

An Overview on Implementation of *Ar-Rahnu* in Malaysia

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ABSTRACT

Ar-Rahnu scheme means providing short term financing, fast, hassle free and riba free to the public by pawning his/her jewellery to banks or any pawnshop as a security. It is one of the micro-credit and financial instrument for low income earners which seeking for financial support or assistance to meet their fast working capital or personal necessities. *Ar-Rahnu* is relatively a new concept of pawn broking in Malaysia even though pawn broking dates is one of the earliest recorded lending transaction in history, back in the ancient times. *Ar-Rahnu* contract's purpose is to pledge the security of a debt and it is not meant for investment or profitable use. Therefore, if the security pledging for *Ar-Rahnu* is contracted for such purpose, the exploitation of such money-making use will be considered as usury. It is in line with the objective of *Ar-Rahnu* which is to allow individuals, small traders and poor to fulfil their financing needs without having to resort other expensive means such as money lenders, interest based loans as well as less weighty financing by acting as a source of capital to the small business, financing educational needs and helper to develop agricultural and village industries. Hence, the purpose of conducting this research is to determine either the internal regulation made by those institutions is enough to protect both parties involved in case of dispute occurs or a specific law need to be implemented and enforced. In consequence with research objective, qualitative analysis through in-depth interview has been done with few of *Ar-Rahnu* implementer both banks and non-banks institution. Based on the findings, there are not many issue appear on those institution of *Ar-Rahnu* scheme but it is advised that specific law for *Ar-Rahnu* is implement as this scheme growing rapidly due to the arise of awareness within Malaysian community.

Keywords: *Ar-Rahnu* scheme, Governance Laws, Pawnshop.

ABSTRAK

Skim Ar-Rahnu adalah skim pembiayaan jangka pendek, cepat, mudah dan bebas daripada unsur riba telah diperkenalkan kepada orang ramai dengan cara gadaian barang kemas kepada institusi *Ar-Rahnu* sama ada bank-bank ataupun kedai gadaian sebagai cagaran kepada pinjaman. *Ar-Rahnu* diperkenalkan sebagai satu bentuk pinjaman mikro-kredit atau alat kewangan bagi membantu golongan berpendapatan rendah untuk menampung keperluan mereka dan modal bagi sesuatu perniagaan. Secara amnya, *Ar-Rahnu* merupakan satu konsep gadaian yang baharu di negara ini walaupun transaksi gadaian merupakan antara salah satu transaksi peminjaman yang terawal dijalankan di Malaysia berdasarkan sejarah. Kontrak *Ar-Rahnu* di buat bertujuan untuk menjadikan gadaian sebagai cagaran kepada hutang dan bukan bermotifkan pelaburan untuk memperoleh keuntungan. Oleh itu, sekiranya wujud unsur-unsur tersebut dalam kontrak *Ar-Rahnu*, hasil eksploitasi dan keuntungan yang diperoleh dianggap sebagai riba. Hal ini berdasarkan objektif utama *Ar-Rahnu* adalah untuk membantu individu, peniaga kecil dan golongan berpendapatan rendah menyediakan keperluan kewangan mereka tanpa perlu menggunakan alternatif lain seperti along, pinjaman wang berfaedah dan prosedur pembiayaan yang rumit dengan bertindak sebagai modal bagi peniaga kecil. Selain itu, ia juga bertindak sebagai bantuan pembiayaan pendidikan dan membantu membangunkan industri pertanian kecil. Oleh itu, kajian ini dijalankan bertujuan untuk mengenal pasti samaada garis panduan yang dibuat oleh institusi-institusi *Ar-Rahnu* ini cukup untuk membela kedua belah pihak sekiranya berlaku pertikaian atau undang-undang khusus berkaitan *Ar-Rahnu* perlu digubal dan

dikuatkuasakan. Selari dengan objektif kajian, analisis kualitatif melalui teknik temubual mendalam telah dijalankan dengan beberapa institusi yang telah mengimplementasikan Ar-Rahnu sama ada Bank mahupun institusi bukan-bank. Berdasarkan hasil kajian yang diperolehi mendapati bahawa tidak wujud banyak isu berhubung Ar-Rahnu berlaku di institusi tersebut, walau bagaimanapun, adalah baik sekiranya satu undang-undang khusus berkaitan Ar-Rahnu dapat dibentuk memandangkan skim ini semakin berkembang pesat di Malaysia sejajar dengan peningkatan kesedaran dan pengetahuan dalam kalangan rakyat di negara ini.

