

Developing a Customers' Oriented Ar-Rahnu (Islamic Pawn Broking) Model for Cooperatives in Microfinancing in Malaysia

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Abstract

Using Ar-Rahnu as a means for a micro credit financing practices is nothing new in Malaysia. At present various Ar-Rahnu providers throughout the country have served micro, small and medium enterprises as alternatives to financial institutions. Some entrepreneurs prefer to use the service as they can pawn their gold to get instant cash with less risk. The aim of this study is to develop the best model of Ar-Rahnu services for cooperatives pertaining to Malaysia scenario. Altogether a total of 109 respondents from three Ar-Rahnu's groups: group 1 (YAPEIM, Bank Rakyat and Agrobank), group 2 (MAIDAM, PKB) and group 3 (Co, Co Franchisee) were approached. The analyses were based on questionnaires obtained from self-administered interviews with the respondents. Based on the findings an Ar-Rahnu model is developed based on variables such as operations, gold type, conditions and charges, internal controls and security to see the performance of the Ar-Rahnu based on criteria established market reach, the number of branches, modus operandi and the size of the capital. The offered model is expected to satisfy both providers and entrepreneurs and other customers who use this service.

Introduction

Ar-Rahnu (Islamic Pawn Broking Service) was first introduced by the Muassasah Gadaian Islam Terengganu (MGIT) in January 1992 and followed by the Permodalan Kelantan Berhad (PKB) in Mac 1992 and subsequently followed by the Yayasan Pembangunan Ekonomi Islam

Malaysia (YaPEIM) and Bank Rakyat in Oktober 1993. Later other financial institutions such as Bank Islam (1997), EON Bank (2002) and Agrobank (2002) and several cooperatives jumped into the bandwagon. Ar-Rahnu is not only quick and easy means for cash for majority of women in lower income group bracket but over time has steadily and increasingly accepted by micro, small and medium enterprises (SMEs) to finance their businesses as instant cash will be required when ones pawn their gold or jewelleryes. Up until now, 354 Ar-Rahnu outlets exist throughout Malaysia. Although Muassasah Gadaian Islam Terengganu was first introduced this service, the largest outlets are owned by Bank Rakyat i.e. 127 outlets. Amongst the states in Malaysia, Selangor recorded the largest Ar-Rahnu outlets - 50 in 2010.

Over the last two decades, the establishment of Ar-Rahnu has been successful to reduce the influence of conventional pawn broking service which largely owned by Chinese owners. Customers prefer the former to the latter because its service charge relatively cheaper (Mohammed & Sanusi N.A., 2005). The percentage of share of Ar-Rahnu in the industry has achieved 30 per cent of the share in the market in the year 2009 (Source YaPEIM).

Looking at the Ar-Rahnu scheme which receives tremendous support in the market especially amongst micro, small and medium sized businesses, it is timely for more cooperatives in Malaysia to jump into the Ar-Rahnu service. According to the data provided by the Suruhanjaya Koperasi Malaysia (SKM) up until 2010, altogether 35 cooperatives already involved in this business. Amongst cooperatives in which involved in this business are Bank Rakyat, Koperasi YaPEIM, where 17 cooperatives provide their services according to their own model and 11 other cooperatives adopt franchise system through Ar-Rahnu X'change Bank Rakyat as franchisees. .

As economic institutions, cooperatives play a dominant role to give encouragement to their members to involve in this business as cooperative could provide enough fund to start the business. Ar-Rahnu scheme is deemed appropriate to be implemented by cooperatives because cooperatives are not tight-up with non-performing loans because their members only need to tie their borrowing with golds. Against the background, this research is conducted to see the current practices of providers of Ar-Rahnu scheme from cooperatives, banks and other

organisations who see the prospects of such a scheme and at the same time to propose to cooperative the good practices which can be imitated and copied by other interested parties.

Hence, the main aim of this paper is to propose a model for Ar-Rahnu based on the best practices of available service providers. This model is a comprehensive one as it covers both the need of customers as well as stockholders of providers of the service.

