Principles, Operation and Customer Perception On Islamic Charge Card In Al-Rajhi Bank Malaysia

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Abstract: The introduction of Islamic Credit or Charge Card has given more option on payment transaction. Islamic Cards are based on Syariah compliance instruments and follows the Islamic ways of teaching. This paper will discuss the Islamic Charge Card product offered by Al Rajhi Bank Malaysia and the difference compared to some conventional financial Institution. Islamic Card as a payment that meet at least three criteria of Islamic principle. Card must meet the syariah requirement on lending. It must ditch three essential prohibitions in the Islamic finance which are riba, gharar and maysir. Majority of the customers are satisfied with the Syariah law applied especially with the no minimum payment and no finance charges, Different usage indicators measured in the study show that customers have utilize credit cards for different purposes.

Key words: Islamic Charge Card • Customer Perception • Al-Rajhi Bank Malaysia

INTRODUCTION

The last two decades have witnessed increasing proliferation of Islamic Credit/Charge card, which different from the conventional credit card which operates on loan basis and charges interest. Islamic Credit Card provides the same benefits as conventional Credit card but is fully compliant with Syariah principles. Over the years, Islamic credit card has become attractive to both Muslims and non-Muslims.

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Literature Review: Mobil Oil, USA card issued in 1914 is considered the first credit card used to eliminate the need for carrying cash. Meanwhile Diners Card issued in the 1950s was the first company implemented service for businessmen to purchase meal on an expense account. Thus since the early 1950s, credit card has been widely used especially in developed countries as payment system for transfer of funds, It has become a norm for everyone to purchase an item without the need for carrying large sum of paper money. Payment for goods and services through internet using credit cards has also gained acceptance worldwide.

In Malaysia the credit card lending is growing at a compound annual growth rate (CAGR) of 50.4 percent per annum for 7 years from 2005 to 2012 [1]. One of the significant contributions to this trend is that Malaysian consumers have displayed a positive move towards credit card facility. They are able to grant loans for themselves. Meaning, they can obtain funds easily via credit card than personal loans with many documents formalities being relaxed. As a result, credit cards issued from January till February 2012 rose to 10.1 million [1].

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Credit card is one of the easy facilitation which is provided by banks as intermediary institution. Today, the needed of the credit card becomes more important and
essential in economy because in terms of safety than holding cash money. Islamic finance that has garnered tremendous interest in the face of almost two years of global economic crisis will have an important role to play come 2010. Regardless, Islamic credit card is issued by the Islamic banks especially to convenience of Muslim customers to make transactions without holding any cash on hand. It is also for security on customers’ behalf.

In Malaysia, the Islamic credit card had been launched firstly by Bank Islam Malaysia in 2003, namely Bank Islam Card (BIC) used bay al inah as a contract. After that, on April 2009 HSBC Amanah launched the first Islamic credit used ujr asa contract, namely MPower Credit Card-i.

**Islamic Charge Card:** Islamic Card as a payment that meet with at least three criteria of Islamic principle. Card must meet the;

- **Syariah**, requirement on lending. It must ditch the three essential prohibitions in the Islamic finance which are *riba*, *gharar* and *maysir*.
- **Riba** is connected with interest ideal and it clearly prohibited in holy Qur’an. Therefore Islamic credit card is not allowed to charge any interest even if the Customers does not pay on time.
- **Gharar** or uncertainty, in the practice of Islamic credit card should be avoided by excluding a charging scheme where the monthly repayment or service charges are variable based on a number of factors.
- **Maysir** or gambling is also prohibited. Secondly, an Islamic credit card must have certainty to be accepted worldwide it should use payment scheme like visa or master card. Beside that it should provide some available facilities such as CVV number for transaction and held amounts. Furthermore, the merchant charge and issuer’s fee should not be withheld.

Islamic charge card should not animate behavior that considers *haram*.

**Types of Card Payment**

**Charge Card:** When you use a charge card, the card issuer would pay to the merchant first on your behalf and bill you for it later. Expenses incurred on the card are accumulated and tracked by the card issuer and these expenses would be billed to you during your monthly billing cycle. Generally, the bill must be paid in full within 15 to 30 days from the date of billing. Failing to do so would result in your charge card being frozen [2].

There is a limit to the total amount of expenses you can carry on credit (known as the Credit Limit). But charge cards are known for having very high limits compared to credit cards.