Kata Kunci: Skim Ar Rahnu, Kawalan Undang-undang, Kedai Pajak Gadai.

INTRODUCTION

Nowadays, Islamic banking term has been used widely all over the world. Islamic banking has arisen as one of the most important trends in the financial world. Hence there are always demand for Islamic financial products which is in line with the *Shariah* requirement. Due to the development of *Shariah* alternatives from conventional banking, today, many *Shariah*-compliance banking products was introduced either short term or long-term banking products to meet customer needs. It is notorious that Islamic banking built based on *Syariah* laws principle. This principle is one of the factor that makes Islamic banking different from conventional banking even both offer similar functions and services. These two basic principle that underlying Islamic banking is:

1. Riba Prohibition (Interest-Free)
2. Sharing of profit and loss between bank and its customer.

The blooming of Islamic finance has cause introduction of diverse riba-free products and services. On top of that, the introducing of Islamic Financial Service Act 2013 (IFSA) in Malaysia has enlarge customer trust to invest and use in Islamic banking products. Essentially, in Malaysia, Islamic banking operation is similar with Islamic banking in other country which focusing their operation based on Islamic principles on financial transaction. For instance, risk-sharing, interest and riba free loans, ensuring justice and equity in economy. During the last three decades, Islamic theories of finance based on ethics and equity and the on-going development of Islamic banking and investment awakened considerable interest in the Islamic banking and financial institutions all over the world to see their viability and compatibility in the present economics system based on monetary loans (Salahuddin Ahmed: 2006). Therefore, to ensure all Islamic banking products are compliance and follow *Shariah* requirement, IFSA 2013 require banks and all Islamic financial institution to establish their own *Shariah* advisory to monitor Islamic banking product constantly.

The establishment of Islamic banking began and started to materialise in Malaysia when Islamic banking with different approach started in Egypt. In Malaysia, the first Islamic financial constitution is a financial development for Malaysian Muslims undertaking the pilgrimage to mecca and medina which called Lembaga Tabung Haji (Pilgrims Fund Board, Malaysia). This institution was set up to help Muslims save their pilgrimage expenses (Kamal Khir, Lokesh Gupta, Bala Shanmugam: 2008). Quite a number of Islamic banking came to existence in the Middle East after Naseer Social Bank was established in Egypt. Since then, Islamic banking have been started in all over the world even in the countries where Muslims are minority. The first Islamic banking in Malaysia is Bank Islam Malaysia Berhad (BIMB) which has debuted on 1983 (Kamal Khir, Lokesh Gupta, Bala Shanmugam: 2008).

In Islamic finance, interest are definitely prohibited according to the *Shariah* but that doesn't mean capital is costless. Even though additional profit and riba are ban from Islamic finance, however, profits which earned from legal trading is permissible under *Shariah* and also supported. It has been explained that Islamic finance offer similar types of products and services with conventional banks and financial institutions to their customer. It is because the products and finance service was converted to be compliance with *Shariah* laws. Some of Islamic Finance products that offered are *Mudaraba* (profit sharing or trust financing), *Murabaha* (mark up financing), *Ijara* (leasing), *Istisna*, *Qard Hassan* (benevolent loans), *Ar Rahnu* (Pawn broking) and many more. As Islamic finance products raise and evolve more, customer believe and trust also grow together which make Islamic products in the limelight right now.

Currently, Islamic finance is no longer realm in the Muslim world but it is an international phenomenon with international interest. It has also demonstrated that it can match the offerings of

conventional banks. In fact, conventional banks presently have emerge as partners to many Islamic institution worldwide.

