Evidence in the Quran related to Credit Card Transactions

Ahmad Abdur-Raheem Sabree [1]

YounesSoualhi[2]

Abstract

The common academic discourse within Islamic banking related to the use of credit cards has generally been silent on Islamic interpretations and analysis of the technological aspects of the transactions. There seems to be a gap of understanding amongst academicians as to how these technologies work and therefore little has been addressed as to the ethical nature embedded into the structure of the commonly used technologies in banking. This paper addresses the technology behind credit cards and seeks to elaborate the Islamic context in which the various aspects of the technology can be interpreted. The purpose for writing this paper is to show that the basic principles behind how credit card technology works already exist in the Quran.

Keywords: *Islamic finance, Shariah, credit cards, technology*

1. Introduction

The world today is becoming increasingly interconnected by different forms of technology and mobile devices. People are changing the way they communicate and even the way they execute transactions through the use of mobile devices and apps. The bank and how it provides services has also been influenced by the recent advances of the internet and mobile technology. For example online banking is now a standard service for most banks along with additional add-on services that were only made possible by the initial establishment of online banking.

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1. International Islamic University, Malaysia

2. International Islamic University, Malaysia

Although the modern world has reached a high level of understanding when it comes to using the latest technologies to improve services, Islamic banks merely follow suit at various intervals and sometimes even get left behind completely. The urgency of technological innovation in the banking sector is made clear and simple by King (2010, p33) when he asserted, "If we aren't introducing innovations into the customer experience at the same rate with which customers are adopting these new technologies, we are at a considerable disadvantage and we risk losing our customers as more agile intermediaries and third parties capture the benefit on the innovation."

The power of technology in today's world is not only important because it can theoretically make life easier, but also because it can overcome many logistic, legal and other obstacles to provide in a short time and a simple way things that would otherwise take years to achieve using traditional means (consider the example of the mobile apps that can book taxis.Creating such a service would not be possible without the power of the tools within the mobile phone). If we look at some of the problems and challenges faced by Islamic banks (for example overnight rates that have to be paid with interest when doing international banking) cannot be overcome in the current system due to limits in the technology infrastructure. It is also worth mentioning that some of the product innovationthe Muslim consumer market desires in the financial sector may only be satisfied by services and products that use a higher level of technology.

When it comes to Islamic scholarship the sad truth is that there has traditionally been some delay in giving new technology a fair investigation as to its permissibility for usage by Muslims. This paper aims to open up the world of technology a bit more for those who are not strong in IT knowledge. In the end technology is only a means, just like steel it can be manipulated in whichever way man wants. This paper aims to show that even the financial services provided through technology still have a contractual nature, and that aspect of the transaction falls in line with principles of transaction within the Quran. Payment systems are some of the most fundamental technologies used in the world financial network along with the ubiquitous,nearly compulsory, accessory of the financial world, the credit card. Understanding how these fundamental technologies work is the first step towards building an Islamic finance community that is savvier as to the possibilities of creating industry changing developments and innovation through technology.

2. History of writing Credit

The practice of writing debt goes back into ancient times. The need always existed to keep records of transactions based on credit in order to cement the records of who owed what

and when the payment was due. These types of arrangements are thoroughly explained in texts related to ancient accounting systems. A general example is given below.

> "As trade expanded and commerce became more complex, instead of their developing a universally acceptable exchange commodity such as gold, people just granted each other credit and kept a record of it. In other words, instead of swapping commodities to get what they wanted, people just kept a record of what they delivered to others, and those who received the goods kept a record of what they owed.
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> Barter was never a very good idea because it seldom happened that there was a coincidence of wants between traders. Those wanting to sell but who couldn't find buyers offering what they wanted, could either accept something else that they knew they could swap for something they wanted from other sellers, or they could grant 'credit' to their buyers. That is, they would give the buyer what they had for sale and simply keep a record of it. The record would constitute the note of credit, which represented what the buyer owed the seller. The seller could either wait until the buyer had something with which to settle the debt (such as food at harvest time), or the seller could trade the debt.
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> This means the creditor (A) of the buyer (B) could receive something from another seller (C) and 'pay' for it by transferring B's debt to C. B could then deliver some goods or service to C and this would settle B's debt to A. For this to happen on a larger scale there would have to be a system of recording these credits and debt transfers" (Jenkin, 2006).

The ancient Egyptians also had a system of exchange that was based on fixed values, but instead of paper money that has no intrinsic value, they measured prices, salaries and other things in a very precise manner with fixed sized pans and jars for grains and beer (Dunn, 2011). Each person would be paid with a certain number of bread loafs and jars of beer. Each jar and each loaf was exactly the same size in order to provide homogeneity to their food based cuurency. The reason people were paid with these things is because they were staple foods in their society.

In more recent times money became a standard for setting value for goods and services but people still needed to buy things on credit. A few technological developments in the 1920's paved the way for the modern credit card.

