




FACTORS THAT DETERMINE CUSTOMERS ACCEPTANCE OF AR RAHN FINANCING IN SELANGOR



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ABSTRACT

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Ar Rahn is a method of providing short-term financing by pledging jewelry to the financial institution as security. It is widely used to facilitate individual consumption and small business. The use of *ArRahn* is gaining prominence as an alternative to money lending which charges high-interest rate and poses a burden to customers. The paper aims to determine the factors that affect customers' acceptance on the use of *ArRahn* based on three variables namely concept, pricing and justice and fairness. The methodology was carried out by survey of 121 respondents in the state of Selangor. The result indicated that only pricing has significance relationship with customers' acceptance. This result is useful to the practitioners so that they can emphasize on pricing as the main element in the marketing of *Ar-Rahn* to customers. The academician can benefit by conducting further research on this eminence body of knowledge.

Contribution/ Originality: This study contributes to the existing literature by providing useful information on *Ar-Rahn* acceptance in Selangor. Future studies can be conducted in broader aspect involving more aspects of *Ar-Rahn* to identify the determinants and develop policy by the practitioners. This study in Selangor is of its' first kind on *Ar-Rahn*.

1. INTRODUCTION

ArRahn pawnbroking has been in existence in Malaysia since 1992 with the establishment of Muassasah Gadian Islam Terengganu. The concept of *ArRahmis* seen as a better alternative to conventional pawn broking especially in Malaysia which has a majority Muslims community. It is a method of providing short-term financing to a person by pawning his or her jewelry to the financial institution as a security (Hanudin and Rosita, 2013). It is used for micro-financing facilities available for low- and middle-class-income earners who are seeking financial assistance. Literally, *Ar-Rahn* was taken from the word *Rahana* which means constancy and continuity or holding and binding (Al-Zuhaily and Islam, 2007). It is the detention of a corporeal property on account of a claim like debt which may be satisfied out of that property. Dusuki (2012) define *Ar-Rahn* as taking a property as a security against a debt, whereby secured property can be utilized to repay the debt in the case of non-payment. The separation of the areas of research (public awareness and management) is considered insufficient to evaluate the development of *Ar-Rahnu*

as one of the Islamic microfinance potential product. To examine the growth of Ar-Rahnu, it will only consider sufficient when there is a combination of public and management study in order to find or decide the most significant factor that influence the development. There is a need to build a new research with the objective to study the factors in a comprehensive manner (Rafidah, 2015).

1.1. Contribution of the Study

This study provides the perception of people in Selangor towards *Ar-Rahn* financing. It also realizes the acceptance level of *ArRahn* and the factors that determine this level of acceptance in Selangor. This research creates opportunities for interested scholars to assess the development of research in this discipline in other states of Malaysia as well as in other countries. It adds value to previous studies that were done on issues and challenges towards *Ar Rahn* and its function as a Shariah compliance financing instruments. It will also assist practitioners to review their marketing strategy for this product and emphasis on features that can attract customers and increase demand in the market.

2. CONCEPT OF AR-RAHN

The concept of *Ar-Rahn* services in Malaysia is based on four key aspects which are *Qardh-ul Hasan*, *Ujrah* and *Wadiah Yad-Amanah* (Bhatt and Sinnakkannu, 2008; Jalil and Rahman, 2010; Amin, 2011). The customers who want to pawn their items need to pay the same amount borrowed to claim the items at an agreed period. *Wadiah Yad-Amanah* is trustworthiness where the customer gives a trust to the financier to keep the items along the financing period (Bhatt and Sinnakkannu, 2008). In addition, the financier needs to replace the item if something happens to it due to its negligence. Another concept that involved in *Ar-Rahn* is *Ujrah* which means safekeeping (Jalil and Rahman, 2010).

Based on Shariah resolution in Islamic Finance, 2010 by Bank Negara Malaysia, the collateral item may be used to cover the rental payment due to the default or negligence of the lessee plus the claim on actual cost incurred to recover rental due from collateral. Consequently, financier may charge a fee for the services of keeping the pawned items safely namely safekeeping with the guarantee, the financier has a responsibility to replace the missing or stolen items to the customer.

3. THE OPERATIONS OF AR-RAHN FINANCING PRODUCT

Ar-Rahn charges may be made on monthly basis (0.65 % to 0.7%) based on the value of the gold for the safekeeping fees (Khir *et al.*, 2013). Therefore, through the *Ar-Rahn* system, customers have the advantage to pay less for similar service. This cost difference is significant in improving one's financial status since the debtor will be able to fully repay back the debt at a lesser value compared to the conventional system.

