

Al-Rahnu System as an Alternative to Conventional Pawnbroking for Muslim Community in Malaysia: An Analysis Study of Legal Framework and Jurisdiction on the Governance of al-Rahnu

**Muhamad Zuhaili bin Saiman^{1*},
Aiman Abdul Rashid bin Mohd Zainuddin¹**

*¹Academy of Contemporary Islamic Studies, Universiti Teknologi MARA,
40450 Shah Alam, Malaysia*

*Corresponding Author
mdzuhaili@uitm.edu.my, aimanrrashid98@gmail.com

Received: 6 January 2022

Accepted: 25 April 2022

Online First: 27 May 2022

ABSTRACT

Since the introduction of al-Rahnu as an alternative to conventional pawnbroking for Muslims in Malaysia in 1992, there are many organizations providing this service, and al-Rahnu from year to year is growing and expanding. However, there are issues and challenges to al-Rahnu because there are still Muslims who continue to conventional pawnbroking compared to al-Rahnu. The main purpose of this study is to examine the issues and challenges throughout the establishment of al-Rahnu as an alternative in Malaysia which is growing as an alternative that needs to be fully utilized by the Muslim community in Malaysia. This study will also analyse the factors that influence the factors of acceptance of al-Rahnu by the Muslim community. In addition, the study will try to identify the challenges faced by al-Rahnu. Therefore, the design of this study method is a qualitative method with a literature review approach and content and document analysis. The main findings of this study are the Muslim community's

acceptance of shariah-compliant al-Rahnu proceeds as well as alternative money providers, capital for business and personal use. In addition, the challenge faced by al-Rahnu is the Muslim community's understanding of the sensitivity of a shariah-compliant instrument, knowledge of Islamic finance, as well as the ease of finding al-Rahnu places that are closer to the Muslim community.

Keywords: *al-Rahnu, Muslim community, pawnbroking, Shariah-compliant*

INTRODUCTION

The Islamic pawnshop, also known as al-Rahnu, serves as an economic accelerator for entrepreneurs who operate on a modest scale and require access to finance for their businesses. According to the goal of financial inclusion, which not only strives to stimulate economic growth in the country, but also to eradicate poverty and close the gap between the rich and poor in that country, this is a positive step toward achieving that goal (Semana & Ariffin, 2017). According to the findings of an investigation conducted five years ago by Othman, Hashim, and Abdullah (2012), certain societies believe that the Islamic and conventional mortgage systems are one and the same system and that the only difference is in the name. Various doubts have been raised about the approach utilised by the al-Rahnu institution in determining the various wage rates that are applicable to different institutions, leading to this perception to be formed. According to the International Fiqh Council and other Islamic juristic councils who have no particular interest in the matter, the charges allowed to be imposed on borrowers are only the actual costs associated with the lending business and do not include the value of the loan, direct costs such as employee salaries, place rental and other dependents, or other indirect costs such as legal fees and other costs associated with the lending business (Osman et al., 2020).

Al-Rahnu is an Islamic financial institution that provides a great deal of assistance to Muslims, particularly those who are in desperate need of funding to establish a business, require an instant cash loan, or need to finance schooling or everyday costs. As a result of the founding of Bank Islam in 1983, Islamic finance in Malaysia has taken a different route, particularly with the increased demand for Unit Trusts and shariah-

compliant mortgage schemes. When the Muslim community pressed the government to build an Islamic pawnshop, the government agreed and in 1992, the *Muassasah Gadaian Islam Terengganu* (MGIT) pawnshop was formed, which was soon followed by the *Koperasi Permodalan Kelantan* (KPK) pawnshop in the following year. As the name suggests, this Islamic pawnshop adheres to Islamic law and is known as al-Rahnu. Since its establishment, al-Rahnu has been a prominent institution in the provision of emergency cash to individuals in need. Along with these options for obtaining loans without interest, al-Rahnu also offers low-cost cash advances through its cash advance division (Payal Bhatt and Sinakkannu, 2008). When the al-Rahnu Scheme is made available in banking institutions, it is done so to provide alternative financial services to the Muslim community that is following the principles of Shariah. As a result, the goal of this study is to give an empirical overview of the elements that influence the adoption of the al-Rahnu Scheme, particularly those provided by banking and non-banking organizations (Hj et al., 2019).

The first Islamic pawn scheme in Malaysia was established by the Islamic Religious Council and Adat Melayu Terengganu (MAIDAM) known as the *Muassasah Islam Terengganu* (MGIT) on 23 January 1992 with the concept AR virtually indestructible and *Qard al-Hassan* (AA. Razak et al., 2014). Later, the Kelantan State Economic Development Corporation (PKINK) established Kedai al-Rahnu which introduced the concept of savings wages was introduced on 12 March 1992 (Baharum, 2015). In view of the potential development of this scheme, the Minister of Finance on 21 August 1993 announced that Bank Kerjasama Rakyat Malaysia (Bank Rakyat) in collaboration with the Malaysian Islamic Economic Development Foundation (YaPEIM) would offer the al-Rahnu scheme to the public. Thus, began the involvement of financial institutions in introducing this scheme which is considered as *fardu kifayah*. Thus, YaPEIM is expanding its al-Rahnu scheme offerings through collaboration with Bank Islam Malaysia Berhad (BIMB) in November 1997 and subsequently through a collaboration with Bank Pertanian Malaysia (Agro Bank) in August 2002. YaPEIM through its entity also offered this scheme on 2 October 2000. With a string of increases from participating financial institutions, many financial institutions have offered al-Rahnu schemes to this day (Osman et al., 2020).