CONCEPT AND PRINCIPLES OF *AR-RAHNU*

Today, *Ar-Rahnu* is one of the Islamic financial products that are getting many customers' attention. It is defined as repayment guarantee of debtor by creditor which allows the creditor to hold an asset in respect with the debt. *Ar-Rahnu* is in charge as a relief if payment cannot be paid or there be default occurred. This means that the creditor is permitted to take any actions right on the asset by selling it off or put it on auction because the charger's failure to obey the term and condition that is set during the contract.

In Islamic jurisprudence, *Ar-Rahnu* is an arrangement where a valuable asset is placed as collateral for debt. It also means readiness or immutability and durability (Abdullah Alwi Hj Hassan: 2007). The practise of *Ar-Rahnu* is probable in *Shariah* perspective. It is because this product is already used in and well accepted in Islam during Prophet Muhammad's time. It has been proven and verified through most reliable resources in Islam which are *Quran* and *Sunah*. Evidences for the legality of *Ar-Rahnu* are as followed:

In Quran: *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 things on trust with another, let the trustee (faithfully) discharge his trust and let him fear his lord. (2:283)*

In Sunah: *The prophet was reported to have bought some foodstuff on credit for a limited period and to have given his armour as a security for it.*

Before *Ar-Rahnu* transaction can be proceed, there are several conditions or tenets that must be followed, such as:

- 1) There must be *rahin* (Chargor)
- 2) There must be a *murtahin* (Chargee)
- 3) There must be a *marhun bih* (Debt)
- 4) There must be *marhum* (Valuable Asset)
- 5) There must be *sighah* (Agreement in contract)

Features of *Ar-Rahnu*

As a micro-credit instrument, *Ar-Rahnu* secured and facilitates safe-keeping guarantee by providing insurance coverage for the pawned item. In actual fact, *Ar-Rahnu* scheme is created with aims to help members of society, poor people and small traders when they are dreadfully in need of cash for certain reason. There are few features of *Ar-Rahnu* Scheme, such as:

Loan Amount

Usually, the amount offered by banks and financial institution for *Ar-Rahnu* loan is between RM100 till RM150, 000. Plus, margin approved by those institutions also depends on every *Ar-Rahnu* implementer institution. For example, Muassasah Gadaian Islam Terengganu (MGIT) offers 100% free wage for asset below RM1000 but generally, the margin of this scheme is between 50% - 80% of the asset value. Calculation of safe-keeping fee is also different between each institutions.

Loan Margins

Ar-Rahnu institution in Malaysia offered different Loan Margins on *Ar-Rahnu* transaction. This is because these institution has their own rights to determine the amount itself. The lowest loan margin offered is 10% while the highest loan margin offered by those institutions can reach untill 80% of *marhun* value.

Based from the table above shows that the highest loan margin was provided by Bank Muamalat Malaysia which allow individual to make a loan until 80% of *Marhun* value. This is means chargor still can loan money as long as the loan does not exceed 80% from *marhun* value. The lowest margin between those institutions is offered by YPEIM which offered only 65 % of *marhun* value. Meanwhile the others *Ar-Rahnu* institutions offered parallel margin which are 70-75% of *marhun* value

Safe Keeping Fees

According to the *Shariah*, valuable asset can be placed as collateral as long as the asset has value and permissible (*halal*) under *Shariah*. *Ar-Rahnu* scheme which applied in Malaysia requires gold to be placed as collateral instead of any other valuable items. It means only gold is accepted at those institutions; both banks and non-banks to execute *Ar-Rahnu*. This is because the constancy of gold price in the markets as well as stress-free to preserve it compared to others, such as animals and fruits. Table below shows margin rates offered by few of *Ar-Rahnu* institutions (Banks and Non-Banks).

