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A Study of Shariah-Compliant Credit Cards in Islamic Banking: The Applicable Structures and Practices in Malaysia

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ABSTRACT

Islamic Credit Cards (ICCs) have emerged as a key product within the Islamic financial system. The development of ICCs have evolved from the Bay' al-'Inah and Qard-Ujrah structure to the Tawarruq model. The transition demonstrates the continuing evolution of Islamic banking products which aims to ensure Shariah compliance while offering competitive products. This study focuses on the framework governing ICCs in Malaysia where it aims to examine the extent to which the ICCs operation is in line with Shariah as well as the underlying objective of *Maqasid al-Shariah.* Additionally, the study adopts a qualitative doctrinal approach where the researchers have examined the relevant primary and secondary sources in conducting the research. The study further demonstrates that with the transition to Tawarruq-based, various Shariah issues concerning ICCs arising from the previous models are being addressed. Nevertheless, despite the attempt to produce a credit card which balances Shariah compliance and product competitiveness, scholars highlight that there exist practical challenges and limitations within the operation of the model. These challenges include the issue on profit rate, revolving credit facilities and the limitation of Merchant Category Code (MCC) filtering in mixed-revenue merchants. The study further highlights that Shariah compliant alone does not guarantee that the broader objective of promoting responsible financing while eliminating riba' can be achieved. Hence, although this paper examines the governing framework of ICCs, behavioral issues and financial illiteracy remain as ongoing challenges. Therefore, this study highlights Malaysia's accomplishment on the creation of Shariah-compliant credit cards while identifying areas for further improvement.

Keywords: Shariah-compliant credit cards, Islamic Credit Cards (ICCs), Islamic banking, Tawarruq, Malaysia

INTRODUCTION

Malaysia practices a dual banking system which allows for conventional and Islamic financial institutions to operate concurrently. The coexistence of this dual system has placed Malaysia as one of the leading hubs for Islamic finance. Over the years, the ICCs have evolved and emerged as a significant retail financing instrument where it was developed to offer consumers access to Shariah compliant credit. The underlying principle of ICCs differs from the conventional system in which ICCs operation aligns with the prohibition of riba (interest), gharar (uncertainty), and maysir (gambling). Due to these prohibitions, the Islamic financial institution is required to adopt alternative contractual structures to ensure that the relationship between the institution and the consumer remains contract based. In line with the evolution of Islamic products, the ICCs have shifted from several models, specifically the Bay' al-Inah and Ujrah model. Nevertheless, due to scholar's criticism of their operation which resembles the conventional system, the ICCs have shifted towards the more acceptable Tawarruq-based model. All of the models were developed with the aim to allow consumers to enjoy a Shariah compliant credit card facility. Due to regulatory and industry standardisation initiatives, the Islamic financial system has undergone major transformation between 2025 and 2026 with the migration of the Ujrah based framework to the Tawarruq structure (Al-Shagdari, 2025). The development of ICCs demonstrate the challenges faced by the Islamic system to balance consumer convenience while maintaining Shariah and regulatory compliance. Hence, this study examines the development, structures, and practices of Shariah-compliant credit cards in Malaysia, as well as the Shariah and regulatory issues arising from their implementation.

LITERATURE REVIEW

Over the years, there has been ongoing debate on ICCs, particularly on whether the application of ICC genuinely satisfies Shariah compliance and aligns with the broader objectives of Shariah. The early application of ICC models based on Bay' al-'Inah (buy-back arrangements) has faced significant criticism from scholars due to its operation. These models were criticised for their structure that was seen as producing financial outcomes that closely resembled those of conventional credit systems. It was also argued that Bay' al-'Inah constituted a legal stratagem (hiyal) designed to circumvent the prohibition of riba (interest) (Rafique et al., 2023; Smolo & Musa, 2020).

In an attempt to provide a more operationally practical alternative, a hybrid Qard-Ujrah model was introduced by the industry. This model offers customers an interest free loan (Qard) while the bank charges a service fee (Ujrah). Nevertheless, this model was later criticized due to its operation which resembles conventional interest financing. Despite its attempt to evade riba', scholars argue that the resemblance of riba' is apparent in the Qard-Ujrah operation with the charging of administrative fee. Scholars opine that the fees charged are not the actual cost of the services provided by the financial institution, instead it is linked to the credit usage or outstanding balance (Bathusha & Isa, 2024; Farooq & El Ghattis, 2015). Hence, with the resemblance of conventional practice, the model is deemed to undermine its primary objective of eliminating riba'.

Due to the ongoing criticism, the ICCs have gradually shifted towards Commodity Murabahah (Tawarruq)-based structures. The transition was made to ensure that the ICCs transactions are not merely based on lending arrangements but involve real asset trading (Bathusha & Isa, 2025). Nevertheless, despite the structural shift, the pricing, profit rates and revolving debt features within the ICCs structure was criticized. The elements were argued by scholars to have the effect of encouraging long-term borrowing trends instead of real risk-sharing arrangements (Farooq & El Ghattis, 2015; Kenjebaev, 2012).

