

## **Islamic-Pawnbroking: A Concept And Perception Study In Kuala Muda**

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### **ABSTRACT**

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*Islamic-pawnbroking also known as the Ar-rahn plan, is a method of providing short-term financing to the public that is quick, hassle-free, and riba-free by pawning his/her jewellery to banks or any pawnshop as collateral. Ar-rahn is a secure and transparent pawnshop since it is founded on Islamic values, which vary from those of traditional pawnshops. Despite this, many people still do not trust Ar-rahn as a lender. The difficulty that Ar-rahn institutions confront is how to acquire clients' confidence in using the Ar-rahn scheme to ensure the safety of pawned items as compared to traditional pawnshops that have long been in Malaysia. The purpose of this study was to investigate the concept and perception of the people of Kuala Muda, Kedah towards Ar-rahn, as well as to identify the factors that influence the perception of Ar-rahn and to investigate the relationship between quality services and the influence of perception towards Ar-rahn. As a result, certain suggestions have been made to assist Ar-rahn institutions in gaining the confidence of their consumers via the use of the Ar-rahn plan. This study was done using the community of Kuala Muda in Kedah as respondents, and the research technique utilised was a survey approach in a qualitative study. This qualitative research technique employs a content analysis study design and a document analysis method approach in the data gathering procedure to accomplish the goals. The information and data gathered were descriptively examined. According to the findings of this research, the variables influencing consumers' impressions of the Ar-rahn scheme in Kuala Muda are that it does not include fraudulent operations and burdens customers with low pay rates. All of these variables have a substantial impact on consumer impressions of the Ar-rahn project in Kuala Muda, Kedah.*

*Keywords: Islamic-pawnbroking, Ar-rahn scheme, conventional pawnbroking, pawnshop*

## **1. Introduction**

Ar-Rahn is now one of the Islamic financial solutions that are attracting the attention of a large number of clients. Creditors are permitted to keep an asset in exchange for their repayment guarantee of the debtor, which permits the creditor to collect on the debt in full. Ar-Rahn is in charge as a last resort if payment cannot be made or default has occurred. This implies that the creditor has the authority to take any action against the asset, such as selling it or putting it up for auction, as a result of the charger's failure to comply with the terms and conditions set out in the contract.

According to prior research, there are a variety of perspectives from previous academics who have addressed Ar-Rahn in the framework of law and its application to diverse situations. Generally speaking, Al-Rahn services grow in Malaysia when a person requires a loan of money or cash in a convenient manner and via an authorized channel according to Islamic law, according to the majority.

Various qualities are included in financial instruments to fulfill the demands of investors and lenders of varying degrees of sophistication and magnitude. Pawnbroking is a kind of financial technique that may be utilized to get finance for various purposes. It is also a micro-credit institution that is well-known to the general public for providing liquidity services to small businesses and individuals. However, pawnshops continue to be the primary source of income for those with little financial resources, despite widespread unfavorable attitudes against individuals who utilize their services. This is because pawnbroking is seen as an alternative or second choice to traditional financing. An asset mortgaged via pawnbroking is usually worth less than the item mortgaged through a loan, hence the amount of cash offered is often less.

The Ar-Rahn product is one of the microfinance programs that are designed to assist the less fortunate. Ar-Rahn was established in Malaysia to provide an alternate source of credit to traditional pawnbroking shops and other financial institutions. Many international financial institutions (IFIs) are providers of Ar-Rahn goods. For example, Bank Rakyat, the biggest and most wealthy banking institution in Malaysia with hundreds of branches, and Ar-main Rahn's competitor is an excellent illustration. Aside from that, there are a number of Islamic banks that provide Ar-rah services, including Bank Islam Malaysia Berhad (BIMb), Kerjasama Rakyat Bank (Rakyat Bank), Agrobank, Muamalat Bank Malaysia Berhad (BMMB), and Affin Islamic Bank, among others. Ar-rah was founded by non-banking groups such as the Yayasan Pembangunan Ekonomi Islam Malaysia (YAPIEM), Pejabat Pos Malaysia, Ar-rahnu Express, and Koperasi Felda, among others. Ar-Rahn is progressing in the direction of growth and expansion. (Mohd Azli and colleagues, 2017)

Year after year, the quantity of funding, the amount of savings income, and the number of Ar-Rahn booths have increased. According to Ar-Rahn, the total amount of borrowing by Bank Rakyat climbed from RM687 million in 2006 to RM1.6 billion in 2014. Muslim lawyers and economists continue to debate the value of the transaction connection, despite the widespread usage of Ar-Rahn in Malaysia in recent years. It is still possible to earn interest (riba) via the Ar-Rahn plan in Malaysia, which is deemed forbidden under Islamic law. In addition to making a profit, banks also benefit from the cost of saving. As a result of the growth in earnings, banks will be compelled to open additional storefronts and provide more financial services. Ar-Rahn, according to the

researchers, is an interest-free microcredit system from which the community may benefit in a variety of ways, including the elimination of debt. (Mohd Azli and colleagues, 2017)

Ar-Rahn is also regarded as proof or as anything held as a mortgage in various cultures. Ar-Rahn also has another meaning in Islam, which is the restriction of property with consent when the property is equivalent to the amount of debt owed. Ar-Rahn also defines security-making property as property that serves as security or collateral for a loan, with the loan being taken away from the borrower if he is unable to repay it. (Azizah and colleagues, 2019).