Principle and Concept of Ar-Rahnu

According to Islamic sects (Mazhab) of Shafie, Hambali dan Maliki, in general there are four principles in a contract of Islamic broking or Islamic pawn – Ar Rahnu. First, two responsible parties in the contract (customer and pawnshop), second, pronouncement of contract which is known as *ijab & kabul*, third, valuables that involve in transaction (marhun) and lastly the right of the wealth. As far as the contract is concerned, Islamic scholars agreed that the contract is based on contract of *tabbaru* (mutual consent and donation some money but no profit is taken when one is tied to valuables as mortgage). However, Mazhab Maliki argues that even though the contract based on *tabbaru*, but not in all situations because exists a meaning of *Mu'awadah* or exchange of good with other things..

Even though a lot of similarities of modus operandi between conventional pawn and Ar-Rahnu, there exist significant different between them as Ar-Rahnu is based on the clear concept of Islam. The four principles of Ar-Rahnu: first *akad* that differentiate Ar-Rahnu with conventional system, second borrowing based on *Al-Qardhul Hassan* (lending without interest). Third, *Al-Wadiah Yad Dhammanah* (keeping valuables with guarantee) dan fourth *al-ujrah* i.e. payment of keeping and Ar-Rahn (mortgage). Principle that underlying Ar-Rahnu is borrowing without interest (Al-Qadul Hassan), mortgage upon borrowing (Al-Rahn) and fee which is imposed on value of valuable that is pawned which is held by the service provider (Al-Wadiaah). According to scholars from all sects (Shafie, Maliki, Hanafi and Hambali) hand-in valuable is amongst the most important requirement in akad of Al-Rahnu because without that pawn is not acceptable.

Ar-Rahnu Transaction

One who wants to borrow money from Ar-Rahnu provider just needs to bring with him or her valuables such as gold or jeweleries as mortgage of money that he or she borrows. Amount of borrowing is based on the percentage of the valuables or marhun. Usually between 50 to 70 per cent. Customer will be charged based on the worth of wealth of valuable based on principle of Al-Wadiah Yad Dhammanah. Fees of keeping the valuables is based on worth or value of gold (marhun) but not based on total borrowing. More often than not gold is used as guarantee of borrowing because gold is easy to sell back, chances to auction if the borrower could not settle their loans. Apart from that genuineness of valuables can be easily determined and the risk of misvalue of pawn items can be easily dealt with (Skully, 1994).

Previous studies on Ar-Rahnu

A number of studies of Ar-Rahnu were conducted in Malaysia. Shaari Abd. Hamid & Azlina Abdul Aziz (2003) compared demographic and lifestyle profiles of the small independent Islamicised conventional pawn brokings vis-a-vis larger institutionalised counterparts (PKB and Bank Rakyat). Their study employed 267 respondents from the state of Kelantan where 184 represented users of institutional Ar-Rahnu and the rest 83 represented Islamicised conventional pawn broking customers. They found the Islamicised Conventional Pawn broking attracted the relatively low-income stratum of the society which they had been serving in the pre-Islamicised form. In addition they appealed more to the female than do to the males. In term of age, their customers were generally in the early forties. On the contrary, the institutional Ar-Rahnu carved a market amongst the relatively higher income groups and gender neutral-appealing equally well to males and females. Furthermore, customers of institutional Ar-Rahnu were relatively younger. In term of lifestyle, the institutional Ar-Rahnu customers were more sociable and outdoor in nature than the Islamicised Conventional Pawn brokings customers.

A further study by Hanudin Amin et al. (2007) of 384 respondents in Labuan examined relationship of independent variables (shariah view, pricing system, pledge asset, customer service, locality of Islamic-based pawn broking) with dependent variable (acceptance of Islamic-based pawn broking). The results of their study showed three independent variables of which consist of shariah view, pledge asset and customer service are significantly associated

with acceptance of Islamic-based pawn broking. Other two independent variables show insignificant relationship with acceptance of Islamic-based pawn broking.