Based on the table 2 above, dapat dilihat bahawa tiada garis panduan yang boleh dijadikan rujukan bagi mengkaji tujuan pemilihan kadar margin yang ditetapkan. Walau bagaimanapun, secara umumnya, setiap institusi *Ar-Rahnu* mengira upah simpan berdasarkan kiraan RM100 nilai marhun. Nilai upah simpan terendah yang ditetapkan oleh institusi *Ar-Rahnu* ini adalah sebanyak RM0.10 yang ditawarkan oleh Koperasi YPEIM manakala nilai margin tertinggi adalah sebanyak 85% yang ditawarkan oleh Bank Muamalat. Institusi *Ar-Rahnu* yang lain pula menawarkan nilai margin yang lebih kurang sama iaitu antara RM0.60-RM0.80 bagi setiap RM100 nilai marhun. Berdasarkan rajah di atas, dapat dilihat sedikit perbezaan ketara nilai margin yang ditawarkan oleh MGIT daripada institusi *Ar-Rahnu* lain di mana MGIT tidak mengenakan sebarang upah simpan bagi nilai marhum yang bernilai kurang RM1000. Ini bermaksud, sekiranya seorang individu menggadaikan harta yang nilainya kurang daripada RM1000. Ini bermaksud, penggadaikan akan dikecualikan daripada membayar upah simpan atau jagaan ke atas barang gadaian setiap bulan sekiranya nilai harta cagaran tidak kurang daripada RM1000. Berbeza dengan institusi *Ar-Rahnu* yang lain, *Ar-Rahnu* PKB tidak menetapkan margin khusus bagi kadar marhun tetapi menetapkan kadar upah simpan yang sama bagi semua kadar marhum sama ada kadar tersebut rendah mahupun tinggi. *Ar-Rahnu* PKB juga menetapkan penggadaikan hanya perlu membayar RM0.50 bagi upah simpan untuk seumur hidup.

It is visible that no guideline can be made as reference to study the unchanging margin rates. Nevertheless, every *Ar-Rahnu* institution generally, will estimate safe keeping fees based on RM100 of *marhun* value. The lowest safe keeping fees of *Ar-Rahnu* only RM0.10 which offered by YPEIM. Meanwhile the highest margin rate is 85% offered by Bank Muamalat Malaysia. The rest of *Ar-Rahnu* Institution also offer margin rates that approximately equivalent between RM0.60 to RM0.80 to every RM100 *marhun* value. Based on table above, it can be seen that MGIT offers are different from others where MGIT do offer free safe keeping free for *marhun* that worth less than RM1000. This is mean, if any individual pledge a property that has value less than RM1000, they will be exempted from paying safe keeping fees on pawned item every month. *Ar-Rahnu* PKB does not specify any specific margin rates for *marhun*, however it is stated that the chargor need to pay the same safe keeping fees amount either the margin value below RM1000 or higher than that. *Ar-Rahnu* PKB also require chargor to pay RM0.50 as a safe keeping fees permanently.

Loan Tenure

Loan tenure is a period given by chargee to chargor to resolve the pledge property before it is send off for an auction. Same with the margin and loan value, the duration of pawn financing offered by every institution also different between one and another. Table 3 shows the duration of pawn financing and extension period which can be applied.

If *Ar-Rahnu* terms have ended due to the expiry date, debtor can apply from pawnbroker to extend the debt for three to four months payment extension. If debtor is still unable to claim his valuable asset, it will be set off for an auction. Any opposition made after the auction will not be accepted. Based from the table above shows that those *Ar-Rahnu* institutions offers similar pawn tenure to the customer which allow customer to settle *Ar-Rahnu* within one to six month. Apart from pawn duration, *Ar-Rahnu* institutions also allow customer to apply for few month payment extension. The duration of this extension depends on *Ar-Rahnu* Institutions. Based from the table above shows that the shortest extension duration offered by MGIT which allow customer to apply for two months extension only after the expired date and another two months later. The longest extension duration offered by *Ar-Rahnu* Permodalan Kelantan Berhad which offer unlimited extension period for the pledge property.

