he would sell it to the one who buys it for cash.

A statement of the Islamic Fiqh Council about the credit cards says: It is permissible for the issuing bank to take commission from the company that accepts the card and sells on that basis, provided that the company sells the product by credit card for the same amount as it sells it for cash.

To sum up: it is permissible for you to get the price of goods sold by means of credit cards of all types, and it is permissible to pay a commission to the bank to facilitate this transaction, so long as the commission is not charged to the purchaser.

Question: "I was offered a credit card with a 20000 dirham limit by a bank. I can withdraw this amount from the machine on four occasions; the maximum of each withdrawal is 5000. They take fees for every withdrawal I do, 90 dirham. This is charged whether I withdraw 5000 or 500. Plus 7000 dirham every three months, the bank calls it

“fees”. They told me that if I pay off on time, the bank will give me money as ‘gift’ in return of paying on time. It was not mentioned how these ‘gift’ will be given. The bank specifies them on time, so this leaves no doubt that it includes Riba (interest)” (15)

Answer: “It is not permissible to use this card, because it is based on Riba. Which is a loan, which brings a benefit to the lender? That is because you are borrowing 20000 dirham and paying it back to them with an extra amount of 700 dirham every three months, which they call fees, which is not right. Every dirham that the card issuing company takes in addition to the actual costs is Riba, and undoubtedly the actual cost can not under any circumstances reach this large amount after every three months. Undoubtedly the fees for credit cards that offer loans should be based on the actual costs to the issuer, which is the bank. And it is not permissible for it to make a profit from these fees, because the loan offered via the card will be a Riba-based loan if what the bank charges as administrative fees is more than the actual costs”.

A question was asked from the panel of experts (Islamic jurists) in web site “Islam question answers” about the use of a credit card and its permissibility, specifically under its schedule of payments; for the better understanding, the question and answer is produced here.

The opinion of Shaykh Ibn Uthaymeen is provided for reference, which he gave about the credit cards.

Conclusion

After going through the form of contract, working, operation of scheme and analyzing the services fee structure of Saadiq Visa card, we come to the conclusion that presently the subject scheme stands on elements of Riba, especially when the bank levies late fee in the name of financial and administrative charges up to 2% to 3.7%, apart from the charging Service Account maintenance fee, which is clearly a form of interest on the credit amount, lend by the bank to the card holder.

The Riba or interest constituted by this form is also haram and prohibited since it is predetermined and levied on the amount used by the cardholder.

So far as, the other charges such like default fee, cash advance withdrawal fee, over limit processing fee, utility bills deposit fee are concerned, if they are charged in lump sum (fixed) and not excessive but according to the services provided by the bank then that will not be impermissible.

It is worthy to make it clear that Credit Card Company or banking institution may impose the annual subscription fee on cards against the services attached with cards provided through out the year but it should be similar for all kinds of card irrespective of their credit limits or value.

CHAPTER 4

INTRODUCTION AND APPLICATION OF ISLAMIC CREDIT CARDS IN ISLAMIC BANKS

4.1 Introduction and application of credit cards in Islamic banks

The Islamic Banking is in operation, almost all Islamic products are being offered, which are permissible under Islamic modes of Finance i.e. simple banking, financing, investment, and real-estate business. Islamic banks now are moving towards the areas, which were in past considered reserved only for the conventional banks i.e. credit cards. There are numbers of banks, which have introduced their own credit cards with different names, schemes and styles, but with one claim that their credit cards are Islamic and Shariah compliant, free from the element of Interest or Riba.

There are three types of credit card issuers now operate in the Islamic card space: firstly the “Major global banks that set up separate Islamic banking Companies” secondly the “Traditional banks converting to the Islamic Model” and thirdly the “Islamic Startups”. In this regard, we have the name of Al-Islami Credit Card by Dubai Islamic Bank, Al-Islami Credit Card by Bank Islami Malaysia, Makah Credit Card by First Gulf Bank, Al-Buraq by ABC Islamic Bank, Saadiq Visa Card by Standard Chartered, Platinum Visa Credit Card by Sharjah Islamic Bank and Al-Raban by Shamil Bank, and the list does not end here. There are so many other banks, which are issuing credit cards, used and accepted all over the world. The Arabian Peninsula and UAE are the major markets of Islamic banks and their credit cards.

In UAE market, today mostly banks offer the Islamic Credit Cards with different fee-based structure. It means that unlike a conventional credit card holder, an Islamic card user does not pay interest on his used outstanding amount but an upfront annual fee is paid, that allow him to make part payments and rollover his debt to the next payment cycle. The Kuwait Finance House Credit Cards, ⁽¹⁾ and Emirates Bank's Credit Card ⁽²⁾ are also claimed to be the Islamic credit cards, which are free from Riba and other prohibited charges and charge only annual subscription fee, nothing else in the name of late payment fee or account maintenance service fee etc.

Some of the Islamic banks return a part of the upfront fee to an Islamic cardholder if he repays his credit in time. For instance we take the example of Al-Islami Credit Card by the Dubai Islamic Bank. "It is claimed by the promoters that holders of Al-Islami Credit Cards can enjoy a revolving credit facility without incurring any interest costs whereas they are required to pay only 10% percent of the monthly usage besides the monthly subscription fee." ⁽³⁾

"Wasim Saifi, Executive Vice President, Head of Retail and Business Banking of Dubai Islamic said: 'Al-Islami Credit Card offers all the convenient advantages of today's credit cards, while remaining true to the value of Shariah and the principles of Riba free Islamic banking that Dubai Islamic Bank proudly presents,'". ⁽⁴⁾

"Speaking about the features of the card, he said: the cards are available in a choice of Platinum, Gold premium, in addition to Gold and classic. Al Islami Credit card has no joining fee. It is free from Riba or Interest and free from the non Islamic charges like late payment fees or over limit fees". ⁽⁵⁾

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1. <http://kfh.bh/en/consumer-banking/financing/kfh-visa-credit-card/islamic-visa-card-faqs.html>
 2. www.emiratesbank.com
 3. www.dubaibankinternational.com
 4. www.zawya.com The article "Islamic credit cards getting notice", appears in September 2007 issue of Money Works magazine @ UAE MONEY works 2007
 5. *ibid*

“Cardholder can benefit from cash withdrawals of up to 100 per cent of the card limit through any of the over one million ATMs and financial institution world wide. The card is also accepted at over 35 million outlets worldwide” he added.

4.2 Difference between conventional and Islamic cards

Conventional credit cards are in practice for so many years, whereas the Islamic credit cards are being introduced by different Islamic and non-Islamic banks and institutions. The Islamic credit cards are in transitory phase, which are based on principles of Islamic finance, but if they are not hundred percent Shariah compliant, then measures are being taken to make them in line with Shariah’s rules.

Anyhow the Islamic credit cards are different from the conventional credit cards and have some distinctions, which have great attractions for the customers.⁽⁶⁾

- **Attraction for all**
Islamic credit cards can draw attention of non-Muslim customers due to good-looking features offered. There will be no compounding factor for cardholders and the financing charges are on par with other credit card offers.
- **Twelve months fee schedule** (Shamil bank’s Al-Ruban Islamic credit card)
- **Riba free** (For example Dubai Islamic bank’s Al Islami Credit Card) this is Riba free or interest free card and does not charge any non-Islamic cost, like late payment fee or over limit fee. Al Islami Credit Card has no joining fee.

6. *www.zawya.com* The article “Islamic credit cards getting notice”, appears in September 2007 issue of Money Works magazine @ UAE MONEY works 2007

- **No money lending:** There is no element of money lending when using an Islamic credit card, since the transaction of credit card is based on trade or 'bai', profit margins are fixed for the whole tenure of the credit card agreement.
- **Elimination of interest:** "The element of usury is eliminated from the loan transaction that is applied in the conventional money lending".
- **None compounding of profit:** "Profit margin for the cardholder is fixed for the whole tenure and the actual profit is charged, based on the remaining balance. The monthly profit is charged, based on the remaining balance. The monthly profit is calculated on a monthly basis, based on outstanding due or total transactions made for that particular month".
- **The subject matter of the transaction should be Halal**
- **The subject matter should be legally owned**
- **Better fixed fees for services**
Islamic credit cards offer better fixed fee for other services, such as on withdrawals, no interest charges per transaction is charged.
- **Accessible and affordable to all**
- **Control on transactions.** "The Islamic Credit Cards can only be used for the permissible transactions under the Shariah. Users are allowed to carry out only Halal or Islamically permissible transactions". The bank will decline transactions for six categories of non-halal related activities, including "bars"

“discos”, “night clubs”, and “purchase of beers”, “escort”, “massage services” and “gambling”.

4.3 Some problems to use Islamic Credit Cards

Under Shariah profit on lending and borrowing of money is prohibited since the profit in such circumstances comes in hands without any risk and labour, which is the prerequisite of earning of profit in Islam. Any business transaction connecting these two elements is permissible or otherwise it may attract some reservations about the involvement of Usury, which is prohibited under Shariah. Credit cards are considered as a mode of payment, having inhabitant credit capacity, which are used in place of money for shopping, hotelling, and traveling etc. Initially credit cards were the product of conventional banks but since they have fee schedules involving interest or interest based charges in their schemes which are not permissible under the Shariah. But Islamic banks set up credit cards schemes based on the contract of “Ujra” or Service Charges. In this regard we have examples of Saadiq visa card by Standard Chartered, Islamic card by the Emirates Islamic Bank, and Islamic card by Dubai Islamic Bank etc.

According to the world renowned Islamic Scholars and Economists Credit cards can be used, if element of usury is not involved because Allah (SWT) has permitted sale and prohibited usury and if it is so then credit cards structured on a scheme not prohibited by the principles of finance set by Shariah, are permissible.

Although the Islamic banks have tried their best to make their schemes of credit cards in accordance with the principles of Shariah but even then we find some points inviting our attentions, which are indicated bellow:

- Some banks have structured the credit cards on the receiving service charges or Ujra but the same does not coherent with the services provided rather excessive, so service charges should be according to the service provided by the bank and not on the proportionately on the amount involved.
- Service charges should be on the number of transaction and not on the size of amount.
- Some of the cards offer cash withdrawal through the Islamic credit cards and charges fee on cash advance more than the card is used for shopping etc, so if we claim Islamic credit cards Shariah compliant then the cash withdrawal should not involve interest charges per transaction.
- Problem occurs when a customer defaults on repayment and the default results in penalty it will be a violation of Shariah's principles.
- If one pays off the balance every month and there fore never utilizes the option of the credit cards, in such situation the credit card serve as a charge card.
- Where one only pays the principle amount that he uses, plus the service charges, it is permissible but regular repayment of balance in full would mean that the issuing bank will make little money from such a product.
- The major objection against these products is that these are not credit cards in their practical sense rather these are debit cards, the customer gets short term loans, which is guaranteed against his account, and it is debited fully at the end of the credit period, at the best it could be considered as a value added service.

No doubt there are lots of problems which are faced on the one hand by the card holders and on the other hand by the banks, doing Islamic banking. The problems go to the deep roots of the scheme and shaken the whole structure and some times do not coherent with the business strategies. But we should be optimistic and not the pessimistic in case of Islamic credit cards.

According to some banking and financial experts Islamic credit card business may not be as well-paid or profitable compared to revenues earned from a conventional credit cards portfolio, but even then Islamic banks are optimistic that in the next two years, there will be a major shift in the ratio of Islamic cards to conventional cards in consumer's pockets.

4.4 Scope of Islamic Credit Cards

In the preceding Paras we have discussed the mandate of Shariah about banking and its principles concerning the financial system. There is no place of Riba or Usury in any form in the Shariah and same is the case with charges received in this context. Now the question arises that credit cards are being used by the peoples since before the introduction of Islamic credit cards all over the world and after that

Muslims prefer Islamic credit cards and feel convenience to use these cards. Muslims are almost 24% of the world's population It is the matter of time that sooner or latter this product will get place in wallets of every one.

“Wasim Saifi executive vice president and head of retail and business banking of Dubai Islamic Bank feels that:

‘In Dubai Islamic Bank alone we have an upward of 500,000 accounts current and savings together, but the total number of Islamic credit cards issued by all Islamic banks in the UAE are less than 100,000 cards today. These figures indicate that much more needs to be done with Islamic credit cards. Less than 100000 cards in two years that Islamic credit cards have been around is not a big number for the UAE market.,’⁽¹³⁾

Again Saifi said;

“We are offering a genuinely Shariah compliant card that not only helps their payments needs, but also solves their credit problems. So, I see potential there, once customers become more comfortable of the fact that the Islamic credit cards offerings in the market today are genuinely Islamic, there will be many more using these cards in the future.”⁽¹⁴⁾

Although the Islamic credit card business may not be as well-paid or profitable compared to revenues earned from a conventional credit cards portfolio, Islamic banks are optimistic that in the next two years there will be a major shift in the ratio of Islamic cards to conventional cards in consumer’s pockets. The Muslims not only in Pakistan but those who are living abroad taking keen interest to adopt Islamic banking and to take benefits from its products. The Islamic banks established in United Kingdom or America are inviting attentions of Muslims towards their Islamic products including credit cards.

13. *www.zawya.com* The article “Islamic credit cards getting notice”, appears in September 2007 issue of Money Works magazine @ UAE MONEY works 2007

14. *Ibid*

4.5 Introduction of Credit Card by Standard Chartered Pakistan

The Standard Chartered has established branches of Islamic Banking all over Pakistan beside their conventional set up. The Standard Chartered Islamic banking is offering products and services based on the principles of Shariah or religious law. The Standard Chartered also introduced the Credit Card in the name of Saadiq Visa Card purely Islamic Credit Card, free from interest or interest based charges, structured on the principles of Shariah.

The Saadiq Visa Card is structured on the concept of "Services Charges" or "Ujra" which literally means remuneration or compensation. Ujra or Services Charges are generally considered those remunerations which an individual receives from the other person against the services he provides or his any commodity, whereas the other one who admits services from that concerned owner pays charges or consideration as Ujra or Services Charges to him.

"Ghazanfar Naqvi director and head of Islamic products with Standard Chartered explains,

‘Our model is the next step in the evolution of Islamic credit cards. We charge an annual fee on the card, while fixed account maintenance fee is charged on the balance kept in a service account. This occurs when the full payment does not come when it is due and the balance is transferred to the service account meant for this purpose. No maintenance fee is charged on the service account if the balance paid in full”.⁽¹⁷⁾

17. www.zawva.com Islamic credit cards getting notice. This article appears in the September 2007 issue of Money Works magazine @ UAE MONEY works 2007

It is necessary for both the parties that they should be specific and definite about their proposed job, time and venue, and they should be aware about their respective part to perform, their liabilities and charges they have decided for the services; otherwise the agreement will be void due to its ambiguity and uncertainty.

The money is not considered as a commodity under the Shariah which can be made an article of trade. If the money is considered a commodity or subject matter of trade, business will deteriorate. The money is to be used as a source to purchase something such as an article, a good to fulfill some need or receiving services, which is allowed. The concept of services or Ujra is recognized in Islam, because in this agreement one party, who is in need of some service, hires the same from the person, who has expertise in some field and in response of former's acts agrees to perform on some pre-decided charges on his free will.

According to Shariah scholars the service charges should be in correspond with the service provided, and there should not be exploitation of any one. The service charges are permissible for the acts acceptable under the law. If the services charges are levied in excess to the due limit that will be the cruelty against the part of needy person.

