

## AR- RAHNU USAGE IN ECONOMIC DEVELOPMENT OF UMMAH IN SELANGOR.

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### Abstract:

*This research seeks to measure the relationship between the usage of Ar Rahn with its operation, shariah views, personal consumption and investment that may assist in economic development of ummah in Selangor. This study is used primary data by questionnaire and the sample consist Ar Rahn users in population selected. Study conducted in scope of acceptance (on operation and shariah view perspective) and intention (on personal consumption and investment perspective) determinants towards Ar Rahn. Four independent variable to be measured such as Ar Rahn operation system, shariah view on Ar Rahn, personal consumption and investment purpose whereby the dependent variable is the usage of Ar Rahn. The result revealed that the key driven on the usage of Ar Rahn among Ar Rahn users in Selangor significantly based on independent variable selected. As the end, the limitation and recommendation are included to help further researchers to have a better finding of the result.*

*Keywords:* Ar Rahn usage, investment, Islamic micro-financing, operation, personal consumption, Shariah.

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### 1.0 INTRODUCTION

Islamic pawn broking (Ar Rahn) is a new instrument of micro credit offered by financial institution in Malaysia. The first Islamic pawn broking is Muassasah Islam Terengganu (MGIT) in 1992, followed by Permodalan Kelantan Berhad and Yayasan Pembangunan Ekonomi Islam Malaysia (Yapiem). In 2016, there are quite a number of Islamic pawn broking opened in Malaysia, ranging from banking sectors, Koperasi and other type of financial institutions. Based on 2013 data, there were 464 outlets for Islamic pawn broking in Malaysia compared to 259 outlets for conventional pawn broking (Azila, Fidlizan, Mohd Yahya, Suraini, Emilda, 2013). The number of outlets kept increasing since there are demands for this product. By having Ar Rahn in Malaysia, demand for conventional pawn broking is reducing (Mohd Rafi, Ghazali, Mohamed Dahlan, 2012).

Ar Rahn means pledge or pawn. Rahn is a contract of security (Sudin Haron, Wan Nursofiza, 2009). According to the contract, creditor will make short term financing and pledge his or her personal property to a pawnshop. Ar Rahn is a convenient way of borrowing money. Ownership of the security (assets) remains with the original owner (creditor) instead of the pawnshop. The pawnshop is responsible to safe keep the security (assets) until the original owner pay for it back. This was also mentioned in Hadith by the Prophet Nabi Muhammad p.b.u.h:

*“A pledge does not become the property of the mortgage, it remains to the property owner who*

*mortgaged it; it is entitled to its benefit and he is liable for its expenses”*

There are four principles or contracts being used in Ar Rahn. The principles or contracts are Ar Rahn (pawn), Qard Al Hassan (benevolent loan), Wadiah Yad Dhamanah (safe keeping) and Al Ujrah(fees). Therefore, by having these four principles in one product, it is believed that Ar Rahn can sustain in the market. However, some researchers said that there was a reluctance to choose Islamic Pawn Broking because of customers' perception (S.Hisham, S.Abd Shukor, A.B. Umami and Kamaruzaman, 2013). Customers assume that Islamic Pawn Broking is only for poor and needy people. Nevertheless, in year 2016 alone, Bank Rakyat under their Ar Rahn services, will open five new branches for Ar Rahn X'Change in Malaysia. Last year, Ar Rahn X'Change already supervised ninety five outlets (news paper). This situation shows that the demand for Ar Rahn is increasing gradually.

This paper will discuss the relationship of operation, shariah views, personal consumption and investment purpose towards the usage of Ar Rahn. The finding of this study can be served as a basic for future research to expand more function of Ar Rahn itself and to cater new demand of the customer.

### 2.0 LITERATURE REVIEW

#### 2.1 Usage of Ar Rahn

Ar Rahn is a micro financing (short term financing) for a person that pawns the jewelry to the bank or pawnshop as a security (Hanudin & Rosita 2011).

Islamic Pawn Broking gives authority and right for an individual to fulfill their needs of financing without having to resort to other more expensive means such as loan sharks, moneylenders and interest-free based loan (Ismail & Ahmad, 1997). The government has decide to set RM3,000 as the poverty line for the urban poor based on feedback from people living in major urban area such as Klang Valley. When the number of poor people increases, theoretically, it will increase the use of micro financing such as Ar Rahn. In 1998, when Asian economic crisis struck, governments of Asian countries had focus on micro financing to help SME (McGuire, P.B & J.D.Conroy, 1998). The same steps are taken by Malaysian government now, while the country is facing an economic downturn. The government had decided to take an aggressive plan to increase budget for SME to RM 1 Billion (Najib Razak, 2016).

