

Durham E-Theses

*Economic and Religious Significance of the Islamic
and Conventional Pawnbroking in Malaysia:
Behavioural and Perception Analysis*

AZILA ABDUL-RAZAK

How to cite:

ABDUL-RAZAK, AZILA (2011) Economic and Religious Significance of the Islamic and Conventional Pawnbroking in Malaysia: Behavioural and Perception Analysis. Doctoral thesis, Durham University.

Use policy

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a <https://etheses.durham.ac.uk/id/eprint/1377/> is made to the metadata record in Durham E-Theses
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

Please consult the [full Durham E-Theses policy](#) for further details.

**Economic and Religious Significance of the
Islamic and Conventional Pawnbroking in
Malaysia: Behavioural and Perception Analysis**

**Azila Abdul Razak
Ph.D**

**Durham University
2011**



**Economic and Religious Significance of the Islamic and
Conventional Pawnbroking in Malaysia:
Behavioural and Perception Analysis**

By

Azila Abdul Razak

**Thesis Submitted in Fulfillment of the Requirements for the
Degree of Doctor of Philosophy at Durham University**

**The School of Government and International Affairs
Institute of Middle Eastern and Islamic Studies
Durham University, UK**

2011

Abstract
Economic and Religious Significance of the Islamic and Conventional Pawnbroking in Malaysia: Behavioural and Perception Analysis
Azila Abdul Razak

Operating alongside with the formal financial sector, there has been less recognition about the important role played by informal finance through their complementary role in providing credit to the society. Among informal finance, pawnshop has grown in importance over the past few years especially during the tough economic climate. In Malaysia for instance, the pawnbroking business has served people in need of small instant cash since the 19th century in various forms. Due to the excessive interest rate and other malpractices imposed by the conventional pawnshops, Malaysian government initiated the first Islamic pawnbroking in 1992 which was set up by the Terengganu Islamic Religious and Malay Customs Council namely as the Muassasah Gadaian Islam Terengganu, which has experienced an overwhelming success in terms of expanding in the informal economy. In 2010, there were 329 of institutions offering Islamic pawnbroking operating side by side with 259 licensed conventional pawnshops which shows a remarkable increase in the Islamic pawnbroking.

Given this background, the research aim is to explore and analyse the socio-economic consequences of pawnshops crediting in Malaysia through the perceptions of the participants. In doing so, this study will examine the factors determining people's preferences for pawnshop and also exploring the perceptions and opinions of the customers and the participating pawnbrokers in Malaysia on various aspects and consequences of pawnbroking. Importantly, it will analyze specifically the impact of Islamic pawnbroking on the socio-economy of the Malaysian society.

In an attempt to fulfill the aims of the research study, first, the questionnaires survey were administered to both customers and pawnbrokers of the conventional and Islamic pawnshops in order to distinguish the processes of lending, factors determining pawnshops' selection, and also the perceptions of Malaysian customers and pawnbrokers regarding the role of pawnshop institution in social development hence in economic development related issues. Second, a semi-structured interview were subsequently conducted with the leading individuals of the Islamic pawnbrokers in order to develop in-depth ideas and understanding about the underlying principle of Islamic pawnbroking and other issues related. Furthermore, a SWOT analysis is employed to analyse the prospect of Islamic pawnbroking in future with possible recommendations that could be considered by the government, pawnbrokers, and the customers as well.

The findings from the surveys analysis demonstrate that the customers of Islamic pawnshops attest the positive role of pawnshop in both economic and social aspects of their lives especially in the case of low-income groups as compared to the conventional pawnshops. On the other hand, the results from the pawnbrokers' analysis revealed that Islamic pawnbrokers demonstrated a promising prospect of the pawnshops' business as compared to the conventional pawnbrokers as the latter operates with profit maximization and neglect the social welfare of the customer. Importantly, while the findings of the study renders valuable information in terms of behavioural dimension and customer preferences in pawnbroking, the findings are also useful for the businesses and government in considering the future development related to *ar-rahn* shops.

