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The Ujrah Framework in Islamic Credit Cards: A Jurisprudential and Conceptual Analysis

Shad Muhammad [1], Muhammad Atif Aslam Rao[2]

Abstract

The increasing demand for Shari'ah -compliant financial solutions has led to the emergence of Islamic credit card models, among which the Ujrah framework offers a notable alternative to conventional interest-based systems. This study aims to examine the jurisprudential foundations, methodological underpinnings, and operational mechanisms of the Ujrah model in light of classical Islamic legal sources and contemporary financial practice. Using a descriptive analytical methodology, the research draws upon primary sources -including the Qur'an, Hadith, and classical fiqhi literature and secondary materials such as institutional fatwas, AAOIFI standards, and academic writings. The objective is to determine whether the Ujrah model maintains genuine Shari'ah compliance while addressing modern financial needs. The study contributes to existing literature by providing a structured comparative evaluation between Ujrah-based and other Islamic credit card models (e.g., Tawarruq and Murabahah), identifying their legal implications, ethical concerns, and practical limitations. Findings reveal that while the Ujrah framework aligns with many Islamic principles, challenges persist regarding fee justification, ibra' conditions, and dual-contract risks. The research concludes that effective regulation, transparent disclosure, and robust Shari'ah supervision are essential for maintaining compliance. Future research may explore empirical testing of Ujrah-based card performance across jurisdictions.

Keywords: Ujrah Model, Islamic Credit Cards, Ijarah, Qard, Hawalah, Jurisprudential Analysis

Introduction

The rapid expansion of Islamic finance has motivated scholars and institutions to devise alternatives to interest-based financial instruments. Among these, Islamic credit cards represent one of the most debated innovations, primarily due to their interaction with Riba, Gharar, and service-based fees. To address such

[1] Department of Islamic Thought and Culture, National University of Modern Languages, Islamabad, Pakistan. shadkhan654@gmail.com
[2] Department of Islamic Learning, University of Karachi, Pakistan. dratifrao@uok.edu.pk

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issues, Islamic scholars proposed several models most prominently the Tawarruq and Ujrah frameworks. This paper focuses on the Ujrah model, analysing its jurisprudential legitimacy, conceptual basis, and operational structure.

Historically, the first Islamic credit card based on the Ujrah model was introduced by Skywards Emirates Islamic Bank (EIB). The structure of the credit card based on the Ujrah model was designed on the foundation of Shari'ah principles, wherein no additional interest was charged from the client. Bank Negara Malaysia's Shari'ah Advisory Committee (SACBNM), during its 77th and 78th meetings (2008), also permitted the use of the Ujrah model credit card. Consequently, several Islamic banks in Malaysia issued credit cards based on the Ujrah model, including AmBank Islamic, Bank Simpanan Nasional, CIMB Islamic Bank Berhad, HSBC Amanah Berhad, Maybank Islamic Berhad, and RHB Islamic Bank Berhad (Balarabe & Abdullah, 2020).

Similarly, Standard Chartered Bank in Pakistan also issued the "Saadiq Credit Card" based on the Ujrah model, which was later converted into the Tawarruq model.

Generally, Ujrah model credit cards can be considered a simpler structure among the various frameworks currently used in Islamic banks. However, a difficulty arises in their use: the bank cannot charge the customer any additional amount over the payment made on the customer's behalf, as it is not permissible. Instead, banks usually set a higher service fee, which makes these cards less popular for small purchases. Although the card can be useful for larger purchases, banks face difficulties in recovering the amounts they have paid (Bilal & Mydin Meera, 2015).

Research Question and Objectives

This study seeks to answer the following central question:

Does the Ujrah-based Islamic credit card model ensure genuine Shari'ah compliance while maintaining financial functionality and ethical integrity?

The objectives of the study are to:

- Examine the juristic foundations of the Ujrah model in Islamic law.
- Identify its contractual components (Ijarah, Qard, and Hawalah).
- Evaluate its Shari'ah compliance based on classical and contemporary criteria.

