A STUDY OF ISLAMIC PRACTICE IN AL-RAHNU AT FINANCIAL INSTITUTIONS

By

RAUDZATUL JANNAH BINTI EZAHAR

814285

Research Paper Submitted to
Othman Yeop Abdullah Graduated School of Business
Universiti Utara Malaysia
In Partial Fulfillment of the Requirement for the
Master in Islamic Finance and Banking
PERMISSION TO USE

In presenting this dissertation/project paper in partial fulfillment of the requirements for a Post Graduate degree from the Universiti Utara Malaysia (UUM), I agree that the Library of this university may make it freely available for inspection. I further agree that permission for copying this dissertation/project paper in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor(s) or in their absence, by the Dean of Othman Yeop Abdullah Graduate School of Business where I did my dissertation/project paper. It is understood that any copying or publication or use of this dissertation/project paper parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my dissertation/project paper.

Request for permission to copy or to make other use of materials in this dissertation/project paper in whole or in part should be addressed to:

Dean of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
ABSTRACT

The introduction of Islamic pawn broking (al-Rahnu) in Malaysia has seen as a new micro credit instrument in providing cash borrowing facility to lower income communities. The Muslims individuals’ especially needy people are reliant on this institution as their financial resources and necessities fulfillment. Al-Rahnu as well as reflected to Islamic business operation are must conducted according to Shari’ah principles whereas the process transaction are must show transparent and free of ambiguity and element of *riba*. Thus, it is important to have a study of al-Rahnu practice in Islamic finance industry as the Muslim communities have put trusted to the system institution, in fact, the number of demand in al-Rahnu has shown increased by over the years until present. In an attempt to fulfill the aims of the research study, the interview will be conducted to selected institution cooperatives. This study will be given a focus to describe an overview of Islamic pawn broking (al-Rahnu) concepts and analyze its actual modus operation implemented by cooperatives. The research conducted into three different entities cooperative, Koperasi Ukhwah Malaysia Berhad, Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah and Permodalan Kelantan Berhad. The study employ field research to achieve the objective of the study. In Islamic law contracts, al-Rahnu systems applied based the concepts of *Qard al-Hassan*, *al-Rahnu*, *al-Wadi’ah Yad Dhamanah* and *Ujrah*. Nevertheless, by conduct a study of al-Rahnu scheme according Shari’ah framework theory and the challenges, perhaps we might get a clear clarification of al-Rahnu practice in cooperative and be useful for the businesses and government in considering the future development related to al-Rahnu pawnshops.
ABSTRAK

ACKNOWLEDGEMENT

Bismillah Ar-Rahman Ar-Rahim

Praise be to Allah S.W.T., the Most Compassionate and Most Merciful, whose blessings have helped me throughout my life.

Firstly, I would like to express my deepest gratitude to Allah s.w.t for the strength, peace of mind, good health, and ability granted, in order to complete this thesis. Second goes the appreciation to my supervisor, Dr. Mohd Sollehudin Bin Mohd Shuib for his valuable guidance and moral support throughout the period of completing this thesis. It his worthy efforts, guidance, and constructive comments that the thesis is finally able to be completed on time. I would also like to extend my gratitude to Prof Madya Dr Abu Bakar Hamed (Head Facilitator of Research), Dr. Ahmad Khelmy b. Abdul Rahim, Dr Azizah binti Othman (Internal Examiner), the OYAGSB Staff, the University Library for their kind assistance during completing the study.

I also owe my sincere thanks to En Fadhly, an Accountant in Koperasi Ukhwah Malaysia Berhad, En Syukri Hassan a Branch Manager of Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, and En Saiful Azhar a Branch Manager of Permodalan Kelantan Berhad who directly involved in the interview. Their support and contribution is very much appreciated.

I would also like to thank these people, Muhammad Shafiq Bin Ibrahim, Shahid Azim Mohd Saufi, Nor Jihan Bt Hamid, Nik Nor Amalina Nik Mohd Sukri, Mazleena Bt Tajuddin and Nurul Harisah Bt Ahmad, Nadiah Nabilah Bt Baharom, Nor Syafikah Ridzuan and all MIFB Coursemate for their encouragement and moral support.

