



Factors That Influence the Customers' Perception towards Ar-Rahnu (Islamic Pawn Broking Product) in Selangor, Malaysia

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Abstract

The purpose of this research is to determine the difference of customers' perception on Ar-Rahnu base on three demographic factors which are religion status, consumer status and monthly income that very seldom to investigate in Islamic pawn broking research. The study also examines the relationship between Ar-Rahnu shop acceptance model (ARSAM) factors toward customers' perception in Selangor, Malaysia. A survey was carried out among 110 respondents at Klang Valley, Selangor. The data were analyzed by using descriptive analysis, Mann Whitney U test and Spearman Rho correlation test. The result shows that there is no significant difference in customer's perception toward Ar-Rahnu between Muslim and non-Muslim or between two levels of income. However, there is a significant difference in the customers' perception on Ar-Rahnu between customers and non- customers (potential customers). The outcome of Spearman Rho analysis shows that Shariah view; pricing system; advertisement and customer service have significantly influenced customers' perception toward Ar-Rahnu. The result of this research will be fully used for Ar-Rahnu service providers to plan an effective marketing scheme. Ar-Rahnu can be one of the potential financing channels for micro-enterprises and awareness among small medium entrepreneur should be investigated in the future.

Key words

Ar-Rahnu, Islamic pawn broking, Islamic Financial Product

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1. Introduction

The pawn broking business has been established since the 15th century and has been an important source of credit facilities to the low-income communities. Chinese Hakka from China had brought the conventional pawn broking business to Malaysia. After the 19th century the business had started to grow when tin mining were found in Larut (Sanusi and Johari, 2006) and the business of pawn broking had gone on increasing. Consequently, the first Pawnbrokers Ordinance 1871 was introduced for the purpose of business licensing and regulating the pawn broking business until it was repealed by the Pawnbrokers Ordinance of 1898. In 1973, the Malaysian government had standardize the pawn broking business in Malaysia which had included Sabah, Sarawak and Labuan by establishing the Pawnbrokers Act 1972 and Pawnbrokers Regulation 1972 (Cheong and Sinnakkannu, 2012). The purpose of the Pawnbrokers Act 1972 was to guarantee a healthy pawnshop industry as well as to safeguard the interest of the consumers. There are two types of pawn broking in Malaysia; which are conventional pawn broking and Islamic pawn broking, also known as *Ar-Rahnu*.

Ar-Rahnu is a micro credit instrument and part of the Islamic financial products. In 1992 the Council of Islamic Religion and Malay Customs Terengganu, Malaysia (MAIDAM) had introduced the first *Ar-Rahnu* service called Muassasah Gadaian Islam Terengganu (translated as the Islamic Pawn broking Service of Terengganu) (MGIT) (Siam *et al.*, 2010). Customers who looking for short term loans and have gold jewelry can consider *Ar-Rahnu* as a cheaper alternative to taking personal loans. It is available to locals and foreigners, be it Muslims and Non-Muslim. The Islamic financial institutions have the right to keep the pledged item after giving a loan to the customers. Borrowers have a choice, either to repay via lump sum or by monthly installments. The margin of finance is from a minimum of RM100 up to 60-70% of the value of the gold. If the borrower unable to repay the loan, there is a possibility that the borrower be granted extensions of up to 3 months. If the borrower is still unable to repay the loan within the stipulated time given, the pawned item will be auctioned off and any surplus less outstanding amount and charges would be returned to the borrower. *Ar-Rahnu* is free from any *riba* (interest) and *gharar* (uncertainty) element. Borrowers will only need pay the principal fee plus a safekeeping fee as agreed in the agreement during the maturity date.

In the current economic slowdown, an individual who has a financial problem tends to look for easy ways to get cash. Although the Islamic pawn broking has been introduced in Malaysia for the last 20 years, those individuals who are distressed for money still prefer the conventional pawnshop or borrowing money from loan shark (illegal lender) commonly known as “Ah Long” in Malaysia (Hisham *et al.*, 2013). They prefer to borrow from conventional pawnshop or illegal sources because of they provide a higher margin to the value of collateral and were unlimited time to redeem. Illegal money lenders will give facilities to the people who are unable to get loans from financial institutions due to certain reasons such as individual name being blacklisted (or red taped person), bankruptcy status or the balance of current loan do not allow them to use the credit facilities from financial institution. The borrowers were then burdened with high interest rate and were exposed them to violence when they took loan from Ah Longs. Statistic from The Royal Malaysia Police (PDRM) shows that reports against “Ah Long” had been a steady rise from 735 cases in 2014 to 951 cases in 2015 and 1,343 in 2016, amounting to RM4.54 million in 2014, RM32.4 million in 2015 and RM12.1 million in 2016 respectively (Shahrudin, 2017). The Malaysian Chinese Association (MCA) Public Services and Complaints Department head Datuk Seri Michael Chong said 75% of the cases the bureau handled involved “Ah Long”. The leader of The Muslim Consumers Association of Malaysia (PPIM) Datuk Nadzim Nadzim Johan said PPIM had received over 10,000 complaints relating to victims having problems over their loans with loan sharks over the last four years (Vijaindren, 2017).

