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Review of Payment Systems in E-Commerce from a Shariah Perspective; a Case of Pakistan

Al-Qirtas Arabic

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Abstract

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The Information and Communication Technology era, coupled with digital innovation, has significantly reshaped the business landscape. This transformation has seen a shift from cash-based transactions to electronic ones, driving an immense surge in e-commerce activities. However, this surge has raised concerns among Muslims regarding the Shariah compliance of online transactions, especially in payment methods like credit cards.This study aims to evaluate the viability of integrating Shariah principles into e-commerce payment modes, addressing the challenges faced by Muslim consumers in online transactions. It specifically compares and scrutinizes two e-commerce frameworks: the conventional model and a Shariah-compliant structure. To accomplish this, a qualitative, comparative exploratory research design with an interpretive approach has been adopted.The core argument presented in the article is that electronic payments can align with Shariah under principles of Islamic contract law. This law mandates that transactions must satisfy Shariah's fundamental requirements, especially in payment methods, and must not involve Riba (Interest) or Gharar (Uncertainty). By upholding these principles within the realm of e-commerce, this research endeavors to maintain trust, transparency, and certainty in online transactions, making a significant contribution to the field.

Keywords: E-Commerce; Islamic law of contracts; Islamic jurisprudence, Shari'ah Compliance; Islamic Ethics; e-business.

Introduction

With the wide adoption of the Internet and the global access to smart phones, the recent decade has seen significant growth in e-commerce activities compared to previous decades. The realm notably impacted by this shift is the domain of business and trade in new and competitive landscapes (Zainul et al., 2004). The COVID-19 pandemic has also altered the online shopping habits of consumers, emphasizing a notable surge in the use of social media platforms and the rise in sales via e-commerce websites. Amid lockdowns, both businesses and consumers have significantly embraced digital means for purchasing and selling products and services online.

According to Peterson, the era of e-commerce is expected to achieve the greatest boost to the world economy and it is likely to represent the engine of progress for the great commercial economic blocks, including the EU, Asia, and the US (Petersen, 2013).

E-Commerce in Pakistan

E-commerce in Pakistan has the potential for significant growth, contributing significantly to the country's economy. However, addressing challenges is necessary to realize its potential. Establishing trust among consumers, improving digital infrastructure, creating a reliable logistics system, increasing digital literacy, and providing regulatory support are essential steps towards creating an environment that supports e-commerce growth (Business Recorder, 2023).The matters concerning the establishment of Shariah-compliant modalities for the transaction process in various online activities, as well as the considerations regarding payment methods such as credit cards, deserve thorough examination from a Shariah perspective.

E-Commerce Regulations in Pakistan

The Government of Pakistan, after studying Model laws, and considering different implementation systems for electronic verification, adopted its Information Technology plan in the year 2000 following the "International Consensus Principals on Electronic Authentication" circulated by Internet Law and Policy Forum (Khan, 2012).

Payment Systems and Electronic Fund Transfers Act, 2007

E-commerce thrives on online payment systems, and to facilitate this, the Government of Pakistan sanctioned the Electronic Fund Transfer Act in 2007. This Act offers legal support for e-banking services, setting forth standards to safeguard consumers and outlining the rights and responsibilities of financial institutions and other involved parties. The primary objective of this

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law is to establish a regulatory structure governing electronic payment mechanisms and money transfers."Electronic fund" is defined as the money transferred through an electronic terminal, ATM, telephone instrument, computer, magnetic medium or any other electronic device to order, instruct or authorize Banking Company, a Financial Institution or any other Company or Person to debit and credit an account. We can say that it covers all relevant aspects of electronic funds, including Payment Systems, Real Time Gross Settlement System (RTGS), Documentation of Transfers, Operator Arrangement, Clearing and other obligations, Notification of Error, Liability of parties and penalties as well (PSEFT Act, 2007).

State Bank of Pakistan' s Regulations

Apart from the primary statutes, the State Bank of Pakistan (SBP) has enacted several regulations pertaining to payment cards, security frameworks for internet banking, cyber-security controls, non-banking electronic money institutions, and the framework for branchless banking. The Federal Government manages cross-border trade by issuing import and export policy orders in line with the Imports and Exports Act of 1950, while customs duties fall under the purview of the Customs Act of 1969. SBP oversees the remission and receipt of payments through a spectrum of regulations governing both local and cross-border payment mechanisms (E-Commerce policy of Pakistan, 2019).

