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A Comparative Analysis of Islamic and Conventional Credit Card in Pakistan under the Light of Maqasid Al-Shariah

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ABSTRACT

This paper critically examines the ethical and structural differences between conventional and Islamic credit cards, emphasizing their alignment with the Islamic worldview (IWW) and the Maqasid al-Shariah (MAS). While conventional credit cards are often criticized for promoting riba (interest) and debt accumulation, emerging Islamic credit card models—such as Malaysia's Kurz Card—demonstrate that ethical, Shariah-compliant financial intermediation is feasible. Through a conceptual and comparative approach, this paper argues that credit card structured under Islamic principles may embody greater ethical integrity than conventional equivalents by promoting fairness, transparency, and social responsibility.

KEYWORDS

Islamic finance, credit card, riba, Maqasid al-Shariah, Pakistan

1. INTRODUCTION

Modern finance faces an ethical crisis driven by debt dependency and interest-based structures. Within this context, Islamic finance offers an alternative grounded in justice, transparency, and shared responsibility. In Pakistan, where the demand for Shariah-compliant financial products continues to rise, the concept of an Islamic credit card remains underdeveloped.

Although conventional credit cards are widely available, they are often perceived as inconsistent with Islamic ethics. However, under appropriate Shariah structures—such as *Ujrah* (service fee), *Murabaha* (cost-plus sale), or *Wakala* (agency)—credit cards can function as ethically superior instruments that promote responsible consumption while avoiding *riba* and *gharar* (excessive uncertainty).

Islamic credit cards in Pakistan face challenges in launching due to the absence of underlying assets, a key principle in Islamic finance. Conventional credit cards are interest-based, which contradicts Shariah law, making it essential for Islamic banks to design alternative products.

Main Challenges for Islamic Credit Cards in Pakistan

- **Lack of Shariah-compliant structure:** Islamic banks are working on creating a structure that aligns with Shariah principles, focusing on asset-backed financing rather than interest-based lending.
- **Regulatory guidelines:** Islamic banks are awaiting guidelines from the State Bank of Pakistan to launch Shariah-compliant credit cards.
- **Limited investment options:** Islamic banks face excess liquidity issues due to limited Shariah-compliant investment opportunities.

However, some banks, like Faysal Bank and Standard Chartered Saadiq, are offering Islamic credit cards in Pakistan, using models like Murabaha, Ujrah, and Tawarruq, which comply with Shariah principles.

2. LITERATURE REVIEW

Research on Islamic credit cards emphasize compliance with *Shariah* while maintaining functionality comparable to conventional products. According to Dusuki (2022), Islamic financial ethics revolve around the objectives of *Maqasid al-Shariah*, aiming to preserve faith, wealth, and social justice. Similarly, Yusof and Rahman (2023) argue that the *Ujrah*-based Islamic credit card in Malaysia successfully replaces interest with transparent service fees.

In contrast, conventional credit cards—though efficient—are criticized for fostering consumerism and debt traps (Chapra, 2019). The hybrid nature of Islamic credit cards thus represents a moral balance between modern convenience and ethical integrity (Hanif & Muneeza, 2021).

A comprehensive review on *the Conceptual Framework for the Adoption of Islamic Credit Cards in Malaysia* (Darioush J. & Dr. Nazimah H) is attached to support the concept of the Qurz Card in Pakistan.

3. METHODOLOGY

This study adopts a **comparative conceptual analysis** of Islamic and conventional credit card systems. It reviews documented models (e.g., Malaysia's *Kurz Card*) and evaluates their conformity with IWV and MAS principles using secondary literature, Shariah standards (AAOIFI, 2023), and regulatory perspectives from the State Bank of Pakistan (SBP, 2024). An interview of Mr. Sabahat Nadeem is attached as a reference to Financial Inclusion.

4. COMPARATIVE FRAMEWORK BETWEEN ISLAMIC CREDIT CARD VS CONVENTIONAL CREDIT CARD

Feature	Islamic Credit Card (Proposed Model)	Conventional Credit Card
Underlying Principle	Based on profit-sharing (non-interest) and Shariah-compliant contracts.	Based on interest (Riba) charged on outstanding balances.
Grace Period	3 days grace period to pay without any profit charge.	20–45 days interest-free period, but interest applies afterward.