The establishment of *Ar-Rahnu* services by financial institutions didn't get good responses because people assumed that banking institutions are normally only useful for those had money and not for the low income group communities or those with only a few gold (Amin *et al.*, 2007). Customers are also quite reluctant to choose Islamic pawn broking because it is perceived by the society as a product that is meant for Muslim, poor and needy people. Therefore, *Ar-Rahnu* scheme providers face the challenge of educating the right group of customers on the benefit and advantages of Islamic pawn broking in order to increase the acceptance of Islamic pawn broking product.

This study tries to examine whether religion (Muslim and non-Muslim), status (customer or non-customer), or monthly income differs on the perception towards *Ar-Rahnu's* service. This study had also investigated the influence of several factors such as *Shariah* (Islamic law) compliance, pricing system, location, customer services, and advertisement on customers' perception towards *Ar-Rahnu* services.

This study determines the correct target market for the *Ar-Rahnu* service provider. It can create awareness and attract more customers to engage with *Ar-Rahnu* services not only as individual customers but also for small medium businesses. The financial institutions that provide *Ar-Rahnu* services will also get a clear view about factors that influences the customers' perception towards *Ar-Rahnu* to improve their performance and develop an effective strategy to attract more customers in order to penetrate the market.

2. Literature Review

2.1. Definition of Ar-Rahnu

Ar-Rahnu comes from the Arabic word (*Rahn*) which means pawning or pledging in the Qur'an verses. For instance, derivatives of the word are used in several chapters or a portion of the Qur'an known as surah such as al Baqarah (2: 283), al-Tur (52: 21) and al-Muddaththir (74: 38). In addition, *Rahn* is mentioned in the Hadith (the record of the words, actions, and the silent approval, of the Islamic Prophet Muhammad). Within Islam, the authority of the Ḥadīth as a source for religious law and moral guidance ranks second only to that of the Qur'an (which Muslims hold to be the word of Allah revealed to his messenger Muhammad).

In the Islamic jurisprudence, there are differences among scholars in defining *Rahn*. According to Hanafi jurists, *Rahn* is to retain (*habs*) a valuable property to protect a right, which can be claimed from the property. The term 'valuable property' means that all non-traded items such as humans, or valueless items such as liquor and pigs, are rejected from the 'valuable property' classification. The Malikis define *Rahn* as granting something, which is allowed to be sold as collateral for a right (*haq*) or for any uncertainty that is stipulated in contract. The Shafi jurists define *Rahn* as the giving of an object ('*ain*) as a security for a loan, whereby the loan is claimable from the security if the loan is not repaid. The Hanbali jurists define *Rahn* as a kind of property (*mal*), which is granted as a security for a loan, which is claimable from the *mal* upon the debtor's failure to repay. In this case, the word *mal* has a general meaning, which comprises tangibles, i.e. an object or an intangible asset such as usufruct (Kambara, 2017). In this study, *Ar-Rahnu* is referring to the Islamic pawn broking and a mechanism whereby a valuable item is used as collateral tied up for a secured debt that can be paid, in the event of a default (Guideline for *Ar-Rahnu* Approval, Malaysia Co-operative Societies Commission).

2.2. Pillars of Rahn (Ar- Rahnu)

The majority of jurists from Maliki, Shafie and Hanbali schools concurred that there are four main pillars of *Rahn*. They include the two contracted parties, the *sigba* (verbal offer and acceptance), the pledged item and the protected thing such as the debt. The first pillar is the two contracted parties, the pledger (*rabin*) and the pledgee (*murtabin*) who must be an eligible person. They must be sane and reached the maturity age. The second pillar is offer and acceptance. The third pillar is the protected debt and right in a pawn contract. The fourth pillar is the thing giving as pawn. There were conclusive agreements among the majority of jurists on the permissibility of taking any objects which were permitted to be sold as pawn for debt, on the grounds that the purpose of the pawn is to protect the debt by claiming the debt from the price of the pawn, in cases when the failure of payment had occurred (Kambara, 2017).

