

## A STUDY ON ISLAMIC CREDIT CARDS HOLDERS<sup>1</sup>.

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### *Abstract*

*This study is conducted to analyze the factors influencing the perceptions between Islamic Banking Credit Cards by using factoring analysis. The result could be used as guidance for Islamic Bankers in promoting their credit cards.*

**Keywords: Islamic Credit Cards, Factor Analysis**

### **1.0 Introduction**

A credit card is a system of payment named after the small plastic card issued to users of the system. A credit card is different from a debit card in that it does not remove money from the user's account after every transaction. In the case of credit cards, the issuer lends money to the consumer (or the user). It is also different from a charge card (though this name is sometimes used by the public to describe credit cards), which requires the balance to be paid in full each month. In contrast, a credit card allows the consumer to 'revolve' their balance, at the cost of having interest charged. Most credit cards are the same shape and size, as specified by the ISO 7810 standard.

Credit card has a rectangular shape card with a dimension similar to a common business transaction. Credit cards have received lots of attention from researches, bankers and policy makers for few reasons. Sook Yee Choo (2005) in his study on credit cards mentioned that there are three factors influencing the credit card industry. First, as a main medium for bankers because of the operational costs are quite low. Second, most of the credit card markets in developing countries are not saturated yet. Third, it may create economic chaos if lack of effective monitoring. Islamic Banking is also like Conventional Banks, which is profit maximizing organizations, however Islamic banking are not allowed to deal with interest or to engage in any business or trade prohibited products. In the other hand, the Conventional Therefore many of the conventional banks products could not be offered by the Islamic banks because most of the conventional banking products are interest based.

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The demand for Islamic banking in Malaysia is as old as the establishment of Tabung Haji in 1969. But its role is rather limited as non-bank financial institution. However Islamic banking system was marked in 1983, with the enforcement of two new acts known as Islamic Banking Act and Government Investment Act, enable government to establish an Islamic bank and to issue non-interest bearing certificates. Therefore, in July 1983 first Islamic bank with the name of Bank Islam Malaysia Berhad (BIMB) was established. After a successful decade of the performance and functioning of Bank Islam Malaysia Berhad, the Malaysian authorities have introduced an Interest free banking scheme (Skim Perbankan Tanpa Faedah or SPTF). This scheme requires all conventional banks to participate and offer Islamic-financing techniques by opening separate Islamic counters in their branches. Now the banks offering Islamic financial instruments not only have to compete among themselves but also with conventional financial instruments. Islamic banking performs the same function of financial intermediation as conventional banks where to attract financial resources from individual and institutions and directs them towards business firms, which need external finance to support their financial activities. However, these activities instead of interest it rely on profit and loss sharing and other interest free modules. In addition, Islamic banks also are not allowed to issue securities involving interest like long and short term bonds, debentures and preference shares. Currently, Islamic banks on its liability side of their balance sheets are based on four main sources of funds. This includes shareholders' funds, current, saving and investment accounts. (Ahmad Kaleem, 2000)

The Islamic banks avoid interest by entering into a sales and purchase, profit sharing and partnership agreements with the customers. Even though the contracts used are different because the nature of the contracts are different .i.e. loan and sales and purchase, the Islamic banking however manage to be able to serve the consumers needs as what the conventional bank are currently offering including in the credit card facilities.

### **Objectives of the study**

The objective of the study is:

- a) To identify the factors/groups for Islamic credit card holders only

### **Significance of the study**

Several researches have been conducted based on Islamic banking credit card. Most of the studies are regarding about the consumer choice of Islamic credit card (Sook-Yee Choo, 2005) and the factors that indicate whether the Islamic credit card is a good indicator or not (Norudin Mansor, 2004). However, this research will identify those factors using a different approach, which is the factoring analysis.