Al-Rahnu scheme increasingly getting attention and support from society. At present, no specific laws for al-Rahnu enacted, nevertheless, some institutions like a cooperative institution and MAIDAM has legislated policy and administrative guideline to execute al-Rahnu. Act, policy, and guidelines provided for al-Rahnu such as Pawnshop Act 1972 (Bonanni et al., 2014) despite its important reduction due to screening programs for early detection. Besides cervical cancer, HPV is responsible for a significant proportion of other anogenital cancers and an increasing number of oropharyngeal cancers, representing together an at least equal burden compared to cervical cancer. HPV is also responsible for conditions such as condyloma acuminata (genital warts). Initially, when al-Rahnu was first implemented, it was bound by the Pawnshop Act of 1972. However, there are a few sections of the Pawnshop Act of 1972 that do not comply with Shariah's requirements. This is due to Shariah's prohibition on all forms of interest. Because of the non-compliance section in the Pawnshop Act of 1972, al-Rahnu is no longer able to use it. Nevertheless, as stated in the Pawn Broking Act 1972, anyone who wants to open their pawnshop must apply for a pawnshop licensing with the Ministry of Urban Wellbeing, Housing, and Local Development. Institutions that operate as cooperatives are not allowed to register as pawnbrokers with the Malaysian Cooperatives Commission, but they are required to register as pawnshops with the Malaysian Cooperatives Tribunal.

Islamic pawn broking or al-Rahnu that plays their complementary role in providing financing on a short-term basis, especially among the Muslims. First, Islamic pawn broking was initiated by the Malaysian government in 1992, which was set up by the Terengganu Islamic Religious and Malay Customs Council, namely, the *Muassasah Gadaian Islam Terengganu*. Given the rapid growth and development of Islamic financial business in Malaysia, Islamic pawn broking has become popular among the public. For example, 329 institutions were offering Islamic pawn broking operating in 2010 alongside 259 licensed conventional pawnshops, which shows a remarkable increase in Islamic pawn broking (Mohd Thas Thaker et al., 2020).

PROBLEM STATEMENT

Pawnbroking organizations act as an intermediary and provide individual lending using gold as security. Before the development of Islamic financial institutions in Malaysia, the country's financial market was controlled by the conventional process, which included the pawnbroking business (Bahari et al., 2015). Due to the large number of individuals who are unaware of al-Rahnu, action is required, as the community has become more vulnerable and only recognizes the conventional method, with little understanding of al-Rahnu in general. There are a few people who are sceptical of Islamic financial institutions' schemes and prefer the more traditional options accessible. We should favour Islamic finance as Malaysians and Muslims because the al-Rahnu scheme supplied is Shariah-compliant and spiritually fit. Aside from that, the Al-Rahnu event is more profitable in terms of fees, convenience, and so on.

Despite the large number of studies conducted in this sector, there are still several unanswered questions. For starters, there has been little investigation into how to provide broad exposure or approach to rural and urban areas and communities. Several years ago, Othman, Hashim, and Abdullah (2012) discovered that certain communities believe the Islamic and conventional mortgage systems are the same system, with just minor differences in terminology (Osman et al., 2020). Such an opinion is generated when a large number of issues are brought to the attention of the al-Rahnu institution's method for determining the various average earnings according to the institution's standards.

Furthermore, the ease with which loans can be obtained is another aspect that affects the public's image of al-Rahnu since it is extremely beneficial to them when they require money instantly (Osman et al., 2020). Society is more familiar with and prefers to deal with traditional pawnshops due to the lack of a facility for family member representatives to redeem pawned goods despite the existence of pawn letters and account letters as evidence. Because of this, al-Rahnu does not allow family member representatives to redeem pawned goods despite the existence of pawn letters and account letters. Although accommodating, al-Rahnu considers the pawnbroker's financial situation by granting a specific time and term for repayment of the loan.

Allah S.W.T. say in Al Baqarah (2 : 283):

If you are on a journey and a scribe cannot be found, then a security can be taken. If you trust one another, then 'there is no need for a security, but' the debtor should honour this trust 'by repaying the debt'.

Following the findings of Asiah & Salmay (2018) who discovered that intense competition between fellow service providers, as well as traditional services, caused institutions to face challenges in terms of customer scramble as well as capital constraints that could have an impact on lending operations (Osman et al., 2020). Both urban and rural residents are fully aware that traditional pawnshop services are less expensive and more easily available than online alternatives. The services of Islamic financial institutions are certainly something we as Muslims must support, but we must do so because they are an integral component of the *ibadah* and *Fardu Kifayah*, or religious service, that Islam encourages.