2.3. Precept of Islamic Pawn in Malaysia

Islamic pawn broking is based on a combination of four precepts adopted from the above pillars. The first precept is Benevolent loan (*Qardhul Hasan*). 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. The second precept is Trustworthiness (*Wadiyah Yad-Amanah*). The borrower is required to produce the returnable collateral to ensure the repayment of the loan. On this precept, the borrower entrusts the lender to look after the belongings during the loan period (following the third precept *Al-Ujrah*). If circumstances are beyond control and not due to the lender's negligence occurs and damages the collateral item, the lender is not required to replace the item. The fourth precept is *Wadiyah Yad-Dhamanah* (Safekeeping with guarantee). Loosely based on the *Al-Ujrah*, the lender will be held responsible for the safeguarding of the assets pledged by the client no matter the circumstances. Should the asset(s) be damaged or go missing while in the lender's care, the lender will bear the responsibility of compensating the borrower to the value of the asset(s) pledged in cash or in kind.

2.4. Research in Ar-Rahnu

A research on *Ar-Rahnu* stated it was only in 1997 that the first conceptual paper specifically on *Ar-Rahnu* was published in an international journal discussing on the role of *Ar-Rahnu* as an instrument to micro enterprise credit (Ismail and Ahmad, 1997). Consequently, the general issues and operation of *Ar-Rahnu* within the Islamic micro-financing tool start to be discussed. In 2010 onwards, it continued with the focus on efficiency, opportunities, and challenges of conducting *Ar-Rahnu* as well as on customer's related matters such as the dominant theme of the acceptance of *Ar-Rahnu* among the consumers. However, learning from issues and challenges, more studies are needed to explore new themes to tackle issues pertaining to the correct target customers.

Different customers' demographic profile is expected to give different response towards the acceptance of *Ar-Rahnu*. *Ar-Rahnu* is not only applicable to the low-income group but also has broadened up its spectrum to include all income levels (Rahman and Kassim, 2017). Realizing the important issues on demographic background, this study intends to examine the different demographic factors on the acceptance level of *Ar-Rahnu*. The additional demographic factors test in this study is religion, customers' status (customer or potential customer) and monthly income.

From the review of previous relevant theoretical models on studies regarding *Ar-Rahnu*, it has been found that only a few theoretical models have been used. One of the models is the ARSAM model (*Ar-Rahnu* shop acceptance model). This theoretical framework explains the factors influencing consumer acceptance of Islamic-based pawnshop. The variables in the ARSAM model are the *Shariah* factor, pledge, pricing, and customer services. The ARSAM model is seen as a useful model for the researcher in developing a study on *Ar-Rahnu* (Amin *et al.*, 2007). Koe and Rahman (2014) have extended this model by adding another two original variables from Theory of Reasoned Action (TRA), which are attitude and subjective norm (social influence). In order to make the model more precise, some adjustments were made by adding other variables into the model, namely the religious obligation, attractive price and trust. Five independent variables are tested in the study; attitude, subjective norm, religious obligation, attractive price, and trust. Meanwhile, customers' intention to use *Ar-Rahnu* serves as the dependent variable. Hamid, Rahman and Halim, (2014) had used the customer acceptance as a dependent variable, while the independent variables are adapted from the ARSAM model and had included another variable called locality. For Mansor *et al.*, (2012), the purpose is to get a greater insight in their study. The storage charge, services quality, locality factor and management are selected by the researcher to obtain response on the customer acceptance towards *Ar-Rahnu* services including from business operations.

This study use the consumer perception on *Ar-Rahnu* as the dependent variable, while the independent variable was adapted from ARSAM model which are *Shariah* view, pricing system and customer services and includes two more factors, locality and advertisement (Hamid *et al.*, 2015). For the purpose of searching correct target customers, this study also includes three demographic factors such as religion status, consumer status and monthly income, which are infrequently investigated in *Ar-Rahnu* literature. The research framework can be summarized in the Figure 1, below:

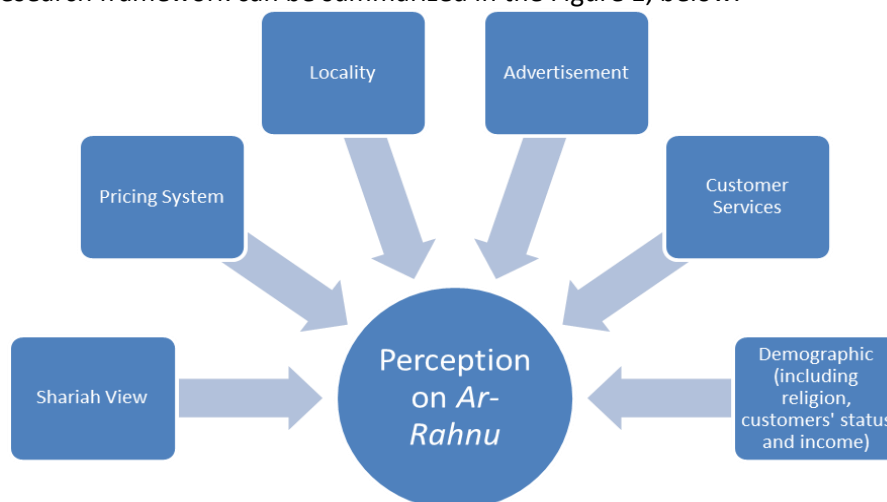


Figure 1. Variables Influence the Perception (Acceptance) on Ar Rahnu

2.4.1. Shariah View

It was founded that the *Shariah* (Islamic law) view has a very strong relationship with the acceptance on the Islamic based pawnshop (Amin *et al.*, 2007; Hamid *et al.*, 2015). The *Ar-Rahnu* had become clearly different from the conventional pawnshop by the implementation of the principles of *wadiah*, *qardhul Hassan* and *ujra* that eliminated the elements of *riba* and *gharar* in *Ar-Rahnu* system (Amin *et al.*, 2007; Bhatt and Sinnakkannu, 2008). The Islamic principles such as *wadiah*, *qardhul Hassan* and *ujra* ought to be given a careful consideration in establishing Islamic pawn broking (Bhatt and Sinnakkannu, 2008; Amin *et al.*, 2007). The study done by Azman *et al.* (2016) resulted in that the selected variables concerning *Shariah* compliancy, customers' satisfaction, collateral, locality and service charges have a significant relationship with the customers' acceptance of *Ar-Rahnu* as a micro credit instrument in achieving financial self-sufficiency among women micro entrepreneurs. However, Azim *et al.*, (2016) when studying about *Ar-Rahnu* usage in the economic development of *ummah* (community of Muslim) in Selangor, found that the independent variables of *Shariah* view, personal consumption and investment purpose were not significantly correlated with the acceptance of *Ar-Rahnu*. This result is also consistent with Hashim, Akir and Kamil (2013). Based on the correlation analysis, they were surprised to know that there is the lowest correlation between the customers' acceptance to *Ar-Rahnu* and *Shariah* factor. The mix result becomes a motivation of this study to re-examine this factor.

2.4.2. Pricing system

The majority of people tend to use *Ar-Rahnu* because of the cheap loan cost offered by the organization provider (Appannan and Doris, 2011). Hashim, Akir and Kamil (2013) had conducted a study in Sarawak and found that customers choose pricing as one of the main factor of choosing *Ar-Rahnu*. Appannan and Doris (2011) and Azman and Kassim (2015) also conclude the overall result of their study indicate the service charge and low interest rate are the focal points to deal with Islamic pawn broking and are the most influencing factors in attracting the potential customers. However, in reference to other studies on the private *Ar-Rahnu* owned by Islamic bank, pricing system is not ranked as the highest preference factor in customers' acceptance (Amin *et al.*, 2007; Hamid, Rahman and Halim, 2014)

2.4.3. Locality

Mohammed, Daud and Sanusi (2005) and Hashim, Akir and Kamil (2013) argued that location is a significant factor for pawnshop development because individuals tend to choose pawnshops that are near to their houses and work places. Amin *et al.*, (2007) also proposed that a scattered location must be made known to potential customers by highlighting easy accessibility to the customers. Based on their in-depth interview on a recent study by Azman and Kassim (2015), they found that locality as one of the perimeters suggested by a few respondents in the interview which is an attraction towards the potential customer. This result was supported by Azim *et al.*, (2016) when they study about the *Ar-Rahnu* usage in the economic development of *ummah* (community of Muslim) in Selangor. They found that the location and customer service have a significant relationship with customer acceptance on *Ar-Rahnu*. However, findings by several studies such as Appannan and Doris (2011) and Hamid, Rahman and Halim (2014) have revealed that the locality of *Ar-Rahnu* is less significant as compared to other variables.

2.4.4. Advertisement

According Hamid *et al.* (2014) advertisement is a process where companies promote their product and convince customers to purchase their products. Based on the study done by Hamid *et al.*, (2014) the advertisement factor had significantly influenced customers to choose *Ar-Rahnu* service. The same result as revealed by Hussin *et al.* (2016) had stated that the promotion had a positive and significant relationship with the selection of *Ar-Rahnu*. However, Balqis (2014) had proof that *Shariah* factors, prices/wages, location and advertising do not have a strong relationship in affecting Muslim customers to use *Ar-Rahnu*.