E-commerce Policy Framework, 2019

The e-commerce policy framework approved by the Federal Cabinet in 2019 outlines a gradual transition from cash-on-delivery (CoD) payments to digital transactions, setting a timeline of September 2022 for transactions exceeding Rs10,000.E-commerce in Pakistan falls under the umbrella of regulations governing traditional commerce. The current regulatory framework in Pakistan primarily addresses electronic transactions as a whole, covering areas such as payment cards, internet banking, branchless banking, and Payment System Operators (PSOs)/Payment System Providers (PSPs) (E-Commerce policy of Pakistan, 2019).The rapid expansion of electronic market activities has raised numerous legal, ethical, social, and Shariah-related issues within the domain of e-commerce. The matters concerning the establishment of Shariah-compliant modalities for the transaction process in various online activities, as well as the considerations regarding payment methods such as credit cards, deserve thorough examination from a Shariah perspective. However, the current regulations and practices of e-

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commerce system do not indicate any structure for avoiding Shari'ah prohibitions in online transactions or in payment methods of e-commerce.Therefore there is an increasing need for well-defined regulations governing transactions among its participants, addressing these concerns requires a thorough examination and the provision of practical Shariah-based solutions to ensure clarity and precision in this evolving landscape.

Adopting E-Payment Frameworks to Align with Shariah Principles

The e-payment framework must encompass fundamental elements of Islamic law of contracts particularly the principles of payment of price. This structure ensures the primary objective of Shariah, which is safeguarding the interests and preventing harms for all parties engaged in commercial transactions, can be effectively realized. In every new circumstance, Muslims refer to divine laws to validate the merit and permissibility. This reliance on divine law stems from the understanding that the code of conduct governing human life, including business activities, is pre-established by these laws (Amboala et al., 2015).

Importance of the Study

This subject has garnered the attention of numerous researchers who have undertaken a comprehensive examination of the subject from a Shari'ah perspective, collating valuable insights into the realm of e-commerce. Many scholars have delved into various facets of e-contracts, aiming to propose conditions for Shari'ah compliance in structuring e-commerce transactions as well as the Shariah approved payment methods. Nevertheless, it is important to note that this subject remains relatively underexplored, lacking an abundance of extensive research. Existing literature has predominantly focused on specific aspects of the topic, without exploring the Shariah opinion of Shariah experts (Muftees) in this regard, with limited connections to transactional practices, and slight descriptions of comparisons between Shariah principles and contractual laws. Consequently, there exists a significant gap that necessitates a thorough investigation of the topic.It holds great significance to incorporate Islamic principles into online contracts, aligning them with the foundations of Islamic contract law rooted in the Qur'an, Sunnah, Ijma', and Qiyas. This integration enables online contracts to be governed by Shariah law.

1. The study belongs to the modern Islamic economic ideas that relate to the essential objectives of Shari'ah, which is the protection of money.

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2. This research aims to present an alternative to conventional transactions, providing options for individuals who prioritize ethical values in contracts, steering clear of practices involving usury (riba), uncertainty (gharar), or any impermissible dealings.
3. It also presents a lawful e-business model that adheres to Islamic legal principles, urging organizers and contractors to consider it as a means to earn the public's trust.

Literature review

Prior researches on this subject have predominantly employed quantitative methods. Several studies, such as that conducted by Gandawati (2007), have delved into discerning crucial pivotal factors in establishing trust within online electronic payment systems. Several focused on probing consumer inclinations towards utilizing electronic payments. Mathur (2017) focused on gauging awareness levels concerning security within electronic payment frameworks. Aigbe (2014), meanwhile, scrutinized security levels and their correlation with fraud susceptibility, aiming to elucidate their impact on user trust.

Action Research Strategy

Adopting the strategy of action research involves collaborative efforts between researchers and participants to connect theory with practice, aiming to instigate social change. Its systematic approach involves planning, taking action, observing, evaluating, and engaging in critical reflection to drive meaningful transformations (Bryman et al., 2011). Qualitative methods are employed to interpret specific concepts and meanings rather than establishing generalized relationships, avoiding numerical data as discussed by (Toloie-Eshlaghy, 2011).

Data Collection

The research conducted a comprehensive data collection approach, sourcing information from various channels; academic journals, books offering historical data, newspapers and articles provided diverse real-life perspectives, expert insights and online resources. The study also incorporated Fatwas and Shariah opinions from four distinct centers—Jamia Dar-ul-Uloom Karachi (JDK), Jamia-tur-Rasheed Karachi (JTR), Jamia Ulom e Islamia Binori Town Karachi (JUK), and Jamia Ashrafia Lahore (JAL). These Fatwas, obtained in PDF format or directly from the centers' websites, guide individuals on Islamic financial transactions.

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Research Gap

This exploratory study distinguishes itself from prior research in the field of Shariah-compliant e-commerce payment system by incorporating the perspectives of Shariah experts (Mufties) affiliated with reputable Fatwa centers. These experts possess a deep understanding of e-commerce and are engaged by market players to offer guidance to practitioners. Therefore, this study introduces an extensive structure outlining Shariah compliance requirements in e-payment systems and suggests pragmatic Shariah methodologies.The aforementioned details necessitate a comprehensive examination of e-Payment activities from a Shari'ah perspective, encompassing the application of Shari'ah principles derived from its foundational sources to assess their conformity and elucidate Shari'ah provisions for each facet of these activities. However, the previous researches have not conducted a thorough examination of e-payment practices in comparison with Shari'ah provisions and Fatwa opinions of Shariah experts (Muftees).Presently, the regulatory framework and practices in Pakistan do not provide any guidance for incorporating Shari'ah provisions into online payment to avoid violations of Shari'ah principles in online transactions. Consequently, there is an absence of a comprehensive and well-defined Shariah compliance guideline for e-payment systems in Pakistan.

