

# **A PRELIMINARY STUDY OF CUSTOMERS' SATISFACTION ON ISLAMIC PAWNING SERVICE (AR-RAHNU): FROM KELANTANESE'S PERSPECTIVES**

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## **Abstract**

Pawn broking services are one of the instruments to make people get cash quickly without concerning rules and regulation stated by financial institutions. Early research on conventional pawn broking service identified the unlawful practice in terms of Syariah compliance. In Malaysia Ar-Rahnu has been practiced a few decades ago with the first establishment in Terengganu. This study has considers the perspective of pawnshop industry in Kelantan, in which the pawnshop industry in Kelantan is practicing Islamic Pawning Service (Ar-Rahnu) since 1995 due to the state government imposed new regulation by practicing the cessation of all *riba* or interest based in conventional pawnshops practice. It was identified the gap whether the pawn customers are satisfied with the services provided by Islamic Pawning Service (Ar-Rahnu) providers and what are the factors contribute to its satisfactions among the public in Kelantan. Therefore, 100 respondents were invited to participate in this convenience survey conducted in Kota Bharu, Kelantan to identify customers' satisfaction towards Ar-Rahnu services. From the correlation analysis and regression analysis, it was identified the significant relationship between convenience and Syariah compliance with the customers satisfactions'. Finally this study provides recommendations for future researchers and pawn broking business to study.

## **1.0 INTRODUCTION**

Pawnshops were already well established in Asia before the 1800s. It was found that more connectivity with Chinese merchants to establish new business; a position that is still largely the case in Malaysia. Early study on pawning activity by Whelan (1979) has noted that in Japan the Japanese pawnshops during the era of Kamakura period (1185-1333 AD) farmer might rent some land and then cover the rental from the crops it produced. Hence, businessmen also might rent an exclusive franchise for a certain business within a specific town or area and then keep any profit that might result. This called "farming" was profitably applied to a range of

businesses to include gambling, opium, and liquor sales as well as pawnshops. In latest study pawn broking is a business of advancing loans to customers who have pledged household goods or personal belongings as security.

From Islamic perspective pawn service that is based on Ar-Rahn system means a pledge or security for a loan. The Holly Quran refers to the idea of a mortgage, as a pledge with possession. Therefore under the Ar-Rahnu concept the borrower (Ar-Rahin) is required to pledge or produce redeemable collateral (Ar-Rahn) in the form of gold or silver to ensure repayment of the loan. This collateral acts as an instrument of guarantee that the loan will be repaid (collateral redeemed) at the maturity of agreement. If the borrowed sum is not repaid at maturity then the lender (Al-Murtahin) has the right to sell the collateral to recover the loan. Collateral is an important instrument for the security of loan by providing a guarantee to the financial institution as it reduces the lenders risk and increases the borrowers cost of default.

## **2.0 PAWN BROKING**

Pawn broking is basically a contract of pledging a security that becomes binding when possession of the pledge has taken place. A study by Haron, Sudin, Shanmugam (1997) stated that ownership of the collateral is not transferred to the pledge, the transfer occurs only under certain conditions. Payal and Jothee (2008) cited from IMF working paper, defined that pawn broking as a means where the lower income group and small scale traders could seek short-term financing to manage their cash flow problems. Adnan (2002) also has classified that pawn broking customers are generally people with low or modest incomes who pledged items of jewelleries in order to buy necessities. With mostly the sums of money they borrowed tended to be small.

Besides most of the pawn broking customers mostly borrowed to cover they occasional or “lumpy” household expenditure, such as large utilities bills, children education or during festive seasons where they have urgency for cash money. As such, there are also tended the small number of customers who used a pawn broker like a safe deposit box in which they kept renewing their pledges because they felt their valuables are safer there than at home.