4.6 Launching of Saadiq Visa Card by Standard chartered

Here we put our consideration on the scheme of Saadiq Visa Card presented by the Bank. The Standard Chartered Pakistan is one of the foreign bank which not only listed itself in the role, of Islamic banking, with its different Islamic banking products on Shariah footings but taking an edge, introduced its Islamic Credit card in the name of Saadiq Visa Card, wholly complaint with the Shariah principles, the only Islamic credit card in Pakistan, approved by the State bank of Pakistan.⁽¹⁸⁾

18. www.standardchartered.com accessed on 12.7.2007

4.6.1 Saadiq visa credit card, an interest free card

Saadiq Visa card introduced by the Standard Chartered Pakistan is the only Islamic credit card launched in Pakistan. The state bank of Pakistan authorized Standard Chartered to initiate a Shariah complaint credit card, having no precedent in the market. The Standard Chartered and its Shariah advisory board comprised renowned Shariah scholars present a scheme of card, which is purely based on the Islamic principles of finance. There exists, not even a least chance of element of Riba in the scheme.

Basically the Saadiq Visa card is based on the concept of Ujra (service Charges). The central idea under this scheme is that the institution which provide some facility or service to anyone to satisfy his requisites. He must be compensated against that service provided and to fulfill the needful respectively, relaying on this notion SCB introduced its credit card, in the name of Saadiq Visa Card, which is claimed Riba free/Interest free Islamic credit card first in Pakistan.

4.6.2 Pakistan's only Shariah complaint Riba free Credit Card

According to SCB Saadiq Visa Card is the only Islamic credit card in Pakistan. There is no other financial institution, which could be granted permission to launch a Shariah complaint credit card in Pakistan by the State Bank of Pakistan. Obviously it is a distinguished feature, attached with the Saadiq Visa Card and a big achievement of Standard Chartered Pakistan.

4.7 Parties to agreement

As it has been discussed above that Saadiq visa card is issued to the card member in consequences of a valid agreement between the parties, and all the parties to the

contract hold specific character and entity, parties involved in the subject agreement are following:

- **The issuing Banking or Institution**

An applicant interested to acquire a Saadiq visa card approaches the bank and applies for the card, on the prescribed form providing the relevant informations. After completion of process Saadiq Visa Card is issued to the applicant subject to approve the nomination.

- **Card Holder**

Card holder is the person, who show his interest to acquire the card and applies to the banking institution by the application form, with detail personal information. Both bank and individual, set some undertake to abide by some conditions in the one hand and put rights and liabilities for each other on the other.

- **Merchant**

Merchant or the trader is the person, to whom the card is presented for use, in order to make shopping etc. He gives his consent to accept the card for the required purpose and gets the receipt signed from the card holder for further process.

- **Acquiring bank**

It is the bank of merchant, which completes initially process the credit card transaction by paying to the merchant and then makes request to the issuing bank. It takes responsibility for the merchant to finish the transaction.

- **International institution**

In a credit card transaction, international institution too plays a vital role to make an idea a reality. The banking institution uses its monogram and banking

institution receives its commission in the transaction, the card bearing the monogram of international institution is accepted all over the world.

4.8 Schedule of charges⁽¹⁹⁾

The Saadiq Visa card carries only annual fee, apart from the joining fee charged 1st time on issuing of the card, beside this, the following fees are charged on the services provided on the card.

- Maintenance fee on the Service Account
- Continued usage of the card
- Benefits and privileges

Account maintenance fee is charged in case the customer uses the Saadiq Visa card and for the payment the customer would have the option to pay any account less than the total outstanding I balance (keeping minimums payment as 5 % of the balance or a fixed amount which is higher) the remaining outstanding balance after the former payment would be transferred to his Service Account. A fixed monthly maintenance fee will be levied on the Service Account irrespective of the outstanding amount.

4.9 Types of Saadiq Visa card

Standard Chartered Saadiq Visa credit cards are available in different types, with particular specifications, limits, and capacity, which are credit cards but of different characteristics and denominations .At the time of applying the card, the applicant submits application form to acquire the Saadiq Visa card, and after processing application and evaluating the applicant and its financial position, category or type of

19. Customer's booklet by Standard Chartered Pakistan Ltd

card is decided, with prescribed denomination. In a meeting with Irfan Yasin manager Tele Services Islamic banking, Standard Chartered Pakistan ⁽²⁰⁾ According to him Saadiq Visa cards with different denominations are featured as under:

- **Saadiq Visa Classic**

This is one of the types of Saadiq Visa card, introduced by the Standard Chartered. So far as the characteristics of Saadiq Visa Classic are concerned, it has credit limit from Rs. 25000 to 50,000. Its joining fee is RS.500 but annual fee, is RS.2000. If the cardholder uses the card and does not pay back the total outstanding amount within stipulated grace period, the balance is transferred in the service account, and till realization of whole amount, a maintenance fee for the service account is received, and that is RS.1000

- **Saadiq Visa Classic Blue Card**

Saadiq visa classic blue card is another type of Standard Chartered's credit card. This category of credit card has limit Rs. 50,000 to 100000. Joining fee for this type is Rs.500, whereas annual fee levied Rs. 2000. In this type of Saadiq Visa card maintenance fee for service account is Rs. 2000.

- **Standard chartered Saadiq Visa Gold**

Saadiq Visa Gold is another type of the credit card series of SCB, which is issued to high prestige customers, having good credit history. It has credit limit from Rs. 100000 to 150,000. Its joining fee is RS.1000 Saadiq Visa card maintenance fee for the service account is Rs. 3000.

20. *Meeting held with Irfan Yasin on August 8, 2008 in his office at Associated Building, 5th floor The Mall Lahore*

- **Standard chartered Saadiq Visa Gold Plus**

Saadiq Visa Gold card plus is the forth type of credit card of SCB, which is issued to distinguished and high prestige customers, having good credit history. It has credit limit from 150,000 to 200,000. Its Joining fee is RS.1000 but annual fee is Rs 4000. In this type of Saadiq Visa card maintenance fee for the service account is Rs. 4500.

4.10 Business of Saadiq Visa card and its scope

The business of credit cards issued by the conventional banks, goes to millions in the world and in thousands in Pakistan and people are depending on the credit cards to fulfill the need of the customers, having not sufficient funds in their hands and this trend is rising day by day. On the other hand as far as the Islamic credit cards are concerned, which is introduced firstly by the Standard Chartered Pakistan Ltd in the name and style of Saadiq Visa Card has crossed the number fifteen thousands. Mr. Ayaaz Shoakat comments on the scope of Saadiq Visa Card in Pakistan, ⁽²¹⁾

“We Introduced Islamic banking in 2007 and presently we have twenty thousand customers dealing in Islamic banking, and fifteen thousands with the Saadiq Visa cards and all this achieved in almost twelve months of a year”

As far as the scope of Islamic credit card business is concerned, there is great numbers of people who have reservation on the use of credit cards due to the element of interest on conventional side and if they are extended a facility of Riba free credit

21. *Meeting with Mr. Ayaaz Shoakat, Asset manager Islamic banking Standard Chartered Pakistan NJI building 6th floor Karachi held on August 18.2008*

cards they may tend to it, subject to extending information's, knowledge and education to them. Mr. Ayaaz Shoakat further opines:

“We are expecting 10,000 (ten thousand) more Saadiq Visa cards members in the next six months since the people in Pakistan have great attraction to purely Shariah complaint credit cards”⁽²²⁾

He further states that

“Standard Chartered is the only bank which launched Islamic cards in Pakistan, and if some institution enter in the field, the business may multiply in days, and there is likely two or three more players in the market in near future as Dubai Islamic bank, Hong Kong Shangai and Royal Bank of Scotland (RBS) formerly ABN Amro”⁽²³⁾

On the basis of this analysis we may say that a Shariah based, Islamic credit card has great scope in Pakistan, with the condition more banking companies enter the market, creating Islamic banking atmosphere, through providing informations to the general public about the initiation of Islamic banking and Islamic cards is purely standing on Islamic Shariah's principles.

4.11 Saadiq Visa Card is a consequence of an agreement

Before coming to the agreement of Saadiq Visa card it is appropriate to discuss, what is the reason to launch Saadiq Visa Card, which is claimed to be in complete

22. *Meeting with Mr. Ayaaz Shoakat, Asset manager Islamic banking Standard Chartered Pakistan NJI building 6th floor Karachi held on August 18.2008*

23. *Ibid*

compliance of Shariah, the first of its nature in Pakistan? Why its scheme is structured on the concept of Ujra or Services Charges?

“In general, sources of Islamic Law start with the Holly Al Quran and Sunnah of Holy Prophet (S.A.W). These two sources are vital for other secondary sources to be delivered like Ijma, Al Masalih Al Mursalah, Istihsan as those secondary sources must be in the boundary of two primary sources”. Allah mentioned in the Holly Quran

“O you believe! Obey Allah and Obey the Prophet and those charged with authority among you. Of you differ in any thing among yourselves, refer it to Allah and his messenger, if you do believe in Allah and the last Day: that is the best, and the most suitable for final determination.” ⁽²⁴⁾

It is our deep-rooted conviction that we have the solution of all our problems in Islam and its Shariah, since it is a complete code, covering every corn and corner of life. If we do believe on this, then it is our duty to bring up the answers of all questions touching affairs of life.

In the new era of globalization, many financial transactions are not exactly the same as were practiced in the time of Prophet (S.A.W) financial products have developed by the change in technology and time. Peoples always try to innovate things that can make life better. This does not restrict to goods or services but concerns to financial inventions as well. The idea behind all developments is to ensure a comfortable life, which is also wish of Allah as evident in the following Ayyatt:

“Allah (swt) intends every facility for you; He does not want to put you to difficulties” (25)

Being the secondary sources of Shariah, Masalih Al Mursalah can be relied in case of business transactions if the same are suitable for the contemporary demands of present day life. The credit card, which is known as “Plastic money” is an easy mode of payments in today’s society, which were previously introduced by the conventional banks. As we see Islamic banking has been launched at different parts of the world, especially in Muslim countries, due to hectic efforts of Muslim Scholars. It has been a consideration of Muslim financial experts that credit cards may be used as product to attract customers through Islamic banking, who have deep hearted concern on their conviction. It has been the evolving idea of the scholars that rule of Masalih Al Mursalah can be applied in case of credit card transactions, which has become the majority view of the Jurists. It is believed by us that Allah wishes easiness in our lives but he has shown us the right way, and give us choice to adapt ourselves with new changes but coherent with the Quran and Sunnah and not repugnant to the injunctions of Shariah. According to the majority of scholars credit cards are permissible under Shariah, if it does not involve the element of usury, since, Allah (SWT) permitted sale but prohibited usury.

In the last few decades great achievements had been made by the scholars to develop Shariah based financial set up, which has been developed in an evolutionary form but we have the experience that efforts matching the target even in the west, where Islamic financial institutions and banks have been established. By a financial change in the Muslim world due to the sources of energy here, the considerable portion of

25. Sura Al-Baqara, Chapter # 2, Verse #185

world's capital comes into the hands of Muslims in Middle East and in the Far East. The need of a self sufficed monetary system was felt by every one than in the past, which is to be structured on the principles of Shariah.

Eventually some banks and financial institutions came forward and established Islamic banks with Islamic mode of finance and introduce Islamic financial products, this movement commences in Muslim countries but proceeds to the western capitalist giants, to collect their share.

For instance, “**Hussain Ahmed Al Qemazi** chief Executive officer of Sharja Islamic Bank says, Islamic banks offer asset backed finance where cash transactions and interest are avoided, in most ‘credit’ situations the bank buys the asset that could be a product or service on behalf of its customer, and the customer buys back the assets from the bank in installment. In case of personal loans and credit cards too such asset backed transactions are possible” ⁽²⁶⁾

The Standard Chartered Bank feeling the needs of people living in the Muslim countries, launched a credit card in the name of Saadiq Visa card, which is claimed as the first ever credit card based on the principles of Shariah, having no element of Riba at all. The Saadiq Visa card is structured on the concept of service charges or Ujra on the maintenance of Service Account open in case the full amount is not paid after the stipulated period on the use of Saadiq Visa card.

“Director and head of Islamic products with Standard Chartered’s Ghazanfar Naqvi explains;

‘Our model is the next step in the evolution of Islamic credit cards.
We charge an annual fee on the card, while the fixed account

26. *The article Credit cards: It is a long way for most local Islamic Banks, written by Babu Das Augustine published in Khaleej times on 6 November 2005*

maintenance fee is charged on the balance kept in a service account. This occurs when the full payment does not come when it is due and the balance is transferred to the service account meant for this purpose. No maintenance fee is charged on the service account if the balance is paid in full".⁽²⁷⁾

The scheme of the Saadiq Visa, rest on the structure of service charges, that becomes due in case the full outstanding amount is not paid in full, but if it is done, neither the Service Account activates nor any service becomes due. The whole scheme is formed on an agreement between the bank and cardholder; both the players follow the lines of the agreement and play within their own field. The bank provides services to the card member on pre-decided remunerations, whereas the individual card holder enjoys the benefit and facilities complement to the card and pay services charge, all this runs under an agreement.

"A customer with Islamic credit card is making a statement that he or she wants to enjoy the benefits of a credit card while staying close to their values. Islam does not prohibit enjoying the blessings of life, like owning a fancy car or traveling to places. Hence a solid card with a strong loyalty proposition built around it will go a long way making it a real success"⁽²⁸⁾

Some scholars are sharply point out that the mere signing on the dotted lines of a credit card agreement breaches Shariah law as an individual can never guarantee his or her future actions, the successful repayment at the end of each billing month can never be forecast. A credit card if serves as a charge card, where we only pay the

27. *The article Credit cards: It is a long way for most local Islamic Banks, written by Babu Das Augustine published in Khaleej times on 6 November 2005*

28. *Ibid*

principle amount that we use, plus the service charges, it is permissible. As it is discussed above that it can not be guaranteed by an individual to pay due amount till the fixed date, since it is a matter concerned with the future, and no one can predict in future, possibility can not be ruled out that an incident may happen beyond the control of an individual.

Islamic Shariah favors a contract or agreement, lawful in its essence, for the lawful purpose and by the lawful means with definite conditions. It means that the agreement should be for doing a lawful act, for the lawful object or purpose, and in a lawful manner, and for the most it should have the certainty. Standard Chartered offers a contract to its customers interested to become the member of a Saadiq Visa card on a specific application form, with detailed credentials. The format of contract is given in the next topic.

4.12 The Credit Cards and Islamic Mode of Contracts Applicable

To understand the nature of contract involved in case of Credit Cards, it is necessary to discuss the kinds of contracts prescribed by Shariah having application in case of Credit Cards. The mode of contract which may have some nexus here are Contract of Kafalah, Contract of Havalah, Contract of Wakalah, or Contract of Qaraz. Now we discuss these forms of contracts one by one.

Contract of *Kafalah*, literally the words Kafalah means joining and merging. Technically it is defined as merging of one liability with another in respect of demand for performance of an obligation.⁽²⁹⁾ Thus the liability of principal obligator is merged with that of the surety for the discharge of a pecuniary obligation or debt. According to this definition the creditor can demand his claim from the original

29. Marghinant, al Hadayah pp 317, 318

debtor or from the surety to perform the obligation, but it must keep in mind that the liability rest with the principal definitely. In contract of Kafalah there are five elements involved in the transaction, the surety (Kafil) the obligator (Mukful) the Creditor (Mukful Lahu) Subject matter (Makful Bihi and Offer and acceptance (Sighah). In this mode of contract it is necessary that the surety and obligator should present at the time of offer and acceptance and subject matter should be known to them specifically but in case of Credit Cards the Cardholder use the card at sale point but payment is made by the acquirer (Merchant's bank) then the issuing bank pays to the acquirer and the issuing bank receives the amount from the cardholder subsequently through monthly bills, here the parties involve are i.e. Cardholder, the merchant, the acquirer and the card issuer and they all are not present at the time of transaction and no offer and acceptance is performed spontaneously, so the contract of Kafalah does not work in case of Credit Cards.