Definition of e-commerce

Justice (R) Khalil-ur-Rehman Khan defines E-commerce "as conducting business on-line, including buying and selling products with credit card or digital cash, by transfer of data between different companies using networks, such as the Internet. He further says precisely, it is the collection of tools and practices involving Internet technologies that allow a company to create maintain and optimize business relations with consumers and other businesses" (Khan, 2012

Electronic Payment (E-Payment) System

Electronic payment is defined as an electronic value transfer of a payment from the payer to the recipient through an electronic payment mechanism. The e-payment service comes with a web-based user interface that allows customers to access, manage their bank accounts and transactions remotely (Hidayanto et al., 2015). In general, e-payment refers to electronic payment in the context of e-commerce online transactions conducted over the Internet.

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Mode of Payments in E-Commerce

According to Sumanjeet broadly electronic payment systems can be classified into four categories: Online Credit Card Payment System, Online Electronic Cash System, Electronic Cheque System and Smart Cards based Electronic Payment System. It depends on the buyer on how they want to make the payment (Sumanjeet, 2009),

According to Siregar, there are three main payment methods to be selected on e-commerce transaction process:

1. Online Processing Credit Card: This mode is ideal for global marketplaces dealing with retail products. It involves real-time payment processing, making transactions efficient and immediate.
2. Money Transfer: This method offers a more secure way to receive payments from international customers. However, it may involve additional costs for customers due to fees charged by money transfer service providers when sending money across different countries.
3. Cash on Delivery: This payment option is restricted to customers within the same city as the service providers. It allows on-site payment upon delivery of the purchased goods, ensuring buyers only pay when they physically receive the products. (Siregar et al., 2018).

As per Sholikhin et al., diverse payment methods exist in e-commerce transactions, spanning transfers, e-money transactions, and on-site payments via credit cards, among others. The subject of payment within e-commerce remains a widely discussed topic. The primary contention revolves around whether the payment procedures in e-commerce align with the Islamic law of contracts (Sholikhin et al., 2019).

Payment through Credit Card

As per Al-Aaidroos et al., the utilization of credit cards for payments is regarded as a notable concern due to the potential involvement of usury. This stems from undisclosed fees and the interest acquired by banks from delayed payments, leading many Islamic scholars to prohibit the use of conventional credit cards. While it might be assumed that using a credit card for e-commerce payments is permissible if the customer settles all bills before the due date, uncertainties arise when the customer only fulfills the minimum requirement of 15%. In such cases, the issuing bank applies a 2% monthly interest rate on the remaining balance, raising questions about the compliance of e-commerce transactions with Islamic principles (Al-aaidroos et al., 2019).

Payments methods in E-commerce from Shariah perspective

Razali et al. conducted a study exploring e-wallets within the context of Islamic jurisprudence, focusing on contemporary opinions of Shariah scholars regarding the application of the hifz-e-mal (preservation of property) principle in e-wallet usage. They noted that e-wallets have emerged as a highly favored digital transaction medium, offering a diverse array of services. The utilization of funds stored in e-wallets for digital transactions has gained widespread acceptance and does not involve elements such as riba, gharar, gambling, or exploitation. Research findings indicated that using e-wallets as a means for electronic transactions in purchasing products or services aligns with the hifz-e-mal concept (Razali, 2007).

Muhammad et al. assert that using a credit card for online purchases constitutes a form of lending to the cardholder, and any additional charge is considered Riba. However, they note that the issuer is allowed to levy administrative fees, which are fixed and cannot escalate based on the money used for purchases. In Malaysia, the doctrine of al-Inah is acknowledged to validate credit card transactions. Under this doctrine, the bank sells an item to the customer at an agreed-upon price, and the customer sells it back at a lower price, allowing the bank to gain a predetermined profit. However, Shariah scholars in the Middle East do not recognize the al-Inah doctrine, contending that such a sale is fictitious and merely a form of Riba (Muhammad, 2011).

But the issue of non-possessed subject arises in both the deals of Bay al-Inah and Murabah transaction. Rather, the Bay al-Inah is also completed on the basis of Murabah, so there is no difference in treating its validity on the basis of Bay al Inah or Murabaha (Zainul et al., 2004).

Khan supports the view that when payment is made with a conventional credit card subject to interest charges, the transaction is void because the payment includes usury (Khan, 2018).