Another key advantage of the *Ar-Rahn* system can be reviewed from the perspective of default case. The conventional pawnbroking concept requires the borrower to repay back the entire amount of cash borrowed including interest within a specific time period. In case of default, the operator will confiscate the gold that been pawned to them as compensation where in most cases the borrower would lose their gold possession (Maamor and Ismail, 2013). In some cases, the borrower is not notified by the operator on the compensation or auctioned off the procession.

In the *Ar-Rahn* operation, the customer will be notified prior to the auction process and the process will only be made with the consent of the parties involved. *Ar-Rahn* system will auction the gold that belongs to the customers who are unable to repay back their financing within the stipulated time period. In the event that the amount of cash receives from the auction is higher than the value of financing, the operator will reimburse the customer for the balance amount (Maamor and Ismail, 2013). The growth of this fair and transparent system is imperative for the social needs in managing financial difficulties. The concept of *Ar-Rahn* is explained in figure 1.

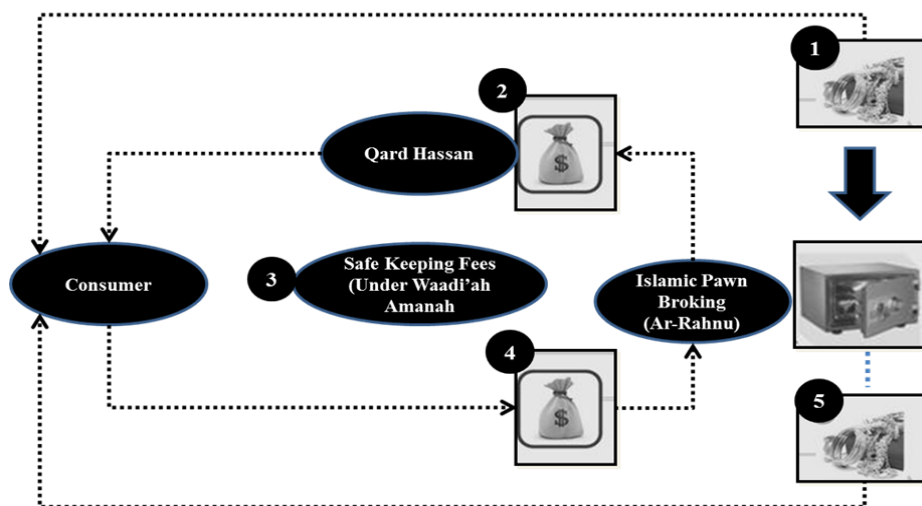


Figure-1. The Concept of Ar-Rahn

Source: Developed from this Study

In figure no 1 above, the customer visits the *Ar-Rahn* service provider to exchange their gold with cash under the principle of '*Ar-Rahnu* contract'. In step two (2), the *Ar-Rahn* center offers to finance to the customer (e.g. 0.65% to 0.7 % of the gold's value) under the formation of 'Qard Contract'. Third (3), the gold assumes the status of 'marhun' (pledged gold) which will be kept by the service provider under the principle of 'Waadi'ah Amanah'. For this service, the *Ar-Rahn* center charges safe keeping fee to the customer which in return promise to ensure the safety of the item during the period financing. Fourth (4) is when the maturity date comes to place and the customer must pay the full financing amount included with the safekeeping fee. Lastly, (5) the *Ar-Rahn* center returns the pledged gold to the customer.

According to a study by Razak (2017) there is positive and statistical significance between financial inclusion and customer adoption of Ar-Rahn which indicates that people who are excluded from mainstream financial institutions, or the so-called 'unbankable,' will obtain loans from non-banking financial institutions such as Ar-Rahn. The statistical significance of individual and societal well-beings in this study is an indication of the fact that a relationship exists between Ar-Rahn's adoption and individual and societal well-beings.

4. HYPOTHESIS DEVELOPMENT

This study was conducted to identify the factors that influence customers for the usage of *Ar-Rahns* namely concept, pricing, justice and fairness. Hence the following hypotheses are developed.

4.1. Concept

Understanding the concept of *Ar-Rahn* is crucial for the consumer. This is to differentiate between the conventional pawn-broking system and the Islamic pawn-broking system. *Ar-Rahn* relies on various Shariah concepts, namely *Qardh Hassan*, *Ujrah* and *Wadi'ah Amanah*. (Amin, 2011). Bhatt and Sinnakkannu (2008) believes that *Wadi'ah Amanah*, *Qardh Hassan* and *Ujrah* concepts are necessary to be applied in the *Ar-Rahn* scheme because each concept has its own distinctive role in ensuring the *Ar-Rahn* contracts are protected from the prohibited elements Thus, these basics concepts distinguished the differences between conventional an Islamic pawn-broking and protect the consumers. Hence the proposed hypothesis is:

Hypothesis-1.