Scope of the Study

The study focuses primarily on Malaysia's Ujrah-based model and relevant institutional fatwas while referencing other jurisdictions where applicable.

Review of Literature

Existing literature on Islamic credit cards highlights both conceptual and operational challenges in developing *Shari'ah* -compliant alternatives.

1. Abdullah & Balarabe (2020) provide a conceptual overview of the *Ujrah* model, emphasizing its service-based nature. (Article: "The Islamic Credit Card Based on *Ujrah* Concept: Conceptual Review" published in September 2020 in the Journal of Emerging Economies and Islamic Research)
2. Sharul Azman (2015) critically evaluates Malaysia's experience, revealing concerns about fee transparency and compliance monitoring. (Article: "The Islamic Credit Card Based on *Ujrah* Concept: Conceptual Review" published in September 2020 in the Journal of Emerging Economies and Islamic Research)

However, comprehensive jurisprudential analyses remain limited, particularly in Arabic and Urdu sources. This paper thus aims to fill that gap by combining classical *fiqhi* discussions with modern financial applications.

Methodology

This study adopts a qualitative, descriptive-analytical approach, relying on both classical and contemporary Islamic legal materials.
Primary Sources: The Qur'an, Hadith, and classical jurisprudential works from major madhahib.
Secondary Sources: Institutional fatwas, AAOIFI Shari'ah Standards, resolutions of the International Islamic Fiqh Academy (IIFA), and scholarly writings on Islamic finance.

Evaluation Criteria:

- Consistency with Shari'ah principles (avoidance of *Riba*, *Gharar*, and *Maysir*).
- Compliance with madhhab-based jurisprudential reasoning.
- Ethical considerations and transparency in fee structures.

Case Selection: Malaysia's Ujrah model was chosen as a primary case study due to its pioneering implementation and regulatory acceptance by Bank Negara Malaysia's Shari'ah Advisory Council (SACBNM) (Abd Razak, 2015).

Concept and Mechanism of the *Ujrah* Model

"*Ujrah*" in Arabic refers to payment for services or benefits. In Islamic jurisprudence, it encompasses compensation in both *Ijarah al-Ashkhas* (personal services) and *Ijarah al-A'yan* (use of tangible assets). Under the *Ujrah* model, the bank issues a credit card to the customer and charges a predetermined service fee (*Ujrah*) for legitimate services such as issuance, renewal, and account management-without linking it to the amount of credit utilized. Allama Ali Haydar, under one of the articles of Majallah al-Ahkam al-Adliyyah, writes:

وبعبارة أخرى الأجرة هي العوض الذي يعطى مقابل منفعة الأعيان، أو منفعة الآدمي، مثلا: إذا استؤجر بيت، أو خادم بمائة قرش فالمبلغ هو الأجرة"

"In other words, Ujrah is the compensation given in exchange for the benefit of objects or the benefit of a human being. For example, if a house or a servant is hired for one hundred qirsh, the amount paid is the Ujrah (Efendi, 1991)"

The principles and rules of *Ujrah* are detailed extensively in jurisprudential books. One important principle among them is that the amount of *Ujrah* must be known and determined from the beginning to prevent any form of dispute or conflict later on (Rahman, 2018).