### **Research Methodology**

**Exploratory factor analysis** (EFA) seeks to uncover the underlying structure of a relatively large set of variables. The researcher's *à priori* assumption is that any indicator may be associated with any factor. This is the most common form of factor analysis. There is no prior theory and one uses factor loadings to intuit the factor structure of the data. The main applications of factor analytic techniques are: (1) to *reduce* the number of variables and (2) to *detect structure* in the relationships between variables, that is to *classify variables*. Therefore, factor analysis is applied as a data reduction or structure detection method (the term *factor*

*analysis* was first introduced by Thurstone, 1931). Factor analysis is a correlational technique to determine meaningful clusters of shared variance. Factor analysis begins with a large number of variables and then tries to reduce the interrelationships amongst the variables to a few number of clusters or factors. Factor analysis finds relationships or natural connections where variables are maximally correlated with one another and minimally correlated with other variables and then groups the variables accordingly. After this process has been done many times a pattern appears of relationships or factors that capture the essence of all of the data emerges. Therefore factor analysis refers to a collection of statistical methods for reducing correlational data into a smaller number of dimensions or factors

## **2.0 LITERATURE REVIEW**

### **2.1 Overview on Credit Card**

The credit card usually used as an essential mode of payments in today's society. People used credit card for various reason for example to obtain credit facility, cash advance, easy payment, charge card and prestige. Besides that having credit card also may represent the wealth status of a person. There are few issues arise in comparing conventional credit card with Islamic credit card such as which offers more value of money, offer lower penalty rate, offer free bonus point, looks much fancier and gives annual fee waiver. Islam itself permits the use of credit card so long it does not involve the element of usury and at the same time it does not contravene with principle of Shariah. Therefore, if the credit card serves as a charge card, where the holders only pay the principle amount plus the service charge, the transaction is permitted because it does not involve with any element of usury. The advantages of credit card transaction includes of its convenience to the buyer, security and cost effective which comfort and give benefits to the users. (Mohd. Ma'sum Billah, 2001).

A recent study by Soo Yee Choo (2005) found that there are two distinctive processes in whether to use the credit card or not and do credit card holders have Islamic-based credit card or not. The study found that the higher probability of choosing Islamic-based credit card consist of those the government staffs compared to private sector staffs. Besides that, they also found that the actual frequency of using credit card for online purchase increase the probability of choosing Islamic-based credit card. But, it does not increase the probability of having credit card. The paper also suggests that the Islamic-based credit card may have some attractive features for online purchase to encourage people to use this product (Sook Yee Choo, 2005).

There are some debatable issues have been addressed not only in terms of the numbers of credit flooding the nation's economy, but the amount transactions that end up with payment default and the numbers of credit card fraud as been recorded which threatened the economy should be seriously focused. But because of the advances and changing habits in purchasing activities has significantly contributed to the diffusion of credit card as becoming more important and relevant in maintaining the purchasing activities. Norudin Mansor (2004) has studied the relationship between demographic factors and the usage of Islamic credit card as well as Conventional credit card demonstrates their interdependence. Based on the finding, it is stated that there is positive relationship between usage rate and income. It was due to the fact that most of the card issuers normally grant a higher credit limit among the higher income group. Finally, it was stated that

higher income consumers are the main targets for the credit card issuers. The assumption was that when consumers seek for resolution to credit card problems, more likely it may not be a troublesome to the higher income group, but evidence demonstrated otherwise (Norudin Mansor, 2004).

There are some arguments in favor of credit cards. Sometimes it allows making payment in a large purchase, allow people not to carry cash and useful in Internet purchases and rental collateral. But the problem is that it is unacceptable on religious grounds because there will be an interest payments made when the outstanding balance is not repaid in full. In the card issuer's point of view, several problems occurred. For example not only will the bank make little or no revenue from a credit card if the balance is repaid in full, but in religious terms it will be colluding in the commitment of sin the contract in paying interest is signed wherein a Muslim agrees to pay Riba in the case of non-payment of the balance. Apart from that, the extension of credit with a view to making profit is not a Qardhul Hassan loan, thus it is unacceptable in religious terms for the creditor as well as the borrower. This situation represent unprofitable for the bank. A membership fee can be charged for the service provided by the card, but otherwise it is more of a value-added service to account holders than a significant retail revenue stream. The result is that the banks are keen to offer a fully-functional and profitable Islamic credit card has been unsatisfied with the debit card alone (Middle East Banker, 2005).

Despite the debates about the permissibility of the credit cards, several banks have offered Islamic credit cards such as BIMB and AmBank using combination of contracts such as Bai al Inah and Qard Hassan and their market share increase tremendously in the past few years. The industry is growing and this research would be beneficial for the banks offering the Islamic credit cards to focus on several factors that influence the credit card holders in choosing their preferred credit cards.

