

**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

Pengenalan sistem pelaksanaan al-Rahnu di Malaysia telah dilihat sebagai satu instrumen baru dalam menawarkan skim pembiayaan mikro kepada golongan yang berpendapatan rendah. Hal yang sedemikian khusus bagi masyarakat Islam yang memandang sistem al-Rahnu sebagai medium terbaik bagi mendapatkan sumber pinjaman kewangan dan menjadikannya sebagai salah satu alternatif bagi menampung keperluan hidup masa kini. Sistem pelaksanaan al-Rahnu merupakan suatu sistem operasi yang berlandaskan hukum Shari'ah di mana sebahagian besar pelanggan Muslim meletakkan kepercayaan tinggi terhadap ketelusan operasi al-Rahnu yang mengharamkan unsur riba dan keraguan dalam operasinya. Justeru, satu kajian perlu dilakukan terhadap sistem pelaksanaan al-Rahnu masa kini memandangkan peningkatan jumlah pelanggan yang menggunakan khidmat operasi ini semakin bertambah. Oleh itu, bagi mencapai objektif kajian ini, kaedah temubual akan digunakan di beberapa institusi Koperasi yang terpilih. Disamping itu, kajian ini akan memberi sepenuh perhatian kepada konsep pajak gadai Islam menurut perspektif Shari'ah dan menganalisis konsep pelaksanaan sebenar operasi al-Rahnu di Koperasi. Justeru, kajian akan dilakukan di Koperasi Ukhwah Malaysia Berhad, Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah and Permodalan Kelantan Berhad. Kajian ini juga menggunakan kaedah lapangan kajian bagi mendapatkan maklumat bagi mencapai objektif permasalahan. Antara kontrak-kontrak yang diaplikasi dalam konsep al-Rahnu adalah kontrak *Qard al-Hassan*, al-Rahnu, *al-Wadi'ah Yad Dhamanah* dan *Ujrah(Upah)*. Oleh yang demikian, dengan adanya kajian pelaksanaan al-Rahnu ini diharapkan dapat memberi gambaran jelas konsep sebenar pelaksanaannya pajak gadai menurut pandangan hukum Shari'ah di al-Rahnu Koperasi serta membantu kerajaan dan insititusi berkaitan agar membina sistem pajak gadai Islam al-Rahnu yang patuh Shari'at di masa akan datang.

## **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 Sukrri, 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

<b>PERMISSION TO USE</b> .....	<b>i</b>
<b>ABSTRACT</b> .....	<b>ii</b>
<b>ABSTRAK</b> .....	<b>iii</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>iv</b>
<b>TABLE OF CONTENTS</b> .....	<b>v</b>
<b>LIST OF TABLES</b> .....	<b>viii</b>
<b>LIST OF FIGURES</b> .....	<b>ix</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>x</b>

### CHAPTER ONE: INTRODUCTION

1.1	Background of the Study	1
1.2	Background of Islamic Pawn broking in Malaysia	7
1.3	Background Koperasi Ukhwah Malaysia Berhad	8
1.4	Background Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah	9
1.5	Background Koperasi Permodalan Kelantan Berhad	10
1.6	Problem Statement	11
1.7	Research Questions	12
1.8	Research Objectives	13
1.9	Significance of the Study	14
1.10	Scope of the Study	14
1.11	Structure of the Thesis	15
1.12	Conclusion	15

### CHAPTER TWO: LITERATURE REVIEW

2.1	Introduction	16
2.2	Al-Rahnu Concept	16
2.3	Qard al- Hassan	17
2.4	Wadi'ah Yad Dhamanah	18
2.5	Ujrah (Safekeeping Fees)	19
2.6	Legality of al-Rahnu	20
2.7	Al-Rahnu via Islamic Cooperative	21
2.8	Application of Al-Rahnu Concept In Shari'ah View Perspective	23
2.9	The Jurist View on Ar-Rahnu Concept Implementation	24
	2.9.1 Aqad	25
	2.9.2 Profit and <i>Ujrah</i> Concepts in Shari'ah Perspective	26
2.10	Al- Rahnu Legal Frameworks	27
	2.10.1 Pawnbroker Act 1972	30
2.11	Al-Rahnu Shari'ah Parameter	30
	2.11.1 Shari'ah Determination on the Implementation of Islamic Pawn broking Scheme ( <i>Al-Rahnu</i> ) in Malaysia	31
	2.11.2 Shari'ah Resolutions from Bank Negara Malaysia (BNM) of <i>Qard al- Hassan</i>	32
2.12	Conclusion	33

### 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	Preset 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 <i>Qard al- Hassan</i> .....	53
4.2.2	Application Concepts of <i>Wadi'ah Yad Dhamanah</i> and <i>Ujrah</i> .....	54
4.2.3	Sighah al-'Aqd .....	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 ( <i>al- 'aqidan</i> ) .....	64
4.4.2	Second Pillar: Offer and acceptance ( <i>Sighah</i> of contracts) .....	65
4.4.3	Third Pillar: The protected Debt or Right in Pawn Contracts ( <i>almarhunbih</i> ).....	67
4.4.4	Fourth Pillar: Thing Given as Pawn ( <i>Al-Marhun</i> ) .....	68
4.5	Modus Operandi of al-Rahnu .....	69

4.6	Parameter of Shari’ah Compliant Contracts .....	71
4.6.1	Shari’ah Determination on the Implementation of Islamic Pawn Broking Scheme ( <i>Ar-Rahnu</i> ) 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 <i>Qard a-l Hassan</i> .....	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	<i>Aqad</i> 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

MCC	Malaysia Cooperative Commission
BNM	Bank Negara Malaysia
UUM	Universiti Utara Malaysia
PKB	Permodalan Kelantan Berhad
SAC	Shari'ah Advisory Council
MGIT	Mu'assasah Gadaian Islam Terengganu
MAIDAM	Council of Islamic Religion and Malay Customs Terengganu
KOKANUN	Cooperative Government and Statutory Bodies City

## 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)*

Al-Rahnu has been chosen as a review of Islamic practice study due to the growth of al-Rahnu branches is growing fast. In 2007, we have nearly to 160 branches in 52 years establishment. According A.Latif. R, (2012) has mentioned the cumulative of al-Rahnu customers is around 1.22 million with total financing of RM 1.17 billion. Nevertheless, a review of study from Mohamad, S. and Salleh, S. (2008), indicated until Mei 2010 statistic has shown the increased number of al-Rahnu customer reached 4.3 million with operating 121 outlet and amount financing were 5.4 billion in overall. Otherwise, recent newspaper BERNAMA published on 14 February 2013, stated that *“there are total of 71 cooperatives with the potential of providing RM 1 billion in financing are currently under process of getting approval from Cooperative Commission of Malaysia (SKM) to provide al-Rahnu scheme”*, said Minister of Domestic Trade, Cooperative and Consumerism Datuk Seri Ismail Sabri Yaakob.

In addition, the increasing demand of pawnshop loans are due to the dramatic decrease of the people's standard of living caused by instability of the economy, low wages, and pension payments, which are often below the official subsistence line are paid irregularly (Schrader, 1999). They also found out that pawnshop served much more convenient for 'lenders of last resort' (Oeltjen, 1996; Caskey, J. P. and Zikmund, B. J. (1990). The new developing system of Islamic pawn broking was started through first institution Muassasah Gadaian Islam Terengganu (MGIT) in 1992. The development of al-Rahnu had grew in a very fast phase as an alternative to the conventional pawnshop, even though conventional pawnshop have been operated over many years ago since 1811 in Malaysia (Maamor, 2013). However, in managed the operations of al-Rahnu, the

challenges and issues are still arise and it needs full courage and support from many aspects mainly from the rules and regulation, management skill and other financial institution. It is also believed after all al-Rahnu process are been monitored by Shari'ah expertise, its implementation now are the best practice and first Islamic pawn broking system ever had applied in Malaysia and the world (A.B. Umami Salwa, S. Hisham, S. Abdul Shukor and Kamaruzaman Jusoff, 2013).

Hence, based on the facts of increasing demand of pawnshop services had lead the rapid growth of al-Rahnu outlets, it gives the significant to conduct the experiment on al-Rahnu operations as the number of customers increase over the years relying on al-Rahnu scheme as quick cash borrowing (Maamor, 2008). Thus, the aim of this research is to provide a study the overview of al-Rahnu practice in different entity cooperative which are offering al-Rahnu scheme. This may include the cooperatives in Alor Setar which are Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, Permodalan Kelantan Berhad and Koperasi Ukhwah Malaysia Berhad. The terms will be focused on al-Rahnu business operation specifically on process flow and implementation of *aqad* in al-Rahnu according to Islamic rule standard. It is important as it stated in pillars of Islamic law contracts are consist of offer and acceptance (*aqad*), seller, buyer, subject matter and price. While the rest part of study also identify the challenges in al-Rahnu implementation and gain solution from Islamic scholar and fuqaha'. As the Islam takes serious of equitable rights and justice between the parties, any sinful activities such *gharar* (uncertainty and risk) is not allowed to be occurred in Islamic contracting. Similarly goes to prohibition of *riba* where it has become controversial issue and speculations among Islamic scholars and

jurists debated in the Islamic community. The application of Shari'ah contracts in al-Rahnu concept also will be discussed in this study such as *Qard al- Hassan* (loan without interest), *Wadi'ah* (keeping valuable goods or guaranteed custody), *Ujrah* and al-Rahnu contract.

In this study also may provide several Islamic law regulation of al-Rahnu. It is due to al-Rahnu is an Islamic pawn broking system which required a special regulation and acts to ensure the smooth implementation of al-Rahnu process are complying to Shari'ah standard requirement, include the process of transacting the documents, the *aqad* pronouncement are should be well versed which enrolled by Shari'ah rules and guideline.

As well explanation to Maamor (2013), al-Rahnu is the one of the Islamic credit institutions that provide interest free loans conditioned by pledged asset and there must be avoid of any interest charge, and the collateral normally accepted in any Islamic pawnshop operating are gold jewellery such as earring, the necklace, and ring. However, by keeping safe all these collateral in Islamic pawnshop or al-Rahnu scheme, the customers are required to pay other charges such as storage fees and administration cost as repayment to al-Rahnu expenses for keeping safe the collaterals and security purposes.

In Malaysia, al-Rahnu operation can be conducted by both institution banking and non-banking. Several banking that conducts the al-Rahnu business operations are Bank Rakyat, Agrobank, Bank Muamalat, Eon Bank and Bank Islam. However, there are still stand alone cooperative who transact the al-Rahnu side to side with other operation businesses and they are also certain of cooperative who have joint venture, franchise under the bank to operate the al-Rahnu. There has been a debate on one of the major issues in implementation on Islamic practice where is very often product that be commercially mimicking to the conventional products. According to Naim (2004), concluded some practices adopted by the Islamic system are *“not truly in compliance with the tenets of Shari’ah law”*.

Although the cooperative stand as non-banking institution, they also establish based on the objective weather target on profit maximization, either social welfare nor both, but they keep facing challenges to sustainable in Islamic cooperative product as fulfill the Shari’ah compliant and Muslims needs. The product offered should be according to Shari’ah that is free from *riba*, gambling ambiguity or uncertainty and haram activities (Raashed, 2013). The credit cooperative activities must adapt its business with Malaysian cultural values and very important is Malaysia as an Islamic state and has a majority of Muslim population. It also estimated that about 12 percent of Muslims use Islamic Financial Products (Zawya, 2012). Thus, cooperative products shall conform to the religion of Islam, where Muslims are more likely to subscribe to Islamic products rather than conventional products (Hassan et. al., 2013). And this has been given a chance to cooperative serve the credit financing as to be conducted in accordance with the precise



recommendations of the Creator. The call inspires and motivates the cooperatives to conduct its business accordingly and it is a part of fulfilling *fard'kifaya* (Maulut, M.K. and Yusof, S., 2013). If more business is conducted, then it is an opportunity to gain more profit, and that is considered worship to God, as the saying:

*"I did not create the jinn and mankind except to worship God."*

*(Adz-Dzaariyaat :51-56)*

The Shari'ah basis for providing such financing though is questionable in certain under Shari'ah jurisdiction. The need for developing Islamic cooperative products is stressed by Hassan and Mahknect (2011). According to them "*There is indeed the need and considerable scope for Islamic microfinance providers to develop new products as a solution to a variety of financial problems*". Perhaps by research conducted will come out the detail finding regarding the cooperative whole operation process of al-Rahnu and overview Islamic concept pawn broking, *aqad* execution, issues challenges, and the solution guideline from related laws and regulation.

## 1.2 Background of Islamic Pawn broking In Malaysia

The first developing of Islamic pawn broking system was introduced by the Terengganu State Government namely as Muassasah Gadaian Islam Terengganu (MGIT). The purpose of its establishment was to provide an alternative to the society make a right decision get quick cash financing with free of interest aligned to Shari'ah way and halal to Allah s.w.t. (Razak, 2011). The opening of this Islamic pawn broking has encouraged many of others institutions join in collaboration in survive the purity of Shari'ah beautiful loan. According data provided by 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 to their own model and 11 other cooperatives adopt franchise system through *Ar-Rahnu X'Change* Bank Rakyat as franchisees (Yaacob, R. M., Ahmad, G., Ibrahim, D.M., A.Latiff, N. and Saari, N., 2012).

The Islamic pawn broking however seen rapid growth by incorporated The Malaysian Islamic Economic development foundation (YaPEIM) which had introduced the concept of al-Rahnu. It is continuing with Majlis Agama Islam by the Kelantan state government in January 1992 and further operations are continued by a subsidiary of Permodalan Kelantan Berhad. The scheme then give a called as "*Skim Ar-Rahnu*" (SAR) on 21 August 1993 through the collaboration of Bank Negara Malaysia, Yayasan Pembangunan Ekonomi Islam Malaysia (YAPEIM) and Bank Kerjasama Rakyat Malaysia Berhad (Razak, 2011). The next financial institution entering Islamic pawn broking was Bank

Islam, formerly commenced in 1997, followed by EON Bank (August 2002) and Bank Pertanian Malaysia in September 2002.

### **1.3 Koperasi Ukhwah Malaysia Berhad Background**

The Koperasi Ukhwah Malaysia Berhad was established in 1998 which served main activities in property, financing and al-Rahnu. It was owned by private entity which is membership cooperative itself. Al-Rahnu business operations has been started in 2005 where Bank Rakyat opened its standing alone outlet under cooperative business operation (Maulut, 2013). The al-Rahnu of Koperasi Ukhwah is fully owned by subsidiary Rakyat Management Services Sdn Bhd. En Mohd Fadly who had 11 years of working experience added in his statement Bank Rakyat actually had become franchisor of al-Rahnu Koperasi Ukhwah under name of *Ar-Rahnu X'Change*. This cooperative's objective are holds both social welfare and profit oriented which benefit will be channeled into cooperatives members. The profits gain are mainly comes from property investments, for example in house residential, real estate property, homestay, and financing activities such giving out personal loans, offering *Ar-Rahnu X'Change* collaboration under Bank Rakyat franchisor and from other sources activity in Ukhwah Cooperative's Product. The Koperasi Ukhwah Malaysia Berhad has about 8 branches in peninsular Malaysia (Bernama, 2013).

#### **1.4 Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah**

Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah was established on 23<sup>rd</sup> August, 1952 and registered on April 23<sup>rd</sup> 1953. The cooperative memberships are opened to all public servants, Government Link Company (GLC) who has working in Kedah Darul Aman. The total numbers of Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah membership are about 5,651 until present. The cooperative was privately owned and was administered by high board appointed by council. It was governed by 9 member of cooperative and gain support from 61 cooperative staff. This cooperative was acknowledged as the 14<sup>th</sup> best cooperative in year 2013 by Suruhanjaya Koperasi Malaysia (Suruhanjaya Koperasi Malaysia, 2013). The core activities of cooperative include in serving credit facility, al-Rahnu business operations, and Caltex petrol pump station in Kedah.

The Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah was also tied to SKM and cooperative acts for running its business activities. The high cooperative board are consists of a Chairman of Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah is Dato' Haji Mat Rejab bin Kassim, and the cooperative secretary Tuan Haji Ibrahim bin Abdul Wahab. The three core businesses however are well supervised by Branch Manager and supervised by high board cooperative. The 3 petrol stations are located in Changloon, and Alor Setar while al-Rahnu outlet are operated in Alor Setar and Guar Chempedak. In Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, all business operation and al-Rahnu are use the concepts of Shari'ah include in serve financing facilities which based *Qard al Hassan, Al Bay' Bithaman Ajil, and Al-Bay' Al-Inah*. The side activities of cooperative

are property development, renting shop lot, share investment, service center and Al-Jabbar Therapy Center (Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, 2010).

## **1.5 Permodalan Kelantan Berhad**

Permodalan Kelantan Berhad was the first cooperative who started al-Rahnu business operation in Mac 19<sup>th</sup> in 1992 and second Islamic pawnshop in Malaysia (Razak, 2011). It was the initiative from State Economic Development Corporation to preserve the purity of Islamic operative from involving the *riba* as prohibited in Shari'ah law. It is a part of the Kelantan government's effort to help needy people by giving out the free loan interest to assist individual in overcoming the cash flow needs through method which are considered halal by Shari'ah regulation (Ismail, 2013). Permodalan Kelantan Berhad (PKB) was incorporated on 30 April 1981 with the official capital of RM50 million. Al-Rahnu establishment under cooperative PKB is intended to help people by giving through secured debt pursuant to a legal basis and laws. This cooperative satisfy justice, transparency and easier and faster to customers. Al-Rahnu obtains business capital from cooperative of Kelantan Berhad to deliver loans to the customer (Permodalan Kelantan Berhad, 2007).