IMPLEMENTATION OF AR-RAHNU IN MALAYSIA

Recent changes in the world particularly in Malaysia, have witnessed a rise in the Muslims' consciousness and awareness to run-through Islam in all aspects. One of the concerns of such developments is the occurrence in Islamic banking and finance. The establishment of the first Islamic

bank in Malaysia (BIMB) in 1983 has encouraged scholars, researchers and Malaysian government to implement the Shariah principle in other financial services and products such as insurance, unit trust, and pawnshops. After ten years, on March 1993, BNM (Central Bank of Malaysia) has introduced an interest free banking scheme in which conventional banks could offer Islamic banking products through its window (Zulkifli Hasan: 2012). The formation of such policy make many conventional banks set up an Islamic window and hired talented scholar to become members of Shariah Board. As result, nowadays there are many conventional banks apart from BIMB has been introduced and offer Islamic products such as *Bai Bithaman Ajil* (sale with differed payment), *Ijarah* (alternative to conventional leasing) *Musharakah* (Partnership/sharing) *Ar-Rahnu* (pawn broking) and many more.

Ar-Rahnu in Malaysia started when Muassasah Gadaian Islam Terengganu also known as MGIT was established in 1992. The idea to build MGIT started with the pawnshop project proposal which aimed to establish the first Islamic pawnshop in Terengganu. This project proposal was provided by Malay Customs Council (MAIDAM) to provide speedy cash which considered *halal* for Muslim in Terengganu. In March 1992, PKB (Permodalan Kelantan Berhad) has opened its own Ar-Rahnu first pawnshop in state of Kelantan (Azila Abdul Razak: 2011). The First cooperative to conduct Ar-Rahnu business was a bank cooperative (Bank Rakyat) in October which cooperative with YPEIM (Azizah Othman, Norashidah Hashim and Syahrina Abdullah: 2012).

In Malaysia, the amount of *Ar-Rahnu* institution both Banks and Non-Banks are not certain. This is due to registration for Ar-Rahnu pawnshop depends on types of those institution. For example, *Ar-Rahnu* Exchange which administrated by Bank Rakyat need to be registered under SKM (Cooperative Commission of Malaysia) instead of Ministry of Urban Wellbeing, Housing and Local Development as stated in Pawn Broking Act 1972. Table below shows Conventional Pawnshop and *Ar-Rahnu* Pawnshop which has been registered in each state of Malaysia.

Based on the table below, this study observes that conventional pawnshop still dominated pawn broking system in Malaysia particularly in rural areas and also in east Malaysia (Sabah and Sarawak). This is due to the absence of *Ar-Rahnu* institutions and also minus knowledge about *Ar-Rahnu* among society and community. Hanudin Amin etc, 2007, have stated in his research that *Ar-Rahnu's* location plays a big role in determining customer's choice. Ar-Rahnu institutions which located far from customer home will enhancediscommode to customer. In consequence, customer will choose conventional pawnshop instead of *Ar-Rahnu*

AR-RAHNU GOVERNANCE LAWS IN BANKS AND NON-BANKS.

Ar-Rahnu scheme increasingly getting attention and support-from the society. This is due to the existence of many *Ar-Rahnu* institutions in the markets. Based on the annual report issued by Ar-Rahnu MAIDAM shows quite a number of chargor increasing, every year. Presence of Ar-Rahnu scheme institution said to have contributed in many socio-economic progress. Azizah Othman etc's, 2013 study on Ar-Rahnu MAIDAM find out that Ar-Rahnu MAIDAM has gave benefit to many people, approximately 60,000 people each year which involves fisherman, small and medium entrepreneur, farmer, low-income group and individual which need speedy-cash immediately. At present, no specific laws for Ar-Rahnu enacted, nevertheless, some institutions like cooperative institution and MAIDAM has legislate policy and administrative guideline to execute Ar-Rahnu. Act, Policy and guideline provided for *Ar-Rahnu* such as

1. Pawnshop Act 1972

Previously, in the beginning of *Ar-Rahnu* implementation, *Ar-Rahnu* scheme binds with Pawnshop Act 1972. Nevertheless, there is a few sections which mention in Pawnshop Act 1972 are not compliance with *Shariah* requirement. This is because any interest is prohibited under *Shariah*. The existence of non-compliance section in Pawnshop act 1972 has cause this act not practicable to *Ar-Rahnu* anymore. However, any party wish to establish own pawnshop still need to register pawnshop license at Ministry of Urban Wellbeing, Housing and Local Development as stated in Pawn Broking Act 1972. . Institution which operates as cooperative do not require to register licence as pawnbroker in ministry of local housing yet they are oblige to register pawnshop licence through Malaysian cooperatives commission