Some large department stores issued credit coins (also known as charge coins) to their best and most loyal customers even before the 1920's. Similarly some oil companies issued charge plates made of metal to their customers for the purchase of gasoline, oil, etc. at the companies' service stations (Sloan, 1987). Having a credit card in those times was a sign of prestige because it showed that a person had good credit and was trustworthy. Naturally it was something that became a trend among the upper class citizens.

3. History of modern credit card technology

In the past retailers would offer trusted and favored customers the option to purchase goods on credit (also known as opening a line of credit) with a fixed date usually at the end of the month for all debts to be settled. It should be noted that in this arrangement there was no bank involved and no collateral held by the retailer, rather there was a strong level of trust and therefore the retailers bore the default risk. However we can assume that this risk was calculated based on a customer's frequency of shopping at the particular retailer and also the value of the goods purchased on each visit. These could have been indicators of financial strength for a customer. Later, retailers upgraded their practice from keeping written ledgers of the debt that preferred customers accumulated to using identification cards to keep better record of all who qualified and used the credit facility. The identification cards eventually evolved into credit cards that registered and recorded all the transactions in their computer based systems. Credit cards were first issued by retailers so the card was only good in the specific shop that offered it and its affiliated branches.

The next development came when banks saw the opportunity in credit cards to open a new market of business. They issued what is known as the third party credit card. When a customer used the card issued by the bank, the retailer would receive the money by depositing the receipts at the bank at the end of the day. Later on the process of clearing the credit card payments was digitized. However in each case the bank imposed a service charge on the retailers for every payment made by a customer with their cards. The fee can be considered as a charge for the service of clearing the payments and bearing the default risk of the customers. As for the banks, they would recover the funds they advanced to the retailers by sending a bill to the customer at the end of the month for all their purchases with the issued card. Initially third party cards required

holders to pay their credit card debt in full at the end of the month, only in later times was the revolving credit facility introduced in which card holders only had to make minimum payments on the credit balance (on average between 2 and 4 percent) in order to keep their line of credit open and renewed for the next month. The common feature with all credit cards is that interest is charged on any outstanding balance left at the end of the month.

4. Technological aspects

The components of a modern credit card transaction are as follows: Card, card reader, issuer, retailer/ merchant, acquirer, request for payment (from merchant to acquirer), merchant discount (a fee paid to the acquirer who splits it approximately 25:75 with the issuer), the percentage that goes to the issuer is called the "interchange fee" and is set by Visa. American express does not have an interchange fee because it is the issuer and acquirer, therefore they have the exclusive right to retain the entire merchant discount (Ismail, 2010).

Visa and Master Card are not independent profit making companies, they are totally owned by a group of banks known as the Credit Card Association. "To join the Visa association an institution must pay an initial service fee that depends on the type of membership applied for, the type of cards to be issued, and the number of accounts. However the membership fee is trivial relative to the typical revenues from bank card operations" (Ismail, 2010).

5. Issuers

Issuers have to manage a number of expenses, such as: cost of funds and bad debt charge-offs which are the most. Other expenses are labor, data processing, system development and maintenance, and adding new card solicitations. The delinquency rate on credit card loans remains well above that of mortgages, auto loans and personal loans (Ismail, 2010).

6. Acquirers

Although only members of the association have the right to enter contracts with third parties (merchants), the acquirers have the right to employ third party firms to do the job of acquiring. Acquirers do the following: Sign up new merchants and manage the relationship, install terminal equipment, provide authorization services when customers

present their cards, keep track of transactions and report the data to merchants, transferring funds to the merchant on a daily basis to cover card purchases (clearing and settlement), and lastly responding to merchant problems with card processing.

Banks can have varying involvement in the acquiring process. They can conduct the full process of finding merchants, registering them, handling transactions and providing customer service, or only customer service and outsource the remaining responsibilities, or simply provide depository and clearing services while letting a third party have a more active role in dealing with merchants (Ismail, 2010).

The reason banks charge high interest on credit cards is because theycarry a higher risk of default than consumer loans. There is also no collateral backing the fundslent to credit card holders, this makes them more risky for the banks and as a result a higher rate of interest is charged.

Credit cards are no different from debit cards when it comes to the technology functioning in the background. In fact, some debit cards have credit function where they can be swiped as credit cards in machines that are not set up for debit cards.

7. Is there any text in the Quran and Sunnah that can be related to the function of credit cards?

The Ayah of Dayn (verse regarding debt) contains some requirements regarding the handling of debt that can be seen as analogous to the process of recording credit card transactions. In the verse Allah says, “O You who believe! When you contract a debt for a fixed period, write it down. Let a scribe write it down in justice between you. Let not the scribe refuse to write as Allah has taught him, so let him write. Let him (the debtor) who incurs the liability dictate, and he must fear Allah, his Lord, and diminish not anything of what he owes. But if the debtor is of poor understanding, or weak, or is unable himself to dictate, then let his guardian dictate in justice…..” (Holy Quran 2:282)

It is the opinion of the researcher that the credit card serves the purpose of writing the debt of the customer at the point of transaction. The card is swiped and the magnetic strip (or micro-chip depending on the design of the card) is read by the computer and the account of the customer is accessed via several levels of computer verification, afterwards the customer approves the amount of money that will be credited to his

or her account and then the merchant will use the card reading machine to record or "write" that amount of debt onto the customer's account.