### **2.1 Islamic Pawnbroking (Ar-Rahnu)**

The term “rahn” is commonly used in fiqh al-muamalah, a chapter in Islamic law considering economic matters. Rahn means to detain debtor’s certain properties as a guarantee or collateral for the loan debtor borrows. The detained properties must have economic values, so that detaining creditor has a guarantee to get back all of or a part of his receivable. Parts of Muslim scholars interpret ar-rahn as alhabs (detained). Nonetheless, syara’ (Islamic law), define rahn as:

*“To make an object with economic values in Islamic law perspective as a trust for the payment of debts, so that enabling mortgagee (murtahin) to get all or a part of the debts from the object”*

Ibn Qudamah provides the other definition, which Ar-Rahn defined as:

*“An object made as a trust for the payment of debts, by which debts are met if the debtor could not pay to the creditor.”*

Imam Abu Zakaria al- Anshary defines rahn as:

*“To make an economic object as a trust for the payment of debts, from which unsettled debts are paid.”*

In related with this study, the holy Al-Quran, Surah Al-Baqarah of 2:283 stated that:

*“And if you are upon a journey and you do not find a scribe, then (there may be) a security taken into possession; but if one of you trusts another, then he who is trusted should deliver his trust, and let him be careful (of his duty to) Allah, his Lord; and do not conceal testimony, and whoever conceals it, his heart is surely sinful; and Allah knows what you do.”*

(Al-Quran, Al-Baqarah of 2:283)

Base on above justification it is important for this study to interpret that rahn as a loan guarantee or pawning, in which from Arabic language Ar-rahn means al-tsubut wa al-dawam (fixed and eternal).

## **2.2 Convenience Service to Ar-Rahn Customers’**

Zaharuddin (2006) study on Ar-Rahnu convenience service said that Ar-Rahnu is less stringent as compared to conventional pawn-broking outlets and in the event of a default resulting in the pawned item being sold off, any extra proceeds from the sale of the pawned item will be returned to the customer. A survey by Ragayah (1986) also shows that customers turn to pawnshops for credit and she also said the borrowed amount can be disbursed in a few minutes. Hanudin, Rosita, Hazmi, Rostinah (2007) stated that there is a tendency for those individuals who want quick funds will find they are not eligible to borrow from formal financial institutions since there are red taps in getting financing/loan from the institutions. Unlike banking institutions, pawnshop is where the customers can borrow money that can be disbursed in a few minutes.

In relation to the service provide by most of pawn shop in Malaysia, study by Adnan (2004) listed nine weaknesses faced by the pawnshop namely 1) complaints received from customers are related to the decreasing value of pawned goods. 2) Higher interest rate. 3) Low collateral value during the valuation process. 4) Pawnbrokers would often issue an illegible pawn ticket. 5) Pawnbrokers had asked for 50 cent for each replacement of pawn receipts and extension of the pawning period. 6) Pawnbrokers will auction pawned goods worth more than RM200 without the customer’s knowledge. 7) Pawnbrokers do not return the surplus after the goods have been auctioned off. 8) Customers do not know when their collateral will be auctioned off. 9) Finally pawnbrokers will ask for advance payment from the pawnshop customers.

From Islamic pawning service perspective it is important for this research to examine convenience as crucial factor for the customers’. In which it will be the reasons for customers to choose the Islamic Pawn system (Ar-Rahn). Therefore, it is important to

justify reasons for customers are using Islamic pawn systems, where this study will look at convenience factors base on:

- i. Easier to apply, faster approval, and guaranteed safety of the jewellery.
- ii. Cheaper fee than conventional pawn broking.
- iii. Fixed storage fee.
- iv. Longer financing term.
- v. No penalties
- vi. Surplus auction receipts are returned to the customer
- vii. Established Syariah principles which are an interest free form of loan.

Furthermore, many complained received from customers' who have experience with pawning service where their gold jewellery had decreased in weight or length after the pawning period. According to the Federation of Consumers Association (FOMCA), this happened because under the Pawnbrokers Act 1972, it is not compulsory for the pawnbrokers to write down the weight, length or type of gold of the jewellery to be pawned. The customers who had complained suspected that the pawnbrokers had tampered with the jewellery. However, it could be difficult for the customer to prove this matter. Therefore, it is important for this research to study the convenience factors as important construct that contribute to the customers' satisfaction.

### **2.3 *Syariah Compliant***

From Islamic perspective Ar-Rahnu also known as Islamic pawn broking has practicing Syariah compliance. This consists of interest free, and only charge for Ujrah, or fees incur in pawn transactions. Payal and Jothee (2008) highlighted that Ar-Rahnu concept as being practiced by Islamic pawn broking company (Ar-Rahnu) in Malaysia is based on a combination of four concepts.