In recent times, charge cards have been falling out of popularity, giving way to more popular “plastic” payment alternatives like credit cards and debit cards. The most popular charge cards in Malaysia today are American Express (Under Maybank) and Diners Club. Other available charge cards include those issued by Al-Rajhi, Public Bank, UOB and MBF.

**Credit Card:** Credit cards work the exact same way as a charge card. But unlike charge cards, instead of having to pay the full amount before the due date, you have the option to make only minimum payment (5% of the outstanding balance or RM50, whichever is higher) and carry forward the rest of the outstanding balance to the following month. As long as you did not reach your credit limit and pay promptly every month, your cards would not be frozen [2].

But there is a catch. Card issuers charge an interest for any outstanding amounts carried forward. Interest rates typically range from 9% -18% p.a. For someone who habitually pays only 5% minimum payment every month, that quickly adds up. It would take a person 3.5 years to pay off a RM2000 bill amount if they paid only minimum amount every month. And they would end up paying a total of RM575 in interest. That is among the priciest form of financing provided by banks.

Additionally, to curb the uncontrolled proliferation of credit card debt, the Ministry of Finance has imposed a yearly RM50 service tax on all principal credit cards and RM25 service tax on all supplementary cards.

But if you use them responsibly, credit cards can offer other advantages. They help build your credit score as long as you pay your bills on time. Many offer additional benefits and reward schemes that you can use to get presents, cash return or discounts for products, services and special events. They also offer better protection against fraudulent transactions and better leverage in cases of dispute with merchants as compared to a debit card.

**Debit Card:** While credit cards and charge cards are credit facilities, debit cards are not. Debit cards are always linked
Objective: The objective for this paper is to explore the Islamic Charge Card offered by Al Rajhi Bank Malaysia by its operation and principles. Al Rajhi Bank Malaysia, an Islamic international bank from Arab Saudi, offering Islamic product for Charge Card and Debit Card only. This paper also will investigate the concept based product offering, compare the similarities and differences of card products and also to analyze the perception and preference of banking consumers in regard to Islamic banking services in Malaysia.

DISCUSSION

Al Rajhi Bank Background: Al Rajhi Bank (previously known as Al Rajhi Banking and Investment Corporation) is a Saudi Arabian bank and the world's largest Islamic bank by capital based on 2006 data. The bank is a major investor in Saudi Arabia's business and is one of the largest joint stock companies in the Kingdom, with a paid up capital of SAR 16.25 billion. Its head office is located in Riyadh and there are six regional offices. Al Rajhi Bank also has 24 branches in Malaysia.

Banking and trading activities began in 1957. In 1978 the individual establishments were merged into "Al Rajhi Trading and Exchange Corporation" and in 1987 it was converted into a joint stock company under the royal decree No. 59. The company was renamed to Al Rajhi Banking and Investment Corp under the ministerial decision No. 1398 and was re-branded, in February 2006, to Al Rajhi Bank, but is still registered as Al Rajhi Banking and Investment Corp [3].

Al Rajhi Bank's shareholding pattern show that the four sons of Abdul Aziz Al Rajhi (Suleiman, Abdullah and Mohammed) and their heirs remain the corporation's primary equity holders. Al Rajhi Bank is considered one of the major joint stock banking and investment companies with a 100% Saudi capital initiated by SAR 750 million, then doubled to SAR 1500 million and a stock grant and split up to SAR 2, 250 million took place. The capital doubled again to reach SAR 4, 500 million and also a stock grant and split up to SAR 6, 750 million took place. The capital doubled a third time to reach SAR 13, 500 million. And in 2008, the capital was increased to become SR 15 billion. During the year 2014, the bank's capital increased to SAR 16.25 billion [4].

In 2006 - nearly after 50 years of operation solely within Saudi Arabia - the bank launched in Malaysia, signifying its first foray into international banking. Following the Saudi business model which adheres closely to the deeply rooted Islamic banking principles, the Sharia-compliant banking group is planning to be instrumental in bridging the gap between modern financial demands and intrinsic Islamic values, for the numerous industry standards and development in Malaysia.

Further regional expansion has seen the 2010 opening of a national office, men's branch and separate ladies' branch in Kuwait. Followed by the 2011 launch of a national office and branches in Jordan.