It is clear that anyone who uses a credit card for a purchase is taking a loan for a specific period of time. According to the scholars the Islamic legal ruling (Hukm) attributed to the act of writing the debt in the verse above varies from Wajib to Mubah. According to Abu Saeed, Sha'biy, Al Rabi bin Anas, Al Hasan, Ibn Jurayj, Ibn Zayd and others; It (writing of the debt) was Wajib and was abrogated by the portion of the next verse which says, "…if one of you trust one another, then let him who is trusted fulfill his trust, and let him be conscious of Allah his Lord…" (Tafsir Ibn Kathir) Holy Quran 2:283[3]. There is no mention in the Tafsir what the Hukm of writing the debt is after the abrogation, but we assume it would go back to the origin of being Mubah (permissible) which is the moral origin of all things in Islam.

The researcher believes that the conclusions from discussion above prove that the basic service of providing a loan via credit card is Mubah at least, and not at all Makruh or Haram. The complications arise when we go into the details of how the price is set for the services that the credit card provides and the types of terms attached to the loan. We believe that the modern scenario of credit transactions can be broken down along the lines of the parties mentioned in the Ayah of Dayn. We have the debtor (the credit card holder), the creditor (the bank that issues the credit card and we have the Katib (which is signified by the credit card and associated technology). In the ancient version the debtor has a good reputation so he can easily obtain credit from someone who has extra money (today it would be a bank). The debtor asks for a loan and the creditor agrees to give an interest free loan, the Katib writes it down and then the debtor goes to the market and buys whatever he needs. At the end of the fixed period the debtor pays back the creditor and his account is cleared.

One question that needs to be asked is, "Does the Katib write for free?"

In the modern context the customer is the same, but now instead of having the Katib, we have the card. The card has several benefits that we believe the Katib never provided so the bank charges you a fee for the service of this digital Katib in your pocket. Afterwards

3. A careful comparison of different translations of these verses is needed because some sensitive finance vocabulary is used ineach one andthose terms can have different impacts on the contracts.

what you borrow (if using an Islamic credit card) is based on Qardh Hassan. When you swipe your card at the merchant location you are paying with money given to you via Qardh Hassan.However, since you are not carrying cash, the amount you owe the merchant is written and sent to the bank in a manner similar to Hawalah. The bank pays the merchant instantly (minus a fee for facilitating the digital payment system) and the customer settles their debt with the bank at the end of the month.

8. Is debt considered bad in and of itself in Islam?

There is no doubt that there are serious repercussions in Islamic belief for those who waste money or pass away and leave debt behind. These matters that affect us even until our afterlife are definitely not to be ignored or taken lightly. However, in the spirit of being comprehensive we believe it is necessary to mention some Hadith that are rarely mentioned that show a more positive view of taking loans and dealing with debt. Again this is not an encouragement to get indebted, but rather it something to expand the horizons for those who have only heard the negative Hadtih about debt and also ensure those who use debt responsibly that they are not sinful.

Narrated Abu Huraira: The Prophet Muhammad (Peace be upon him) said,

> "Whoever takes the money of the people with the intention of repaying it, Allah will repay it on his behalf, and whoever takes it in order to spoil it, then Allah will spoil him." (Sahih Bukhari, Book 41 Hadith 572)

It was narrated from 'Abdullah bin Ja'far that the Messenger of Allah (ﷺ) said:

> "Allah will be (with) the borrower until he pays off his debt, so long as it (the loan) is not for something that Allah dislikes." (Ibn Majah- English reference: Vol. 3, Book 15, Hadith 2409 Arabic reference : Book 15, Hadith 2501)

> The Mother of the Believers Maimunah used to take out loans frequently, and some of her family said: "Do not do that," and they denounced her for that. She said: "No. I heard my Prophet (ﷺ) and my close friend say: 'There is no Muslim who takes out a loan and Allah (SWT) knows that he intends to pay it back, but Allah(SWT) will pay it back for him in this world." (Ibn Majah -English reference : Vol. 3, Book 15, Hadith 2408 Arabic reference : Book 15, Hadith 2500)

9. Conclusion

Writing of debt to facilitate transactions is an ancient practice and has been permitted in the Quran. Credit cards are just a modern method of writing debts that result from transactions. Contracts for credit cards can be structured in an Islamic way to be utilized without any involvement in Riba (usury or interest). The most important aspect of structuring the contracts that accompany any type of cards or credit facilities is to remove the Riba and not to apply unfair charges.

The credit card is an item of privilege that best suits the individual who is financially stable and responsible. There are costs associated with maintaining and monitoring the system that allows the customer and merchant to enjoy the benefits of credit card transactions. Considering the real efforts and labor behind maintaining the technological infrastructure of credit cards not all credit card fees should be viewed as Riba or exploitation. A portion of the fees charged to the customer are used to keep the infrastructure running and therefore it is a genuine cost that can be charged in Islam because it is in return for an actual service.

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