## **FINDINGS**

### **Demographic Profiles**

It is found that two third of the respondents are gentlemen. The respondents are various in age in which 40% of them are at the age of 26-30, followed by 31-35 (24.6%), 36-40 (18.5%), 41-45 and 46 and above (6.2%) respectively, and 19-25 (4.6%).

More than half of the respondents obtained their first degree. 40% of the respondents are postgraduate holders. Only 4.6% of the respondents stopped studies until high school.

Majority of the respondents are married with children. Singles count for 15.4%. The rests are those who married without children and divorcees 1.5% respectively.

These credit cardholders held various positions. 40% of them held executive or managerial position, followed by academicians (16.9%), Professionals (23.1%), Technical Engineers (9.2%), and clerical and self-employed 1.5% respectively.

29.2% of the respondents make more than RM 5000 while 16.9% earns between RM 4000 to RM 5000 monthly. 26.2% of them have a monthly salary range of RM 3000 – RM 4000 while the other 20% earns between RM 2000 – RM 3000 and 7.7% have income of RM 1000 – RM 2000.

Visa has been chosen by 13.8% of the respondents while Mastercard and others were chosen by 43.1% respondents respectively.

When asked the first time they use their credit card, 24.6% of them have been using this facility since they were still studying, 47.7% of them started using credit cards when they were employed and 27.7% of them started using their credit cards when only they have stable income.

Almost half of the respondents got the influence to use credit cards by their friends (47.7%), followed by promotions of salesmen(32.3%), family (16.9%) and lastly by relatives(3.1%).

The study also finds that almost thirty percent of the respondents have one credit card, 55.4% of them have up to 3 credit cards, about 14 % have up to 5 credit cards and 1.5% only have more than 5 credit cards.

These respondents have various frequencies in using their credit cards monthly. 38.5% of them use their credit card often (more than 5 times in a month), 12.3% use the cards about 5 times, 23.1% use the cards 3 times and 26% use the cards once in a month.

NO	PROFILES	N	%	
1	Gender	Male	45	69.2
		Female	20	30.8
		<b>Total</b>	<b>65</b>	<b>100.0</b>
2	Age	19 – 25	3	4.6
		26 – 30	26	40
		31 – 35	16	24.6
		36 – 40	12	18.5
		41 – 45	4	6.2
		46 and above	4	6.2
		<b>Total</b>	<b>65</b>	<b>100</b>
3	Highest educational background	High School	3	4.6
		Degree	36	55.4
		Postgraduate	26	40.0
		<b>Total</b>	<b>87</b>	<b>100.0</b>
4	Status	Single	10	15.4
		Married with Children	53	81.5
		Married without Children	1	1.5
		Divorced	1	1.5
		<b>Total</b>	<b>65</b>	<b>100.0</b>
5	Position	Academic/Educator	11	16.9
		Clerical	1	1.5
		Technical Engineering	6	9.2
		Executive/Managerial	26	40.0

		Other	4	6.2
		Professional (Lawyer, Doctor etc)	15	23.1
		Sales Marketing	1	1.5
		Self Employed/Own Company	1	1.5
		<b>Total</b>	<b>65</b>	<b>100</b>
6	Salary	More than RM5,000	19	29.2
		RM1,000-RM2,000	5	7.7
		RM2,000-RM3,000	13	20
		RM3,000-RM4,000	17	26.2
		RM4,000-RM5,000	11	16.9
		More than RM5,000	19	29.2
		<b>Total</b>	<b>65</b>	<b>100</b>
7	Types of membership	Visa	9	13.8
		Master Card	28	43.1
		Others	28	43.1
		<b>Total</b>	<b>65</b>	<b>100</b>
8	First time using CC	While studying	16	24.6
		Since employed	31	47.7
		Once having stable income	18	27.7
		<b>Total</b>	<b>65</b>	<b>100</b>
9	Who influence to have CC	Family	11	16.9
		Relatives	2	3.1
		Friends	31	47.7
		Promoted by salesman	21	32.3
		<b>Total</b>	<b>65</b>	<b>100</b>
10	Total credit cards	Only 1	19	29.2
		1 until 3	36	55.4
		4 until 5	9	13.8
		More than 5	1	1.5
		<b>Total</b>	<b>65</b>	<b>100</b>
11	Usage frequencies	Once	17	26.2
		3 times	15	23.1
		5 times	8	12.3
		More than 5	25	38.5
		<b>Total</b>	<b>65</b>	<b>100</b>