Al Rajhi Bank is a financial institution to be reckoned with, due to the following:

As December 31, 2012 Al Rajhi Bank

| Asset Total | US$ 71.293 Million |
| Net Income  | US$ 2.102 Billion |
| Total Equity| US$ 9.724 Billion |
| Profitability| US$ 2.102 Billion |

Al Rajhi Bank received the credit rating of AA- from Capital Intelligence, which is the highest to date.

Value Statement

Truth: Syariah Compliant banking products and services are structured using fair and honest islamic principles.

The outcome? Equal win-win partnership and lasting banking relationship built on trust.

Honour: Believing in paying lip services to capabilities. Honour means staying true to own words.

Taking pride in being reliable banking partner that offers highest standards of banking professionalism, efficiency and compliance.

Respect: Every customer is important, irrespective of race, social and religious backgrounds. No query is irrelevant, in respect to their products. Organization strategy is tailor made product solutions and customer care that’s respects financial needs.

Al Rajhi Bank Charge Card: Generally Islamic cards adopt three Syariah principles namely [4,5];
- **Bai Inah** - Comprises of two agreements: in the first one, the issuing bank sells a propriety to the customer at an agreed price. While in the second contract, the Bank re-purchases the propriety from the Client at a lower price. The difference should be the determined maximum profit for the bank.

- **Wadiah** - The Bank will disburse the cash proceeds of the second agreement into the customer's Wadiah account created and maintained by the bank. The customer can use his/her account for cash withdrawals like the classic credit card, except that each payment will be backed by the cash held in his/her Wadiah account.

- **Qardul Hassan** - Hassan is a facility granted during an emergency or difficult situation, which make the customer able to utilise higher than the available limit. The Qardul Hassan amount would not be levied with any charges or fees.

**Al Rajhi Bank Charge Card Are Based On Qardhul Hassan Principles**: The word “Qardh” in Arabic literally means “cutting off”. When the moneylender lends to someone, he actually cuts off some of his money and gives it to the borrower. Meanwhile, the word “Hassan” in Arabic means splendid or beautiful. Thus, combining these two words together means a “beautiful loan”. In other words, in general, Qardh means to give money to someone that may benefit from it and pay back the same (the principal amount only). In general, most of the authors defines Qardul Hassan as charitable loans with no interest, or a zero-interest bearing loan, with low expectations of return of capital. On top of that, the meaning of Qardul Hassan can be added in which it is purely a benevolent act and it is extended to others without interest or any other compensation from the borrower and can be expected a reward only from God [3,4].

**Differences between Islamic and Conventional Credit Card:**

<table>
<thead>
<tr>
<th>No</th>
<th>Conventional Approach</th>
<th>Islamic Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Operates based on country banking law and financial practices.</td>
<td>Operates based on Syariah, the Islamic principle.</td>
</tr>
<tr>
<td>2</td>
<td>Maximizes profit without any restriction.</td>
<td>Maximizes profit subject to Syariah principle restriction.</td>
</tr>
<tr>
<td>3</td>
<td>Profit of pre-determined rate of interest.</td>
<td>Profit based on agreed profit sharing ratio.</td>
</tr>
<tr>
<td>4</td>
<td>Not based on profit and loss sharing.</td>
<td>Based on profit and loss sharing.</td>
</tr>
<tr>
<td>5</td>
<td>“Riba” is illegal for Muslim.</td>
<td>“Halal” for Muslim.</td>
</tr>
<tr>
<td>6</td>
<td>Card can be use at all merchant sites.</td>
<td>Card can only be used at Merchant with “Halal” registration at Licensor.</td>
</tr>
</tbody>
</table>

From the above, let's take an example from a conventional credit card to compare with Al Rajhi Charge Card. As mentioned earlier, Al Rajhi Charge Card are based on Qardhul Hassan Principles, therefore, any fees and charges imposed must be clearly defined and to charge upon the cost only without any additional penalty or charges. Fail to do so, the extra fund will be donating into charity as wakaf to the society. Take example of Citibank VISA Card and Al Rajhi Bank Charge Card.