## 2.2 Ar Rahn Acceptance (Operation and Shariah views)

Cheong and Sinnakkannu (2012) mentioned that customer choose Ar Rahn because of the free riba, quick and transparent process, as well as one of micro credit financing alternatives. According to Mohd Rafi, Ghazali, Mohamed Dahlan et all (2012), the critical success factor of Ar Rahn are customer trust, rate of safekeeping, staff competency, system and business location. Bashir Ahmad et all (2012), investigated customers acceptance on Ar Rahn and has found that customers use Ar Rahn because of the storage charge, service quality, locality and management of the provider. Locality and customer service has a significant relationship with customer acceptance on Ar Rahn based on Mohammed et al (2005); Ismail bin Ahmad (1997) findings. Ar Rahn shop acceptance model (ARSAM) by Hanudin et al, (2007) mentioned that factors of pledge asset and customer service are the factors of acceptance towards Ar Rahn in Labuan.

Religion's obligation or Shariah views refer to its role that affecting individual choice and motivation towards some issues (Hanudin Amin, 2011). According to Muhammad Ubaidullah (2008), microfinance attracts billions of Muslims to use it because of religious obligation factor. Religious obligation is one of the key factors of accepting Ar Rahn by Eastern Malaysia Muslims women (Amin, 2011). Similarly, Amin et al. (2007), found that Sharia view is one of the important factors that affect the acceptance level. Sharia view has a significant relationship with customer acceptance based on Ismail Sanusi (2005); Mohammed et al (2005) findings. Based on a study by Hanudin et al, (2007), Sharia view is the factors that contribute to the acceptance of Ar Rahn at Labuan. There are studies that say Sharia view is not the primary motivation of customer in accepting Islamic banks (Haron et. al. 1994).

## 2.3 Ar Rahn Intention (personal consumption and investment)

A study shows that Malaysian respondents are more likely to use Ar-Rahn financing for the purpose of personal consumption rather than to use for productive purpose or resurfacing commercial capital (Azila et al,2013). According to Mohd Rafi et. al. (2012 ), Ar Rahn is flourished because people used it to finance wedding ceremony, home and vehicle purchases, education and investment. Difficulties in getting fund from the bank encourage people to use pawn broking for household consumptions. However, Ar-Rahn also offers investments opportunities besides preventing illegal or unlicensed financing activities (Hisham, et al 2013). Dalla Pellegrina (2011) highlighted that, for improving standard of living for the long term, investments are needed. Ar- Rahn can be one of the facilities that act as an instrument to encourage saving and investment, since one of the objective of Ar-Rahn is to develop socio economics well being for the poor.

## 2.4 Conceptual Framework

From the above theory we came out with this conceptual framework:

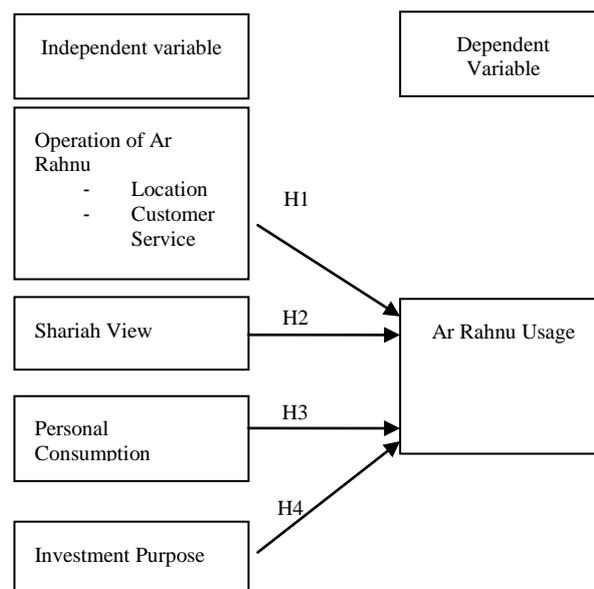


Figure 1: Conceptual framework

From that, the researcher came out with this hypothesis:  
 H1: Operation of Ar Rahn has a significant relationship with Ar Rahn usage.  
 H2: Shariah view has a significant relationship with Ar Rahn usage.  
 H3: Personal consumption has a significant relationship with Ar Rahn usage.  
 H4: Investment purpose has a significant relationship with Ar Rahn usage.

## 3.0 METHODOLOGY

### 3.1 Sample

The sample of this study comprised of Ar Rahn customers in Selangor area. In order to participate in this study, they must at least use Ar Rahn once. Since Selangor state is a large area, researcher divided it based on eight (8) designated sub-districts. Non- probability sampling was employed in this study since the exact population of Ar Rahn users is unidentified. Data collection is based on personally administered questionnaire.