Besides that, there is also a lack of legal framework and jurisdiction on the governance of al-Rahnu. Based on an interview carried out with MGIT found that MGIT has received many cases of gold fraud that occurred in their institution (Bonanni et al., 2014) despite its important reduction due to screening programs for early detection. Besides cervical cancer, HPV is responsible for a significant proportion of other anogenital cancers and an increasing number of oropharyngeal cancers, representing together an at least equal burden compared to cervical cancer. HPV is also responsible for conditions such as condyloma acuminata (genital warts. This is feasible due to the Pawnshop Act of 1972, which safeguards conventional pawnbroking practices. It was in direct conflict with the al-Rahnu plan, which is not protected by any laws or acts of parliament. As previously indicated, the al-Rahnu scheme is exempt from the provisions of the Pawnshop Act of 1972. Since the Act contains different portions that violate Shariah precepts, this is the case. It has been reported that SKM and MGIT were among those who took the initiative by issuing al-Rahnu administrative guidelines to oversee al-Rahnu operations in their respective institutions. Nonetheless, it is questionable whether these principles and methods are sufficient to protect the parties in the event of a disagreement.

Furthermore, Islamic pawnbrokers also had been reported that they received gold which is turn out to be fake (Sulaiman et al., 2014). There have been numerous reported fraud occurrences involving gold coatings or lead gold, for example. Lead is one type of liquid that can be used to mimic the appearance of gold. Lead has been used in gold trickery for many years to raise the value of gold, and it is still used today. Some gold equipment is unable to distinguish between a lead that has been absorbed into solid gold structures and pure gold. To prevent receiving gold that has been tainted with lead, many al-Rahnu only receive a few sorts of gold because of this predicament: After all, is said and done, numerous aspects can influence the community's perspective of al-Rahnu when compared to a traditional pawn system, as previously stated.

METHODOLOGY

This study was a descriptive qualitative study. The main objective of this study is to analysis study of al-Rahnu system as an alternative to conventional pawnbroking for Muslim community in Malaysia. Therefore, in achieving the objectives of this research, the researchers used a qualitative research design that typically uses questions such as how, what, and why. In general, qualitative research is the way of involving non-numerical data collection like in the form of text, video, or audio in understanding the concept, opinions, or experiences from the respondent. Qualitative research involves inductive reasoning to understand specific situations including history/background and individual experiences. This study is use type of analysis study with a literature review approach, content and document analysis to collect the data.

FINDINGS AND DISCUSSIONS

Shariah-Compliant

From a shariah standpoint, the preceding verse demonstrates that anything involving riba in a business deal should not be taken lightly. According to Ismail and Sanusi's research, the role of sharia law in the establishment of Islamic pawnshops must be carefully considered when Islamic pawnshops are established. Islamic concepts such as wadiah, qardhul

hassan, and ujra must all be carefully considered when Islamic pawnshops are established (Ismail and Sanusi, 2005; Payal Bhatt and Sinnakkannu, 2008; Amin et al, 2007).

This distinction between Al-system Rahnu's and traditional pawnshops is due to the introduction of principles such as *wadiah*, *qardhul hassan*, and *ujrah* into the al-Rahnu system, all of which eradicate the characteristics of *riba* (usury) and *gharar* (Hanuddin Amin et al, 2007; Payal Bhatt and Sinnakkannu, 2008). This demonstrates that shariah ideas play a crucial impact in determining whether or not Islamic pawn businesses can operate legally (Hanuddin Amin et al, 2007). The findings of the study (Azila et al., 2014) imply that Islamic pawnshops can compete and thrive by offering a sharia-conceptualized mortgage system, low savings wages, and non-profit-oriented financing goals, in addition to a strong emphasis on social responsibility and ethics (Hj et al., 2019).

The Shariah view has a very strong association with the acceptance of the Islamic-based pawnshop, as proven by the study by Amin, H. et al. (2007). There are three parts to this funding mechanism: first, the lending process; second, the redemption process; and third, the auctioning process. The borrower and the institution that offers an al-Rahnu product are involved in the first stage. A borrower, for example, may place an asset such as gold jewelry under an al-Rahnu (pledge) contract at an al-Rahnu institution. The al-Rahnu institution can provide the customer a loan based on the market value of the jewels, with a maximum loan amount of 70% of the gold value. The term *Marhun* is used to describe jewelry, while *Wadah Yad Damanah* is the Islamic term for the safeguarding contract (guaranteed deposit for safekeeping). The borrower must then pay a service charge based on the *ujrah* (surcharge), which is less than 2% compared to traditional pawnshops (Mohd Thas Thaker et al., 2020).

For many years, Malaysians have engaged in the practice of Islamic pawnbroking (al-Rahnu). It is an operating practices guide, which includes provisions for protecting the rights of pawnshop clients under the Bank Rakyat and Pawnbrokers Act of 1972, is available for download (Bahari and et al., 2015). Later, most Malaysian financial institutions embraced this strategy because it offers several benefits to their customers. For the simple reason that it provides a financial product for low-income individuals

and small enterprises that typically have limited cash or have been locked out of the mainstream financial system, al-Rahnu appears to be the most acceptable method for the time being. Based on the “Shariah” principles of (1) benevolent loan, (2) trustworthiness, (3) al-Ujrah or safekeeping, and (4) Wadiah Yad Dhamanah or safekeeping with guarantee, the system was established. A brief overview of Al-Rahnu: it is an Islamic pawnbroking system founded on aqd (contract) and mutual trust between the lender and borrower, in which no interest is charged, but certain fees are levied in exchange for specific services (Koe & Nor Zalindah, 2015). Prior study has established the importance of Islamic pawnshops in Muslim nations. However, more research is needed. However, the traditional pawnshop system is more likely to burden the lower-income group, which is in direct conflict with “Shariah” practices. In 2004, Azila published a paper titled (Abu Bakar et al., 2018).