The Contract of *Hawalah*. The word Hawalah is derived from Tahwil, which conveys the meaning of shifting a thing from one place to another. In the language of law it means "the shifting or assignment of debt from the liability of the original debtor to the liability of another person".⁽³⁰⁾ It can also be defined as substitution of one obligator for another with the agreement of the creditor. Here in Hawalah, the debtor who transfers debt is called muhil, the creditor muhal and the new debtor to whom transfer is made, muhal alayh (transferee). Imam abu Hanifa defines Hawalah as a transfer of debt, terminating the liability of the original debtor to a third person⁽³¹⁾ (transferee) while the his pupil Imam Muhammad defines Hawalah as the transfer of demand only while the actual burden of payment rests with the principal debtor.⁽³²⁾ There is difference of opinion between the jurist about the presence of parties at time of occurrence of agreement, according to the majority all parties i.e. debtor, creditor and new assignee is necessary but the Hanfi jurists are of the view

30. Zayla i. Tabyin al Haqa iq vol. 4 p. 1717

that the creditor and debtor are necessary and consent of new debtor is condition precedent for the lawful agreement.

If we apply contract of Hawalah in case of Credit Cards and we observe that the card holder use the card and merchant acquirer comes forward followed by the issuer and the issuer bank pays the used amount but no one make his appearance except the cardholder. The cardholder assigns his liability to the bank but at the same time bank never remains debtor of the cardholder, so that he is assigning his debt to the bank, whereas he is taking some kind of loan from the bank against some charge or fee and some time against the fine in case of default. In case of credit cards the transaction is completed in seconds and case of default by the cardholder the bank has to face the loss at the end but not the cardholder, the principal debtor. So the contract of Hawalah does not work in credit cards.

The Contract of *Wakalah*. Literally Wakalah means protection or remedying on behalf of others. Legally Wakalah refers to a contract where a person authorizes another to do a certain well-defined legal action on his behalf.⁽³¹⁾ An action performed by an agent on behalf of the principal will be deemed as action by the principal. It is a contract of agency which means doing any work or providing any service on behalf of any other. It is mandatory for principal to have power and competence to deal and own the property.

In case of Wakalah there are three parties to deal with, the principal, the agent and the person with whom the agent deals on principal's behalf. The main features of agency are service, representation and the authority to act for the principal. The agent must act in accordance with the instructions of the principal and exercise with due care and skill. If he is appointed to sell goods on behalf of the principal, he cannot purchase these goods as a buyer. Similarly, if the principal

31. www.financialislam.com/wakalah.html

restricts the agent to certain limits, the agent is bound to observe them. An agent appointed to engage in buying and selling activities or to pay and receive a debt is considered to be a custodian of the principal's property and in the fiduciary position of a trustee. And in the absence of any instructions to the contrary, an agent appointed to sell goods can sell them for cash or on credit only. An agent may obtain a certain wage for services rendered within the incentive structure of the principal. Banks normally charge fee for agency services rendered by them on behalf of their clients.

If we apply the Contract of Wakalah upon scheme of Credit Card, the bank performs as an agent of the principal, the cardholder and receives charges on the services provided to the cardholder. In Contract of Wakalah the agent is bound to act on the instruction of the principal but the principal does not watch towards the agent as in case credit cards, where the principal depends on the instructions of agent. In case of Credit Cards the cardholder has to follow the instruction of bank and if he ignores the instruction and commits default, he has to face consequences in the form of extra charges. Unlike the contract of Wakalah here in case of Credit Cards the agent serves his own interest rather to secure the benefits of principal. So in my opinion the contract of Wakalah does not apply on Credit Cards.

The Contract of **Qaraz**. It is permissible under Shariah by any person to take Qaraz in special circumstances but it is discouraged by our prophet (S.A.W).

It is narrated by Hazrat Aisha (Allah may please with her): *Allah's Apostle used to invoke Allah in the prayer saying, "O Allah, I seek refuge with you from all sins, and from being in debt." Someone said, O Allah's Apostle! (I see you) very often you seek refuge with Allah from being in debt. He replied, "If a person is in debt, he tells lies when he speaks, and breaks his promises when he promises."* ⁽³²⁾

32. Sahih Bukhari Hadith # 582

In an other tradition, it is narrated by Samurah (Allah be pleased with him):
The Prophet (peace_be_upon_him) said: The hand which takes is responsible till it pays. Then Al-Hasan forgot and said: (If you give something on loan to a man), he is your depositor; there is no compensation (for it) on him. ⁽³³⁾

Under Shariah the loan or Qaraz is given for the assistance of the acquirer to fulfill his needs to gain the pleasure of Allah (S.W.T) and no extra money or charges are received there from. It is recommended by the Shariah that in case of loan time to pay back should be extended time and again and leniency should be taken to deal with. But it is recommended that the repayment of loan should be made without delay.

Narrated Abu Huraira: Allah's Apostle said, "Procrastination (delay) in repaying debts by a wealthy person is injustice." ⁽³⁴⁾

Narrated Hudhaifa: I heard the Prophet saying, "Once a man died and was asked, 'What did you use to say (or do) (in your life time)?' He replied, 'I was a business-man and used to give time to the rich to repay his debt and (used to) deduct part of the debt of the poor.' So he was forgiven (his sins.)" Abu Masud said, "I heard the same (Hadith) from the Prophet." ⁽³⁵⁾

In Islamic Shariah the borrowing of loan or Qariz is disapproved, because it creates differences among the hearts of people.

33. Sahih Muslim Hadith #3555)

34. Sahih Bukhari Hadith # 585

35. Sahih Bukhari Hadith # 576

It is narrated by Abu Huraira: A man came to the Prophet and demanded his debts and used harsh words. The companions of the Prophet wanted to harm him, but the Prophet said, "Leave him, as the creditor (owner of the right) has the right to speak." (36)

In case of Qaraz there are only two parties involved in the transaction, the borrower and the lender, the former makes his demands to the latter and he fulfill the same, if likes. If we apply the contract of Qaraz on Credit Cards, we conclude that it can not apply here, since the element of interest, overwhelming fee and unjustified charges are involved in the usage of Credit Cards.

If the cardholder goes to the sale point and uses his card there, the issuing bank by the agreement with merchant acquirer extends loan facility to the cardholder but non present there except the cardholder, which is a missing constituent of Qaraz transaction. The cardholder is obliged to make full payment within the stipulated period and in case of default he is burdened with the charges, being the interest on the outstanding amount and that is not permissible in Shariah. So we may say the Qaraz contract does not apply in case of credit cards. In my opinion, the credit cards does not operate under any single mode contract as discussed above, they may work under a combination of Murabah contract and Wakalah or Murabah contract and Hawalah or Murabah contract Kifalah.

36. Sahih Bukhari Hadith # 586

4.13 Process flow of Saadiq Visa Card

The Saadiq Visa Card launched by the Standard Chartered is claimed as purely an Islamic credit card, based on the principles of Islamic finance, and in complete compliance with the Shariah, free from element of Usury or Riba (Interest) which is alien to Islamic finance, since it is prohibited in Islam.

Standard Chartered and their team of Shariah Scholars introduced an innovative scheme of credit card in the name of Saadiq Visa card with a innovative concept of “Maintenance fee” (service charges or Ujra) on the service account. According to this scheme if a Saadiq Visa Card member uses his credit card and he repays the full outstanding amount then he will not be liable to pay any fee whereas, if within prescribed stipulated period he can not return the full outstanding amount and repays only 5% of that amount, the remaining amount is transferred to Service account, which remains operative till the full realization of total outstanding amount and bank receives account maintenance fee, every month on the service account.

The scheme signifies that no interest or hidden charges are imposed on the holders of the card except the monthly service account fee in case the cardholder choose the second option of payment of the outstanding amount but if the card holder repay the whole amount, nothing is imposed on the cardholder.

Example:

“Suppose you have a Saadiq Classic Blue Credit Card with a limit of Rs. 100,000. You utilize entire card limit taking your out standing balance to Rs. 100,000 at the end of month. Now you have the option, either to pay the entire outstanding amount or pay only a minimum amount of the outstanding balance till the due date. In case you pay the entire outstanding amount Rs.100, 000 no extra charges will levy upon you. If

however you choose to pay any amount less than the total outstanding balance, suppose you pay minimum amount due (5% of outstanding balance) i.e. Rs.5000, the remaining outstanding amount of Rs.95000 will be transferred to your service account and an account maintenance fee of Rs.2000 will be charged”.

Standard Chartered issues the Saadiq Visa Cards to their valued customers and to those who are interested to avail the facility and there is no restriction by the bank that the applicants should be the account holder of the bank whereas any one fulfilling the prescribed criteria may apply for a Saadiq Visa Cards.

When an applicant applies for a Saadiq Visa card, which is a purely Islamic credit card, and he is issued Saadiq Visa Card, beside this a credit card account is opened in the bank in the name of the card holder, where the record of transactions made through credit cards is maintained same like in case of a conventional credit card. A cardholder of Saadiq Visa card when uses his credit card, the transaction comes on credit card account automatically and the record remains up dated in future but there is no more function of the credit card account.

A card member of Saadiq Visa card, after receiving his card from the bank becomes eligible to use Saadiq Visa Card according to the prescribed scheme of card, whenever he needs to use it, and he has to do nothing but to get activate the card from the bank and bank activates the cards after verification of the customer. The Saadiq Visa Card member can use the card, at the points of sale up to the credit limit.

a. Schedule of fee differentiates on classifications of cards

Under the Saadiq Visa card scheme, the cards are available in four classifications, with four different denominations having their own credit

limits. The Standard Chartered Bank charges number of fees on different facilities, it offers to its card members, but the basic fee which is charged in the heads of joining fee, annual fee, and supplementary cards fee (if applicable) are charged from every cardholder.

If we study the schedule of fee, issued by the Standard Chartered, exceptionally it seems very amazing. The analysis of fee schedule makes it clear that bank charges different fees from the different classes of Saadiq Visa cards according to their credit limits. Even the joining fee and supplementary cards annual fee varies according to their credit limit, although the facilities are same which bank provides to all cardholders, at the same time, in the same way, and on the same place, but bank charges different fee from different classes of cardholders subject to their credit limit. The differentiation of charges, depending on credit limit raises some questions about the scheme.

Below we give the details of Saadiq Visa cards fees schedule.

**Table of Joining Fee
No.T-7.1**

No	Class of Cards	Limits of Cards	Joining Fee	Supplementary Card annual fee	Maintenance fee
1	Classic	25000 to 50000	Rs.500	Rs.500	Rs.1000
2	Classic Blue	5000 to 100000	Rs.500	Rs.500	Rs.2000
3	Gold	100000 to 150000	Rs.1000	Rs.1000	Rs.3000
4	Gold Plus	150000 to 200000	Rs.1000	Rs.1000	Rs.4500

b. Annual fee on cards, according to their limits

Standard Chartered launched their credit card in the name of Saadiq Visa card in different classes or denominations. Saadiq visa cards are available in four modules, which are Classic, Classic Blue, Gold and Gold plus, with different credit limits and facilities. Cardholder can use Saadiq Visa card up to his credit limit and in exceptional circumstances even beyond credit limit.

At the time of issuance of Saadiq Visa card joining fee is charged from the cardholder, whereas after that only the annual fee is levied on Saadiq Visa card per annum, according to the table given bellow. We see that annual fee is charged on the Classic, Classic Blue, Gold and Gold Plus differently. It is stated that annual fee is charged in lieu of the benefits and facilities attached with the card and are availed by the cardholder through out the year and all over the world.

Here the question arises that all the cardholder becomes the member of Saadiq visa card on issuance of card and at the moment he enters in to the Club of Saadiq visa card members, he becomes entitle to the benefits and privileges attached with the cards whereas charging of annual fee on Gold and Gold plus cards in excess than the cardholder of Classic and Classic Blue cards is not understandable, because same facilities, same privileges and same providers but the charges are different, based on the credit limits of the cards.

As it is claimed that the Saadiq Visa card is developed on the principles of Islamic finance and it is incomplete compliance with Shariah than imposition of different annual fee on the basis of different credit limits of card raises

some doubts about the involvement of interest in the scheme. The subject will be evaluated latter on.

Table of Annual fee
No.T-7.2

No	Class of Cards	Limits of Cards	Annual Fee
1	Classic	25000 to 50000	Rs.2000
2	Classic Blue	5000 to 100000	Rs.2000
3	Gold	100000 to 150000	Rs.4000
4	Gold Plus	150000 to 200000	Rs.4000

c. Payments of bills

There is a billing section of credit card in Standard Chartered working for the payments of bills of credit cards and the customers of Saadiq Visa cards receive monthly bills from the bank about their transactions through credit cards. The Standard Chartered bank sends Saadiq Visa card's bills to their card holder on monthly basis, which shows the details of their credit cards transactions during the preceding month and indicating the due date and outstanding amount towards the cardholders.

In that bill the card holder is granted two options of payment, the full outstanding amount or minimum 5% of the outstanding amount but that second options brings some additional charges for the card holder which include late payment fee, service account maintenance fee and service charges etc.

d. Payment of Minimum 5% of outstanding amount compulsory

In case the cardholder of Saadiq Visa card uses the card, and makes any transaction through his Saadiq Visa card, after one month or so he receives intimation through bank that after stipulated period, he has to make the payment. Card holder has two options before him for the payment of bills in consequent of use of his credit card, Firstly he has the option to pay the full outstanding amount, he uses at the time of making the credit card transaction, up to the stipulated period, or otherwise as a second option he may choose to pay a minimum monthly amount of 5% of the outstanding balance and the remaining balance is transferred to a Service Account.

As it has been discussed above that Saadiq Visa card holder has two options for the payment of outstanding amount, pay full outstanding amount or only 5% of the outstanding balance, but when the card holder opts the second option and pays 5% of the outstanding amount through the bill, bank charges 2% as service charges from the card holder it means the card holder deposits $5\% + 2\% = 7\%$ of the total outstanding amount.

In case the card holder pays the total bill of the bank, bank does not charge any fee from the customer, but the card holder does use the second option he is liable to pay the services charges beside the account maintenance fee as enumerated earlier. In case the bills are regularly paid to the bank, the card holder has the privilege to enjoy all benefits and usages of card regularly without any interruption or breakage, in spite of part payment of minimum 5% of outstanding amount.

e. Opening of service account and maintenance fee

Under the Saadiq Visa card, the card holder after using the Saadiq Visa card and availing the credit facility, has two options before him firstly to deposit the whole outstanding amount till the laps of stipulated period, in this case he will not be charged any fee but if he chooses the second option and deposit minimum 5% of the outstanding amount through monthly bill, than on deposit of that bill which is 5% of the outstanding amount, a Service Account opens in connection with that Saadiq Visa card and remaining amount is transferred to that service Account. The service Account remains open till the realization of full outstanding amount.

The bank charges account maintenance fee on the service account from the cardholder according to the table given bellow.

Table of Maintenance Fee on Service Account

No.T-7.3

No	Class of Cards	Limits of Cards	Maintenance fee
1	Classic	25000 to 50000	Rs.1000
2	Classic Blue	5000 to 100000	Rs.2000
3	Gold	100000 to 150000	Rs.3000
4	Gold Plus	150000 to 200000	Rs.4500

The schedule of payment of maintenance fee shows that fee varies by the class of cards and its credit limit. If bank issues four classes cards than it levies charges by different ratio. There are Classic, Classic Blue, Gold and Gold Plus cards and bank takes Maintenance fee Rs. 1000, Rs. 2000, Rs. 3000, and Rs. 4500 from each class of card or cardholder. The Service Account maintenance fee is charged from the cardholder on the ground of services provided for maintaining the service account, and Service Account

remains open till the last payment of the outstanding amount. According to the bank authorities the Service Account maintenance fee is charged for the reason that the cardholder can use his card and avail related facilities inspite of the minimum payment of the outstanding amount, but he is entitle to use the card up to the remaining credit facility. We explain this issue with the following example

Example:

“If a person holds the Classic blue card, having credit limit of Rs.100, 000 and uses his card and avail his credit facility up to100, 000 and then decided to pay minimum 5% of the outstanding amount that is RS. 5000, then next time in future, he can avail the credit facility up to Rs. 5000 only till the payment of remaining amount”.

f. Maintenance fee charged on the basis of capacity of cards

Another point for discussion here before us is that the bank charges the Account maintenance fee from the cardholder on Service Account differently. Perusal of table No.T-7.3 shows that on Saadiq Visa Classic card, which has credit limit from 25000 to 50,000 the maintenance fee is charged Rs. 1000 only, whereas Saadiq Classic Blue has the credit limit from 50,000 to 100,000 and its maintenance fee is charged Rs.2000. In case of Saadiq Visa Gold the credit limit goes to 100, 000 to 150, 000 and the maintenance fee touches the amount Rs.3000, whereas the Saadiq Visa Gold Plus has the credit limit up to 200, 0000 and its maintenance fee is Rs.4500 only.

