

Chapter 2

The Use of Ar-Rahnu by Islamic Bank Customers in Malaysia

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Introduction

The history of pawnbroking services in Malaysia can be dated back to the fifteenth century, during the glorious time of the Sultanate of Malacca [1]. Later, the Hakka clan of Chinese community has controlled most of the conventional pawnbroking services in the country, even until the early 1990s [2]. However, due to the rapid growth and development of Islamic financial business, the pawnbroking has become popular among the public in the form of either conventional or Islamic pawnbroking services. Without any doubt, the establishment of Ar-Rahnu acts as another option for people to borrow money on a short-term basis, especially among the Muslims. As mentioned by Amin and Chong [3], Islamic pawnbroking services serve as an alternative to get financial assistance conveniently for consumers who have difficulties in getting the loan approvals from banks. Indeed, it is a much better and safer choice for getting short-term financial aids than from illegal moneylenders or loan sharks or better known as *Ah Long*.

Conventional pawnbroking which operates based on the concept of interest may not be religiously acceptable for the Muslims. Furthermore, it could also be regarded as a *haram* practice. It is well understood that *riba* and *gharar* are prohibited in Islam. Thus, Ar-Rahnu which adheres strictly to Islamic laws has been welcomed by the Muslims in the country as a Halal choice of borrowing cash money quickly and easily. In addition, Ar-Rahnu is not only suitable for the Muslims; it also appears to be a good system which provides benefits to all of society regardless of religion and ethnicity [4]. As Malaysia consists of people from different religions, races, and beliefs, Ar-Rahnu definitely has the potential to grow further.

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Although Ar-Rahnu has been established long time ago and it is a system suitable for all people, there are scant studies related to it. Throughout the years, studies have been conducted to investigate the consumers' perceptions on Ar-Rahnu (e.g., Sam et al. [5], Appannan and Doris [6], and Othman et al. [7]). Although researchers such as Amin et al. [8] and Amin and Chong [3] have attempted to study the factors influencing the intention and acceptance of Ar-Rahnu, there are still many rooms for further research and improvement. Due to the above limitations, this study is carried out to examine the intention to use Ar-Rahnu among Islamic bank customers.

Literature Review

The Islamic-based pawnbroking system, or also called Ar-Rahnu, can be defined as "a method of providing short-term financing to a person by pawning her jewelry to banks or pawnshops as a security" [3]: p. 8181]. According to Bhatt and Sinnakkannu [9], the system is operated based upon the Syariah principles of (1) *Qardhul Hasan* or benevolent loan, (2) *Wadiah Yad-Amanah* or trustworthiness, (3) *Al-Ujrah* or safekeeping, and (4) *Wadiah Yad Dhamanah* or safekeeping with guarantee. In short, Ar-Rahnu can be regarded as an Islamic pawnbroking system operated based on *aqad* (contract) and trust between the lender and borrower, in which no interest is imposed, but involves certain *upah* (fees). One major specialty of Ar-Rahnu is that it only allows gold as the collateral because of its advantages such as high resell value, easy to determine the price, and easy to keep safely [10].

Ar-Rahnu is a good and *Halal* option for getting short-term loan easily, quickly, and safely. Indeed, Adnan [11] has explained several significant weaknesses found in conventional pawnbroking system; among them are decrease in quality of jewels after the pawning period, higher interest rate, low collateral value, illegible pawn ticket, and no return of surplus after the goods have been auctioned off, just to name a few. Thus, it is believed that Ar-Rahnu can be regarded as a better choice than conventional pawnbroking. Bhatt and Sinnakkannu [9] have identified the following advantages of Ar-Rahnu: (1) based on Syariah principles which are an interest-free form of loan; (2) easy to apply, fast approval, and guaranteed safety of the jewelry; (3) lower fee than conventional pawnbroking; (4) fixed storage fee; (5) long financing term; (6) no penalties; and (7) surplus auction receipts returned to the customer.

According to Ajzen [12], intention affects the ways a person behaves and it can be regarded as a good prediction for behaviors. In other words, people engage in a particular behavior due to their intention. This study adapted the theory of reasoned action (TRA) by Fishbein and Ajzen [13]. Apart from the two original variables, attitude and social influence, three additional variables were included; they are religious obligation, attractive price, and trust. The three variables are added to increase the predictability of the model.

“Attitude” is a factor that has been suggested by Fishbein and Ajzen [13] in their theory of reasoned action (TRA). Attitude has been found to be an influential factor in predicting people’s intention in various areas. Specifically, Amin and Chong [3] identified that attitude has significantly influenced customers to use Islamic pawnbroking. Other studies have also found that attitude significantly influenced customers’ intentions on choosing other Islamic banking products and services, such as Qardhul Hassan financing [14], diminishing partnership home financing [15], and Islamic personal financing [16]. Therefore, the following hypothesis is suggested:

H1: There is a correlation between attitude and intention to use Ar-Rahnu.