- H₀: There is no effect of Concept on Customer Acceptance in *Ar-Rahn* Financing.
 H₁: There is an effect of Concept on Customer Acceptance in *Ar-Rahn* Financing.

4.2. Pricing

Prices have been aligned with consumer behavior. Increasing and decreasing in prices product purchases correspond with consumer purchasing power. Increase in price will decrease the demand due to lower purchasing while lower price product will increase demand. It is important for retailers to choose the right strategy for pricing specific product or service (Blinder, 1998). A paper written by Al-Salamin and Al-Hassan (2016) on the impact of pricing consumer buying behavior conclude that there is a positive relationship between prices and consumer buying behavior (suitable prices make consumers more willing to purchase product or services). Ghafar Ismail and Zakiah Ahmad (1997) have examined the importance of pricing associated with the pawnshop lending. They argued that the safekeeping fee imposed by Islamic pawn broking is relatively cheaper than the conventional pawnshops namely 2% per month. This shows that Islamic pawn broking lessens the burden of customers compared to conventional pawnshops. Pricing has been identified as one of the major variables in determining whether the consumer will accept and acknowledge *Ar-Rahn* as a financing facility. Hence the next proposed hypothesis is:

Hypothesis-2

H₀: There is no effect of Pricing on Customer Acceptance in *Ar-Rahn* Financing.

H₁: There is an effect of Pricing on Customer Acceptance in *Ar-Rahn* Financing.

4.3. Justice and Fairness

Islamic pawn broking is created in order to exercise a collateral system that is based on short-term financing in an effort to make Islamic finance more equal and justice, especially for low- and medium-income people. Based on Malaysia (2010) the debt must be known and specified by both pledger and pledgee. Debt must be an established binding and enforceable one through a loan, sale or damage in the torts against a property. Besides that, the debt must be known and defined by both parties. The pawning is considered as invalid if one of the parties is uncertain of the debt. This will protect both parties in cases of default or destruction of the collateral item. Abdul-Razak (2011) stated that the conventional pawn broking is weak in term of evaluating the pawned item and conducting the auction in a transparent manner. While Hisham et al. (2013) explained that the conventional pawn broking often conceals the auction matters where the pawner is not informed about the auction. However, *Ar-Rahn* financing is different as it will notify the customer prior to the auction process and will only be made with the consent of the parties involved. The sense of justice and fairness is important for the consumer to establish trust in using the financing service itself. This will indirectly affect the consumer behavior towards the service. Hence the last hypothesis is:

Hypothesis-3

H₀: There is no effect of Justice and Fairness on Customer Acceptance in *Ar-Rahn* Financing.

H₁: There is an effect of Justice and Fairness on Customer Acceptance in *Ar-Rahn* Financing

The relationship between the variables can be shown as follows:

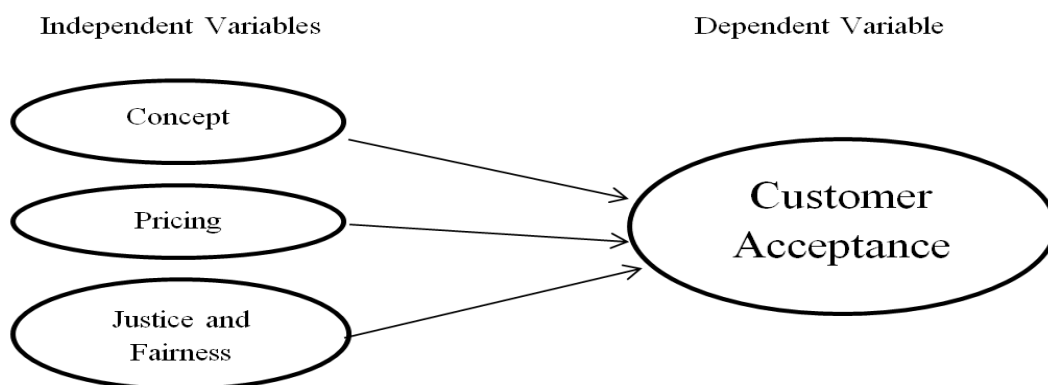


Figure-2. The Research Model

Source: Developed from this Study

5. RESEARCH METHODOLOGY

A convenience sampling was employed in this research in order to obtain the data. The data collection was based on both self-administered questionnaire and electronic means. The questionnaires were mostly distributed amongst the residents in the Gombak (n=93). The balance obtained via electronic means (n=28) such google doc, and WhatsApp applications. The total respondents that have been collected were 121.