<table>
<thead>
<tr>
<th>No</th>
<th>Conventional VISA</th>
<th>Al Rajhi VISA Charge Card</th>
<th>Remark</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Annual Fee: Classic Card (Principal): RM70</td>
<td>Annual Fee: Classic Card (Principal): RM70</td>
<td>At Al Rajhi Bank, any charges for a loan must be according to actual cost, therefore unlike Citibank with different charges according to card type.</td>
</tr>
<tr>
<td></td>
<td>Classic Card (Supplementary): RM45</td>
<td>Classic Card (Supplementary): RM70</td>
<td>Charge Card from Al Rajhi Bank charge RM70 across all card types as RM70 is the cost for making and emboss on the card.</td>
</tr>
<tr>
<td></td>
<td>Gold Card (Principal): RM195</td>
<td>Gold Card (Principal): RM70</td>
<td></td>
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<tr>
<td></td>
<td>Gold Card (Supplementary): RM100</td>
<td>Gold Card (Supplementary): RM70</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Cash Advance Fee:</td>
<td>Cash Advance Fee:</td>
<td>At Rajhi Bank, Fee charges for cash advance is the exact fees charge from VISA network regardless any amount. However, at Citibank the charges is fluctuate according to amount.</td>
</tr>
<tr>
<td></td>
<td>5% of cash amount (min RM 20) and 18% per annum daily interest.</td>
<td>RM 10.00 per transaction (Local and Oversea)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Retail Transactions: Interest free period: 20 days from the statement date and applicable only for cardmember who pays in full on or before the payment due date. If cardmember opts to pay partial or minimum payment, finance charges for retail transactions will be calculated from the day transactions are posted to the card account. Late Payment Charge* A minimum of RM10 or 1% of total outstanding balance as at statement date (whichever is higher), up to a maximum of RM100</td>
<td>Retail Transactions: No Interest</td>
<td>For Al Rajhi charge card, no interest is allowing to charge for all retail transaction and full amount must be made at the 25th Day from statement date. However, for Citibank minimum payment is allowed with the financial charges after 20 days of statement date.</td>
</tr>
</tbody>
</table>
### Customer Perception Towards Islamic Credit Card:
Islamic scholars differed in their opinion on the precise term for credit card, whether it is ‘qard’ or ‘I’timan’. Eventually, the Islamic Fiqh Academy later agreed on the precise definition of the credit card in the year 2000. Islamic Fiqh Academy has defined it as a document and is called it as “Al- I’timan” as referring to the credit card transaction in Islam instead of Al-Qard. The Islamic credit card adds value and attracts customers, both Muslims and non-Muslims due to its features and beneficial services to the customers because of the concept, application and low cost compared to conventional one.

There is a significant difference between Islamic credit card in terms of buying goods and rendering services. Gradually, the demand for the Islamic Credit Card is increasing because of the interest free elements and its compliance to Syariah rules and regulations. People start shifting their credit card preferences towards Islamic Credit Card. This has forced conventional banks to improve their product to satisfy the customer's needs and preferences. Islamic banking product is still new and there is a mixture of curiosity and skepticism among customers. Getting more people to use Islamic Credit Cards can pose a stiff challenge to conventional credit cards which is competing by offering attractive benefits and incentives. Islamic banking should review its strategic planning in order to achieve its missions and objectives by focusing on their target market, study the external opportunities, threats, increase their promotion strategy to enhance the customer’ awareness as well as internal strengths and weaknesses to get more customers. Islamic Credit card holders have correlation with religion and their interest to go into debt seems to be tamed compared to conventional credit card holders.

### CONCLUSIONS
During my 5 years’ service as call centre agent with Al Rajhi Bank, I do receive a lot of comments from both Muslim and non-Muslim customers in regards with Al Rajhi Charge Card, majority of the customers are satisfied with the Syariah law applied especially with the no minimum payment and no finance charges, they had commented that if all cards at Malaysia practice the same, our youth will have a better future rather than now 90% of them serve as a “credit card debt slave”.

However, Charge/Credit card providers may be more successful in capturing customer needs and preferences into their marketing strategies once they identify credit card user characteristics and understand their usage pattern. Different usage indicators measured in the study show that customers have utilize credit cards for different purposes.

On the other hand, credit card is used in different purchase situations. Credit card holders seemed to use credit card for purchases of basic needs such as fuel/petrol, clothing and health services. As for retail purchases, users seemed to use their credit cards mostly for accommodation/hotel, dining and groceries shopping. The credit card providers may take into consideration the differences in usage pattern among credit card holders based on users’ characteristics.

### REFERENCES

