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# FBM INSIGHTS

UNIVERSITI TEKNOLOGI MARA CAWANGAN KEDAH

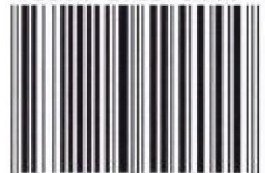
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# **COMPARATIVE STUDY ON FINANCING LIMIT, MARGIN OF FINANCING AND SAFEKEEPING FEES AMONG AR RAHNU OPERATORS**

Mohd Shafiz Saharan  
shafizsaharan@uitm.edu.my  
Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kedah

Mohd Fazil Jamaludin  
mfazil@uitm.edu.my  
Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kedah

Khairul Azfar Adzahar  
Azfar938@uitm.edu.my  
Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kedah

Norwahida Wagiran  
n.wahida7325@uitm.edu.my  
Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kedah

## **INTRODUCTION**

Ar Rahnu, or Islamic pawnbroking, is raising its popularity in Malaysia. It is one platform for public and micro-entrepreneurs to get immediate financing to finance their personal or business necessities (Azman, Kassim & Adeyemi, 2016). Ar Rahnu in Malaysia started in the early '90s where it was initiated by the Terengganu State Government and known as Muassasah Gadaian Islam Terengganu (MGIT). Nowadays, most banks and non-bank financial intermediaries have embarked on this business due to increasing demands on the Syariah compliance pawnbroking system (Baharum, Maamor, and Othman, 2015). Ar Rahnu benefited the society by allowing them, namely individuals, small traders, and the poor, to have better and cheaper access to financing without applying for retail financing products from the bank, which resulted in expensive charges and strict requirements imposed on them. Also, the Ar Rahnu financing is different from other retail financing products as it requires gold jewelry as collateral, and this financing facility is only available if the person owns it (Lawal, 2016). The collateral is deposited by a borrower and kept by the Ar Rahnu operator until full payment of the borrower's financing is settled. Not limited to that, Ar Rahn operator does not emphasize the income level or any credit background checking of the customer compared to the banks. Therefore, it is very convenient for an individual to get immediate financing even without any good financial background or income. This application is possible because Ar Rahnu has secured the financing by having collateral from the borrower before granting any financing (Skully, 2005).

Islamic banks offer financing products to retail customers, namely personal financing, home financing, automobile financing, and credit card, but with the strict requirement compared to Ar Rahnu. Therefore, it is not easy for a specific group of income segments to apply for financing. Financing application will require an applicant to have a fixed income, not blacklisted, not bankrupt, and have a sound repayment record that banks refer from Credit Tip Off Service (CTOS) and Central Credit Reference Information System (CCRIS). Conventional and Islamic banks offer personal credit facilities to serve that purpose. The Muslims must look for Syariah approved financing to avoid involvement in *riba*, *gharar*, and *maysir*, which is prohibited in Islam (Shobroni, 2020). In Malaysia, several Syariah contracts have been applied in their operation of Islamic financing, namely *Mudharabah*, *Musyarakah*, *Murabahah*, *Qard Hassan*, *Bay al Inah*, and *Ijarah*. The society has accepted these applications of Syariah contract in the personal financing product,

and it has attracted local and foreign investors for investment. This investment is vital to attain Malaysia's aspiration to become the global hub of Islamic finance in the world.

Despite the aspiration, the COVID-19 pandemic has brought a massive effect to the Malaysian economy, and most industries are affected, including the household unit. The unemployment rate has significantly increased due to the closure of many business units. Hence, many household units are now struggling to earn money for their life (Kansiime et al., 2020). Government financial aid "Bantuan Prihatin Nasional" (BPN) and the moratorium are just a temporary solution that helps them adopt the new life for those affected. Therefore, getting financing from a financial institution seems like a solution for them to start a small business to support their lives.

On paper, Ar Rahnu is one of the best solutions to acquire immediate financing to finance their necessities or any urgent needs. Each transaction of Ar Rahnu only requires an average of one hour to complete the transaction. In contrast, application for personal financing requires days for the customer to acquire the money as it needs to undergo some strict procedures before the disbursement. Nevertheless, the only impediment of Ar Rahnu is the applicant is required to have collateral to have access to this facility. Therefore, this study's objective is to compare Ar Rahnu operators in terms of their percentage of financing offers and safekeeping charges. Also, this study identifies which Ar Rahnu operator is offering competitive rates to the customer. This study is significant as the comparison will affect customer behavior in patronizing the Ar Rahnu operators. In this research, researchers will investigate five Ar Rahnu operators from the category of non-bank financial institutions (NBFI). Data will be collected through library method (library research?) and will be analyzed using content analysis.