Mechanism of the *Ujrah* Model

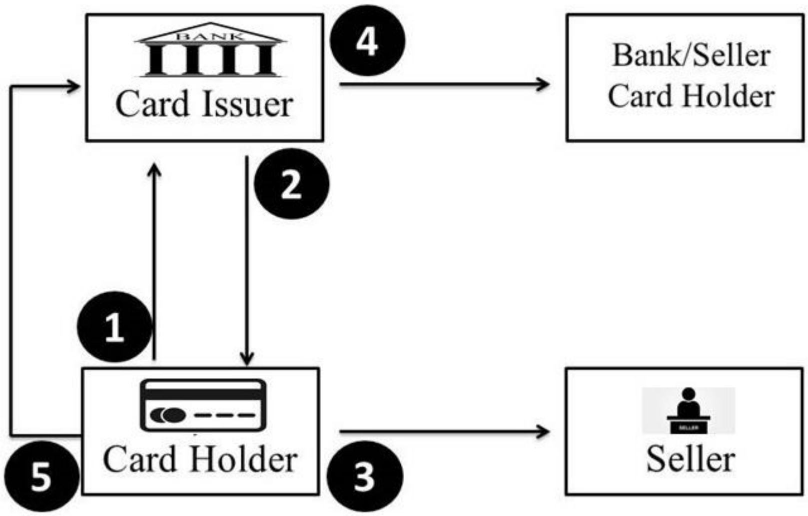
In the concept of the *Ujrah* model for credit cards, the Islamic bank issues cards to its customers, facilitating them in purchases and payments. The Islamic bank has the right to charge a fee from customers in return for the services provided. These service charges can be either monthly or annual, and their rate can vary. However, it must be determined and fixed.

The Islamic scholars who have permitted the *Ujrah* model are of the view that the fundamental element distinguishing the *Ujrah* model from the conventional bank's credit card is that, in the *Ujrah* model, a fixed and determined fee (service charge) is taken from the customer/cardholder, which is not linked to the amount used, and no interest is charged from the customer.

On the other hand, in conventional cards, charges are based on the utilized and remaining balance, and interest is charged on late payments, which becomes part of the bank's income.

The processes and mechanism of the *Ujrah* model can be understood through the following diagram and its explanatory notes:

Figure 1: *Process Flow of the Ujrah Model*



Source: Author

First Stage: Application

At the first stage, the customer applies to the bank for the issuance of a credit card. In return for the facilities, services, and benefits provided by the bank, the customer agrees to pay an annual fee (*Ujrah*), referred to as the Yearly Facility Charge (YFC). This fee is not linked to the credit limit of the card but rather to the type of card issued. For example, the fees differ based on card categories such as Gold, Platinum, and Infinite.

Second Stage: Issuance

At the second stage, the bank opens an account for the customer, sets a credit limit, and issues the credit card. Through this card, the customer becomes entitled to the various facilities associated with it, such as making purchases and withdrawing cash. Simultaneously, the bank acquires the right to collect the agreed-upon annual ujrah (YFC) from the cardholder.

Third Stage: Card Usage

After obtaining the card from the bank, the customer begins to use it, benefiting from its services and facilities, such as purchasing goods, withdrawing cash, transferring funds, and availing discounts at various hotels, airports, and other locations.

Fourth Stage: Bank's Responsibilities

When the cardholder uses the card, the bank assumes two primary responsibilities, both of which are conditions attached to the issuance of the card:

1. **Payment to the Seller:**
   If the cardholder purchases goods or services using the card, the bank is responsible for paying the seller on behalf of the cardholder. After the transaction, the obligation to pay the purchase amount no longer remains directly with the cardholder; rather, it is transferred to the bank. The seller claims the payment from the bank, and after settling the payment, the bank subsequently recovers the amount from the cardholder.

2. **Provision of Cash Advances:**
   The bank's second key responsibility is to facilitate cash withdrawals. If the cardholder needs cash and seeks to withdraw it using the bank's ATM or another bank's ATM through the card, the bank must provide this facility. The withdrawn amount is treated as a loan extended by the bank to the cardholder

Fifth Stage: Responsibilities of the Cardholder

In the final stage, the cardholder assumes several responsibilities, including:

1. **Payment of the Annual Fee (YFC):**
   The cardholder must pay the annual fee (Yearly Facility Charge) to the bank.

2. **Repayment of Monthly Usage:**
   The cardholder must repay the bank, within a specified period at the end of each month, for the amount spent through the card—whether for purchasing goods, obtaining services, or withdrawing cash—which the bank had paid on his behalf.