In Al-Quran mentioned:

*“If ye are on a journey and cannot find a scribe, a pledge with possession (may serve the purpose). And if one of you deposits a thing on trust with another, Let the trustee (Faithfully) discharge His trust and let him fear his Lord. Conceal not evidence; for whoever conceals it, His heart is tainted with sin. and Allah knows all that ye do.”*

(Al-Baqarah : 283)

Ar-Rahn plan necessitates the application of many Islamic principles, the most important of which is a beneficent loan (al-Qard al-Hasan), which is defined as a contract of credit between the loan holder and the lender. The holders are barred from collecting more than the loan's worth, but they are permitted to accept the loan's value as a sign of their appreciation. The next price is the safeguarding fee (al-Ujrah), which is a commission that the lender might collect to preserve the things that have been provided and to maintain the commodities in excellent shape. The next two principles, on the other hand, are guaranteed and deposit (al-Wadiah Yad dhamanah). If the borrower fails to pay the agreement, the borrower is obligated to restore all of the goods that have been lost or stolen by the lender. (Azizah and colleagues, 2019).

## **2. Method**

In this qualitative research, residents in Kuala Muda, Kedah were interviewed using the approach of semi-structured interviews. The analysis was carried out with the use of data analysis methodologies and data from prior research. This has aided in the completion of the data collection for this study. This research strategy makes use of library research techniques, interviews, and discoveries on Kuala Muda culture to complete the project. According to the researcher, Kuala Muda, Kedah was chosen for the study because the city has numerous Ar-Rahn institutions, and the researcher believes that as a result, the community in Kuala Muda, Kedah would undoubtedly divulge and have information of the Ar-Rahn plan.

The data for this research will be gathered via an interview session with members of the Kuala Muda community as part of a thorough survey conducted to gather information. Ultimately, the goal is to get more reliable information. This method makes it easier for both parties to complete the questionnaire and ensures that it does not interfere with their normal daily activities.

Respondents' information will be collected via the use of online platforms such as the *Whatsapp* application and the *Google Form* platform, which will be one of the primary ways of data collection employed. This will make it easier for the research to meet its goals and get accurate and comprehensive information, which will ultimately

benefit the participants. Approximately ten randomly chosen respondents who live in the town of Kuala Muda, Kedah, will be handed questionnaires.

It will subsequently be necessary to examine the primary data collected as a consequence of the interviews, which will ultimately be transformed into interview transcripts. Following that, the researcher will gather and classify the data based on the transcripts of the interviews and replies to the research questions that have been formulated by the group of participants. To provide evidence of the research results, quotes from the respondents will be collected and typed up during the interview session.

Data was gathered and evidence was reviewed to gather informational replies from respondents, and the results of the analysis were used to help solve the study's issues by providing solutions to them. As soon as all of the questionnaires had been successfully replied to by the respondents, all of the questionnaires that had been issued were re-collected and the replies that had been provided by the respondents were examined.

### **3. Findings And Arguments**

By the responses obtained from the interview session with the Kuala Muda, Kedah community, a factor that influences perceptions of the Ar-Rahn scheme in terms of assuring the safety of pawned commodities has been identified. The first aspect that influences a customer's decision to pick Ar-Rahn over a traditional pawnbroker is the fact that Ar-Rahn is a pawning system that is not involved in any fraudulent activity. The majority of those who answered the survey felt that Ar-Rahn is a secure strategy for pawning their assets. Following that, the cheap charge cost is a factor that has an impact on client satisfaction. When compared to traditional pawnbroking methods, which needed an interest rate of around 2 percent, the Ar-Rahn service pricing is quite inexpensive. Argon's common fee adds to reduced "loan" costs and serves to lessen the customer's cost burden by making it more affordable. By these results, the element that influences a customer's decision to use the Ar-Rahn scheme to ensure the safety of pawned items was identified.

Results of the interview session also revealed a link between the quality of service and the effect of perceptions towards the Ar-Rahn program. First and foremost, the Ar-Rahn approval process is more effective and efficient than the traditional approval process since its approval procedure is methodical. Getting Ar-Rahn finance approved goes through a series of phases in the Ar-Rahn approval procedure. Several phases must be completed before the funding may be approved to prevent fraud from occurring and to lower the bank's risk when compared to traditional methods. As a second point, Ar-Rahn issued receipts for their customers' reference as well as for their reference, which makes it easier for customers to refer to for the pawning process as opposed to conventional, which does not provide proper receipts to their customers and may cause confusion among their customers.