## COMPARATIVE STUDY

This study compares five Ar Rahnu operators under the category of NBFI in Sungai Petani, Kedah. Ar Rahnu YaPEIM, Ar Rahnu Bank Rakyat, Ar Rahnu Pos, Ar Rahnu Coop Bank Pertama dan Ar Rahnu Koperasi Tentera (KT) are the five operators selected for this study. As different operators manage them, customers can see the different amounts of safekeeping fees, the margin of financing, and the period of financing in their procedures (Rasmin & Markom, 2014). Besides, there are several elements involved in the calculation of safekeeping fees. Firstly, the safekeeping fees are determined based on the margin of financing, which is around 50% to 80%. Secondly, calculation is based on the safekeeping fees charged between RM0.55 to RM1.00 per RM100 marhun amount. Thirdly, it is based on the financing period, which can be daily or monthly (Abdul Khir, Badri, and Hussain, 2013). The table below shows the five Ar Rahnu operators' analysis on the financing limits, margin of financing, and safekeeping charges.

Table 1: The differences of financing limit, margin of financing and safekeeping fees for the year of 2020.

No.	Ar Rahnu Operator	Financing Limit/Transaction	Margin of Financing	Safekeeping Fees /RM100
1.	Ar Rahnu YAPEIM i. Ar Rahnu Prestij YaPEIM a. 1 <sup>st</sup> Pledge b. 2 <sup>nd</sup> Pledge ii. Ar Rahnu Bisnes YaPEIM iii. Ar Rahnu Emas YaPEIM iv. Ar Rahnu Didik YaPEIM	RM10,000 RM25,000 RM75,000 RM100,000 RM50,000	65% 70% 80% 80% 75%	RM0.90 RM0.90 RM1.00 RM0.90 RM0.85
2.	Ar Rahnu Bank Rakyat	RM10,000	70%	RM0.60 – RM0.85
3.	Ar Rahnu Pos Malaysia	RM50,000	75%	RM0.85
4.	Ar Rahnu Co-opbank Pertama	RM50,000	75%	*0.20% - 0.075%
5.	Ar Rahnu Koperasi Tentera (KT) i. Ar Rahnu Prihatin ii. Ar Rahnu Prima	RM5000 RM35,000	70%	As low as RM0.55 per month.

Based on the table above, it distinctively shown the different aspects practiced by the operators. The similarity here is the safekeeping charges are based on the marhun amount and not the margin of financing. The logical thing for this is where the Ar Rahnu operators are responsible for the risk; that is, the value is more than the financing amount. Safekeeping fees charged to the customer is based on the contract of Al-Wadiah Yad Dhamanah. In other words, Ar Rahnu operators have the right to keep the jewelry under their safe custody and charge a certain amount of fee. Supposed any unfortunate event happens like missing or damaged, the operator is responsible for compensating the customer. Based on the comparison of safekeeping fees among the operators, it is found that Ar Rahnu YaPEIM charged safekeeping fees range from RM0.85 to RM1.00, which is slightly higher as compared to all. These are followed by Ar Rahnu Pos ranges from RM 0.85, Ar Rahnu Bank Rakyat ranges from RM0.60 to RM0.85, and Ar Rahnu KT ranges from RM0.55.

In contrast, Ar Rahnu Co-opbank Pertama has applied a new contract that is Tawarruq for their Ar Rahnu services. Therefore, the charges are based on the profit rate ranges from 0.20% to 0.075%. Ar Rahnu YaPEIM charges higher safekeeping fees due to the higher amount of financing limit granted to the customer. Hence, the operators' safekeeping fees rate does not show a vast difference as their main objectives are to assist the society and offer Islamic pledging services.

Ar Rahnu YaPEIM offers four different products focusing on personal financing, education, business, and YaPEIM gold in terms of financing limit. Besides, Ar Rahnu KT also provides two products, namely Prihatin and Prima. Each of these products offers to meet the specific needs of society. The research found that both Ar Rahnu Pos and Ar Rahnu Bank Rakyat give a higher limit of financing up to RM50,000 than the others for personal financing. Not limited to that, this study also investigates the margin of financing offered by these Ar Rahnu operators. The operators offer margin ranges from 65 percent to 80 percent financing from the marhun amount. Ar Rahnu Pos and Ar Rahnu Co-opbank Pertama are the operators that provide a higher margin of financing to compare with all the personal financings. Hence, based on the overall comparison above, it is found that Ar Rahnu KT and Ar Rahnu Bank Rakyat do provide lower charges for their services.

## CONCLUSION

In conclusion, it is undeniable that the differences in terms of financing limit, the margin of financing, and safekeeping fees are always adherence in this industry. As they are profit-oriented companies, this is one of the essential strategies adopted to remain competitive and offers a quality service to the customers. Therefore, the customer can make the best choice based on the criteria or product offered by these operators. The Ar Rahnu institutions in Malaysia can move forward and become dominant in this industry as compared to conventional pawnbroking. Despite the disparity among these operators, it should be taken in a positive way to strengthen the Islamic financial institution and boost the Islamic economy in Malaysia. In the future, the industry will be more promising by accepting more articles as collateral like silver or other valuable pieces to compete with conventional pawnbroking and to widen their customer base.

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