TABLE OF CONTENT

Abstract.....	iii
Table of Contents.....	iv
List of Tables.....	xi
List of Figures.....	xiii
List of Abbreviation.....	xiv
Declaration.....	xv
Statement of Copyright.....	xvi
Dedication.....	xvii
Acknowledgement.....	xviii
Chapter 1: INTRODUCTION.....	1
1.1 BACKGROUND OF THE STUDY.....	1
1.2 RESEARCH AIM AND OBJECTIVES.....	2
1.3 RESEARCH QUESTIONS.....	3
1.4 RESEARCH MOTIVATIONS AND THE SIGNIFICANCE OF THE STUDY.....	5
1.5 RESEARCH METHODOLOGY.....	6
1.6 STRUCTURE OF THE THESIS.....	6
Chapter 2: FORMAL AND INFORMAL CREDIT MARKETS AND ECONOMIC GROWTH.....	9
2.1 INTRODUCTION.....	9
2.2 CREDIT AND CREDIT MARKETS.....	9
2.3 ECONOMIC GROWTH AND FINANCIAL SYSTEM.....	10
2.4 FORMAL VS INFORMAL MARKETS.....	14
2.4.1 Issues in Informal Markets.....	18
2.6 CONCLUSION.....	20
Chapter 3: PAWNSHOPPING: LITERATURE REVIEW.....	21
3.1 INTRODUCTION.....	21
3.2 DEFINITION AND ASPECTS OF PAWNRBOKING.....	22
3.2.1 The Working Mechanism of Pawnbroking.....	25
3.2.2 A Grey Area in Pawnbroking.....	27

3.3	THE HISTORY AND THE DEVELOPMENT OF PAWNBROKING.....	29
3.3.1	The Pawnshop Experience in China.....	29
3.3.2	The Pawnshop Experience in European Countries.....	33
3.3.3	The Pawnshop Experience in the United States of America.....	37
3.3.4	The Pawnshop Experience in Southeast Asian Countries.....	39
3.3.4.1	Pawnbroking in Philippines.....	40
3.3.4.2	Pawnbroking in Singapore.....	41
3.3.4.3	Pawnbroking in Indonesia.....	42
3.4	ISSUES IN PAWNBROKING AND PAWNSHOPPING.....	43
3.4.1	Pawnshop as a Credit Provider to the Low-Income Group.....	43
3.4.2	Regulation of Pawnshop.....	44
3.4.2.1	Interest rates.....	44
3.4.2.2	Regulation on pawnshop entry, competition and local monopoly.....	46
3.4.2.3	Non-rate regulatory.....	47
3.4.2.4	Regulation in stolen goods.....	48
3.4.3	Transaction Cost.....	49
3.4.4	Transportation Cost.....	49
3.4.5	Gold as Pledge.....	50
3.4.6	Pawnshop as an Alternative to the Mainstream Financial Institution... ..	50
3.4.7	Pawnshop as an Alternative in Economic Downturn.....	51
3.5	CONCLUSION.....	52
Chapter 4: PAWNBROKING IN SHARI'AH FRAMEWORK AND ITS APPLICATION IN ISLAMIC FINANCE.....		54
4.1	PRINCIPLES OF ISLAMIC FINANCE.....	54
4.2	THE SALIENT FEATURES OF ISLAMIC FINANCE.....	55
4.2.1	<i>Riba</i>	55
4.2.2	<i>Gharar</i>	57
4.2.3	The Concept of Social Justice.....	59
4.3	PAWNBROKING IN SHARI'AH FRAMEWORK.....	60
4.3.1	Concept of <i>Ar-rahn</i>	61
4.3.1.1	Islamic rationale for <i>ar-rahn</i>	62
4.3.1.1.1	<i>The Qur'an</i>	62
4.3.1.1.2	<i>The Sunnah</i>	62
4.3.1.2	Principles, requisites and components.....	63
4.3.2	Concept of <i>Al-Qardhul Hasan</i> (Benevolent loan).....	64
4.3.3	Concept of <i>Al-Wadiah Yad Dhammanah</i> (Keeping valuable asset safe with guarantee) and <i>Al-Ujrah</i> (Safekeeping fee).....	64
4.4	THE PRACTICE OF ISLAMIC PAWNBROKING IN SOUTHEAST ASIA.....	66
4.4.1	Thailand.....	66
4.4.2	Brunei.....	67
4.4.3	Indonesia.....	68
4.5	CONCLUSION.....	69