Last but not least, a very special thanks to my family for their love and care, especially a loving thanks to the most important person in my life and best supportive ever, my mother Puan Rahimah Bt Mohammed, my sisters Ezmahani, Eikrami and Ruzaini, my brother in law Hafidz and Fadzly for their concern and understanding. Again, thanks to everyone for having me the strength and giving the full inspiration to keep me up motivated and successful. Alhamdulillah.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>PERMISSION TO USE</th>
<th>ABSTRACT</th>
<th>ABSTRAK</th>
<th>ACKNOWLEDGEMENT</th>
<th>TABLE OF CONTENTS</th>
<th>LIST OF TABLES</th>
<th>LIST OF FIGURES</th>
<th>LIST OF ABBREVIATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHAPTER ONE: INTRODUCTION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Background of the Study</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2 Background of Islamic Pawn broking in Malaysia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3 Background Koperasi Ukhwah Malaysia Berhad</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4 Background Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.5 Background Koperasi Permodalan Kelantan Berhad</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.6 Problem Statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.7 Research Questions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8 Research Objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.9 Significance of the Study</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.10 Scope of the Study</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.11 Structure of the Thesis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.12 Conclusion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| CHAPTER TWO: LITERATURE REVIEW |          |         |                 |                   |                |                  |                       |
| 2.1 Introduction |          |         |                 |                   |                |                  |                       |
| 2.2 Al-Rahnu Concept |          |         |                 |                   |                |                  |                       |
| 2.3 Qard al- Hassan |          |         |                 |                   |                |                  |                       |
| 2.4 Wadi’ah Yad Dhamanah |          |         |                 |                   |                |                  |                       |
| 2.5 Ujrah (Safekeeping Fees) |          |         |                 |                   |                |                  |                       |
| 2.6 Legality of Al-Rahnu |          |         |                 |                   |                |                  |                       |
| 2.7 Al-Rahnu via Islamic Cooperative |          |         |                 |                   |                |                  |                       |
| 2.8 Application of Al-Rahnu Concept In Shari’ah View Perspective |          |         |                 |                   |                |                  |                       |
| 2.9 The Jurist View on Ar-Rahnu Concept Implementation |          |         |                 |                   |                |                  |                       |
| 2.9.1 Aqad |          |         |                 |                   |                |                  |                       |
| 2.9.2 Profit and Ujrah Concepts in Shari’ah Perspective |          |         |                 |                   |                |                  |                       |
| 2.10 Al-Rahnu Legal Frameworks |          |         |                 |                   |                |                  |                       |
| 2.10.1 Pawnbroker Act 1972 |          |         |                 |                   |                |                  |                       |
| 2.11 Al-Rahnu Shari’ah Parameter |          |         |                 |                   |                |                  |                       |
| 2.11.1 Shari’ah Determination on the Implementation of Islamic Pawn broking Scheme (Al-Rahnu) in Malaysia |          |         |                 |                   |                |                  |                       |
| 2.11.2 Shari’ah Resolutions from Bank Negara Malaysia (BNM) of Qard al- Hassan |          |         |                 |                   |                |                  |                       |
| 2.12 Conclusion |          |         |                 |                   |                |                  |                       |
CHAPTER THREE: RESEARCH METHODOLOGY
3.1 Introduction .............................................................................................................34
3.2 Research Design .......................................................................................................35
3.3 Data Collection Method ..........................................................................................36
3.4 Population and Sampling Design ............................................................................36
3.5 Data Collection Technique ......................................................................................37
   3.5.1 Field Research (Primary Sources) ......................................................................37
      3.5.1.1 Interview ..................................................................................................38
      3.5.1.2 Interview Administration .........................................................................38
      3.5.1.3 Cover letter ..............................................................................................40
      3.5.1.4 Developing Interview Protocol ..................................................................40
3.6 Data Analysis ............................................................................................................42
   3.6.1 Qualitative Analysis Approach ..........................................................................42
      3.6.1.1 Inductive Analysis Method .......................................................................42
      3.6.1.2 Data Reduction ........................................................................................43
      3.6.1.3 Pre-set Category ......................................................................................47
      3.6.1.4 Emergent Category ..................................................................................48
3.6.2 Data Display ........................................................................................................49
3.6.3 Drawing and Conclusions and Verification ..........................................................50
3.7 Deductive Analysis ..................................................................................................51
3.8 Conclusion ...............................................................................................................51