3. **Payment of Additional Charges:**
   In certain situations, additional fees may be charged to the cardholder, such as monthly operational fees, cash withdrawal fees, and foreign currency conversion fees. The cardholder is responsible for paying these fees to the bank as well.

4. **Rebate (Ibra'/Discount) for Timely Payment:**
   It is important to note that the bank generally pre-determines that if the cardholder makes timely payments, the bank will offer a partial reduction (rebate or ibra') in the amount owed. This reduction represents the bank's voluntary waiver or gifting of a portion of its receivable.

5. **Charitable Contribution for Late Payment (*Ta'weeth*):**
   If the cardholder fails to make the payment on time, a compensation amount (*ta'weeth*) will be imposed. However, the bank will not use this amount for its own benefit; rather, it will be directed to a charity fund (Abu Bakar & Abdul Rahim, 2021).

Jurisprudential Evaluation and Analytical Discussion

Although it is often claimed that the Ujrah-based credit card operates as a form of *Qard* Hasan (benevolent loan) where the issuing bank grants the cardholder a specific loan amount that the cardholder utilizes through the card and repays within a stipulated time upon closer examination, it becomes clear that the model actually incorporates elements of three distinct contracts (*ʿuqūd*). Each of these contracts reflects different aspects of the *Ujrah* model's operation:

1. ***Ijārah* (Lease/Service Contract):**
   Fundamentally, the card is based on an *ʿaqd al-ijārah* (contract of service). The bank issues the card to the customer, provides a range of facilities and services (such as account management and transaction processing), and charges a fixed fee (*ujrah*/rental) in return for these services.

2. ***Qard* (Loan Contract):**
   A *qard* (loan) transaction also arises within the Ujrah model. When the cardholder withdraws cash using an ATM, and if no preloaded balance exists in the card account (which is usually the case), the withdrawn amount is treated as a loan from the bank to the cardholder.

3. ***Ḥawālah* (Debt Assignment/Transfer Contract):**
   The contract of *ḥawālah* is also established in the *Ujrah*-based credit card arrangement. When the cardholder makes a purchase or obtains a service using the card, the debt obligation incurred by the cardholder is transferred to the issuing bank. Consequently, after the transaction, the seller no longer has the right to demand payment directly from the cardholder but must instead seek payment from the bank. In this *ḥawālah* arrangement, the cardholder acts as the *muḥīl* (debtor), the seller or merchant as the *muḥāl* (creditor), and the bank as the *muḥāl ʿalayh* (party assuming the payment obligation).

Three primary concerns are typically raised:

Legality of Fees and Compensation

From the *Fiqhi* analysis of the *Ujrah* model, it is clear that it incorporates the contracts of *Ijarah* (service lease), *Qard* (loan), and *Ḥawalah* (debt transfer). Among these, it is permissible under *Shari'ah* to charge a fee or compensation for services provided under an *Ijarah* contract. However, charging a fee for providing a loan or for conducting a *Ḥawālah* transaction is not permissible according to Islamic law. A detailed discussion of this principle has already been presented in the earlier chapter (Balarabe & Abdullah, 2022).

Upon closer examination, the compensation received by the bank under the *Ujrah* model can be categorized into three types:

1. **Service Charges:**

   These are fees charged for services provided by the bank that are not directly related to the provision of cash, such as membership, card issuance, renewal, replacement, and account management. The bank charges a fixed annual or monthly fee for these services, which is permissible under *Shari'ah*.

   However, it is important to note that the bank often charges a fee significantly higher than what would be customary for such limited services, factoring in not only the service costs but also its intended profit margin. This gives rise to a serious concern that the bank may be implicitly including an additional amount in exchange for the loan facility provided to the cardholder, which would not be permissible. Therefore, this remains a point of legitimate concern (Huda, 2019).