However, there is issues of al-Rahnu when The Shariah Advisory Coucil (SAC) of Bank Negara Malaysia at its 194th meeting on 25 June 2019 and its 195th meeting on 31 July 2019 resolved that the al-Rahnu product structure offered by Islamic financial institutions (IFIs) through the combination of *qard* (loan), *rahn* (pledge), *wadi`ah* (safekeeping) and *ujrah* (fee) does not fulfil the Shariah requirements in Rahn Policy Document. One of the reasons is the combination between the pledge and the loan contract in the al-Rahnu structure for the purpose of profit generation is not in line with the objective of both contracts (*muqtada`aqd*) in which the former is for pledging while the latter is for charity. This decision will take effect on February 1, 2020. As a result, evaluation and restructuring of al-Rahnu products needs to be done to ensure the product complies with the Shariah requirements outlined in Rahn Policy Document (BNM : <https://www.bnm.gov.my/-/sac-194th-195th-meeting>)

Informal Credit Market

Al-Rahnu is regarded as a credit black market, according to some. If we look at it from the perspective of people’s finance, the informal credit market provides the same function as the official credit market. In the opinion of Roe (1979), Timberg and Aiyar (1980), and others, modern financial organizations were unable to adequately compensate for the value of services provided by the informal credit market. When it comes to lending

to small and disadvantaged borrowers, the informal credit market is one of the most important sources of funding, both in urban and rural areas. For low-income people, according to Bouman (1989), informal loan markets are one of the few short-term finance choices available to them. It gives people a chance to receive access to services, as they usually struggle to obtain low-cost funding from traditional sources of funding. Furthermore, unlike the official credit market, there are no subject criteria that must be followed, such as the requirement to maintain a specific liquidity ratio, interest rate regulation, or credit allocation guarantee, which are all present in the official credit market (Abdul Rahman & Kassim, 2017).

According to some, the informal credit market assisted businesses in keeping track of their transactions and demonstrating good customer service by monitoring their prosperity, integrity, and cash situation, in addition to contributing to good relationships and an understanding of their customers' well-being, among other things (Holst, 1985). However, according to a small number of researchers, factors such as a convenient location, flexibility in loan security criteria and the conventional term structure, low red tape, and credit accessibility over time are all factors that contribute to the growth of the informal credit market over time. Moreover, according to Donald (1976), there is no demand for a formal application form, references, or a queueing system (Abdul Rahman & Kassim, 2017).

Al-Rahnu is an informal credit marketplace that operates as part of today's contemporary Islamic finance and provides the public with a low-cost method of credit financing. Al-Rahnu is one of the informal credit markets that operate as part of today's modern Islamic finance. To fully appreciate the significance of assessing whether or not consumers accept A-services, one must first understand what they are. Al-Rahnu's work had already been recognized in a study undertaken by Hamid, Rahman, and Halim, which was published in the journal *Science* (2014). According to him, al-Rahnu will discover the elements that influence client acceptability in the future and will devote more attention to and effort to those elements to attract more potential customers. According to Holetzky (2008), services are viewed as valuable if they are utilized by a big number of different individuals (Abdul Rahman & Kassim, 2017).

Pricing System

Some research, like those by Mohammed et al. (2005) and Ismail and Ahmad (1997) have looked into the significance of price in pawnshop transactions. If you compare it to the ancient pawnbroking system, which demanded a two percent interest rate, service Rahnu's fee is quite reasonable (Mohammed et al., 2005). Al- Rahnu's fee contributes to a lower overall "loan" cost and serves to reduce the financial stress placed on the consumer. This is consistent with the findings of Ismail and Ahmad (1997), who discovered that obtaining cash through MGIT is less expensive than obtaining cash from a regular pawnshop, which charges a 2 percent fee for the pawned item in question. Considering these facts, the Al-Rahnu firm must offer a competitive rate that is representative of the market's average pricing scheme to succeed. In contrast, Amin et al. (2007) claim that price mechanisms have minimal influence on the acceptance of the Islamic-based pawnshop. It has been stated that the pricing system of Islamic-based pawnshops is the most difficult obstacle to overcome (Devadas et al., 2013).

The notion of interest in conventional pawnbroking, according to Razak (2008), has led to the institution charging its consumers exorbitant interest rates, leading to abuses. Customers are now less likely to use regular pawnshops and more likely to utilize Islamic pawnshops, according to a recent survey. Interest rates charged by a standard pawnshop can range from 14 percent per year to 24 percent per year, and in some cases much higher than that (Bhatt and Sinnakkannu, 2008). According to recent studies on five variables, low-interest rates are the most important factor in attracting responders to the Islamic pawnbroking scheme (Appannan and Doris, 2011). A different study conducted on a private al-Rahnu operated by an Islamic bank, however, found that price was not the most important factor in determining client approval. Results show that the average score for the price system is 3.94, while the average score for the Shariah review element is 4.27. Even so, the pricing structure continues to be viewed as a significant factor in the expansion of the Islamic pawnbroking industry (Hamid, Rahman, and Halim, 2014). He feels that service fees are onerous for clients and, as a result, increase the likelihood of them defaulting on their obligations. Following the findings of this and other research projects, the researchers suggest that the pricing system should be given top attention to the services provided (Ismail and Ahmad, 1997; Abdul Rahman & Kassim, 2017).