“Subjective norm” is an original factor in theory of reasoned action [13]. It is frequently referred to social influence. Amin and Chong [3] found that social influence has significantly influenced the customers’ intentions to use Ar-Rahnu. In addition, researchers such as Taib et al. [15] and Amin et al. [16] had unanimously concluded that subjective norm played an important role in influencing customers’ intentions to take up Islamic financing packages. Hence, the following hypothesis is proposed:

H2: There is a correlation between social influence and intention to use Ar-Rahnu.

People use Islamic pawnbroking when they have high adherence to Shariah [3]. Many studies have shown the religious obligation is significant in affecting customers’ intentions. For instance, Haque et al. [17, 18] showed that religiosity influenced the young Muslim customers’ purchasing behaviors. In addition, Amin et al. [16] determined that religious obligation has significantly influenced customers to use Islamic personal financing. Okumus [19] also found that the primary reason for customers to use Islamic bank products was religion. As such, the following hypothesis is developed:

H3: There is a correlation between religious obligation and intention to use Ar-Rahnu.

As charges from Islamic pawnbroking are lower than conventional pawnshop [20], it should not be neglected in this study. Amin et al. [16] found that price has influenced customers’ intentions to use Islamic personal financing. Similar findings were also obtained in Amin et al. [14], in which price has influenced the bank customers’ acceptance of Qardhul Hassan financing. In addition, according to Appannan and Doris [6], cheap cost of loan was the most important factor that caused the public to pursue Islamic pawnbroking. Thus, the following hypothesis is suggested:

H4: There is a correlation between attractive price and intention to use Ar-Rahnu.

Trust in the company can be defined as “customer believes in the value and trustworthiness of the services that are offered by the organization” [21]. Trust exists when the seller and the buyer have faith in their transaction partners [22]. Jarvenpaa et al. [23] indicated that trust has increased customer intention to purchase a product from a company. Thus, the following hypothesis is proposed:

H5: There is a correlation between trust and intention to use Ar-Rahnu.

Table 2.1 Results of reliability test

| Variables | Cronbach's alpha |
|----------------------|------------------|
| Attitude | 0.92 |
| Social influence | 0.86 |
| Religious obligation | 0.88 |
| Attractive price | 0.94 |
| Trust | 0.84 |
| Intention to use | 0.86 |

Research Methodology

The respondents of this study were the customers of Islamic banks. Following the previous studies performed by Amin et al. [8], this study also employed convenience sampling in choosing the respondents. A total of 450 questionnaires were distributed; however, only 377 questionnaires were returned and deemed usable. Thus, the response rate was about 84 %.

The instrument developed for this study was a self-administered questionnaire. The questionnaire was adapted from previous studies such as Amin et al. [16], Jarvenpaa et al. [23], Metwally [24], Metawa and Almossawi [25], and Taib et al. [15]. It consisted of three sections. The first section gathered the demographic information. The second section gathered the information on factors influencing customers' intentions to use Ar-Rahnu. Meanwhile, the third section was designed to determine the intentions to use Ar-Rahnu.

Reliability test is important to determine the internal stability and consistency of the data collected [26]. The value of Cronbach's alpha (α) is used to indicate the reliability level. The closer the α value is to one, the higher the internal consistency reliability [26]. The results are summarized in the Table 2.1. It can be seen that all the variables used in the questionnaire recorded an α value greater than 0.80, indicating that the questionnaire had internal consistency. As such, the reliability test supported the appropriateness of the instrument used in the study.

As for data analysis, all data collected were analyzed using Statistical Package for Social Science (SPSS). Various analyses such as reliability of the data, descriptive analysis, and correlation were performed. The results of the analyses are presented in the following section.

Data Analysis and Findings

Respondents' Background

Table 2.2 depicts that 194 of the respondents were male (51.5 %), while 183 of the respondents were female (48.5). Furthermore, majority of the respondents were working adults between the age of 21 years old and 50 years old (75.9 %). In terms of race, 80.1 % of respondents were Malay ($F=302$), followed by Indians 10.6 % ($F=40$),

Table 2.2 Respondents' profiles

| Demographic | N=377 | |
|------------------------------|-------|------|
| | F | % |
| <i>Gender</i> | | |
| Male | 194 | 51.5 |
| Female | 183 | 48.5 |
| <i>Age</i> | | |
| ≤ 20 years old | 48 | 12.7 |
| 21–30 years old | 130 | 34.5 |
| 31–40 years old | 92 | 24.4 |
| 41–50 years old | 64 | 17.0 |
| 51–60 years old | 33 | 8.8 |
| ≥61 years old | 10 | 2.7 |
| <i>Race</i> | | |
| Malay | 302 | 80.1 |
| Chinese | 33 | 8.8 |
| Indian | 40 | 10.6 |
| Others | 2 | 0.5 |
| <i>Education levels</i> | | |
| Primary | 21 | 5.6 |
| Secondary | 203 | 58.3 |
| Preuniversity/diploma/degree | 142 | 37.7 |
| Postgraduate | 11 | 2.9 |
| <i>Monthly income</i> | | |
| Below RM1,000 | 134 | 35.5 |
| RM1,001–RM2,000 | 106 | 28.1 |
| RM2,001–RM3,000 | 71 | 18.8 |
| RM3,001–RM4,000 | 50 | 13.3 |
| Above RM4,001 | 16 | 4.2 |

Chinese 8.8 % ($F=33$), and the remaining 0.5 % of the respondents were from other races ($F=2$).