Profit / Interest	5% profit applied after 3 days if payment not made (considered a trade-based return, not interest).	Interest charged monthly on outstanding balance, compounded over time.
Payment Window	Additional 60 days after profit is applied to settle dues.	Payment deadlines vary; late payment incurs higher interest and penalties.
Nature of Charge	Profit represents compensation for deferred payment, not riba.	Interest represents payment for time value of money, which is riba.
Reward System	Rewards given for timely payments; delayed payments cause loss of reward points and possible fee increase.	Rewards offered regardless of timely payments, though late fees still apply.
Annual Fee Policy	Four (4) minimum yearly transactions required to maintain low or base annual fee of Rs9,000/annum.	Fixed annual fee, often independent of transaction activity.
Penalty for Late Payment	No 'penalty interest'; only a fixed profit applied according to Shariah principles.	High penalty interest and compounding charges added for late payments.
Use of Funds	Restricted to Halal (permissible) transactions — no alcohol, gambling, or unethical businesses.	No restriction on the nature of purchases or business dealings.
Supervision	Operates under Shariah Supervisory Board ensuring compliance with Islamic finance principles.	Operates under conventional banking regulations with no religious compliance oversight.
Transparency	All profit rates, fees, and policies disclosed clearly to the customer.	Interest rates and compounding structures often complex or unclear to the customer.
Moral Objective	Encourages responsible spending, discipline, and avoidance of debt accumulation.	Encourages continuous credit usage, potentially leading to debt dependency.

5. SHARIAH-COMPLIANT QURZ CARD OPERATIONAL PROCEDURE

The Islamic credit card (Qurz Card) model functions through transparent, asset-based operations designed to ensure full Shariah compliance. The following outlines the step-by-step operational process:

5.1 Target Customer Profile: Financial Inclusion and UN SDG-8

- Detailed explanation of how Qurz Card promotes financial inclusion
- Five target customer segments (underbanked, microentrepreneurs, youth, ethically-conscious Muslims, service professionals)
- Direct alignment with UN SDG-8 goals: economic growth, employment, decent work, financial inclusion and reduced inequality.

5.2 Card Categories and Structure

Category 1: Bazar QH Card

- Limit: Rs. 75,000 – Rs. 750,000 per transaction (AOP or sole proprietor).
- 3 documents required (PCC, CNIC, Masjid Committee Recommendation)
- Domestic transactions only
- For individuals and micro-businesses

Category 2: Tijarah QH Card

- Limit: Rs. 750,000 – Rs. 7,500,000 per transaction (Ltd Companies)
- 4 documents required (3 basic + Business Proof)
- **International payment capability**
- **Airport lounge access**
- Premium features for established businesses
- Enhanced reward system

Default Protection (Both Categories)

- 9-month resolution period

FIR after 9 months of non-payment

5.3 Transactions and Billing merchants based on *Murabaha* (cost-plus) and/or *Wakala* (agency) principles.

- An OTP (one-time password) authenticates each transaction as a *Khayar-Al-Taen*, to decide among *Qard-e-Hasan* or *Murabaha* and all transactions are recorded throughout the month.
- On the last day of the month, the bank generates a billing statement with the deferred payment along with its due date.
- If the customer pays in full within **three days from the date of purchase** the transaction is treated as ***Qard-e-Hasan* (benevolent loan)** as Customer has *Khayar-Al-Taen* for 3 days.

5.4 Payment Terms

- The customer has 60 days from the billing date to make payment.
- Payments may be made in full or in instalments upon customer convenience.

- No additional charges (*riba*) are imposed for late payments; instead, non-financial penalties (e.g., reduced reward points) are applied.

5.5 Reward and Penalty Structure

This mechanism promotes timely payments and responsible behavior while avoiding financial exploitation.

- **Timely Payment:** Adds creditworthiness points and increases card benefits.
- **Early Payment:** Provides reward points redeemable for *Ujrah* discounts or purchases on the bank's e-mall.
- **Delayed Payment:** Reduces points, possibly leading to a lower credit limit or higher *Ujrah* in future cycles.
- **Default:** If points are exhausted, the customer's deferred payment privileges are suspended until settlement.