## **1.6 Problem Statement**

The existing of pawn broking are growing competitive now and had much contradict to Islamic rules, the conventional system are simply charge high interest of two percent rate higher than Islamic pawnbroking had to gain profit from customers through the loan given (Razak, 2011). The issue was supported by survey conducted Prof. Diraja Ungku Aziz, service pawn is an oppression because the high interest rates on borrowing are high at between 2 to 4 percent per month (Dinsman, 1994). Besides, the worst part is they will lose the jewellery after end period and extra charges imposed double if they unable to redeem the asset. The conventional pawnshop systems in addition are against the Shari'ah practice when it's seem to have burden on the poor individual who desperately need the cash and charge double repayment (Bhatt, 2008). All conventional pawnshop concept includes exploitative activities are contradict in Islamic law and furthermore highlighted opposed by the laws in the Pawnbrokers Act 1972.

While, the introducing of Islamic pawn broking about 20 years ago since Mac 1992 has provide the most appropriate mechanism as it offering financing facilities for the lower income group and small businesses which usually have limited financial. Currently, the new era of Islamic pawn broking (al-Rahnu) had raised the big numbers of customer due to its practicing of Shari'ah concept in al-Rahnu operations which has brought a new dynamic environment in social community development (Yaacob et. al., 2012). The rapid growth of al-Rahnu also reflected in many cooperative institutions because the cooperatives are not tight-up with non-performing loans and the customer only need to tie

their borrowing with gold. Hence, it is important to have a study in al-Rahnu scheme practice in cooperatives as to ensure the equitably process and concepts are truly comply of Islamic principle. The research shall study the concept of al-Rahnu according to Shari'ah perspective overview as it's has become objective of study to examine the al-Rahnu practices three entities cooperative Koperasi Ukhwah Malaysia Berhad, Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, and Permodalan Kelantan Berhad. Perhaps by conducted this study, we might get the clarification of true *modus operandi* in Islamic pawnshop and found out how the process had been executed in *aqad*. The last, the study shall also look the challenges faced by cooperatives base structure to Shari'ah compliance or otherwise (Bhatt, P. and J. Sinnakkannu, 2008).

## 1.7 Research Questions

From a previous study and background have discussed before, this research arise 4 questions:

- i) What are the Shari'ah concepts being practiced in al-Rahnu cooperative's business operation? (Razak, 2011)
- ii) How the cooperative operates their al-Rahnu products? (S.Hisham, 2013)
- iii) How does the *aqad* (offer and acceptance) of al-Rahnu scheme have been executed in cooperative? (Naim, 2004)
- iv) What are the issues arise in al-Rahnu products and how it had been managed by cooperative and Islamic banking scholar?( Razak, 2011)

## **1.8 Research Objectives**

- a) To describe an overview of al-Rahnu operation concept via cooperatives according to Shari'ah principles
- b) To study the operations of al-Rahnu system implemented in different entities institution of cooperative
- c) To examine how does the *aqad* had been executed in al-Rahnu cooperatives operation
- d) To identify the issues arise in al-Rahnu cooperative and finding solution from Islamic bank scholar

## **1.9 Significance of the Study**

The outcome of this research will have a great impact on scholars' view of the subject matter include direct individual involved to industry such as public citizen as al-Rahnu customers, gold traders, policies maker, financial practitioner and the cooperative itself. It is a great interest to academicians or researchers to explore in other areas of cooperatives as due to lack research and innovation in how the cooperative might be operated in al-Rahnu scheme as according to Islamic law. Thus, it still required a lot of observation and understanding of conformity between theory and practical application of the product and process.



### **1.10 Scope of the Study**

The limitation of the study is only focus on institution cooperative and al-Rahnu product in terms of implementations of its operations and the issue challenges. The three cooperative will be selected only cooperative in Kedah and Kuala Lumpur (HQ). For the finding of the study, the in depth interview will be conducted to most senior staff as manager who are very expert and familiar with the credit activities of al-Rahnu modus operation from front counter officer and high authority person.

### **1.11 Structure of the Thesis**

The theses are structured into five chapters. The introduction chapter provides a background of the study, the research questions and objectives, scope of study, problem statement and introduction of cooperative background. The remaining chapters of this thesis are organized as follows. Chapter 2 reviews the al-Rahnu concepts according Islamic perspective and its application to financial institution. The jurist view on al-Rahnu operation, profit concept in al-Rahnu, and also a close up of al-Rahnu legal framework include Shari'ah Parameter.

Chapter 3 is the research methodology chapter of study used in the theses. As the research applied the qualitative method, thus the interview method were conducted and content analysis technique are used to interpret the data in three entity institution of al-Rahnu. Research designs, method sampling all are explained in this section. Chapter 4

renders an overview of the history of Islamic pawn broking practice in early practice of al-Rahnu system and also implementation against modus operandi.

Chapter 5 elaborates the actual implementations of al-Rahnu operations in three al-Rahnu cooperatives. This section will review the whole process of al-Rahnu and the challenges. Chapter 6 summarizes the content of this thesis along with the research findings that relate to the research objectives and answered the thesis research questions. It is also provides solution and recommendations of challenges arises in al-Rahnu scheme practices.

## **1.12 Conclusion**

Therefore, it can be summarized that the al-Rahnu systems nowadays have become one of the attractive sources of borrowing trending now either in Islamic pawn broking system nor conventional institutions. Yet, the cooperatives today also have seen as among of the active institution which served al-Rahnu scheme facility to fulfill needs of society. Thus, this study will explain in further regarding the al-Rahnu concepts in Shari'ah view perspective and its review on how the cooperative practicing are streamline to Shari'ah principles in following chapters.

## CHAPTER 2

### 2. LITERATURE REVIEW

#### 2.1 Introduction

This chapter will review the al-Rahnu concept and implementation of its operation according to Shari'ah compliant via cooperative. It includes the review of financial contracts theory from prior research and past scholars. In this section we will look at the appropriate theory of Shari'ah guideline from various perspectives that might be adapted to the subject research of study as to gain support and to strengthen the analysis. The providing of past researcher information may give the right conceptual analytical insight to the study conducted.

#### 2.2 Al-Rahnu Concept

Al-Rahnu according to ISRA book author by Dusuki (2012) had defined as an Arabic noun derived from the word *rahana* which means either constancy and continuity, or holding and binding. Technically, *rahn*, which is also termed as pawning, mortgage, collateral, charge, lien and pledge, refers to taking a property as a security against a debt, whereby the secured property can be utilized to repay the debt in the case of nonpayment. In addition, according to Maamor (2013) al-Rahnu is one of the Islamic credit institutions that provide interest-free loans conditioned by pledged asset, offers for lower income households and those who work in the private and government sectors. However, Naim (2013) added the contract of Al-Rahnu i.e. the contract of pawning is part of the vast

Islamic financial system and become one of the microfinancing tools widely used in Islamic civilization. On the other hand, Hussain (2013), explained the current Al-Rahnu practiced via Islamic cooperative and Islamic institution pawn broking are structured by combination of a three various Shari'ah contracts, namely *Wadi'ah Yad Dhamanah* (saving with a protection guarantee), *Ujrah* (fee), *Qard* (loan), and *Rahn* (pledge). According to Kamus Dewan New Edition, al-Rahnu had been defined as lending money with condition serve a pledge as collateral to a certain period. If the customer are fail to redeem the collateral in a storage period mentioned, the item pledge will be render to pawn broker (Sheikh Othman, 1991). Pawn broking or al-Rahnu according Ibn Manzur (1956) defined as permanent and last.

### **2.3 *Qard al-Hassan***

According research conducted by Chapra (1995), *Qard al-Hassan* is a credit that is paid back at the closing stages of the agreed upon loan period which the borrower is not engaged in any interest or profit and loss of the loan. In other words, *Qard al-Hassan* is an interest-free loan, and it is the only type of loan that is allowable by the Shari'ah values. A limited service charge for *Qard al-Hassan* loans is allowable if the service charge is in terms of the real cost of loan management (Sabran, 2001). It is supported by El-Muhammady (2001), stress out the *Qard al-Hassan* contract is free loan interest based and required repayment based on principal amount only. It is also promoting the helping towards each other and needy people from being victimized by high rate charging. According to Mazhab Shafie *Al-Qard* from Shari'ah view was defined as give an

ownership of someone property to someone others for use. However, the lender is required to return back the item property in a same condition with an equal value item.

Implementation of *Qard al-Hassan* also has been stated in *al-Qur'an* :

*“Who is he that will give Allah qard al hasan? For Allah will increase it manifold to his credit”. [Al-Hadid (57):11]*

*“He who will give Allah qard al hasan, which Allah will double into his credit and multiply many times.” [Al-Baqarah 2: 245]*

The sunnah of the Prophet (s.a.s) is also very clear on this issue.

*“It is reported that the Prophet (saw) said, "in the night of the journey, I saw on the gate of heaven written, 'reward for sadakah is ten times and reward for qard al-hasan is eighteen times'. So, I asked the angel, how is it possible? The angel replied, "Because beggar who asked had already had something but a loanee did not ask for loan unless he was in need."*

*[Ibn Hisham & Ibn Majah].*

#### **2.4 Wadi'ah Yad Dhamanah**

The term *Wadi'ah* is derived from the verb *wada'a*, which means to leave, lodge or deposit. Legally, the Hanafi scholars define it as an empowerment to someone for keeping the owner's property explicitly or implicitly. Whereas according to Shafi'e and Malikis scholar, *Wadi'ah* is representation in keeping possession of respectable private goods in a specific way (Dusuki, 2012). While Nasri (2013) said *Wadi'ah* is an *aqad* to get the fund from a person and custodian of safe keeping of one person of one asset. and the element of charity according to Hambali when define *Wadi'ah* as representation in

keeping (other's property). Nonetheless, al-rahnu implemented the practice whereas the lender would accept the pledge on a *wadi'ah* concept where the lender promises to safe-keep the valuable pledge until the loan is settle.

## **2.5 Ujrah (Safe keeping Fees)**

The study conducted by Mohamad (2008), addressed that the customer should be revealed academically the real state of *ujrah* fee so the customer are realize how much they have been charged of it. According to Khir (2013), in the case of the al-Rahnu-based microcredit product, the imposition of a safekeeping fee that exceeds the actual storage cost is considered the most crucial Shari'ah issue that requires scrutiny. The safekeeping fee is calculated on the amount of the *marhun* (collateral) and not the amount of the loan.

The total amount of the safekeeping fee is related linearly to the value of the *marhun* which consider the higher the *marhun*, the higher safekeeping fee. Due to this proportionality, the service charge does not reflect the actual cost of safekeeping but, rather creates an accrued profit (Badri, 2013). Bank Negara Malaysia however stated that any commissions or fees charged for services are recognized as *ujrah* (Bank Negara Malaysia, 2010).

## 2.6 Legality of al-Rahnu

*Rahn* is a kind of charitable contract whereby it does not require any financial obligation on the part of the *murtahin* (i.e., creditor) when the *rahin* (i.e., debtor) gives the customer the pawned object. In this case, *rahn* is similar to the other voluntary charitable contracts such as gift (*hibah*), simple loan (*i'arah*), loan (*Qard al-Hassan*), and deposit (*Wadi'ah*). Al-rahnu in Arabic means withholding or holding back. It derives from the word in *Quranic* verse:

*“And those who believe and whose families follow them in Faith,-to them shall We join their families: Nor shall We deprive them (of the fruit) of aught of their works: (Yet) is each individual in pledge for his deeds”*

[*al-Thuur*: 21]

From the above related verse, the word of “*al-rahnu*” (mortgage or security money) in Islamic jurisprudential terminology means: “*possessions offered as security for a debt so that the debt will be taken from them in case the debtor failed to pay back the due money*” (S.Hisham, 2013). The legality of al-Rahnu had revealed through proof of *Al-Qur'an*, Allah (s.w.t.) says:

*“If ye are on a journey, and cannot find a scribe, a pledge with possession (may serve the purpose). And if one of you deposits a thing on trust with another, Let the trustee (Faithfully) discharge His trust, and let him fear his Lord. Conceal not evidence; for whoever conceals it, - His heart is tainted with sin. And Allah Knoweth all that ye do”,*

(*Surah Al-Baqarah* 2:238)

This verse had stated clearly the alternatives of documenting the debt in the absence of the scribe, i.e., via pawning. Even though, it was describe in the context of travelling, the majority of jurists, except Mujahid and Zahiris, agree that *rahn is* also permissible at home, based on the *Sunnah* of the Prophet (p.b.u.h) who permitted it without any restriction.

Al-Aswad narrated to me from Aishah r.a.:

*“Verily prophet purchased foodstuff from a Jew by credit and pledged his armor.*

*(Sahih al-Bukhari)*

Thus, it is clearly stated that al-Rahnu is permissible according to Al-Qur’an verse and from al-Sunnah as what had been agreed by *jumhur ulama’* and through *ijma’* (al-Jaziri, 1970) which aimed to protect the rights of both parties involved in the contracts without any parties being victimized.

## **2.7 Al-Rahnu via Islamic Cooperative**

A cooperative is defined as entity form of organization that is characterized by a common or shared purpose of its members, which could be profit oriented or social and takes different form of activities such as business in retail, service and banking (Latif, 2012). While, Islamic cooperative is a financial institution which implement the Islamic principles and Shari’ah guidelines over their Islamic products and investments. Based on past writing conducted by researchers, Dogarawa and Nazirwan (2009), had defined that the Islamic cooperative as a part of financial institution which offering financing services



and products according to Shari'ah principles as well as standing Islamic financial institution concepts. However, in operating as the cooperative name, the challenges are arise when the product is not universally applicable or it does not tailor with the belief system of the Muslims (Naim, 2004). Since interest (*riba*) is prohibited in Islam, many Muslim denounce conventional micro finance for fear of violating their religious injunctions even though many others have accepted it out necessity (S.Hisham, 2013).

Besides, Maulut (2013) a Universiti Malaya former Professor stated that the establishments of cooperative are focusing the needs of the members which have managed to carry out financial activities to their members wisely. In addition, he is saying the credit cooperatives may enjoy the increased of business from members and should take the big opportunity of offering additional services and other benefits to members of the cooperative. Meanwhile, Yusof (2013), had described the cooperative as members contribute equitably to, and democratically control which controlled by their members who actively participate in setting their policies and making decisions.

From a past research by Kospin Jasa Shariah (2009), it had mentioned that the emerging of Islamic cooperative is basically associated to Shari'ah concepts whereas practice of concept *shirkah mufawadoh* in which all parties involved contributes fund in the same portion as well as equally participate in managing the organization. However, a recent study of Khir (2013) regards current *rahn*-based Islamic microcredit facility provided by Islamic pawn broking and Islamic financial institutions is structured based on a

combination of various Shari`ah contracts, namely *Wadi`ah Yadh Dhamanah* (savings with a protection guarantee), *Ujrah* (fee), *Qard al-Hassan* (loan) and *Rahn* (pledge). It was reflected in Islamic cooperative practices which give conversion aspects from conventional cooperative. Despite of maximization profit sometime have become the main objective of institution, however, no one is allowed to inject bigger amount of fund and receive bigger portion of profits in the cooperatives practices (Beik, 2009).

## **2.8 Application of Al-Rahnu Concept in Shari`ah View Perspective**

Suruhanjaya Koperasi Malaysia (SKM) had brief out a few outline related on Islamic financing practices to be implemented in cooperative whereas it must complying to Shari`ah principles and fulfill the financial needs society. The framework was designed especially for the cooperative members and parties who involved in cooperative activities. This is to ensure the processes and all transactions are equitable done, fair to society and economic order besides freely from element of *gharar* (*speculative*), *riba* (*interest*) and *maysir* (*gambling*). Al-Rahnu has implemented on four basis Shari`ah contracts which are *Qard al- Hassan* (loan without interest), *Wad`iah* (keeping valuable goods or guaranteed custody) and al-Rahnu contract and *Ujrah* (Razak, 2011). Similarly, according to S. Hisham (2013) he is stated that there are four types contracts applied in al-Rahnu concept, namely *Qard al- Hassan*, al-Rahnu, *Wadi`ah Yadh Dhamanah* and *Ujrah*. While Ismail (2013) said in al-Rahnu, loans are granted according to two principles which are *Qard al-Hassan* loans without interest, and *Wadi`ah Yadh Dhamanah*.

As the cooperative is a part of financial institution and have similar function with banking institution, it must be compliant with Islamic religious law, known as Shari'ah which contains many specific injunctions and some more general principles relating to financial operations. It was also added by Al-Muharrami (2013), which said through the practice of Islamic principles to financial system perhaps the most relevant requirement for Shari'ah compliance is that a financial investment should be connected to a specific real activity, that is the provision of a good or service that is not itself a financial investment. Logically, the prohibition on a predetermined interest rate follows a predetermined return that varies only in the very limited circumstances of bankruptcy would not have a connection to a real activity. Islamic financing contracts can be divided into many Shari'ah contracts such as *Bay' Bithaman Ajil*, *Bay' Istisna'*, *Bay' al-Inah*, *Bay' Murabahah*, *Ijarah*, *Bay' Salam* and *Qard al- Hassan*. However, as the aim of study will be look at al-Rahnu concept, there will only be focused on *Qard al-Hassan*, *Wadi'ah Yadh Dhamanah* and al-Rahnu contract and *Ujrah*.

## **2.9 The Jurist View on Ar-Rahnu Concept Implementation**

### **2.9.1 Aqad**

*Aqad* is a contract built on the requirements of two or more parties will bring something effect of legislation (Rahman, 2009). Islam is taking serious on how *aqad* been implemented in a contracts due to its show sign the symbol of consent parties involved. The consent itself would be a factor to tie the parties. According to al-Jurjani, the contract is the bond act through bargaining process (*ijab*) and acceptance (*qabul*). Fiqh members

have agreed that one of the conditions of consent and acceptance is both must be connected. However in determining what is meant by adjoining *ijab* and *qabul*, *Fiqh* members have different opinions. In Shafi'e opinion acceptance must be born soon or immediately after the agreement without any break in the slightest that is not related to the contract.

