

FATAWA CREDIT CARD 2013-2015

From: Brown

Sent: Wednesday, August 28, 2013

Question: Using Murabahah and Ijarah in credit cards

Dear Dr. Kahf:

I am continuing to study credit card practices by Islamic banks.

I know that some of them rely on Murabahah when they create credit cards. I am confused, however, by some aspects of the practice. First, I understand that cards relying on Murabahah can be used to pay electricity bills or for repair services. I had thought that Murabahah was limited to "tangible good" and could not be used for services.

Credit cards based on Murabahah have an agency agreements allowing the card holder to buy for the bank and on its behalf, take delivery, then sell to himself. This applies to tangible items. There is another contract that also makes a foundation of this kind of card which is similar to Murabahah except that it does not require the above mentioned sequence of three steps (buy, takes delivery then sell). It is the Ijarah (lease). It applies to all services such as electricity and phone (water is a tangible item). The Ijarah allows selling a service even before acquiring it and relaxes the condition of delivery in between because full delivery of a service happens only at the last moment of the period of a service. This means the service is already consumed and can't be sold. Accordingly this kind of credit cards can also be used, because of this authorization to buy services and sell them to oneself, for electricity and phone not for water bills (I argue that the use of this kind of cards for electricity and phone requires prior arrangement before buying the service, i.e. before the beginning of a billing period or in the credit card contract to state that from the beginning of any new billing period of electricity and phone and TV cable, etc. the card holder assigns the contract to the bank and will buy the service during the coming month(s) for the bank and then sell them to itself).

Second, I understand that cardholders buy goods as agents for the bank. The bank then sells them to the cardholder at a mark-up. But apparently this takes place at the time the cardholder signs the agreement with the bank. In other words, the bank and cardholder agree on the purchase before the bank actually owns the good. I thought that Murabahah was only possible when the seller actually owns the good (and has the risk of loss).

The pledge at the beginning of the agreement is only an undertaking not a contract. The contract takes place in application of this undertaking after buying on behalf of the bank and taking delivery, it is the third step in the above para. The risk during the period of holding the goods on behalf of the bank before selling it to himself (which is a split second) is the bank's. I don't see anything wrong in that. But suppose the commodity is found defective, it is the responsibility of the bank. This risk cannot be avoided or reduced except by manufacturer guarantee or by insurance.

Can you help me understand how these ideas work in the context of Islamic credit cards?

Many thanks

Jay Brown

From: Monzer Kahf

My Answer:

Dear Prof Brown

Sorry for the delay,

Please see my answers below your queries:

Kindest Regards,
Prof. Dr. Monzer Kahf

Dear Dr. Kahf:

This information was very very helpful.

If an Islamic bank uses Murabahah of its credit card (three Islamic banks in Turkey do this, for example), is it traditional to combine Murabahah and Ijarah in the same credit card?

Thanks as always. Jay

My Answer:

It is not traditional as there are no traditions in this regard yet; Islamic banking itself is a new phenomenon. It is permissible and many Islamic banks do this combination of authorization in Murabahah line of credit.

Monzer

Monzer:

You are very generous with your time.

Why don't more banks use Murabahah (and Ijarah) for their credit cards? Is their significant controversy over this approach? From what I have read, this approach is less controversial than Bay' al 'inah and Tawarruq.

Thanks!

Jay

My Answer:

It is only a matter of culture and exposure, I remember we discussed it in Bahrain in 1999 and most Shari'ah scholars were reluctant to take unless the VISA and MC companies accept to change the wording of approval in a way that expresses Murabahah.

Monzer

From: uzma

Sent: Wednesday, September 11, 2013

Question: Credit card benefits

Assalamualaikum,

Is it ok to benefit from all the credit card points I have accumulated. I have always tried to pay off my balance and not be charged interest. I want to know if I can receive an item for all my credit card points or should I donate the points?

JazakAllah for your time.

Uzma

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Uzma

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Credit cards points and other credit cards privileges such as refund of 1% are permissible. These are promotions not interest and they come in part from the revenues charged by credit cards companies to merchants who accept their cards.

Wa Allah A'lam
Wa Alhamdu Lillah Rabb al 'Alamin
Wassalam
Prof. Dr. Monzer Kahf

From: Sharafe
Sent: Tuesday, October 14, 2014

Question: Interest on late credit card payment

Salam!

A brother has been using my account at a store for a while and has saved a lot of money by doing so; last month they paid late and fell into an interest charge, they paid it, but it troubled me a lot and I warned them about it.

This month they paid one day late and the same thing. To save us (see below) and to save them from falling into sin, I have forbidden them from using my account and instructed the company as well not to allow them to purchase under our account.

We have tried to get a credit for the interest charges but were denied.

My concern is: do we bear sins in this case where it was an abuse of a favor? We did of course set up the account in the first place that had a Riba-based clause. Allah forgive us.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sharafe

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Seating an account with Riba on optional basis, i.e., if you delay settlement and this is in your hand is permissible when other alternative is not available. Of course if the other side is Muslim it is Haram for it to require this condition in the account. This is like my opinion on credit cards in the Western countries.