Credit Cards Banks	Frequency	Percent
Bank Islam (M) Bhd	29	35.8%
Maybank	15	18.5%
HSBC Amanah	12	14.8%
Citibank	7	8.6%
MBF	6	7.4%
Standard Chartered	5	6.2%
Bank Rakyat	2	2.5%
AEON	2	2.5%
BCB	1	1.2%
RHB	1	1.2%

Affin Bank	1	1.2%
Total	81	100.0%

From the above table, it is noted that the highest credit card used is Bank Islam (M) Bhd, followed by Maybank, HSBC and Citibank. The Islamic credit card holders seem to also have conventional credit cards as shown in the above table.

#### Reliability Test

The Cronbach alpha shows that the data is reliable and having internal consistency by having an alpha of 0.77085 (Nunnaly 1970).

R E L I A B I L I T Y   A N A L Y S I S   -   S C A L E   ( A L P H A )

#### Reliability Coefficients

N of Cases =        65.0

N of Items = 30

Alpha =        .7708

## FACTOR ANALYSIS

### Descriptive Statistics

	Mean	Std. Deviation
I use credit card as a medium of transaction	4.00	0.95
I use credit card for status purposes	2.03	0.87
I use credit card because easy to carry anywhere	4.29	0.7
I use credit card as a means of credit	2.88	1.23
I use credit card because I do not have to carry too much cash in the pocket	4.14	0.93
Credit card gives convenient to daily life transaction	3.92	1
I am not burden to pay back the credit	2.62	1.31
I can control my cash outflow by using credit card	3.43	1.09
I use my credit card when there is no cash in hand	3.18	1.06
I use my credit card when buying something in bulk amount	3.69	0.98
I use my credit card every time it deal with buying	2.06	0.81
I use my credit card during emergency time	3.82	0.92
I choose my existing credit card because of easy payment	3.28	1.11
I choose my existing credit card because of easy access	3.85	0.94
I choose my existing credit card because of their benefits and facilities provided	3.72	0.88
I choose my credit card because of free annual fee	3.55	1.17
I choose my credit card because of interest free	3.55	1.21
I choose my credit card because according to Syariah rules and regulation	3.77	1
I understand with the concept applied in my credit card	3.88	0.86
The credit card do satisfy my utilities	3.86	0.83
I do not face difficulty to pay back the amount	3.71	1.09
I use the credit card when traveling	3.97	0.88
I prefer to use my credit card when I went to shopping	3.35	1.01
I use my credit card when I am dealing with buying goods	3.34	1.02
I use my credit card when rendering services	3.08	1.02
I use my credit card to settle my bills	2.91	1.07
I prefer to use my credit card when buying goods through internet	3.38	1.23
I use my credit card to donate online	2.62	1.03
I use my credit card to pay zakat	2.23	0.88
I prefer to used my credit card when buying catalogue product	2.75	1.06

### KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.589
Bartlett's Test of Sphericity	Approx. Chi-Square	893.052
	df	435
	Sig.	.000

The KMO test shows that the factor analysis could be done because it is more than 0.5. Therefore no variables would be excluded. In addition the Bartlett's test of sphericity is significant therefore we conclude that the factor analysis could be further analyzed.

### Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.823	19.409	19.409	5.823	19.409	19.409
2	3.110	10.368	29.777	3.110	10.368	29.777
3	2.529	8.431	38.208	2.529	8.431	38.208
4	2.205	7.351	45.559	2.205	7.351	45.559
5	2.144	7.145	52.704	2.144	7.145	52.704
6	1.394	4.648	57.352	1.394	4.648	57.352
7	1.350	4.501	61.853	1.350	4.501	61.853
8	1.287	4.291	66.144	1.287	4.291	66.144
9	1.161	3.871	70.015	1.161	3.871	70.015
10	1.054	3.513	73.528	1.054	3.513	73.528
11	.989	3.297	76.825			
12	.791	2.636	79.461			
13	.740	2.466	81.927			
14	.671	2.236	84.163			
15	.596	1.986	86.149			
16	.540	1.801	87.950			
17	.506	1.685	89.636			
18	.480	1.601	91.237			
19	.405	1.351	92.588			
20	.369	1.232	93.820			
21	.336	1.119	94.939			
22	.302	1.007	95.946			
23	.231	.771	96.717			
24	.210	.699	97.416			
25	.178	.594	98.011			
26	.154	.513	98.524			
27	.151	.505	99.029			
28	.126	.420	99.449			
29	9.272E-02	.309	99.758			
30	7.257E-02	.242	100.000			

Extraction Method: Principal Component Analysis.