5.6 Implementation and Monitoring

- The bank maintains detailed records of each customer's payment performance.
- Creditworthiness is reviewed quarterly to adjust limits and privileges.
- All policies are transparently disclosed in the customer agreement.

5.7 Shariah Compliance Features

✓ The card operates under *Qard-e-Hasan* or *Murabaha*, ensuring no *riba*.

✓ *Ujrah* represents a legitimate service fee, not interest.

✓ Reward/penalty structures encourage ethical, disciplined use.

✓ Full transparency and customer awareness are mandatory.

✓ Shariah board supervision guarantees compliance and ethical integrity.

This model demonstrates how Islamic credit cards can operationalize ethical finance through transparency, accountability, and fairness.

5.8 Minimum Requirements for Basic Credit Limit

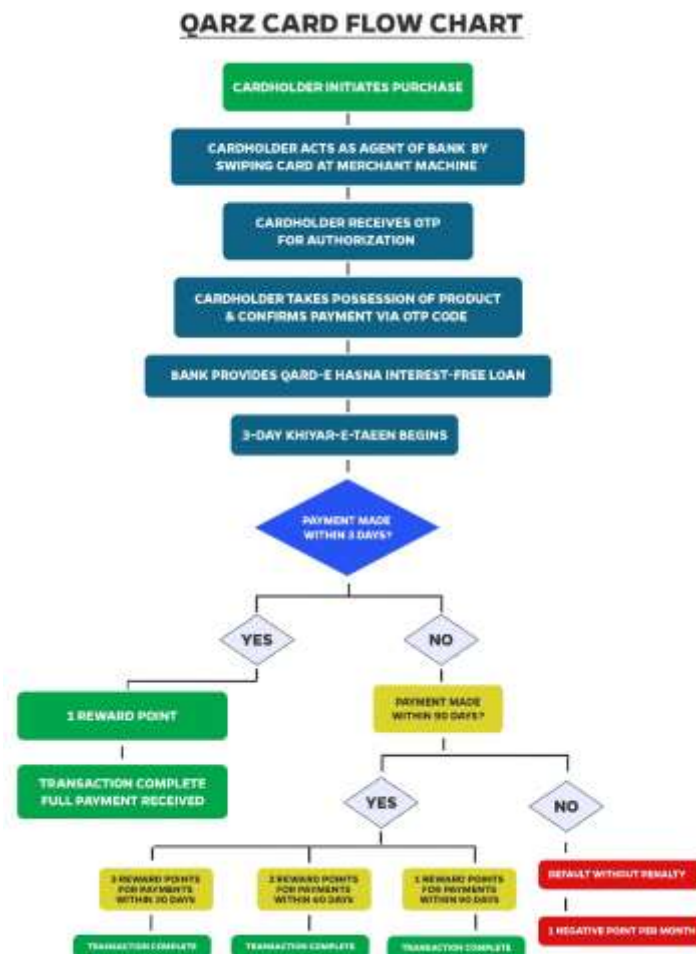
To ensure trust, transparency, and community accountability, applicants for the basic Qurz Card with a credit limit of Rs. 75,000 must provide three minimum requirements:

1. **Police Clearance Certificate (PCC):** Verifies the applicant's criminal background and ensures they have no history of financial fraud or serious offenses.
2. **CNIC (Computerized National Identity Card):** Valid national identity document for verification and legal compliance.
3. **Masjid Committee Recommendation:** A letter of recommendation from the local mosque committee or religious authority attesting to the applicant's character, reliability, and standing in the community. This ensures community-level accountability and Islamic ethical standards.

Default Protection Mechanism:

- In case of default, the bank will attempt resolution through communication and support for 9 months.

- If the customer fails to settle dues after 9 months, an FIR (First Information Report) will be lodged with law enforcement authorities.
- This legal action serves as a deterrent and ensures that individuals with malicious intent are held accountable and become ineligible for future credit facilities.
- The 9-month grace period allows genuine cases of financial hardship to be resolved without criminalization, maintaining the ethical spirit of Islamic finance.