Adhering to Shariah principles in e-commerce payments requires a careful evaluation of each payment method's framework and conditions. Islamic financial institutions commonly provide guidelines on permissible payment methods, ensuring compliance with these principles. Transactions involving interest go against Islamic teachings; thus, payment methods entailing interest, like credit cards with interest-bearing balances, are not permitted. However, credit cards without interest or allowing full, interest-free payments within a specified period might align with Shariah standards. Payment methods incorporating uncertainties, such as gambling or ambiguous terms, are generally prohibited. Utilizing debit cards, where funds are directly debited

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from the buyer's account without any interest, typically complies with Shariah principles. Preloaded cards used for interest-free transactions could also be considered acceptable. Direct bank transfers or electronic payments that transfer funds between accounts without involving interest are in harmony with Shariah principles. The concept of paying upon receipt of the product aligns with Shariah as it involves immediate payment for immediate possession. Payment arrangements enabling buyers to make installment payments and gain ownership of the item after fulfilling payments could be deemed acceptable if the terms are clear, without imposing penalties for late payments.

Indeed, examining the various modes of payments in e-commerce through an Islamic lens is crucial. E-payment systems in e-commerce encompass a range of methods such as electronic cash, direct online or mediated credit/debit payments, electronic checks, stored-value money, and electronic bill payments. Each of these methods presents its own nuances and considerations from an Islamic standpoint, particularly in terms of adherence to principles such as riba (interest), gharar (uncertainty), and fairness in transactions.

According to Al-zaagy, payment for goods purchased over the Internet does not differ from goods purchased in any other way except in terms of its form and the way the payment is executed. There are various methods of payment in e-commerce, for example ‘e-cash, stored valued cards and electronic fund transfer (EFT) which all appear to comply with Shariah roles and the contractual requirement for payment under Islamic law. These alternatives provide a modern and electronic way of transferring value between users contracting online without the need for physically handling monies. They should therefore be deemed valid in Islamic law as long as they do not involve an element of uncertainty and interest (Alzaagy, 2009).

Payment through Crypto-Currencies

Crypto-currencies function on a cutting-edge technology known as block-chain, akin to a digital ledger that meticulously records each transaction, ensuring transparency and trustworthiness. However, there exists a valid concern regarding the compatibility of crypto-currencies with Islamic principles - whether they are considered permissible or forbidden in Islam. This question has extensive discussions among scholars and experts who aim to determine if these digital assets align with Islamic values and can integrate effectively with financial institutions. A pivotal figure in this debate is Mufti Taqi Usmani, a distinguished Islamic scholar,

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who issued a fatwa (Usmani, T.M.), which holds immense significance in shedding light on this matter. One of his students compiled a transcript that addresses whether crypto-currencies can be deemed permissible or prohibited according to Islamic teachings. In response to the student's inquiry, Mufti Taqi Usmani expressed his views: "Currently, we are not satisfied with the status of crypto-currencies, as they are predominantly employed for speculative purposes. On a personal note, I cannot endorse their usage, as they appear to be fundamentally impermissible. However, it is conceivable that in the future, their application may evolve for legitimate trade, prompting a reevaluation of the current stance. Undoubtedly, crypto-currencies exhibit speculative characteristics, and their widespread adoption also raises concerns from a Shariah perspective. It is important to recognize that this phenomenon is part of a global agenda. Initially, paper currency was introduced, and now there is a push towards digital currencies devoid of tangible asset backing. The near future might witness efforts to make economies reliant on these currencies, potentially leading to the financial subjugation of weaker economies by dominant monetary powers. Consequently, we cannot endorse crypto-currencies, and, according to Islamic jurisprudence, there is currently no firm basis to declare them permissible."Mufti Taqi Usmani's thought-provoking response highlights the intricate nature of crypto-currencies and their alignment with Islamic principles. It emphasizes the necessity for thoughtful deliberation and continual evaluation of their role in the financial landscape.

Prohibition of Riba in Ecommerce

In the realm of e-commerce, a common concern revolves around the permissibility of various payment methods. Among the widely used methods are credit cards, electronic cash, electronic checks, and smart cards based on electronic payment systems (Amboala et al., 2015). In the context of Shariah, all payment methods except credit card transactions are generally considered permissible as they facilitate remote cash transactions. These methods enable immediate cash transfers between accounts without involving interest (Zainul et al., 2004). However, the credit card system operates differently. It allows cardholders to borrow money from the issuer, establishing a lending arrangement between the cardholder and the issuer. While the cardholder may repay the borrowed amount with minimal charges in some instances, typically, interest and additional fees such as service charges and interchange fees are imposed. In cases of delayed payments, the credit card issuer continues to apply charges until the entire

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outstanding amount is settled (Amboala et al., 2015).

Debit Account's Legality in Islamic Law

Debit accounts serve as a cash alternative for making purchases. A debit account holder receives a card linked to an account where they deposit funds. Whenever the debit card is utilized, the withdrawn sum is directly deducted from the account balance. This card allows the holder to make purchases both offline and online within the available funds. Various companies and countries have distinct regulations governing debit card usage. Notably, the use of debit cards is considered permissible as long as it doesn't involve interest (www.islamtoday.com). Hence, there are no Shariah-related concerns associated with this payment method.