A recent study by Santhi Appannan and Gaithry Doris (2011) identified the level of public awareness towards Ar-Rahnu and the main factors that influence the public to pursue Ar-Rahnu in Sungai Petani, Kedah. In total 150 respondents involved in their study. The results indicate the public in the area was of the term Ar-Rahnu, but nevertheless was at a different level amongst races. The majority of Chinese and Malays were aware of the scheme, but Indians had a low awareness. The findings also showed that the majority of Ar-Rahnu consumers are in a lower income group. It is also found that the preponderant factor influencing the public to pursue such the service was its cheap cost of loan. Other factors such as confidential, low income and good customer service were appear to be less important factors. Another recent study by Azizah Othman et al (2012) Investigated customer satisfaction levels of service quality at Ar-Rahnu in Kelantan. Based on simple sampling method 300 respondents were selected. The results of the study showed the main factor that motivated the respondents to obtain Ar-Rahnu services was the company could handle problems that were not expected. Overall, respondents rated high quality services of Ar-Rahnu providers in the state. Six service factors measured were obedience, significant, guarantee, belief, empathy and responsiveness. In other study conducted by Bashir Ahmad et al. (2012) investigated customer acceptance on Ar-Rahnu in Dungun, Terengganu. Several identifiable variables were selected were: storage charge, service quality, locality and management of the provider of Ar-Rahnu in the area. The results of 330 respondents showed that all the identifiable constructs were substantial to very strong and significantly correlated with the customer acceptance towards Ar-Rahnu.

Overall, the above-mentioned studies measured level of satisfaction of Ar-Rahnu services based on the survey on their customers. Most of the study showed customers were satisfied with Ar-Rahnu services. None of the study investigated Ar-Rahnu management, business operation as well as other related factors pertaining to the industry from perspective of management of Ar-Rahnu. Hence this study aims to investigate Ar-Rahnu services based on perspectives of staff of Ar-Rahnu throughout Malaysia, including Sabah and Sarawak. Results of this study will provide information about Ar-Rahnu from staff of the service providers.

Methodology

The selection of samples of Ar-Rahnu providers in this study were based on combination of strata, cluster and random sampling. Strata of the population of the study was based different clusters. Cluster 1 was represented by Ar-Rahnu Permodalan Kelantan Berhad (PKB) and Muassasah Gadaian Islam Terengganu (MAIDAM) because both of them are 'state based', small branches and same *modus operandi* yang sama. Cluster 2 consisted of branches of Ar-Rahnu owned by cooperative of YaPEIM. Cluster 3 consisted of branches of Ar-Rahnu Bank Rakyat and Ar-Rahnu Agrobank. Cluster 4 consisted of Ar-Rahnu owned by cooperatives. Cluster 5 consisted of Franchisees of Ar-Rahnu Exchange Bank Rakyat.

In the early investigation a couple of Ar-Rahnu premises were visited by researchers. Their senior officers such as manager and operational staff were interviewed. Later based 30 outlets of Ar-Rahnu were selected as for pilot study. Overall, research questionnaire were divided into seven parts: a) Profile of Ar-Rahnu b) operation (capital and financing, human resources, promotion, database c) Types of gold, pawn requirements and charges on customers d) Internal control and safety measure e) revenues and cost f) Other factors (Customer trust factor, competitive advantage, critical Succes Factors, important issues in the future, and g) Performance of the last 3 years. All these constructs were measured based on '*likert scale*'.

Altogether 109 respondents in various Ar-Rahnu outlets throughout Malaysia were approached. The results of the study showed which Ar-Rahnu cluster showed the highest financial performance. Based on that indicator, the researchers looked at their practices. Based on this, this research proposal a viable model for Ar-Rahnu that can be followed by cooperatives who interested to expand their businesses in this growing industry.

Developing Ar-Rahnu Model for Cooperatives

This section elaborates the operational concept of Islamic pawnshop or widely known as Ar-Rahnu which can be used a guideline/blue print for interested cooperatives. Figure 1 shows important components in the model and their interrelationship amongst themselves. This model is developed based on process model approach. Focusing on process will help service

provider of Ar-Rahnu to render their services fulfil customers' expectation and other interested parties. This in turn helps service provider achieve their expectation – return on the investments.