6. DISCUSSION: ISLAMIC WORLDVIEW AND MAQASID ALIGNMENT

The *Islamic worldview (IWW)* promotes financial justice (*adl*) and prohibits exploitation. Under this framework, Islamic credit cards ensure that profit derives from legitimate trade (*bay*), not from time-based interest. The

Maqasid al-Shariah (MAS) emphasize preservation of wealth and social harmony, objectives that the Islamic credit card achieves by discouraging over indebtedness and ensuring transparency (Dusuki & Abozaid, 2021). Furthermore, the Qurz Card model operationalizes these ethics through a deferred payment structure, *Ujrah*-based fees, and an incentive system that rewards timely repayment. These mechanisms encourage discipline and accountability, distinguishing Islamic credit cards from purely commercial tools.

7. IMPLEMENTATION IN PAKISTAN

The implementation of Islamic credit cards in Pakistan faces regulatory and operational challenges. The absence of standardized Shariah frameworks and limited awareness among consumers hinder adoption. The State Bank of Pakistan (2024) has begun formulating guidelines aligned with AAOIFI standards, which may facilitate future product launches.

Partnerships with fintech platforms can further enhance transparency, automate *Shariah* screening, and expand digital inclusion.

8. RECOMMENDATIONS

1. **Financial Institutions:** Develop asset-backed, *Ujrah*-based Islamic credit cards.
2. **Regulators:** Issue standardized guidelines ensuring AAOIFI compliance.
3. **Consumers:** Educate users on ethical financial behavior.
4. **Researchers:** Examine fintech innovations that enhance Shariah compliance and transparency.

9. CONCLUSION

Islamic credit cards—when structured according to *Shariah*—offer an ethically superior alternative to conventional credit systems. By integrating the principles of IWV and MAS, they promote fairness, transparency, and responsible consumption. The hybrid Kurz Card model exemplifies how modern finance can coexist with Islamic ethics, bridging the gap between convenience and moral integrity.

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APPENDICES

APPENDIX 1: A CONCEPTUAL FRAMEWORK FOR THE ADOPTION OF ISLAMIC CREDIT CARD IN MALAYSIA {#appendix-1}

The article, "A conceptual framework for adoption of Islamic Credit Card in Malaysia," is a conceptual paper that attempts to apply conventional adoption theories to an Islamic product. This establishes a specific context, focusing on the development and adoption of the **Islamic credit card** as an innovation within the Malaysian Islamic banking industry.

Content Focus

The content of the article is centered on:

1. **Defining the Islamic Banking System:** Its mission is to achieve social and economic enhancement by conducting financial services in accordance with Islamic principles, taking into consideration **right, wrong and ethics** in operations.
2. **Introducing the Islamic Credit Card:** Proposing a conceptual framework to explore factors (specifically **trust and attitude**) that affect the adoption and usage of this product by bank customers in Malaysia.
3. **Key Islamic Principles:** Highlighting specific principles that govern these operations, such as the **prohibition of interest or usury (riba)** and the **prohibition of gharar**.

Critique Based on Islamic Worldview (IWV) and Maqasid al-Shariah (MAS)

A critique based on the **Islamic Worldview (IWV)** and **Maqasid al-Shariah (MAS - Shariah Objectives)** reveals potential weaknesses primarily related to the emphasis placed on commercial metrics over core ethical compliance.

1. Emphasis on Commercial Objectives over IWV/MAS Mission

The core mission of the Islamic banking scheme, as defined, is to achieve **social and economic advancement** by taking into consideration **right, wrong and ethics** in daily operations. Islamic financial principles focus on promoting **justice, risk sharing activities, and fair distribution of income**.

Critique:

- **Priority of Profitability:** The article frequently frames the Islamic credit card (ICC) innovation primarily as a tool for financial success for the institutions. The motivation for banks introducing the ICC is explicitly stated as enabling them to **remain competitive and profitable**, expanding their **operations portfolio**, and receiving **more benefits**.
- **Neglect of Societal Impact:** While IWV embraces conducting business operation on a legitimate and **profit basis**, the critique is that the conceptual paper heavily emphasizes market metrics (attracting more number of consumers, increasing market share) without linking the adoption study to the broader MAS objectives, such as how the ICC specifically enhances economic stability, promotes justice, or avoids the

creation of excessive debt/consumption driven solely by interest-based incentives (which is the conventional danger *riba* prohibits).