- I. Qardhul Hasan (Benevolent loan) - A financial institution will grant a benevolent loan (interest-free) to the applicant who wishes to pawn his valuable item. The loan issued under the concept of Qardhul Hasan requires the borrower to pay the same amount borrowed to redeem the valuable item at the maturity of the agreed period.
- II. Wadiah Yad-Amanah (Trustworthiness) - The borrower is required to produce returnable collateral to ensure repayment of the loan. The borrower entrusted the lender to look after the belongings during the loan period. If an unthinkable event happens to the collateral item not due to the lender's negligence, the lender is not required to replace the item.
- III. Al- Ujrah (Safe keeping) - Al- Ujrah concept states that lender is allowed to charge a reasonable fee for the services rendered in keeping the pawned items safe and in good condition. The financial institution accepts custody of the valuable asset on a Wadiah concept whereby the bank promises to keep the valuable asset in a safe place and return when the time comes. The lending institution takes the precautionary measure such as providing security and insurance to ensure its safe returns once the customer pays his debt. Under the Wadiah concept, the bank will charge the customer for the services rendered in keeping the valuable asset.

- IV. Wadiah Yad Dhamanah (Safekeeping with guarantee) - The lender will be responsible to replace the missing or stolen items to the owner if lender fails to keep the agreement due to own negligence.

## **2.4 *Customers' Satisfaction***

Many researchers have looked into the importance of customer satisfaction. Kotler (2000) defined satisfaction as: "a person's feelings of pleasure or disappointment resulting from comparing a product or perceived performance (or outcome) in relation to his or her expectations". Hansemark and Albinsson (2004) define satisfaction as "overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfilment of some need, goal or desire". Nonetheless, Hoyer and MacInnis (2001) said that satisfaction can be associated with feelings of acceptance, happiness, relief, excitement, and delight.

As customers' satisfaction experienced with the service offered by the pawn shop to cause the customers likely to tell others of their favorable experiences and thus engage in positive customers' word of mouth (Richens, 1983; File and Prince, 1992). On the other hand dissatisfied customers, are likely to share their negative experience with the service they experienced.

## **2.5 *Syariah Compliant***

In relation with Syariah compliance, Zaharuddin (2006) stated that there is an issue with regards to this practice of charging a safekeeping fee; the Syariah issue appears when the safekeeping charges are based on a percentage of the Marhun (jewellery pledge) value. While Azila (2008) study said that the storage fee is based on the value of gold and not on the amount of the loan. Ar-Rahnu concept is different from the conventional pawn broking system where the latter imposes high interest rates (two percent per month or 24 percent per annum) and other unfair practices on the borrower (Payal & Jothee, 2008).

Nonetheless, Ismail and Sanusi (2005) highlight that the Islamic principles such as wadiah, qardhul hassan and ujra must be given a careful consideration in establishing Islamic-based pawnshop. In Syariah, it is not advisable to link the safekeeping fee to the benevolent loan or Qardhul Hasan amount or financing amount because it can lead to Riba. Furthermore, Ismail and Sanusi (2005) stressed that the Islamic principles such as wadiah, qardhul hassan and ujra must be given a careful consideration in establishing Islamic pawn broking. This in line with Mohammed et al. (2005) argument that wadiah, qardhul hassan and ujra makes Ar-Rahnu clearly different from the conventional pawnshop. In which the element of riba and gharar are eliminated in Ar-Rahnu system. Therefore, the cost involved in borrowing from an Islamic pawn broking is calculated based on the safekeeping charges while the conventional pawn broking is calculated based on the monthly interest charges.

## **2.6 *The development of Islamic pawn broking service (Ar-Rahnu) in Malaysia***

Ar-Rahnu or Syariah-based pawn broking is relatively a new concept in Malaysia even though pawn broking dates back to ancient times and is one of the earliest recorded lending transactions in financial history. In Malaysia there is little evidence of ethnic Malays or other indigenous people acting as pawnbrokers. It is not known when pawn “farming” began, but was certainly well established by Malay rulers long before the Europeans arrived, and the practice was seemingly followed in Indonesia, Thailand and probably the Philippines as well.

Malaysia pawnshop began before 1811 and the licensed ownership by private sector. At the end of year 2004, Malaysia has 242 licensed pawnshops regulated under Ministry of Local Government and Housing. These pawnshop charges interest rates to their customers. Payal and Jothee (2008) said that in Malaysia, conventional pawn broking predates Islamic pawn broking by few centuries. Development in Islamic pawn broking began only in 1992, that is, when the first Islamic pawn shop was established by the Terengganu State Government by the name Muassasah Gadaian Islam Terengganu (MGIT). The establishment of MGIT provided an alternative to the people to make a choice in order to get speedy cash and at the same time adhere to methods which are considered halal by the sharia regulation.