Hence, in addressing the gap, scholars suggest that most financial institutions are pressured to adopt complex contractual structures in its attempt to balance between compliance of regulatory framework and ensuring market competitiveness (Mohd Sokris & Ibrahim, 2024). Therefore, the Tawarruq model is argued to not fully align with the broader objectives of Shariah despite it satisfying the formal Shariah requirements. This gap includes concerns related to the preservation of wealth (ḥifz al-māl), as the structure may inadvertently encourage excessive consumption (isrāf) and contribute to rising household debt levels (Bathusha & Isa, 2026; Kenjebaev, 2012).

Aside from the operational gap, many studies have also highlighted concerns about consumer behaviour and regulatory governance with the operation of ICC. Several scholars contend that although the ICC is structured based on Shariah-compliant contracts, the ICC provides immediate purchasing power and deferred repayment facilities to consumers. The immediate purchasing power if not utilized properly will escalate the risk of consumers engaging in excessive spending, smoothing and long-term indebtedness (Kenjebaev, 2012). This concern is particularly important considering the increasing reliance on consumer financing and the broader objective of preserving wealth (ḥifz al-māl) in Islamic finance.

Thus, in strengthening both Shariah compliance and consumer protection, various governance mechanisms have been introduced by the regulators. Studies further indicate that regulatory frameworks play a vital role in ensuring that ICCs structure conform to Shariah principles while remaining competitive in the market. Among the measures taken are Shariah-compliant contractual structures, limitations on fees and charges, as well as strengthening disclosure requirements imposed on financial institutions (Bathusha & Isa, 2026). All of these measures reflect the ongoing efforts of the regulatory bodies to address issues relating to the increasing consumer indebtedness while at the same time preserving Shariah principle within the products.

Despite the growing body of literature on ICCs, several gaps remain. Existing studies have extensively examined the permissibility of Bay' al-'Inah, Qard-Ujrah and Tawarruq structures, as well as the broader form-versus-substance debate. However, limited attention has been given to the contemporary operational practices of ICCs in Malaysia, particularly following the increasing industry preference for Tawarruq-based structures. Additionally, there have been few studies which examine how the current pricing mechanism is being operated under the latest regulatory framework. The mechanism includes ceiling profit rates, effective profit rates, ta'widh and cash advance facilities. Therefore, this study is conducted with the aim to examine the applicable Shariah structures of ICCs in Malaysia and its operational practices. The study will also assess the sufficiency of these mechanisms in balancing Shariah compliance with the objectives of Islamic finance.

METHODOLOGY

This legal study adopts a qualitative doctrinal research methodology. This methodology is employed with the aim to examine the structure and practices of Shariah-compliant ICCs in Malaysia's Islamic banking sector. Meanwhile, the doctrinal approach is adopted to analyse the extent to which current practices of ICCs comply with Shariah principles while remaining practical within the industry. Lastly, upon analysing the researchers provide recommendations to enhance the existing Islamic framework. In conducting this research, the researchers relied primarily on secondary sources such as regulatory guidelines, journal articles, books, and official policy documents issued by Bank Negara Malaysia and other relevant Islamic finance authorities.

FINDINGS AND DISCUSSION

Shariah Principles Governing Islamic Credit Cards (ICCs)

As an alternative to conventional credit cards, ICCs were introduced in Malaysia in accordance with Shariah principle, to remove the operation of interest-based lending. Therefore, in order to ensure the compliance with the prohibition against *riba, gharar* and *maysir*, Islamic financial institutions in Malaysia have further created and adopted several contractual structures namely Bay' al-'Inah, Ujrah and Tawarruq. The evolution of these structures shows industry's effort to balance commercial products practicality together with Shariah requirements while maintaining the functionality of modern credit facilities (Bathusha & Isa, 2026).

Evolution of Islamic Credit Card Structures

In Malaysia, the first Islamic credit card products were established by implementing the Bay' al-'Inah structure. The bank sells an asset to the consumer on deferred payment terms before buying it back for cash. In this agreement, although two selling transactions occur, the primary goal of the arrangement is to offer funding without the use of an interest-based loan. For many years, Islamic banks in Malaysia employed this framework while issuing Islamic credit card capabilities.

Bay' al-'Inah continues to face criticism from both local and international experts despite being accepted by Malaysian Shariah authorities. The main issue was whether the transaction constituted a true sale or if it merely had the same economic impact as a traditional loan. According to Bilal and Meera (2015), the asset in the transaction has only a limited commercial purpose as it is primarily used to provide liquidity to the consumer. In other words, it seems that the product shows the customer's primary goal is not to purchase and sell the asset but to secure financing. Consequently, some scholars view that Bay' al-'Inah has actually fulfilled the legal concept of a sale; however, it did not have the substance distinction from conventional financing (Bilal & Meera, 2015).