2. Missing Shariah Compliance and Ethical Constructs in the Framework

A foundational requirement of Islamic banking is that all banking actions, products, and services **must be on the basis of Shariah values**. The article focuses its conceptual framework on two main predictors of adoption: **Trust** and **Attitude**.

Critique:

- **Shariah Compliance Omission:** The key concepts utilized in the framework (Trust and Attitude) are borrowed from general technology adoption research. While the paper notes the importance of a product being known as **reliable as well as predictable**, the framework **fails to introduce a construct directly measuring the customer's perception or verification of Shariah compliance** (e.g., perceived freedom from *riba* or *gharar*).
 - For an ICC, compliance is non-negotiable under IWV. By focusing merely on customer *attitude* (positive or negative feelings) and *trust* (willingness to be susceptible based on expectation of performance), the study risks treating the "Islamic" label as a marketing feature rather than a necessary, defining, and verifiable ethical requirement for the customer population.
- **Ambiguity of the Product's Ethical Structure:** To adhere to IWV, the ICC must comply with specific prohibitions, notably the **prohibition of interest or usury (*riba*)** and the **prohibition of *gharar***. The article introduces the product generally as a **Shariah based product** and an **innovation**, but does not define the underlying Islamic contract (e.g., *Tawarruq*, *Ijarah*) that renders it compliant.
 - From an MAS perspective, the ethical soundness of a financial innovation rests entirely on its structure. Criticizing an article based on IWV means noting that the conceptual paper proceeds to analyse adoption without establishing or asking customers about the ethical mechanisms that validate its "Islamic" nature in the first place.

3. Potential Conflict with Foundational Prohibitions

The IWV identifies several principles that must be upheld, including the **prohibition of *riba*** and the need for **consideration of justice**.

Critique:

- **Risk of Conventionalization:** The very concept of a credit card—even when structured to avoid *riba*—often encourages consumption and debt, which might stand in tension with the MAS objective of promoting justice and ethical conduct. If the "Islamic credit card" relies heavily on high late payment penalties (which can mimic *riba* if not structured as a *ta'zir* penalty channeled to charity) or high fees, the product's structure might inadvertently violate the spirit of IWV, even if technically compliant.
- The article acknowledges the existence of **high uncertainties and risk regarding reception and demand by potential clientele**. From an IWV perspective, while risks exist in all legitimate business operations on a profit basis, the *gharar* (excessive uncertainty) prohibition is crucial. If the conceptual study only explores generalized consumer trust and attitude, it may overlook specific concerns about product

uncertainty related to the Shariah structure or transparency, which would be essential to validate the product under IWV.

APPENDIX 2: INTERVIEW OF MR. SABAHAT NADEEM

Date: October 10, 2025

Location: Pakistan

Contact: +92 300 961 3444

Interview Transcript

It was around 2007, when I had no business or anything. Things were very difficult, so I applied to a bank. I applied for a credit card from three or four banks, one of which was Standard Chartered Bank. Another was Muslim Commercial Bank. Then there was Faisal Bank. I didn't even have any property of my own. I had no status, no assets that would have made anyone recommend me. Anyway, they trusted me, so Standard Chartered issued me three cards. Well, one was a credit card with a limit of ₹1 lakh at the time. The other was an Easy Cash card, which they provided with a checkbook. Its limit was 150,000 rupees. I had to make some unnecessary transactions through checks, and there was another card with a limit of Rs25,000.

Muslim Commercial Bank also issued me a credit card for Rs1 lakh. Then the current bank was renamed Jam. Two of the three merged, forming the current Faisal Bank. They issued me two cards.

So, there was a card called BTF, which I could withdraw money from using my checkbook, and even through my credit card. The credit card limit was Rs140,187, and it had a daily markup. If I withdrew Rs80,000, or Rs150,000, and I had Rs50,000 to deposit, I would have to deposit Rs50,000. The markup was applied on a daily basis, meaning if I deposited Rs150,000, it would be Rs100,000. Along with that, they also issued a credit card for Rs93,000, which I continued to use. It's 2025, and, Alhamdulillah, I'm still using all these credit cards. I've never defaulted. It's been 18 years.