### 3.2 Research instruments

Questionnaires were grouped into demographic, dependent variable, independent variable. Half of the dependent and independent variable questions were adapted from past researchs and the other half were self-developed:

1. Operation: (Hanudin et al, 2007; Mohd Rafi et all 2012)
2. Shariah views: (Hanudin et al, 2007; Mohd Rafi et all 2012)
3. Personal consumption: (Azila et al,2013; Mohd Rafi et all 2012 )
4. Investment purpose: Azila et al,2013; Mohd Rafi et all 2012

The above variable was used to investigate the usage of Ar Rahn. All of the above questions were measured using 5 Likert scales ranging (1) strongly agree, (2) agree, (3) neutral, (4) disagree and (5) strongly disagree. Prior to the actual survey, a pilot study was conducted on 30 respondents in Shah Alam area. Due to inconsistency of Ar Rahn respondents, several items in questionnaire were eliminated.

### 3.3 Data analysis.

This research used PLS –SEM 3.0 software to analyze data. Before using the PLS – SEM we run Cronbach Alpha by using SPSS20.

## 4.0 ANALYSIS

### 4.1 Reliability Analysis.

Below is the table for reliability analysis from pilot study conducted. From the table the value of Cronbach’s Alpha is more than 0.7, it shows that all the items is reliable and valid for the study.

Table 1: Reliability analysis

Items	Cronbach’s Alpha
Ar Rahn usage	.844
Operation	.840
Shariah Views	.978
Personal Consumption	.984
Investment purpose	.975

### 4.2 Frequencies analysis

Table 2: Characteristics of Respondents.

Characteristics	Percentage of frequency
Gender	
Male	45.0%
Female	55.0%
Income	
RM1,500 and below	6.0%
RM1,500 and above	94.0%

Occupation	Percentage of frequency
Public Sector	34.0%
Private Sector	66.0%

Table 2 above shows the characteristics of the respondents. For the gender, there was a high (55%) participation from female compared to the participation of male (45%). The majority income for the respondent is (94%) is above RM1, 500 and above and balance is (6%) from range RM1, 500 and below. The occupation for the respondent majority come from private sector which is carry (66%) and the remaining balance is (34%) from the public sector.

Table 3: Frequency for personal use and investment purpose:

Characteristics	Categories	Percentage of frequency
Investment Purpose	Agree	18%
	Neutral	2%
	Disagree	80%
Personal Use	Agree	70%
	Neutral	10%
	Disagree	20%

Table 3 above shows that majority of the respondents chose Ar Rahn for the purpose of personal use (70%) and some (18%) use it for the purpose of investments. Personal use means expenses for the individual and his or her family such as payment for all bills, expenses of buying house, expenses for emergency, expenses for any ceremony (wedding, Hari Raya celebration) and etc. Investment purpose refers to starting a new business, expanding existing business, buying house for investment, saving and others investment.

### 4.3 Path coefficient and R<sup>2</sup>

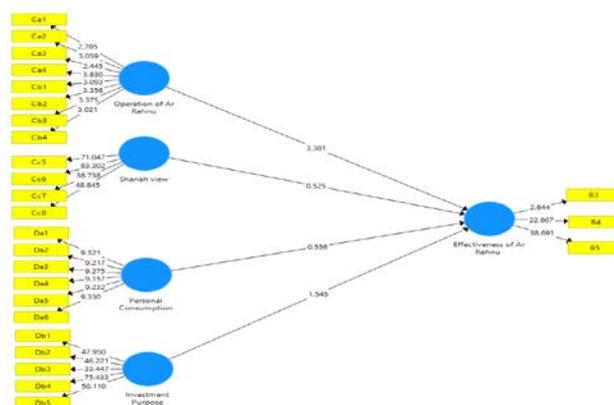


Figure 1: Structural model with path coefficients and R<sup>2</sup>

Table 3: Structural Model Properties.

Path	Coefficients	t-statistics	p-value	f <sup>2</sup>	R <sup>2</sup>
Operation	0.376	3.381	0.001** *	0.176	0.31
Shariah views	-0.049	0.525	0.599	0.02	
Personal consumption	0.169	0.556	0.578	0.006	
Investment purpose	0.471	1.545	0.122	0.041	

Table 3 shows the results generated. The variance explained in risk appetite was moderate ( $R^2 = .31$ ) indicating that 31% of the variance in usage of Ar Rahnū was related to the predictor variables. The results revealed operation of Ar Rahnū had statistical significant links with Ar Rahnū usage, the path coefficients were ( $p < .001$ ) respectively. However, Shariah views, personal consumption and Investment purpose did not significantly contribute to variance explained in the Ar Rahnū usage. To evaluate the impact of contribution, we evaluated the effect size ( $f^2$  values) of the predictor variables. Operation had the strongest influence on usage of Ar Rahnū ( $f^2 = .176$ ).

