

Fatwa regarding the Cordoba Gold Card

All praise and thanks are due to Allah, the Lord of the worlds. Peace and blessings be upon our Prophet, Muhammad, his family and all his Companions.

I have been approached by Cordoba Financial Group to comment from a Shari'ah perspective on the Cordoba Gold Cashplus prepaid MasterCard. After a detailed investigation of this product and discussions with Cordoba's senior executives, I have concluded that the scheme complies with the requirements of Shari'ah and therefore that it is permissible for Muslims to use this card for purchasing goods and withdrawing cash. However, I advise that it not to be used for buying gold, silver, stocks, foreign currencies or withdrawing money in other currencies as such transactions are known as *sarf* where the exchange of the two counter-commodities have to be physical and prompt according to the *hadith* (prophetic statement) narrated by Abi-saeed al-Khudri that the Messenger of Allah (*Salla Allahu 'alibi Wasallam*), said: "Do not trade gold for gold unless it be like for like (in quantity), let not the quantity of one exceed the other. Do not trade silver for silver unless it be like for like (in quantity), let not the quantity of one exceed the other. Do trade that which is absent for that which is present".

The card operates as follows. The user first purchases the card from Cordoba Financial Group for a small price which pays the administration costs of processing the user's application, opening a bank account with Cordoba Gold , the costs of producing the card, and other administrative functions.

Once the card is purchased, the cardholder must top-up the card at a top-up point. The value of the top-up is deposited into the cardholder's bank account at AFL Bank within 24 hours. AFL bank is a specific vehicle set up for this purpose and is regulated by the bank of England. This bank account is an escrow account and AFL Bank therefore treats it as a trust. It is shown on the bank's balance sheet as an amount due to a specific individual, whereas other forms of current account are treated as a loan made to the bank. As a trust, AFL Bank is contractually obliged to segregate the underlying funds. For example, it may not use them to finance other projects or make loans to other clients.

When the card is used to make a purchase, the amount of the purchase will be immediately deducted from the escrow account. A transaction fee is also deducted from the escrow account. A similar process operates when cash is withdrawn. As a trust, the cardholder cannot use the card for purchases or withdrawals that exceed the balance held within his account. Any request to make a transaction with a value beyond that balance will be declined at the point of purchase. Therefore no credit transaction can take place through the use of this card.

As a result of the above operations, the balance of the trust account increases when topped-up and decreases when a purchase or money withdrawal occurs. This happens in the normal time frame required for processing transactions through the banking system.

The initial fees paid to obtain the card and the transaction fees do not render the product impermissible, as in Shari'ah it is allowed to pay a trustee to administer a trust and we regard both Mastercard and Cordoba Financial Group to be acting as trustees in this context. The trust concept is widely accepted by Muslim scholars and many of them allowed compensation for his effort.

An important issue here surrounds our requirement for the funds in each account to be segregated as a trust for the sole benefit and access of the account holder. Unfortunately, the use of electronic money and pooled funds is all pervasive in the current financial system. Therefore, cardholders' funds cannot be physically isolated in the way that we wish to see. Given this context, the minimum we require is that the escrow balances are not included in the total assets of the bank which means that the bank can not claim the right to use such funds nor can carry out activities based on such a claim.

As it is based upon the trust concept, the Cordoba Gold cashplus prepaid MasterCard complies with the requirements of Shari'ah. However, any alteration to the above described contractual processes and any contractual agreements or arrangements that contradict the essence of trust may violate the requirements for Shari'ah permissibility in relation to the card. Such violations include changing the account from a trust to a loan basis, and use of the trust money for financing other products or activities. It is of a paramount importance to note that this fatwa is not based on my personal preferences or leanings towards a particular opinion among different opinions; rather it is based on precepts generally accepted by scholars from all school of thoughts which are also based on Quran and Sunnah.

In conclusion, I pray to Allah to grant the individuals in charge of this project success and to aid them to further His cause. Genuine Islamic finance has a key role to play in maintaining justice for the whole of humanity in this disturbed world.

I would like to take this opportunity to remind all Muslims that using credit cards for purchasing items is totally impermissible as it is considered to be a riba-based loan that is offered to the client. Few can claim that they are sufficiently confident of paying off this loan before a given deadline, and therefore be sure that they will never incur any increase on the loan. The contract includes a form of riba which the credit-card provider stipulates to charge from the very outset, hence rendering the contract impermissible. The Messenger of Allah (*Salla Allahu 'alibi Wasallam*), said: "The Muslims are bound by their conditions, except for conditions which forbid something that is permitted or permit something that is forbidden."

Furthermore, undoubtedly, a large proportion of people who are now heavily indebted to credit card companies were initially confident that they could pay off their debts on time and thereby avoid the compounding of their debts with interest charges. The same ruling has been given by the International Islamic Fiqh Council, belonging to the Organization of the Islamic Conference (OIC), in its statement – no. 108 (2/12).

With Allah lies all success and may Allah send prayers and salutations upon our Prophet (sall-Allahu 'alayhe wa sallam) and his family and his companions

Haitham Al-Haddad

Muslim Research and Development Foundation

www.mrdf.co.uk

11 Rabi al-Thani 1430

4th April 2009.