Azman and Kassim (2015) conducted an interview-based study to evaluate the factors that influence the adoption of the al-Rahnu scheme by women entrepreneurs. The findings were published in the journal *Women Entrepreneurs*. Their investigation found that the pricing of the service is a significant consideration when working with al-Rahnu. The authors recommended that al-Rahnu vendors standardize their service costs to better meet client demand for their products and services. As a result, the study reveals the significance of the pricing component in the adoption of al-Rahnu technology. Customers always pick the service charge that is the least expensive in comparison to the other options. Therefore, those with little financial resources benefit from the services that are provided. As a result of this study (Mohammed, Daud, and Sanusi, 2005) and others, the researcher believes that price is significant and that it is related to transaction costs (Abdul Rahman & Kassim, 2017).

A lower storage charge compared to typical service fees is a driving force behind non-Muslim participation in the Islamic pawn system. Asiah and Salmy (2018) discovered that storage wage expenses are one of the contributing elements to the cooperative and franchise al-Rahnu capacities, in a similar vein. Due to the low storage wages charged by al-Rahnu MAIDAM, customers at the institution feel more at ease when working with the institution (Bahari et al., 2015). This is also a hurdle for al-Rahnu service providers because of aspects of competition among pawnbrokers that consider the value of margin margins and the high value of loans. Moreover, Shah and Yaacob (2018) point out that educational engagement with people that still believe that mortgage institutions are primarily concerned with the concerns of the poor and vulnerable is a hurdle (Osman et al., 2020).

Islamic pawnshops collect wage charges not just to pay service providers, but also to ensure that the mortgage is secured. Refer to Table 1.0 below for a list of savings wages by institution providing al-Rahnu services.

Table 1: Savings Charge According to Institutions Offering ar-Rahnu Services

Institution	Value of Mortgaged Goods	Financing Margin	Current Fee Rate for Every RM 100 per Month
Bank Rakyat	Until RM1000	65% (rate value for new customer)	0.65
		70% (rate value for existing customer)	0.75
	RM1001 – RM10,000	65% (rate value for new customer)	0.75
		70% (rate value for existing customer)	0.85
RHB ar-Rahnu	RM100-RM2000	70%	0.65
	RM2001-RM5000	75%	0.75
	RM5000 and above		0.80
YaPEIM	Below RM720	<65%	0.50
	RM721-RM2000		0.65
	RM2001 and above		0.70
Bank Islam	Until RM500	70%	0.60
	RM501-RM2500		0.70
	RM2500 and above		0.80
Agro Bank	RM100-RM2000	<70%	0.50
	RM2001-RM5000		0.60
	RM5000 and above		0.75

*Source : Agro Bank (2019), Bank Islam (2019), RHB Islamic Bank (2016) & YaPEIM (2019)

Service Quality

Al-Rahnu is a sort of short-term microfinance that can be used to meet basic needs as well as a source of business finance for small and medium-sized firms that are both profitable and productive. Shah and Yaacob's (2018) survey found that three-quarters of respondents are borrowers intending to start a small business, as well as enterprises looking to enhance capital turnover in their operations. Customers who own items that can be mortgaged are more likely to seek short-term financing because it is a very easy and low-cost choice (Osman et al., 2020). Aside from that, in the current unpredictable economic atmosphere, al-Rahnu can aid people who are experiencing financial difficulties in obtaining cash as quickly as possible. Some people still prefer traditional mortgage services, even though al-Rahnu has a clear financing process. This is because the old system allows people who have been barred from obtaining credit to receive credit. The issue for Islamic pawnshops is in assisting Muslim consumers, particularly those who want to switch to Shariah-compliant services, to come to terms with their newfound religious beliefs.

In addition, borrowers are more comfortable utilizing al-Rahnu's services because of the flexibility demonstrated by al-Rahnu in extending the payback period to clients who are experiencing difficulties repaying their loans within the stated time frame. Furthermore, the customer has confidence in this uncomplicated financing procedure because each level of collateral assessment is visible to the customer and does not require a long period to validate. Moreover, some consumers utilize this service to help them cope with the high expense of living, which is particularly prevalent among those who reside in metropolitan areas (Yusuff, Razak & Muhammad, 2015). The ease with which the general public can receive monies through Islamic pawning services, as opposed to regular banking institutions, has an impact on the public's adoption of these services. Rather than standard mortgage services, customers can choose to use this Islamic mortgage service instead (Osman et al., 2020).

