

Issued by banks and building societies essay

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Essentials of Islamic Finance Article On Plastic Money COURSE : EOIF

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has been a tradition that the students of MBA submit an article during their course. The purpose of this article is to give a chance to apply the concepts they learnt during course so that their level of understanding of concepts can be evaluated and corrected. Although this article was only on some areas of EOIF but to understand EOIF we had studies various other Islamic finance concepts. This whole study gave us real insight about the basic concepts of EOIF.

ACKNOWLEDGEMENT With a feeling of humility we thank our course instructor Mr. Irshad Ahmed for having made us write this Article. DEBIT AND

CREDIT CARDS The great thing about paying with plastic is that it's convenient and secure but which sort of card to use? Both debit and credit cards are issued by banks and building societies. Although they are the issuers what it means is that they join one of the big card systems such as Visa or MasterCard. Although both debit cards and credit cards can be used to pay for goods in shops there are some important differences between the two. The two debit cards used in this country are Switch and Visa Delta. They are accepted at thousands of shops, garages, theatres, airlines, car hire companies, hotels and many other places. That is why they are so convenient.

You have to be 16 to have one issued to you. You present your card at the till and the people you are paying either swipe it through a special telephone terminal or issue you with a paper voucher. Once you have signed the

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money is then paid on your behalf within a day or two. Not only is a debit card a convenient way to pay but it makes sure you can't spend more than you've got in your bank account. You remain in control. Credit cards however work in a very similar way but while they give you more spending power they can be a lot more difficult to keep under control. When you buy things the process is the same. You sign the credit card receipt at the retail outlet or fill out the on-screen form with the card details if you are making an Internet purchase.

But instead of debiting your bank account the money you've spent is noted by the credit card issuer who has put a credit limit in place for you. You can spend up to this limit which could be as little as a few hundred rupees or as much as many thousands. How much of a limit they grant you depends on how much they think you are likely to be able to repay. They then send you a statement once a month which shows how much you have spent. You then pay against this statement by the due date given on the statement.

This is great if you don't happen to have enough money to pay with when you need to buy something. Buy now, pay later. And it's fine if you know you've got money coming in, like your salary or allowance. The danger is that you over spend and then you have to pay a lot of extra money in interest to the credit card company. With credit cards timing is everything. There will be a time lag between when you make your purchase in a shop and when you receive your credit card statement, which arrives at the same time each month.

Then you will be given two or three weeks more before due date. The time total from purchase to payment can add up to as long as 56 days of free credit. You should always pay off the full balance shown on the statement by due date.

That way you don't pay any interest. In fact the credit card issuers want you to pay just a minimum amount of a few rupees which is shown on the statement and then they charge you interest on the outstanding amount. But credit cards are an expensive way of borrowing. Interest rates are commonly 15% or more. And also beware of introductory or so-called "teaser" rates. The card issuing banks will tell you that the rates of interest they charge are as low as 2 or 3% but this will be for a limited period only. Then they start to charge their normal 15 or 16% by which time the balance on your card could be quite a large sum of money, which you'll have great difficulty disciplining yourself into paying back.

If you don't pay your monthly bill the credit card company will take away your card and may even take legal action. And worse, details of your payment record will be held on the computers of credit reference agencies which are used by banks to check out new customers. This means when you apply to another bank for a credit card they won't be prepared to issue you with one. The answer then is to use a credit card if you are disciplined enough to pay off your monthly bills and avoid wasting money on interest.

Otherwise stick to a debit card where it is easier to stay in control. That way the plastic will always be your convenient and flexible friend.