Following that, Ar-Rahn provides its customers with information regarding the Islamic pawning system. In addition to providing advisory services, Ar-Rahn also provides survey services to consumers that come in for a mortgage or just a survey. Following that, Ar-Rahn treats its consumers properly, according to the findings of the research, and does not discriminate between Muslim and non-Muslim customers, for example. The identical rate value will be applied to the customer's account. Finally, Ar-

Rahn provides an insurance guarantee for each pawning item, in the form of Takaful insurance, to ensure the protection of their customers. Takaful insurance will compensate the consumer if the pawning item is lost. According to the findings, the link between quality service and perception of the Ar-Rahn scheme has a significant impact on the perception of the scheme and the decision of the Kuala Muda community to use Ar-Rahn.

To earn the confidence of clients who are utilizing the Ar-Rahn scheme, the researcher would like to provide a recommendation to guarantee that this compliance problem may be addressed and enhanced in the future. To fully understand the pawning, redemption, and auction processes in the Islamic pawning system, the pawnbroker must first provide complete information on those processes. This will allow the pawnbroker to clearly understand the steps that must be taken by the following information. One of the most effective techniques of sharing such information is via regular marketing. Pawnbrokers should be able to obtain information shared with them through means that are convenient for them. To ensure that the pawnbroker understands and is aware of the data, the officer on duty must thoroughly explain critical information such as the value of the items, the kind of gold, storage wages, and loan eligibility to the pawnbroker before handing over the goods. In addition, the application procedure must be described in detail to demonstrate Ar-commitment rahn's to providing transparent services and adhering to the institution's mortgage manual. Based on the recommendation, it is hoped that the Ar-Rahn institution would be able to acquire the confidence of customers and encourage them to use Ar-Rahn.

All respondents agreed that Ar-Rahn was a more transparent and reputable pawnshop, and they all chose Ar-Rahn. Islamic mortgages may be used to protect borrowers from dealing with finance that has an element of usury. Please keep in mind that the National Fatwa Council Committee permits the imposition of cost of storage wages on mortgaged commodities as long as the practice does not amount to exploitation. Apart from *riba*, the element of *gharar* can also be found in conventional pawn lending operations, such as lowering the value of pawned goods, issuing ambiguous pawn receipts, and causing confusion, in contrast to Ar-Rahn, who issues receipts whenever a transaction occurs, both as a reference for the customer and as a reference for the Ar-Rahn themselves.

According to the interview session conducted by offering Shariah-based pawnshops, all respondents agreed that applying ethical practices such as honesty, trustworthiness, transparency, knowledge, and fairness will help to prevent issues of exploitation and manipulation of borrowers, particularly those from lower socioeconomic backgrounds. The use of Islamic pawnbroking processes may help to prevent the presence of the *gharar* factor. For example, in the mortgage receipt, include all of the borrower's information, such as the value of the mortgaged items, the loan amount, the fees paid, the redemption time, and any other loan terms and circumstances that apply. Making a loan ensures that there is no room for error or manipulation. Since Ar-Rahn is more dependable than conventional, clients choose Ar-Rahn over conventional because of the application of the setting.

When it comes to Muslim customers, acceptance of the Islamic pawnshop is intimately associated with the standpoint of Shariah (Islamic Law). Following the ideas of *wadiah*, *qardhul Hassan*, and *ujrah* in the Ar-Rahn system, which resulted in the abolition of the components of *riba* and *gharar*, the Ar-Rahn system distanced itself from the conventional pawnshop. The use of Islamic ideas like *wadiah*, *qardhul Hassan*, and

ujrah must be carefully addressed to establish Islamic pawnbroking. Customer satisfaction, collateral, geographic location, and service costs are all strongly associated with consumers' acceptance of Ar-Rahn as a microcredit instrument in the pursuit of financial self-sufficiency among entrepreneurs, in addition to the previously mentioned factors of Islamic compliance.

According to the findings, the independent components of Shariah's viewpoint, personal consumption, and investment purpose were not significantly associated with the acceptance of Ar-Rahn in the economic expansion of the ummah (community of Muslims). (Haslinah Muhammad and colleagues, 2019). A total of ten respondents from a variety of backgrounds who have used the Ar-Rahn scheme and have knowledge of the Ar-Rahn scheme participated in this interview session with the researcher.

#### **4. Conclusions**

With the success of economic and commercial ventures, as well as the educational requirements of children, the Ar-Rahn scheme has grown to become a very significant micro-credit mechanism for low-income individuals, allowing them to fulfill their urgent financial needs for success of their projects. It also helps to close the gap in the supply of financial services, making it one of the most essential possibilities for Islamic financial instruments in mortgage-related transactions, as well as one of the most popular. It also contributes to addressing the issues associated with the conventional pawn system, which charges high and burdensome interest rates, while eliminating and reducing informal financial services provided by illegal checks and 'along' issues, which are both illegal and in violation of moral obligations.

This scheme's execution is believed to have achieved its goal, which is to offer the public the ability to acquire cash loans promptly and pawn gold via the use of an open, fair, and transparent system. At the same time, the plan succeeded to establish itself as a viable option for Muslims, particularly Malays, who wanted to deal with Islamic pawns without being subjected to the practice of usury. According to the findings of the research, the reaction of the local community to the Ar-Rahn project has been very positive. This suggests that the Islamic pawn system is becoming more widely accepted in society, even though it is competing with the long-established traditional pawnshop system.

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