Data were analyzed using descriptive statistics and multiple regressions. The descriptive statistic can be broken down into measures of central tendency variability or spread. The descriptive statistic will be used to demonstrate the frequencies of the demographics of this study. A multiple regression equation expresses the linear relationship between the variables.

6. FINDINGS

6.1. Descriptive Analysis

Table-1. Profile of Respondents

	Frequency	Percentage
Gender		
Male	44	36.4
Female	77	63.6
Age		
<25 years old	34	28.1
26-35 years old	38	31.4
36-45 years old	13	10.7
46-55 years old	18	14.9
>55 years old	18	14.9
Religion		
Islam	121	100
Nationality		
Malaysian	121	100
Marital status		
Married	64	52.9
Single	48	39.7
Divorced	9	7.4
Occupation groups		
Entrepreneur	12	9.9
Government	25	20.7
Non-government	33	27.3
Student	28	23.1
Pensioner	13	10.7
Not working/housewife	10	8.3
Salary		
<RM3000	82	67.8
RM3001-RM5000	26	21.5
RM5001-RM10000	9	7.4
RM10001-RM20000	3	2.5
>RM20000	1	0.8

Source: SPSS analysis output

Table 1 above indicated that the majority of respondents were female 63.6 % while 36.4% respondents were male. Majority were aged between 26-35 year having the percentage 31.4%. The next highest percentage was below 25 years old, which was 28.1%. The lowest respondent's percentage was 10.7%, which is between 36-45 years old group.

In terms of religion, and nationality, all our respondents were Muslim and Malaysian. As for marital status, 52.9% were married, 39.7 % single and 7.4% divorced. Majority of the respondents i.e. 27.3 were from the non-

government sector. This is followed by 23.1% students while the third highest percentage of 20.7% was from the government sector.

Majority of the respondents came from the below RM3,000 income group, with the percentage of 67.8%. The second highest income group comprised of 21.5 % was from RM3,001-RM5,000. The lowest respondents came from the above RM20,001 income group with the percentage of 0.8%.

6.2. Multiple Regression Analysis

Table-2. Regression Analysis

Model	Coefficient ^a						
	Unstandardized Coefficient		Standardized Coefficient	t	Sig	Collinearity Statistics	
	B	St. Error	Beta			Tolerance	VIF
(Constant)	7.833	2.063		3.797	.000		
ARC	.033	.112	.026	.297	.767	.773	1.294
ARP	.526	.095	.502	5.549	.000	.715	1.399
ARJF	.132	.121	.095	1.091	.277	.776	1.288

Source: SPSS analysis output

We derived the above result from multiple regressions by using SPSS. The result indicated that only one independent variable (ARP) pricing of Ar-Rahn had a significant relationship with the dependent variable; customer acceptance towards the product. This means that public will be attracted to Ar-Rahn product if the financial institutions are able to provide attractive pricing.

Other independent variables like *Ar-Rahn* concept (ARC) and *Ar-Rahn* (ARJF) justice and fairness have no significant relationship with customer acceptance. In other words, the knowledge of *Ar-Rahn* concept and justice and fairness system do not appeal towards the public acceptance of the product. This may be due to the consumer preference as being a financing product, pricing plays an important role in attracting them to Ar-Rahn rather than knowledge of the concept, and justice and fairness.

Table-3. F-Statistic Analysis

F-Statistic					
DV	F-CALCULATED	A		p-value (Sig.)	RESULT
Customer Acceptance	18.039	0.05	>	0.000	Significant

Source: SPSS analysis output

Table 3, indicated that the regression analysis is significant, and the model used fits fairly well at 95% confidence level. It indicated that at 95% confidence level the model was able to explain the relationship between *Ar-Rahn* concept, pricing as well as the justice and fairness on consumer acceptance towards *Ar-Rahn* financing.

