

## IUC STUDIES I

### E-COMMERCE & E-PAYMENTS: ISLAMIC PERSPECTIVE

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**Abstract:** *Now a days e-commerce and e-payments plays a great role to enhance business policies as well as our life style..I have studied both conventional and Islamic perspective of e-commerce and e-payments procedures.In Islam pay in advance is allowed with certain conditions. So I proposed a method of e-commerce and e-payments which is permissible by Islamic shariah.Muslims also can take the advantages of those modern policies if we can adjust the procedures with the teachings of Islam.*

#### **Introduction**

The whole world is in the grip of a rapid technological revolution; the innovations in technologies are changing the social, cultural and economic relationships in a vast variety of ways. The Internet has taken its place as an important part of people's lives. Consumers use the Internet not only for email but also to shop, bank and invest online. Commerce through Internet is already in reality. E-commerce has been a revolutionary force in business sector in all over the world.

E-commerce is a new concept then there is no necessity to create entirely new methods to build a modern Islamic Economics. This new concept, if we would use in the right way and the right combination, could serve the purpose. Here, we must look at every method of conventional e-commerce to find a function it can serve, then adopt the necessary modifications in its structure, or combine it with other techniques, in order to serve the purpose of an Islamic society. Here I have discussed about the e-commerce and e-payments in both conventional and Islamic viewpoints.

#### **What is E-commerce?**

Commerce through Internet is the e-commerce. E-commerce has defined as "the use of electronic transmission mediums to engage in the exchange, including buying and selling, of products and services" [Greenstein Marilyn, 2001 ]

E-Commerce has been defined by the National E-Commerce Committee (NECC) as all forms of business transaction conducted over public and private computer networks, based on electronic processing and transmission

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1 <http://www.sabah.gov.my/ust/rtmlecommerce1.htm>

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of data, text, sound and video. The activities range from a business that has opened a website only for promotion and advertisement purposes, to a business that transacts sales agreements, process payments and even deliveries on-line.

### Components of E-Commerce

1. Potential Consumer: who, after viewing an on-line catalogue of products and prices, places an order and initial payments on-line.
2. Potential Supplier: Before the business (seller) fulfills the order, who ensures that the payment initiated on-line is processed.
3. Computer: Computer is an electronic device that can input process and store a set of instructions designed to perform a specific task, input and store data, process the stored data according to the instructions, and produce output to be relayed to its user.
4. Browser: A web browser is a client application that enables the client computer to gain access to a web server running on the Internet. Example: MS Internet Explorer, Netscape Navigator, AOL, CompuServe etc.
5. Internet: largest inter-network is the Internet. The Internet connects millions of computers all over the world.
5. Payment Facilities: Banks, credit card companies and payment clearing houses are the key players in on-line financial processing.
7. Product Delivery: distributors and delivery companies that fulfill of the delivery of orders.

### Rules Apply to the Advertisers

1. Advertising must be truthful and non-deceptive: The US Federal Trade Commission (FTC) Act allows the FTC to act in the interest of all consumers to prevent deceptive and unfair acts or practices<sup>2</sup>. The commission has determined that a representation, omission or practice is deceptive if it is likely to mislead consumers and affect consumers' behavior or decisions about the product or service.

<sup>2</sup> <http://www.ftc.gov/index.html>

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2. Advertiser must have evidence to back up their claims: Claims must be substantiated, especially when they concern health, safety, or performance.
3. Advertisement cannot be unfair: An act or practice is unfair if the injury it causes, or is likely to cause substantial, not outweighed by other. benefits and not reasonably avoidable.

### Benefits of E-commerce both supplier and consumer side

Benefits of E-commerce (Supplier side)	Benefits of E-commerce (Consumer side)
<ol style="list-style-type: none"><li>1. Use web site instead of using office space</li><li>2. Global market</li><li>3. Reduced marketing cost</li><li>4. Low supply cost</li><li>5. Cheaper communications with the customer</li><li>6. Fast advertisement</li><li>7. Fast delivery</li></ol>	<ol style="list-style-type: none"><li>1. Save time</li><li>2. Save money</li><li>3. Available information about product</li><li>4. Easy and fast to receive product</li><li>5. Reduce the risk to carry cash</li><li>6. Reduce the risk to carry product</li></ol>

### Disadvantages of E-commerce

The major disadvantages of e-commerce are as follows:

