

**THE COMPARATIVE STUDY BETWEEN ISLAMIC PAWNSHOP (AR RAHN)  
AND THE CONVENTIONAL PAWNSHOP IN KELANTAN REGARDING THEIR  
SYSTEM, CONCEPT OF OPERATION AND THE ACCEPTANCE AMONG  
MUSLIM CUSTOMERS**



**BIRO PENYELIDIKAN DAN PERUNDINGAN  
UNIVERSITI TEKNOLOGI MARA  
40450 SHAH ALAM, SELANGOR  
MALAYSIA**

**PREPARED BY:  
PROF MADYA ZAINUDIN HJ AWANG  
PROF MADYA MOHAMAD SAFRI YA**

**FEBRUARY 2004**

## PENGHARGAAN

Setinggi-tinggi penghargaan dan ribuan terima kasih diucapkan kepada semua pihak yang terlibat secara langsung dan tidak langsung bagi membolehkan penyelidikan ini disiapkan dengan sempurna.

Di antaranya:

*Dato' Prof Madya Dr Hussin @ Mohamed Ab Rahman*

(Pengarah Kampus UiTM Kelantan)

*Prof Madya Napisah Haji Safii*

(Koordinator BRC UiTM Kelantan)

*Puan Ruhani Sulaiman*

(Penolong Bendahari UiTM Kelantan)

*Cik Noorhayati Salim Pakheri*

(Pembantu penyelidik)

En. Wan Mohd Shariff Wan Musa

(Pengurus Operasi Ar Rahn Kota Bharu)

Kakitangan dan Pelanggan

Ar Rahn Kota Bharu

Ar Rahn Pasir Puteh

Ar Rahn Pasir Mas

Ar Rahn Tanah Merah

## TABLE OF CONTENTS

### NO. OF PAGES

Offer Letter	
Letter of Transmittal	ii
Research Team (members)	iii
Acknowledgement	iv
Table of Contents	v
List of Tables	viii
List of Graphs	x
Abstract	xii
References	xiii
Appendixes	xv

## CHAPTER 1

### INTRODUCTION

1.0	Background and Scope of the Study	1
1.1	Problem Statement	3
1.2	Research Objective	6
1.3	Research Questions	7

## CHAPTER 2

### LITERATURE REVIEW

2.0	The Concept of Riba'	8
2.1	Background Pawnshop In Malaysia	18
2.2	Concept of Conventional Pawnshop	20
2.3	The Concept of Ar Rahn Bank Rakyat	29

## ABSTRACT

The pawnshops, popularly known as “small man’s bank”, have grown as the main informal financial institutions in Malaysia. They are popular among the less-educated low-income earners who are not eligible to obtain loans from formal financial institutions. There are two types of pawnshop systems – conventional and Islamic. The conventional system operates under the Pawnbrokers Act 1972. Under the act, the pawnbroker is allowed to impose a monthly interest rate of up to 2%, which is very high considering the loan is secured by collaterals, which is three to four times higher. Furthermore, the pawnbroker can increase the interest rate for any loan extension or the collaterals being forfeited if the pawn is not redeemed within the stipulated time. All in all the conventional pawnbrokers are considered as “blood-suckers” who are taking advantage on the poor. In 1990, the Islamic pawnbrokers emerged as an alternative for the Muslim customers. The Islamic pawnbroking system operates under pawnbroker act 1972 (amended). The transaction is carried out according to *Al-QardhulHassan* and *Wadiyah Yad-Dhamammah* principle which is free of riba’. The customer only pay a safe keeping fee, which is much lower than the interest charged by the conventional pawnbrokers. Furthermore, the collaterals will not be forfeited or auctioned without the consent from the owner. This system should be seen and considered as an attractive alternative by the customers, especially the Muslims. But the response by the Muslims is very discouraging. The researcher found the poor response to be due to low awareness on Islamic principles, unwillingness to switch to a new system with new rules and regulations, poor exposure on benefits offered by Islamic system and ineffective promotional tools in reaching the Muslim customers. Altogether, there were 24 factors being studied under both systems and some of these factors are found to be significantly different between the Islamic and conventional pawnbrokers.

**1.0 Background and Scope of Study**

This study concerns about the operation and the concept of pawnshop systems in Malaysia. There are two types of pawnshop namely conventional and Islamic pawnshops. The conventional pawnshop has been in operation since a long time ago. Its history begins since Chinese arrived in Malaya and discovered many mines of tin especially in Larut, Perak. As they obtained profits through the mining activity, they made an investment in credit concession system including pawnbroking. Some of them have an experience in pawnbroking service in China and hence wanted to implement the same activity in Malaya. That was why we discovered the pawnbrokers' premises in this country were monopolized by the Chinese.

Since 1871, the conventional pawnshop has been operating in Malaya under the pawnbrokers' ordinance 1871. Under this ordinance, the pawnshop administration was implemented by every state with different system. Pawnbrokers Act 1972 was introduced on 2<sup>nd</sup> January 1973 and was enforced to administer the pawnbrokers consistently throughout Malaysia. According to the Act, business of pawnbrokers lies under the portfolio of the Ministry of Housing and Local Government.

The Islamic pawnbrokers in Malaysia began when the State Government of Terengganu established the "Muassasah Gadaian Islam Terengganu" (MGIT) on