2.4.5. Customer Services

The study conducted by Ahmad *et al.* (2012) on the customer acceptance of *Ar-Rahnu* state provider in Terengganu, showed that service quality is one of the significant elements that influence the customer to choose *Ar-Rahnu*. Consequently, Hashim *et al.* (2013) also found service quality has an influence on customer acceptance as compared to *Shariah* factor. The study conducted by Zuraini and Salleh (2014), measures the service quality towards state-owned *Ar-Rahnu* in Kelantan (The East Coast of Peninsular Malaysia), *Ar-Rahnu* Permodalan Kelantan Berhad showed that the quality of service explains 55% of the variance in customer satisfaction. To discuss in further detail, the mean scores for overall dimensions of service quality and satisfaction are high and correlation test results showed that all six dimensions of service quality have a significant relationship with customer satisfaction. However, prior research suggested by Yang and Jun (2002) proposed that not all service quality dimensions have the same effect on consumers' quality perceptions or satisfaction.

2.4.6. Demographic Factors

Mansor *et al.* (2014) is the only study that tested the relationship between the demographic factors and customer acceptance towards *Ar-Rahnu*. Among the factors are gender, marital status, age, occupational sector, monthly income level and educational level. The result of the investigation demonstrated that, two indicators which are marital status and occupational sector demonstrated significance differences among the group toward customer acceptances, while the remaining was not significant. Due to the mixed result, this study tries to retest the variables as mentioned above. Additionally, this study has also tested three additional demographics which are religion status, customer's status and monthly income.

3. Methodology of Research

3.1. Sample

The study is coordinated by personally administrated questionnaires to the respondents at a government office in Putrajaya, customers of *Ar-Rahnu* Pos Malaysia in Dengkil and public located at Dengkil, Selangor from December 2018 to February 2019. The researchers talk to respondents to explain the purpose of the study and asked for their cooperation to fill in the questionnaires. Once the questionnaire was completed, the researchers will thank the respondents for their willingness to answer the questionnaire. This method is helpful to ensure all the questionnaires distributed be returned back on the same day. It also will give the respondents a chance to ask any questions and get clarification regarding the questionnaire.

3.2. Instrument

The questionnaire is formed of closed ended questions and categorized into three sections. The questionnaire structure is as below:

Section A – Consists of demographic information such as customer status, gender, age, religion, marital status, working status, education background and the level of monthly income.

Section B – Consists of customer's perception toward *Ar-Rahnu* service

Section C – Gather information regarding determinants influence towards the customer's perception towards *Ar-Rahnu* such as *Shariah* view, pricing system, locality, customer service and advertisement. The items in the section B and C measured by using a 5 point Likert consists of 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree.

The questionnaire was designed in Malay and English languages as it provide more convenience to the respondents. This study enclosed Appendix A to show the mean for the item in section B and C for reference of future research.

3.3 Analysis

All items measured for the study passed through the reliability assessment procedures where most of the items were above the Cronbach's Alpha (α) value of > 0.7 . As suggested by Sekaran and Bougie

(2010), when the alpha scores is more than 0.70 then the measuring items are considered highly reliable for further analysis. The result of the reliability analysis for all variables was showed in the Table 1.

Table 1. Reliability Test

Variables	Cronbach's Alpha	Number of Items
Customers Perception	0.853	5
Shariah View	0.947	5
Pricing System	0.865	5
Location of Ar-Rahnu	0.806	3
Advertisement	0.873	5
Customer Service	0.906	6

The demographic elements contain eight questions which included status, gender, age, religion, marital status; working status, education background and the level of monthly income analyze using descriptive statistic. Table 2 describes the summary of the frequency distribution on the demographic information of the respondents from the questionnaires.

Table 1. Demographic Information of Respondents

VARIABLES	VALUES	NUMBER OF RESPONDENT	PERCENTAGE (%)
Status	Customer	50	45.5
	Non-customer	60	54.5
	Total	110	100
Gender	Male	29	26.4
	Female	81	73.6
	Total	110	100
Age	18 to 23	2	1.8
	24 to 29	14	12.7
	30 to 40	60	54.5
	41 and above	34	30.9
	Total	110	100
Marital Status	Single	22	20
	Married	88	80
	Total	110	100
Religion	Islam	85	77.3
	Chinese	8	7.3
	Hindu	17	15.5
	Others	0	0
	Total	110	100
Education levels	Primary	6	5.5
	Secondary	26	23.6
	Diploma	47	42.2
	Degree	31	28.2
	Total	110	100
Employment background	Public sector	63	57.3
	Private sector	20	18.3
	Housewife	5	4.5
	Self-employed	22	20
	Total	110	100
Individual monthly income	Less than and equal to RM1,000	5	4.5
	RM1,001- RM2,000	6	5.5
	RM2,001- RM3,000	41	37.3
	RM3,001- RM4,000	34	30.9
	More than RM4,001	24	21.8
	Total	110	100