The results show a good prospect for Islamic-based pawnshop because it has gained the attention from the non-Muslims in the country. As for the education level, most respondents were well educated. However, there were more respondents with secondary-level education ($F=203$; 58.3 %) than pre-u/diploma/degree level ($F=142$; 37.7 %). In terms of monthly income, more than half of the respondents ($F=311$; 82.4 %) were considered as low- to middle-level income earners who draw a monthly salary of less than RM3,000.

Correlation Analysis

In this study, Pearson's correlation coefficient (r) is used to measure the strength of relationship between independent factors (i.e., attitude, social influence, religious obligation, attractive price, and trust) and dependent factor (i.e., customers' intention

Table 2.3 Correlation coefficient and strength of relationship

| Correlation coefficient (r) | Strength of relationship |
|---------------------------------|--------------------------|
| 0 | No relationship |
| 0.01–0.30 | Weak |
| 0.31–0.70 | Moderate |
| 0.71–0.99 | Strong |
| 1 | Perfect |

Table 2.4 Table of correlations

| | | Intention to use Ar-Rahnu |
|----------------------|-----------------------|---------------------------|
| Attitude | Pearson's correlation | 0.235** |
| | Sig. (2-tailed) | 0.000 |
| Social influence | Pearson's correlation | 0.187** |
| | Sig. (2-tailed) | 0.000 |
| Religious obligation | Pearson's correlation | 0.265** |
| | Sig. (2-tailed) | 0.000 |
| Attractive price | Pearson's correlation | 0.342** |
| | Sig. (2-tailed) | 0.000 |
| Trust | Pearson's correlation | 0.363** |
| | Sig. (2-tailed) | 0.000 |

**Correlation is significant at the 0.01 level (2-tailed)

to use Ar-Rahnu). The r -value is between -1 and $+1$. The absolute value indicates the strength, while the sign (+or $-$) indicates the direction of the relationship. The scales below were outlined by Elifson et al. [27] and can be used to interpret the relationship between independent variables and dependent variable (Table 2.3).

As shown in Table 2.4, it is found that all the five independent variables were significantly and positively correlated to customers' intention to use Ar-Rahnu (p -value <0.01). The results indicate that when factors such as attitude, social influence, religious obligation, attractive price, and trust increase (or decrease), the customers' intention to use Ar-Rahnu also increases (or decreases).

To explain further, attitude, social influence, and religious obligation were having a low strength of relationship with customers' intention to use Ar-Rahnu, with r -value of 0.235, 0.187, and 0.265, respectively. In addition, moderate strength of relationship was found in between attractive price ($r=0.342$) and trust ($r=0.363$) and customers' intention to use Ar-Rahnu. Thus, all the five hypotheses (H1, H2, H3, H4, and H5) suggested were supported. It is worth mentioning that the results found in this study were consistent with the previous studies, in which customers' intention to use Islamic banking product, such as Ar-Rahnu, is correlated to factors such as attitude [3, 14–16], social influence [3, 15, 16], religious obligation [3, 19], attractive price [6, 14, 16], and trust [22].

Conclusion and Recommendations

Due to the lack of studies in investigating factors influencing the intention and acceptance of Ar-Rahnu, this study is performed with the aim to examine the intention to use Ar-Rahnu among Islamic bank customers. Based on the literature review, attitude, social influence, religious obligation, attractive price, and trust have been identified as the five independent variables, while customers' intention to use Ar-Rahnu serves as the dependent variable. From the correlation analysis, significant positive correlations were found between the five independent variables and the dependent variable. Furthermore, all the hypotheses suggested were supported.

This study has undoubtedly provided a platform for relevant parties such as Islamic pawnshop operators to generate new strategies that can effectively attract the public to use Ar-Rahnu. It is therefore recommended that Ar-Rahnu services should be advertised and promoted by using suitable strategies such as focusing on low charges and developing a good relationship with the customers. In addition, illegal moneylending activities should be strictly prohibited to encourage the general public to go for Ar-Rahnu when they require quick cash money.

This study is not without any limitations. For future researchers, it is suggested that more variables should be included and a model is to be developed to accurately predict the customers' intention to use Ar-Rahnu.

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