Further, Islamic financial institutions began developing the product of Ujrah as an alternative to Islamic credit cards as greater debate erupted over the usage of Bay' al-'Inah,. Under this approach, the bank offers financing in the form of a Qard (interest-free loan), while an Ujrah known as service fee is charged to the customer for account administration, transaction processing, and other credit card-related services. Several Islamic banks adopted this concept as it is easy to utilize and navigate whereby the service fee was established from the start and was based on the type of card issued rather than the amount used by the consumer.

Even though the Ujrah model seemed to deal with some of the issues raised by Bay' al-'Inah, it later became the primary topic of additional Shariah discussion. Abdul Razak (2015) discovered that several Islamic credit card products imposed administration fees and cash withdrawal costs that were directly related to the customer's utilization of the financing facility. This presented the key question of whether the bank derived a financial benefit from the Qard it granted. Such a practice has long been discussed under the well-known fiqh maxim, kullu qardin jarra naf'an fahuwa riba, which states that any loan that benefits the lender is riba. Abdul Razak (2015) further argues that the arrangement may also fall within the prohibition against Bay' wa Salaf, as the loan and the profit-generating arrangement are closely connected within the same contractual relationship.

The current Credit Card and Credit Card-i Policy Document by Bank Negara Malaysia addresses these problems further where the policy makes it clear that Ujrah must be charged a fixed sum. It cannot be tied to the customer's credit limit or the remaining Qard balance. Further, the regulation also prohibits Ujrah from being charged fees on loan repayment extensions, delayed repayments, or cash-for-cash exchange transactions. These rules were implemented to guarantee that the service fee remains a legitimate payment for services rendered rather than a disguised return on the loan (Bank Negara Malaysia, 2025).

The Dominance of Tawarruq-Based Credit Card-i

Malaysia recognised both the Ujrah and Tawarruq structures evidenced in Bank Negara Malaysia's Credit Card and Credit Card-i Policy Document, however, Islamic banks in Malaysia now, in practice, provide Credit Card-i products based on the Tawarruq structure. In conjunction with this transformation, which did not occur abruptly, it was the result of the urge to address the Shariah concerns arising from the previous application of Ujrah structures while maintaining continuous practical and economically viable financing options to the consumers. Consequently, Tawarruq also provides Islamic financial institutions with a stronger contractual basis for creating Islamic credit card products (Bank Negara Malaysia, 2025; Bathusha & Isa, 2026).

In terms of understanding to why Tawarruq has become the dominant form, examine how the transaction occurs. The bank initially acquires a Shariah-compliant commodity from a commodity broker. The commodity is subsequently sold to the consumer for a deferred selling price that comprises both the initial purchase price and a mutually agreed-up profit margin. After purchasing the commodity, the customer designates the bank as a wakil (agent) to sell it to another commodities broker on their behalf. After the commodity has been sold, the sale earnings are deposited to the customer's credit card account and become the available credit limit. The customer may then use this credit limit for retail purchases, online transactions or cash withdrawals, depending on the terms of the Credit Card-i facility (Bank Negara Malaysia, 2025).

Wakalah's role in this arrangement is often disregarded. In most cases, clients have no intention of taking physical delivery of the commodity involved in the transaction. Their primary goal is to gain access to the finance available through the Credit Card-i. As a result, the consumer authorizes the bank to execute the commodity trading process on their behalf. This simplifies the transaction because the customer is not dealing directly with the commodities market. Maybank Islamic's Commodity Murabahah structure takes a similar method, with the bank acting as the customer's agent before crediting the sale revenues to the customer's available credit limit (Maybank Islamic, 2025).

In addition to the reason Tawarruq has gained popularity, the bank can profit from sales and not rely on loans. Henceforth, this main distinction brings significance to the Shariah standpoint due to the fact the profit could be derived from the sale of the commodity rather than an interest-bearing loan. Further, Bank Negara Malaysia mandates to all issuers to grant ibra' (rebate) for any unused portion of the allowed credit limit in order to ensure that profit is only charged for the amount actually used by the consumer, preserving the arrangement's sale-based basis (Bank Negara Malaysia, 2025).

Although the Tawarruq structure is now commonly used by Malaysian Islamic financial institutions, this sparks academic debates where many experts view that the structure meets the requirements of a legitimate sale contract and addresses many of the previously expressed objections with the Qard-Ujrah model. Meanwhile, some remain unconvinced because they argued that, while the legal documents are based on a sale transaction, the overall economic consequence is quite similar to that of a traditional credit card. Their reasoning is that the customer retains immediate purchasing power while being compelled to return a larger deferred amount. As a result, the discussion gradually changes throughout time. Rather than focusing just on whether the structure is free of riba, academics are now considering if Tawarruq truly meets the goals of Islamic finance, or if it simply changes the legal form of the transaction without making a substantive difference (Bilal & Meera 2015).