CHAPTER FOUR: IMPLEMENTATION OF AL-RAHNU SCHEME IN SHARI’AH FRAMEWORK
4.1 Introduction .............................................................................................................52
4.2 Implementation of Al-Rahnu Concepts in Islamic Finance ......................................52
   4.2.1 Application Concepts of Qard al- Hassan .........................................................53
   4.2.2 Application Concepts of Wadi ‘ah Yad Dhamanah and Ujrah .........................54
   4.2.3 Sighah al-‘aqidan ..........................................................................................55
      4.2.3.1 Conditions of Offer and Acceptance ..........................................................56
         4.2.3.1.1 Clear Indication of Offer and Acceptance ..............................................57
         4.2.3.1.2 Correspondence of Acceptance to the Offer .......................................57
4.3 Features of Al-Rahnu Scheme ................................................................................59
   4.3.1 Terms and Criteria of Al-Rahnu Financing .......................................................60
      4.3.1.1 Eligibility ..................................................................................................60
      4.3.1.2 Collateral ..................................................................................................60
      4.3.1.3 Storage Fees ............................................................................................60
4.4 Pillars of Al-Rahnu ..................................................................................................63
   4.4.1 First pillar: Two contracted Parties (al-‘aqidan) .................................................64
   4.4.2 Second Pillar: Offer and acceptance (Sighah of contracts) ..............................65
   4.4.3 Third Pillar: The protected Debt or Right in Pawn Contracts
      (almarhunbih) ......................................................................................................67
   4.4.4 Fourth Pillar: Thing Given as Pawn (Al-Marhun) ..............................................68
4.5 Modus Operandi of Al-Rahnu ..................................................................................69
CHAPTER SIXTH: CONCLUSION AND RECOMMENDATIONS

4.6 Parameter of Shari’ah Compliant Contracts .......................................................... 71
4.6.1 Shari’ah Determination on the Implementation of Islamic Pawn Broking Scheme (Ar-Rahnu) in Malaysia ................................................................. 72
4.6.2 The Shari’ah Decision on the Implementation of Islamic Pawn Broking Scheme (al-Rahnu) in Malaysia (Proposal for the Safekeeping Fees Charge in Islamic Pawnshop) ........................................... 72
4.6.3 Shari’ah resolutions from Bank Negara Malaysia (BNM) of Qard a-l Hassan ................................................................. 72

4.7 Conclusion ................................................................................................................. 73

CHAPTER FIVE: ANALYSIS AND FINDINGS

5.1 Introduction .............................................................................................................. 74
5.2 Al-Rahnu Concepts ................................................................................................. 75
5.2.1 Collateral Security ............................................................................................. 75
5.2.2 Quality Test ...................................................................................................... 76
5.2.3 Notice Auction .................................................................................................. 77
5.2.4 Aqad Execution ............................................................................................... 77
5.2.5 Excess Money .................................................................................................. 78
5.3 Al-Rahnu Modus Operation in Cooperatives ........................................................... 80
5.3.1 Margin of Financing ........................................................................................ 81
5.3.2 Period of Loan Service .................................................................................... 83
5.3.3 Safe Keeping Charges ...................................................................................... 84
5.3.4 Loan Extension ................................................................................................. 86
5.3.5 Redemption Process ........................................................................................ 86
5.3.6 Auctioning Process .......................................................................................... 87
5.4 Issues Related to al-Rahnu Implementation ............................................................... 89
5.4.1 Genuine of Gold .............................................................................................. 89
5.4.2 The Issues of Safekeeping Fee (Storage Charge) ............................................. 90
5.4.2.1 Shafi’e ruled ............................................................................................... 91
5.4.2.2 Hanafi, Hambali and Malikis ruled .............................................................. 91
5.4.3 Customer preferences of Conventional Pawnshop ........................................ 92
5.5 Al-Rahnu Law and Regulation ............................................................................... 92
5.5.1 Pawnbroker’s License ..................................................................................... 92
5.5.2 The Pawnbrokers Act 1972 ............................................................................ 93
5.6 Conclusion .............................................................................................................. 94