While and Hanafi and Hambali view about communicating is agreement and acceptance continuous in a ceremony. This means that when expressed consent of either the acceptance need not be pronounced immediately or almost immediately. Acceptance even be pronounced then for some time during which the contract is still running and both are still in the contract ceremony (Rosland, 2012). From ISRA Book author by Dusuki (2012), Hanafis jurist added, the *sighah* of *rahn* should not be suspended by a condition or deferred to a future date. The other jurist categorize the conditions for *sighah* or *rahn* into valid (*sahih*) and defective (*fasid*) conditions, whereby the defective conditions may affect the defectiveness of the *rahn* contract, or may render the contract to be valid while the condition itself is defective. In general, valid conditions are the ones that do not contradict the implications of the contract (*muqtada al-'aqd*) and do not lead to a forbidden transaction, such as the creditor must be trustworthy or the creditor can sell the pawned object upon the debt maturity.

## 2.9.2 Profit and *Ujrah* Concepts in Shari'ah Perspective

Profit is an uncertain amount whereas wage, rent and interest are fixed and known (Kahf and Khan,(t.t.). Islamic economic literature dismisses interest as it is prohibited by the Holy Qur'an. Rent and wage are treated as one and the same as the term *ujrah* is used for the price of both human resources per unit (wage) as well as the usufruct rights of fixed assets (rent). In the Holy Qu'ran, the term profit is used only once:

*“These are they who have purchased error in exchange for guidance. Their trade has brought them no profit”*.

*(Surah Al-Baqarah: 16)*

In Islamic jurisprudence literature, profit is defined as the increase in the value assets (fixed or mobile) actually realized in exchange (Al Amin, 1985). Profit may also arise out of human applied to an asset which increases its exchange value. Profit in Islamic economic thinking is inherently associated with this responsibility of decision making. In a market economy this responsibility exposes the decision maker to an uncertain outcome. Hence, when the capital owner becomes also the decision maker of the firm, his earning is call profit i.e., the residual after paying a known and fixed return *ujrah* (wage) to labor. Earning *ujrah* (wage/rent) is based on selling a flow if definite services of the assets owned. This means that *ujrah* earners are in fact owners of lasting resources who enter the market offering their services and become subject to the law of supply and demand. Accordingly, *ujrah* earners are subject to market risk and uncertainty as are profit earners, the essential difference between the two categories however is the extent of risk taking which is inherently associated with the extent of the decision making authority (Kahf et. al. 1992).

However, according study conducted by Saeed (2013) regarding cooperative and Islamic bank characteristic and similarities, he described that the characteristic of cooperative include they might earn substantial non-interest regular income from transaction fees. Hence the fees meant service charges impose to customer when they are transacting several processes or services. In al-Rahnu implementation the fees storage are charged to the pawner as the liability of pledge expenses of pawnbroker.

The expenses due to ensure the safe keeping of the customer's collateral and insured by the insurance. Mohammad Muslehuddin (1988) analysed the arguments of different jurist in regard to who should derive the benefit of pledge. Based on the saying of the prophet, he derived an analogy that the pawnbroker may derive benefit by a pledge for its service in maintaining the pledge. The pawnbroker could also charge the pawner for its services. While Mohd Saufi (1990) analyzed the importance of pawn broking business among the Malaysian community and proposed the idea of establishing as Islamic Pawnshop. According to him, Islamic pawnshop should extend interest free loan to pawner as they have taken already the *marhun* as collateral to the loan.

## **2.10 Al- Rahnu Legal Frameworks**

Regulatory framework is a body regulator in supervise the cooperative establishment are in line according to Shari'ah principles and special laws regulated to the Islamic cooperatives. Authoritative body, that is the Malaysia Cooperative Commission (MCC), Islamic Financial Services Acts 2013, Cooperative Act 1993-Act 502 are responsible to

take part and make positive movement as it might be opportunity to robust economic growth nations. Regarding ar-rahu framework there will be a local governing bodies which formulated Shari'ah rulings and passed fatwas, resolutions and policies to be adopted by the Islamic financial industry which be described detail in next section. This is important if consistent Shari'ah opinions are to be adopted within or across jurisdiction that allows comparisons of Shari'ah rulings.

The study by Hassan et. al. (2013), described that the government had play a significant role and support for Islamic products operation by implement all principles Islamic financing in the market. Regulation and supervision are some of the most important issues in cooperative industry where most formal and informal financial organizations provide financial services to micro and small entrepreneurs do not fall under government regulations that are applied to banks and other formal financial institutions (Ledgewood, 1999). The regulation of al-Rahnu are looking at the whole operation of implementation pawn broking include the collateral, the fees storage concept, the prohibited of interest charge, and loan extension and redemption process are need to progressively considered and regulated. This is essential as to ensure the Islamic pawnshop structure terms and application are protecting to customers, stability to economy and most foremost preventing protecting pawnshop customer from the monopoly power of pawnshop (Ismail, 1997).

According to Hamdan Adnan (1993), he added that there should be a federal department to monitor al-Rahnu operation and officers of the Ministry of Domestic Trade and Consumer Affairs can be appointed as the licensing officers. This is due to ensure the valuation and inspection of gold item are follow as standard requirement and true market values or are capricious and arbitrary. For the cooperative's legislation, there are no specific acts to the al-Rahnu system but it is subject to certain rules and laws for example, al-Rahnu scheme in Bank Kerjasama Rakyat Malaysia Berhad is subject to three different acts, which are the Bank Kerjasama Rakyat (M) Berhad Act 1978, the Co-operative Societies Act (1993) and the Development Finance Institutions Act 2002.

In addition, Bank Kerjasama Rakyat Malaysia Berhad has introduced separately the al-Rahnu manual guidelines. Other relevant acts are the Occupational Safety and Health Act for workers who are exposed to acid for the gold test and the Weight and Measurement Act, in which the gold weighing device has to be licensed every year (Sehan, M. A., 2004). Under this legal principle, there is no restriction to gain profit maximization from money investments. The lender may charges interest rate based on loan amount (Whilst Cason et al., 2009). In conventional system, money can be traded like community and may generate income profit which opposed to Islamic principles.



### **2.10.1 Pawnbroker Act 1972**

The Pawnbroker Act 1972 (Amendment 2003) was gazetted on the 1<sup>st</sup> January 2004. This act was introduced to regulate and control the pawnbroking business, to protect the pawner and pledged assets, and matters connected with it. The act defines the pawnbroker as the person who receives, purchases, or takes in articles and then lends any sum of money that is not exceeding RM 10 000 under the agreement of the dealing reasonably inferred that those article may be redeemed. Pawner means a person delivering an article for pawn to a pawnbroker. Pawnbroker must be responsible for all the agent and worker action during the dealt with customer such as misplaced, careless and defiance. Therefore, in this section, we will identify the provision in act that govern the three different agents, i.e., pawnbroker, pawner and the regulator (Shahida, 2013).

### **2.11 Al-Rahnu Shari'ah Parameter**

Since the development al-Rahnu is still new in Islamic finance industry, it is important to have a parameters or guidance references from high authority institution to outline the essential features of Islamic financial product based on the underlying Shari'ah contracts that endorsed by Shari'ah boards. The guidelines introduced by BNM are aimed to promote operational efficiency and best practice that would safeguard the interests of stakeholders and in particular participants.

### **2.11.1 Shari'ah Determination on the Implementation of Islamic Pawnbroking Scheme (*Al-Rahnu*) in Malaysia**

The 77<sup>th</sup> Muzakarah (Conference) of the Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia held on 10<sup>th</sup> – 12<sup>th</sup> April 2007 has discussed the Shariah determination of the implementation of Islamic Pawn broking Scheme (*al-Rahnu*) in Malaysia. The committee has decided that the working capital for Islamic pawn broking shop (*al-Rahnu*) must be gained from Islamic banks or lawful (*halal*) sources and free from usury (*riba*), gambling, uncertainties (*gharar*) and other activities that do not meet the Shari'ah requirements. Secondly, the pawnbroker should subscribe to Islamic insurance coverage and is not allowed and is not allowed to get involved with conventional insurance. Third, if the collateral is lost, stolen, damaged or alike, the pawnbroker has to pay compensation for the remaining value of the collateral at the time of valuation. Fourth, the pawnbroker should appoint internal Shari'ah legal advisor to supervise the operation and activities of *al-Rahnu*. 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).

The 78<sup>th</sup> Muzakarah (Conference) of the Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia held on 12<sup>th</sup> June 2007 has discussed the Shari'ah decision on the implementation of Islamic Pawn Broking Scheme (*al-Rahnu*) in Malaysia (proposal for safekeeping fees charge in Islamic pawnshop). The Committee has decided to accept the proposal for safekeeping charge as follows.

**Table 2.1: Pawnbroking Item Pledge Fees Charge**

RM 100.00	for the first 3month is 0.60% per month
RM1, 000. 00	for the next 3 month is 0.70% per month
RM1, 001. 00	for first 3 month is 0.65% per month
RM5, 000. 00	for the next 3 month is 0.80% per month
RM 5,001. 00	for the first 3 months is 0.80% per month
RM 10,000. 00	for the next 3 months is 0.90% per month

If the specified period has expires, and the pledged asset (collateral) is not redeemed, agreement from both parties must be obtained in order to determine the extension period and the charge.

### **2.11.2 Shari’ah Resolutions from Bank Negara Malaysia (BNM) of *Qard al-Hassan***

Shari’ah resolutions from Bank Negara Malaysia (BNM) explained *Qard al-Hassan* means giving a property to a party who will benefit from it and who will subsequently return an equivalent replacement. In the early stages of Islamic finance in Malaysia, several products based on *qard al-hassan* were introduced, for example, Government Investment Certificates (currently known as Government Investment Issue) and benevolent loans. Nowadays, its application has been expanded to other products such as *rahn* loans, credit cards, charge cards and others. It has also become the underlying concept for liquidity management instruments for Islamic financial institutions.

## **2.12 Conclusion**

Hence, al-Rahnu concept and implementation of cooperative are very strict from Shari'ah perspective. It had emphasis on al-Rahnu legality, concept framework and Malaysian act regulation. Perhaps by served of this information it might give a rough picture on requirement concepts while we practicing the al-Rahnu scheme.

## CHAPTER THREE

### 3. RESEARCH METHODOLOGY

#### 3.1 Introduction

Research methodology is a systematic way to solve a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researchers go about their work of describing, explaining and predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained. Its aim is to give the work plan of research (Rajasekar, S., Philominathan, P. and Chinnathambi, V., 2013).

**Table 3.1:** *Simplified Research Methodology*

<b>Research Question</b>	<b>Method</b>	<b>Analysis</b>
1) What are the Shari'ah concepts being practiced in al-Rahnu cooperative's business operation?	Document	A General Inductive Approach
2) How the cooperative operates their al-Rahnu products?	Interview	A General Inductive Approach
3) How does the aqad of al-Rahnu scheme had been implemented in cooperative?	Interview	A General Inductive Approach
4) What are the issues arise in al-Rahnu products and how it had been managed by cooperative and Islamic banking scholar?	Interview/Document	A General Inductive Approach

### **3.2 Research Design**

Research design according to Jupp (2008) is a design or strategy that validates and rationalizes the logic, structure, and the principles incorporated in any research methodology and methods and how these elements are link with the research questions, hypothesis or preposition. This study adopts the cross sectional design which involves structured interviews. The rational of using the design as it may allow the researcher to gather data and interpret the results relatively easy and quickly despite more cost effective compared other than other research design. The qualitative research according to Rajasekar, S. et. al. (2013) is concerned with qualitative phenomenon involving quality. Some of the characteristics of qualitative research are non-numerical, descriptive, applies reasoning and uses words.

Qualitative method are appropriate used in this study to understand the phenomena of how the cooperative are operating Islamic pawn broking (al-Rahnu) and how far does operation are streamline to Shari'ah practice and theory framework. Besides, by doing qualitative research, researcher may discover a particular issue arise in al-Rahnu implementation such as obtain the information from people's experiences, understanding different perspectives and how life circumstances affect on certain issue or behaviors (L. P. and Johnson, G. J. (2002).

### **3.3 Data Collection Method**

In qualitative research, there are few types of data collection used by researcher. It can be categorized to in depth-interviews, observation, focus group, or critical incident techniques (Fitzgerald and Dopson, 2009). However, in the study it will only involve document analysis and in-depth interviews. The unit analysis of the study is organizations which are three institutions cooperative. The interview was conducted to four respondent from cooperative and developed both structured and semi structure. The in-depth interviews conducted to assist the researcher obtain the information of al-Rahnu operation and get overview Islamic practice concepts applied in cooperative institutions.

### **3.4 Population and Sampling Design**

Population interests of the study are involved institution cooperatives in Alor Setar. The three body al-Rahnu institutions to be studied are Koperasi Ukhwah Malaysia Berhad, Koperasi Pegawai – Pegawai Kerajaan Negeri Kedah, and Permodalan Kelantan Berhad. However, the interview of Koperasi Ukhwah has been replaced with the main branch in Kuala Lumpur due to its branch only involved in marketing. The three cooperatives have been selected due to near located in Alor Setar, have long established with sustain growth serve Islamic product to society and pioneered to al-Rahnu product. These institutions also have reached many customers as it is the one of credit institution which offering Islamic instrument product to economic and society. According to Sabitha (2009), interview is a process where the researcher getting information from one or more informant by face to face and thus in the study, there were only four informants who

anticipated to the interview. The purposive sampling techniques are used in qualitative research whereas the informants would provide the best information and data pertaining to the research problems, issues and questions (Thomas, 2006).

### **3.5 Data Collection Technique**

There are various technique used in data collection from secondary sources as it may gain from vary sources. This methodology had been selected according to the research type of study conducted and might help to achieve the objective of study (Rajasekar et. al., 2013). In qualitative research, the data collection techniques are only use interview method and document analysis.

#### **3.5.1 Field Research (Primary Sources)**

Field research technique may consist of interview session, and document analysis from organization and annual financial reports that relevant to the study. Primary sources also can be used to gather information on the subject of study (Renner, 2003). For instance, interview can be conducted to get actual concept of al-Rahnu cooperative and get overview Islamic practice applied into al-Rahnu operation. It is field research because the investigation is carried out in the casual environment where a phenomenon occurs, rather than in controlled laboratory settings.



### **3.5.1.1 Interview**

Interviewing is a valuable assessment tool according to Schuh and Upscraft (2001) as it allows the participant to share their experiences, attitudes, and beliefs in their own words. In addition, the use of direct quotations in analysis finding may help the researcher present an accurate depiction of what being evaluated. One of rational using the interview in qualitative design is the researcher is able to completely manage the line of questioning (Creswell, 2009). Interviews can be structured, semi-structured or unstructured. However semi structured are much prefer as it's not fixed and controlled. By using semi-structured interviews, there were list of seventeen questions written for three different Islamic pawn broking institution that were interviewed. Among of them, only two of them had a Shari'ah Scholar who monitored the product's development, this was Bank Kerjasama Rakyat Malaysia and Permodalan Kelantan Berhad while Koperasi Pegawai Kerajaan-Kerajaan Negeri Kedah was monitored by an officer that would be fully in charge of the development of the product. The questions in the interviews covered the salient features of Islamic pawnbroking, the purpose of lending, modus operandi of al-Rahnu, *aqad* execution in al-Rahnu process and current challenges issue in Islamic pawn broking.

### **3.5.1.2 Interview Administration**

Before the interview process begins, the researcher might first need to build an interviewing relationship with the potential interviewee by making preliminary contact through telephone, walk in, and email, stating a brief introduction concerning the purpose of interview, clarification of name person in charge and arrangement meeting date. Once

get the approval from the cooperative, a cover letter from department faculty need to be requested as the official proof of student will conduct the study at institution. After through of these procedures, the appointment date can be set up and follow up is necessary until the interview day. However, the sets of questions and protocol interview should be prepared before interview conducted. The interview question might be close ended questions or semi structure to help the researcher recall the main subject to ask and gather the sources of information as much as possible.

The interviews are specifically carried out with En Fadhly an Accountant in Koperasi Ukhwah and Cik Alwani *Ar-Rahnu X'Change* officer, En Syukri Hassan a Branch Manager of Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, and En Saiful Azhar a Branch Manager of Permodalan Kelantan Berhad. The question asked are according to cooperatives al-Rahnu transactions which required the story of structure flow and operational aspects of al-Rahnu based Islamic pawn broking concept via cooperative, law and policies and also any issues arise. Perhaps by getting feedback from the interview would give the significant and clarifications to the findings of the study. The interview method is very useful to gather additional information relating to the Islamic concept product operations which sometime are not spelled out in the product manual (Thomas, 2006). The pilot interview might also be helpful as to test the understanding of questions and be sample guide for interview (Renner, 2003). Pilot interview are conducted to those people who have experience involved in al-Rahnu transaction or operation.

### **3.5.1.3 Cover letter**

A cover letter is important in order to influence the informant's willingness to participate. Following Buckingham and Saunders (2008) suggestion, the information given in the cover letter must be short and informative and simple language so as to be easily understood by the informant. Anonymity and confidentiality are very important. The cover letter is necessary as to get permission from the cooperative to allow study can be conducted in a fixed due date as the official proof of student will conduct the study and as interview procedure. (Refer to Appendix)

### **3.5.1.4 Developing Interview Protocol**

Developing an interview protocol is about the rules that guide the administration and implementation of the interviews. Put simply, these are the instructions that are followed for each interview, to ensure consistency between interviews, and thus getting accuracy and reliability information of the findings. Interview questions also had validated by Dr. Khelmy b Abd Rahim who is a senior lecturer of Islamic Business School in UUM. Protocol interview also will be used as a guide the administration and implementation of the interview and to ensure the consistency between interviews, thus increase the reliability of the findings (Boyce, C. and Neale, P., (2006).

The interviews have been designed to probe the following key issues as the set questions below:

- 1)When the cooperative had established?
- 2)What are the benefits of cooperative products?
- 3)What are the rules applied in cooperative?
- 4)Who are the cooperative members?
- 5)What are the motives of cooperative establishment?
- 6)When al-Rahnu had started its operation in cooperative?
- 7)What are the collateral accepted in al-Rahnu?
- 8)How much maximum loan provided in al-Rahnu?
- 9)What are the *aqad* that had been used in al-Rahnu transaction?
- 10)What are the Shari'ah principles used in al-Rahnu?
- 11)What are the fees based concept?
- 12)How al-Rahnu insured the pledge during pawn activity?
- 13)What are the documents incurred between the customers and cooperative in transacting al-Rahnu ?
- 14)How the auction process is implemented?
- 15) How al-Rahnu manage the excess money from the sale?
- 16)What are the parameters applied by cooperative?
- 17)What are the challenges arise in al-Rahnu implementation?