Operational Mechanisms and Pricing Practices in Malaysia

Ceiling Profit Rate (CPR), Effective Profit Rate (EPR) and Ibra'

Tawarruq-based Islamic Credit Card's key features is the use of two different profit rates which are the Ceiling Profit Rate (CPR) and the Effective Profit Rate (EPR). It may appear confusing because customers are presented with two different rates. In practice, however, each rate serves a different purpose within the financing arrangement. Firstly, when the Credit Card-i facility application is approved, the bank will determine a maximum selling price based on the approved credit limit and the Ceiling Profit Rate. This selling price represents the highest amount payable by the customer throughout the financing tenure. As an example, CIMB Islamic calculates the Bank's Sale Price by combining the Bank's Purchase Price with the Total Profit calculated using a ceiling profit rate of 18% over the financing period (CIMB Islamic Bank, 2026). Therefore, the CPR acts as the maximum profit that may be charged under the Tawarruq arrangement.

Generally, customers are not required to pay profit at that rate although the selling price is determined using the CPR. Instead, the bank charges profit based on the lower Effective Profit Rate (EPR).The profit must only be charged on the amount of the credit limit actually utilised by the cardholder under Bank Negara Malaysia's Credit Card and Credit Card-i Policy Document. At the same time, the issuer is required to grant ibra' (rebate) on the unused portion of the approved credit limit (Bank Negara Malaysia, 2025). In short, the rebate reduces the difference between the maximum selling price determined at the beginning of the transaction and the actual profit charged throughout the financing period. This approach can be seen in the practices of Islamic banks in Malaysia whereby CIMB Islamic explains that ibra' represents the difference between the Total Profit calculated using the CPR and the actual profit charged using the EPR (CIMB Islamic Bank, 2026). Further, a similar approach is adopted by Maybank Islamic, where the rebate reduces the profit element of the Bank's Sale Price. This is when the customer settles the outstanding balance early or does not fully utilise the approved credit limit (Maybank Islamic, 2025).

Ta'widh and Gharamah

Different treatment is given to late payment charges under Islamic Credit Cards (ICCs) from those imposed under conventional credit cards. The reason is Shariah does not allow financial institutions to earn additional profit simply because a customer has failed to make payment on time. Therefore, Islamic banks distinguish between Ta'widh and Gharamah, with each serving a different purpose where Ta'widh refers to compensation charged to recover the actual loss suffered by the financial institution as a result of the customer's late payment. It is not intended to generate additional income for the bank but to compensate for the loss arising from the delay. For example, CIMB Islamic imposes Ta'widh of up to 1% of the outstanding balance, subject to a minimum charge of RM10 and a maximum charge of RM100 (CIMB Islamic Bank, 2026).

On the other hand, to discourage customers from deliberately delaying payment, Gharamah is imposed as a penalty. However, unlike conventional late payment interest, the amount collected under Gharamah cannot be recognised as the bank's income. This is because Bank Negara Malaysia requires any amount collected beyond the bank's actual loss to be channeled to charitable purposes instead of being retained by the financial institution (Bank Negara Malaysia, 2025). This shows the distinction between Islamic Credit Cards and conventional credit cards. Rather than allowing the bank to profit from a customer's financial difficulties, the Shariah framework only permits compensation for actual loss while ensuring that any excess amount collected is not treated as profit. Further. this reflects the broader objective of promoting fairness in financial transactions while discouraging unjust enrichment arising from payment defaults.

Cash Advance Mechanism under Tawarruq

Cash withdrawal is one of the facilities available under an Islamic Credit Card (ICC). However, unlike a conventional credit card, the cash withdrawal facility cannot simply be treated as a loan with additional charges because this may give rise to riba. For that reason, Islamic banks structure cash withdrawals using the Tawarruq arrangement instead of a conventional lending mechanism.

The process generally follows the same Tawarruq structure used for other Credit Card-i transactions. The bank first purchases a Shariah-compliant commodity from a commodity broker before selling the commodity to the cardholder at a deferred selling price, which includes the agreed profit margin. The cardholder then appoints the bank as a wakil (agent) to sell the commodity to another commodity broker on the cardholder's behalf. Once the commodity is sold, the proceeds are credited into the customer's account and become available for use under the Credit Card-i facility (Bank Negara Malaysia, 2025).

A similar arrangement can be seen in Maybank Islamic's Commodity Murabahah structure. Under this arrangement, the proceeds from the commodity sale are credited as the customer's card limit before they are used for purchases, financing or cash withdrawal facilities (Maybank Islamic, 2025). This shows that the cash withdrawal facility is not created through a direct cash loan but is made available after the completion of the commodity trading process required under the Tawarruq structure. This distinction is important because the bank earns its profit from the sale of the commodity rather than from lending money directly to the customer from a Shariah perspective. Nevertheless, the use of Tawarruq for cash withdrawal facilities continues to attract academic discussion as some scholars argue that despite the different contractual structure, the practical outcome is still similar to a conventional cash advance because the customer ultimately receives immediate access to cash while assuming a larger deferred payment obligation. For this reason, the discussion has shifted beyond the question of whether the structure complies with Shariah requirements. Greater attention is now given to whether the arrangement achieves a genuine substantive distinction from conventional financing or merely adopts a different legal structure to achieve a similar commercial outcome (Bilal & Meera, 2015).