Service Commission

In online transactions where a trader accepts payment via cards, banks typically don't credit the trader's account with the full transaction amount. Instead, they charge a percentage, commonly known as the discount, which is charged by the bank and other intermediaries involved in the transaction (Ruud et al., 1996). In this scenario, the charge is imposed based on the services offered by the card issuer. Essentially, the online trader incurs a fee for facilitating the transfer of funds between the buyer's account and their own. As these charges aren't tied to accrual interest from loans, they do not fall under the category of prohibited interest. Rather, they are regarded as a commission for the services rendered, benefiting the online trader. Consequently, a juristic decision was made endorsing the practice of charging commission for providing this service, on the condition that the trader maintains consistent product pricing regardless of whether payment is made via card or cash (www.islam-qa.com). Therefore, since this practice is viewed as a commission, it is legally recognized and valid in Islamic law, as the commission contract holds legal validity (Al-Zuhayli, 2002).

Condition of Interest in Credit Card

In situations where the policies of the issuing company stipulate that interest charges related to credit will be waived if full payment is made within a specified period, while partial payment or delayed payment results in interest charges, there's a difference in Islamic legal opinions. One School of Thought regards this practice as permissible due to the card's vital role in modern businesses, provided the cardholder ensures timely repayment of the credit within the specified period (www.islamtoday.com). However, an opposing viewpoint holds that this card is not

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permissible under Islamic law, even if the cardholder intends to repay the borrowed amount within the interest-free period (www.islam-qa.com). The reason behind this stance is the evident association of the card with a condition of interest in case of delayed payments, which is prohibited in Islamic law. Additionally, there's a potential risk of accruing interest because the cardholder might encounter various circumstances that prevent them from repaying future credit within the designated grace period (Hossain et al., 2021).

Application of Islamic Rules in Credit Card

Several contemporary jurists and legal institutions have undertaken the examination and definition of key elements related to electronic card payments to establish Islamic doctrine. The Islamic Jurisprudence Council characterizes it as a 'transfer of debt' HAWALAH provided by its issuer, (normally a bank) to the other party based on a contractual agreement between them. This empowers the cardholder to purchase goods or services from anyone who acknowledges this transfer without the need for an intermediary. Subsequently, the payment is processed, and the e-account is debited accordingly. This process ensures the preservation of confidentiality (Islamic Jurisprudence Academy, Decision No. 65/1/7).

Interest Free Credit Cards

An interest-free credit card serves as an alternative to conventional interest-based credit cards. Islam permits the use of credit cards on the condition that they do not involve interest. Interest-free credit cards have been developed to align with Islamic principles. With this service, there are no interest charges for settling bills late. Instead, the standard protocol for the card issuer is to caution clients that late payments could lead to withdrawing or canceling the card. (www.baj.com.sa).

Credit card on Bay Al-Inah basis

In Malaysia, the Bay al-Inah doctrine is acknowledged and employed to validate credit card transactions (Çokgezen et al., 2015). This contract operates based on two distinct agreements: Bay al-Mutlak (cash sale) and Bay Bithaman Ajil (deferred sale). The former represents the bank's commitment to sell an item to the customer at an agreed-upon price, while the latter encompasses the customer selling back to the bank at a lower price. The discrepancy between these prices constitutes the bank's profit on the transaction and is predetermined. There are no penalties imposed on the customer, and for any unutilized financing amount, the customer is eligible for a rebate (Khir et al., 2008).

Bai Al-Inah

Bai Al-Inah, commonly known as the Buy Back transaction, involves a sale where an individual sells an asset on credit and then repurchases it at a lower price for cash. This practice is considered prohibited in Islamic finance due to the concern that it serves as a loophole for gaining profit through a transaction resembling a loan arrangement, thereby violating the principles of Shariah (Usmani et al., 2010). For instance, if 'A' requests a loan of $10 from 'B', and instead of charging interest on this loan, 'B' employs a scheme. 'B' sells an item to 'A' for $12 on credit and subsequently buys back the same item from 'A' for cash at $10. This structure, while seemingly a sale and repurchase, is viewed as a disguised loan with interest, contravening Islamic finance principles.

In "Bai' al-inah," there is sale of commodity at a fixed price and specified term to a particular person, delivering the item to them. Then, the seller repurchases the item from the same buyer before the due payment is collected, but this time at a lower cash price than the deferred price. It is called "al-inah" because the seller buys back the very same item that he sold. This type of transaction is considered forbidden, because it serves as a means to engage in Riba (Usmani et al., 2010).