According to the findings of a study conducted by Nadiah (2014), the quality of customer service is the most important variable determining consumer intention to use one of the private al-Rahnu institutions in Kedah, al-Rahnu@POS, and the most important variable determining consumer

intention to use al-Rahnu@POS is the quality of customer service. Across the board, customer service received 75.5 percent of the vote, followed by attitude (69.8 percent), the Syariah point of view (68.9 percent), and cost (58.9 percent) (68.9 percent). The majority (63.3 percent of the total) As a result of the research, it was determined that the customer service component, followed by attitude, has a significant association with the desire of the client to use al-Rahnu@POS. Meanwhile, according to the statistics, the customer's intention to use al-Rahnu@POS is only moderately associated with the outcomes for the Syariah view and price, as well as the results for the Syariah view and pricing (Abdul Rahman & Kassim, 2017). Customers have high expectations, and the quality of Islamic pawnshop services must be improved to meet those demands. There must be close monitoring of the institution's employee grading system, as well as the amount of time spent waiting for clients on the premises. The ability of clients to invest their trust in a supplier's approach to business and services is one of the most essential factors in evaluating a supplier's approach to business and services. Two such examples are the staff's inquiry into the purity of the pledged item and the approach used in the evaluation process for the item.

According to Amin et al. (2007), the quality of customer service determines whether a company will be accepted by its customers. According to the findings, "customer approval processes should not take an excessive amount of time," and "customer approval processes should be regarded an important aspect under the service quality provided by pawnbrokers. Accordingly, Selamah and Supizan (2005) did the following research on the subject. Their investigation focuses on the issues that occurred because of the amendments to the Pawnbrokers Act 1972, as well as the difficulties that al-Rahnu encountered during this time. According to their research, the al-Rahnu manual has some advantages over the Pawnbrokers Act 1972 (Amendment 2003); nevertheless, if this information is not made available to the public, the operation of al-Rahnu will be difficult to understand by users who are unfamiliar with the system. Continuing to promote al-Rahnu to the public is necessary to ensure that they have a thorough and accurate understanding of the company's products and services, as well as to encourage people to become more conscious of their consumer rights. In the aftermath of the Act's revision, al-Rahnu will confront several significant issues, the most significant of which are the rise of the number of pawnshops and the expansion of the ability to lend.

Briefly stated, the Islamic-based pawnshop is required to keep a record of its customers, to keep that record confidential, and to treat all customers equally, regardless of race or faith. Apart from being concerned about “Shariah” views, the Islamic pawnshop must emphasize the importance of customer care to grow its customer base and therefore its customer base.

Locality

The organization decided to invest resources before supplying the services, the decision on where to locate the operations was always critical to the organization’s success. Apart from that, the geographical location of a company has an impact on its growth and long-term viability (Ahmad, 2012). While the nature of services such as Islamic Pawnshop does not involve intense competition, it is still necessary to consider factors such as traffic flow, capital costs, local ordinances, traffic conditions, and the availability of public transportation when determining where to locate the business. A pawnshop business must give careful thought to the site when it comes to building up the pawnshop business, which they did in their research(Devadas et al., 2013).

According to the results of a recent poll, despite universal support for the necessity for al-Rahnu services, people’s inability to access them due to their geographical position is a substantial stumbling barrier to their utilization. In conventional pawnshops, customers prefer to visit them rather than Islamic pawnshops because the distance between them and their residence is lower than traditional pawnshops. The establishment of new al-Rahnu counters and outlets in remote areas of rural and eastern Malaysia is necessary to solve these concerns (Rasmin and Markom, 2014)(Abdul Rahman & Kassim, 2017).

The final point is that, due to the high concentration of Islamic pawnshops inside urban areas, those who live in urban areas have easy access to Islamic pawnshop services. Therefore, because public support dominates market potential, issues of location must not be disregarded, and any element associated with a location is viewed as crucial and prioritizing for commercial purposes.

CONCLUSION

Basically al-Rahnu is recognized as an alternative to conventional pawnbroking and has the potential to save the Muslim community from being further entangled with any transactions that have elements of usury which is forbidden by Islam and any transactions that are illegal in terms of law such as “*Ah Long*” to obtain a sum of money. Based on the study conducted, the al-Rahnu system needs to be further strengthened with improvements based on several suggested steps:

1. Al-Rahnu should not be restricted to religious aims alone, because, as is well recognised in Malaysia, the benefits discovered in al-Rahnu may be experienced by individuals of any religion, as Malaysia is made up of people of all races and ethnicities, all of whom are at varying stages of development.
2. Al-Rahnu lacks infrastructure support, as seen by the lack of a service supervisor and an oversight body for al-Rahnu, both of which are necessary. When it comes to law, manpower skills, operations, system quality assurance, and infrastructure, the Al-Rahnu regulatory body can act to ensure that the implementation of al-Rahnu services is done to the best of their abilities.
3. The offers of al-Rahnu must be expanded as they are now perceived to be too limited by consumers. In addition to the scarcity of al-Rahnu services, the community has become wary of using them because of the wide range of conditions available at al-Rahnu institutions or banks, some of which restrict access to just gold. The al-Rahnu institutions or banks that provide this system must diversify the types of goods that can be used by consumers, such as high-value properties, in order to remain competitive. The al-Rahnu institution must expand its presence in rural areas because there are a large number of consumers in these areas, and it would be a great loss if they continued to rely solely on conventional sources of health care, rather than taking advantage of this opportunity to benefit the community while also generating income. also.