InShaAllah there is no sin involved as long as you did your best. Nest tie if you give a privilege have your friend give authorization to the company to withdraw automatically all the due balance from their account. Any such delay will then be the responsibility of the company.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Sharif
Sent: Monday, March 02, 2015

Question: Shari'ah Opinion on Affinity Visa(r) Prepaid Debit Cards

Assalam Alaykum Dr. Monzer Kahf,

I pray that you are in good health and high spirits of Iman. My name is Sharif Aly. I'm an attorney working for Islamic Relief USA. I was wondering if I can ask you questions on a potential project we are doing at Islamic Relief to generate income for the organization. I wanted to make sure if it compliant from a Shari'ah' perspective.

When would be a good time to speak to you?

Kind regards,

Sharif

My Answer:

Dear Br. Sharif

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I will be glad to help you and dear Islamic relief anyway I can. Presently I am in Qatar, 8 hours East of Eastern standard time. My home phone is ++974 44792368 and my Skype name is monzerkahf.

Best Regards,

Wassalam

Prof. Dr. Monzer Kahf

Wa 'Alaykum Assalam Wa Rahmatullah wa Barakatuh Dear Dr. Monzer, Jazakum Allah Khayran for your prompt response. May Allah bless you and your family. We know how busy you are and appreciate any time you may have to support our efforts.

I can share with you the program and if you want more information about it, we can schedule a Skype call at your convenience. If you find the information that I provide for you is sufficient, you can respond by email, otherwise, we can schedule more time to discuss.

The program is called, "Affinity Visa(r) Prepaid Debit Cards." Visa provides a service to Non Profit organizations to raise money by sharing a program to their membership/constituents.

They sent the below as a description of the service:

Your organization can raise funds simply by offering your members a custom design Affinity Prepaid Visa Debit Card.

- * Receive a donation for every card and every purchase
- * Provide a valuable financial service to your members
- * Build awareness of your non-profit with a "walking billboard"
- * Provide an easy way for your members to help raise funds

What is a Prepaid Debit Card?

- * Can be used at any VISA debit merchant or Plus ATM
- * Add funds by direct deposit, cash smartphone*, credit card, ACH
- * Must have funds in order to be used
- * Enroll in seconds on-line
- * No credit check, over 99% approval rate**
- * Web access for statements
- * Text*Notification of deposits and balances
- * Visa Zero Liability for Fraud
- * Live operator customer service 24/7
- * FDIC Insured for registered cards

What are the Benefits of a Prepaid Debit Card?

- * Convenient - Use the card for purchases anywhere Visa debit cards are accepted
- * Economical - No risk of overdraft
- * Easy to Fund - Direct deposit of pay, cash at retailers, deposit check via smartphone, credit cards and ACH
- * Financial Control - Track spending and manage money
- * Safe - Funds FDIC insured, VISA Zero Liability for Lost and Stolen Cards

What does my Organization Need to Do?

- * Endorse a prepaid debit card to your members

- * Provide access to your members for card marketing
- * Approve all communications
- * Receive quarterly royalty payments
- * No investment required

Why are people using prepaid debit cards?

- * People who pay for checking accounts
- * People without bank accounts
- * Teenagers and college students
- * For privacy and security
- * For budgeting and control
- * To help their non-profit raise funds

My questions to you are as follows:

1. Is engaging with Visa in this program permissible from a Shari'ah perspective?
2. If so, do you believe it requires a fatwa to indicate it's permissibility to our donors?
3. Do you feel there is anything else we should be aware of that I may be missing?

If you would like to Skype to go over this further, please feel free to reach me. My Skype address is sharif.

Jazakum Allah Khayran,

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sharif

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Debt card and pre-paid debit card are well known and do not raise any brows from Shari'ah point of view. They are used by most Islamic banks.

The important thing that you should be aware is that you are encouraging people to deposit funds with visa. These huge amounts of funds earn a lot of interest to visa.

You know this is in a sense the opposite of credit card. In credit card, you spend and pay later, here you pay first then you spend.

The benefits mentioned are all true and correct, these cards are really useful for what they are and for people who do not have established credit.

There is a Shari'ah issue in cooperating with visa for it and getting a piece of its cake. You are raising funds to be used exclusively on interest and then will take part of it! Of course its source is interest earned by visa nothing else. Donation to Islamic Relief from interest sources does not raise a problem. But helping mobilizing funds for interest-based use is a serious matter. I do not recommend it.

If you are cooperating with an Islamic bank, it will be OK, the latter uses them in Shari'ah compliant ways and gives you part of its revenues. But more important you are not helping raise funds for a Haram use. Of course the Islamic banks who issue pre-paid debit cards (they are often called credit cards because they look as credit cards and merchants need not know that they are pre-paid.) receive a lot of funds which they use for their own benefit.

Best Regards,

Wassalam

Prof. Dr. Monzer Kahf