The chart illustrates that the Account maintenance fee varies with the credit limit of each card. As the credit limit rises up, the account maintenance fee also goes up at par with it. The question arises here that if it is maintenance fee on Service Account then the bank is giving the same service to the all cardholders, whether it is the Classic, Classic Blue, Gold or Gold Plus, then why the bank is charging the different fee against the same service providing to all four classes of cardholders. Standard Chartered's scheme of account maintenance fee on Service Account put some question marks.

g. Service Account Maintenance fee and 2% bank Services Charges

As we have seen that when the cardholder of Saadiq Visa card utilizes its credit facility and opts to pay the minimum payment of 5 % of outstanding amount then, if the card holder defaults in payment even the minimum amount and pays after due date, then bank takes 2% additional service charges from the cardholder / customer in the name Bank's Services Charges and these are taken of the outstanding amount. These 2% services charges are in addition to the maintenance fee on Service account and late payment charges. The account maintenance fee, bank's service fee and default fee are charged at the time of deposit of monthly bill of card. We explain it further by the following example;

Example:

“If a cardholder uses his card and avail his credit facility up to 10,000 and decided to pay minimum 5% of the outstanding used amount that is RS. 500, at the time of deposit of this 5% of the outstanding amount he has to deposit 2% of the outstanding amount as bank's services charges”.

Table of Maintenance fee and bank service charges

No. T-7.4

No	Class of Cards	Limits of Cards	Maintenance fee	Bank's Service Charges
1	Classic	25000 to 50000	Rs.1000	2%
2	Classic Blue	5000 to 100000	Rs.2000	2%
3	Gold	100000 to 150000	Rs.3000	2%
4	Gold Plus	150000 to 200000	Rs.4500	2%

h. Late payment charges

It has been discussed earlier that when the Saadiq Visa Card member does not pay the full outstanding amount, but pay only minimum due amount (5% of the total due amount) service account opens and remaining balance transfers to that account and maintenance fee is levied from the card holder, in respect of that service account, but in case of default, bank charges the default or late payment fee from the cardholder at the tune of Rs.650 p/m.

For maintaining the late payment fee a separate account is maintained by the bank, in the name of "Charity Account". The late payment fee is received from the cardholders and deposited in this account. The amount received in account of late payment fee is spent for charity purposes and these funds are not included in the income of the bank. This is a serious effort made by the bank to eliminate the element of interest from the credit cards business. The late payments are received just to make sure of the payments of credit amount by the cardholder rather than to earn profit or interest.

i. Charity account and its usages

For the late payment fee or default fee bank maintains a separate account which is charged from the cardholder in case of part payment of the outstanding amount, and this fee goes to that special head of account, known as "Charity Account" and the late payment fee or default fee is not included to the income of bank. The charity amount is spent on the charity matters, for the up lifting and welfare of the whole community.

j. Fee in case of cash advance through the Saadiq Visa card

The Saadiq Visa cardholder has the opportunity to draw 100% credit amount up to its limits to make it in his use for shopping, or other purposes. Saadiq Visa card can be used any where, especially where the Visa cards are accepted in the world. It is advantage for the cardholder to use the card whenever or wherever he feels any problem for finance. The SCB levies the Cash advance processing fee Rs.500 per transaction from the customer/Cardholder.

Under the principle of Shariah, a person can borrow money from any one to fulfill his needs and in such like cases it is not permissible for the lender to claim extra amount as profit in addition to the original amount and he is also not authorize to take the compensation against that lending. In the same way, the fee or compensation or service charges what ever may be the name of it, the same is not in line with the principle of Shariah, this creates some doubts in a sensible mind about the permissibility of scheme.

k. Allied services and charges

The card holder of Saadiq Visa card, after getting card becomes the member of the Saadiq Visa card club launched by the world renowned chain of bank, Standard Chartered. The Saadiq Visa card provides its holder not only the facilities like a conventional credit card but this is a unique card which is in complete compliance with the principles of Islamic Shariah, it is designed to avoid the element of Usury from a financial transaction. The Saadiq Visa card not only works on the line of a conventional credit card but it ensures the valued conviction of Muslims. The Saadiq Visa card provides such unique amenities along provides some other services and facilities, which makes this card unique or matchless card. Saadiq Visa card also provides Cash Advance processing fee, over limit process fee, Cash handling on foreign currency charges, foreign transaction charges, and card replacement fee.

1. Blockage of card in case of continued default

Beside the conventional cards, in Saadiq Visa card, if the card holder does not pay the monthly bill of the outstanding amount which is comprised on 5% of total amount used in the credit card transaction for two consecutive months, bank blocks the Saadiq Visa cards operations till the settlement of the matter with the bank and all this is the function of Credit Card Recovery Cell of Standard Chartered. If the Saadiq Visa card holder usually does not follow the schedule of the payments of the credit card and fails to pay the bills in time then he loses the confidence of the bank, and his membership of Saadiq Visa card may be cancelled.

CHAPTER 5

SHARIAH APPRAISAL OF SAADIQ VISA CARD

The Shariah appraisal of Saadiq Visa Card is only possible for us, first of all if we study the underlying contract working in its scheme. In this chapter our emphasis will be to investigate the underlying contract and then we will be in a position to discuss Shariah appraisal about its scheme. We will also point out short falls in the scheme, if found by us.

5.1 Saadiq Visa Card and the concept of Ujra or services charges

The Standard Chartered bank introduces their credit card in the name of “Saadiq Visa Card” which is based on services charges or Ujra. It means that the credit card with its credit facility and allied services is offered to the customer and if he has the card, then he has to pay to the bank, Ujra or Service Charges against the ‘Services’ provided by the bank. The bank names these “Services Charges” or “Ujra” as their legal charges and not interest or Riba. The Emirates Islamic Bank also structured its credit card in the name of Islamic card on the basis of Ujra or Service Charges. In the subject case annual fee in term of service charges is levied on the credit card, depending on the credit limit of the card. The card works similar to conventional credit cards, however with no interest or mark. It only charges annual fee which is payable in quarterly installments.

5.2 The Scheme of Saadiq Visa Card

First of all, before making analysis of the Saadiq Visa Card, it is better to take an overview of the scheme of Saadiq Visa Card and stand of bank over its subject product. Below we make the outlines of the Saadiq Visa Cards scheme. (next page)

According to the Standard Chartered bank authorities “Saadiq visa card operates on Ujra (Contract of Services Charges) concept which is based on ‘*fee structure*’ meaning that only fixed fee is charged from the customers. The card would not be levied with any floating % age fee, dependent on the outstanding balance. The customer would have the option to pay any amount less than the total outstanding balance (keeping minimum payment as 5% of the balance of a fixed amount whichever is higher) the remaining outstanding balance after the payment would transfer to his Service Account. A fixed monthly maintenance fee will be levied on the Service Account, only for the months, the customers has balance on his Service Account irrespective of the outstanding amount”.

Following features and Services make this card different rather distinguished.

- The card would not be levied with any floating % age fee dependent on the outstanding balance. The entire fee structure is based on fixed fee unlike conventional cards where fee is a percentage of the outstanding amount or transaction amount.
- Charges would vary for different types of card (Classic, Classic blue, Gold and Gold Plus), however would remain the same across the entire card type.
- If the customer fails to pay the minimum amount due by the Payment Due Date a fixed late payment charge will be levied, calculated on the estimated direct costs which shall be incurred by the bank as a result of such late payment.
- Any amount of the late payment charges which is in excess of the actual direct costs incurred shall be donated to a charitable cause approved by the Bank’s Shariah supervisory committee / Shariah advisors.

As it is stated earlier that Saadiq Visa card is available in four classes, which are Saadiq Visa Classic, Classic Blue, Saadiq Visa Gold and Gold Plus, with different credit limits and charges. In the following table we see the different classes of Saadiq Visa cards and their fee schedule for better understanding of this product.

Table of Cards & Fee

T-No. 8.1

No	Class of Cards	Limits of Cards	Joining Fee	Annual Fee	Service Account maintenance Fee, if minimum 5% is paid
1	Classic	25000 to 50000	Rs.500	Rs.2000	Rs.1000
2	Classic Blue	5000 to 100000	Rs.500	Rs.2000	Rs.2000
3	Gold	100000 to 150000	Rs.1000	Rs.4000	Rs.3000
4	Gold plus	150000 to 200000	Rs.1000	Rs.4000	Rs.4500

Under Saadiq Visa card scheme, the card holder with one of his Saadiq Visa card has the capacity to use his credit card (Saadiq Visa card) up to his credit limit, which may be, in case of Saadiq Visa classic up to Rs.50, 000, in case of Classic Blue Rs.100, 000, in case of Saadiq Visa Gold up to Rs.150, 000 and in case of Saadiq Visa Gold Plus the maximum credit limit ends with Rs.200, 000. The cardholder may purchase, dine or withdraw money with his credit card. The cardholder has stipulated period of 54 days to deposit the outstanding used amount, within this grace period, and if the cardholder choose this way then he will pay only the outstanding amount but if the cardholder opts to pay partial amount which he has to deposit minimum 5 % of the outstanding amount, then the remaining balance of the cardholder will automatically transfer to the Service Account, which is opened in connection with the card and its holder, the minimum amount is intimated to the cardholder through bill by the bank. In case the cardholder deposits minimum 5 % amount, the Service account opens the bank charges maintenance fee from the cardholder on the service account, as shown the table of cards, which varies with different classes of cards,

less the credit limit of card then lesser the Service Account maintenance fee, high the credit limit then higher the Service Account maintenance fee.

The fee is charged for the following services provided to the cardholders

- Maintenance of Service Account
- Continued usage of card
- Benefits and privileges attached with the card

Beside this bank levies 2 % extra bank service charges from the cardholder of the outstanding amount, in event of second option of depositing minimum amount. In case the cardholder does not deposit the due amount or minimum within due stipulated time then bank receives Rs.650 as late payment charges or default fee.

5.3 Analytical study of Saadiq Visa Card scheme

If we adopt an analytical approach towards the scheme of SVC, it works on the concept of Ujra or services charges. The Bank and its Shariah committee claim the elimination of interest from their scheme. It is stated that bank puts no interest or hidden charges on the use of Saadiq Visa credit card; it is interest free and Halal card. Bank issues Saadiq Visa Credit Card to the Cardholder with its full use and benefits and he may use the card through out the year and in return bank charge annual fee from the member for holding the card and no fee or services charges are received from the member if he repays the used money within the due date for the payment, but if he does not pay the outstanding amount and pay only a part of payment minimum 5 % then bank opens a service account and balance from the outstanding amount is transferred to that account. On the service account bank charges the maintenance fee, which are levied on maintaining the service account, where the outstanding amount of the cardholder remains partly unpaid after

depositing the deposited amount. In spite of part payment of the cardholder he can use his card in future up to its credit limit and can avail the related benefits and privileges.

Bank gives the fixed fee or services charges schedule to the cardholders and these charges are not considered as the interest, because these are the consideration of those services provided to the cardholders attached with the card, even after part payment of the outstanding amount. The bank receives the fixed service charges irrespective of the outstanding amount towards the cardholder, but not the floating %age fee dependent on the outstanding balance, which is practiced in case of conventional cards, being the main component of interest based transactions.

The late payment fee is charged by the bank if the cardholder fails to deposit the due amount on the due payment date and that is also called the default fee, calculated on the estimated direct costs, incurred by the bank on opening and maintaining the service account as a result of such late payment. For the late payments a separate charity account is maintained by the bank, and it is not made part of the bank income rather after one year this calculated amount, after deducting the expenses incurred on the late payment, is used on the charity project for the public welfare.

According to the bank sources the Saadiq Visa card under the Ujra or services Charges scheme is totally Islamic and Shariah compliant, free from the interest (Riba) element, structured on the fixed fee module. "Director and head of Islamic products with Standard Chartered's Saadiq Visa Ghazanfar Naqvi, explains, our model is the next step in the evolution of Islamic credit cards. We charge an annual fee on the card, while the fixed account maintenance fee is charged on the balance kept in a service account. This occurs when the full payment does not come when it is due and the balance is transferred to the service account meant for this purpose.

No maintenance fee is charged on the service account if the balance is paid in full”⁽¹⁾

It is equally important to study, the contract working in the scheme of Saadiq Visa Card, its form, scheme and operation. To get appraisal of Shariah regarding the scheme of Saadiq Visa card detail study of underlying contract is essential. In the following lines we study the underlying contract over which the Saadiq Visa Card is actually based.

5.4 The underlying contract of Saadiq Visa Card

It is stated that the Saadiq Visa credit card is working on the concept of Ujra or services charges. It means that the services which are provided to the customers are levied with charges, irrespective of the amount used. This is the general idea attached with the scheme of Saadiq Visa credit card, it means the services charges on the services provided.

In this way the charges which are taken against the services and not on the loaning amount provided for purchase of commodities or services, so that can not be termed as interest. The concept of services charges mainly concerned with the process flow or operational working of the scheme but it has no rather least connection with the relations between the customer (cardholder) and the institutions (issuer of card).

When a business transaction takes place between the parties two or more, it comes out on some terms and conditions. The parties lay down rules of business and regulations to set their liabilities. In the same way in case of credit cards the parties enter into a contract to give effect to an understanding between them, to determine their liabilities arise on working of credit cards agreement.

1. *www.zawya.com Islamic credit cards getting notice. This article appears in the September 2007 issue of Money Works magazine @ UAE MONEY works 2007 accessed on 3.10.2008*

In the same way the Saadiq Visa credit card is issued to a customer in consequence a contract between the bank and the cardholder. The customer acts as agent of the institution, the principal and the contract is comprised of two consecutive agreements, the one contract of agency and the other one is sale contract. In this part of research we will explore that what settlement the parties go through at the time of signing of application form and what kind of contract becomes working underlying that understanding.

In case of credit cards the institution and the customer too enter into an agreement which structures building of relationships based on some terms and conditions between them. The contract between institution and customer is a unique agreement, unique in the sense that it is a combination of two multifarious agreements. In first agreement the customer and the institution enter into an agency contract, in this contract the customer performs as agent of the institution, the principal, and the second agreement takes place between both of them, being a sale agreement. In former case the customer being agent of institution go to market and purchases some commodity or services on its behalf and payment is made by the institution, in the latter case the agreement takes place between the institution and customer where the customer buys that item from the institution on credit, and he pays back the credit amount to the institution in installments with pre agreed conditions. In credit cards contracts both these agreements take place simultaneously after one another, and one following the other.

In following we will discuss the contract of agency, the contract of agency in Islam (Wakalah), its concept, performance of agency contract, obligations and liabilities of agents and principals there from.

Under section 182 of contract Act:-

“Agent” and “Principal” defined. An “Agent” is a person employed to do any act for another or represent another in dealing with third person. The person for whom such act is done, or who is so represented is called the “principal”.⁽²⁾

In Islamic Fiqh “Wakalah is to substitute an agent for the principal to perform on his behalf that principal an act, which admits of representation. It creates a fiduciary relationship that exists between two persons, one of whom expressly or impliedly consents that another should act on his behalf. The one on whose behalf the act is done is called the principal (asil) and the one who is to act is called agent (wakil)”⁽³⁾

There are so many traditions of Prophet (peace be upon him) about the appointment of his Wakil and delegation of his authorities to his companions to perform some acts on his behalf. There is a precedent of Hazrat Ali (r a t w a) is reported to have appointed Aqil for management of his lawsuits and when Aqil became old, he was replaced by another agent Abl Allah ibn Ja’far.

