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## Credit Cards: Contemporary Issues from Economic and Sharī'ah Perspective

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In this paper, the authors try to motivate the necessity to propose a credit card which meets the Sharī'ah compliancy criteria. They begin by a thoughtful definition of a credit card and a description of its operational mechanism. Then, they presented its different types and its advantages from an economic and business perspective for the involved parties. The authors show after that how the issuing and use of credit cards deviated from its original goal as facilitator of transactions and financing, to become a generator of prestige competition, higher indebtedness and consumerism. This deviation has been also accompanied with increased competition between the issuers of credit cards (namely banks). The latter find, in the securitization of credit cards debts, a new channel to raise additional sources of funding.

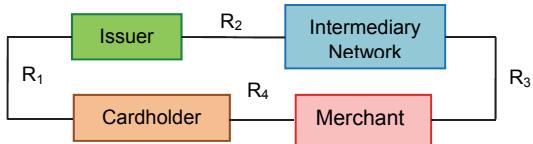
The second main section of the paper is devoted to shedding the light on the Sharī'ah aspects of credit cards. The emphasis is first made on the permissibility of using the conventional credit cards, which is subject to two opposite opinions: conditional permissibility and impermissibility. In this regard, the authors provide a detailed analysis of the various transactions taking place between the issuer, the cardholder, the network company and the merchant. The permissibility of the conventional credit card is analyzed through the discussion of the nature of the relationships linking the above parties (and the resulting issuance fees, merchant fees and interchange fees) and the triggering of the interest clause.

After that, the authors present five types of "Islamic credit cards" existing in the market and issued by institutions in Bahrain, Qatar, Jordan, Malaysia, Saudi Arabia, and UAE. They are the following:

- Credit cards with full payment at the end of the grace period,
- Credit cards with *wakālah* fees of cash withdrawals,
- Credit cards with *tawarruq* settlement,
- Prepaid Islamic credit cards,
- *ijārah* Credit card.

Without detailing the arguments, the authors note that the Sharī'ah legitimacy of some existing "Islamic credit cards" are controversial specially those including elements of *īnah* and *tawarruq*. I think that discussing the legitimacy of the existing cards would have enriched this section and motivated the need for the proposition of the new type of Islamic Credit Card: *the murābahah line of credit card*. After dedicating a subsection for the description of the proposed card, the authors defend in the next subsections, the necessity for an "Islamic credit card" to fulfill three more conditions: (i) profit charges should be linked to a sale or a lease underlying transaction, (ii) cash withdrawal should be free of charges, and (iii) restrict the use of the Islamic credit card to Sharī'ah compliant usage.

Before discussing the proposed credit card, let me illustrate the relationships that are inherent to all credit cards:



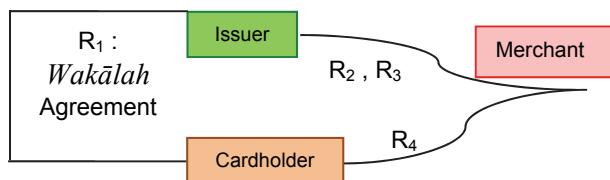
As noted by the authors,  $R_2$  and  $R_3$  are usually standard and do not include any interest element since fees are charged in return of the issuance of the card and authorization to use the intermediary network system.

The main relationship that distinguishes the different types of credit cards (whether conventional or "Islamic") is  $R_1$ . Under the conditions ruling this relationship, the cardholder of a conventional card benefits from increased purchasing power, uses the card to purchase goods and services, and has the ability in some cases to obtain cash in advance. In return, he pays different types of fees: issuance fees, an annual fee for benefiting from the services, renewal fees, fees for exceeding the credit limit, and interest if repayment occurs after the grace period,...The latter is the main feature which disqualifies, for some scholars, the conventional credit card from passing the filter of the Sharī'ah compliancy. Indeed, as mentioned by the authors "*those who consider the credit card usage as permissible in Sharī'ah laid down two conditions which should be strictly adhered to: one, paying off the full outstanding balance within the grace period and two, shunning any cash withdrawals and any action which trigger the interest clause.*" However, this is opposite to the resolution No. 108, 2/12 of the *Council of the Islamic Fiqh Academy of the Organization of Islamic Conference* which states that the conventional credit card is not permissible if it includes an interest clause, even if it's not triggered and the cardholder's intention is to repay within the grace period.

Afterward, the authors mention the permissibility conditions for issuing credit cards as stated by the *OIC Fiqh Academy* which are:

- Absence of a condition of imposing interest on debt,
- Permissibility of taking issuance and renewal fees,
- Permissibility of commissions on the purchasing transactions provided that the price of the goods and services is the same whether in cash or credit,
- Permissibility of cash withdrawals with credit cards provided it does not entail any interest. The fee of such a service imbedded in the credit card should be fixed and not conditional upon the withdrawal amount or its duration.

The proposed *murābahah line of credit card* is illustrated as following:



The suggested *wakālah* Agreement for the proposed credit card is based on two steps. In the first step, the cardholder acts as a purchasing agent on behalf of the issuer when using the card for purchasing. The issuer who has the initial ownership of the purchased goods and assets pays the merchant immediately. In the second step, the cardholder purchases the goods and assets from the issuer by using the authority given to him by the issuer to sell to himself and take immediate delivery. The authors suggest that the price in this second sale operation depends on the maturity chosen by the cardholder and the profit rate agreed on between the two parties. The authors add: "*To render the contract genuine and make the profit margin justifiable from the Sharī'ah perspective, a clause may be added whereby the cardholder acknowledges that as the issuer's agent, he/she will make all purchases and take possession of the goods and assets on issuer's behalf and that the issuer is deemed to be effectively the owner until the second sale is executed by the agent*".

In my opinion, this is the fundamental issue which should be emphasized and detailed: the effective ownership by the issuer before the second sale materializes. Indeed, if the triggering of the second sale is automatic, then the first ownership does not exist since no time elapsed between the two operations. Even if the issuer's ownership materializes, what is the justification for the profit margin agreed on in advance in the credit card agreement? Why this profit margin is fixed in advance (conditional on the maturity) and doesn't depend on the type of the purchased goods and/or services

and their prices in the spot market? This should be the case in order to respect condition c) of the *OIC Fiqh Academy* (mentioned above).

In my opinion, the authors shall clarify more on these issues in order for the suggested combination of sales to be Sharī'ah compliant in essence and not only from the contractual point of view. Otherwise, it might be considered as a tricky mechanism to mimic the conventional credit card mechanisms (which generate profits for the issuer through interest).

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