2. **Actual Cost (*Taklufah Fi ‘liyyah*)**
   The services or facilities provided by the bank that involve the disbursement of cash such as when a cardholder withdraws cash using the bank’s ATM must be charged only at the level of actual costs incurred. In such cases, charging fees beyond the actual cost is problematic for two reasons: firstly, it constitutes a form of deriving profit from a loan, which is prohibited under Islamic law; secondly, it combines two contracts loan (*qard*) and lease (*ijarah*) in a single transaction, giving rise to the *Shari’ah* concern known as *ṣafqah fi ṣafqah* (combining two contracts in a manner that causes ambiguity or unfairness) (Bathusha & Isa, 2025).

The International Islamic Fiqh Academy (IIFA) has addressed this matter in a resolution stating:

"السحب النقدي من قبل حامل البطاقة اقتراض من مصدرها ، ولا حرج فيه شرعا إذا لم يترتب عليه زيادة ربوية ، ولا يعد من قبيلها الرسوم المقطوعة التي لا ترتبط بمبلغ القرض أو مدته مقابل هذه الخدمة . وكل زيادة على الخدمات الفعلية محرمة ، لأنها من الربا المحرم شرعا".

“Cash withdrawal by the cardholder is considered a loan from the issuer, and there is no *Shari’ah* objection to it as long as it does not involve an interest-based increase. A fixed fee not related to the loan amount or its duration, charged for providing this service, is permissible. However, any additional amount beyond the actual cost of the service is prohibited, as it constitutes *riba* (usury), which is forbidden under Islamic law (International Islamic Fiqh Academy, 2024)"

In practice, however, determining and ensuring strict adherence to such fine distinctions especially accurately assessing the true costs has become extremely challenging. Often, banks do not give due consideration to this requirement. Therefore, this issue demands great caution and careful scrutiny.

Charity (*Tabarru’/Ṣadaqah*)

After utilizing the card facilities, the cardholder is required to repay the outstanding amount within a specified period. If the cardholder fails to make the repayment within the stipulated time, the bank imposes a mandatory charitable payment (*ṣadaqah*). For this purpose, the bank enters into a formal agreement with the cardholder beforehand, a practice referred to as iltizam bi-al-*tabarru* (commitment to donate) (Muis et al., 2025).

The permissibility of this arrangement is subject to scholarly disagreement. However, within the *Mālikī* school of thought, such a commitment is deemed acceptable. Furthermore, AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) has permitted institutions to require such a commitment from a delinquent debtor. The *Shari'ah* Standards state:

"مستند جواز الاشتراط على المدين المماطل بالتزام التصدق بمبلغ زائد عن الدين لتصرفه المؤسسة في وجوه البر هو أنه من قبيل الالتزام بالتبرع المعروف عند المالكية وهو قول أبي عبد الله بن نافع ومحمد بن إبراهيم بن دينار من فقهاء المالكية".

"The established justification for permitting the stipulation upon a defaulting debtor to commit to donate an additional amount beyond the debt where the institution allocates it for charitable purposes is that it falls under the concept of iltizām bi-al-tabarru (commitment to voluntary donation) recognized by the Mālikī scholars, notably Abu 'Abd Allah Ibn Nafi and Muhammad ibn Ibrahim ibn Dinar."

Thus, according to *Maliki* jurisprudence and contemporary *Shari'ah standards*, such a mechanism is considered valid provided that the additional amount is not utilized for the bank's own benefit but is directed exclusively towards charitable purposes.

Rebate (Ibra') and Its Conditions

The operational procedure of the *Ujrah* model specifies that just as an annual or monthly fee is agreed upon between the bank and the cardholder, it is also explicitly stipulated that if the cardholder consistently makes timely payments or maintains a certain level of card usage such as using the card twice a week the bank will grant a certain amount of rebate or waive part of the annual or monthly fee. This is referred to as *Ibrā'* (Rebate), wherein the bank effectively waives or forgives a portion of its rightful claim.

