



اَللّٰهُمَّ صَلِّ وَسَلِّمْ عَلٰى رَسُوْلِكَ  
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CONTRACT OF AR-RAHN AND WADIAH**

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## STUDENT DECLARATION

We hereby acknowledge that in fact all of the work in the preparation of this academic work is the result of our own efforts and works except as expressly stated.

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## 1.0 INTRODUCTION

Islamic finance refers to a financial system based on Sharia principles in Islam. The Islamic financial system is based on the Quran and Hadith. This system is an alternative to the conventional financial system that exists today. This is because the Islamic financial system uses financial instruments that comply with Islamic law and avoid elements prohibited by Allah, such as *riba*, *gharar*, *maysir*, and activities contrary to Islam's values and teachings. Ar-Rahn, also known as pawnbroking, is one of the Islamic financial instruments used in Islamic finance. Ar-Rahn is one of the contracts used in Islamic financing products to help individuals and small and easy companies get money quickly and easily. The jurists have stated that the law of mortgage contracts (*ar-rah*n) is required based on the arguments of the Qur'an and Hadith. (Siti Hazirah Che Harun, 2021) The Islamic pawnshop system was established based on *fardhu kifayah* and not based on profit alone. It aims to give choices to the Muslim community and cooperative members, especially in overcoming financial problems. With this, those who need an urgent loan are no longer shackled by the existing conventional pawnbroking system, which is more oppressive and oppressive.

The community may become interested in employing Ar-Rahn procedures if pawn activities are conducted following those principles and are carried out following those principles. However, the practice of Ar-Rahn is also associated with a few jurisprudential difficulties that need to be addressed. In other words, there is a distinction between the postulated principles of Fiqh and those performed in A-Rahn. The application of al rahn contracts in Malaysia is a hybrid form with a combination of several other Islamic contracts in one financing product. These other Islamic contracts include al-qard al-Hasan (interest-free loan), al-rahn (collateral), al-wadiah (savings), and al-ujrah (savings wages). Islamic financial institutions in Malaysia practice them. The application of al rahn contracts in Malaysia is a hybrid form. (Siti Hazirah Che Harun, 2021) Bank Negara Malaysia also refers to this combined contract as a mixture of numerous contracts in one document. This is another name for the combined contract. Some Shariah scholars hold that a hybrid contract is mandatory from a legal standpoint, while others, using their line of reasoning, reject the concept. (Mohammad Hashim Yunus, 2016) In 2019, the Shariah Advisory Council of Bank Negara Malaysia (BNM) concluded that the financing products that are practiced by Malaysian Islamic banking do not match the conditions that Sharia provides. In addition, from a legal point of view, certain Sharia scholars insist on hybrid contracts. Still, other Sharia scholars do not accept them and have their unique justifications for doing so.