In contract of agency the obligations and liabilities of both the parties should be obvious, and limits should be specified. The agent is authorized to do a specific duty, which is assigned to him, and he is obliged to perform only that act. If agent exceeds his limits, he transgress the contract and he does an act against his authority and suffers some damages, the principal will not be responsible but he himself has to face the consequences personally but he goes beyond his authority than both will be held responsible.

In credit cards contract the institutions and the customers enter into agency contract, as well as the sale contract. The banking institution and the customer realize their duties

2. *The Contract Act 1872*

3. *Zaydan al-Mudkhal li Dirasah al- Shariah al-Islamiia*, p338: Muhammad Mustafa, Shalabi, al- Madkhal li Dirasah al-fiqh al-Islami, Beirut: Dar Al-Jami’at, 1985, p.339

duties, arising out of their contract consecutively. The customer in first step performs his duty as agent of institution i.e. banking company and purchases the required item on behalf of bank and the bank sell it out to the customer by paying to the merchant. Although we do not find a formal agency and sale agreement between institutions and customers but their rights and liabilities suggests agency as well as sale contract impliedly. In Saadiq Visa credit card scheme the institution and customers execute the contracts in the same way.

5.5 Shariah's appraisal of Saadiq Visa Card

There is a big dilemma, for Muslims to use or not to use the credit cards. To some Muslims, it is acceptable if certain conditions are complied and to some these are by no means Islamic. Some Islamic banks have structured the schemes and have developed the modules and claim them as the "Islamic and Shariah compliant". However there is a large group which considers these cards as no less different from the conventional ones.

According to the Standard Chartered Bank the purpose of offering Saadiq Visa Credit Card is to facilitate Muslims to have access to a Credit Card facility designed in accordance with the principles of Shariah. Following are the details of the product structure.

Under the Saadiq Visa card scheme, the card holder with one of his Saadiq Visa card has the capacity to use his credit card (Saadiq Visa card) up to his credit limit, which may be, in case of Saadiq Visa classic up to Rs.50, 000, in case of Classic Blue Rs.100, 000, in case of Saadiq Visa Gold up to Rs.150, 000 and in case of Saadiq Visa Gold Plus the maximum credit limit ends with Rs.200, 000. The cardholder may purchase, dine or withdraw money with his credit card. The cardholder has stipulated period of 54 days to deposit the outstanding used amount, within this grace

period, and if the cardholder choose this way then he will pay only the outstanding amount but if the cardholder opts to pay partial amount which he has to deposit minimum 5 % of the outstanding amount, then the remaining balance of the cardholder will automatically transfer to the Service Account, which is opened in connection with the card and its holder, the minimum amount is intimated to the cardholder through bill by the bank. In case the cardholder deposits minimum 5 % amount, the Service account opens the bank charges maintenance fee from the cardholder on the service account, as shown the table of cards, which varies with different classes of cards, less the credit limit of card then lesser the Service Account maintenance fee, high the credit limit then higher the Service Account maintenance fee.

Beside this bank levies 2 % extra bank service charges from the cardholder of the outstanding amount, in event of second option of depositing minimum amount. In case the cardholder does not deposit the due amount or minimum within due stipulated time then bank receives Rs.650 as late payment charges or default fee.

The receiving of Ujra or Service Charges on lending or borrowing of money is not recognized in Shariah rather it is prohibited. We have so many precedents from Qurran and Haadith, where it is declared Harram to take back from the borrower, more than the actual principal amount.

In Surra Al Imran, it is narrated:

“O believers! Take not doubled and redoubled interest and fear God so that you may prosper” ⁽⁴⁾

At the time of Haja tul Widdah, Holy Prophet Muhammad (S.A.W) stated:

"Narrated Amr ibn al-Ahwas al-Jushami: I heard the Apostle of Allah (peace_be_upon_him) say in the Farewell Pilgrimage: "Lo, all claims to usury of the pre-Islamic period have been abolished. You shall have your capital sums, deal not unjustly and you shall not be dealt with unjustly".⁽⁵⁾

According to Islamic Shariah, money wealth or capital is not a commodity or article of trade, whereas it is only a medium or source to exchange our required things, which is given in exchange in the equal value and not more than this. Under Islamic finance labour and work are the main elements which bring a business activity within the ambit of Shariah. For good understanding of this concept, we may say that the money, wealth or capital remains of the same value unless and until the labour is not included by the owner or in case of Mudarba or Musharakah by the other partner and a business activity takes place and profit is earned, subject to any loss if occurs. Here the labour or work is the core element which makes the difference between the principal amount a person already had and the amount he earns after the business activity. If a person lends some money to any other person and after a stipulated time get back his principal amount along with some added one as rent, profit or charges of use of money that are received without doing any labour by the owner and participation of risk of loss so it is not permissible in Shariah, but if the owner lends his money to the borrower for business purposes and also participates as an partner on profit and loss share basis, the activity will be according to Shariah. To analyse the scheme of Saadiq Visa card, and element of interest, it is important to study the basic teachings presented by the Shariah about Riba. In the following we see the Shariah's stand about Riba.

5.6 Shariah's stand on Riba based transactions

⁴ Al-Qurran, Sura Al Imran verse 130

⁵ Sunnun Abu Daud (Book #22 Hadith #3328)

There is no place of Interest or Riba in Islamic finance. Islamic economic system stands on the principles laid down by the Islamic Shariah. The prohibition of Riba or interest is the central feature of Islamic finance. Islam is against Interest so it disapproves the taking and receipt of interest, which ruins the societies. Allah (S.A.W.T) declares war against those who earn interest. *“O You who believe! Fear God and give up what remains of your demand of Usury, if you are indeed believers. If you do it not, take notice of war from God and his apostle, but if you turn back you shall have your capital sum”.*⁽⁶⁾ Interest is not permissible, but it is declared unlawful because it shakes the foundation of a society and creates great injustices, making the poor poorer and the rich richer.

The word Riba means excess, increase or addition, which correctly interpreted according to Shariah terminology, implies any excess compensation without due consideration⁽⁷⁾

In Shariah, Riba technically refers to the “premium” that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for extension in its maturity. The literal meaning of Riba is absolute excess, whether it is in the thing itself or with respect to another thing besides it.⁽⁸⁾

The meaning of Riba varies in the law, because of the determination of its implications within different schools, as to what falls under this word. The definition that stands out is the ones given for Riba by the Hanafis and the Shafiis. Some of the Hanafis define it as “the excess that lacks a counter-value in sale.”⁽⁹⁾ There are other Ahnaf, who define both types, *al fadl* and *al-nasi'ah*. They define *riba al-fadl* as,

6 Sura al-Baqara, Chapter # 2 Verse # 279

7. PLD 1992 SC 1 and MEEZANBANK'S GUIDE TO ISLAMIC BANKING, Dr. Muhammad Imran Ashraf Usmani

8 .The theory of Prohibited Riba by Imran Ahsan Khan Nyazee

“the excess stipulated in sale in the corpus of wealth on the basis of a legal standard, which is measure or weight.” They define *riba al nasi’ah* as “the excess in the period over immediate exchange, and the excess of the debt over the thing in measurable or weighable items when there is a lack of unity of species, or in things that are neither measured nor weighed when there is a unity of species.” The Shafi’is define it as “a term for the comparison of one counter-value with another that is specific, but whose likeness according to a legal standard is not known during the contract, or when there is delay in the [exchange of the] counter-value or one of them.” (They intend to define *riba al fadl* in the first part and *riba al nasi’ah* in the second part, which is also *riba al-yad* in their view) ⁽¹⁰⁾

In this sense, *Riba* has the same meanings and importance as interest in accordance with the consensus of all the *fuqaha* (Jurists) without any exception. All Muslim scholars are in agreement that this prohibition extends to all forms of interest and there is no difference between interest-bearing funds for the purposes of consumption or investment, because *Shariah* does not consider money a commodity for exchange. Instead, money is a medium of exchange and a store of value. ⁽¹¹⁾

The basic and primary sources of *Shariah* are *Qurran* and *Sunnah*, which are followed by the consensus of jurists and interpreters of Islamic law, whereas the secondary sources are the practice of companions, consensus among the jurists, analogy etc, but the basic sources of Islamic *Shariah* are very much clear about the prohibition of *Riba*. Money is not considered a commodity in Islamic *Shariah*, which can be sold or purchased; rather it is used as a medium for exchange of commodities. According to the Islamic principles of finance, any person who wants to earn profit from the money, has to participate in the business transaction, which may be just

9. *Al-Sarakhsi, al Mabsut, vol.12, 109*

10. *the theory of Prohibited Riba by Imran Ahsan Khan Nyazee*

11. *Developing a financial model for Islamic Credit Card for U.K" by .Adil Manzoor Bakhshi*

investment but that will not be just lending the money on the condition of repayment of principal amount along with the profit, but the lender makes a partnership with those, who participate by the skill and labour. Here the element of risk plays a pivotal role, distinguishing the Islamically approved transaction from the interest based transaction.

To analyse the scheme of Saadiq Visa card, and element of interest, it is important to study the basic teachings presented by the Shariah about Riba. In the following we see the Shariah's stand about Riba;

Now we turn to primary sources, The Qurran and The Sunnah (Haadith) which are very clear about Interest

5.6.1 Riba in the Quran

- *"God destroys Riba but makes alms prosper."* ⁽¹²⁾
- *"Allah has permitted trading and forbidden Riba, so whosoever receives an admonition from his lord and stops eating Riba, shall not be punished for the past; his case is for Allah (to judge); but whoever returns (to Riba) such are the dwellers of the fire---they will abide therein."* ⁽¹³⁾
- *"O You who believe! Fear God and give up what remains of your demand of Usury, if you are indeed believers. If you do it not, take notice of war from God and his apostle, but if you turn back you shall have your capital sum".* ⁽¹⁴⁾

12 Sura al-Baqara, Chapter # 2 Verse # 276

13 Sura al-Baqara, Chapter # 2 Verse # 275

- *"That which you give in usury in order that it may increase on other people's property has no increase with Allah, but that which you give in the charity seeking Allah's pleasure, has increase manifold"⁽¹⁵⁾*
- *"O believers! Take not doubled and redoubled interest and fear God so that you may prosper"⁽¹⁶⁾*

5.6.2 Riba in the Sunnah

- *Beware! All Riba of pre-Islamic era is annulled and the first claim of Riba which I cancel is that of my uncle"⁽¹⁷⁾*
- *It was narrated that Abd-Allah ibn Masood (May Allah pleased with him) said: The Messenger of Allah (peace and blessings of Allah be upon him) cursed the one who accepted usury, the one who paid it, the witness to it, and the one who recorded it."⁽¹⁸⁾*

From Jabir (May Allah pleased with him) who said, "The Messenger of Allah, (peace and blessings of Allah be upon him) cursed the one who charges Riba; he who gives it; the one who records it; and the two witnesses; saying that 'they are all equal'"⁽¹⁹⁾

- *Ubbada Ibn Samit said; The Messenger of Allah (s.a.w.s) said: Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt, like for like, in equal weights, from hand to hand. If those species differ*

15. Sura Al- Rome Chapter# 30 Verse # 39

16. Sura Al Imran Vers No.130

17. Sunnun Abu Daud. Book #22, Hadith #3328

then sell as you like as long as it is from hand to hand” ⁽²⁰⁾

Simply we may say that under Islamic Shariah, it is not permissible to earn profit on the money, since it can not be exchanged, but it can be used as means of exchange. If one lends money to other, then he cannot claim any thing extra in its return but he may take the same. Islam does not encourage its followers to lay hands to others but the Holy Prophet (peace be upon him) discourage such practices. In a Hadith, Hazrat Jabar bin Abdullah (may Allah pleased with him) reports that Messenger of Allah (peace and blessing of Allah upon him) said; *“All the sins of a martyr are forgiven except his debts”* ⁽²¹⁾

In another Hadith, reported by Salma bin Al-Akwa, it is narrated Rasulullah (peace and blessing of Allah upon him) refuses to perform the Jannaza Salat of such people who had died owing debt without leaving sufficient wealth to discharge it. ⁽²²⁾

The prophet (peace be upon him) condemned not only those who take Riba, but also those who give Riba and those who record the transaction or act as witnesses to it. Narrated Abdullah ibn Mas'ud: The Apostle of Allah (peace be upon him) cursed the one who accepted usury, the one who paid it, the witness to it, and the one who recorded it. ⁽²³⁾

The one who takes Riba is cursed, and has been informed about the severe punishment. Allah (S.W.T) Himself promised to make increase in trade and to destroy the Riba.

20 *uslim Sahih, kitab-al-Musaqat, Bab al Sharf Hadith No.1587 Vol.3 p1211)*
21 *ahai Bukhari Book No.41 Hadith No.580*
22 *Sahai Bukhari Book No.37 Hadith No.488*
23. *Sunnun Abu Daud, Book #22, Hadith #3327*

"God destroys Riba but makes alms prosper".⁽²⁴⁾

Dr. Monaer Kahf in live Fatwa on dated August 8, 2001 said "Signing a credit card contract and using it in a way that generated payable interest is haram. It is then borrowing on interest. Signing the contract, using it, and making the payments within the grace period and making no cash advance is permissible, because it amounts to a contract that gives you a choice to deal or not to deal with interest."⁽²⁵⁾

5.7 IS Saadiq Visa Card working in accordance with the principles of Shariah?

We know very well the uses of credit cards, and also aware about the arguments advanced by the different corners, as they enable a person to make large purchases by allowing them to spread payments over a period of time, carrying cash can be dangerous as he can be robbed. Sometimes card is prerequisite for transactions as in internet purchases. The problem for Muslim consumers is that the whole concept of the conventional card is unIslamic on religious grounds. Interest payments made when the outstanding balance is not repaid in full are Riba payments, and therefore forbidden in Islam. But contrary to this, different arguments are forwarded which says that there are various grey areas of interpretations that enable some Muslims to believe that credit cards usage can be done within religious beliefs by paying off the full outstanding balance by every billing month and never rolling over any balance to next statement period and avoiding the cash withdrawals. According to them, by not carrying any outstanding balance to next billing period and avoiding cash withdrawals, Riba can be

avoided and thus using a card in this way could be hallal. In our subject study, we will watch over the functioning of SCB Visa card only, and to expose any shortfall etc.

Now we take the central point of our study, and that is analyzing the working of Saadiq Visa Card. Here in this work author is concerned to see whether the Standard Chartered's Saadiq Visa card is working in compliance with the principles of Shariah or just another kind of conventional card under the Islamic banner. To evaluate the working and operation of a credit card, we have to judge the form and spirit of a credit card contract.

Previously we have briefly discussed the working of Saadiq Visa card and the Shariah's point of view about the Riba. We see there is not place of interest or Riba in Islamic finance. It is condemned by the Creator of this universe in such severe words, that it is called waging of war with Allah and His Messenger (P.B.U.M) The prohibition of Riba extends to its all forms, whether it is about the trade, business, investment, or for the purposes of consumption. To resolve our moot point, it is necessary to take contract first and discuss its implication and spirit.

5.8 Some short falls in the scheme of Saadiq Visa Card

The Saadiq Visa card is allegedly declared by the bank an Islamic Credit Cards working in complete compliance of Shariah, free from interest or interest based charges. It is also claimed that Saadiq Visa Card is the first and only Islamic credit card in Pakistan. The analysis of SVC scheme, its working, the fee structure and charges received by the bank invite attentions to some short comings in the scheme, which are discussed in the following Paras.