In this case, two doubts may arise regarding the concept of *Ibrā'* (Rebate):

1. *Ḍa wa Ta'jil* (Reduction and Prompt Payment)
2. *Riba* (Usury)

Ḍa'wa Ta'jil **(Reduction and Prompt Payment):**

The situation of *Ibrā'* described here is similar to the concept of *Ḍa'wa Ta'jil*, which refers to the agreement made between the creditor (*dā'in*) and the debtor (*madī'un*) that if the debtor repays the debt earlier than agreed, the creditor will reduce the debt or offer a discount. In the case of the *Ujrah* model, a similar arrangement occurs, wherein if the cardholder (who owes the bank due to card usage) repays the amount within the stipulated time, the bank (the creditor) may forgive a part of the fee (the amount owed by the cardholder).

While there are varying opinions among scholars regarding the permissibility of *Ḍa'wa Ta'jil*, the majority of scholars consider it impermissible because it is reported from Ibn 'Umar (may Allah be pleased with him) that he regarded this practice as a form of *riba* (usury) (Al-Tuwayjri, 2009).

The Islamic Fiqh Academy in one of its resolution's states:

"الحطيطة من الدين المؤجل، لأجل تعجيله، سواء أكانت بطلب الدائن أو المدين (ضع وتعجل) جائزة شرعاً، لا تدخل في الربا المحرم إذا لم تكن بناء على اتفاق مسبق، وما دامت العلاقة بين الدائن والمدين ثنائية".

"Reducing the deferred debt for the purpose of prompt repayment, whether requested by the creditor or debtor (Ḍa'wa Ta'jil), is permissible in Shari'ah and does not fall under the prohibited riba as long as it is not based on a prior agreement, and as long as the relationship between the creditor and debtor remains bilateral" (Academy, 1992).

The permissibility of *Ḍa'wa Ta'jil* (Reduction and Prompt Payment) is conditioned on two requirements:

1. There should be no prior agreement or arrangement regarding such *Ibrā'* or discount.
2. There should be no involvement of a third party; the transaction must be exclusively between the creditor (*dā'in*) and the debtor (*madī'un*).

Since in the *Ujrah* model, there is a formal agreement from the outset regarding this *Ibrā'* or discount, it does not meet the conditions outlined above and, according to the majority opinion, is considered impermissible (Alfarisi et al., 2025).

2. ***Riba* (Usury):**
   The second doubt arises from the fact that taking a fee from the cardholder and then reducing that fee is akin to taking more money and returning less. This is because the cardholder pays the bank an amount in the form of a fee, and the bank, in turn, offers a reduced amount in the form of Ibra'. Hence, it appears as a form of exchange of more money for less, which can be seen as a ruse to circumvent the prohibition of *riba*.

Due to such concerns, the *Shari'ah* Advisory Council of Bank Negara Malaysia has prohibited this form of *Ibrā'*, but has issued guidance stating that instead of *Ibrā'*, a *hiba* (gift) may be given, provided it is not conditioned upon the payment of the fee (Abu Bakar & Abdul Rahim, 2021).

Combining Contracts (*Ṣafqah fī Ṣafqah*)

Saffaqah fi *Saffaqah* is a juristic term, which some scholars have referred to as "*Bay'atayn fi Bay'ah*" (two transactions in one sale). Several interpretations of this concept exist, but the most widely accepted understanding is that it refers to the condition where one financial transaction is made dependent upon the occurrence of another, such that the second transaction will only take place if the first one is fulfilled. For example, when someone sells their house, they may impose the condition that the buyer will either provide them with a loan or lease the house to them for a certain period. Here, the sale is contingent upon the loan or lease agreement (SAC, 2006).

This type of transaction has been prohibited in the Hadith. It is narrated from Abu Hurairah (RA) that the Prophet (PBUH) prohibited combining two transactions in one agreement (Al-Tirmidhi, Hadith 1231).