4. People are aware that al-Rahnu is a financial product that complies with Islamic law, but when it comes to pawning, it is not immune to the problem of fraud. There are numerous gold scams currently taking place, which is causing consumers to lose trust in their ability to do their business. It is important to note that when this occurs, it does not have an impact on traditional suppliers because they are protected under the Pawnshop Act 1972. In contrast to al-Rahnu, there is no law that applies to them because the Pawnshop Act 1972 contains provisions that are prohibited by Islamic law. Consequently, law enforcement for al-Rahnu must be formed soon since, with the establishment of laws and acts, customers will feel safer in their ability to carry out their daily activities and businesses

ACKNOWLEDGMENTS

The authors would like to thank the Academy of Contemporary Islamic Studies (ACIS), Universiti Teknologi MARA (UiTM) Shah Alam, Selangor, for technical support.

CONFLICT OF INTERESTS

The authors declare no competing interests such as financial or personal relationship with regard to the writing of this article.

AUTHORS' CONTRIBUTIONS

Muhamad Zuhaili bin Saiman and Aiman Abdul Rashid bin Mohd Zainuddin designed the study and gathered the literature. Muhamad Zuhaili bin Saiman and Aiman Abdul Rashid bin Mohd Zainuddin analysed the results and wrote the article.

REFERENCES

- AA Razak, Fidlizan Muhammad, Mohd Yahya Mohd Hussin & Nurhanie Mahjom. (2014). Kemapanan dan Daya Saing Pajak Gadai Islam di Malaysia. Prosiding PERKEM ke-9 (2014) 551-560. ISSN: 2231-962X
- Abdul Rahman, N. N., & Kassim, S. H. (2017). Factors influencing acceptance of Al-Rahnu: comparison between private and state Al-Rahnu providers in Terengganu. *Middle East J. of Management*, 4(1), 39. <https://doi.org/10.1504/mejm.2017.10004506>
- Abu Bakar, R., Abd, N., Norliyana, A., Mohd, Z., & Muhammad, A. (2018). The Antecedents of Islamic Pawn Broking (Al-Rahnu) in Kuala Terengganu. *Journal of Education and Social Sciences*, 9(1), 81–89.
- Agro Bank. (2019) al-Rahnu. Retrieved from <https://www.agrobank.com.my/product/al-Rahnu/> (accessed on 10 September 2019).
- Ahmad, S. A. B. (2012). *Customer Acceptance On Islamic Pawn Broking : A Malaysian Case*. 748–763.
- Amin, H. et al. (2007), 'An Al-Rahnu Shop Acceptance Model (ARSAM)', *Labuan e-Journal of Muamalat and Society*, Vol. 1, pp. 82 – 94.
- Appannan, S. and Doris, G. (2011) 'A study on Islamic pawn broking awareness and factors influencing the scheme in Sungai Petani, Kedah', Paper Presented at the 2nd International Conference on Business and Economic Research (2nd ICBER) Proceeding.
- Asiah Alkharib Shah & Salmey Edawaty Yaacob. (2018). Cabaran dan Alternatif Penyelesaian bagi Perkhidmatan al-Rahnu di Malaysia. *International Journal of Islamic and Civilizational Studies*. Vol. 5 No. 1 (2018) 31-43. Penerbit UTM Press.
- Azila, A. R., Fidlizan, M., Mohd Yahya, M. H. and Nurhanie, M, 2014, Kemapanan dan daya saing pajak gadai islam di malaysia. Prosiding PERKEM, 9, pp. 551-560.

- Azman, N.H.N. and Kassim, S.H. (2015) 'Key factors influencing women micro entrepreneurs to use Al-Rahnu: Evidence from Siti Khadijah's market in Kelantan', *Australian Journal of Basic and Applied Sciences*. Retrieved December 7, 2015. <https://www.researchgate.net/publication/n/277559593KeyFactorsInfluencingWomenMicroEntrepreneurstoUseArRahnuEvidencefromSitiKhadijah'sMarketKelantan.b>
- Bahari, N. F., Safii, Z., Ahmad, N. W., Fisal, S., & Shahar, W. S. S. (2015). A Reviews on the Regulation and Conflicting Issues of al-Rahnu Operation in Malaysia. *2nd International Conference on Management and Muamalah, 2015*(November), 340–346.
- Baharum, N. N. B., Maamor, S., & Othman, A. (2015). Examining the Factors That Influence Customer's Intention to Use Al-Rahnu at Post Office : A Case Study in Kedah. *Journal of Islamic Economics Banking and Finance, 11*(4), 86–99. <https://doi.org/10.12816/0024791>
- Bhatt, P. and Sinnakkannu, J. (2008) 'Al-Rahnu (Islamic pawn broking) opportunities and challenges in Malaysia', Paper Presented at the 6th International Islamic Finance Conference, Selangor.
- BNM. <https://www.bnm.gov.my/-/sac-194th-195th-meeting>
- Bonanni, P., Levi, M., Latham, N. B., Bechini, A., Tiscione, E., Lai, P., Panatto, D., Gasparini, R., & Boccacini, S. (2014). An Overview on Implementation of Al-Rahnu in Malaysia. *Human Vaccines, 7 Suppl*, 128–135.
- Cheong, C. W. H., & Sinnakkannu, J. (2012). Al- Rahnu: Opportunities and Challenges in Malaysia. *SSRN Electronic Journal, January 2012*. <https://doi.org/10.2139/ssrn.2112809>
- Devadas, T. J., Seelammal, C., & Sadasivam, S. (2013). On data cleaning with intelligent agents to improve the accuracy of Wi-Fi positioning system using GIS. *Asian Journal of Scientific Research, 6*(1), 53–66. <https://doi.org/10.3923/ajsr.2013.53.66>

Hj, I., Rahman, A., Hashim, R. Bin, Othman, A. S., Aziz, A., & Islam, P. G. (2019). *Faktor Yang Mempengaruhi Penerimaan Al- Rahnu (Islamic Pawnshop) Factors Affecting the Acceptance of Al-Rahnu (Islamic Pawnshop)*. 15–23.