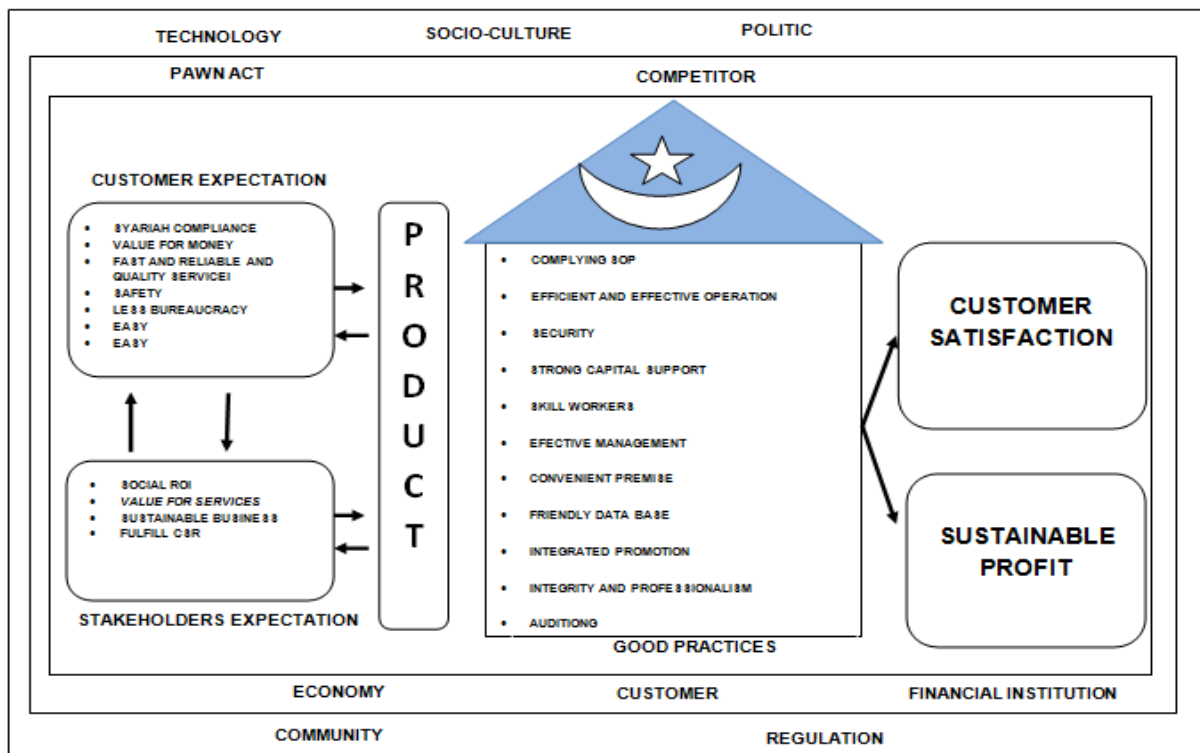


Diagram 1: Customer Oriented Model of Ar-Rahnu.

Diagram 1 shows the customer oriented model of Ar-Rahnu. Amongst important constructs in the model fulfill the following objectives:

Fulfilment of needs and aspiration of customers

- a. In order to provide effective service, Ar-Rahnu provider needs to understand the needs and wants of customers. In other words, Ar-Rahnu provider needs to conduct market survey beforehand to identify what are needs and wants of the majority of local customers. In the context of pawn-broking, what are important factors that are taken

into serious consideration to be taken by customers whether to choose conventional or Ar-Rahnu. If the latter is the option, what factors influence them to choose any particular provider since a number of Ar-Rahnu providers exist in the market. Our research has shown amongst customers' expectation as follows: Service that compliance with syariah.