1. Security
2. Product quality
3. Payment problem
4. Product delivery problem
5. Difficulties to locate right web site

Besides that ethical and policy issues include tracking and using information about consumer transactions, corporate espionage, and commercial offerings, which are offensive to various communities. Complex legal issues are also raised concerning tax avoidance schemes, money laundering and unauthorized creation of money. [Daiswal S. ,2000]

### What is E-Payment?

The Internet has taken its place as an important part of people's lives. Consumers use the Internet not only for e-mail but also to shop, bank and invest online. Most consumers use *credit* or *debit cards* to pay for online

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purchases. Unlike credit card to get a debit card one person must have a bank account, bank provides debit card against the account. Debit card is exactly like A TM card only exception it can be used to purchase like credit card. To complete a debit card transaction, user has to use a PIN, some form of a signature or other identification. The money for debit card using purchases usually transferred almost immediately from user's bank account to the merchant's account.

### How to Make E-payment Secure?

Although we can't fully eliminate fraud or deception on the Internet, we can take action to recognize it, avoid it, and report it by observing the followings: 1.

1. **Secure Browser:** Is software that encrypts or scrambles the purchase information user sends over the Internet. When submitting user's purchase information, user has to look for the 'lock' icon on the browser's status bar, and the phrase 'https' in the URL address for a website, to be sure user's information is secure during transmission.
2. **Privacy Policy:** Before provide any personal financial information to a website user has to check the site's statements about the security provided for user's information.
3. **Refund and Shipping Policies:** Before making any transaction it is better to read and understand the refund and shipping policies of the web site.
4. **Personal Information:** User should keep personal information like address, bank account number protected, unless it is clearly confirmed who's collecting the information, why they are collecting and how they will use it.
5. **Payment Information:** Payment information should be given only to businesses user knows and trust and only when and where it needed like transaction form.
6. **Keep Records:** User has to keep proper records of user's online transactions. It is better to check e-mail time to time they may send any valuable information regarding the transaction.
7. **Credit or Debit Card Account:** Lastly, user should check the bank account or bill that they have taken the correct amount or not.

### E-commerce and Islam

It is fundamental to know that there is no necessity to create entirely new methods to build a modern Islamic society. Modern methods, if used in the right way and the right combination, could serve the purpose. We must look

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at every method to find a function it can serve, then adopt the necessary modifications in its structure, or combine it with other techniques, in order to serve the purpose of an Islamic society [Abu-Sulayman Abdul Hamid Ahmad,1980]. Following Qur'anic verses and *Abadith* have supported the trade and prohibited the interest:

Allah (SWT) said in the Holly Qur'an:

“..... *Allah bath permitted trade and forbidden usury*” (2:275)

Allah (SWT) said in the Holly Qur'an:

“*When you have finished your prayer, then disperse, seeking the grace of God in work and trade*”. (62:10)

Allah (SWT) said in the Holly Qur'an:

“*There is no harm in trading while ye are engaged in pilgrimage*”. (2:192)

Allah (SWT) said in the Holly Qur'an:

“*O man of faith! Do not devour the goods of another with injustice but trade based on mutual agreement and good-will is allowed*”. (4:29)

Allah (SWT) said in the Holly Qur'an:

“*O ye who believe fear Allah and give up what remains of your demand for usury, if you are indeed believes*” (2:278)

Allah (SWT) said in the Holly Qur'an:

“*O ye who believe; devour not usury, doubled and multiplied; but fear Allah, that ye may prosper*” (3:130)

Rafe Ibn Khadiz narrated, when asked to the Prophet (SAW) which income is the best? “*He replied who earned by his own hand and by doing the Halal way of trading*.”(Miskat Sharif)

Imam Malik, on the authority of Abu Sa'id al-Khudri quoted the Prophet (S) as saying “*Do not sell gold for gold, except measure for the same measure; and do not sell silver for silver, except measure for the same measure; and do not exchange for future payment in either gold or silver*. (Malik, pp58)

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From the above verses of the Holy Qur'an and the *A/Jodi!;* we can confirm that the trade or commerce is allowed but *Ribo* or any unjust transaction is *horom*. So there is nothing wrong in e-commerce if we can avoid the interest or any unjust transaction. The principle of justice was very strictly applied to various forms of exchange in vogue at the time of the Holy Prophet (saw).