5.8.1 Contract of Service charges (Ujra contract) of Saadiq Visa Card

The major factor in a credit card transaction is the contract, which distinguishes a Riba based transaction from the Riba free one. We have discussed that Saadiq Visa card by the Standard Chartered Bank, is based on Service Charges contract. It means that SCB provide a Credit Card to its customers, with attached benefits and usages for the cardholder and bank receives some services charges against these services. If the cardholder does not pay off the outstanding amount till the due date bank opens a Service Account in the name of cardholder and levies account maintenance fee on the Service Account. Bank does not consider such charges Riba or interest based charges, since the customer can use the card for the remaining credit limit and can avail the attached benefits and privileges and account maintenance is the fee rendered by the bank to its valued customers.

A deep analysis of subject scheme shows that the case is not as simple as assumed by us. From the very beginning, bank starts taking such charges which are not just charges. These are excessive in value. These vary with types of card with specific credit limit, and credit limit of money attached with the card governs the fixation of fee, which plays significant role in determination of interest in Riba based transactions, which creates suspicions about this card.

On the other hand when the cardholder makes use of the card and avails his credit facility, after a week or so he receives intimation from the bank, stating the credit card transaction and schedule to repay the outstanding amount. Here the cardholder is granted two options, to pay off the full outstanding amount or to pay partial or minimum 5% of the outstanding amount, whichever is the less, and if the card holder opts to pay the minimum amount his balance amount is transferred to the Service account, which opens in this

automatically. On the eve of opening Service account and transfer of balance to it, bank starts taking the Account maintenance fee on Service account, which too varies on the type of the card according to their credit limit attached with the card and bank receives account maintenance fee till the realization of total balance.

The story does not finish here on this juncture but bank takes 2% (which are actually up to 3.7%) of the outstanding amount in the name of financial or administrative charges, but we may call them late payment charges, which come out due to delay of payment and these charges are added to the outstanding amount in each monthly billing, which is a form of compound interest.

The plain reading of this scheme, makes it clear that the Service Charges Contract of the Saadiq Visa Card (credit), which is entered at the time of awarding card is a interest based agreement, and the cardholder is obliged to pay the interest based charges in consequence this agreement, which is prohibited in Shariah and not permissible. Apparently it is alleged that the scheme of Saadiq Visa card is interest free, and for the attraction of customers it is claimed as structured on the service charges only and nothing is received from the card holder except the prescribed annual fee, which is charged against the services provided to the cardholders, but as soon as the card holder defaults, the masked provisions of Riba based contract activates and conditional as well as hidden charges are imposed on the cardholder, in the name of service account maintenance fee and financial charges. The delude provisions of credit card contract and its working makes the scheme questioning bitterly. It appears that Saadiq Visa Card is superfluous effort of SCB team, comprised on financial experts and scholars for just masking the Riba (interest) with services fixed fee structure.

Below we see what is the jurist's opinion and verdict of Fuqah about a credit card contracts and working of credit card. If fee is charged in terms of services charges, financial charges or late payment charges, then its implications on the contract in Shari prospect. Here we quote Fatwas issued by different recognise Muslim scholars about the credit card contracts, credit cards transactions and financial charges levied on credit cards, which apply Saadiq Visa Credit Card but not issued on this card but these are basic principles set by the Muslim jurists about the validity (legitimacy) of credit cards and credit card's transactions.

“Shaykh Ibn Uthaymeen (may Allah have mercy on him) argues that a contract of this type is not permissible, because it involves Riba which is the price of the card, and it also means committing to pay interest if payment is delayed. In another he issued he states that credit cards transaction is Harram, because the one who enters into it commits himself to paying Riba if he does not pay on time. This is an invalid commitment, even if he believes or thinks it most likely that he will pay it before time is up, because circumstances may change and he may not be able to pay it off, due to traveling, forgetting and so on. This a matter that is in the future and no one knows what will happen to him in the future, so dealings of this type are haram”.⁽²⁶⁾

Dr. Imran Usmani, a well-known Scholar and a Shariah advisor at Al-Meezan bank Pakistan is of the opinion that the interest charged on the card users, when there is late payment is non- Islamic.” The premium charged constitutes Riba”.⁽²⁷⁾

26. <http://www.islam-qa.com> retrieved on 25.2.2008

27. “Developing a financial model for Islamic credit card for U.K” by .Adil Manzoor Bakhshi retrieved on 19.7.2008

“Sheikh Muhammad Salih Al-Munajjid in a answering to question issued his verdict and said “The user enters into a contract with the bank which means that he is obliged to pay interest if he delays payment. This is also haram, because it is not permissible for a Muslim to commit himself to doing something that Allah has forbidden”.⁽²⁸⁾

“Shaykh Ibn Uthaymeen held in another Fatwa that It is not permissible to use credit cards that stipulate payment of interest even if a person intends to pay it off on time, because it is not permissible to approve of Riba or enter into a contract that includes it”⁽²⁹⁾ And again he confirmed it that “the user enters into a contract with the bank which means that he is obliged to pay interest if he delays payment. This is also haram, because it is not permissible for a Muslim to commit himself to doing something that Allah has forbidden”.

“On the other hand Dr. Monzer Kahf, a prominent Muslim economist describes the credit card as a new invention and Muslim Scholars define it as either a guarantee given by the issuer to the seller who accepts it or as a transfer of the debt by the debtor to another party, the issuer. Hence it falls within the permissible transactions. However there are two problems, one for the issuer and the other for the user; this relates to the fact that the contract here usually contains an interest article if payment is delayed and if cash is withdrawn. Issuing such a credit card provides convenience and removes hardship. He has wished that the interest condition is not inserted in the contract, but unfortunately in most countries there are no Islamic institutions that issue such cards, and even those cards issued in some countries are not

28. <http://www.islam-qa.com> retrieved on 25.2.2008

29. *Ibid*

really satisfactory because they are limited in scope and usability. In other words you are not signing a loan contract with interest but you are signing a loan contract that gives you the choice to make the interest applied or not. Consequently, if you know for sure that you can use it without incurring any interest you make the interest clause useless and it is permissible to sign such a contract and use the card”.⁽³⁰⁾

If the Saadiq Visa card is accused in the above discussion due to the involvement of Riba based charges in the scheme, then it is less than worthy to develop a better understanding towards the services fee structure of this card. Its fee structure is set in such a way that it seems very convincing and in line with believes of Muslims and Shariah but a deep study makes this scheme questioning.

5.8.2 Fee Structure of Saadiq Visa Card

If we carefully study the fee structure of Saadiq Visa card, we come to know that SCB levies number of fees on different facilities offered to the cardholders. All kind of fees which are charged by the bank are different on different classes of cards, which varies by the credit limits, low the credit limit, less the fee will be which increase with the increase of credit limit of card, simply we may say that fees correspond with the credit limit of the card, whereas the bank provide the same services to each class of cardholders.

5.9 Critical Analysis of Complete Scheme of Saadiq Visa Card

Below we discuss the fee structure of Saadiq Visa card according to their heads and categories.

30. *“Is it allowed to use credit cards?” by Dr. Muhammad Kahf (Fatwa Bank) retrieved from Islam online on dated 12.12.2009 www.islamonline.net/servlet/Satellite?pagename=IslamOnline*

5.9.1

Joining and annual subscription fee:

When a person applies for a Saadiq Visa card, and he is granted membership, the bank receives a registration fee from the applicant, and this registration fee is taken from the cardholders once, but the registration fee has been divided in to two categories. The member with Classics (Classic and Classic blue) is registered with Rs.500 and Golds (Gold and Gold Plus) are registered with Rs.1000, as shown in the table of cards and their fee No.8.1. On the other hand, the annual subscription fee of all kinds Saadiq Visa card is unlike, which varies with the credit limit of cards, classics are charged with Rs.2000 and Golds are charged with Rs.4000 annually.

As far as the annual subscription of cards is concerned, it is the cost of the card which is charged from the cardholder, who hold the card through out the year, whether he uses or avail its related benefits and privileges or not. The annual subscription fee or cost of the card correspond with the credit limit of each card, the card with less credit limit is charged with low cost but a credit card with high credit limit is costly, it means the bank is charging the card according to its credit limit or amount which can be availed through this card and annual subscription fee is the cost of amount attached with the card.

Sheikh Muhammad Salih Al-Munajjid in a Fatwa issued by him says that the cost of the card is a kind of Riba which the user pays to the bank, and this Riba is paid by the user whether he pays on time or not. The bank lends money to the user in return for interest, and this interest is the price of the annual subscription to the credit card.⁽³¹⁾

Shaykh Ibn Uthaymeen, in an answer to a question, that what is the Islamic stand about credit cards? Said, that the use of credit cards for purchasing goods and then paying the price of purchasing by installments to the bank or the

authorities that issue the card is, in fact a form of loan to card bearer. So, an issuer is not entitled to receive more than the amount taken to purchase. But the issuer is permitted to take a fixed charge under the name of administrative expenses, and such a charge is not increasable due to an increase of money used for purposes. For sure imposing a percentage on the amount of money used by credit card is Riba in itself, whether such a percentage is taken as a charge service and administrative expenses or due to delay in settlement.⁽³²⁾

5.9.2 Maintenance fee - element of interest involved

We have discussed earlier that if the cardholder does not pay the full credit amount within the due date and on the payment of minimum amount, which is minimum 5% of the outstanding amount, the remaining balance transfers to the Service Account, which automatically opens in the name of cardholder and the Saadiq Visa card. Bank charges Maintenance Fee from the cardholder for maintaining that Service account in connection with the Saadiq Visa card. The maintenance fee is levied on the different classes of cards differently, although the bank is providing the same services to all members of each and every class of cardholders, but if we find any difference between these cards, and that is the capacity of each card to avail the credit facility up to its limits attached with the card. Same facilities, same benefits and the same privileges to all the cardholder but the different maintenance fee on the Service Account of each card create suspicions about the scheme, since the element of different credit limit of amount of each card is involved here, but variation of money or time is irrelevant under the Shariah, where only the service matters and not the quantity of amount.

31. www.islam-qa.com retrieved on 22.9.2008

32. www.Islam-qa.com retrieved on 22.10.2008

In a Fatwa Shaykh-al-a-Usaymi gave his verdict about the levy of monthly fee by the banks, he held *"A card which imposes an extra monthly charge which is in addition to the actual cost, except the loan taken through the card, and that is the essence of Riba"*.⁽³³⁾

5.9.3 2% financial Charges is a form of Compound interest:

Apart from the annual fee, or maintenance fee the SCB levies the 2% additional services charges from the cardholders, in case they do not repay the full outstanding used amount and deposit only the minimum 5% of the due amount. These 2% service charges are in addition to the other charges and fees received by the bank. These charges are received in term of services, bank renders to the cardholder, due to the deposit of their minimum amount against the outstanding amount. Here see the bank receives multiple fees on the same transaction, which may be categorized as bank's "Services Charges", late payment charges and the account maintenance fee and all this is a form of exploitation by the bank of the innocent customers, who are looking to their needs.

Allah (s.w.t) forbids us from taking Riba, in a very clear way, He says in Qurran

"O believers! Take not doubled and redoubled interest and fear God so that you may prosper" ⁽³⁴⁾

33. www.islamweb.net/emainpage/index.php?page=fatwa&tab=1 retrieved on 12.12.2009

34. *Al-Imran 3:130*

In a saying the last Messenger of Allah (peace be upon him) warned his followers about this curse and shows his annoyance to Riba, he said

“Beware all Riba outstanding from the Riba prevalent during the pre-Islamic era is void. You are entitled to your principal amount. Neither shall you oppress nor shall you be oppressed”.⁽³⁵⁾

Some banks charge monthly fee from the customer under the name of bank charges, undoubtedly charges for cards which offer loans should be based on the actual work involved for the issuer, which is the bank, and it is not permissible for it, to make a profit from those charges because the loan that is given through the card will be a Riba based loan if the bank charges an administrative fee that is greater than the actual costs of the work done.⁽³⁶⁾ The user may think that he can pay up on time, but then something may happen to him that prevents him from doing so; he pays late fee to the bank and some hidden charges and that it is a clear cut interest.

5.9.4 **Cash advance processing fee P/ T:**

Saadiq Visa card by Standard Chartered provides cash advance facility to its card members up to card's credit limit. The cardholder in the same way , as he purchases any item from a store, can draw required money through the ATM machines, subject to the payment of a fixed fee which is Rs.500 per he

35. *Hadith Sahi Muslim Book #007, Hadith #2803*

36. *www.islam-qa.com retrieved on 12.2.2008*

purchases any item from a store, can draw required money through the ATM machines, subject to the payment of a fixed fee which is Rs.500 per transaction. The cash advance may be called a loan, given to the cardholder in extra-ordinary and exceptional circumstances.

The cash advance facility comes out from the same contract, under which the Saadiq Visa Card is granted to the customers and terms and conditions of contract applies here also. If the cardholder can not repay the full amount within the stipulated period, he has to pay the maintenance fee of Service Account plus the 2% service charges. Cash advance is a loan in hour of need to the cardholder, which is called Qarz-e-Hassana under the Shariah.

Mualana Taqi Usmani a renowned scholar considers the use of credit cards, permissible with some limitations, and his card will be more likely to charge card, but here on this point he says that drawing of cash from a cash machine provided by the credit card company is allowed if no interest is charged for the cash drawing. The company may charge some reasonable lump sum amount for providing the services of machines provided that it is not made an excused for charging interest.⁽³⁷⁾

5.9.5 Late fee charges:

As it has been discussed earlier, that Saadiq Visa cardholder, after using his credit card has two options before him, first he may repay the whole used the outstanding amount, within the fixed date, otherwise he will be liable to pay

37. www.lariba.com/fatwas/usmani.htm retrieved on 12.2.2008

the late payment fee, which is Rs.650. This late payment fee is imposed on the cardholder for not depositing the fee within due date, and if he repays the used amount, or minimum 5% of the used amount partially within due date, then no late fee is charged from the cardholder.

Although the late payment fee is charged by the bank for not making the due payment within the given period, here this fee is a charge over the amount supplied or made available for the cardholder to purchase or fulfill his needs. Here these fee or charges are imposed against the duration of time, the cardholder utilize these funds and retains them beyond the stipulated time. Under the principles of Islamic Shariah the amount of time plays role on the lending and borrowing of money.

Following are the views of Jurists about the late fee received on the default of payment on credit cards, which are held in case of similar cards;

“This transaction is haram, because the one who enters into it commits himself to paying Riba if he does not pay on time. This is an invalid commitment, even if he believes or thinks it most likely that he will pay it before the time is up, because circumstances may change and he may not be able to pay it off, due to traveling, forgetting and so on. This is a matter that is in future, and no one knows what will happen to him in future. So dealings of this type are haram⁽³⁸⁾”

“All are interest charges which are to be paid to the bank if the user is late in paying”⁽³⁹⁾

38 .[www.albalagh.net/qa/ Fatwas by Mufti Taqi Usmani](http://www.albalagh.net/qa/Fatwas%20by%20Mufti%20Taqi%20Usmani) retrieved on 12.2.2008

39. www.islam-qa.com retrieved on 12.2.2008

5.9.6 Over limit processing fee:

Saadiq Visa cardholders, enjoy the facility to avail the over limit facility, it means they can acquire the funds over and above to their credit limit subject to some limitations (limited period). Technically this is a loan which is granted to the cardholder to complete his subject transaction instantly. It happens when during shopping a cardholder crosses his credit limits, then he is granted immediate a restricted over limit credit as loan to complete the subject transaction and the bank charges a fee Rs.600 on that transaction.

This over limit credit facility is granted as a loan and bank puts charges on the supply of that over limit amount. These charges are the profit of bank on this instant credit facility, which may be termed as a profit on the lending of money, which is against the directives of Shariah.