Ismail, A.G. and Sanusi, N.A., (2005), A Framework for Regulating Pawnshops: Why Do, What Area and Shariah View, Paper prepared to be presented at the Malaysian Finance Association (MFA)'s 7th Annual Conference, 9th – 10th May 2005, Primula Beach Resort, Kuala Terengganu, Terengganu., <http://www.kantakji.com>. [28 November 2010]

Koe and Nor Zalindah (2015). The Use of Al-Rahnu by Islamic Bank Customers in Malaysia. Proceedings of the International Conference on Science, Technology and Social Sciences (ICSTSS) 2012, DOI 10.1007/978-981-287-077-3_2, © Springer Science+Business Media Singapore 2015.

Mohammed, N., Daud, N.M.M. and Sanusi, N.A. (2005, August) 'Analisis Skim Al-Rahnu: Satu Kajian Perbandingan Dengan Pajak Gadaai Konvensional', Paper Presented at the Prosiding Seminar Kewangan Dan Ekonomi Islam: Pengukuhan Dan transformasi Ekonomi Dan Kewangan Islam, Selangor

Mohd Thas Thaker, H., Khaliq, A., Mohd Thas Thaker, M. A. Bin, Allah Pitchay, A. Bin, & Sakaran, K. C. (2020). Drivers of Al-Rahnu (pawn) acceptance: Malaysian evidence. *Journal of Islamic Marketing*. <https://doi.org/10.1108/JIMA-08-2019-0161>

Muhamad, H., San, O. T., Katan, M. & Ni, S. W. (2019). Factors that Influence the Customers' Perception towards Al-Rahnu (Islamic Pawn Broking Product) in Selangor, Malaysia. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 9(2), 126-137. DOI: 10.6007/IJARAFMS/v9-i2/6048

Nadiah, N.B. (2014) Factors of Customer's Intention to Use Al-Rahnu at Post Office: A Case Study in Kedah, Doctoral dissertation, Universiti Utara Malaysia. Retrieved March 11, 2016. http://ibtra.com/pdf/journal/v11_n4_article7.pdf

- Osman, N. H. S., Shahrul Azmi, S. N., Hussin, N., Basiruddin, R., & Hashim, A. (2020). Persepsi Masyarakat Terhadap Pajak Gadai Islam (al-Rahnu). *The Journal of Muamalat and Islamic Finance Research*, 17(1), 70–78. <https://doi.org/10.33102/jmifr.v17i1.261>
- Othman, A., Hashim, N., & Abdullah, S. (2012). Satisfaction Levels Of Service Quality At Al-Rahnu, Kelantan. 3rd International Conference On Business And Economic Research 3rd ICBER 2012) Proceeding, (March), 3021–3030
- Palmer, C., & Bolderston, A. (2006). A Brief Introduction to Qualitative Research. *Canadian Journal of Medical Radiation Technology*, 37(1), 16–19. [https://doi.org/10.1016/s0820-5930\(09\)60112-2](https://doi.org/10.1016/s0820-5930(09)60112-2)
- Payal Bhatt & Jothe Sinnakkanu. (2008) al-Rahnu (Islamic Pawning Broking) Opportunities and Challenges in Malaysia. 6th International Islamic Finance Conference 2008.
- Razak, A.A. (2008) Malaysian Practice of Al-Rahnu Scheme: Trends and Development, pp.1–10. Retrieved January 12, 2016. <http://www.assaif.org/content/download/1490/10030/file/Islamic%20Pawnbroking.pdf>
- Rasmin, N.H. and Markom, R. (2014) An Overview on Implementation of Al-Rahnu in Malaysia. Retrieved February 13, 2016. http://www.ukm.my/fep/perkem/pdf/perkem2014/PERKEM_2014_4A5.pdf
- Selamah, M. & Supizan, S. (2005). Pindaan Akta Pemegang Pajakgadai 1972: Cabaran Kepada Al-Rahnu. Seminar Ekonomi dan Kewangan Islam, Bangi, Malaysia.
- Seman, J. A. & Ariffin, A. R. M. (2017). Financial Inclusion through Islamic Finance: Measurement Framework. *The Journal of Muamalat and Islamic Finance Research*, 14(2), 129- 155.
- Sulaiman, N. S. H., Kassim, S. F., Alzoubi, I., Ashaboul, K., & Abidin, M. Z. (2014). The comparison between al-Rahnu and conventional Nor Surilawana Hj Sulaiman. *Business and Economics Research Journal*, 3(5), 57–65.

YaPEIM (2019). al-Rahnu YaPEIM. Retrieved from <http://yapeim.net.my/> (accessed on 15 December 2021).

Yusuff, N. H., Razak, A. A. & Muhammad, F. (2015). Kepatuhan Proses Gadaian dalam Sistem Pajak Gadai Islam di Malaysia. *Labuan e-Journal of Muamalat and Society*, 9, 57-74.