## 5.0 DISCUSSION

This study aims to investigate factors that determine the usage of Ar Rahnū. Surprisingly, the results revealed only the operation of Ar Rahnū, which is location and customer service, that influence the usage of Ar Rahnū. Another three (3) independent variables did not influence the usage of Ar Rahnū.

It was not a surprise to find strong relationship between operation and Ar Rahnū usage, as most of the studies shows statistically significant relation between these two variables. Locality and customer service has a significant relationship with customer acceptance on Ar Rahnū based on Mohammed et al (2005) findings. Moreover, Ar Rahnū shop acceptance model (ARSAM) by Hanuddin et al, (2007) did mentioned that factors of pledge asset and customer service as a factors of acceptance towards Ar Rahnū in Labuan. Based on Mohd Rafi, Ghazali, Mohamed Dahlan et all (2012), the critical success factor of Ar Rahnū is customer trust, rate of safekeeping, staff competency, system and business location. As in this study, high operation will lead to the high usage of Ar Rahnū. In order for Ar Rahnū to encourage the usage of their services, Ar Rahnū pawnshop should focus in this operation factor; means location and customer service. Ar Rahnū pawnshop must find suitable location and must educate and provide training for their employees. That is the key success factor of Ar Rahnū pawnshop.

Naturally, as hypothesized, shariah view will influence the usage of Ar Rahnū. As mention by Amin (2011), religious obligation is one of the key factors of accepting Ar Rahnū by Eastern Malaysia Muslims women. Shariah views have a significant relationship with customer acceptance based on findings of a few studies (Ismail Sanusi, 2005; Mohammed et al, 2005).

Surprisingly, from the result on this study shows that the shariah view will not influence the usage of Ar Rahnū means if shariah views is high then the usage of Ar Rahnū is low and vice versa. As explain, people use Ar Rahnū not because of their obligation towards religion. This is supported by Haron et al (1994), Shariah views is not the primary motivation of customer in accepting Islamic banks. Even though the research is not based on the usage of Ar Rahnū, the finding still can be linked with this current research. It shows that our society does not have or lack of awareness towards the religious obligation on their practice of life. The findings that our society event unaware about Ar Rahnū pawnshop itself is supported by Mohd Fazli, Nor Hayati and Noor Khamisah, 2010.

The intention of using Ar Rahnū can be divided into two; the first one is personal consumption and the second one is investment purpose. Finding from this study shows that there is no significant relationship between personal consumption and investment with the usage of Ar Rahnū. Meaning, if the personal consumption is high, then the usage is low. As showed by frequencies analysis in previous studies, majority people are more likely to use for personal consumption compared to investment purpose (Azila et al,2013; Mohd Rafi et all 2012). Out of 100 questionnaires being distributed, 89 of them used Ar Rahnū for personal consumption and the balance used it for investment purpose. Yet, there is no influence towards the usage of Ar Rahnū. Ar Rahnū will benefit more if the society uses it for the purpose of investment.

## 6.0 CONCLUSION

In this present study, the factors contributing to Ar Rahnū usage were examined. Overall finding is that factor operation (location and customer services) has been identified as the key contributors to the usage of Ar Rahnū. The other factors such as shariah views, personal consumption and investment purpose has no influence on the Ar Rahnū usage. The result could be used by Ar Rahnū Pawnshop operators to plan their future expansion by focusing on the location and staff development. Islamic pawnshops can also disseminate awareness and knowledge about Ar Rahnū and how it correlates with shariah or religious obligation to the society. Society needs guidance and explanation why they should go to Ar Rahnū instead, compare to the conventional pawnshop. Ar Rahnū concept is a unique concept where it combines debt and equity financing. Furthermore, Ar Rahnū pawnshop operators should probably look at on how to increase the economic and social wellbeing of ummah rather than just to provide borrowing and lending. It will give higher impact to the society if Ar Rahnū can have more functions comparing to what currently they are offering.

Apart from the achievement, this study also has limitations. The data was collected from Selangor sub districts only and mere 100 questionnaires were distributed. This result may not generalize the Selangor society as a whole. Therefore, future research should

expand the scope and sample of study. Consequently, more contributions can be made to the Ar Rahnu structure.

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