Table-4. DurbinWatson test Analysis

Test of Auto-Correlation

_Model Summary^b

Model	R	R Square	Adjusted R Square	Std Error of the estimate	Change Statistics					Durbin-watson
					R Square Change	F Change	Df1	Df2	Sig. F Change	
1	.562 ^a	.316	.299	2.127	.316	18.039	3	117	.000	1.813

a. Predictors: (Constant), ARJF, ARC, ARP

b. Dependent variable: ARCA

In table 4, Durbin Watson was used to test the strength of each independent variable. It was measured by the range of 1.5 to 2.5, which measured the correct model used for this study. The result of Durbin Watson in multiple linear regressions was 1.813. This indicated that the model used in this study had a positive autocorrelation and that the three variables used, concept, pricing, as well as the justice and fairness, can be accepted in analyzing the customer acceptance towards *Ar-Rahn* Financing.

7. DISCUSSION

Although the *ArRahn* pawn-broking has been in existence in Malaysia since 1992, many more studies need to be done, to understand customer perception towards the product. The concept of *Ar Rahn* is preferred by Muslim customers than conventional pawn broking as it is in line with their religious belief. However, the main attraction was due to its attractive system of pricing; higher margin rate of financing and low holding fee compared to conventional. In the case of default in conventional pawn-broking, the gold is auctioned off and the borrower is required to repay back the entire amount of cash borrowed including interest. This differs from *Ar Rahn* where the customer will be notified prior the auction process and refunded the value of the auction is higher than the outstanding amount. However, this aspect of justice and fairness was found to be insignificant to customers. There are other aspects of fairness in using gold value as is pricing structure and elimination of interest rate which is prohibited in Islam. Hence, financial institutions can use the aspect of avoidance of *riba* (usury) to further market for the product. In addition, Islamic pawn-broking can also be utilized as a source of financing for the poor which can uplift their income, reduce poverty and improve the nations' economy.

8. CONCLUSION

The main aim of the paper is to conclude on the factors that affect customers' acceptance on the use of *Ar-Rahn* based on three variables namely concept, pricing, and justice and fairness. The result has revealed that pricing is a significant factor. However, there are many other factors that can be used to further enhance its usage such as fairness and justice which are yet to be implemented by the financial institutions in promoting *Ar-Rahn* financing. Hence, steps should be taken to increase the awareness of this product which can be done via education and mass media. This product can also be used to provide initial capital for small business and enhance society living standard which would eradicate the poverty of the nation.

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Appendix

Multiple Regression Analysis

Regression Result

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	ARJF, ARC, ARP ^b	.	Enter

a. Dependent Variable: ARCA

b. All requested variables entered.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.562 ^a	.316	.299	2.127	.316	18.039	3	117	.000	1.813

a. Predictors: (Constant), ARJF, ARC, ARP

b. Dependent Variable: ARCA

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	244.780	3	81.593	18.039	.000 ^b
	Residual	529.220	117	4.523		
	Total	774.000	120			

a. Dependent Variable: ARCA

b. Predictors: (Constant), ARJF, ARC, ARP

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	7.833	2.063		3.797	.000		
	ARC	.033	.112	.026	.297	.767	.773	1.294
	ARP	.526	.095	.502	5.549	.000	.715	1.399
	ARJF	.132	.121	.095	1.091	.277	.776	1.288

a. Dependent Variable: ARCA

Collinearity Diagnostics^a

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	ARC	ARP	ARJF
1	1	3.970	1.000	.00	.00	.00	.00
	2	.016	15.901	.10	.03	.91	.03
	3	.009	21.096	.05	.28	.01	.87
	4	.005	27.263	.85	.69	.08	.10

a. Dependent Variable: ARCA

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	14.65	21.43	17.91	1.428	121
Residual	-7.969	5.637	.000	2.100	121
Std. Predicted Value	-2.279	2.467	.000	1.000	121
Std. Residual	-3.747	2.650	.000	.987	121

a. Dependent Variable: ARCA

Correlation Result

Descriptive Statistics

	Mean	Std. Deviation	N
ARCA	17.91	2.540	121
ARC	18.32	1.980	121
ARP	14.31	2.422	121
ARJF	14.69	1.821	121

Correlations

		ARCA	ARC	ARP	ARJF
ARCA	Pearson Correlation	1	.281**	.555**	.323**
	Sig. (2-tailed)		.002	.000	.000
	N	121	121	121	121
ARC	Pearson Correlation	.281**	1	.442**	.354**
	Sig. (2-tailed)	.002		.000	.000
	N	121	121	121	121
ARP	Pearson Correlation	.555**	.442**	1	.438**
	Sig. (2-tailed)	.000	.000		.000
	N	121	121	121	121
ARJF	Pearson Correlation	.323**	.354**	.438**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	121	121	121	121

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

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