Comparative Analysis: Islamic vs. Conventional Credit Cards

In the modern contemporary era, credit cards have changed from being an exclusive privilege for high income individuals into a crucial tool for everyday commerce and dealings. Credit cards are often regarded as "oil for economic machinery" as they have significantly increased the global change towards cashless mechanisms (Bathusha & Isa, 2025). For instance, in Malaysia, the trend can be highlighted by the notable acceleration in credit card issuance, with the number of cards being used rising to 10.7 million, with a 15.3% year on growth to 825.2 million transactions (Bathusha & Isa, 2026). However, despite having similar transactional function and payment infrastructure which is more consumer friendly, both conventional and ICCs are different in their structure and underlying ethical principles. While conventional credit cards primarily operate on interest based mechanism that often lead to the increase and compounding debt burdens, the ICCs are developed based on asset-based or trade-oriented principles which its underlying principles is to uphold economic justice, reduce systemic hardship and at the same time comply with the objectives of Shariah specifically Maqasid al-Shariah (Bathusha & Isa, 2026).

Underlying Financing Structure and Shariah Governance of Credit Cards

The difference in terms of operational and ethical of conventional and Islamic credit facilities have given rise to a considerable debate within the financial system. In the conventional financial system, credit cards operate based on a debtor-creditor relationship where money is treated as a commodity that can generate additional return to the financial institution (Harun, 2010). Under this system, when a cardholder fails to settle the outstanding balance within the prescribed period, interest will be imposed and calculated based on the Annual Percentage Rate (APR), which is then applied to the remaining principal amount. However, there has been numerous structural criticism with regards to the conventional framework due to the compounding nature of the conventional finance charges (Harun, 2010). For instance, when an individual pays only the minimum amount due, the balance interest will be added to the principal balance, making the interest being imposed upon previously accrued interest in subsequent billing cycles. This practice places financially vulnerable individuals in a position of a continuous debt, making it increasingly difficult to pay as it causes the outstanding debt to accrue rapidly over time although no additional spending was made.

Malaysia's dual banking system has developed a regulated alternative which have the effect of prohibiting elements like *riba* (usury), *gharar* (uncertainty), and *maysir* (gambling) in its attempt to curb systemic risk while preserving the objectives of Maqasid al-Shariah (Bathusha & Isa, 2025). ICC, as defined by the Bank Negara Malaysia (2025), is a Shariah-compliant payment instrument which provides financing or credit facilities in line with Islamic principles. Hence, in the event of a payment default, the issuer is permitted to impose charges through a reduced rebate (ibra') arrangement against the cardholder as a consequence of the default.

In Malaysia, the Shariah Advisory Council of the Bank Negara Malaysia is the responsible entity to oversee the Shariah governance framework of each islamic financial institution to ensure compliance of Islamic financial products. Hence, it is a requirement for all Islamic credit card structures to receive prior approval before it can be offered to the public. Furthermore, these structures will also be subjected to ongoing review to ensure continued compliance to Shariah principles and regulatory standards.

In addition to continuous review, the Malaysian Islamic banking industry has adopted several contractual structures in its efforts to ensure compliance with Shariah principles. Previously, the ICC was based on Bay' al-'Inah. However, due to its resemblance to conventional lending transactions, the structure attracted criticism. Accordingly, alternative structures such as Ujrah and Tawarruq were approved by the Bank Negara Malaysia with the hope to address these concerns. Although the structure of Ujrah is praised for its operational simplicity, the combination of Qard (interest-free loan) and Ujrah (service fee) have raised concerns and led to increased Shariah scrutiny. In response, the ICC have shifted towards Commodity Murabahah (Tawarruq)-based structures. As the ICCs have evolved, the Tawarruq structure has become the accepted framework of ICC's in Malaysia (Abdul Razak, 2015; Bathusha & Isa, 2026). The shift demonstrates the industry's ongoing attempt to reconcile commercial practicality with Shariah compliance while ensuring competitive financial services.

Compounding vs. Non-Compounding Charges

The primary distinction between conventional and Islamic practice across all structures stem from the prohibition of compounding interest. Under the Islamic financial system, the compounding of profit or unpaid amounts is prohibited and restricted even in the event of default. For instance, under the Tawarruq model, the profit of the bank is predetermined and capped within the original sale price. Hence, the mechanism ensures that existing debt will not escalate into an excessive unmanageable financial burden on the cardholder (Bathusha & Isa, 2025). Moreover, another key practice of Islamic financial system which ought to be highlighted is the non-compounding rate of late payment charges. Under the islamic financial system, any default penalties imposed by the financial institution are governed by the principle of *Ta'widh* (compensation) where late payment charges are required to be capped at a non-compounding rate of 1% of the total outstanding balance. In addition to that, should there be any punitive fees exceeding the financial institution's actual administrative recovery cost, such cost is required to be channeled to verified charitable organizations (Harun, 2010).