### **3.6 Data Analysis**

Data analysis of qualitative data is aimed at making valid inferences from the often overwhelming amount of collected data.

#### **3.6.1 Qualitative Analysis Approach**

According to Thomas (2006) Qualitative analysis approaches are divided into four categories which consist of General Inductive Approach, Grounded Theory, Discourse Analysis, and Phenomenology. However in seeking understanding in finding analysis process, General Inductive Approach are most appropriate used as its systematically presented description of most important themes and the themes developed are relevant to identified research objectives. A rationale of using the general inductive approach as it provides an easily used and systematic set of procedures of analyzing qualitative data that can produce reliable and valid findings.

##### **3.6.1.1 Inductive Analysis Method**

A general inductive approach for analysis of qualitative evaluation data is described. The purposes for using an inductive approach according to Thomas (2006) are to (a) condense raw textual data into a brief, summary format; (b) establish clear links between the evaluation or research objectives and the summary findings derived from the raw data; and (c) develop a framework of the underlying structure of experiences or processes that are evident in the raw data. The general inductive approach provides an easily used and

systematic set of procedures for analyzing qualitative data that can use on writing facts and explaining the functions and real concepts of al-Rahnu in cooperative with reliable and valid findings (Rosland et. al., 2012). The analysis of qualitative data is aimed at making valid inferences from the often overwhelming amount of collected data. Miles and Huberman (1994) to describe the major phase of data analysis include data reduction, data display, and conclusion drawing and verification.

### **3.6.1.2 Data Reduction**

Data reduction refers to the process of selecting, focusing, simplifying, abstracting, and transforming the data that appear in written up field notes or transcriptions (Miles and Huberman, 1994). Data reductions are consist of two stages which are Coding and Categorization (Sekaran et. al., 2013).

#### **3.6.1.2.1 Coding**

Coding is the process of identifying categories and meanings in text, creating and applying a name or code to each, and systematically making similar strings of text with the same code name (Thomas ,2006). Coding units are in the form of words, sentences, paragraphs, themes, items, images, graphics, photographs, actions, behaviors, topics, ideas, concepts, terms, phrases, keywords, and so forth. Coding is an interactive process whereby required repeat the reading of data and categorize patterns or connection and organize data into categories. The end result of coding therefore is to enable the

researcher to link data with topics, themes, concepts, ideas and other higher order abstractions so that the data can be manipulated, organized and eventually categorized.

Refer **Table 3.2** for example of coding.

**Table 3.2:** *Coding of Interview Results*

<b>Interview Questions</b>	<b>Interview statement Koperasi Ukhwah Malaysia Berhad</b>	<b>Interview statement Kop. Pegawai Kerajaan Neg Kedah</b>	<b>Interview statement Permodalan Kelantan Berhad</b>	<b>Code Remark</b>
1)When the cooperative had established?	The Koperasi Ukhwah Malaysia Berhad was established in 1998 which serve main activities were property, financing and Al-Rahnu.	This cooperative was operated in 1952 ..economy initiative applied the Shari’ah concept for giving out public servant short term financing	in March 1992 the Kelantan State Economic Development Corporation, through its subsidiary, Permodalan Kelantan Berhad had set up Al-Rahnu as the second Islamic pawnshop	Establish
2)What are the benefits of cooperative products?	The profits gain are mainly comes from property investments, for example in house residential, real estate property, homestay, and financing activities such giving out personal loans, offering Al-Rahnu	The cooperative are also involves in activities in workshop, consultation, petrol pump...	The cooperative are also involves in activities in financing and ar-Rahnu products to fulfilled Shari’ah need and purity of Islam	welfare and profit oriented
3)What are the rules applied in cooperative?	Al-rahnu scheme ...subject to three different acts, which are The Bank Kerjasama Rakyat (M) Berhad Act 1978, the Co-operative Societies Act (1993) .. Development Finance Institution Act 2002. Introduced separately	The cooperative operates al-Rahnu with refer to cooperative law acts	Al-Rahnu also under supervised by BNM and had joint venture with Bank Muamalat as coming audit in certain period	Regulation

	the al-rahnu manual guideline. . Occupational Safety and Health Act for workers exposed to acid			
4)Who are the cooperative members?	Open to public servant as the cooperative fees are deducted through ANGKASA	giving out public servant short term financing people and small business entrepreneur	This al-rahnu only eligible for become cooperative staff	customer
5)What are the motives of cooperative establishment?	This cooperative's objective are holds both social welfare and profit oriented which will be channeled into cooperatives members	Al-Rahnu .. aimed fulfilled the desperate needs of low income families and as a source of financial educational needs according to Islamic law requirement	One of the early institution developed al-Rahnu to fulfill Shari'ah needs.	Objective
6)When al-rahnu had started its operation in cooperative?	Al-Rahnu business operations .. started in 2005 where Bank Rakyat opened its standing alone outlet under cooperative operation.	The establish of al-rahnu in 2008 after getting approval from committee of cooperative	Started its operation in March 1992..	Transaction
7)What are the collateral accepted in Al-Rahnu?	The <i>Ar-Rahnu X'Change</i> .. accept gold as a pledge  Type of pledge allowed is jewellery which approved by Bank Negara Malaysia	It has been operated with offering the free loan interest to needy people with need the gold as the collateral of loan	Normally the collaterals they received only in the form of gold jewellery and gold dinar.	Gold  Jewellery
8)How much maximum loan provided in Al-rahnu?	The quantum of financing .. respectively 65 percent and 70 percent	giving out loan maximum 60 to 80 percent from gold value according to market price.	can reach maximum to 75 percent based on customer request	Maximum Financing
9)What are the aqad that had been used in al-	Then the Ar-Rahnu operator will print out " <i>Declaration of Letter</i>	After amount had agreed by both parties, ijab qabul	The al-rahnu will ask the customer to read and understand	Ijab qabul



rahnu transaction?	<i>Ar-Rahnu/Az-Zahab Islamic Pawn Broking</i> ”	has executed the customer will be given the receipt	the terms and conditions before sign	
10)What are the Shariah principles used in ar-rahnu?	Ar-Rahnu X’Change based on 3 Shari’ah principles which are <i>Qard Hassan, Ar-Rahnu and Wadiah.</i>	the cooperative practice are according to shariah principles.	Second Islamic pawnshop in Malaysia to fulfill the shariah needs.	Shari’ah principles
11)What are the fees based concept?	For collateral worth RM 1000 for the first time customers is RM 0.75 per RM 100 per marhun value.	The fees are calculated based on gold value ..	Al-Rahnu Permodalan Kelantan Berhad imposed the storage fee charged to customers is based on a percentage of the loan value.	Marhun value
12)How al-Rahnu insured the pledge during pawn activity?	In <i>Ar-Rahnu X’Change</i> , all the collateral pawned will be insured by Takaful insurance scheme	Collateral also will be insured by Takaful insurance scheme throughout the financing scheme based on the value of the collateral during the storage period.	Thus high value collateral are insured by Takaful insurance for over the scheme period.	Insurance
13)What are the documents incurred between the customers and cooperative in transacting al-Rahnu ?	The declaration are compulsory to customer read...“ <i>Customer Information Form</i> ” are true The Koperasi Ukhwah ... provides an explicit contract between the borrower (al-rahin) and the lender (al-murtahin) via aqad. Any repayment... by showing the “ <i>Pawnbroking Receipt</i> ”	Al-Rahnu will issue the receipt after deal the transaction	Customer are required to fill up the form and particular information details ...	Form  Contract  Receipt

14)How the auction process is implemented?	The lender will send a notice within 14 days before the loan period matured to redeem	..cooperative will issue a notice .. the process of auction and will open a chance to redeem	Al-rahnu will give a notice of the auction before the auction pledge to a licensed auctioneer.	Notice auction
15) How al-rahnu manage the excess money from the sale?	The lender will return the money to the borrower if the sale value of collateral is higher than the amount lent after considering the costs.	Excess money after the auction will be managed through Auction Money Balance Voucher.	The balance.. debt costs will be given to the customer or credited directly to the customer account.	Surplus
16)What are the parameters applied by cooperative?	<i>Ar-rahnu X'Change</i> were also under Bank Rakyat Manual Guideline supervised BNM	Al-rahnu cooperative are tied to cooperative act law	Shari'ah advisor which responsible in monitore the al-rahnu activities	Parameter
17)What are the challenges arise in al-rahnu implementation ?	The challenges Islamic pawn brokers .. reportedly receiving gold that turn out to be fake	Normally, issue faced is regard to debt repayment of customer	The most challenges of al-Rahnu operation is related to fees charges	Challenges

### 3.6.1.3 . Preset Categories

Here are two ways categorize narrative data from qualitative data which are Preset Categories and Emergent Categories. The Preset Categories or other name predetermine categories are gained before interview process conducted. The categorized might be gained from any sources information which can be used as the theme categories or key words to measure the conceptual study. For example, the researcher might start with concepts that you really want to know about. The themes provide direction for what you look for in the data. The researcher will identify the data, and search the data for text that matches the themes (Renner, 2003).

### 3.6.1.4. Emergent Categories

These approaches are categories concept when researcher read through the text and find the themes or issues that recur in the data. They may be ideas or concepts that you had not thought about. Categories are gained after process of interview. For example in obtain the answer of research question, the preset and emergent categories might help the researcher answer the finding. The emergent categories then help the researcher sort the data and organize these data into their categories to identify patterns and bring meaning to the responses (Thomas, 2006).

**Table 3.3:** Example Developing Preset Categories

Question	Categories	Subcategories
<i>1)What are the Shari'ah concepts being practiced in al-Rahnu cooperative's business operation?</i>	Welfare Oriented Charitable contract Al-Rahnu concepts Aqad Pronouncement	(Shari'ah compliance)
<i>2)How the cooperative operates their al-Rahnu products?</i>	Pawned item Collateral Security Loan Extension Redemption Process Auctioning Process	al-Rahnu Actual Operation
<i>3)How does the aqad (offer and acceptance) of al-Rahnu scheme had been implemented in cooperative?</i>	Receipt Agreement Declaration Sign Agreement Verbal Expression	Aqad Execution
<i>4) What are the issues arise in al-Rahnu products and how it had been managed by cooperative and Islamic banking scholar?</i>	Challenges	Issues

**Table 3.4:** *Categorization of Emergent Categories*

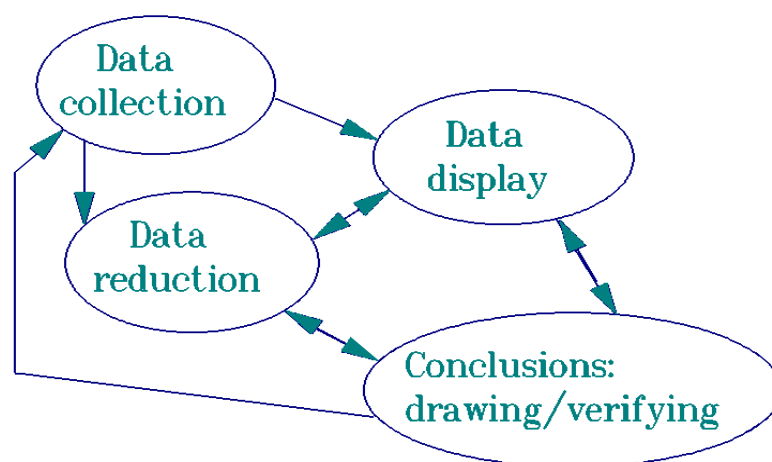
<b>Code Remarks</b>	<b>Subcategories</b>
1.Gold /Jewellery	Al-rahnu pillars
2.Ijab Qabul	Al-rahnu pillars
3. Insurance	Al-rahnu pillars
1. Regulation	Shari’ah compliance
2. Shari’ah Principles	Shari’ah compliance
3. Parameter	Shari’ah compliance
1.Objective	Al-Rahnu Operation
2.Transaction	Al-Rahnu Operation
3.Maximum Financing	Al-Rahnu Operation
4.Customers	Al-Rahnu Operation
5.Marhun Value	Al-Rahnu Operation
6.Form / Contract/ Receipt	Al-Rahnu Operation
7.Notice Auction	Al-Rahnu Operation
8.Surplus	Al-Rahnu Operation
9.Welfare /profit oriented	Al-Rahnu Operation
10. Establish	Al-Rahnu Operation
1.Challenges	Issues

### **3.6.2 Data Display**

There are numerous legitimate ways to move from codes to final narrative, but core among them is systematic work and adherence to logic. Systematic analysis is advance when codes are put into ‘data analysis’ which reflects the researcher’s judgments about the data. Data display link various codes and help to build themes. Examples are charts, matrices, diagrams, graphs, tables, frequently mentioned phrases, and or drawings.

Such arrangements help researchers “*dimensionalize*” or recognize dimensions of similar thoughts or connect codes in more sophisticated ways. Document pattern in “*user-*

*friendly*” ways (never rely on memory). Data display might show relationship between codes become more apparent as codes are grouped. The themes should be explored on “*Why do some code co-occurs?*”, “*Why are some dimensions related to other codes while others are not?*” and “*Why some codes linked to particular emotions?*”? Exploration of themes is analysis. The discoveries should be written down. These eventually (with very heavy and serious editing) turn into your written text.



**Figure 3.1:** *M&H’s Components of Data Analysis*

### 3.6.3 Drawing and Conclusions and Verification

Drawing conclusions involves deciding what the identified themes and patterns mean and how they help to answer the research questions. For example the answer to analyze al-Rahnu concept operation in Islamic practice where has using the categories and subcategories verification involves checking and re-checking the data. The categorized theme might help researcher to define concept Islamic practice of al-Rahnu by drawing categorization to features of Shari’ah principles (Thomas, 2006). The categories and

subcategories may form a pattern and create views displays which simplify the salient components of meaning the concept and last answer the both research question and objective. The researcher always refer back to the data displays and raw data as descriptions or causal statements are made systematic, organized. Conclusions are made through this process (Renner, 2003).

### **3.7 Deductive Analysis**

Deductive reasoning is a top-down approach that works from the **general to the specific**. In empirical research, that means that a market researcher begins a study by **considering theories** that have been developed in conjunction with a topic of interest. This method is used to analyze the deeds and contemporary fatwa relating to transaction in al-Rahnu (Rosland et. al., 2012). Specific data that has been [collected and analyzed](#) in the new study will form the basis of the *test* of the hypothesis.

### **3.8 Conclusion**

Hence, in this chapter Research Methodology it has elaborated the type research conducted and appropriate technique use to analysis the data. The flow processes of gathering the data are must done accordingly and systematic so that the analysis gained are reliable and valid.

## CHAPTER FOUR

### 4. IMPLEMENTATION OF AL-RAHNU SCHEME IN SHARI'AH FRAMEWORK

#### 4.1 Introduction

Islamic pawn broking (al-Rahnu) system has been improved after many research done by past researcher regarding Islamic pawn broking implementations which taken seriously adapt of Islamic concepts and element from Shari'ah as basis in pawn broking activities and transactions. This section will provide the actual concept of al-Rahnu scheme implemented in Islamic pawn broking institution from Shari'ah view perspective.

#### 4.2 Implementation of Al-Rahnu Concepts in Islamic Finance

While Malaysia has become a hub of Islamic finance industry, the rapid growing of Islamic instrument also had been taking serious in prevailing the purity Islamic aspects and give fairness to social society. Hence al-Rahnu has been introduced with Islamic law concept which differentiated from conventional system development and practices. A recent study conducted by Razak (2011), explained that Malaysia's Shari'ah scholars had consensus regarding the underlying concepts used in Islamic pawn broking system are the *Qard al-Hassan*, *Al-Wadi'ah Yad Dhamanah*, *Al-Ujrah*, and al-Rahnu.

#### 4.2.1 Application Concepts of *Qard al- Hassan*

The application of *Qard al-Hassan* concept in a correct manner which fulfills the Shari'ah requirements would definitely benefit the contracting parties. However, if it is inappropriately applied, it would potentially tarnish the image of the Islamic financial system. Among the issues that may arise in Islamic finance relating to the application of *Qard al-Hassan* are:

- i. Whether *Qard al-Hassan* in its true sense implies a gift that does not require repayment or otherwise. This refers to the situation where the Islamic financial institution decides to bring a case of a defaulted customer in a financing based on *Qard al-Hassan* to court; and
- ii. Since Islamic financial institutions provide financing by utilizing the deposits of customers who expect returns, financing based on *Qard al- Hassan* does not effectively serve such purpose because *Qard l-Hassan* is not mean to generate profits, rather it is benevolent or *tabarru'* by nature.

In this regard, the Shari'ah Advisory Council (SAC) was referred to on the issue as to whether a financing product based on *Qard al-Hassan* principles is allowed since the application of this concept in a financing product may contradict the original meaning of *qard* according to Shari'ah. The SAC was also referred to on the issue as to whether the word '*hassan*' may be taken out from the term "*Qard al-Hassan*" that has generally been acceptable in the Islamic financial system. However, there is resolution which held in its 51<sup>st</sup> meeting dated 28 July 2005, has resolved that



financing products based on *Qard al-Hassan* principle are permissible. Nevertheless, the word “*hasan*” shall be taken out from the “*Qard Hassan*” to imply that it is an obligation for the borrower to repay his *qard* to the lender or financier and such obligation shall be borne by the heirs of the borrower in the case of his death before the total settlement of his loan obligation.

#### **4.2.2 Application Concepts of *Wadi’ah Yad Dhamanah* and *Ujrah***

Wadi’ah is among the permissible contracts and dealings in Islam. Its legality is enshrined in the Qur’an, Hadith and Ijma’.