So, given my financial situation, my circumstances at that time in 2007, when a close relative, or anyone, no matter how close, doesn't own a house or any asset, no one trusts anyone. Of course, they also have concerns about their principal amount, wondering how they'll cover it. So, I'm saying that these are banks that trusted me without even checking anything, and I too have trusted them, meaning the bank, until now. They trusted me so much, and by the grace of Allah, I too have maintained that trust. I mean, trust that I have maintained to this day.

Okay, when I look back at that time, I see what my situation was like. No money and depression, and today, I mean, almost 18 years. Yes, it's been 18 years. From 2007 to 2025. During this time, I also paid house rent. I live in a good house. I gave a good lifestyle to my children. I married off three of them. I gave them success and in business too. All of this, I believe, was only made possible by the bank's credit card.

What I mean to say is that if a bank trusts you, without any guarantee, then you should also reciprocate their trust. So, Alhamdulillah, life is much better today. I mean, life here is about the banks, like the Grameen Bank in Bangladesh, whose current chief executive is Dr. Yunus, the current head of Bangladesh, created the Grameen Bank. Absolutely. People who didn't even have the means to provide collateral for them—the very poorest of

the poor—millions of people, millions of them. He invested in small businesses. So today, millions of people are standing on their own feet.

Similarly, there's a similar example in Pakistan. Dr. Saqib, the chairman of the Akhuwat Foundation, also lent money in that way, without charging any interest. So, it means that Allah Almighty blesses this thing. But there are some people here who, perhaps, misuse their credit cards, don't pay, leave, or do something like that. So, if I believe that the bank trusts you, you should also uphold that trust. So, Alhamdulillah. So far, we've been helpful. My series is ongoing, so I just want to say that:

Thank you credit cards. Thank you banks for doing so much for me. Thank you so much, Salaam Alaikum.

APPENDIX 3: INTERVIEW OF MR. SHAHAN BUTT

Date: October 10, 2025

Location: Pakistan

Contact: +92 335 590 2419

Interview Transcript

Date: October 15, 2025

Location: Islamabad, Pakistan

Contact: +92 335 590 2419

In 2011, I was freelancing in digital marketing from a small room in G-11, Islamabad, earning Rs. 40,000-50,000 monthly. I needed to invest in professional tools like Adobe Creative Suite and SEO software but lacked capital. I applied to HBL and Meezan Bank. Meezan rejected me; HBL approved Rs. 180,000 limit. I invested Rs. 120,000 in software subscriptions immediately, which upgraded my service quality overnight.

The challenge? Clients delayed payments for months while credit card bills came on time. I spent sleepless nights calculating interest, eating basic meals to pay more than the minimum. By 2013, I had steady clients and hired my first employee. In 2014, Standard Chartered gave me a second card for Rs. 250,000.

Running Google and Facebook ads for clients meant fronting Rs. 60,000-100,000 while waiting for payment. Twice clients defaulted - a real estate firm went bankrupt, an education institute stopped responding. I lost Rs. 80,000-100,000 each time, borrowing from family to clear debt.

Today, Alhamdulillah, we're 18 people with an office in Jinnah Super, serving clients in Pakistan, UAE, and UK. But the monthly interest charge still troubles my conscience.

If the Islamic Qurz Card existed in 2011:

- **No guilt** - No sleepless nights about halal earnings
- **3-day grace period** - Most expenses paid quickly with zero charges
- **60-day payment window** - Perfect for managing client ad campaigns
- **Clear 5% profit** - Not compounding interest
- **No debt trap** - When clients defaulted, non-compounding profit would've made recovery easier
- **Halal peace of mind** - All transactions aligned with Islamic principles
- **Rehabilitation over exploitation** - Support system rather than penalty trap

The service industry needs financing for software and ad spend - intangibles that traditional Islamic finance doesn't address. The Qurz Card solves this exactly.

To young entrepreneurs: Don't compromise faith for business. To Islamic banks: Innovate. Thousands of Muslim entrepreneurs need ethical solutions.

Alhamdulillah for the journey. May Allah guide us toward practical and righteous systems.

JazakAllah Khair. Wassalam