CHAPTER SIXTH: CONCLUSION AND RECOMMENDATIONS

6.1 Introduction .............................................................................................................. 95
6.2 Summarizing the Research ..................................................................................... 95
6.3 Recommendation and Suggestion ......................................................................... 98
6.4 Conclusion .............................................................................................................. 100

References ................................................................................................................... 102
Appendices
LIST OF TABLE

Table 2.1  Pawn broking Item Pledge Fees Charge ........................................... 32
Table 3.1  Simplified Research Methodologies .................................................. 34
Table 3.2  Coding of Interview Results ............................................................ 44
Table 3.3  Example Developing Preset Categories ............................................ 48
Table 3.4  Categorization of Emergent Categories .......................................... 49
Table 4.1  Features of Islamic Pawn broking al-Rahnu .................................... 59
Table 4.2  Monthly storage fees per RM 100 of collateral value by operators ...... 61
Table 4.3  Pillars of al-Rahnu ........................................................................... 63
Table 5.1  Implementation of al-Rahnu concepts in Shari’ah View Perspective ... 74
Table 5.2  Comparisons of al-Rahnu features in different entity Institutions ...... 80
LIST OF FIGURE

Figure 3.1  M&H’s Components of Data Analysis………………………………………..50
Figure 4.1  Al-rahnu Structure…………………………………………………………..69
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCC</td>
<td>Malaysia Cooperative Commission</td>
</tr>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
</tr>
<tr>
<td>UUM</td>
<td>Universiti Utara Malaysia</td>
</tr>
<tr>
<td>PKB</td>
<td>Permodalan Kelantan Berhad</td>
</tr>
<tr>
<td>SAC</td>
<td>Shari’ah Advisory Council</td>
</tr>
<tr>
<td>MGIT</td>
<td>Mu’assasah Gadaian Islam Terengganu</td>
</tr>
<tr>
<td>MAIDAM</td>
<td>Council of Islamic Religion and Malay Customs Terengganu</td>
</tr>
<tr>
<td>KOKANUN</td>
<td>Cooperative Government and Statutory Bodies City</td>
</tr>
</tbody>
</table>
CHAPTER ONE

1. INTRODUCTION

1.1 Background of Study

Nowadays, Islamic pawn broking (al-Rahnu) has seen as significant role in Islamic credit institution to contribute socio economic development for lower income people to get quick cash financing. The introduction of al-Rahnu which served free interest loan and place the valuable asset as collaterals not merely have played an important aspects in fulfill the society needs in the rural area, but also as the main part to be looked from Shari’ah perspective on requirement lending loan free of riba (Khir, M. F., Badri, M.H & Hussain, L., 2013). This is according to Islamic religion restriction from Shari’ah (Islamic laws) governs every aspect of a Muslim’s religion practices, routine activities and economic activities. Muslims are not allowed to invest in businesses considered non-halal or prohibited in Islam (El Hawary, D., Grais, W., Iqbal, Z., 2004). It is clear prohibited based on proof from the Qur’an, Allah (s.w.t) says:

"Those who consume interest cannot stand (on the Day of Resurrection) except as one stands who is being beaten by Satan into insanity. That is because they say, ‘Trade is just like interest.’ But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past. And his affair rests with Allah. But whoever returns to (dealing in interest or usury) –those are the companions of the Fire; they will abide eternally therein”.

(Al-Baqarah 2:275)
The contents of the thesis is for internal user only
REFERENCES

*Al-Qur’an al-Karim* (Translation by Yusof Ali) in www.themodernreligiom.com


BERNAMA Newspaper Retrieved Date: 14 February 2013.


E-Fatwa in “http://www.e-fatwa.gov.my”. Retrieved date: 14\textsuperscript{th} March 2014


Maulut, M.K. and Yusof, S. (2013). “Factors Contributing to Success to the Excellent Credit Cooperatives in Malaysia”.


Sharif D., Shaharuddin A.,Muhamed N.I, Pauzi N.S, Zin M. Z.(2013). The Improvement of Ar-Rahn (Islamic Pawn Broking) Enhanced Product in Islamic Banking System. Published by Canadian Center of Science and Education; Vol. 9, No. 2; 2013