The Holy Prophet (saw) maintained those forms of transactions which were based on justice and fair play for all and prohibited all those forms of business transactions which were either unjust, or were likely to lead to quarrels and litigation, or resembled gambling, or contained an element of *Ribo* or deceit, or where profit of one was based on loss of another [Fazlur-Rahman,1980].

### *Bai- Salam (Buying/Selling in Advance)*

Islam allows *Bai-Murabaha* (contract sale on profit), *Bai-Muqjjal* (Buying and Selling on Credit) and also *Bai-Salam* (Buying/Selling in Advance) with certain conditions applied on each types of transaction. E-commerce is one kind of *Bai-Salam* since buying or selling always take place in advance. Future commodity trading is not permissible on the ground that both payment of the price and the delivery of the commodity are deferred.

Prophet (saw) said, "Whoever paid in advance make sure you fixed the measurement and time limit."

The conditions applied to the *Bai-Salam* are as follows [Md Fazlur Rahman Ashrafi]: .

- . Price fixed with *Ijab* (offer) and *Qa/ml* (acceptance)
- . Pay in cash or goods
- . Pay in the same *MaJlish*
- . Products have to clearly identified
- . Delivery date have to be fixed

We have seen that e-commerce fulfills all the conditions except the payment that has to pay in the same *McyJish*. Since all the transactions completed through Internet and we can confirm the recipient of payment then there will not be any dispute between the *Ijab* and *Qobu!* May be the *Ulama* can still make the *Q!yas* whether the Internet can consider as same *Mqjli.r/;* or not? Now important is to make the e-payment in a *JJalal* way without crating any *Rjba*.

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### Methods of E-payments

The most common method of e-payments is to use *debit card* or *credit card*. Since the debit card is issued against consumers bank deposits and the money for debit card using purchases is transferred almost immediately from consumers bank account to the merchant's account so there is no room for interest in using debit card. \Y/e will concentrate our discussion on issuance and uses of credit card in e-commerce.

Credit Card: the credit card is a new invention and Muslim scholars define it as either a guarantee given by the issuer to the seller who accepts ;t or as a transfer of the debt by the debtor to another party, the issuer<sup>3</sup>.

Hence, it falls within the permissible transactions. However, there are two problems, one for the issuer and the other for the user; this relates to the fact that the contract here usually contains an *interest* if payment is delayed and if cash is withdrawn. The Holly Qur'an prohibited *Riba*, and also the Prophet (SAW) also prohibited unjust transaction but there is no prohibition on transactions Jhat involve third party.

### Issuing of credit card in Islam:

There is no doubt that issuing interest-based credit card is not permitted for any Islamic bank or financial institutions. Islamic banks issue credit cards that are not interest based. So banks do not really benefit from the credit card itself, and they provide it as a service to their customers.

### Accepting of credit card in Islam:

No Muslims are permitted of issuing of interest-based credit card but accepting it is permissible because they give a choice to the user of either going interest-based or settling within the grace period without any interest. The user will able to purchase only and settle within the grace period and not withdraw cash because cash withdrawal generates interest.

### Conclusion

United State had estimated the ,alue of e-commerce has reached US5300 billion in year 2002. The US alone has more than 140 million users with about 52,000 new users logging in daily, and by 2005, it is expected tflat, globally, the number of Internet users will reach 1 billion, from the 32million

<sup>3</sup> [http://www.islam-online.net/fatwal\\_engl\\_ish/fatwadisp\\_lay\\_.asp?h\\_fatwaid=70939](http://www.islam-online.net/fatwal_engl_ish/fatwadisp_lay_.asp?h_fatwaid=70939)

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users in 2000<sup>4</sup>. Such statistics indicate the massive market outreach potential of e-commerce, whether in goods or services.

We certainly wish that the interest condition is not inserted in the contract, but unfortunately in most countries there are no Islamic institutions that issue such cards, and even those card issued in some countries are not really satisfactory because they are limited in scope and usability. "Islamic Banks have to more modern" said by governor of Bahrain in the conference of *Islamic Banking and Finance, 2004*. There are 265 Islamic financial institutes all over the world with US\$1,300 Crore capital and US\$2,620 Crore assets<sup>5</sup>.

In order to compete with the conventional system and to establish interest free e-commerce, Islamic banks or financial institutes have to come forward in all over the world to provide interest free credit card and other facilities.

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<sup>5</sup> *The Daily Inquilab*, 19<sup>th</sup> February 2004, pp8