Credit card on the basis of commission

Initially, the Islamic credit card operated under the Inah concept. However, this approach faced criticism from both contemporary and classical Islamic jurists, particularly within the Hambali, Maliki, and Hanafi schools of thought. Consequently, some Malaysian Islamic banks introduced a more preferable alternative by structuring the credit card based on the concept of ujrah, which enjoys clearer acceptance among Islamic scholars. Credit cards employing the ujrah (fee) concept are considered permissible in Shariah as long as they avoid any involvement of riba (interest). Nevertheless, this model raises Shariah concerns regarding its application of IBRA (rebate) and penalty charges (Balarabe et al., 2020).

In this type of card, issues regularly impose fixed fees on their clients for issuing or renewing the card. Additionally, the issuing bank receives a commission from the online trader who accepts

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the card, an accepted practice as mentioned previously. It's plausible for a cardholder to incur charges for issuance and renewal despite not utilizing the card during this period. Nevertheless, these charges solely represent fees established by the card issuer to grant clients access to the card's associated services. Regardless of the card usage, these charges are applied as they are integral to the card's service provision. Importantly, there's no ambiguity as the client is fully aware of these fixed fees when accepting the card. Consequently, it is legally permissible for the card issuer to levy fixed charges on a client for issuing or renewing the card as these fees cover the actual services provided. However, it's crucial to highlight that any additional charges beyond the established fees, exceeding the amount required to cover the services offered, are deemed illicit as they constitute interest, explicitly prohibited under Islamic law (www.islam-qa.com).

Credit Card on Tawarruq Basis

Some Islamic financial institutions issue credit card on Tawarruq (Commodity Murabaha) basis. Tawarruq is a financial concept in Islamic finance that involves the purchase and sale of a commodity between tree parties to generate cash or liquidity. It is often used as an alternative to conventional interest-based financing. In the context of credit cards, Islamic banks may offer Tawarruq-based credit cards as a Sharia-compliant alternative to conventional credit cards. Here's a general overview of how a Tawarruq-based credit card might work as explained under: A customer applies for a Tawarruq-based credit card from an Islamic bank. The bank evaluates the customer's creditworthiness and approves the credit card if the applicant meets the necessary criteria. Instead of providing the customer with a credit limit, the bank purchases a commodity using its own funds. The bank becomes the owner of the commodity. The bank then sells the commodity to the customer on a deferred payment basis. The sale price includes a profit margin for the bank. The customer agrees to repay the purchase price over time, often in installments. The customer repays the bank over the agreed-upon period. The total repayment amount includes the cost of the commodity and the profit margin for the bank. It's important to note that Tawarruq must be structured carefully to comply with Islamic principles. Scholars and financial experts in Islamic finance oversee the process to ensure that it adheres to Shariah principles, such as avoiding Riba (usury) and ensuring fair and transparent transactions (www.islamicbankers.me).

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Fatwas about Debit and Credit Cards

AAIOFI issued standard that covers debit cards, charge cards and credit cards provisions enabling users, by using the cards, either to withdraw cash from their accounts or to obtain credit or to pay for goods or services purchased.

Characteristics of the Debit Card

This card is used for making financial transactions and ATM withdrawal digitally. The card is issued by the bank where the customer has his account. The transactions are limited to the amount available in user's account, the bank does not lend money to the card holder. Money is directly debited from card holder's account. Usually, bank charges annual fees for providing the facility of this card[1]

The Institution issues the card to a customer with 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. The debit to the customer's account will be immediate, and the card does not provide him with any credit. The customer will not normally pay any charges for using this card, except when it is used to withdraw cash or to purchase another currency through another Institution different from the Institution that has issued the card. The issuing Institution may charge a fee for issuing the card, or may make no charge for issuing it.

Characteristics of the Credit Card

This card is used to make financial transactions on the basis of credit, the bank lends fixed amount of money to customer for his daily payments. It is not required to open an account in the bank. This contract of loan is based on interest which means the bank will charge fixed amount of interest if the customer fails to pay his credit bill within the given time period. The interest rate keeps increasing with the delay in payment as per contract. No interest is charged if the bill is paid within the due date. There are different categories of credit cards offered by bank depending on the credit limit.

1 To study Islamic ruling on debit card and credit card data has been collected from the Fatawas of Jamia Darul Karachi (JDK), Al Jamia Al Uloom Al Islamia Binori town (JUB) and Jamia tur Rashid (JTR).

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This card provides a revolving credit facility within the credit limit and credit period determined by the issuer of the card. It is also a means of payment. 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. When 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 al- lowed to defer paying the amount due and is charged interest for the duration of the credit. In the case of a cash withdrawal, there is no free credit period.

Shari' ah Rulings for Different Types of Card

Debit Card: it is permissible for Institutions to issue debit cards, as long as the cardholder does not exceed the balance available on his account and no interest charge arises out of the transaction.