2. Pawn Broking Activity Guidelines (*Ar-Rahnu*)

Pawn broking guideline activity (*Ar-Rahnu*) formed by Malaysian cooperatives commission in order to provide guideline in relation to *Ar-Rahnu*. Still, the guideline is unable to defend party rights which

involved in *Ar-Rahnu* contract. Essentially, this guideline only cover basic matter about *Ar-Rahnu* as clarified according to *Shariah* such as pillar of charge, charge concept, but it has not include procedure and vital needs to protect parties involved in *Ar-Rahnu* contract. Therefore, in-depth study is necessary to study and examine so it can be comprehensive and organize.

3. Tatacara Pengurusan Skim Ar-Rahnu, Majlis Agama Islam dan Adat Melayu Terengganu

Ar-Rahnu scheme management procedure that provided by Islamic Religious Council and Malay customs seen more organized compared to guideline which prepared by Malaysian cooperatives commission. Although this procedure is not complete like Pawnshop Act 1972, however, this procedure able to protect parties involved in *Ar-Rahnu* contract. This procedure has been compiled by proper arrangement, start with subject interpretation to certain procedure and ends with repeal. Apart from that, this procedure has attach with appendixes use in *Ar-Rahnu* contract for reference purposes like pawn broking application form (ARM 1), pawn broking declaration form (ARM 2), pawn broking extension form (marked as ARM3), period pawn further application form, loss declaration (ARM 5) and so on. Besides, this procedure attach example of acknowledgement notices to chargor

RELEVANT ISSUES PERTAINING IMPLEMENTATION OF AR-RAHNU IN MALAYSIA

Today, due to the extensive of *Ar-Rahnu* development nationwide, there are some issues arise that need to look into to improve *Ar-Rahnu* system in this country. Some of those issues are:

Lack of Legal Framework and Jurisdiction on the Governance of *Ar-Rahnu*

Skim Ar-Rahnu can attract more customer compare to the conventional pawnshop. This is because this scheme offer usury-free service, as well as offering the lowest safe keeping fees to the customer. Nevertheless, there are many gold fraud cases emergence in the markets today which arise anxiety to both chargee and chargor. Based on interview carried out with MGIT found that MGIT has received many cases of gold fraud which occurred in their institution. This problems has cause turnover loss to MGIT because fake gold are worthless to be auctioned. In Malaysia, conventional pawnshop institution do not have problem with their pawn shop activity. This is because conventional pawn broking protected by Pawnshop Act 1972 . It is contrasts with *Ar-Rahnu* scheme, where there is no law or act found to protect Ar-Rahnu transaction. As mention before, Ar-Rahnu scheme does not bound with Pawnshop Act 1972. It is because there are several provisions in Act which contradict with Syariah principles. Some of *Ar-Rahnu* institutions, for example SKM and MGIT take the initiative by providing *Ar-Rahnu* executive guidelines to guide Ar-Rahnu activity in their institution. However an issue arose whether this guideline and procedure are enough to protect parties in case conflict occur.

Lack of Shariah Monitoring on *Ar-Rahnu* Transaction

Islamic banking product emergence through window in conventional banking institution are allowed based on the policy issued by Bank Negara. Nevertheless, Bank Negara fixed that any conventional banking which has desirous to launch or introduce Islamic banking product should establish syariah advisor board in their respective institution. This is because Syariah advisory has role to control and monitor Islamic financial product activity so that it will always comply with syariah requirement. In *Ar-Rahnu* context today, there is debate and issue which arose on safe keeping fees that imposed to customer, either it is comply with syariah or not. Based on the interview with Ar-Rahnu Malaysian Post Office found that this institution haven't establish their own syariah advisor board which obligated by state bank (Bank Negara). Apart from that, Malaysia Post also require 3% to be taken from property for the purpose of property auctioning fees. This is contrasts with Islamic law which sets that property balance from auction need to be returned to the owner or to Baitulmal if it is unclaimed in such a period.