Allah (s.w.t) says: “*Indeed, Allah commands you to render trust to whom they are due and when you judge between people, to judge with justice*”

(*Surah an-Nisa’:58*)

The meaning above verses has been strengthened by the saying of the prophet (p.b.u.h): “*And perform the trust (amanah) to those who entrusted you and do not betray those who betrayed you*” (Sunnan Abi Dawud, 3/290). The evidence from the al-Qur’an and Sunnah, all Muslims are unanimously agreed on the permissibility of *wadi’ah* (Ibnu Qudamah, al-Mughni. 6/382). This kind of transaction is a necessity and a requisite for protecting mankind and as such should be allowed. *Al-wadi’ah* also state condition whereas majority jurist are of the view that *ijab* and *qabul* must be valid made in *wadi’ah* contract and the deposit item must a form of property that can be possesses physically which use in al-Rahnu as item gold or jewellery.

In brief explanation, this scheme are not impose any interest charge to the customer but only a fee as to cover the storage expenses and security cost during storage period. However refer to storage of valuable item in al-Rahnu with guarantee every the keep storage item will be imposed a fees storage. However, the storage fees are varying to different entity al-Rahnu depending on the *marhun* value (Othman, 2013).

Earning *ujrah* (wage/rent) is based on selling a flow if definite services of the assets owned. *Ujrah* in other context of al-Rahnu means as the charge imposed for service rendered to pawner on the safekeeping pledge to al-Rahnu institution (Razak, 2011). In Islamic pawn broking system, the compatible fees charges are allowed as rendered the safekeeping of asset with secured and protected during storage period.

#### **4.2.3      *Sighah al-‘Aqd***

The form of contract refers to an expression made by the contracting parties to declare their inner will to undertake a contract and thereafter be bound by certain obligations. This expression is manifested in offer (*ijab*) and made by the offeror and acceptance (*qabul*) made by offeree. The offer refers to what originated from a person from whom the ownership of the transacted subject matter is transferred, even if it is done after acceptance (Dusuki, 2012).

It is agreeable among the jurists that the basis of the formation of a contract is its capability of giving a clear reflection of the willingness of both contracting parties to undertake a contract. This rule is also applied in civil law in which an agreement is not considered a contract in the strict sense unless it is made out of the common intention of the contracting parties that it shall be legally enforceable. Although the Contracts Act 1950, case law clearly dictates the necessity of this requirement. According to Shari'ah, a clear expression of the inner of the transacting parties may take the form of words or its substitutes, such as conduct, writing and gesture.

#### **4.2.3.1 Conditions of Offer and Acceptance**

Jurists have prescribed three conditions in order for a contract to be validly concluded (*in 'aqad al-'aqd*). It can be summarized as follows:

##### **4.2.3.1.1 Clear Indication of Offer and Acceptance**

The offer and acceptance must clearly indicate the intended motive of the contracting parties, this is because the internal motive (*iradah batinah*) is hidden and the contract as well as its related particular rulings are not binding and enforceable if the actual contract (*al-'aqd bi' ayni*) intended by contracting parties is not known with certainty. This can be realized by using the term that customarily and literally signifies the type of contract intended by both parties. However there is no prescribed form of a clear

indication of the motive because specific form (*syakliyyah*) is not necessary for contacts other than marriage contracts.

#### **4.2.3.1.2 Correspondence of Acceptance to the Offer**

The subject (*maudu'*) accepted in the contract must correspond to what has been offered whereby the acceptance of the subject is to be made in either actual or tacit conformance to what has been offered. A contract is not validly concluded (*la yan'aqid*) if the subject of acceptance contradicts what has been offered such as if the party accepted another subject matter of only half of the offered subject matter. This can be illustrated deal: “*I sold my car to you*” and the buyer replies, “*I bought my friend's car*”.

#### **4.2.3.1.3 Continuity of Offer and Acceptance**

The offer and acceptance must be jointly connected in the same session of contract (*majlis al-'aqd*) to indicate the dual declaration of motive if both transacting parties are present at the same time of contract or in a session (*majlis*) in which the party may know the offer made to him even he is not present. Hence, a continuity of offer and acceptance is necessary as its form the basis for the consistency of the parties' intention and consent by which the offeree knows the offer by listening and understanding it if the contract is done in writing or by seeing if it's done by gesture

or conduct. If the contracting parties departed one another before the acceptance is made, the contract is rendered void and not validly concluded.

There are three conditions by which continuity of offer and acceptance can materialize. Firstly, the offer and acceptance must be held in a single session because offer is not considered a part of contract by itself unless it is assembled with acceptance. Secondly, there should be nothing arising from the contracting parties that indicate their objection to the contract. This entails that the conversation should be effected on the subject of the contract and free from unrelated words that may be pronounced in between the offer and acceptance which is deemed as an indicator (*qarinah*) of an objection to the contracts. Thirdly, the offerer should not retract the offer before being accepted by the offeree. In this regard, the offerer shall persist in his offer to the offeree and if he retracts from it, the contract is invalid. However, the offerer assumes the right to retract his offer before an acceptance is made by the other party after which the offer is deemed void.

### 4.3. Features of al-Rahnu Scheme

Nowadays, al-Rahnu pawnshop that provides interest free loan with pledge collaterals as security has become one of the important Islamic credit institutions. In many parts of the Islamic financial system, al-Rahnu has to consider as one of the Islamic financial product. The al-Rahnu financing can be practiced by banking and non – banking institution where can be implemented in vary form and types of al-Rahnu operators in Malaysia.

**Table 4.1:** *Features of Islamic Pawnbroking Al-Rahnu*

<b>Features</b>	<b>Description</b>
Loan amount	Loan amount up to RM1, 000 or collectively up to RM 25, 000 maximum depending on banks and institutions. There are institutions with higher provision which offer amount of loan up to RM 50,000
Margin of Loan	Customers receive a loan up to 80 percent of the value of the item pledged. Unlike the conventional system, customers get lesser loan. Usually, valuation is based on the purity of the gold item.
Tenure of Loan	Usually the financing tenure for al-Rahnu scheme is six months. However, borrower may request to extend the payment period. In the event of customer are fail to redeem his gold or jewelry the bank will give him a notice of auction
Fees	Customers will be charged a minimum safekeeping fee depending on the value of pawned item. The fees ranging from free to RM0.75 for every RM 100 of gold value depending on institutions.
Pawn Products	Pawn product that is normally accepted is gold. This item maybe utilized if the borrower is not able to make the repayment within the agreed period.
Repayment Method	Repayment can be made either by installment or lump sum amount through cash or cheque.
Settlement	In this situation, if the customer is not be able to make repayment, goods will be resold.
Utilization of Pawn Goods	Pawn goods can be utilized with the permission for free. The person will not be charged for any damages made.

Source: *S. Hisham, S. Abdul Shukor (2013). The Concept and Challenges of Ar-Rahnu*

### **4.3.1 Terms and Criteria of al-Rahnu Financing**

#### **4.3.1.1 Eligibility**

Al-Rahnu operators in Malaysia offered the scheme to all Malaysia citizens aged 18 years and above regardless to the religion. Except Mu'assasah Gadaian Islam Terengganu which offered the scheme for only Terengganu's Muslim citizens beyond 18 years old.

#### **4.3.1.2 Collateral**

In the Islamic-based pawnshop, the operators only received the gold jewellery such as necklace, earring, ring, bangle, brooch and others. The gold products which meet specified levels of purity only will be accepted. Furthermore, Bank Pertanian will not accept the gold product less than 14 carat. Meanwhile, Bank Rakyat will accept gold product 18 carat to 24 carat.

#### **4.3.1.3 Storage Fee**

The customers have to paid storage fee to operators for keeping their collateral. The storage fee charged by the operators depends on the amount or margin of loan disbursed to the customer. Table 4.2 shows the storage fee charged by the operators are vary.

**Table 4.2:** *Monthly storage fees per RM 100 of collateral value by operators*

<b>Amount / Margin of Financing</b>	<b>Types of Operators/ Storage Fee (RM)</b>			
<b>Amount of Financing (RM)</b>	<b>Bank Rakyat</b>	<b>Bank Pertanian</b>	<b>Permodalan Kelantan Berhad</b>	<b>Koperasi UNIKEB</b>
1000 and Below	0.65		0.60-0.85	0.80
1001-2000	0.75		0.85	0.80
2001-5000	0.75			0.80
5001-10000	0.75			0.80
10001-25000	0.75			0.80
25001-50000	0.75			0.80
Margin of Financing (%)				
50		0.50		
60		0.60		
70		0.70		

Refer to **Table 4.2**, the storage fee charged by banking institutions is quite low compared to non-banking institutions. Perhaps, it is because the difference in the operational cost in those institutions. If we see in the banking institutions, in general pawning activity is done by the loan officers who are also in charge in the other loan processing such as housing loan, vehicle loan and so on. They have many sources to generate their high income. But non- banking institutions their income only in pawning activity and they have hired officers to specialize and manage pawning activities.



Although the storage fee is different among the operators, the fee charged is still low and so far customers are able to pay it compared to conventional pawnshops, which charge high interest for the amount of loan they disbursed. The other aspects also been considered such as the distance location from customer house and services. However, such this comparison rate of fee might be used as example for study of *Ukhwah* cooperative to where it standing on rate and margin of financing into its operation of al-Rahnu.

For instance, assume the value of *marhun* is RM 10,000 and the maximum amount of loan that can be offered by pawnshop is only 70 percent from the total value of *marhun* which is RM 7, 000. Thus, the *ujrah* fee can be calculated based on this formula (Razak, 2011)

$$US = \frac{NM}{100} \times K \times T$$

Where :

NM = Marhun Value (Pledge item's value)

K = Rate

T = Duration (Month)

$$\begin{aligned} \text{Ujrah Fee} &= 10,000/100 \times 0.75 \times 6 \\ &= \text{RM } 450 \end{aligned}$$

Assume that the pledger does not yet to pay any amount in the first 6 month of period, thus the *ujrah* fee will be charged for a second time by a similar amount.

The *ujrah* fee after the period of extension

$$= 10,000/100 \times 0.75 \times 6 \times 2$$

$$= \text{RM } 900$$

In this case, a double charge of *ujrah* fee can be seen if one could not be able to repay the loan and redeem the pledge in a first 6 month but one could save a similar amount of money from being charged once again if he manages to settle the loan.

#### 4.4 Pillars of al-Rahnu

According to the scholars of *usulfiqh*, pillar or *rukun* is something that leads from its existence of rule (*hukm*); and leads from its inexistence and it is among the substance of the matter and its reality (Naim, 2004).

**Table 4.3: Pillars of Al-Rahnu**

Concept	Description
Borrower ( <i>al-Rahin</i> )	A party that borrows money from another party by placing valuable asset as collateral
Lender ( <i>al-Murtahin</i> )	A party that lends money to another party and responsible for the safety of the valuable asset pledge by the borrower. From the other aspect, the contract also should have the willingness from both parties (borrower and lender)
Pawn items ( <i>al-Marhun</i> )	Items pawned as collateral
<i>Sighah</i> /agreement	Agreement between the borrower and lender between the loan amounts related issues. In additions, the contract of Ar-Rahnu will be continuously applied albeit the death of both parties.
Loan amount	The amount of loan needed by the borrower

#### **4.4.1 First pillar: Two contracted Parties (*al-‘aqidan*)**

*‘Aqidan* comprises of pledger (*rahin*) and pledgee (*murtahin*). *Rahin* i.e. pledger is a person who pledges his item, and *murtahin* is a person who accepts the pledged item. Majority of jurists stipulate *ahliyal-tasaruf* i.e. transaction eligibility, to enter the contract of al-Rahnu, just as they stipulate it in other contracts. Transaction eligibility means that the person who enters a contract is sane, has reach puberty age and maturity age. There was no objection among the jurists regarding their ability to enter the contract of al-Rahnu and others. There was also no objection among them that an insane person and a child *ghayrumumaiyyiz* (i.e. a child in age when he or she is not able to differentiate between good and bad. Normally his/her age is below seven) is prohibited to enter any transaction by jurists regarding the acceptability of *mumaiyyiz* child (i.e. a child in age of seven to prior puberty, who can differentiate between good and bad).

Verily the Hanafi jurists held the view that transaction involving *mumaiyyiz* child is valid without his/her guardian permission, in the situation where the child get the total benefits, such as accepting gift and receiving will (*wasiah*) and taking *sadaqah*. In contrast, the child’s transaction is become invalid although with the guardian permission, if it leads to a total damage to him or her, such as granting a gift, providing *sadaqah*, divorce, guaranteeing and so on. However if the transaction leads to both, those are benefited and damaged, such as entering al-Rahnu contract, sale-purchase, leasing and so on, the transaction of *mumaiyyiz* child is valid with the permission of guardian. This view was shared among the *Malikis*, the appropriate view of the *Hambalis*, the *Zaidis* and the *Ibadis*

(al-Dusuqi, n.d.: 3/231; al-San'ani, 1992;3/326-328; al-Murtadha. 1947:4/111:Itfish, n.d.:11/9).

The above views were derived from their interpretation of the verse of al-Quran which means:

*“Make trial of orphans until they reach the age of marriage; if then ye find sound judgment in them, release their property to them; but consume it not wastefully, nor in haste against their growing up. If the guardian is well-off, Let him claim no remuneration, but if he is not poor, let him have for himself what is just and reasonable. When ye release their property to them, take witnesses in their presence: But all-sufficient is Allah in taking account”.* (Surah Al-Nisa' 5:6)

From the evidences and discussion, the writer is giving his inclination to the first view that allows the transaction of *mumaiyyiz* child with the permission and guidance of the guardian. The current reality shows that a child is educated to manage the money by participating in sale and purchase.

#### **4.4.2 Second Pillar: Offer and acceptance (*Sighah* of contracts)**

Islamic law regulates consent as a basis in contract. A contract is void in case where consent is missing as mentioned by Allah SWT which means:

‘Ye who believe! Eat not up your property among yourselves in vanities: But let there be amongst you Traffic and trade by mutual good-will: Nor kill (or destroy) yourselves: for verily Allah hath been to you Most Merciful!’

(Surah al-Nisa’ 4:29)

However it is difficult to determine how far the contracted parties are giving their consents. In order to implement what has been ordered by God, Islamic jurists deduced the rule that *sighah* i.e. verbal offer and verbal acceptance, must have existed in order to identify the consent of the contracted parties. Thus, *sighah* has become the permanent attribute to determine the consent of the contracted parties. Consequently, it becomes one of the pillars for contract in Islamic law. Islamic jurist have unanimously agreed that a contract of al-Rahnu is entered by the existence *sighah* because it shows the agreement and consent of all contracted parties. But there was no consensus among them with regard to the minor issues of *sighah*.

The majority of Hanafis jurist held the view that the offer (*ijab*) is the single pillar for a contract of al-Rahnu, because of its nature as a charitable contract, just as the contract is entered immediately after the verbal offering (*ijab*). The verbal acceptance (*qabul*) is permissible but not necessarily a compulsory (al-Qarafi, 1994:8/98). However, the majority of Islamic jurist from differences schools of thought stipulated the requirement of existence of both elements of *sighah* i.e. offer and acceptance. Thus, *sighah* is not complete without the existence of both elements. This view was also shared by the group of Hanafi jurists who came out with the conclusion that *ar-rahnu* contracts is not purely

charitable contract in all of its elements, but consist the elements of contract of exchange as well.

#### **4.4.3 Third Pillar: The protected Debt or Right in Pawn Contracts (*al-marhunbih*)**

*Al-marhunbihi* is something which has been protected by taking pawn in order to claim from it in case of failure of repayment. It emerges to researcher in this field that the *al-marhubihi* i.e. protected right in pawn contract, can be classified into two classes i.e. debt or object. The majority of jurists unanimously agreed that pawn in permissible to create a debt. However, they have contradicting views in pawning of object. Thus, the jurist of Shafie, the group from the Hambalis and the Zahirisn held the view that pawning is prohibited for object because Allah s.w.t permits pawning for debt only. In facts, an object cannot be claimed from price of pawning item (Samarqandi, 1984:40-42; al-Khatib al-Sharbini, n.d.: 2/126-127; Ibn Qudamah, n.d.;4/368).

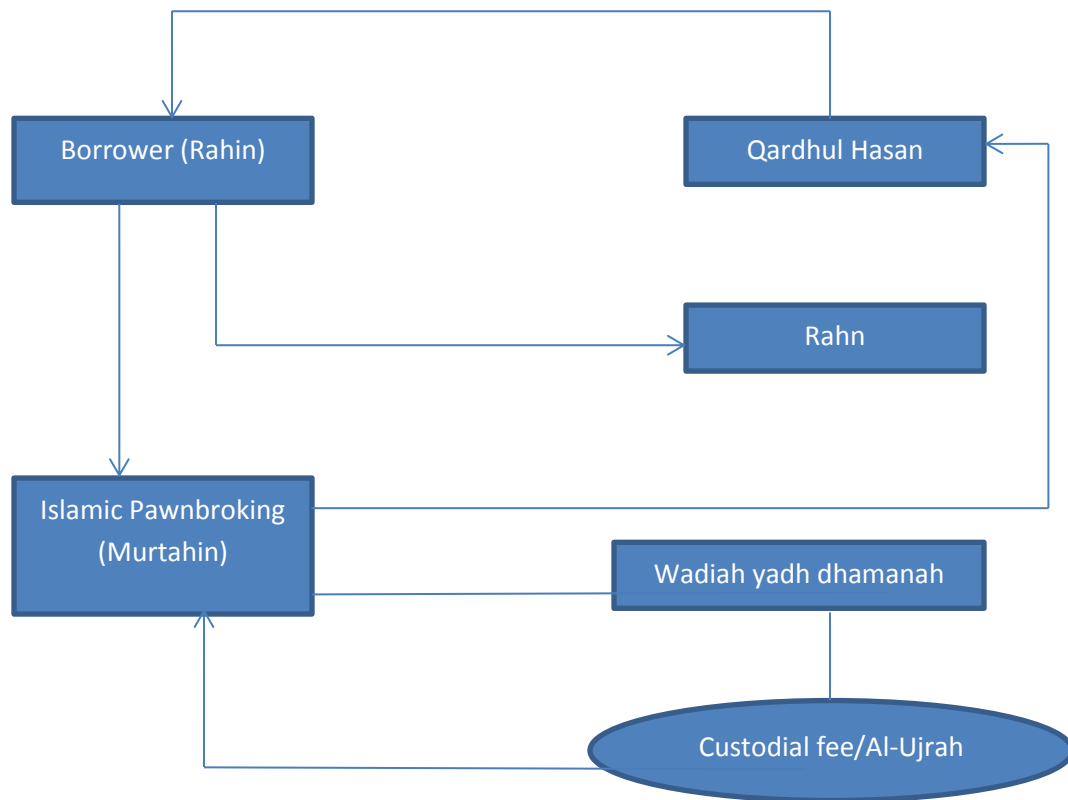
The Malikis jurists and the majority of the Hambalis professed absolute permissibility of pawning for object. This view was also maintained by Ja'faris of Shi'is sect and Ibadis. However, the Jurists of Hanafi stated that the permissibility of pawning for an object is specific to the object which is categorized as '*ain mithli* (i.e. existence of similar object in the market and can be replaced) (Samarqandi, 1984:40-42; al-Khatib al-Sharbani, n.d.: 4/368).