Chapter 5:	MALAYSIAN PRACTICE OF AR-RAHN: TRENDS AND DEVELOPMENT	70
5.1	INTRODUCTION.....	70
5.2	THE HISTORICAL DEVELOPMENT OF PAWNBROKING IN MALAYSIA.....	71
	5.2.1 Early Traditional Malay Society.....	71
	5.2.2 British Colonialism and the Chinese Immigrants.....	73
	5.2.3 Post-Malaysian Independence and the Era of Islamic Resurgence.....	74
5.3	DEVELOPMENTS OF CONVENTIONAL PAWNSHOP IN MALAYSIA... ..	75
	5.3.1 Modus Operandi of Conventional Pawnshop.....	76
	5.3.1.1 The lending process.....	76
	5.3.1.2 The redeeming process.....	77
	5.3.1.3 The auctioning process.....	77
	5.3.2 The Weakness of Conventional Pawnshop.....	78
5.4	ISLAMIC PAWNSHOP AS A <i>SHARI'AH</i> COMPLIANT SOLUTION TO PAWNSHOPPING.....	80
	5.4.1 The <i>Shari'ah</i> Determination on the Implementation of <i>Ar-rahn</i> Scheme in Malaysia.....	81
	5.4.2 Modus Operandi of Islamic Pawnshop.....	82
5.5	SURVEYING ISLAMIC PAWNBROKING INSTITUTIONS IN MALAYSIA.....	84
	5.5.1 Muassasah Gadaian Islam Terengganu (MGIT).....	85
	5.5.2 Permodalan Kelantan Berhad (PKB).....	86
	5.5.3 Bank Kerjasama Rakyat Malaysia Berhad.....	87
	5.5.4 Bank Pertanian Malaysia Berhad (Agrobank).....	89
5.6	ISSUES IN MALAYSIAN ISLAMIC PAWNBROKING.....	89
	5.6.1 <i>Shari'ah</i> Perspectives.....	90
	5.6.2 Capital and Funding.....	90
	5.6.3 Pricing System.....	90
	5.6.4 Pledge Asset.....	92
	5.6.5 Location and Loyalty.....	93
	5.6.6 Microcredit Provision.....	93
	5.6.7 Potential for Capital Accumulation through Islamic Pawnbroking.....	94
5.7	CONCLUSION.....	94
Chapter 6:	RESEARCH METHODOLOGY	96
6.1	INTRODUCTION.....	96
6.2	RESEARCH FRAMEWORK AND QUESTIONS.....	96
6.3	RESEARCH METHODOLOGY.....	97
6.4	RESEARCH DESIGN.....	98
6.5	RESEARCH STRATEGY.....	99
6.6	RESEARCH METHOD AND INSTRUMENTS.....	100

6.6.1	Questionnaire Design.....	101
6.6.1.1	Types of questionnaire items.....	102
6.6.1.2	Questionnaire administration.....	106
6.6.1.3	Cover letter.....	107
6.6.1.4	Sources of error in questionnaire.....	107
6.6.1.5	Validity and reliability in questionnaire.....	108
6.6.1.6	Translating procedure.....	109
6.6.1.7	Piloting the questionnaire.....	110
6.6.1.8	Sampling procedure.....	110
6.6.1.8.1	<i>Sampling design</i>	111
6.6.1.8.2	<i>The study areas and sampling strategy</i>	112
6.6.2	Interview.....	116
6.6.2.1	Types of interviews.....	116
6.6.2.2	Rational for using interviews.....	117
6.6.2.3	Interview sampling.....	117
6.6.2.4	Interview administration.....	118
6.7	RESEARCH METHODS – DATA ANALYSIS.....	119
6.7.1	Analysing Questionnaire Data.....	119
6.7.2	Analysing Interview Data.....	121
6.8	LIMITATIONS AND DIFFICULTIES.....	122
 Chapter 7: LOCATING THE PROFILE AND CHARACTERISTICS OF CUSTOMERS AND PAWNBROKERS: AN EMPIRICAL STUDY.....		 124
7.1	INTRODUCTION.....	124
7.2	PROFILE ANALYSIS OF THE CUSTOMERS.....	124
7.2.1	Profile of Customers by Region.....	125
7.2.2	Profile of Customers by Gender.....	125
7.2.3	Profile of Customers by Age.....	126
7.2.4	Profile of Customers by Race.....	127
7.2.5	Profile of Customers by Educational Level.....	128
7.2.6	Profile of Customers by Marital Status.....	129
7.2.7	Profile of Customers by Total Dependents of Household.....	130
7.2.8	Profile of Customers by Employment Characteristics.....	131
7.2.9	Profile of Customers by Total Monthly Household Income and Expenditure.....	132
7.3	PROFILE ANALYSIS OF THE PAWNBROKERS.....	136
7.3.1	Profile of Pawnbrokers by Region.....	136
7.3.2	Profile of Pawnbrokers by Years of Establishment.....	137
7.3.3	Profile of Pawnbrokers by Type of Ownership.....	138
7.3.4	Profile of Pawnbrokers by Source of Capital.....	139
7.3.5	Profile of Pawnbrokers by Number of Staff Employed.....	140
7.4	CONCLUSION.....	141