It is obvious that the establishment of Islamic pawnshops or Islamic pawn broking was actually initiated in the East Coast states of Peninsula Malaysia. Rationally, it is discernable as these East Coast states have 95% population of Malay ethnic whereby almost 100% of them are Muslims. The Malaysian Islamic Economic development foundation (YPEIM) was the first to suggest the introduction of Islamic pawn broking service (Ar-Rahnu) concept. The first Islamic pawn broking institution was set up by Majlis Agama Islam by the Kelantan state government in January 1992. In March 1992, Kedai Al-Rahn (KAR) a subsidiary of Permodalan Kelantan Berhad commenced further operations of such activity.

In 1995, the Kelantan state government imposed new regulation by practicing the cessation of all *riba* or interest based in conventional pawnshops practice. The conventional pawnshops primarily owned and operated by non-Muslims may continue to operate if they were to adopt the Ar-Rahnu principles (Shaari and Azlina, 2003). Thus, from the regulation introduced, it is expected that the Islamic pawn broking industry in Kelantan has been growing and there is no more practice of conventional pawnbroking even among the non-Muslims pawnshops.

Base on above literatures, this research is to identify whether the Kelantanese customers are confident enough towards the service of the pawnbroking companies in Kelantan in terms of Syariah compliant and conveniences, since they; (the ex-conventional pawnshops) clarify that they are adopting Islamic pawning principles as per state government (Kelantan) jurisdiction. Therefore the objectives of this study:

- 1) To study if any demographic factors of customers that influence the customers' satisfaction of Islamic pawn broking service (Ar-Rahnu).
- 2) To determine the relationship between the convenience of using Islamic pawn broking service (Ar-Rahnu) and customers' satisfaction.
- 3) To determine the relationship between the Syariah compliant and customers' satisfaction on Islamic pawn broking service (Ar-Rahnu) base.

In the study, researcher uses directional hypothesis. The hypothesis will test the relationship between two variables, independent and dependent variables, that can hypothesized:

- HI: There is a positive and significant relationship between the convenience in using of Ar Rahnu towards the consumers' satisfaction on Islamic pawn broking service (Ar-Rahnu) in Kelantan.
- HI : There is a positive and significant relationship between Syariah compliance towards the consumers' satisfaction on Islamic pawn broking service (Ar-Rahnu) in Kelantan.

Nonetheless, from the previous literatures two factors contribute to customers' satisfactions which are convenience and Syariah Complian needs to be examined. Independent variables for this study are Syariah compliance of Islamic pawn broking (Ar-Rahnu) and convenience on Islamic pawn broking (Ar-Rahnu). While dependent variable for this study, is customers' satisfaction on Islamic pawn broking (Ar-Rahnu) services. These two variables are predicted as the contribution to customers' satisfactions towards Islamic Pawn Broking (Ar-Rahnu). Figure 1.0 show the conceptual framework of this study.

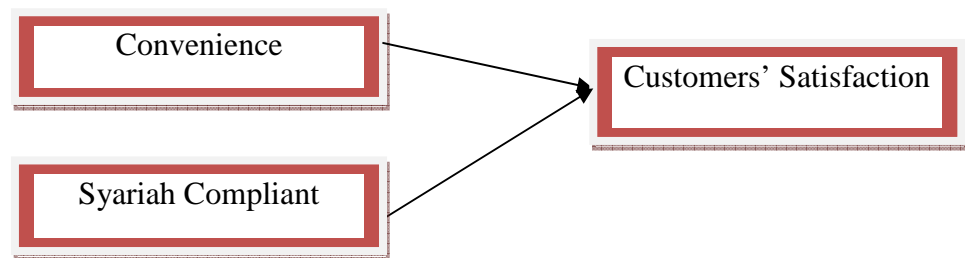


Figure 1.0 Conceptual Framework

### 3.0 RESEARCH METHODOLOGY

This study is to examine the customers' satisfaction with Islamic pawn broking services. This exploratory research is conducted to clarify ambiguous problems and to gain better understanding about the nature of the problems. The sampling method used in this study is sample random sampling. Random samples of 100 respondents were invited to participate in this survey. The questionnaire is distributed to them by using sample random sampling method.

