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An Overview Of Al-Rahnu Practice At Koperasi Ukhwah Malaysia Berhad

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Abstract

The introduction of Islamic pawn broking (al-Rahnu) in Malaysia is 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 principle which the process transaction are must show transparent and free of ambiguity and element of riba. There is important to have a review study of al-rahnu practice as the Muslim communities have put trusted to the system institution, in fact, the number of demand in al-rahnu are increased by over the years until present. In an attempt to fulfill the aims of the research study, the interview will be conducted to institution cooperative. This study will be given a focus to provide overview on Islamic pawnbroking (al-Rahnu) concept and analyze its actual modus operation implemented by cooperative. The research conducted at Koperasi Ukhwah Malaysia Berhad.

Keywords: *Al-Rahnu, KoperasiUkhwah Malaysia Berhad, Cooperative, Islamic Finance*

1.0 Introduction

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

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the society needs in the rural area, but also 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).

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) he has mentioned the cumulative of al-Rahnu customers is around 1.22 million with total financing of RM 1.17 billion. 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.

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 which are Bank Rakyat and 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).

Thus, this paper aims to study on overview of al-Rahnu operation concept via cooperative according to Shari'ah principles and the operations of al-Rahnu system implemented in Koperasi Ukhwah Malaysia Berhad.

1.2 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. The al-rahnu of Koperasi Ukhwah is fully owned by subsidiary Rakyat Management Services Sdn Bhd. En Mohd Fadly 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.

1.3 Review Literature on Al-Rahnu Concept

Al-rahnu according 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 term 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).

1.4 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). 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.

1.5 Research Methodology

Research methodology is a systematic way to solve a problem. It is a science of studying how research is to be carried out. Essentially, 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 institutions cooperative Koperasi Ukhwah Malaysia Berhad. The interview was conducted to four respondent from cooperative and developed both structured and semi structure.

1.6 Implementations of Al-Rahnu at KoperasiUkhwah

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.

For the **security protection** 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 while 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.

In **case of customer fail to redeem the pawned item**, *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. 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.

Meanwhile for *aqad* execution, according to Shari'ah law, *aqad* or *ijab qabul* is a part of pillars contract the valid implementation of al-Rahnu 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*”.

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. In the practice al-Rahnu Koperasi Ukhwah Malaysia Berhad, the concepts 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 this cooperative has been answered by reviewing the al-Rahnu processes involved includes *aqad* execution transacted both parties.

In case of **period of loan** 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.

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.

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.

In *Ar-RahnuX'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).

1.7 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.

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. Besides, the issue of safekeeping charge are the most controversial of Shari'ah issue among jurist and Shari'ah scholars in determine the 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 *Qardal-Hassan* contract. In fact, the whole chain of the arrangement is solely derived from the execution of the *Qardal-Hassan* contract, which indicates that the *Qardal-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* (Naim, 2004).

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.

Hanafi, Hambali and Malikis ruled, 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.

As the conclusion for overall of study, contract of al-Rahnu 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 Koperasi Ukhwah Malaysia Berhad also has seen the application al-Rahnu practices are streamline to Shari'ah theory framework and finding also has shown the practice of *Ar-Rahnu X'Change* is one of the best practice as Bank Rakyat institution (franchisor) have been the pioneered of al-Rahnu scheme in industry. In fact *Ar-Rahnu X'Change* of Bank Rakyat also have recognized as best Islamic practice in offering Islamic financial product (Maulut, 2013). Here, even though *Ar-Rahnu X'Change* is operating under have their own acts regulation, 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 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. 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....*”

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