Chapter 8:	FINDINGS AND ANALYSIS (CUSTOMERS AND PAWNBROKERS)	143
8.1	INTRODUCTION.....	143
8.2	CUSTOMER’S PERCEPTION ON PAWNBROKING.....	143
	8.2.1 Sources of Instant Cash Loan.....	143
	8.2.2 Pawnshop vs Other Instant Cash Loan.....	144
	8.2.3 Determinants of Pawnshop Selection.....	146
	8.2.4 Pawnshop Awareness.....	148
	8.2.5 Lending Process.....	149
	8.2.6 Redeeming, Extending and Auctioning Processes.....	152
	8.2.7 Complaining and Compensating Processes.....	155
	8.2.8 Services Satisfaction.....	156
	8.2.9 Customers Perception towards the Role and the Impact of Pawnshops.....	159
8.3	PAWNBROKER’S PERCEPTION ON PAWNBROKING.....	163
	8.3.1 Lending Process.....	163
	8.3.2 Redeeming, Extending, Auctioning, Complaining and Compensating Processes.....	166
	8.3.3 Determinants of Pawnshop Selection.....	170
	8.3.4 Frequencies of Customers Involved in Pawn Lending Process.....	173
	8.3.5 The Challenge of Pawnbroking Business.....	175
	8.3.6 Performance of Pawnshops Business in Economic Downturn.....	178
	8.3.7 Pawnbrokers’ Perception towards the Role of Pawnshop.....	186
8.4	CONCLUSION.....	189
Chapter 9:	AN EMPIRICAL ANALYSIS ON THE PERCEPTIONS OF THE ISLAMIC PAWNBROKERS	192
9.1	INTRODUCTION.....	192
9.2	ANALYSING INTERVIEWS DATA.....	193
	9.2.1 The Establishment of the <i>Ar-rahn</i> Product and the Motivating Factors.....	193
	9.2.2 The Salient <i>Shari’ah</i> Features of Islamic Pawnbroking.....	195
	9.2.3 The Sustainability of Islamic Pawnbroking.....	197
	9.2.4 Consumption vs Production Purpose.....	202
	9.2.5 Product Awareness of Islamic Pawnbroking.....	204
	9.2.5.1 Muslims awareness.....	206
	9.2.5.2 Non-Muslims awareness of Islamic pawnbroking.....	207
	9.2.5.3 Promoting the product.....	207
9.3	CONCLUSION.....	208
Chapter 10:	DISCUSSING AND CONTEXTUALISING THE FINDINGS AND CONCLUSION	210
10.1	INTRODUCTION.....	210
10.2	SUMMARISING THE RESEARCH.....	210