5.9.6 Utility Bills payment Service fee P/ T:

Saadiq Visa cardholders enjoy another facility extended by the bank, and that is the payment of their utility bills through their Saadiq Visa card. The Standard Chartered Bank charges Utility Bill payment service fee up to Rs. 1000 per transaction. This facility basically availed by the cardholders for the payments of their bills, mostly when they have not sufficient funds in their hands. The cardholder, while using the Saadiq Visa card pays his utility bill, whereas basically bank lends the funds to the cardholder to pay his utility bills. The bank provides the funds to the cardholder as a loan, for the stipulated period, if he makes the payments within that grace period, bills. The bank provides the funds to the cardholder as a loan, for the stipulated

period, if he makes the payments within that grace period, otherwise the terms and conditions of Service Account activate. The bank on providing the

loan facility to pay utility bills to the cardholder receives the fee or charges, on loan which is a form of profit for the bank. Principles of loan under Shariah apply here, which speak receiving profit on lending of money is not permissible.

It is new kind of Riba-based transaction and of consuming people's wealth unlawfully, making them fall into sin and contaminating (pollute) their earnings and dealings. It comes under the same rulings as the Riba of the Jaahilliyyah which is forbidden in Shariah" ⁽⁴⁰⁾

5.9.7 Charity Account

The Standard Chartered's Saadiq visa Card scheme introduces the concept of Charity Account. In case the cardholder does not pay off the outstanding amount within due date, then bank imposes a late payment fee on the cardholder and thus late payment fee goes to the Charity Account. The Charity Account is maintained separately by the bank and amount deposited in Charity Bank is not included in the income of bank.

The income of Charity Account calculated through out the year and after deducting the approximate charges incurred by the bank due to the late payments, the remaining amount are spent on charity schemes of public interest for the welfare of people.

The bank here is trying to discover an insufficient justification for a disproved and prohibited, business. All the Shariah experts and jurist have developed a consensus among them that charging the delayed payment fee is

a form of Riba and it is Haram, and SCB adopted a different strategy to make it acceptable. This is an effort on the part of financial experts to cover the evil in an attractive wrapper. But we should be watchful about the teachings of Islam, and always follow its settled principles and rules. The Messenger of Allah (peace and blessing of Allah upon him) said:

“Whoever innovates or accommodates an innovator then upon him is the curse of Allah, His Angels and the whole mankind”⁽⁴¹⁾

5.9.8 Charges received in the form of fees, are a type of exploitation (Zulm)

The majority of Muslim scholar prohibits the use of credit cards due to the involvement of interest or possibility of its involvement in case of late payment. They suggest that if a person is feeling sure about the payment of his monthly bills of credit cards even then he should avoid it because no one can imagine what may happen in the future. Under the Saadiq Visa Card scheme if the cardholder could not pay the credit amount within the due date, on payment of minimum amount the remaining balance is shifted to the Service Account and bank charges Account Maintenance Fee from the card holder. The maintenance fee is levied on the different classes of cards differently, although the bank is providing the same service to the all classes of cardholder, and if there is any difference found between the cards, that is the capacity of each card to avail the credit facility up to its limits, which is irrelevant under the Shariah's point of view, where only the services matter

41. <http://www.islam-qa.com> (Hadith Bukhaari and Muslim)

and not the quantity of amount involved.

Another point which attracts our attention is the 2% service charges received by the bank at the time of the deposit of minimum outstanding amount i.e. 5% by the cardholder and this fee is apart from the fee received on the maintenance of Service Account. Here the bank receives multiple fees on the same transaction, which may be categorized as bank's services charges, late payment charges and the account maintenance fee.

Saadiq Visa cardholder has the facility of cash advance up to his credit limit, subject to the payment of Rs.500 per transaction. Loan (Qarz-e-Hasna) under Shariah is granted to a needy persons to meet their requirements and in such cases extra or overdue money is not received but here the bank charges extra amount in different heads and ways, which is prohibited and it is termed as exploitation or Zulm. This aspect also creates some doubts to the scheme.

5.10 Views of scholars about the scheme of Saadiq Visa Card

In order to get the Shariah appraisal of Saadiq Visa Card, the scholars and jurists were consulted. The scheme and working of card were remained under our focus. We have the views of following renowned scholars and institutions about the Saadiq Visa card, which are given just to evaluate the scheme in Shariah's perspective and not to criticize or rule out it in any manner.

In reference to above referred questions, I received verdict from the penal of Mufties of Darul Ifta, Darul Uloom Karachi, the verdict speaks;

5.10.1 Queries about the scheme of SVC (Questionair)

Justice Muhammad Taqi Usmani

From: "khalid mahmood" <mahmood_associates@yahoo.com>
To: <muhammad_taqi@cyber.net.pk>
Cc: <mahmood_associates@yahoo.com>
Sent: Tuesday, August 26, 2008 7:55 AM
Subject: Sadiq Visa Islamic credit cards

Page 1 of 1

Respected Mufti sahib.

I have studied some of your written work about the Islamic finance through net and books, and I have gone through your verdicts on different issues. But your views about credit cards strike me very much because, in any way we cannot ignore this important banking product. we should dig out the solution to use the card in accordance with the Shariah, on the basis of principle of permissibility, and if it so then this may be the ultimate practical approach to the use credit cards under the Shariah.

Sir, I have some queries about the Saadiq visa card, launched by the standard chartered bank, the first bank in Pakistan, which introduced the Islamic credit cards, claimed to be in complete compliance with the principles of Shariah.

According to this scheme, Saadiq visa credit cards are based on the concept of Ujra (service charges). The standard chartered Islamic banks Saadiq visa cards are classified in to four classes.

- (1) Saadiq visa classic
- (2) (2) Saadiq visa classic blue
- (3) (3) Saadiq visa Gold
- (4) (4) Saadiq visa Gold plus.

A visa credit card is issued to the cardholder against the prescribed fee according the capacity and limit of credit card, which is charged annually from 2 to 4 thousands. In case of its use no charges are levied, with the condition that used money must be paid back by the user within the stipulated period, which is 50 days. After the use of card for the withdrawal of money or shopping, the bank issues the cardholder a bill with the direction that cardholder should deposit the whole outstanding amount or minimum 5% of the out standing amount and if the cardholder opted to pay back whole outstanding amount, then no charges are received on the use of card but if the cardholder chooses to pay back only five 5% of the used outstanding amount, then a service account is opened in the bank in the name of cardholder, and the cardholder has to pay maintenance service account fee on monthly bases and this maintenance fee is not fixed for all classes of card but vary according to limit of each card of different capacity. In case of default the cardholder has to pay Rs.615 as default fee each month and in case of withdrawal of money through credit card, the card holder has to pay Rs.650 on each transaction, and for the default fee bank has arranged a charity account, where default fine is deposited, which are utilized on different charities based issues. According to the bank, the maintenance fee on service account is charged, because the cardholder despite the non-payment of full outstanding amount can use the card for the remaining limit of funds and he can also enjoy the benefits and privileges extended to the cardholder during this period.

Now the questions arises here that

1. Whether the levy of annual fee on the credit cards, which vary on limit of cards, is permissible.
2. What is the position of maintenance fee on service account, as stated above, which also vary on the different classes of cards.
3. Whether the fee on withdrawal of money through credit cards are permissible.
4. What is the position of default fee, as stated above.
5. Whether the recovery of maintenance fee on the service account is not a form of exploitation, or a form of cruelty ultimately.

I hope, you will answer my questions, and provide peace to my conscience.

8/26/2008

5.10.2 Fatwa (Verdict) of Darul Ifta, Darul-Uloom Karachi

"The maintenance service fee charged on the Service Account is clearly a fee charged on the principle amount of the loan which is not permissible, especially when the fee varies for different types of cardholders. This aspect alone is sufficient to make this card dubious".⁽⁴²⁾

الجواب حامداً ومصلحاً

(1-5).....The maintenance service fee charged on the service account is clearly a fee charged on the principal amount of the loan which is not permissible, especially when the fee varies for different types of cardholders.
This aspect alone is sufficient to make this card dubious.

والله اعلم بالصواب

Answer is correct

Sarfraz Mohammed

M. J. Sarfraz

M. J. Sarfraz

Darulifta Darul-uloom Karachi

07-12-2008



Conclusion

After going through the form of contract, working, operation of scheme and analyzing the services fee structure of Saadiq Visa card, we come to the conclusion that presently the subject scheme stands on elements of Riba, especially when the bank levies late fee in the name of financial and administrative charges up to 2% to 3.7%, apart from the charging Service Account maintenance fee, which is clearly a form of interest on the credit amount, lend by the bank to the card holder.

The Riba or interest constituted by this form is also haram and prohibited since it is predetermined and levied on the amount used by the cardholder.

So far as, the other charges like default fee, cash advance withdrawal fee, over limit processing fee, utility bills deposit fee are concerned, if they are charged in lump sum (fixed) and not excessive but according to the services provided by the bank, then it will not be impermissible. It is inevitable to make it clear here that Credit card issuing institution may impose the annual subscription fee on cards against the services attached with cards through out the year but it should be similar for all kinds of card irrespective of their credit limits or value, provided different privileges are provided on different cards. A card clear from such faults or slip shorts, if introduced by a bank will be permissible subject to non involvement of element Riba.

CHAPTER 6

SUGGESTIONS AND RECOMMENDATIONS

The modern life television advertisements unfortunately drag people to do shopping. In modern life people from little kids to elderly men, every one is almost hypnotized by these adverts. When we go deep into the roots of these urges unfortunately very few of them are what we really needs. To meet these unwanted and luxurious items, people depend on credit and now the credit cards have come to their rescue. Continuously living on credit, is a capitalist idea that creates economic constraints for individual as well as nations. The credit based social structure develops a society, where people buy things, they don't need, with money they don't have and mortgage their entire working lives to pay off the debt so borrowed.

Credit cards are the pillars of consumerism since it continuously urges you to do shopping even you do not have enough money. When one goes shopping with credit cards he always ends up buying more than what is needed. It tells you "*buy now pay later*" but this later loses its charm very soon and people have to face the severe cost. Many people lose their houses, jobs, and consequently their health and honor due to their Credit Card debts, hence while we consume we are also consumed by the continuous bills and installments. To avoid the agonies and miseries of credit cards debts people fall in to illegal earnings, and they encircled themselves to the haram sources of income.

In Shariah, the activity of business and trade has moral and ethical concerns since it is not just for profit but it is also for the welfare of the society as well. A good Muslim is the master of his money and not its slave. It is granted to him by Allah, being a trust. He spends it when necessary and knows that it belongs not only to him but to all those in need. According to teachings of Islam we will be interrogated for our spending (Halal or Haram) and of course will be punished for illegal spending. The Muslims have been taught to make

dua seeking Allah's protection against the burden of debt in the same way he seeks protection against Hell.

In the new era of globalization, many financial transactions are not exactly the same, as were practiced at the time of prophet (S.A.W) but the financial sources as well as products have been changed due to changes in the technology and circumstances. People try to invent new products to make their life better. The idea was to ensure a comfortable life, which is also wish of Allah (S.A.W) as evident in the following Ayyatt:

"Allah (swt) intends every facility for you; He does not want to put you to difficulties." (1)

It is the general perception in Shariah that money is not the solution of problems but it is a means to solve the problems, and Islam put stress on labour. We have numbers of Ahadith, where Prophet (P.B.U.H) has asked people for labour and stopped them from lying hands before others and approved middle way for the Muslims. In Qurran Allah has declared the laborers as friends of Him and spendthrift the friends of Shaitan.

The sources of Islamic law are Al Quran and Sunnah of prophet (S.AW). These two sources are primary for other secondary sources to be derived like Ijma, analogy, Al Masalih Al Mursalah, etc as those secondary sources must in line with two primary sources. The use of Masalih Al Mursalah can be applied in case of credit cards transaction, since Allah Wants to bring comfort in our life but off course to be harmonized with Shariah's teachings.

1. *Al-Baqara, Chapter #2, Verse #185*

6.1 An Islamic Credit Card and its importance

The credit cards are the products of this modern era, and these are used by the people to meet their needs even with shortage of funds. The conventional credit cards are having no concern about the arguments of interest. On the other hand Shariah prohibits the Riba and Riba based schemes and it has its own standards and rules for business and trade. The credit cards are being used by the Muslims, issued by Islamic as well as by the conventional banks. It is sure that Muslims will feel more convenience to use Islamic Credit Cards, if these are purely Islamic and clear from element of interest. It is significant to develop a Shariah compliant credit card working on the principles of Islamic Shariah.

The credit cards are considered permissible by some Muslims scholars, if they are interest free but some do not allow using them and declared them prohibited. It is held by one group of scholars that the credit cards which are structured on the scheme of Services Charges are permissible if the same are received at par with the services provided by the institutions and no extra charges free or Riba based fees are received. The verdict of Council of Islamic Fiqh Academy, Standards of AAOIFI and opinions of renowned Muslims jurists and scholars allow the use of credit cards with some conditions.

The world renowned Jurist Mualana Taqi Usmani says;

“If a credit card is used for purchases and the bills are paid promptly without requiring to pay interest on late payment, it is permissible and the benefit given by the credit card Company as rewards can be availed of. It is not impermissible to benefit from such rewards”.⁽²⁾

2. www.albalagh.net/qa/

Babu Das Augustine prescribes a solution to the problem of credit cards based on interest, in his article, he stated

“The question of interest does not come in to picture if the whole product is structured on regular repayment in full or part along with a pre-agreed profit rates (service charge)”.⁽³⁾

Despite some reservations, Bank Islami Malaysia is confident that it can attract customers Muslim and non-Muslim due to the attractive features, offered. There will be no compounding factor for cardholders and the financing charges are on par with other credit cards offer. “It will provide healthy competition, increased service levels and more Shariah complaint options for customers”⁽⁴⁾

6.2 Steps to attract the customers for Islamic Credit Cads

The Islamic credit cards have great attractions for Muslims since it is stated that Islamic credit cards are free from elements of Riba, which is prohibited in Shariah. It is needed that Muslims should be aware about Islamic credit cards. There are some steps which may be taken to attract Muslims to Islamic cards, which are given on next page:-

- **Education and Information**

It is not only necessary for the Islamic Banks to launch the Islamic products including free Islamic credit cards but it is equally important to provide informations to their customers about interest banking and its products

3. *Article Credit cards: it is a long way for most local Islamic Banks*

By kazi Mahmood, IOL (Islam online) South East Asia correspondent quoted.

4. *ibid*

including credit cards. Muslims feel convenient to follow the way bestowed by their faith, which may ensure their confidence to Islamic mode of finance. Different scholars have presented their views that the Islamic banking may progress enormously, if people are provided education equipped with informations.

- **Clear-cut Shariah compliant**

For attracting the customers to the Islamic credit cards it is significant to structure the credit cards in complete compliance with the principles of Islamic Shariah, which should be Riba free, and other elements prohibited in Islam. The credit cards should be easy to understand and believed to be truly Shariah compliant in every aspect.

- **Convenient to use**

If the credit cards are structured on such lines and schemes which are convenient to understand and use for common people. More will be the credit cards transparent, more will be the customer to acquire the same from the Islamic Banks. It will create a trend among the people towards the Islamic finance and its products, which will ultimately develop the conditions of the public at large, which is the end of Shariah.

6.3 Islamic credit cards may work, avoiding the following elements

There is nothing wrong with using credit cards if they are free of any of the following reservations:

- Stipulation that interest or a penalty be paid in the event of late payment.

- Charging a fee for issuing an uncovered card that is higher than the actual costs involved.
- Charging a percentage of withdrawal if the card is not covered. It is permissible to charge the actual cost only; any thing more than that is Riba.
- Buying gold, silver or currency with an uncovered credit card.
- Seller adding a percentage that the bank requires him (seller) to take from the purchaser, without the purchaser being aware of that.