Lack of Monitoring on the Original Ownership of *Marhun*.

Pledge property using in Ar-Rahnu transaction must belong chargor to or with the owner permission before it can be use as a pledge property according to the syariah. In context of business today, purchase receipt will become an evidence as property ownership. Nevertheless, in some circumstances, chargor could not give purchase receipt with some reason, they can apply to mortgage pledge property

without the purchase receipt. Some Ar-Rahnu institutions like Post Malaysia, MGIT, Bank Rakyat and so on sets a condition that original security estate's purchase receipt need to be presented during process mortgage, however it not become a must that need to be filled. Contrasts with MGIT and Post Malaysia, *Ar-Rahnu* Bank Rakyat compels chargor to carry pledge property purchase receipt if chargor wish to mortgage with Bank Rakyat. Failure to bring purchase receipt will futile the transaction. Bank Rakyat compels this purchase receipt presence in order to prevent fake gold property and to avoid from receiving gold from robbery that happened a lot nowadays.

Lack of Guideline on determining the Originality of *Marhun*

Development of gold purity test equipment are needed by every *Ar-Rahnu* institution. This is because there are many fake gold occurred in the market nowadays. For example, many fraud cases about gold coating or lead gold being recorded. Lead is one type of liquid that can be mimicked the gold. In gold cheating today, lead has been used widely in order to increase gold weight. Lead which has included in pure gold structural can't be detected by some of gold equipment. This problems has cause many of Ar-Rahnu only receive few type of gold to avoid from receiving gold which has been faked with lead. some of Ar-Rahnu institution like Post Malaysia received bullion with condition which is, it has to be split in order to know purity of that gold.

Lack of *Ar-Rahnu* Bussiness in Rural Area

In Malaysia, Ar-Rahnu has expanded widely and increasingly getting many attention. However, there are few area which doesn't have Ar-Rahnu institution. according to the researcher, chargor tends to choose the nearest pawnshop to do mortgage transaction. This problem has lead chargor to go to conventional pawnshop instead of Ar-Rahnu institution. in order to prevent that from happen continuously, those Ar-Rahnu institutions need to be encourage to open more Ar-Rahnu pawnshop in many place especially in east Malaysia and rural area.

CONCLUSION

Ar-Rahnu institutions in Malaysia has the capability to compete and to dominate with conventional pawn shop which has long chronological history in this country. This is due to the fact that *Ar-Rahnu* system offer welfare protection to help low-income group compared to conventional pawnshop that operate towards interest based-profit. Nevertheless, in-depth study related to specific laws about *Ar-Rahnu* need to be created to raise more customer reliability on this scheme.

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TABLE 1: Loan Margin and Safe Keeping Fees Calculation.

Name of Institutions	Loan Margin	Fees Calculation Formula
Bank Rakyat	Up to 70%	$SF = MV (R/100) \times 12 \times (D/365)$
Bank Islam	Up to 70%	$\frac{\text{Marhun Value} \times \text{Rate}}{100}$
Agro Bank	As high as 70%	-
Bank Muamalat	80%	$RM1,000.00 \times 0.65/100 \times 6 \text{ (month)} = RM39.00$
MGIT	80%	$SF = \frac{MV \times R \times D}{100}$
Pos Malaysia Berhad	75%	
YPEIM	65%	$SF = \frac{MV \times R \times D}{100}$
Ar-Rahnu PKB	10% - 65 %	-
CIMB Bank	Up to 75%	-
Affin Bank	70%	-
RHB	70% - 75%	$SF = MV \times SF/100 \times D$

Source: Institutions Website 2014

- SF : Safekeeping Fee
 MV : Marhun Value
 R : Rates
 D : Duration/Month

TABLE 2: Margin Rates:

Institutions	Margin Rates For every RM100 assets value
Bank Rakyat	Ar-Rahnu $RM100.00 - RM1,000.00 = RM0.65$ $RM1,001.00 - RM10,000.00 = RM0.75$ Az Zahab $RM10,001.00 - RM100,000.00 = RM0.75$
Bank Islam	Up to RM500 = RM0.60 RM501 - RM2500 = RM0.70 More Than RM2500 = RM0.80
Agro Bank	RM100-RM2,000 = RM0.50 RM2,001-RM5,000 = RM0.60 Above RM5,001 = RM0.75
Bank Muamalat	RM320 – RM1,000 = RM0.65 RM1,001 – RM5,000 = RM0.75 >RM5,001 = RM0.85
Muassasah Gadaian Islam Malaysia	< RM1000 = Free RM1001-3000 = RM0.50 RM3001-RM5000 = RM0.60

	RM5001-10 000 = RM0.70 RM10 000 and more = RM0.75
Pos Malaysia Berhad	For every RM100 = RM0.75 Additional extra charge 3% for auction
Koperasi YPEIM Berhad	Special Rate* = RM0.10 <RM720 = RM0.50 RM721 - RM2000 = RM0.65 RM2001 and above = RM0.75
Ar-Rahnu PKB	RM0.50 for lifelong
CIMB Bank	RM0.65 every RM100 every month Additional Charge RM10 for Stamp Fee and Administration Fee
AFFin Bank	50% and below = RM0.50 50.1% - 60% = RM0.60 60.1% - 70% = RM0.70
RHB	RM 100-RM2000 = RM0.60 RM2000.01 – RM5000 = RM0.70 >RM5000.01 = RM0.80

Sources: Institutions Website 2014

TABLE 3: Duration of Pawn Financing

Name of Institutions	Pawn Tenure	Extension Period
Bank Rakyat	6 Months	Does not exceed 18 months from the date of pawn
Bank Islam	6 Months	3 to 9 Months
Agro Bank	6 Months	6 Months
Bank Muamalat	6 Months	6 Months + 3 Months + 3 Months Subjected to terms and conditions
MGIT	6 Months	2 Months + 2 Months
Pos Malaysia Berhad	6 Months	3 Months + 3 Months
Koperasi YPEIM Berhad	6 Months	2 Months + 2 Months – Does not exceed 10 Months
Ar-Rahnu PKB	6 Months	unlimited
CIMB Bank	1 to 6 Months	Auto extension of 3 Months
Affin Bank	6 Months	5 Month – Does not exceed 11
RHB Bank	6 Months	6 Months Subjected to terms and conditions.

Sources: Institutions Website 2014

TABLE 4: Conventional Pawnshop and Ar-Rahnu Institution both Banks and Non-Banks

Institutions	Conventional Pawnshop	Bank Rakyat	Bank Islam	MGIT	PKB	Pos Malaysia	YPEIM	CIMB	Affin	RHB	Koperasi Tentera	Total
State												
Johor	45	9	-	-	-	18	15	-	1	-	1	89
Kedah	41	5	-	-	2	5	13	-	1	1	-	68
Kelantan	11	4	6	-	14	10	15	2	-	1	-	63
Melaka	9	2	-	-	-	7	2	-	-	-	1	21
N. Sembilan	23	3	-	-	-	6	4	-	1	-	-	37
Pahang	15	2	1	-	4	8	10	-	-	1	-	41
Pulau Pinang	33	2	-	-	1	5	8	-	1	-	-	50
Perak	42	5	-	-	-	10	13	-	-	1	-	71
Perlis	4	-	-	-	1	2	1	-	-	1	-	9
Selangor	50	22	-	-	2	14	9	-	3	2	-	102
Terengganu	11	2	-	9	-	6	6	-	1	2	-	37
Sabah	25	1	-	-	3	4	3	-	-	-	-	36
Sarawak	17	-	-	-	-	3	0	-	-	-	-	20
W.P. K.L	31	7	-	-	2	2	4	-	1	-	1	49
W.P. Labuan	4	1	-	-	-	-	-	-	-	-	-	5
W.P.Putrajaya	-	-	-	-	-	-	-	-	-	-	-	-
Total	361	65	7	9	29	100	103	2	9	9	3	697

Source: Institutions Website 2014 (Most popular *Ar-Rahnu* Pawnshop in Malaysia)