10.3	REFLECTING ON THE FINDINGS: AN INTERPRETATIVE DISCUSSION.....	212
10.3.1	The Influence of Demographic on Consumers' Preference Pawnshop..	212
10.3.1.1	Gender.....	212
10.3.1.2	Age.....	213
10.3.1.3	Race.....	213
10.3.1.4	Education level.....	214
10.3.1.5	Marital status.....	214
10.3.1.6	Total dependents of household.....	214
10.3.1.7	Employment characteristics.....	215
10.3.1.8	Total monthly household income.....	215
10.3.1.9	The reasons of insufficient income.....	216
10.3.2	The Pawnbroker's Background.....	217
10.3.2.1	Years of establishment.....	217
10.3.2.2	Type of ownership and source of capital.....	217
10.3.2.3	Number of staff employed.....	218
10.3.3	The Determinant of Pawnshop Selection.....	218
10.3.3.1	Sources of instant cash loan.....	218
10.3.3.2	Pawnshop vs other instant cash loan.....	219
10.3.3.3	Determinants of pawnshop selection from the customers' and pawnbrokers' point of view.....	219
10.3.4	Pawnshop Awareness.....	222
10.3.5	The Usage of Pawnshop Loan.....	223
10.3.6	The Role of Pawnshop to the Society.....	224
10.3.7	Performance of Pawnshops Business in Economic Downturn.....	225
10.3.8	The Challenges of Pawnbroking Business.....	225
10.4	PROSPECT OF ISLAMIC PAWNBROKING.....	227
10.4.1	Strengths.....	228
10.4.1.1	High support and demand from Malaysian Muslims.....	228
10.4.1.2	Government support for development of Islamic pawnbroking.....	228
10.4.2	Weaknesses.....	228
10.4.2.1	No specific regulation for Islamic pawnbroking and no standardization in the existing Islamic Pawnbrokers Manual Guideline.....	228
10.4.2.2	Lack of diversification in terms of collateral.....	229
10.4.2.3	Lack of awareness about the existence of Islamic pawnshop.....	229
10.4.2.4	Lack of branches in rural areas.....	229
10.4.2.5	Lack of monitoring from the local authority.....	229
10.4.3	Opportunities.....	230
10.4.3.1	Being alternative credit provider to the low-income and high-risk group.....	230
10.4.3.2	Expanding the opportunity spaces for demand from the non-Muslim.....	230
10.4.3.3	Economic opportunity with the development of Islamic pawnbroking.....	230

10.4.4 Threats.....	231
10.4.4.1 Competition from formal and other informal financing methods.....	231
10.4.4.2 Strict license granting due to political position.....	232
10.5 RECOMMENDATIONS.....	232
10.6 LIMITATIONS AND FUTURE RESEARCH.....	235
10.7 EPILOGUE.....	237
Appendices.....	238
Bibliography.....	275