From above discussion, the writer's inclination is towards the view which permits pawning to protect any object. This view does not contradict with the objective of al-Rahnu as protection to the creditor's right, which is the reason why Islamic law legitimates this rule. This is consistent with a common practice, for example, when lessor takes pawn from a lessee in order to protect a leased item, or when the owner of a house asks for two or three months deposits from a lessee as a pawn for the house, either to protect the rental payment or any damaged caused by the lessee.

#### **4.4.4 Fourth Pillar: Thing Given as Pawn (*Al-Marhun*)**

*Marhun* is an object or thing taken to protect a right which can be claimed from it. There were conclusive agreements among majority of jurists on permissibility of taking any objects which were permitted to be sold as pawn for debt, on the grounds that the purpose of the pawn is to protect the debt by claiming the debt from the price of the pawn, in cases when the failure of repayment occurred. However, the Hanafis stated that the purpose of a pawn is to hold up. Therefore, it is permitted to pawn whatever thing which is allowed to be sold, but with some exceptions such as an item which belongs to partnership (*musha'*). *Musha'* item is an item which belongs to more than one person, and could not be divided.

#### 4.5 Modus Operandi of al-Rahnu



**Source:** Rosly, S. A. (2005). *Critical Issues on Islamic Banking and Financial Markets*.

**Figure 4.1:** Al-Rahnu Structure

Generally, there are not many differences from conventional pawn broking system and al-Rahnu. However, the application of contract (*aqad*) in the Islamic pawnshop is different from the conventional pawnshop. The loan granted is underlying on four concepts, i.e. *Qard al-Hassan* (loan without interest), *Al-Wadi'ah Yad Dhamanah* (keeping valuable goods by guarantee), *al-Ujrah* (storage fees) and al-Rahnu (collateral). The storage fee is based on the value of gold and not the amount of the loan. The fee is



charged varying from each Islamic pawnbroker. However, the base rate charged has brought a huge impact from Shari'ah aspect.

In the al-Rahnu scheme, gold is the only permitted item. Gold have several advantages as collateral over other items (Skully, M.S., 2005). Firstly, gold is easily resold and so there is potentially auctioning the collateral should the borrower not redeem the pledge. Secondly, gold purity can be easily determined and so the risk of mispricing the collateral can be minimized. Thirdly, gold chain and ring typically only a small flat envelop for storage and so can be kept securely in the bank safe at little, if any, additional cost. Finally, women often receive gold chains and bracelets as wedding gifts and generally retain personal ownership of these items especially in Malaysia. This practice is common across income levels and so provides a rich base of potential customers.

Principally, al-Rahnu scheme would prefer if the customer may redeem their collateral within six month. However, if customer are fail to redeem the asset, there is an postponement period of three months whenever the client is informed that the asset are going to be auctioned later of two months period. Referring to Manual of Islamic Pawn broking or al-Rahnu of Bank Kerjasama Rakyat Malaysia Berhad, any surplus from the gold over the amount owed to the pawnbroker, including accumulated deposit fee and any costs related to the sale, has to be returned to the customer. In case the customer cannot be reached, the balance of auction sold will be credited to the Baitulmal whereas

the customers have the rights to make future claims (Rosly S.A., 2005). As a whole, the mechanism of Islamic pawn broking can be illustrated as above.

#### **4.6 Parameter of Shari'ah Compliant Contracts**

##### **4.6.1 Shari'ah Determination on the Implementation of Islamic Pawn Broking Scheme (*Al-Rahnu*) in Malaysia**

The 77<sup>th</sup> Muzakarah (Conference) of the Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia held on 10<sup>th</sup> – 12<sup>th</sup> April 2007 has discussed the Shari'ah determination of the implementation of Islamic Pawn broking Scheme (*al-Rahnu*) in Malaysia. The committee has decided that the working capital for Islamic pawn broking shop (*al-Rahnu*) must be gained from Islamic banks or lawful (*halal*) sources and free from usury (*riba*), gambling, uncertainties (*gharar*) and other activities that do not meet the Shari'ah requirements. Secondly, the pawnbroker should subscribe to Islamic insurance coverage and is not allowed and is not allowed to get involved with conventional insurance. Third, if the collateral is lost, stolen, damaged or alike, the pawnbroker has to pay compensation for the remaining value of the collateral at the time of valuation. Fourth, the pawnbroker should appoint internal Shari'ah legal advisor to supervise the operation and activities of *al-Rahnu*.

#### **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)**

The 78<sup>th</sup> Muzakarah (Conference) of the Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia held on 12<sup>th</sup> June 2007 has discussed the Shariah decision on the implementation of Islamic Pawn Broking Scheme (ar-Rahn) in Malaysia (proposal for safekeeping fees charge in Islamic pawnshop) *Refer as Chapter 2.*

#### **4.6.3 Shari’ah resolutions from Bank Negara Malaysia (BNM) of *Qard al-Hassan***

Shari’ah resolutions from Bank Negara Malaysia (BNM) explained *Qard* means giving an asset to a party who will benefit from it and who will subsequently return an equivalent replacement. For the beginning practice of Islamic finance in Malaysia as an example, *Qard* concepts have been introduced in several products such as Government Investment Issue and benevolent loans. Until now, its application has been widely used in Islamic banking products include as *rahn* loans, credit cards, charge cards and others. It has also become the underlying concept for liquidity management instruments for Islamic financial institutions. However, the details Shari’ah resolution on *Qard al-Hassan* may similar as write up in Chapter two.

## **4.7 Conclusion**

This chapter has discussed details on al-Rahnu operation based on fatwa committee and Bank Negara resolutions on *Qard* al-Hassan according to legitimacy of Al-Qur'an and al-sunnah. By providing the true concepts of Shari'ah theory framework, perhaps it might be useful information and reveal of actual concept implementation against Islamic pawn broking systems practice in al-Rahnu cooperatives.

## CHAPTER FIVE

### 5. FINDINGS AND ANALYSIS

#### 5.1 Introduction

Implementations of the Islamic pawnshop or al-Rahnu are different in each institution. The transactions are might be varying according on their institution policies or the administrative system established by the management.

**Table 5.1:** *Implementation of al-Rahnu concepts in Shari'ah View Perspective*

No	Process implementation al-Rahnu	Coop Ukhwah Malaysia Berhad	Coop Pegawai Kerajaan Negeri Kedah	Permodalan Kelantan Berhad(PKB)
<b>1</b>	<b>Al-Rahnu Concept</b>			
	Ujrah (administrative charge)	√	√	√
	Al-Wadiah Yad Dhamanah	√	√	√
	Qardhul Hassan	√	√	√
	Al-Rahnu contract	√	√	√
<b>2</b>	Collateral Security	√	√	√
<b>3</b>	Quality Test	√	√	√
<b>4</b>	Notice auction	√	√	√
<b>5</b>	Aqad	√	√	√
<b>6</b>	Excess money	√	√	√
<b>7</b>	Riba	x	x	x
<b>8</b>	Al-Rahnu Pillars	√	√	√

Unlike conventional pawn broking, the al-Rahnu or Islamic pawn broking have several differences and concepts to be followed. The al-Rahnu process and transaction are must be tied to Islamic law and Shari'ah. Hence there are some criteria need to be look at to the al-Rahnu practice and concepts as to ensure the actual practice of these different entity institutions are truly comply to Shari'ah requirement and theory framework.

## 5.2 Al-Rahnu Concepts

From observing the concepts used in *Ar-Rahnu X'Change* of Koperasi Ukhwah Malaysia Berhad, the concepts used are *Qard al-Hassan* which non-interest loan, *Wadi'ah Yadh Dhamanah* based on trust and safety storage, *ujrah* and al-Rahnu contract. It is according interview with En Fadhly said “ *The implementation of al-Rahnu are similar based on al-Rahnu Bank Rakyat which applied the Shari'ah principles Wadi'ah Yadh Dhamanah, Qard al-Hassan, ujrah and al-Rahnu concepts*”. Special features of *Ar-Rahnu X'Change* are interest free which eliminates from *riba* in money repayment and no processing fees will be charged. It is different from Koperasi Pegawai Kerajaan Negeri Kedah where it has imposed RM 1 for each Al-Rahnu transaction. This al-Rahnu cooperative also had implemented combined on four Shari'ah principles, al-Rahnu and *Qard al-Hassan, Al-Wadi'ah Yad Dhamanah and Ujrah*.

In responding to the epistemological sources of al-Rahnu PKB, En Saiful Azhar added this al-Rahnu is among of the pioneered to al-Rahnu system in Malaysia which also applied the same the four Shari'ah concept and eliminating *riba* in its operation.

### 5.2.1 Collateral Security

For the security protection the item pawned will be insured at the value of collateral during the pawn broking transaction. The lender will keep the collateral safely in a special room. The pawnbroker has the temporary al-Rahnu box to keep the collateral they

have for one day. In *Ar-Rahnu X'Change*, all the collateral pawned will be insured by Takaful insurance scheme throughout the financing scheme based on the value of the collateral during the pawning activity. This means, in the Islamic pawn broking system the borrower's welfare is protected. It is because if the collateral is missing or stolen the borrower will be paid the value of collateral.

Moreover, in Shari'ah framework also stress out the protection of pledge item while it was under the al-Rahnu institution, *Ar-Rahnu X'Change*, Koperasi Pegawai Kerajaan and PKB however have insured by Takaful insurance scheme as protection of asset pawned. Throughout of this procedure, the lenders are treated fairly with given protection of item pawned guaranteed under Islamic pawn broking according to Shari'ah principle

### **5.2.2 Quality Test**

In checking of quality the gold, the al-Rahnu operators are also required to evaluate the quality using two methods. The using of decimeter machine is to evaluate the quality, purity and gold value (gold carat) and secondly using of acid nitric and hydrochloric acids. The checking procedure are looking as necessary in al-Rahnu institution process as well as checking the purity and the type of gold based on the gold keys they have. The gold keys include various type of gold carat. From the result of interview of three al-Rahnu institutions, the study found out that all the al-Rahnu operator are trained to conduct the test into a gold item or expert individual are might be hired to check the purity of gold even though the method used are might be different to each institution.

After the collateral had been tested it's genuine of gold, then the collateral will be evaluated and the weight will be measured and be valued according to the market price of gold based and type of gold. The test of pledge item however are similar to these different cooperative which using the acid and a machine by skill worker or trained individual.

### **5.2.3 Notice Auction**

In case of customer fail to redeem the pawned item, this three cooperative will send a notice to the borrower before the pledge are notice to be auctioned process after end of period matured to redeem. *Ar-Rahnu X'Change* scheme have facilitate them by extend the repayment period up to 6 month with condition the previous storage fees are must be paid. The similar case to Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah and PKB, they will issue a notice of auction to customer before the auction process been advertised and take place. This procedure are streamline according to Shari'ah whereas notice for customer notification status of their collateral to be auction and advertised before it is straight forward to be took off by auctioneer licenser.

### **5.2.4 Aqad Execution**

Meanwhile for *aqad* execution, according to Shari'ah law, *aqad* or *ijab qabul* is a part of pillars contract whereby both parties are consent to the subject matters and agreement to bind the contracts. In al-Rahnu system, the valid implementation according to Shari'ah



are when there are declaration of offer and acceptance from the customer and the Islamic pawn institution whether verbal expression or written (Adwam, 2007). *Ar-rahnu X'Change* are required the customer to filled up the form *Declaration of Letter Ar-Rahnu/Al-Zahab Islamic Pawn Broking*” reading and understand and agreed the requirement while the al-Rahnu operator are signed at the stated column of the form. Statement for borrower: *“I have declared to receive cash amount RM 2,500”*. Statement from lender: *“I have received the pawning as mentioned”*.

In Koperasi Pegawai Kerajaan Negeri Kedah and Permodalan Kelantan Berhad, the same approach are used which customers are been given the form and need to read the particular information, understand the terms and give signature as agreed sign to al-Rahnu transaction. Here, the agreement are very important in doing the transaction as the proof of sale purchase or lending money occurred within parties involved. It is written in Al-Qur'an the encouragement of record any transactions occur weather in agreement or contracts.*(Refer Attachment Appendices A)*

### **5.2.5 Excess Money**

From result interview of three al-Rahnu cooperatives, the customer are deserve to get the balance of money after deducted for the rest debt amount and other associated costs. The *Ar-Rahnu X'Change* Koperasi Ukhwah will return the money to the borrower if the sale value of collateral is higher than the amount lent after considering the costs. Meanwhile, in Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, the excess money after the auction process will be managed through Auction Money Balance Voucher. The al-Rahnu also

deserves a right to check auction record and financial statement related to the process. In the case Permodalan Kelantan Berhad, the balance of the auction price, after less storage, auctions and debt costs will be given to the customer or credited directly to the customer account. Here, any surplus gained from the auction process or asset sold are need to be returned to the customer. If they cannot be located, the money will be managed by Baitulmal or any responsible body for future claim.

Thus, from discussion above there are four important aspects involved in pawning transaction; the borrower, the lender, the collateral (*marhun*) and debt (*marhunbih*). The contract has been completed and both party satisfied, the al-Rahnu operator will give “*Pawnbroking Receipt*” to borrower. Then the transaction finished when the borrower brings the receipt to the counter to get the money as agreed in *aqad*. The element of riba also has been eliminating in granting loan and repayment debt for all al-Rahnu institutions above. Normally, the pre-requisites of these al-Rahnu cooperatives are quite similar includes the eligibility are Malaysian citizens aged 18 years and above and permanent residents. Not a bankrupt. For non-Malaysian citizens they need to proof the identification card to qualify them into the process. Here, even though the practice al-Rahnu are different implemented by entity cooperative, the concept of Islamic regulation are still being followed to the al-Rahnu process include from perspective the al-Rahnu pillars, the item of pledge, the term pawning from start operation of check purity of gold, security of collateral, loan extension negotiation, consideration of redemption process and auction process all are being well managed according to Shari’ah. The study of actual

concepts al-Rahnu in three cooperatives have been answered by reviewing the al-Rahnu processes involved includes *aqad* execution transacted both parties.

### 5.3 Al-Rahnu Modus Operation in Cooperatives

As the previous table has described the actual of al-Rahnu concepts in three cooperatives, perhaps it had clearly explained between underlying real Shari’ah concepts and actual practice operated in al-Rahnu institutions. Nevertheless, the next further details discussion is al-Rahnu features described at **Table 5.2**. The dissimilarity is made up of fees storage, the loan period, and service charge which involved to the whole in process.

**Table 5.2:** Comparisons of Al-Rahnu features in different entity Institutions

<b>Al-Rahnu</b>	<b>Koperasi Ukhwah Malaysia Berhad(Al-Rahnu X’Change)</b>	<b>Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah Darul Aman</b>	<b>Koperasi Permodalan Kelantan Berhad</b>
<b>Amount/ margin of Financing</b>	65% from the <i>Marhun</i> for first time customer and 70% for the second time customer. Maximum loan limit for <i>Al-Rahnu</i> scheme is RM 50 000, and <i>Al-Zahab</i> scheme is RM 100 000.)	60% to 80% from the <i>marhun</i> value. Maximum amount RM 15 000.	70% to 75% from the <i>marhun</i> (maximum RM 100 000 a customer)
<b>Loan Period/ Charge Period</b>	Al-Rahnu Scheme six months and then extended as long as storage fee paid. There is no maximum limit Al-Zahab scheme was given two choices if the installment payment of claims within three years. If a lump sum as the Al-Rahnu scheme.	Six month and the extension period will be consider up to 4 months as the storage fee paid	Six months and then will be extended as long as the storage fee paid and no limit.
	<b>Al-Rahnu Scheme</b> (Collateral <RM 1000)- RM0.75 first time customer and second time	Storage fees decided by Al-Rahnu committee	1.2% loan value for collateral value of RM 400 and below. 1.7% for the collateral

<b>Storage Fees/ Service Charges</b>	is RM0.65 (Collateral RM1001- RM10 000) RM 0.80 for first time customers and second time RM0.75. <b>Al-Zahab Scheme</b> Value of RM 0.75 for collateral valued below RM 10 000 and RM 0.80 for collateral valued RM 10 001 to RM 100 000	<b>Al-Rahnu Scheme</b> (Collateral RM 1.00- RM 400) –Is RM 0.60 for each RM 100 (Collateral RM 401- RM 2000) –Is RM 0.80 for each RM 100 (Collateral RM 2001- RM 10 000) –Is RM 0.95 for each RM 100 <b>Service charges</b> RM 1.00 for administration transaction	valued worth RM 401- RM2000 1.9% for the collateral worth RM 2001 and above.
--------------------------------------	--	---	---

### 5.3.1 Margin of Financing

According having the interview with En Mohd Fadly Mohd Yusof, an Accountant of Koperasi Ukhwah’s Head Quarters in Jalan Medan Tuanku, Kuala Lumpur said the whole process of al-Rahnu transaction and process are similar to operations of al-Rahnu Bank Rakyat since it is under subsidiary of Rakyat Management Services Sdn Bhd when Bank Rakyat had initiative to open its standing alone outlet of al-Rahnu under cooperative business operation and free *riba* based concept. The *Ar-Rahnu X’Change* Koperasi Ukhwah was the fifth franchise branch of Bank Rakyat are recognize as Islamic pawn broking since 2003 which aim to fulfill the financial needs of society and help increase the economy of community through pledge of collateral.