Data were collected through questionnaires. Data for this research consist of questionnaires that were distributed to the customers who have used Islamic pawn broking (Ar-Rahnu) services in Kelantan to get their feedback on their satisfaction on Islamic pawn broking (Ar-Rahnu) service. The questionnaires were divided into four sections: Section A consists of questions regarding the demographic profile of the respondents, namely: gender, age group, race, level of income and type of occupation. In section A also we have included a question to determine either the respondents experience in using Islamic pawn broking service. Section B consists of the question

of their convenience in using the Islamic pawn broking (Ar-Rahnu). Section C includes questions on respondents' perception towards Syariah compliance used in Islamic pawn broking (Ar-Rahnu). Finally, section D is to measure their satisfaction on Islamic pawn broking (Ar-Rahnu) as an alternative to respondents in order to fulfill the customer's needs. The SPSS version 16 will be used to analyze the data in order to answer the objectives of the study.

## **4.0 RESULTS**

From the total of 100 questionnaires distributed only 87 are usable. Besides from 87 of usable questionnaires only 65 respondents (75%) are Ar-Rahnu customers and balanced of 22 respondents (25%) are not Ar-Rahnu consumers. Therefore, this study analyzes the data using correlation and regression analysis from the 65 respondents with experience of using Ar-Rahnu services for the data analysis of this study.

Frequency analysis was first run to measure respondent's demographic characteristics. The results of analysis were presented in Table 1. Majority of the respondents are aged above 51 years old, which was 61%, followed by 41 to 50 years old (18%), aged 31 – 40 (14%), and young consumers aged 18 – 20 years old represent smallest sample of this study (7%). The ratio between male and female is not balance, which were 62% female and 30.4% male. Most of the respondents' ethnicities are Malay (94%) and Chinese (6%). In terms of employment, majority of respondents are government servant (31%), own business (25%), private employee (10%), unemployed (21%) and pensioner (13%). Nonetheless, majority of respondents earned less than RM1,000 per month (33%), RM1,001 – RM2,000 per month (26%), RM2,001 – RM3,000 (13%) and respondents income RM3,001 – RM4,000 and above RM4,001 represent 14% of the respondents population respectively. Finally respondents who are not Ar-Rahnu customers stated reasons for not using Ar-Rahnu because not interested with the Ar-Rahnu services (20%), less security level (1.5%), not convenience (1.5%), less information (3.5%) and other reasons (1.5%).



Table 1  
*Sample Characteristics*

<b>Game Players' demographic</b>	<b>Categories</b>	<b>Frequency (n=87)</b>	<b>Percentage (%)</b>
<b>Gender</b>	Male	33	38
	Female	54	62
<b>Age</b>	18 - 30	6	7
	31 - 40	12	14
	41 - 50	16	18
	Above 51	53	61
<b>Religion</b>	Islam	82	93
	Christian	2	2
	Buddha	3	5
<b>Ethnicity</b>	Malay	82	94
	Chinese	5	6
<b>Employment</b>	Government	27	31
	Own business	22	25
	Private	9	10
	Unemployed	18	21
	Pensioner	11	13
<b>Income</b>	Less than 1,000	29	33
	1,001 – 2,000	23	26
	2,001 – 3,000	11	13
	3,001 – 4,000	12	14
	Above 4,001	12	14
<b>Ar-Rahnu Customers</b>	Yes	65	75
	No	22	25
<b>Reasons of not using Ah-Rahnu</b>	Not Interested	16	20
	Less Security level	1	1.5
	Not Convenience	1	1.5
	Less Informations	3	3.5
	Others	1	1.5

A reliability analysis was done on the all items to measures the variables of this study. This to ensure the degree of consistency on measurement items in a scale, as Kerlinger (1986) puts it; if a scale possesses a high reliability the scale is homogeneous. Results of this study showed that convenience reliability is .792, Syariah Compliance .932, and customers' satisfaction .952. According to Nunnaly (1978) alpha values equal to or greater than 0.70 are considered to be a sufficient condition. Thus it can be concluded that these measures possess sufficient reliability.

Table 2 presents the intercorrelation matrix between the main variables of this study. As can be seen interactive convenience and Syariah compliance are perfectly correlated. Hence, it can be conclude that discriminant validity has been established.