The issue of *Saffaqah fi Saffaqah* in the Ijarah model credit card can be examined from two points:

1. ***Ijarah* and Loan:**

   As previously mentioned, in the Ijarah model, the bank provides various services to its client (the cardholder) and in return, it receives a fee (wage), which is based on an Ijarah agreement. Additionally, if the cardholder withdraws cash using the card, this becomes a loan provided by the bank. From the outset, it is agreed that the bank will provide the cardholder with a loan when required. This situation may raise concerns regarding the combination of Ijarah and loan transactions, which could be seen as a form of *Saffaqah fi Saffaqah* (two transactions in one), thus rendering it prohibited.

   However, this concern is not valid, as the combination of Ijarah and loan does not constitute *Saffaqah fi Saffaqah*, because these are two distinct transactions, and one is not conditional upon the other. Hence, the Ijarah fee or agreement is not linked to the loan, and if the cardholder does not take out a loan, the Ijarah agreement still remains in effect. This clarifies that each contract is independent and not conditional upon the other (Jamaan et al., 2014).

2. **Ijarah and *Hawalah*:**

   In addition to Ijarah, the Ijarah model also includes *Hawalah* (delegation). When the cardholder uses the card to make a purchase, the bank pays on their behalf. This constitutes *Hawalah*, in which the cardholder is the debtor (*Muhayil*), the seller is the creditor (*Muhtal*), and the bank is the party accepting the responsibility of payment (*Muhtal 'alayh*).

   At the time of issuing the credit card, it is established that the bank will make the payment on behalf of the cardholder, and the Ijarah contract exists from the beginning. Hence, concerns may arise regarding the combination of two contracts (*Ijarah* and *Hawalah*). However, this concern is not valid, as the promise of *Hawalah* does not alter the existing Ijarah contract. Even if the cardholder never uses the card, the Ijarah contract remains valid. Therefore, this does not constitute *Saffaqah fi Saffaqah.*

In conclusion, the objection or concern regarding *Saffaqah fi Saffaqah* in the Ijarah model is not strong. Furthermore, there is a difference of opinion among scholars regarding the validity of *Saffaqah fi Saffaqah*, and it is acknowledged in contemporary scholarship. Just as several contracts and agreements are made in advance in other financial transactions, this is one such case, and many contemporary scholars, including those in organizations such as AAOIFI, have allowed such contracts, providing clear guidelines on this matter (Arbouna & Bakar, 2007).

Comparative Analysis and Contribution

Compared with other Islamic credit card models, such as *Tawarruq*-based and *Murabahah*-based cards, the *Ujrah* framework offers several advantages:

- It eliminates commodity trades often deemed artificial in Tawarruq.
- It ensures service-based legitimacy in line with Ijarah principles.
- It simplifies accounting and customer transparency.

However, its limitations include potential fee inflation, challenges in cost verification, and ambiguity in rebate mechanisms. This paper contributes by providing a unified juristic framework for assessing these competing models and suggesting regulatory improvements.

Conclusion and Recommendations

Key Findings:

- The *Ujrah* model represents an ethically grounded alternative to interest-based credit cards.

- Its *Shari'ah* compliance depends on maintaining independence among Ijarah, *Qard*, and *Hawālah* contracts.
- Excessive or profit-oriented fees undermine the model's legitimacy.
- The issues of conditional Ibra' and *Ṣafqah fī Ṣafqah* require continued scholarly oversight.

Recommendations:

- Regulators should ensure transparent disclosure of actual service costs.
- Islamic banks must standardize fee calculation to avoid implicit riba.
- *Shari'ah* boards should monitor rebate and charity mechanisms rigorously.
- Future research should conduct empirical analysis of *Ujrah*-based card usage and consumer behaviour.

Policy Implications: Adopting the Ujrah framework more widely could strengthen the authenticity of Islamic credit products, provided that institutions maintain strict *Shari'ah* governance and ethical oversight.

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