LIST OF TABLES

Table 1.1:	Total Loan Disbursement for YaPEIM from 2005 to 2009.....	5
Table 3.1:	Types of Pawnshops Pledges in Some Countries.....	26
Table 4.1:	Safekeeping Fees Charge by the Pattani Islamic Cooperative Limited.....	67
Table 4.2:	Performance of <i>Ar-Rahn</i> Scheme in Thailand from 1999 – 2005.....	67
Table 4.3:	The <i>Shari'ah</i> Pawning Performance in 2003 – up to April 2005.....	69
Table 5.1:	The Number of Pawnshops in Malaysia according to States in 2010..	72
Table 5.2:	Types of Pledged Assets, Amount and Maturity in Pawnshop.....	76
Table 5.3:	The Determination of Value of Item Pledge and the Safekeeping Fee	82
Table 5.4:	Islamic Pawnbroking in Malaysia.....	85
Table 5.5:	The Safekeeping Fees Charge in PKB's Pawnshop.....	86
Table 5.6:	The Fees for <i>Ar-rahn</i> Scheme in Bank Kerjasama Rakyat Malaysia.....	87
Table 5.7:	Total of Financing, Collateral Value and Customers for Bank Kerjasama Rakyat Malaysia from January to June 2010.....	88
Table 5.8:	The Fees for <i>Ar-rahn</i> Scheme in AgroBank.....	89
Table 5.9:	The Comparison of Fee Charge and Total Amount of Loan between Conventional Pawnbroking, Islamic Pawnbroking and Personal Loan from Bank.....	91
Table 6.1:	Variables, Hypotheses and Items on Questionnaire.....	103
Table 6.2:	List of Advantages and Disadvantages of Different Types of Sampling Design.....	114
Table 7.1:	Profile of Customers by Region.....	125
Table 7.2:	Crosstabulation: Type of Pawnshop by Respondents' Gender.....	126
Table 7.3:	Crosstabulation: Type of Pawnshop by Respondents' Age.....	127
Table 7.4:	Crosstabulation: Type of Pawnshop by Respondents' Race.....	128
Table 7.5:	Crosstabulation: Type of Pawnshop by Respondents' Education Level.....	129
Table 7.6:	Crosstabulation: Type of Pawnshop by Respondents' Marital Status..	130
Table 7.7:	Crosstabulation: Type of Pawnshop by Respondents' Total Dependents.....	131
Table 7.8:	Profiling the Respondents Occupations.....	132
Table 7.9:	Crosstabulation: Type of Pawnshop by Respondents' Total Monthly Household Income.....	133
Table 7.10:	Crosstabulation: Type of Pawnshop by Respondents' Total Monthly Household Expenditure.....	134
Table 7.11:	Respondents Response to Income Sufficiency.....	135
Table 7.12:	Reasons of Total Monthly Income Insufficiency.....	135
Table 7.13:	Profile of Pawnbrokers by Region.....	137
Table 7.14:	Profile of Pawnbrokers by Years of Establishment.....	138
Table 7.15:	Profile of Pawnbrokers by Type of Ownership.....	139
Table 7.16:	Profile of Pawnbrokers by Source of Capital.....	140
Table 7.17:	Profile of Pawnbrokers by Number of Staff Employed.....	140
Table 8.1:	Friedman Test to Rank the Preferable Sources of Instant Cash Loan..	144
Table 8.2:	Friedman Test to Rank the Important Reasons of Choosing	

	Pawnshop rather than Other Sources of Instant Cash Loan.....	145
Table 8.3:	Mann-Whitney U-Test Comparing the Mean Ranks of the Determinants of Pawnshop Selection.....	147
Table 8.4:	Pawnshops Awareness.....	149
Table 8.5:	Process of Lending.....	150
Table 8.6:	Purpose of Lending.....	151
Table 8.7:	Consumption vs Production Purpose.....	152
Table 8.8:	Process of Redeeming, Extending and Auctioning.....	153
Table 8.9:	Process of Complaining and Compensating.....	155
Table 8.10:	Level of Satisfaction of all Processes.....	157
Table 8.11:	Mann-Whitney U-Test Comparing the Mean Ranks of Customers' Satisfaction of all Processes Involved in Pawnshop.....	158
Table 8.12:	Pawnbroking Having Positive Impact.....	159
Table 8.13:	Contribution of Pawnshops' Lending.....	160
Table 8.14:	Man-Whitney U-Test Comparing the Mean Ranks of Customers Perception on the Positive Role of Pawnshop.....	161
Table 8.15:	Overall Conclusion.....	162
Table 8.16:	Process of Lending.....	163
Table 8.17:	Process of Redeeming, Extending, Auctioning, Complaining and Compensating.....	168
Table 8.18:	Mann-Whitney U-Test Comparing the Mean Ranks of the Pawnbrokers Opinion in the Customers' Determinants of Pawnshop Selection.....	172
Table 8.19:	Frequencies of Customers Involved in Pawn Lending Processes.....	174
Table 8.20:	Mann-Whitney U-Test Comparing the Mean Ranks of Customers Involved in Pawnbroking Processes.....	175
Table 8.21:	The Challenge of Pawnbroking Business.....	176
Table 8.22:	Pawnshops' Performance in Economic Downturn.....	178
Table 8.23:	Degree of Agreement on the Impact of Pawnbroking Business in Economic Downturn.....	181
Table 8.24:	Mann-Whitney U-Test Comparing the Level of Agreement of Pawnbrokers towards the Pawnbroking Business in Economic Downturn.....	183
Table 8.25:	Pawnshops' Gain Profit.....	183
Table 8.26:	The Reasons of Pawnbrokers Obtaining Profit.....	184
Table 8.27:	The Reasons for Not Making Profit.....	185
Table 8.28:	Degree of Agreement on the Role of Pawnshop.....	187
Table 8.29:	Mann-Whitney U-Test Comparing the Level of Agreement of Pawnbrokers towards the Role of Pawnshop.....	189
Table 9.1:	Details of the Interviewees and their Respective Institutions.....	192
Table 9.2:	Responses of the Interviewees to Questions 1 and 2.....	194
Table 9.3:	Responses of the Interviewees to Questions 3 and 4.....	195
Table 9.4:	Responses of the Interviewees to Questions 5, 6 and 7.....	198
Table 9.5:	Responses of the Interviewees to Questions 8 and 9.....	203
Table 9.6:	Responses of the Interviewees to Questions 10, 11 and 12.....	205