Credit Card: 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. Because Riba is prohibited in terms of either taking or giving, the prohibition of Riba is established through Qur'anic Texts, direct and certain Hadiths of the Prophet صلى اللهعليہ وسلم and the consensus of Muslim scholars, rendering its prohibition well known in the Muslim community as self-evident. However, the issuance of credit cards free from Riba, or from any other legal prohibition, is permissible (AAIOFI Shariah Standard 2).

Difference of Opinion

JDK and JTR categorize banks into Islamic and Non-Islamic, therefore they detailed categorical viewpoint regarding these cards, whereas JUB does not differentiate current banking system in this way, therefore they hold same opinion for the cards offered by both types of banking system. We will first see the details of JUB opinion.

The Opinion of JUB

JUB has different opinion regarding both types of card, which is as follows:

Debit Card

The use and issuance of debit card is permissible, if the discounts offered on the use of this card is from vendor, it is allowed. The discount offered by the bank on the use of this card is impermissible, because the bank account contract is based on debt model, where customer is lender and the discount from the bank is the discount offered from borrower side which is forbidden.

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Credit Card

The account opening contract for this card is based on interest, and making interest based contract is forbidden in Islam, therefore the use and issuance of this card is not permissible, neither the discounts offered on this card can be availed.

The opinion of JDK and JTR

The details of JDK and JTR Shariah complaint department opinion are mentioned below

Issuance and Usage of Debit Card

The issuance and usage of this card for permissible transactions is allowed in Islamic banking, it is Shariah complaint product as there is no single aspect in this card, contradicting Islamic teachings. The annual fee charged by the bank is also justified as service charges. The issuance and use of this card in conventional banks is not allowed as this model is based on interest. The condition for using this card is same as condition for using credit card.

Issuance and Usage of Credit Card

Islamic banks have not yet started issuing any credit card model; conventional banks are offering these cards. The issuance and use of credit card provided by conventional bank is not permissible because of interest based contract where bank and customer agree upon paying and receiving interest (Riba) which is not allowed in Islam. Even if the customer makes sure that he pays the bill on time so that the bank does not charge interest, still this card will be impermissible to use because of interest based contract.

Conditions for Use of Credit Card

If debit card is not available somewhere or there is a country where it is essential to keep credit card then the person may keep this card, use it within the limit of need and one must make sure that he pays the bill within the due date so that he does not have to pay the interest. Furthermore, he should keep asking Allah for forgiveness on making interest-based contract.

Credit Card and Debit Card Discounts

Banks offer discounts on purchases made via credit card or debit card, for example the product cost is thousand rupees, if a customer make the payment through credit card or debit card he will get the same product in eight hundred rupees which means bank gave him twenty percent discount.

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Using Credit Card Discounts

Conventional banks provide facility of Credit Cards, banks and vendors offer discounts on payments made via Credit Cards. The use of such this discount is permissible where the use of Credit Card itself is permissible as per conditions mentioned before for the permissibility of Credit Card usage.

Argument for this Opinion

The discount provided against the use of this card is either by the bank or the vender, if the discount is provided by the vendor or company; it is permissible because the discount is from the third party apart from the borrower and the lender.

If the discount provider is bank, it is also permissible and it does not fall in the category of 'Interest' because interest is name given to the conditional profit or benefit for lender from borrower, whereas in this case the borrower is befitted from lender. Secondly this benefit is unconditional which means the lender or vender can terminate the given discount before ending date without even notifying the customer.

Using Debit Card Discounts

Debit Card discounts are provided by both Conventional and Islamic banks, we will separately observe the model followed by both systems and their ruling.

Islamic Bank Debit Card

The Islamic Bank provides Debit Card facility under two different account titles; Current Account and Saving Account. We will discuss the ruling on Debit Cards related to both account types separately.

Current Account Debit Card Discounts

In Current Account of Islamic Bank, the contract between the bank and the customer is based on loan where the customer is lender and the bank is borrower. There are three possible ways for the provision of discount in this model:

- The discount is provided by the bank
- The discount is provided by the vendor
- The discount is provided by the both

The discount provided by the vendor is permissible and cannot be considered as benefit on debt, as the vendor is third party apart from the lender and the borrower.

It is questionable if the provision of total discount or a part of it is provided by the bank because the bank is borrower in this model and benefitting from debt is forbidden in Islam. Due to following reasons we can say this discount is not linked with the debt in the way that can be considered as benefitting from debt.

- This discount is offered across the board to all debit card holders whether they get the card through current account or saving account, which means that the discount has been offered to them as a bank customer, not as a lender.
- The facility of discount or its ratio is not linked with the amount of balance present in the account in any way.
- The account opening contract does not mention any discount offer, it is completely up to bank whether to offer discount or not.
- After announcing the discount offer for specific period of time, by law the bank is not bound to complete that period and can terminate the offer without even notifying the customers, before the completion of mentioned period.

In the light of points mentioned above we can say that this discount cannot be considered as 'Riba' (Interest), because Riba is defined as conditional benefit for lender which gives him right to demand, whereas in this case the lender has no right to demand for discount as per contract, when this discount is not related to debt, the use of this card is permissible but because it seems to be discount due to debt, it is better and recommended to not avail such offers.