As shown in **Table 5.2**, implementing *Ar –Rahnu X’Change* Koperasi Ukhwah Malaysia Berhad launched margin financing limit is to 65 percent on the value for the first time pawn and 70 percent on the value of a second time pawn. Minimum loan is RM 100 and a maximum is up to RM 50 000. While, *al-Zahab* the minimum loan for the scheme is

RM 10 000 and the maximum is RM 100 000. For al-Rahnu scheme, a day loan limit to not exceeding RM 10 000 for the volume of collaterals, while the hollow is not more than RM 5000 per day. Whereas, for *al-Zahab* for hollow gold loans is not more than RM 5000 (SIKA notice bill 145/2008 on 16/07/2008). Koperasi Ukhwah through franchisor Bank Rakyat introduced *al-Rahnu/al-zahab* pawn broking-I based on 4 Shari'ah principles which are *Qard Hassan*, al-Rahnu and *Wadiah* and *Ujrah*. The *Ar-Rahnu X'Change* will only accept gold as a pledge and jewelleryes, it includes gold 999, 950, 916, 875, 835, and 750. Type of pledge allowed in *Ar-Rahnu X'Change* are approved by Bank Negara Malaysia. (SIKA Notice bill 55/2008 on 28/03/2008).

Meanwhile, according to Bank Rakyat Board Director, Datuk Kamaruzzaman Che Mat, he added in BERNAMA, said:

*“Islamic pawn broking business operations which offering free loan interest and no processing fees are fully complying to Shariah standards since 2003 and they are responsible of offering product and services in equitably and justice full of rights to public interest”.*

In comparative, the al-Rahnu Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah which also has been acknowledged as the best top hundred cooperative in Malaysia 2012 in ranking fourteen has giving out loan maximum 60 to 80 percent from gold value according to market price. The al-Rahnu only make gold as a pawn item which tied to Islamic law regulations. It is based *fardhu kifayah* concept which helps the needy people and being responsible to take social accountability.

In the case of al-Rahnu PKB, the value of the loan given can reach maximum to 75 percent based on customer request. In a day, maximum loan amount that can be cash out to the borrower is limited to RM 50 000 while the total limit one customer's name is as high as RM 100 000. Normally, the collaterals they received is the gold items and gold dinar only whereas the prices of gold are depend on the gold standard value. The higher the quality gained the higher value of gold is. The most targeted al-Rahnu are individual aged 30 years above which have gold item as to be placed as collateral.

### **5.3.2 Period of Loan Service**

Even though the period of loan is not specifically mention in Islamic pawn broking, it should be realized that the time pawning are must be considerable time in enable customer settling loan repayment and not be burden to them. The study of *Ar-Rahnu X'Change* was also consider giving long term pawning due to financial constraints of certain people who unable to make the payment on a fixed due date. Thus, *Ar-Rahnu X'Change* scheme have facilitate them by extend the repayment period up to 6 month (6 month + 6 month) with condition before the pledge are notice to be auctioned and pay the previous storage fee first. While for *al-zahab*, they will be given the option where the customer can pay by the installment, and the period is limited up to three years, but if customers want to pay lump-sum it same as al-Rahnu system.

However, for Koperasi Pegawai Kerajaan Negeri Kedah, the maximum periods are maturities up to 6month. However the extension tenure are allowable not exceed than 4months. The tenure are enforced from start ending last due date. Before the extensions of period, customer are advised to settle the previous storage fees before renew the new tenure. Targeted group of al-Rahnu Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah include the needy people to help them survive comfortably in serve daily needs to child education and life expenses, and celebration festival coming. Secondly al-Rahnu also targeted purpose to small entrepreneur in expanding their business operations and as source of capital to the small business.

For repayment and loan extension loan period of PKB is given to borrower up to six months. If the customer are unable to redeem the gold after six months, then they should pay the storage fee before continue the tenure of period 6 month. If customers still fail to redeem, the customer should do the same paying the fees storage for another six month extended period and there is no limit.

### **5.3.3 Safe Keeping Charges**

From having interview with Ms. Alwani, Bank Rakyat *Ar-Rahnu X'Change* operator, evaluation Fees Storage Calculation in *Ar-Rahnu X'Change* Koperasi Ukhwah is charged minimum for the safekeeping of the valuables. For collateral worth RM 1000 for the first time customers is RM 0.75 per RM 100 per *marhun* value. But for the second time that storage fee is RM 0.65 for every RM 100 per *marhun* value. For collateral valued

between RM 1000 to RM 10 000 the storage fee is RM 0.80 for first customers and RM 0.75 for the second time customer. Next to the total amount exceeding RM 10 000 product al-Rahnu will switch to the *al-Zahab* and storage fee is RM 0.75 per RM 100 per *marhun* for loans below RM 10 000 and if the loans amounted RM 10 001 to RM 100 000 the storage fee is RM 0.80 per *marhun* value.

For the calculations of fees storage in Koperasi Pegawai Kerajaan Negeri Kedah are calculated based on gold value and number month of period to be redemption. From interview with En Syukri Hassan, a Manager of al-Rahnu Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, this cooperative applied the Shari'ah concept *Qard al-Hassan* for giving out public servant short term financing and small business entrepreneur for capital rolling to run their business.

While according to Al-Rahnu PKB, Branch Manager in Alor Setar, Mr. Saiful Azhar, this al-Rahnu imposed the storage fee charged to customers is based on a percentage of the loan value. If the collaterals valued at less than RM 500, the storage fee is 1.5 percent of loan value, while if the total value of the collateral is between RM 500 to RM 2500, the storage fees is 1.6 percent of total loans. Percent of the highest storage fee is at 1.7 percent of the value of collateral from RM 2500 and above. Unlike conventional pawn broking, storage fees of Islamic pawnbroking are imposed as compatible the services charges of cooperative expenses to protect the safe keeping of asset.



#### **5.3.4 Loan Extension**

Any repayment can be made in installment amount or lump sum at *Ar-Rahnu X'Change* outlet at any time before maturity by showing the "*Pawnbroking Receipt*". But the payment has to be made within the loan period. If the customer failed to make any payment amount within the period, the *Ar-Rahnu X'Change* outlet will send the notice to ask for loan extension with condition the customer are required to settle the storage fees of previous month. If customer agreed to extend the loan period, the operator will give the new receipt and there would not be any extra charge or compounded to the storage fees of previous month. The borrower might settle the al-Rahnu loan at the issuing *Ar-Rahnu X'Change* cooperative outlet.

The similar process are identified in Koperasi Pegawai Kerajaan Negeri Kedah and Permodalan Kelantan Berhad whereby there is still have negotiation and consideration given to add extra period for customer who are fail to make the payment with condition settle the previous fees charge. Otherwise, if the pledger are complete paid, the lender will give back the collateral to the borrowers when the customer settles the loan.

#### **5.3.5 Redemption Process**

In *Ar-Rahnu X'Change*, any redemption shall be made by customer only. If the representatives want to redeem, they have to bring the confirmation letter from customer to enable the redemption transaction. If customer loses their storage fee certificate, they

must make a declaration sworn in Commissioner of Oaths. The cost of lost storage fees certificate will be borne by the customer itself (SIKA notice bill 28/2008 on 25/02/2008). Similar process for Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, the customer however must redeem the collateral at a fixed due date. If the borrower cannot come to redeem the collateral and required the settlement through third party he has to present the Letter of Authority and a photocopy of the customer's identification card.

For the process redemption of PKB, customer may redeem half of the items pawned. Customers need to pay the total amount of collaterals redemption along with the accumulated storage fee and then the loan period will be extended. Storage fee is based on the rate of the remaining collateral. Furthermore, customer can also pay the redemption by installments and the collaterals will be given after completion of the redemption fee.

### **5.3.6 Auctioning Process**

Often, the *Ar-Rahnu X'Change* will send a notice to the borrower within 14 days before the loan period matured to redeem or find the buyer for the collateral. If the borrower fails to settle their loans within the additional period then the operators will sell the collateral via open tender. However there was still having negotiation and consideration if customers want to redeem the collateral at the day. If not, the collateral will be advertised to public. The lender will inform the particular of the tender via notices in public place. They will select the buyer who is willing to pay the highest price among the

tender buyers. If there are no buyers in the first tender then they will open the second tender for another one week and do the same procedure.

While for Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah the auction process has been stated in cooperative rules as follows. Firstly, al-Rahnu have a right to place the collateral for the auction process if the customer are fail to redeem the pledge until end of period. The auction process will be conducted by licensed auctioneer. Before the process begin, the cooperative will issue a notice to the customer on the process of auction and will open a chance to redeem before the auction process started. Normally, before the auction process take place, the auction notice will be publicized in newspaper to inform the public the particular of the auction process. However if there is no redemption made after two weeks and notice send, the pledge will be sending to the auction.

Similar case to al-Rahnu Permodalan Kelantan Berhad for customers who are unable to redeem the pledge after a year, an auction notice will be given before the action pledged to a license auctioneer. The pawnbroker can bid for and purchase at a sale by auction and they shall be deemed the absolute owner of the pledged purchased. The al-Rahnu will open to the public at the time the auction taken place. Mainly the auction prices are based on current gold price depreciation of 30 percent discount from the current gold market value.

As conclusion, from above concepts implemented by different three entity cooperatives, it can be seen that the present practice of al-Rahnu three cooperative are in line with Shari'ah requirement in term of the concept applied are based to what Shari'ah guideline stress out which are al- Rahnu, *Qard al-Hassan*, *Wadiah Yad Dhamanah*, the storage fees concept *Ujrah*. The pillars of al-Rahnu are also reflected in the cooperative process above which are consist of both customer and Islamic pawnshop institution as contracted parties, offer and acceptance (*sighah* of contracts), the protected debt by Takaful in pawned contracts, and Gold as a thing given or item pawned. However the regulation of al-Rahnu cooperative are supervised by their cooperative laws and also had been tied to Shari'ah laws which regulated from Bank Negara Malaysia and aligned with Shari'ah guideline such Fatwa Kebangsaan and guidance from Al-Quran and al-sunnah as main primary sources in practice.

#### **5.4 Issues Related to al-Rahnu Implementation**

The Islamic pawn broking has been introduced since over last 20 years ago. From its establishment, there a few of study found out that several challenges and issues arise during implementation of al-Rahnu scheme.

##### **5.4.1 Genuine of Gold**

The most common challenges faced are Islamic pawn brokers have been reportedly receiving gold that turn out to be faked. However the al-Rahnu scheme should

aggressively to take action against this issue such as active promotion from marketing regarding gold, increase the public awareness about genuinely of gold and the locations of this scheme.

#### **5.4.2 The Issues of Safekeeping Fee (Storage Charge)**

This is the most controversial of Shari'ah issue among jurist and Shari'ah scholars in determine the link issues safekeeping charge to the value of pledged gold. Although this direct linkage is establish to escape from the prohibited linkage between the safekeeping fee and the loan amount, this mechanism is not safe from the above prohibition because the storage fee will not be imposed without the execution of the al-Rahnu contract is executed merely to secure the debt arising from the *Qard al-Hassan* contract. In fact, the whole chain of the arrangement is solely derived from the execution of the *Qard al-Hassan* contract, which indicates that the *Qard al-Hassan* is given on the condition that the customer agrees to pay the safekeeping fee, which exceeds the actual storage cost incurred by the bank. It is argued that if the actual safekeeping costs for the pledged gold in this structure is equal to that of all other pledged goods, then the inflated fee is a legal trick (*hilah*) to circumvent the prohibition of *riba* (Asmadi, 2004).

Besides, the issues of safekeeping fees must be actual cost. The lender however makes profit through this fee. Maintenance of the pledged asset whereby the lender cannot make profit out of it. The lender also cannot use the pledged asset except with permission. It is clearly stated in study conducted by Mohamad (1995), he found out there are two

sections in the act that contradict Islamic law, namely section 17 which allows the pledgee to take advantage of borrowing and section 23 (a) that allows the pledgee to have the pledge that are not redeemed if the loan not exceeding RM 100. However jurists have a different view related to the benefiting from the pledge property by the debtor.

#### **5.4.2.1 Shafi'e ruled**

The Shafi'e ruled that the debtor is authorized to utilize the pledge property, as long as the utilization does not harm the creditor. Therefore, the utilization of the pledge property does not cause the disadvantage such as devaluation of property or damage.

#### **5.4.2.2 Hanafi, Hambali and Malikis ruled**

Second, the debtor does not bring the pledge property in long distance journey. It is related to the risk of pledge property. In contrast, the Hanafi, Hambali and Malikis ruled that the debtor is not permitted to benefit the pledge property during the pledging. The Hanafi jurists allow the benefiting from pledge property (by debtor) with the permission of creditor. The Hambalis jurist agreed with the Hanafis jurist that the debtor is only allowed to use the pledge property with the creditor's permission.

### **5.4.3 Customer preferences of Conventional Pawnshop**

As the developing of al-Rahnu is still new in Islamic finance system, it had high competition customer preferences to conventional pawnbroking system. The customers still prefer go to conventional broking or get help borrowing from “*lown shark*” such as “*Ah Long*”. They prefer to borrow from the conventional pawn shop as they might offer a higher financing loan rather than Islamic pawnbroking which normally offer maximum 80 percent. In conventional, the customers are given borrowing maximum to 90 percent of value of the asset pledged, while in actual the customers eligibility are only to 65 percent from value of asset.

## **5.5 Al-Rahnu Law and Regulation**

A regulatory framework are plays an important role to promote vibrant and healthy credit market. The framework is aimed to promote stability to ensure the positive growth of financial and economic country.

### **5.5.1 Pawnbroker’s License**

To be operated as a Pawnbroker and have authenticity in pawnbroking business, the application of license must be made to carry on the business. The application for the license must be made in writing to the registration in the prescribes form. For application fee for the license is required applicant to pay and the license will be valid for three years. The pawnbrokers need to display the license in a conspicuous part of the premises.

### 5.5.2 The pawnbrokers act 1972

This act was introduced to regulate and control the pawn broking business, to protect the pawner and pledge assets, matters connected with it. However, *Ar-Rahnu X'Change* Koperasi Ukhwah Malaysia Berhad was regulated similar to Ar-Rahnu Bank Rakyat operations. It is according to Ms Alwani the operator of *Ar-Rahnu X'Change* said “*At present, we are not governed by the Pawnbroker Act 1972; instead we only referred to our own Ar-Rahnu Manual Guideline*”.

The *Ar-Rahnu X'Change* cooperative are exempted from being obliged this acts due to reasons Bank Rakyat have been given exceptional as the institution operating in Islamic pawnbroking al-Rahnu as follows:

- i. Bank Rakyat is one of exceptional cooperative from Pawnbroking Act 1972
- ii. Bank Rakyat have many branches network of each city and state
- iii. Bank Rakyat is committed as Islamic Banking Institution in overall operation while offering Islamic financial product (Bank Rakyat, 1994) (Yusof, 2010).

According to Section 46 in the Pawnbrokers Acts 1972, there are three organizations that shall be exempted from this act which are; (1) any bank licensed to carry on banking business in Malaysia; (2) Bank Pertanian Malaysia, and (3) any co-operative society registered under any written law in force in Malaysia (Razak, 2011).

It indicates that Islamic pawnshop's current governance now is a part now managed by the cooperative institutions and non-banking institutions. The area regulation in



Pawnbroker Act does not cover the al-Rahnu business. For the Islamic pawnshop owned by cooperative, they are governed by the Cooperative Act 1993. It is similar to Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, Hj Syukri bin Hassan said “*Regarding regulation, our al-Rahnu business operation has its own manual guideline which under our own cooperative acts*”.

Although the al-Rahnu in cooperatives business operation are excluded from Cooperative Act 1972 law, but they introduced separately the al-Rahnu manual guideline as well as provided by Bank Rakyat guideline in *Ar-Rahnu X'Change* Koperasi Ukhwah. The similar case of Koperasi Pegawai Kerajaan Negeri Kedah whereas the al-Rahnu whole operations are monitored through cooperative acts itself. President of cooperative committee will act as authority person and as decision maker in supervised the al-Rahnu business operation.

## **5.6 Conclusion**

Thus, it is found out that to date each cooperative established have their own al-Rahnu manual guidelines as a reference for Islamic pawnbroking operations and exempted from Cooperative Act 1972. Despite they served by own manual references, they admitted the important role of government and BNM as high authority body in Islamic finance regulator and in Islamic finance industry.

## **CHAPTER SIXTH**

### **6. RECOMMENDATIONS CONCLUSION**

#### **6.1 Introduction**

This chapter aims to reflect on the findings in a critical manner after highlighting the main findings of the research. Based on the findings and further reflections in this chapter, recommendations challenges al-Rahnu practice and into its operations are also provided. Finally, this chapter concludes based observation on finding results of the study on pawn broking from Islamic perspective, the analysis on implementation of pawn broking at cooperative that was choose and their challenges issue faced in al-Rahnu concepts applied.

