

Tawarruq based credit card

The objective is to issue a card that is Shari'ah compliant based on the structure approved by BSF Shari'ah board and at the same time can be fitted into the already existing infrastructure both locally and internationally.

The basic idea is to issue a charge care, one in which the account is settled at end of each monthly accounting period.

Therefore, when the statement is sent to card holder he may:

- 1- Settle to full charge and clear all outstanding amounts.
- 2- Make partial payment, and keep part of the obligating outstanding.
- 3- Pay only the minimum stated in the statement.

In case 2 and 3 above, the bank will sell to the card holder commodities on deferred payment basis for a value equal to the outstanding amount in the card, plus profit calculated annually for one month. Then, on behalf of the said card holder sell the same in the market and use the value received to settle the card account.

At the next accounting cycle the same will be repeated, i.e. the card holder will either settle the full amount, or partial payment but in all cases must pay the minimum. Again a tawarruq transaction is done for one month.

Documentation:

The standard credit card terms and conditions should be amended to reflect the new structure. The amended terms and conditions must be signed by the customer as usual.

It is to be noted that from Shari'ah point of view the card holder must be informed each time the bank executes a tawarruq transaction on his behalf. He has a right to object. In such a case the bank will have to recede the transaction and transfer it to the account of bank. The agreement is then terminated and card is cancelled. This is a case of default and collection of the outstanding amount is done through the normal channels.