It means procedures related to services must be based on Islamic principles where cheating, breach of trust, oppression, interest amongst others must be avoided. When all these misdeeds are taken care of, customers will have peace of mind and confident enough that what provider does complying with the syariah. Ini juga dapat memberi kelegaan kepada pelanggan (peace of mind) kerana yakin urus niaga mereka tidak menyalahi hukum syarak.

b. Value for money

Today's customers have many options to choose which provider that provides more value for money. In the context of Ar-Rahnu, the maximum amount of borrowing based on competitive price of worth of gold and monthly fees. Pelanggan hari ini mempunyai banyak opsyen untuk menggunakan perkhidmatan yang menawarkan nilai wang tinggi kepada mereka. Dalam konteks pajak gadai Islam, jumlah pembiayaan maksimum yang mereka boleh dapat dengan menggadaikan kuantiti emas yang sama serta kadar caj upah simpan yang lebih kompetitif.

c. Fast, thrusworthy and quality service

Customers usually expect efficient service, so customer turnover should be at optimum level. This can be translated in shorter waiting period and fair rotation system. At the same time customers also expect thrustworthy service especially how provider handle their services. For example process of examining the purity of gold. Consistency of valuation of gold is another matter as well as friendly customer service, integrity, and professionalism to Ar-Rahnu staff.

d. Safety of pawn items

Safety factor is given high priority by customers until they get back their valuables. Safety aspect covers external and internal security systems in which involve usage of

safety instrument as well as security guard and secure room that is immune from theft or robbery.

e. Less bureaucratic procedure

Customers dislike bureaucratic procedures including fill-in application as well as the involvement of many authorities to clear their applications.

f. Strategically located and conducive environment

Strategic location refers to easy access location including car park facility and easily spotted location and close to target market. On the other hand, conducive location refers to internal environment of Ar-Rahnu premise that is characterised by customer friendly environment as well as convenience waiting area and in proper order transaction counter. Confidentiality of customer identification

Customers wanted confidentiality of their identifications from Ar-Rahnu providers. If the providers can convince their customers of doing so of course it will attract prospective customers and maintain the existing ones.

Fulfilment of expectation and aspiration of shareholders

Apart from fulfilling the expectation of customers, Ar-Rahnu providers at the same time need to fulfill their stakeholders as well as other shareholders. Even though in principle the establishment of Ar-Rahnu based on helping of Muslims in needs, to ensure sustainability Ar-Rahnu some sorts of element of profit should be practised. In this respect profit taking is acceptable as Ar-Rahnu providers also faced some risks as well as to shoulder daily operational costs.

In principle the establishment of Ar-Rahnu is aimed at providing financing service to those who want quick money with little fees using gold or other valuables. Hence, shareholders demand reasonable profit.

Amongst other identified needs of shareholders are as follows:

a. Return on Investment

Two types of ROI; first finance return on investment and second, social return on investment. Since Ar-Rahnu entity leans more on Ummah, so social return on investment (ROI) is given more priority. For example alleviation of poverty of Ummah through micro financing this in turn will create job opportunity.

b. The par value of services rendered

As a reasonable profit entity, each service has a cost implication and this cost should be recovered through charges imposed to customers. This does not mean that Ar-Rahnu providers may charge higher wages as they like to burden the customer. Equivalence value of these services need to be addressed and any form of waste or inefficiency should be avoided.

In order to ensure its service sustainable Ar-Rahnu needs must be self-financing through long term and short term investment. Working capital should be supported by income from service charges. Reasonable profit returns is a must.

Fulfilment of social responsibility

The majority of Ar-Rahnu is owned by big entities such as Bank Rakyat and Agrobank and the establishment Ar-Rahnu is one of the means to fulfil corporate social responsibility through providing micro financing. This mechanism is far more effective than direct aids because it gives opportunity to borrowers to increase their standard of living through their own efforts.

Conclusion

The proposed model of Ar-Rahnu can be used as a foundation to any cooperative who is interested. The proposed model utilises processed approach i.e. involving comprehensive process of Ar-Rahnu begins from identification of the needs of customers and stakeholders. Second process involves offering of Ar-Rahnu services that comply with syariah. A further process is practice of better industrial standard from competitor by which a critical success

factor. Such a good practice is achieved through research will ensure success in this industri. Customer satisfaction together with reasonable profit will be fruitful is it is properly implemented.

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