Forbidden Model

If the bank limits the discount offers for current account holders, it will be impermissible to use this discount, as apparently this discount is due to debt, although it is not mentioned in the contract but due to trend and custom of such interest-based loan models, it will be considered conditional though not fully conditional, because the offer is not mentioned when opening account, it is also not necessary that the bank offer discounts within some specific period of time,

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considering all these factors the usage of this offer is forbidden. Keeping in view the fact that it is not fully conditional the ruling of forbiddance will be 'Makroh Tehrimi' rather than 'Haram'

Saving Account Debit Card Discounts

In saving account of Islamic Bank, the contract between the bank and the customer is based on partnership or commission. It is allowed to avail discount offer from vendor and bank. In the case of vendor, it is clear for reason mentioned above and the discount provided by the bank is also not questionable because the agreement is not based on debt, both parties share profit or fixed commission is paid to bank, all types of discount offered by bank in this model are based on mere favor or gift, therefore it is permissible.

Conventional Banks Debit Card Discounts

Conventional Banks also offer debit cards to their current account and saving account holder customers, both accounts are based on debt and interest based model, that's why it is impermissible to keep money in conventional banks. The use of discounts offered by vendor on this card is permissible where the use of this card itself is permissible in the case of need as explained above under the ruling of use conventional bank debit card, the reason of permission is that this discount is offered by some third party, other than the lender and the borrower. If the discount is offered by the bank, it is impermissible to avail this offer, as it is provided by the borrower to lender.

Argument for this Opinion

The question rises that it is not a conditional benefit, neither mentioned in the contract, so it should not fall under the category of interest. The answer is that due to the custom and trend of such discounts it has been considered close to forbidden conditional benefit on loan and stated as 'Makroh Tehrimi'. One question still remains unanswered that what's the reason of differentiating between the ruling of debit card discount of current account of conventional and non-conventional bank, both are based on loan? The answer is that the conventional banks are connected to all customers on the bases of loan, so the position of banks in this case is clear and it cannot be assumed that the bank is offering discounts considering the identity of customer rather than lender, whereas the Islamic banks are connected to the customers on the bases of loan and also on the bases partnership, and they provide these discounts across the board to all customers which means the discount is not offered only to lenders, that's why we can say that the

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discount is not provided by the bank on the bases of loan, considering the lender's identity but it is provided to account holders considering the customer identity.

Discussion

The constant change in technology is introducing new payment methods, where it is not very simple to define the status of made transactions and offered discounts. It is not as simple as JUB opinion regarding both types of cards, we cannot just pass general ruling for each type because different transaction and discount models are being used for each type of card, so a categorical details and rulings must be provided by the Shariah Departments, the work done by JTR in this regard must be appreciated, moreover I believe the way other two departments have explained the issue which distinguishes between different models is based on deep study of plastic cards working mechanism and is close to the legacy of Islamic Jurisprudence, the argument made for their opinion is more justified.

Conclusion

The field concerning Shariah compliance in online transactions lacks extensive research and largely focuses on specific facets, neglecting Shariah expert opinions and practical transactional aspects. This gap requires thorough exploration. In Pakistan, the regulatory framework lacks guidance for integrating Shariah provisions into online payments, resulting in a lack of defined Shariah compliance guidelines for e-payment systems.Regarding crypto-currencies, there's ongoing debate within Islamic scholars about their alignment with Islamic principles due to their speculative nature. Mufti Taqi Usmani, an influential Islamic scholar, expressed skepticism about their permissibility due to their predominant speculative use.The use of debit cards in Islamic banking aligns with Shariah principles, deemed permissible without conflicting with Islamic teachings. However, credit cards issued by conventional banks involve interest-based contracts, rendering them impermissible in Islam. Discounts provided by third parties (vendors) are permissible, but discounts offered by banks based on credit cards are deemed questionable. Islamic bank debit card discounts differ based on account types. Discounts from vendors are permissible for both current and savings accounts. In current accounts, discounts provided solely by the bank might raise concerns due to their association with debt, while savings accounts' discounts are deemed permissible as they operate on a partnership basis.

Conventional banks' debit card discounts are considered impermissible due to their reliance on interest-based models. Vendor-provided discounts are allowed if the card usage itself is permissible. However, discounts provided by conventional banks on their debit cards are typically discouraged, as they're viewed as resembling conditional benefits on loans, falling under a "Makroh Tehrimi" category, bordering on impermissibility.The distinction between Islamic and conventional bank debit card discounts lies in their foundational models. Islamic banks offer discounts across the board to all customers, not just lenders, whereas conventional banks operate primarily on a loan basis, making discounts offered by them more closely associated with debt, hence the differing rulings.

Further Research:

Doing future research can focus on the validation of factors that can contribute to the successful adoption of Shariah approved payment methods around the world.

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