Merchant Category Code (MCC) Filtering and Ethical Screening

Furthermore, besides the difference in the assessment of debt, both conventional and islamic finance vary from its transactional neutrality. It is well known that the conventional credit card operates mainly based on moral neutrality where the system will only assess transactions on the basis of financial risk and fraud detection irrespective of the ethical nature underlying the purchase (Harun, 2010). Nevertheless, unlike conventional systems, the ICCs operate as active ethical filters to ensure the islamic payments infrastructure is in line with the Shariah. One notable instance is the application of global Merchant Category Codes (MCCs) which have the effect of identifying and restricting transactions that involve prohibited (*non-halal*) businesses, such as casinos, bars, and adult entertainment establishments (Bathusha & Isa, 2025).

The application of MCCs ensures that the islamic credit card is not utilized for any illegal or prohibited purposes. With the use of MCCs, the Islamic card's authorisation system will automatically trigger an immediate electronic rejection once it detects that the transaction falls under a prohibited merchant category. Well established Islamic financial institutions, such as Maybank Islamic and Bank Simpanan Nasional (BSN), have adopted the automated filtering mechanism in their ICCs operation. For instance, both Maybank Islamic and BSN have in their respective websites outlined the prohibited categories. In line with this mechanism, specific Merchant Category Codes (MCCs) are pre-programmed into the system to automatically decline transactions involving merchants that fall within the prohibited categories. These include, among others, MCC5921 (Package Stores—Beer, Wine, and Liquor) and MCC7995 (Betting and Wagers).

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Nevertheless, despite the mechanism being widely praised, the mechanism also faces several practical limitations and challenges specifically relating to transactions in mixed-revenue merchants. The original aim of the mechanism is to ensure that the ICC is only used to purchase permitted products or for permitted purposes. However, mixed-revenue merchants hinder the aim as the mechanism will not be able to decline the purchase of prohibited goods/purposes in a merchant which is not specifically classified as prohibited. For instance, the mechanism is unable to decline the purchase of prohibited goods at large supermarket chains. This limitation arises because the payment terminal of the mechanism is not designed to distinguish between individual items during the checkout process. Therefore, this limitation underscores a dire need for continuous improvement and optimization of merchant classification databases.

Regulatory Compliance and Contemporary Challenges

As discussed previously, ICCs in Malaysia must comply with the Shariah principles and business conduct standards set by Bank Negara Malaysia (BNM) under the Islamic Financial Services Act 2013. The BNM's standard of compliance is established in the published Credit Card and Credit Card-i Policy Document issued on 19 December 2025. This policy document encourages issuers in this sense banks in Malaysia, to adhere to these standards to credit cards for medium enterprises and corporate cardholders. Thus, the policy is essential to be complied with as noncompliance would result in BNM taking enforcement or supervisory action.

When issuing Credit Card-i, issuers must use at least one approved Shariah concept as required by Section 8. This is because Credit Card-i facilities cannot be used for transactions that do not comply with Shariah, the necessary elements such as the aqad (contract) must be clearly expressed, whether verbally, in writing, or through any Shariah-recognised method, particularly when there is a change to the credit limit. If a financial institution intends to introduce a product based on a new Shariah concept approved by the Shariah Advisory Council (SAC), it cannot unilaterally change the product's underlying Shariah structure. Instead, the institution must comply with Bank Negara Malaysia's (BNM) applicable Shariah contract standards and the SAC's rulings. In conjunction, if there are any changes to the product's inherent Shariah concept, the issuers must apply prior approval of BNM in order to ensure the strict compliance for Islamic products with the regulatory and Shariah framework. Moreover, there are certain rules that must be enforced whenever fees are charged, cardholders must have cash advance or withdrawal fees that match to the actual costs without markup, with estimates allowed in the event, the actual costs are hard to determine. Further, different annual fees are only allowed if they relate to bundled benefits, not monetary rewards like cashback or rebates, to avoid riba al-fadl.

In terms of Tawarruq-based Credit Card-i, Section 9 provides the primary elements where issuers must comply with the general rules governing the Tawarruq concept. Accordingly, Tawarruq-based Credit Card-i structure is when the issuer buys a specific commodity from a broker and sells it to the cardholder at a set price (cost plus profit) to be paid later. Subsequently, the cardholder sells the commodity to a broker at cost, using the issuer as their agent whereby the money from the sale would entail the cardholder's credit limit. The issuer charges profit only only to the extent of the amount of credit the cardholder had utilised and must give a rebate (ibra') on any unused credit.