Table 2: Intercorrelation matrix

	Convenience	Syariah Compliance	Satisfaction
Convenience	1		
Syariah Compliance	.874*	1	
Satisfaction	.855*	.902*	1

\* Correlation is significant at the 0.01 level

Multiple regression analysis was used to test the hypotheses one and two of this research. This analysis used to analyze the relationship between convenience and Syariah compliant with customers' satisfaction. As shown in Table 3, convenience variable and Syariah compliance variable is positively related to Customers' satisfaction.

Table 3: Results of regression analysis with perceived ease of use as the predictor

	Customers Satisfaction
Convenience	.255*
Syariah Compliance	.756*
F Value	102.775*
R <sup>2</sup>	.916
Adjusted R <sup>2</sup>	.907

Note. Significant levels: \*p < .01

From the results in Table 3, it can be seen that convenience is positively related ( $\beta=0.255$ ,  $p<0.00$ ) to customers' satisfaction. Thus hypotheses H1 is supported. The positive relation between Syariah compliance ( $\beta=0.756$ ,  $p<0.00$ ) towards customers' satisfaction is also supported. Thus H2 is accepted. Nonetheless, the results also showed that normality assessed from histogram not much deviate where the error terms are normally distributed. Therefore, the data of this study provides a normal distribution.

## 5.0 DISCUSSION AND CONCLUSION

As sample for this study, it was unsurprising that majority of the respondents are dominated by female in relation to visit Ar-Rahnu pawning shops. As majority of Kelantanese women are mostly involved with business activity in Kelantan, and majority of them are devoted to gold and jewelry as personal collection. Furthermore, data relating to demographic characteristic revealed some interesting results. The data provide clear evidence that the customers' of Ar-Rahnu pawning shops clearly spread across the employment spectrum of government, own business, private companies, unemployed and pensioner. Furthermore, questions relating to the respondents income revealed that majority of respondents are mostly from low income earner, with monthly income less than RM1, 000 per month, this in line with study by Adnan (2002) identified that most of pawn broking customers are generally people with low or modest incomes who pledged items of jewellery in order to buy necessities.

This exploratory analysis identified that positive relationship between convenience Ar-Rahnu service and customers' satisfaction. The finding of this study indicates the importance of Islamic pawn broking service in providing instant cash to overcome customers' financial needs. Islamic pawn broking also expected to ensure ease of borrowing to customers' when they were at the outlet, especially in terms of requirement to provide guarantor and credit scoring. Respondents also agree that facilities and locations that assessable are important for pawn broking to operate the business.

In terms of Syariah compliance this research identified a positive relationship with customers' satisfaction. Elements of usury and riba should be avoided in pawn broking (Ar-Rahnu) business. Nonetheless, terms and condition imposed by pawn broking companies should inline with Pawn brokers Act 1972 and Islamic Banking Act 1983. This to ensure that pawn shops are fully emphasize the Islamic concepts in it service. Hence, fraud elements in evaluating pledge item could be avoidable and the process is rather transparent in terms of evaluating the pledged item (marhun) value. In the event of customer does not turn up at maturity to redeem the pledged item, the pawnshop will sell the pledged items and the proceeds will be returned to the customer minus the storage fees, finance amount and cost of selling. This part is crucial because this reflects the beauty of Islamic principles as per Syariah compliant.

### **5.1 *Limitation and Recommendation***

The study also has limitation and challenges faced in the area being investigated while completing this research. This study cannot run from the limitations and constraints due to the shortage of references about Islamic pawn shop available in term of books, journals, quotations, comments and other related materials. Besides, previous research produced by the academicians, economists and journalists are also very limited in the library, online journal and any related institutions.

During the research process this study faced with limited information due to some of information are confidential and cannot be revealed and used in our research purpose. Furthermore, literature on pawn broking in Kelantan are limited and lacking of valuable information and data that supposedly can contribute to a better quality of research outcome and strengthen the evidence found in the research. One limitation is that this study involved only a small number of respondents. Finally this study has a time constrain that served as hindrance to accomplish the research successfully in a very limited time.

Future research may consider of studying the aforementioned in pawn broking business characteristics and to compare with conventional pawn broking business. Comparison also can be look in to customers' perception from experience when dealing with Islamic and conventional pawn broking. Future study also expected to employ qualitative methods to better understand any phenomenon about which little is yet known (Strauss and Corbin, 1990). This will be useful to gain more in-depth information of pawn broking business and revealing the dimensions of understanding that often remain untapped and may be difficult to convey quantitatively.

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