#### **6.2 Summarizing the Research**

The aim of this research was to conduct a study of Islamic pawn broking (al-Rahnu) scheme practice in cooperatives. Following this aim, in reviewing back the first objective was to study the overview of Islamic pawn broking (al-Rahnu) concepts which legitimacy by al-Qur'an and al-sunnah sources. As the Muslims in Malaysia underwent an evolution in their lifestyle and the way they deal with financial needs, they began to look for Shari'ah –compliant financial institution to obtain non-interest loans and other Shari'ah financial instrument. Apart from this, this product offered must suit the Shari'ah principles and standards and plus fulfill religious obligation (Yaacob et. al., 2012). For answer of this matter, it had been detailed provided in chapter two and four. Despite full

explanations of concepts, the section had also provide the emphasis on al-Rahnu tied guideline and regulations that must be comply in order to streamline the Islamic pawn broking activities according Shari'ah standards and its theory framework. It is according study conducted by Hassan (2013) mentioned "*the growth of Islamic microfinance is still way lagging behind its conventional counterpart both in market penetration and performance. There is unmet demand for Islamic microfinance product in the market*". Here, even though the researcher above mention the microfinance Islamic product, we might also relate to cooperative institution as it is a part of financial institution and offering financing to customers. On the other hand, second objective was to have a comparative study on actual operation of al-Rahnu in cooperative from context Shari'ah view perspective. These answers are revealed in chapter two and five. The result shows al-Rahnu scheme still a new of Islamic practice which had been established about 20 years ago from existing conventional system. The implementation of al-Rahnu scheme overall in three entity cooperatives were sought comply with Shari'ah requirement and streamline with Islamic law standard as all the Shari'ah principle have been followed.

The modus operandi of al-Rahnu concepts identified that these cooperative have fulfilled all al-Rahnu pillars without occurred any *gharar* or *riba* in whole process and transaction. The Shari'ah concept are reflected through of Shari'ah contracts applied in granting loan are based on *Qard al-Hassan* and *Wadi'ah Yad Dhamanah*, al-Rahnu for the pledge item as the collateral on loan given and *Ujrah* through impose the fees storage. The transaction between both parties are also look transparent (customer and institution) and been

recorded in every single type writing agreement and receipt evidence without any ambiguity or contradicting to Islamic law principles (Refer attachment Appendices).

The third objective is to study the execution of *aqad* in al-Rahnu scheme in cooperative. *Aqad* or contract *sighah* in Rosland (2012), previous study was highlighted as important tenets in the sale contract which also consist of sales of goods and the prices. This effort should be given attention due to presence of *aqad* determine the validity of every sign of contract (Naim, 2004). The research found out through reviewing of al-Rahnu process operation, all three cooperative have required the customer to read, understand the terms and conditions of transaction and signed the agreement or contracts. They need also give a declaration to al-Rahnu operator as consent proves of both parties during sign the contracts.

The last objective will explore the issues arise in al-Rahnu practice and how it had been managed by cooperative and Islamic banking scholar. Our finding shows that the most common challenges faced in al-Rahnu cooperatives are mostly regard the fake of gold item. This is happened when the customers are desperately need the cash and pretending give the fake gold as the collateral. Nevertheless, the item can be easily differentiated by expert individual who getting used check the gold using acid test. Secondly, issues related to keeping fees storage which are similar to *riba* (Khir et. al., 2013). In the case of fees issues, past researcher had agreed on permissibility of imposing fees to a pledge item with had proposed by past researcher adding a new contract separately from *Wadi'ah*

contracts. The link issues of *riba* and fees charges are also had clearly elaborated by many scholars in chapter four. The last issue is regard to loan extension of repayment period. This is according the double amount extension period are seem burden to customers. However many jurist had come out the resolution based on jurist view arguments and proof from al-Qur'an and al-sunnah evidence.

### **6.3 Recommendation and Suggestion**

Based on the analysis so far, the following recommendations can be offered:

i) Train experience jewelers to detect real from fake gold, experience jewelers will be able to detect fake gold by its weight. Despite using a gold as the collateral, the al-Rahnu institution be able to diversify their collateral acceptance, such as accepting vehicle grant or trust funds; but also improving the speed in getting loan approval with less documentation such access 'My Card' to get personal details information and financial report if needed.

ii) The past researcher proposed giving "*good loan*" which is backed by the pledge should be responsibility of government and millionaire to prevent folk continuously trapped in the financial system. Separation contract is the only way to validate the removal of the linkage. Islamic pawnbroker should consider waiving the fee charge or, in other meaning, *Qard al-Hassan* which currently being practice by only one Islamic pawnbroker MGIT under certain income level to attract more customers and at the same time helping the needy, which parallel to the Islamic teaching. The fee

charge should be more competitive in order for them to be more competitive and give advantage to be sustainable in this business, at the same time charge a reasonable rate in order to protect customers from feeling oppressed.

iii) Imposing of one time *ujrah* fee in a year will be good alternative as the pledge item has already at their possession. At the same time bank may probably increase the financing amount as they giving up the higher rate as what other financing products have done.

iv)Regulatory support - the purpose of the regulation was as to protect and secure a healthy pawnshop industry, as well as safeguarding the interests of the customers. It is also can be recommended to introduce new Shari'ah Law regulations. On the other hand, the local authorities can come out with a policy of opening the windows of Islamic pawnshops in existing conventional pawnshops in order to capture loyal conventional pawnshop's customers to deal with Islamic pawn broking transaction. Support from government, state governments and Islamic institutions are also vital, especially at the growth stage at these pawnshop. They could come out with short-term and long-term plans for the Islamic pawn broking scheme in order to improve the well-being of the Muslim community in Malaysia.

## 6.4 Conclusion

As the conclusion for overall of study, al-Rahnu scheme is one of the cooperative tools in Islamic civilization which can accommodate present needs. The emergence of this scheme will protect society especially Muslims from involved in the conventional financial system which is based on *riba*. The study of three cooperatives Koperasi Ukhwah Malaysia Berhad also has seen the application al-Rahnu practices are streamline to Shari'ah theory framework and gain supported from legal framework in added to strengthen the Islamic pawn broking systems. The finding also has shown the practice of *Ar-Rahnu X'Change* and PKB are the best practice as both institution have been long established and be pioneered of al-Rahnu scheme in industry. In fact *Ar-Rahnu X'Change* also operating under subsidiary of Bank Rakyat who have recognized as best Islamic practice in offering Islamic financial product (Yusof, 2010). Despite Bank Rakyat become as trusted of Islamic financial institution, it's also the initiative body joint collaborate with Bank Negara Malaysia (BNM) in introduce of al-Rahnu scheme in 1992. The similar case of sustaining growth of Permodalan Kelantan Berhad and Koperasi Pegawai Kerajaan Negeri Kedah. PKB had established as second Islamic pawnshop in Malaysia and currently have 13 outlets of al-Rahnu operates in Kelantan (Razak, 2011). Ismail (2013), also supported the PKB is one of the early company creates al-Rahnu in Malaysia which follow Shari'ah to meet the demands. However, both cooperative are committed to enforce the al-Rahnu operations through Shari'ah concept in whole operations and activities even the cooperatives have their own acts regulation. In fact, the legitimacy of al-Rahnu concept according to Al-Qur'an and al-Sunnah are still been followed as the fundamental in each operations and activities.

Last of all, the implementations of Islamic pawn system in cooperative had served the best alternatives to majority Muslims in society for getting Islamic fast loan in a blessed way without have any concern on any ambiguity of its transaction. Furthermore, the appoint of Shari'ah Advisor in Permodalan Kelantan Berhad and Bank Rakyat for example, has seen as playing a significant role to assure and monitor the actual al-Rahnu practiced be according in Shari'ah standard while preserve the title name Islamic pawn broking institution. In addition, the high acceptance from society has given the Islamic pawn broking reach a high number of customers by over the years, yet it will continue increase in a rapid growth of decade to Islamic finance industry as the people had put more trusted on Islamic pawn systems rather than conventional which have many manipulation and controversial issues and exploitation. Therefore, we expect from the analysis of study, this scheme will develop a permanent linkages for the needy without hope on any profits as mentioned in the holy al-Qur'an (Surah al-Maidah 5:2):

*“.....Help ye one another in righteousness and piety....”*



## REFERENCES

- Al-Qur'an al-Karim* (Translation by Yusof Ali) in [www.themodernreligiom.com](http://www.themodernreligiom.com)
- Abdul Razak, A. (2008). "Malaysian Practice of Ar-Rahn Scheme: Trends and Development".
- Abdul Razak, A. (2011). "Economic and Religious Significance of the Islamic and Conventional Pawnbroking in Malaysia: Behavioral and Perception Analysis".
- Adwam, S. et al, (2007). *Pengantar Perniagaan Islam*, Kuala Lumpur: Prentice Hall (M) Sdn. Bhd
- Ahmad, A.U.F, Raashed, R. and Ali, M. M. (2013). "How Shariah-compliant is Islamic banking?" *Proceeding of Sharia Economics Conference-Hanover*.
- Al-Muharrami, S. and Hardy, D. C., (2013). "Cooperative and Islamic Banks: What can they Learn from Each Other?"
- Al-Qarafi, Idris, A. (1994). *Al-Zakhirah*. Jld. 8. Beirut: Dar al-Gharbi al-Islami.
- Awang Kechil, A. M. and Abdul Razak, M. (2004). Ar-rahnu Scheme: A Model of Micro Credit and its Impact on Socioeconomic Status of the Ummah - *Special Reference on Malaysian Context*.
- A.B. Umami Salwa, S. Hisham, S. Abdul Shukor and Kamaruzaman Jusoff. (2013). The Concept and Challenges of Islamic Pawn Broking (Ar-Rahnu). *Journal of Scientific Research 13 (Research in Contemporary Islamic Finance and Wealth Management)*: 98-102, 2013; DOI: 10.5829/idosi.mejsr.2013.13.1888
- A.Latif. R, (2012). "Bank Kerjasama Rakyat Malaysia Berhad: A case of a Cooperative Islamic Bank in Malaysia".
- Bhatt, P. and J. Sinnakkannu, (2008). "Ar-Rahnu (Islamic Pawning Broking) Opportunities and Challenges in Malaysia".
- Bank Negara Malaysia (2010). Shari'ah Resolutions in Islamic Finance. Second Edition [www.bnm.gov.my](http://www.bnm.gov.my)
- Bank Rakyat.(t.t.). Modul pinjaman pajak gadai islam. Kuala Lumpur: Bank Rakyat.
- BERNAMA Newspaper Retrieved Date: 14 February 2013.
- Beik, I.S. and Purnamasari, I., (2009). "Empirical Role of Islamic Cooperatives in Financing Micro and Small Scale Entrepreneurs in Indonesia: Case Study of KOSPIN Jasa Syariah Pekalongan."

- Boyce, C. and Neale, P., (2006). "Conducting In-Depth Interviews: A Guide for Designing and Conducting In-Depth Interviews for Evaluation Input."
- Bukhari, Abd Allah Muhammad ibn Ismail, al-, (1992). *Sahih Bukhary*. Beirut: Dar al-Kutub al-Ilmiyyah.
- Buku Undang-Undang Kecil & Aturan-Aturan 2010 Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah* (2010).
- Caskey, J. P. and Zikmund, B. J. (1990). "Pawnshops: The Consumer's Lender of Last Resort". *Economic Review: Federal Reserve Bank of Kansas City*, 5-18.
- Dinsman. (1994). *Ar-rahn satu produk perbankan Islam*. Dewan Ekonomi.
- Dusuki, A. W. (2012) *Islamic Financial System: Principles & Operations. International Shari'ah Research Academy for Islamic Finance (2012)*.
- Dogarawa, A. B. (2009), "Islamic Microfinance as a Means of Poverty Reduction", Seminar Paper, Central Bank of Nigeria Forum, Kano.
- E-Fatwa in "[http:// www.e-fatwa.gov.my](http://www.e-fatwa.gov.my)". Retrieved date: 14<sup>th</sup> March 2014
- El Hawary, D., Grais, W., Iqbal, Z. (2004). "Regulating Islamic financial institutions: The nature of the regulated". *World Bank Policy Research Working Paper #3227*
- El-Muhammady, A.H. (2001), *Undang-Undang Muamalat & Aplikasinya kepada Produk-Produk Perbankan Islam*, cet. 1, Selangor: Percetakan Bintang terbitan Aras Mega Sdn. Bhd.
- Hassan, K. Mahknecht and M. Michal, (2011). "Islamic Capital Markets: Products and Strategies", Wiley Publication.
- Hassan, S., Rahman, R.A., Bakar, N.A., Mohd, R., and Muhammad, A.D.(2013) *Designing Islamic Microfinance Products for Islamic Banks in Malaysia. Middle-East Journal of Scientific Research 17(3):359-366*.
- Ibn Manzur (1956). *Lisan al-'arab*. Beirut: Dar Sader.
- Ismail, A. G. and Ahmad, N. Z. (1997). "Pawnshop as an Instrument of Microenterprise Credit in Malaysia". *International Journal of Social Economics*, 24(11), 1343-1352.
- Jaziri, 'Abd al-Rahman al-.(1970). *Kitab al-Fiqh 'ala al-Madhahib al-Arba'ah*. Kaherah: Maktabah al-Tijariyyah al-Kubra.
- Jupp, V., (2008). *The Sage Dictionary of Social Research Methods*. London: Sage Publications

- Khaf, M. (1992). "Principle of Islamic Financing: A survey. International Economic Relations from Perspective."
- Khair, M. F., Badri, M.H & Hussain, L. (2013). "Critical Appraisal of The Rahn-Based Islamic Microcredit Facility From Shari'ah Perspective." *ISRA International Journal of Islamic* 7(3), 221-231.
- Kahf, M. and Khan, T., (t.t). "Principles of Islamic Financing: A Survey".
- Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah, 2013. *Laporan Mesyuarat Agung 2013 Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah*.
- Laws of Malaysia. (2006). Pawnbrokers Act 1972. Kuala Lumpur: The Commissioner of Law Revision Malaysia in Collaboration with Percetakan Nasional Malaysia Bhd.
- L.P. and Johnson, G. J., (2002). A Guide to Using Qualitative Research Methodology.
- Ledgerwood, Joanna (1999). "Microfinance Handbook; Sustainable Banking with the poor: An institutional and financial Perspective; World Bank, Washington D.C."
- Marican, S.,(2009). Penyelidikan Sains Social:Pendekatan Pragmatik. *Social Science Research*.
- Maamor, S., & Ismail, A. G. (2010). The Ar-Rahn Efficiency and Its Determinants. *Journal of Islamic Economics, Banking and Finance*, 6(1).
- Maamor, S., & Ismail, A. G. (2013). *Ar-Rahnu Islamic Pawn Broking*. Kuala Lumpur : Dewan Bahasa Dan Pustaka.
- Maulut, M.K. and Yusof, S. (2013). "Factors Contributing to Success to the Excellent Credit Cooperatives in Malaysia".
- Mohamad, S. (1995). "Pawnbrokers Act 1972: An Analysis from the Islamic Perspective (Original text: Akta Pemegang Pajagadai 1972: Suatu Analisa Dari Perspektif Islam)". *Jurnal Syariah*, 3(2), 227-284.
- Mohd Taher,S. (2010). "Prinsip Asas Perlaksanaan Skim Pajak Gadai Islam Di Malaysia". *Voice of Academia Vol. 5 No. 1 2010*
- Mohamad, S. and Salleh, S. (2008). "Upah Simpan Barang dalam Skim Ar-Rahnu: Satu Penilaian Semula". *Jurnal Fiqh*, 5, 47-65.
- Naim, A. M. (2004). "Islamic Pawn Broking (Original text: Sistem Gadaian Islam). *Islamiyyat*", 26(2), 39-57.
- Hussain, M.N., Naiimi, N. and Shuib, M.S. (2013). *Mengurus Harta Menurut Fiqh Muamalat*. UUM Press. Universiti Utara Malaysia.

- Oeltjen, J. C. (1996). Florida Pawnbroking: An Industry in Transition. *Florida State University Law Review*, 23, 995-1042.
- Othman, (2013). Perkembangan Ar-Rahnu di Terengganu: Kajian Kes Terhadap Ar-Rahnu Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM) 951-959.
- Permodalan Kelantan Berhad, 2007. *Annual Report*. Kelantan: Permodalan Kelantan Berhad.
- Rahman, Z.A., (2009). Panduan Perbankan Islam Kontrak dan Produk Asas.
- Renner, M., (2003). Analyzing Qualitative Data. [www1.uwex.edu/ces/pubs](http://www1.uwex.edu/ces/pubs)
- Rosli, S. A. (2005). Critical Issues on Islamic Banking and Financial Markets: *Islamic Economics, Banking and Finance, Investments, Takaful and Financial Planning*. Indiana: Authorhouse.
- Rosland, A., Romli, N., and Borhan, J.T. (2012). Contract (Akad) in Online Banking. *International Journal of Computer Application* (0975-8887). Volume 60.
- Rajasekar, S., Philominathan, P. and Chinnathambi, V. (2013). Research Methodology.
- Sabran, O.H., (2001) *Urus Niaga al-Qard al-Hasan Dalam Pinjaman tanpa riba, Universiti tanpa riba*, Universiti Teknologi Malaysia, Skudai, Johor.
- Schrader, H. (1999). "The Role of Pawnshops in the Life Strategies of Lower Income Groups – A Preliminary Study in St. Petersburg/Russia".
- Sharif D., Shaharuddin A.,Muhammed 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*
- Sheikh Othman, S. S. (1991). *Kamus Dewan edisi baru*. Kuala Lumpur: Dewan Bahasa dan Pustaka.
- Skully, M. T. (1992). Lending Collateral Problems and the Pawnbroker Solution: The Development of the Pawnshop Industry in East Asia.
- Skully, M.S., (2005). Islamic Pawnbroking: The Malaysian Experience. Paper presented at the 3rd. International Islamic Banking and Finance
- Suruhanjaya Koperasi Malaysia (2010). <http://www.skm.gov.my> .Retrieved date: 10 February 2014
- Stela, K. A. (2010). "The Feasible Acceptance of Al-Qard al-Hassan (Benevolent Loan) mechanism in the Libyan Banking system".

- Thomas D. R., (2006). A General Inductive Approach for Analyzing Qualitative Evaluation Data. *American Journal of Evaluation* 2006 27:237.
- W. Daud W. Noraini (2011). Kepuasan Pelanggan Dan Kualiti Perkhidmatan Skim Ar-Rahnu Bank Rakyat.
- Yaacob, R. M., Ahmad, G., Ibrahim, D.M., A.Latiff, N. and Saari, N., (2012). "Islamic Pawn Broking (Ar-Rahnu): Critical Success Factor and Application for Co-Operatives".
- Zikmund (2010). Business Research Methods. South-Western, Cengage Learning.