For Ujrah-based Credit Card-i, Section 10. Providing the underlying concept for the Ujrah (fee) concept, the issuer offers Shariah-compliant services, benefits, and privileges to cardholders in return for a fee. It is mentioned that the credit limit can be granted as a Qard (loan) for retail purchases, cash withdrawals, or other uses set by the issuer. Thereby, issuers must ensure Ujrah is charged only for permitted Shariah-compliant services, benefits, and privileges, and that it is a fixed amount based on the card type (such as platinum, gold, or silver), not linked to the credit limit. Ujrah cannot involve riba, so it cannot be charged for loan extensions, late payments, or cash-for-cash exchanges such as cashback. This only to the extent of actual direct costs for services in relation with loans or cash withdrawals. In addition, when there is an outstanding amount of Qard, the Ujrah or ibra cannot be calculated.

Clearly, the BNM Credit Card-i Policy Document imposes strict rules to regulate the integrity of Tawarruq structures. However, the strict guidelines pose a challenge for issuers, as they have to adhere closely to Islamic principles while remaining competitive with conventional products. The main goal of the standard is to balance Shariah compliance and market competitiveness within the landscape of Malaysia's dual banking system, where

Islamic and conventional credit cards coexist. ICCs must follow Shariah principles, which ban riba (interest) and gharar (uncertainty), and use alternative contracts, such as sales-based, lease-based, or fee-based structures, rather than traditional interest-based credit.

It is understandable to assume that the conventional credit cards are usually more convenient, widely accepted, and have strong rewards programs due to many merchant partnerships and loyalty schemes (Nazimah, 2018). However, ICCs have their own league based on the fact that their profit charges are seen as more transparent and acceptable than compound interest. In this instance, they are more appealing to consumers who hold the Islamic religious and ethical values, by prioritising compliance and the concept of falah (holistic success) rather than financial rewards alone (Al-Shaghdari et al., 2025).

Despite the strengths highlighted, the Islamic banks are facing issues in increasing their market share. One of the issues is increasing public awareness and the general understanding of how Islamic credit cards work. By increasing awareness and understanding, consumers would realise and accept the usage and benefits of using them (Johan et al., 2018). Furthermore, in order to increase market awareness, Islamic banks must consider the type of customer. The general ICC users are typically “transactors”, where they tend to use ICCs to pay off their balances and focus on Shariah compliance, whereas “revolvers” who are the type to carry balances, tend to choose conventional cards (Al-Shaghdari et al., 2025). Thereby, Islamic financial institutions need to continually improve their products and services to retain existing customers and attract new ones, while maintaining Shariah compliance.

On the other hand, there is a new emerging competitor to both conventional credit cards and ICCs is the Buy Now, Pay Later (BNPL) model. The appeal of BNPL is catered to the younger, tech-savvy consumers. The reason is that they offer simple registration with minimal financial background check, easy installment payments with little or no upfront interest (Mohammad et al., 2025). This model is in competition with the usual cost advantage of ICCs (Hassan et al., 2025). However, many consumers prefer ICCs because they do not accrue compound interest, and their profit charges are considered more ethical than regular interest (Al-Shaghdari et al., 2025) to be compared to BNPL services, often advertised as interest-free if payments are made on time, could be even more attractive to cost-sensitive and Shariah-conscious consumers as an alternative to riba-based financing.

Critical Evaluation

In our view, the differences between conventional cards and ICCs goes beyond a mere change in legal terminologies. Instead, it demonstrates a fundamental clash of economic philosophies. The ICCs, unlike conventional cards, have the effect of eliminating ethical concerns associated with service charges imposed under the lending arrangements (Bay’ wa Salaf). The ICCs have also been praised for its practice of preventing accumulation of compounding debt. However, despite several attempts being made to maintain strict compliance with Shariah and eliminate riba’ from the system, the ICCs remain subject to structural challenges. These challenges include the issue on the profit rates applicable in the Tawarruq model as well as the technical limitation of the MCC system, which faces limitations in filtering non-halal products within mixed revenue merchants. The profit rate has been contended to resemble conventional interest benchmarks and the MCC system is argued to not be able to reach its ultimate purpose of ensuring the card is used for permitted purpose. Therefore, the Tawarruq structure, despite being widely accepted, has been questioned by some scholars regarding its substance that is said to replicate the conventional interest-based transactions. This subsequently raises concerns regarding the use of hilah (legal stratagems) in Islamic finance.

Of particular importance, for a sale contract to be valid under Shariah, not only is it required to meet the formal requirements but also align with its underlying purpose as provided under Shariah principles.

It is undeniable that from a theoretical standpoint, the Tawarruq structure must comply with both formal and shariah compliance of a sale and purchase transaction whereby there is a contract involving a buyer, a seller, a Shariah-compliant asset, and an agreed price. Nevertheless, some scholars shared the view that the Tawarruq structure for credit cards does not strictly comply with Shariah due to the fact that the primary objective of the transaction is to obtain immediate financial assistance in exchange for a higher deferred payment obligation.