6.4 Some suggestions for Saadiq Visa card

It is permissible to use credit cards, if these are free of those elements which are forbidden in Shariah, such as charging interest for late payments, or charging a percentage of money on withdrawal of funds, because that comes under Riba. Whereas if a bank charges a set fee on issuing or renewing the card, or receives appropriate fee on the services provided, covering only the cost of those services and nothing more, then there is nothing wrong with cards. In the following we suggest some changes in the Scheme of Saadiq Visa card:

- That first of all we take the **registration fee**. The registration fee is taken at the time of issuance of card to the applicant. The registration fee is for the process of application, collection of data etc. On the completion of process and approval of application credit card is issued to the cardholder. The process or registration fee is permissible since it is charged from all the cardholders. Credit cards are issued against this fee, with attached services and benefits.

- Secondly we take the **annual fee**, which is charged annually from all the card holders, having the card in their hands through out the year with a facility to use it globally with attached privileges and benefits. The bank claims that since the cardholder can avail the privileges and benefits through out the year, even if the card is not used for shopping etc undoubtedly it is true the cardholder can enjoy these facilities but the annual fee charged by the bank from the cardholders varies with the kinds of cards and credit limit of the card, whereas the same services are provided to all cardholders. The charging of annual fee according to the kind and credit limit of cards, makes the scheme dubious, since it is the principle of Riba that interest is received according to the amount involved, borrowed from the lenders, so it is recommended that the annual fee may be charged from all the cardholders equally, but if the services and privileges attached with the cards varies with kind of card, than it is considerable.

It is further suggested that if the bank introduces different types of cards of different credit limits, then these should be of three denominations, Classic, Silver and Gold. These cards may be issued to different customers according to their financial position and business worth. The cards should have different features i.e. attached benefits or facilities for the customers on the principles, more costly the card, much facilities for the cardholders. Three different categories of fees may be received from cardholders respectively, according to the credit limit.

- Third point we have is the levying of Service Account maintenance fee, which is charged on the opening Service Account, and it is opened on the deposit of minimum or part payment of the outstanding amount instead of full payment, which is also charged in variance of credit limits of cards. According to the scheme, on deposit of partial or minimum outstanding

amount, the remaining balance is transferred to the Service Account and service fee is charged on maintaining the account. It is asserted that despite of making minimum or part payment the cardholder can use the credit card up to the remaining balance of its credit limit. Further more cardholder may enjoy the attached facilities but the question arises here that why the Service Account maintenance fee varies with the credit limit of card, since the bank is maintaining the service account of all the cardholder in the same way and in the same manner. Here the bank is earning interest on the credit amount used by the cardholder, and this a form of Riba in its new form. The bank authorities may put arguments that the Service Account Maintenance fee varies due to difference in kinds of card, having different privileges attached to them, but this argument is not acceptable since the bank already receives different issuing fee, annual fees on these cards, so again receiving different Service Account Maintenance fee (SAMF) is beyond our understanding. It is suggested that bank should enhance the annual fee of the cards, instead of charging the Service Account Maintenance Fee, since the annual fee is charged against the services attached with card. It is the view of the scholars that only those service fee can be charged which actually incurred on the services provided by the bank and any thing more will be interest.

- Fourthly under Saadiq Visa card scheme the bank charges 2% to 3.7% percent hiding charges in the name of Bank's financial or administrative charges on the deposit of partial deposit of outstanding amount .The hiding charges are levied on the outstanding amount and received at the time of monthly bills sent by the bank. The hidden charges in the name of financial charges are clear cut interest on the outstanding amount, and these charges are received on the amount brings the cardholder in use and then does not repay within the stipulated period. The hidden charges are in addition to the Account Maintenance Fee and default fee, and these can be called late

payment Service charges. Here bank is taking three time charges on the same single default, one Account Maintenance Fee, Bank's service charges and default fee. These charges are totally Riba based charges, which are predetermined and received on the outstanding credit amount. It is not permitted under the Shariah to receive such charges, so they can not be charged by the bank in any case.

- Fifthly so far as other charges such as fee on default of payment, over limit charges, cash advance withdrawal fee, and utility bills payment fee are concerned, these should be reasonable and not excessive, corresponding the services provided by the bank. Service charges should be on the number of transaction and not on the size of amount.

Keeping in view the principles of Islamic finance set by Shariah, a proposed Islamic credit card should be free from the element of interest, clear from exploitation, based on crystal clear scheme. In following some ideas are presented for those who have concerns about the involvement of Riba based charges in credit cards and elimination of interest therefrom.

6.5 Recommendations

In this research, we study about the schemes and working Credit Cards. We investigated how these cards are working and on what lines these are structured. We have opinions of scholars regarding the legitimacy of credit cards. In this regard we have opinion of Council Islamic Fiqh Academy and Standards of AAOIFI. We see that Credit Cards introduced by the conventional banks are not permissible due to the involvement of interest elements in their schemes in terms of late payment fee and default charges etc, which may be called modern forms of Riba. Although some

Islamic Banks have also introduced Islamic Credit Cards, Islamic credit cards, presently available in the market are also not working in complete compliance with the principles of Shariah, as it is alleged by the institutions.

In this inquiry we pinpoint out some draw backs in their schemes, and same is the case with Saadiq Visa Card. We had question before us “What is the Shariah position regarding the Saadiq Visa Card of Standard Chartered Pakistan?” and if it is not working in conformity with the principles of Shariah then “What may be the best Islamic substitute to the credit cards?”. We deeply study the scheme of Saadiq Visa card, its process flow and working. We check validity of Saadiq Visa Cards under Shariah and consult with the scholars and get verdict of Darul Iftaa Darul Uloom Karachi in this regard.

6.6 Developing the Murrabah Islamic Cards

It is recommended that an Islamic Credit Card may be developed on the agreement of Murrabah. The Islamic Credit Card may be named as Murrabah Islamic Card. The *Murrabah* Islamic Cards may be structured on Murrabah sales, which is most popular mode of Islamic finance adopted by the Islamic banks. The proposed *Murrabah* Islamic Cards may be structured on following lines.

In Murrabah sale the seller and buyer enter into a contract of sale purchase, the seller mentions his purchase price to the buyer and sells out his commodity on profit plus the actual price to the buyer, with consideration amount paid at the spot or in future. In Murrabah Islamic cards the customers and institution enter in to two agreements, one the agency agreement and the other one is the Murrabah sale agreement. Here both these agreements take effect consecutively after one another. The cardholder at one moment acts as agent of the bank and purchases the required item on behalf of

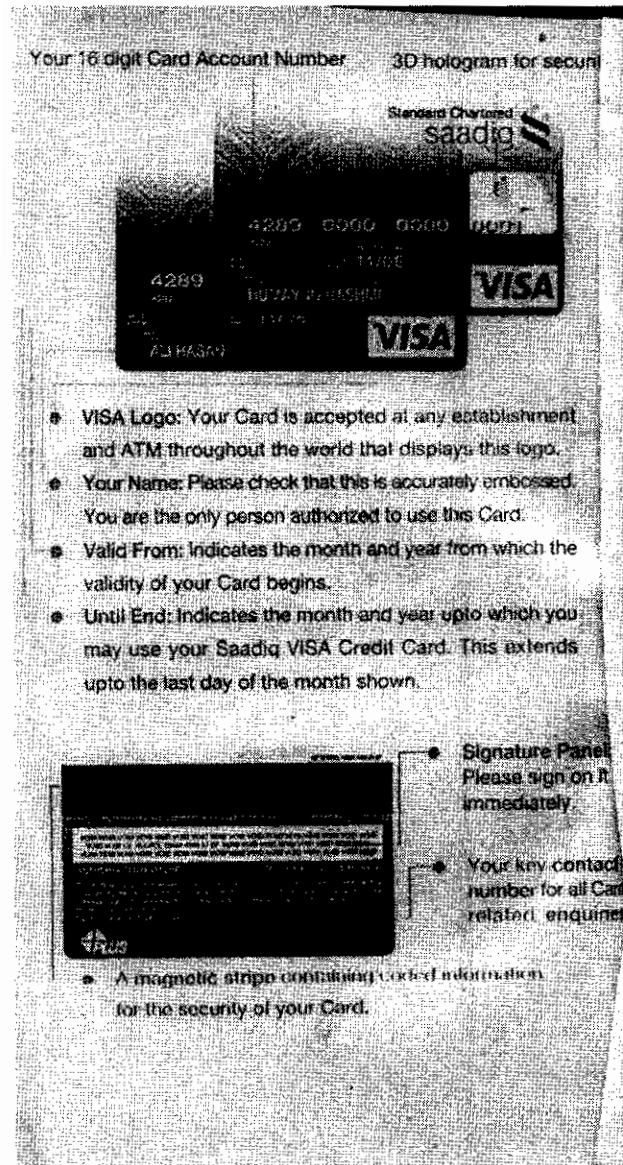
institution and institution pays to the merchant its sale price, at the same time the institution sells that item to the its customer (cardholder) on cost plus profit basis.

Conclusion

The credit cards are a convenient way of payment, in case one makes purchasing, shopping and takes meal or travel. These are useful for those having limited finance in their hands to meet their needs. The credit cards are permissible to use for the Muslims like others, provided they should not involve interest in their schemes. It is better for Muslims that should have arrangement to return their credit amount in stipulated period. The banking institution may charge higher annual fee in terms of charges but should avoid charging interest on the amount involved in credit card's transactions.

Appendix-A

Saadiq Visa Card



Appendix-B

Launching of Saadiq Visa Card by Standard Chartered



In the name of Allah, the Most Gracious, the Most Merciful

STANDARD CHARTERED BANK
ISLAMIC CREDIT CARDS (BANGLADESH, PAKISTAN & UNITED ARAB EMIRATES)

Pronouncement of the SCR Shariah Supervisory Committee

All praise is due to Allah, the Cherisher of the World, and peace and blessing be upon the Prophet of Allah on his family and all his companions

The Shariah Supervisory Committee (Committee) has reviewed the following documents relating to the SCR's Islamic Credit Cards:

1. Credit Cards Concept Paper
2. Terms and Conditions

The purpose of offering Credit Cards is to facilitate Muslims to have access to Credit Card facility designed in accordance with the principles of Shariah. Following are the details on the product structure:

The Islamic Card will operate on 'Ujrah' concept which is based on fee system meaning that only fixed fee will be charged to the customer. The card would not be levied with any floating 'Wage' fee dependent on the outstanding balance.

The customer would have the option to pay any amount less than the total outstanding balance (keeping minimum payment as 3% of the balance or a fixed amount whichever is higher). The remaining outstanding balance after the payment would be transferred to his Service Account. A fixed monthly maintenance fee will be levied on the Service Account, only for the months, the customer has balance on his Service account irrespective of the outstanding amount.

The fee will be charged for the following services valid on the Card and Service Account:

- Maintenance of the Service Account
- Continued wage of the Card
- Benefits and privileges

Country specific value-added benefits would be packaged for the wage of the Credit Card and Service Account such as:

- Access to exclusive airport lounge
- Discounts at value-added merchants
- Free roadside assistance

The following features make this Card different from the conventional card:

Fixed Fee

The Card would not be levied with any floating 'Wage' fee dependent on the outstanding balance. The entire fee structure is based on fixed fee unlike conventional cards where fee is a percentage of the outstanding amount or transaction amount.

Charges would vary for different card types (Classic, Gold, Gold Plus, etc), however, would remain the same across the entire card type.

Balance Transfer Facility

Balance Transfer Facility would be allowed only once. Customer will have to sign off a Declaration confirming the intention of transferring the balance on Islamic Credit Cards is for pure Shariah compliant reasons. It will not be allowed to transfer any balance from Islamic Card to conventional cards. Balance Transfer would not be allowed for customers who have defaulted on card.

Late Payment fee

If the Customer fails to pay the Minimum Amount Due by the Payment Due Date, a fixed late payment charge will be levied, calculated on the estimated direct costs which shall be incurred by the Bank as a result of such late payment.

At the end of each year, Bank would calculate the difference between the total amount of the Late Payment Administrative Charges collected during the year and the estimated administrative expenses attributed to Islamic credit card customers.

Any amounts of the late payment charges which is in excess of the actual direct costs incurred shall be donated to a charitable cause approved by the Bank's Shariah supervisory committee / Shariah advisers.

Based on this concept, the Committee has reviewed the above mentioned documents and suggested various amendments that have all been incorporated, and the final Credit Cards documents are hereby attached.

The Committee rules that the Islamic Credit Cards offered by SCR is in accordance with the principles of Shariah and that Muslims can take advantage of the facility which relieves them from interest-based financing.

And Allah knows best.


Dr. Abdul Samad Abu Ghuddah
Shariah Advisor


Sheikh Muneer Tappin
Shariah Advisor

SCR Shariah Supervisory Committee
(December 24, 2004)

Appendix-C

Scheme of Saadiq Visa card

Shariah Supervisory Committee

STANDARD CHARTERED BANK SAADIQ CREDIT CARDS
(Pakistan, Bangladesh & United Arab Emirates)

In the name of Allah, the Most Gracious, the Most Merciful

The Shariah Supervisory Committee (Committee) has reviewed the following documents relating to the SCB's Saadiq Credit Cards:

1. Credit Cards Concept Paper
2. Terms and Conditions

The purpose of offering Credit Cards is to facilitate Muslims to have access to Credit Card facility designed in accordance with the principles of Shariah. Following are the details on the product structure:

The Saadiq Card will operate on 'Ujrah' concept which is based on fee structure, meaning that only fixed fee will be charged to the customer. The Card would not be levied with any floating %age fee dependent on the outstanding balance.

The customer would have the option to pay any amount less than the total outstanding balance (keeping minimum payment as 5% of the balance or a fixed amount whichever is higher). The remaining outstanding balance, after the payment would be transferred to his Service Account. A fixed monthly maintenance fee will be levied on the Service Account, only for the months, the customer has balance on his Service Account irrespective of the outstanding amount.

The fee will be charged for the following services valid on the Card and Service Account:

- Maintenance of the Service Account
- Continued usage of the Card
- Benefits and Privileges

Country specific value-added benefits would be packaged for the usage of the Credit Card and Service Account such as:

- Access to exclusive airport lounge
- Discounts at value-added merchants
- Free roadside assistance

The following features make this Card different from the conventional card.

Fixed Fee

The Card would not be levied with any floating %age fee dependent on the outstanding balance. The entire fee structure is based on fixed fee unlike conventional cards, where fee is a percentage of the outstanding amount or transaction amount. Charges would vary for different Card types (Classic, Gold, Gold Plus, etc), however, would remain the same across the entire Card type.

Balance Transfer Facility

Balance Transfer Facility would be allowed only once. Customer will have to sign off a Declaration mentioning the intention of transferring the balance on Saadiq Credit Cards for valid Shariah compliant reasons. It will not be allowed to transfer any balance from Islamic Card to conventional cards. Balance Transfer would not be allowed for customers who have defaulted on their Card.

Late Payment Fee


If the Customer fails to pay the Minimum Amount Due by the Payment Due Date, a fixed late payment charge will be levied, calculated on the estimated direct costs which shall be incurred by the Bank as a result of such late payment. At the end of each year, Bank would calculate the difference between the total amount of the Late Payment Administrative Charges collected during the year and the estimated administrative expenses attributed to Saadiq Credit Cards Operation.


Any amounts of the late payment charges which is in excess of the actual direct costs incurred shall be donated to a charitable cause approved by the Bank's Shariah Supervisory Committee / Shariah Advisors.

Based on this concept, the Committee has reviewed the above mentioned documents and suggested various amendments that have all been incorporated, and the final Credit Cards documents are herby attached.

The Committee rules that the Saadiq Credit Cards offered by SCB are in accordance with the principles of Shariah and that Muslims can take advantage of the facility which relieves them from interest-based financing.

And Allah knows best.


Dr. Abdul Samir Abu Ghuddah
Shariah Advisor
SCB Shariah Supervisory Committee


Sheikh Nizam Yaquby
Shariah Advisor

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