Based on the total variance explained, there are 10 factors extracted. These components are extracted based on the initial eigenvalues is higher than 1.00. The total variance explained by the extracted components is approximately 73.53% of the total variations.

	1	2	3	4	5	6	7	8	9	10
I use my credit card when I am dealing with buying goods	0.76									
I use credit card because easy to carry anywhere	0.71									
Credit card gives convenient to daily life transaction	0.69								-0.45	
I use credit card because I do not have to carry too much cash in the pocket	0.68									
I use credit card as a medium of transaction	0.63									
I use my credit card to settle my bills	0.63									
I can control my cash outflow by using credit card	0.61		-0.43							
I use my credit card when rendering services	0.59		0.45							
I prefer to use my credit card when I went to shopping	0.55									
I prefer to used my credit card when buying catalogue product	0.47	-0.43								
The credit card do satisfy my utilities	0.46	0.44								
I use my credit card every time it deal with buying	0.44			0.41						
I choose my credit card because according to Syariah rules and regulation		0.66						0.40		
I choose my credit card because of interest free		0.63								
I choose my credit card because of free annual fee		0.52		0.46						
I use my credit card to pay zakat		-0.51								
I choose my existing credit card because of their benefits and facilities provided		0.46			0.42					
I use my credit card to donate online	0.41	-0.45								
I use credit card as a means of credit			0.62							
I do not face difficulty to pay back the amount	0.53		-0.54							
I am not burden to pay back the credit	0.41		-0.47							
I use my credit card when buying something in bulk amount				-0.69						
I use my credit card when there is no cash in hand										
I choose my existing credit card because of easy access					0.57					0.45
I use my credit card during emergency time					0.57		0.52			
I use the credit card when traveling					0.52					
I understand with the concept applied in my credit card					-0.51			0.43		
I prefer to use my credit card when buying goods through internet					0.50		-0.41			
I choose my existing credit card because of easy payment						0.63				
I use credit card for status purposes				0.47						-0.54

Based on the component matrix 10 components have been extracted using a suppressed value of 0.4. From the 10 components, we have taken out 1 component. The component is component 7 since it is redundant with component 6. Therefore the 10 components are reduced to only 9 components which can be defined as follows:

<b>Component</b>	<b>Component Name</b>
Component 1	Usage and Perceptions
Component 2	Interest Free and Shariah Compliance
Component 3	Credit & Control
Component 4	Bulk purchases and status
Component 5	Emergency and Traveling
Component 6	Easy Payment Scheme
<b>Component 7</b>	<b>DELETED</b>
Component 8	Knowledge AND Shariah Compliance
Component 9	Status
Component 10	Easy Access

## **5.0 CONCLUSIONS AND RECOMMENDATIONS**

Nowadays customer are more conscious about the usage of the Islamic credit cards. Not only this credit card is interest-free, but there is no profit charges if full payment is made before the due date. With Islamic credit cards, customers will also be able to pay zakat online, and to have Islamic takaful. Unlike conventional, the Islamic credit card holders are able to know the maximum profit charged to them within certain contract period. Islamic credit cards are also now being accepted worldwide.

Bai Al-Inahl, Al-Wadiah, and Qardhul Hassan are applied in the Islamic credit card transactions. With these features, the Islamic credit cards are based on the Shariah contracts, which are free from the riba and gharar, have fixed profit margin, impose zero percent interest on easy payment plan, give balance transfer facility and charge low profit rate on the outstanding balance. These features and the benefits of the Islamic credit cards encourage Muslim and Non Muslim customers to embrace the Islamic credit cards.

Based on the findings, it can be concluded that there are 9 factors that could be further analyzed in determining the motivation for the Islamic credit card holders. All of the factors such as Usage and Perceptions, Interest Free and Shariah Compliance, Credit & Control, Bulk purchases and status, Emergency and Traveling, Easy Payment Scheme, Knowledge and Shariah Compliance, Status, and Easy Access could contribute in enriching the study on the Islamic credit card holders behavior and preferences.

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