From this perspective, scholars argue that the substance in Tawarruq shares similarities with conventional credit cards, thereby raising ongoing debate pertaining to the extent of Shariah compliance within the Tawarruq model.

Furthermore, the scholars shared regarding the Tawarruq-based ICC in Malaysia, there are other underlying issues that arise, relating not only to its compliance with the structural requirements of a sale contract under Shariah principles but also to whether it fulfils the broader objectives of Shariah. In practice, the operation of ICC involves several arrangements. Firstly, when a consumer uses an ICC, the bank will make payment to the merchant on behalf of the consumer. The bank will then recover the upfronted amount from the consumer, inclusive of additional agreed profit charges. Although this structure is recognised as Shariah-compliant, we believe that Islamic banking should go beyond functioning as a financial intermediary and should also reflect the ethical objectives of Shariah by promoting fairness and social welfare. In addition to the concerns have been raised that ICCs may encourage excessive consumer spending resulting to it being inconsistent with the objectives of Maqasid al-Shariah in order to curb this, Islamic financial institutions should develop more mechanisms which are consumer focused that promote responsible credit usage and advance the broader objective of financial well-being and social welfare (maslahah).

CONCLUSION & RECOMMENDATIONS

The development of ICCs in Malaysia is attributed to the consistent efforts of Islamic financial institutions to offer innovative financing solutions that comply with Shariah principles. The recent industry-side conversion from the Ujrah model to the Tawarruq structure led by Bank Negara Malaysia (BNM) and the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) has put the credit card industry on a more solid legal and contractual footing. From a Shariah perspective, Tawarruq offers a more defined structure built around actual sale transactions and tackles the issues of combining loans and fee-based contracts. However, many challenges still exist in trying to think about Maqasid al-Shariah in a bigger framework, especially the objective of wealth conservation (Hifz al-Mal). Tawarruq is within the boundaries of Shariah contracts, but in practice, it is very much like a conventional credit card. The pricing structure, revolving credit facilities, and repayment strategies still entice consumer borrowing and debt accumulation. Thus, the economic effects as experienced by users may not be very different from those related to normal credit cards.

While existing safeguards, such as the prohibition on compounding profit and limitations on late fees, provide substantial consumer protection, they are insufficient to tackle the broader issue of excessive consumer debt. Therefore, it is not appropriate to consider legal compliance as the only indicator of Shariah success. Islamic financial goods should promote responsible spending, financial stability, and long-term wealth preservation in accordance with Maqasid al-Shariah’s objectives. Therefore, in addition to contractual compliance, providing substantial social and economic advantages for consumers should be a top focus in the future expansion of the ICCs. Several changes could be made to better align ICCs with Maqasid al-Shariah’s objectives.

Reward Responsible Repayment Behaviour

Islamic banks should reconsider their reward programs to encourage timely repayment rather than promoting increased expenditure. Cashback, incentive points, and charge waivers may be available to customers who consistently pay their outstanding invoices in full within the payment term. Furthermore, rebates (ibra’) must be more prominently disclosed so that consumers can rapidly understand the financial advantages of avoiding revolving debt (Bathusha & Isa, 2024).

Promote the use of Islamic credit cards (ICCs) as payment methods, as opposed to financing methods ICCs should primarily function as useful payment instruments rather than as long-term financial sources (Abozaid, 2022). Banks may impose automatic transaction restrictions or customer-defined credit limits as optional expenditure controls when balances exceed a predetermined threshold. It may also be possible to prevent excessive debt development by implementing features that promote full monthly settlement.

Increase Institutional Accountability

To prevent excessive consumer debt, financial institutions and regulators must to be more proactive. Stricter affordability evaluations, cautious credit limit regulations, and improved debt service ratio monitoring are a few examples of these (Bank Negara Malaysia Policy Document on Credit Card and Credit Card-i, 2025). By taking such steps, customers would be less likely to experience financial hardship while still having access to credit facilities.

Strengthening Shariah Screening Procedures

When forbidden goods are bought from mixed-revenue companies like supermarkets, restrictions still apply even though ICCs often limit transactions with restricted merchant categories (Bathusha & Isa, 2025). Instead of depending only on merchant classifications, Islamic banks, payment processors, and merchants may investigate more sophisticated transaction screening systems in the future that detect particular products. This would boost customer trust in Islamic payment systems and enhance Shariah compliance.

Therefore, in addition to adhering to Shariah contractual requirements, ICCs' long-term success hinges on their capacity to safeguard consumer welfare and encourage responsible financial behavior. ICCs will function as tools of ethical and sustainable finance rather than just Shariah-compliant substitutes for traditional credit products if the goals of Maqasid al-Shariah are given more attention.

However, credit cards continue to be a practical need in the contemporary Islamic financial environment despite these ongoing structural criticisms and the ongoing disconnect between legal form and economic content. Consequently, the fundamental problem rests not in removing such instruments, but in continuously refining their forms so that they more authentically express Shariah principles while satisfying the demands of contemporary financial transactions.

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