To achieve the objective of the research, two demographic factors which are religion and individual monthly income have been recoding into two categories only. Instead of four categories, religion has been recode to Muslim and non-Muslim, whereas individual income has been recode to level of income less than RM3,000 and more than RM3,000. This recode has been performed because of two reasons. First, *Ar-Rahnu* is an Islamic financial product, this study is only focusing on Muslim and non-Muslim categories, the division of the non-Muslim category is not applicable. Second, *Ar-Rahnu* has been seen as a micro financial product for lower level of income population. Malaysians are categorized into three different income groups: Top 20% (T20), Middle 40% (M40), and Bottom 40% (B40). According to Household Income And Basic Amenities Survey 2019 as conducted by the Department of Statistics Malaysia (DoSM), B40 is a group of household income bars up to RM3,000.

This study is using the non-parametric test because the data severe violation of the normality distribution assumption and the objective of the study wish to analyze categorical data. Consequently, the difference between demographic factors on the perception towards *Ar-Rahnu* has been tested using the Mann-Whitney U test. The relationship between other independent factors and the perception towards *Ar-Rahnu* has been tested by using Spearman’s Rho correlation analysis.

4. Results and discussions

4.1. Demographics different and perception towards *Ar-Rahnu*

This study tries to examine whether religion (Muslim and non-Muslim), status (customer or non-customer) and monthly income differ on the perception towards *Ar-Rahnu* service. This study had also tried to investigate the influence of several factors such as pricing system, location, customer services, and advertisement on customers’ perception towards *Ar-Rahnu* services. Table 3 indicate the difference on perception towards *Ar-Rahnu* based on religion status (Muslim and non-Muslim).

Table 3. Perception towards *Ar-Rahnu* Based on Religion Status

Ranks					Test Statistics ^a	
	CategoryR	N	Mean Rank	Sum of Ranks		MeanR
MeanR	Muslim	85	56.18	4775.00	Mann-Whitney U	1005.000
	Non Muslim	25	53.20	1330.00	Wilcoxon W	1330.000
	Total	110			Z	-.414
					Asymp. Sig. (2-tailed)	.679

a. Grouping Variable: CategoryR

A Mann Whitney U test indicated that the perception towards *Ar-Rahnu* service of Muslim (Mean rank= 56.18, n= 85) was not significantly different than those of non-Muslim participants (Mean rank= 53.20, n= 25), U = 1005, z= -0.414. The result is consistent with the study conducted by Rahman and Kassim (2017). However they had also concluded that greater religious obligation prompts greater use of *Ar-Rahnu* amongst Muslim customers. Table 4 indicates the difference in perception towards *Ar-Rahnu* based on customer’s status (Customer and non-Customer).

Table 4. Perception towards *Ar-Rahnu* Based on Customer’s Status

4 (a) Ranks					4 (b) Test Statistics ^a	
	Status	N	Mean Rank	Sum of Ranks		MeanR
MeanR	Customer	50	69.11	3455.50	Mann-Whitney U	819.500
	Non-Customer	60	44.16	2649.50	Wilcoxon W	2649.500
	Total	110			Z	-4.121
					Asymp. Sig. (2-tailed)	.000
					a. Grouping Variable: Status	

A Mann Whitney U test indicated that the perception towards *Ar-Rahnu* service of customer (Mean rank= 69.11, n= 50) was significantly higher than those of non-customer participants (Mean rank= 44.16, n= 60), U = 819.5, z= -4.121, p = 0.000. It shows that existing customers have positive perception toward *Ar-Rahnu* since they already have experience the services.

Table 5 indicate the difference on perception towards *Ar-Rahnu* based on monthly income (below RM3,000 or more than RM3,000). Malaysians are categorized into three different income groups: Top 20% (T20), Middle 40% (M40), and Bottom 40% (B40). Over the years, the bar for each group's income level has increased and this is one of the indicators of economic growth. Here's the latest definition for T20, M40 and B40 based on the findings from the Department of Statistics Malaysia (DoSM) in 2019. The T20 group is defined with the median household income of at least RM13,148 while the M40 and B40 groups' median household income have moved their bars up to RM6,275 and RM3,000 respectively. Keep in mind that the income group definitions are not fixed. The names, B40, M40, and T20, represent percentages of the countries' population of Bottom 40%, Middle 40%, and Top 20% respectively. The values may increase or decrease year-to-year, depending on the country's GDP, which is why the median household income is used as the determinant instead. Consequently, the data of the study has been transformed into 2 categories, below RM3000 (B40 group) and above RM3,000 (M40 and above).

Table 5. Perception towards *Ar-Rahnu* Based On Monthly Income

Ranks					Test Statistics ^a	
	Category Income	N	Mean Rank	Sum of Ranks		MeanR
MeanR	less than RM3,000	52	54.41	2829.50	Mann-Whitney U	1451.500
	More than RM3,000	58	56.47	3275.50	Wilcoxon W	2829.500
	Total	110			Z	-.341
					Asymp. Sig. (2-tailed)	.733

a. Grouping Variable: Category Income

The Mann Whitney U test indicated that the perception towards *Ar-Rahnu* service of participants with income less than RM3,000 (Mean rank= 54.41, n= 52) was not significantly different than those of participants with income more than RM3,000 (Mean rank= 56.47, n= 58), U = 1451.5, z= -0.341, p= 0.733. The result on the demographics factor is consistent with Mansor, Ahmad, Bakar, and Ismail (2014), who indicate that monthly income level is not a significant factor towards the acceptance on *Ar-Rahnu*.

4.2 Relationship between the factors of *Ar-Rahnu* shop acceptance model (ARSAM) toward customers' perception

The Spearman's rho correlation analysis was used to determine the relation between independent variables covering the *Shariah* view, pricing system, location of *Ar-Rahnu*, customer services and advertisement with dependent variable, a customers' perception on *Ar-Rahnu*. The strong point of the relationship between variables was examined by the value of Spearman's rho correlation coefficient. Cohen (1988) has suggested that the value of correlation coefficient value r = 0 means no relationship, the value r = 0.01 to 0.30 means a weak relationship, the value r = 0.31 to 0.70 means a moderate positive relationship, the value r = 0.71 to 0.99 means a strong positive relationship and the value r = 1 indicates a perfect relationship. Table 6 explains the summary of Spearman's rho correlation analysis between independent variables and dependent variable.

Table 6. Spearman's Rho Analysis

		<i>Shariah</i> View	Pricing System	Location of <i>Ar-Rahnu</i>	Advertisement	Customer Service
Customer's Perception to Choose <i>Ar-Rahnu</i>	Correlation Coefficient	0.711**	0.637**	0.097**	0.451**	0.639**
	Sig. (2 tailed)	0.000	0.000	0.314	0.000	0.000
	N	110	110	110	110	110

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

Based on the table above, all variable tested and the statistical significant for *Shariah* view, pricing system, advertisement and customer service at 0.000 which is less than p-value of 0.01 except for location or locality. *Shariah* view has a positive strongest relationship as compared to other four independent variables. This result is consistent with several studies such as Amin *et al.* (2007) and Hamid *et al.* (2015) as well as Azman *et al.* (2016). These studies support that the *Shariah* view has a very strong relationship with the acceptance on the Islamic based pawnshop.

This study also found that customer service, pricing system and advertisement have a positive moderate relationship with the customers' perception on *Ar-Rahnu*. Customers Service quality has also become one of the significant elements in Ahmad *et al.* (2012) study on customer acceptance of *Ar-Rahnu* state provider in Terengganu. Additionally, Hashim, Akir and Kamil (2013) had the same result as well as the study conducted by Zuraini and Salleh (2014). For the pricing system, the result of this study is consistent with Appannan and Doris (2011), Hashim *et al.* (2013) and Azman and Kassim (2015). Advertisement had also become a factor that significantly influences customers to choose *Ar-Rahnu* service in the study of Hamid *et al.* (2014) and Hussin *et al.* (2016).

The statistical significant value for location of *Ar-Rahnu* was at 0.314 which is higher than the p-value of 0.01. This shows that the factors are not significant and there is a very small relationship between locations with customer's perception towards *Ar-Rahnu*. The findings by several studies such as Appannan and Doris (2011) and Hamid *et al.* (2014) also revealed that the locality of *Ar-Rahnu* is less significant as compared to other variables. The same result is revealed through this study.

5. Conclusions and Recommendations

The result shows that there is no the significant different on perception towards *Ar-Rahnu* service between Muslim and those of non-Muslim. The same result also indicates that in monthly income level. This means that *Ar-Rahnu* is marketable to all either the customer Muslim or not at all level of income either B40 or not. The most important part is the advertisement (which is moderate related to customer perception). Since there is a significant difference in customers status (which is customer is higher perception compared to non-customer), *Ar Rahnu* provider can use the current customer to promote the product by using word-of-mouth promotion or social media. According to Sukhraj (2018), 90% of customers believe the brand was recommended by friends.

The result showed that the "*Shariah* view" has the highest mean score which indicates that it is a key criteria that customer emphasis when they choose the services of *Ar-Rahnu* scheme instead of others. Therefore, as mentioned by Hamid *et al.* (2015), the provider of *Ar-Rahnu* institution should maintain this high level of *Shariah* compliance. To win the trust of the customers or potential customers, the institution that manages the product should have the *Shariah* compliance image or identity.

6. Limitation and Suggestion for Future Research

Ar-Rahnu can be one of the potential financing channels for micro-enterprises. However, this study did not involve small medium entrepreneur as respondents. It is suggested that they should be included in future research. The study was conducted by using convenient sample, thus a bigger sample size is needed in future research and separated into the bigger area. Survey is the only instrument used in this study. Due to the infrequent use of qualitative technique such as interview and document review in the literature, future research should consider these methods.

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APPENDIX A

Descriptive Analysis on Independent Variables and Dependent Variable

1) Independent Variables

Descriptive Statistics

	N	Range	Mean	Std. Deviation
Shariah view				
<i>Ar-Rahnu</i> service is in line with Islamic philosophy	110	2	4.20	.647
<i>Ar-Rahnu</i> service is based on the implementation of Islamic business principles	110	2	4.20	.647
The introduction of <i>Ar-Rahnu</i> is based on the Quran and Hadith	110	2	4.08	.756
The <i>Ar-Rahnu</i> service is free from fraud	110	2	4.07	.687
<i>Ar-Rahnu</i> service process is more transparent	110	2	4.07	.660
Pricing system				
<i>Ar-Rahnu</i> had set a fair price for those with low income	110	2	3.85	.680
<i>Ar-Rahnu</i> practiced discounts for early redemption	110	3	3.73	.634
<i>Ar-Rahnu</i> sets competitive service fees (save money)	110	3	3.76	.620
<i>Ar-Rahnu</i> offers the amount of loan that suits the needs	110	2	3.88	.617
<i>Ar-Rahnu</i> offers insurance coverage for each item that is charged	110	3	3.84	.657
The process of the auction of <i>Ar-Rahnu</i> is more transparent	110	2	3.85	.623
Locality				
The location of <i>Ar-Rahnu</i> is close to public transport	110	4	3.17	.788
The location of <i>Ar-Rahnu</i> is near the workplace	110	4	3.12	.946
The location of <i>Ar-Rahnu</i> is near the residential area	110	4	3.12	.916
Advertisement				
Information about <i>Ar-Rahnu</i> 's services from advertising is even better	110	3	3.90	.812
Easily collect information about <i>Ar-Rahnu</i> 's services through advertisements	110	3	3.79	.755
Ads on <i>Ar-Rahnu</i> services are more attractive	110	3	3.82	.815
Ads on <i>Ar-Rahnu</i> services are seen everywhere	110	4	3.54	.955
<i>Ar-Rahnu</i> 's services brochures provide enough information	110	3	3.76	.789
Customer Service				
<i>Ar-Rahnu</i> always has quick responses to customers demand	110	3	3.93	.786
<i>Ar-Rahnu</i> give a fair treatment to all religions and races	110	3	3.96	.649
<i>Ar-Rahnu</i> always issues a receipt after transaction	110	2	3.97	.697
<i>Ar-Rahnu</i> officers are trying to minimize the errors of work	110	2	3.76	.663
<i>Ar-Rahnu</i> officers always fulfil promise of its services in a timely manner	110	2	3.94	.707
<i>Ar-Rahnu</i> ensure the security and confidentiality of transaction	110	2	4.01	.736
Valid N (listwise)	110			

2) Dependent Variable

Descriptive Statistics

Perception toward <i>Ar-Rahnu</i> Services	N	Range	Mean	Std. Deviation
<i>Ar-Rahnu</i> scheme is good	110	4	4.03	.795
<i>Ar-Rahnu</i> has high quality standard of service	110	2	4.00	.704
<i>Ar-Rahnu</i> service is more flexibility	110	3	3.93	.713
I acquire enough revenue to cover direct and indirect cost of using <i>Ar-Rahnu</i>	110	3	3.68	.867
<i>Ar-Rahnu</i> gives more value to security according to <i>Shariah</i> principles	110	4	4.03	.735
Valid N (listwise)	110			