LIST OF FIGURES

Figure 2.1:	Major Types of Informal Finance.....	16
Figure 4.1:	The <i>Ar-rahn</i> Structure.....	65
Figure 6.1:	Purposive Sampling in the Pawnshop Survey.....	113

LIST OF ABBREVIATION

BIBB	- Bank Islam Brunei Berhad
BIMB	- Bank Islam Malaysia Berhad
BNM	- Central Bank of Malaysia
FOMCA	- Federation of Consumers Association
JAKIM	- Malaysia's Department of Islamic Development
KSEDC	- Kelantan State Economic Development Corporation
MAIDAM	- Terengganu Islamic Religious and Malay Customs Council
MGI	- Muassasah Gadaian Islam
MGIT	- Muassasah Gadaian Islam Terengganu
NPA	- National Pawnbrokers Association
PKB	- Permodalan Kelantan Berhad
PP	- Perum Pegadaian
YaPEIM	- Malaysian Islamic Economy Development Foundation

DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application of another degree in qualification to this or any other university or institution of learning.

STATEMENT OF COPYRIGHT

The copyright of this thesis rests with the author. No quotation from it should be published in any format, including electronic and the internet, without the author's prior written consent. All information derived from this thesis must be acknowledged appropriately.

DEDICATION

*To my mother and father, my beloved husband, my children
Fatimah Az-Zahrah, Luqman Al-Hakeem, Sumayyah and
Khadijah, my in-law, and my late uncle Allahyarham Syed
Ahmad and Ibu*

ACKNOWLEDGEMENT

Firstly, I would like to express my deepest gratitude to Allah *swt* for the strength, peace of mind, good health, and ability granted, in order to complete this thesis. Second goes the appreciation to my supervisor, Dr. Mehmet Asutay for his valuable guidance and moral support throughout the period of completing this thesis. It is his worthy efforts, guidance, and constructive comments that the thesis is finally able to be completed on time. I would also like to extend my gratitude to Prof. Rodney Wilson as my second supervisor, Dr. Gregory James (external examiner), Professor Habib Ahmed (internal examiner), Professor Emma Murphy, the SGIA administration staff, the University Library, the ITS and the Ustinov College for their support and friendly services during this study.

I also owe my sincere thanks to my former lecturer, Prof. Abdul Ghafar Ismail, my fellow friends, Selamah, Nur Azura, Fidlizan, Mohd Yahya, Tirzah and Nazir, Hadijah, Syahmi, Rohaya and Hafizi, Rifki, Rahimie, Nur, Syifa, Ros Aniza, Brother Nasser Al-Hanai, and Tengku Nazmi for their valuable ideas and comments which enlighten the path.

I would also like to thank these people, Mr. Rozaidi Abdul Majid (YaPEIM), Mr. Wan Farid Imran Wan A. Latif (MAIDAM), and Mr. Meor Haris Meor Akim (Bank Kerjasama Rakyat Malaysia, Tanjung Malim), customers, and pawnbrokers who involved in the survey and interview. Their support and contribution is very much appreciated.

A grateful acknowledgement goes to my sponsors, Sultan Idris Education University and Ministry of Higher Education, Malaysia for granting me the study leave and scholarship to pursue my study.

Special thanks to Ma and Abah in Kelantan, Sumayyah's teachers (Mrs. Burgess, Miss Todd and Miss Cruddace), Rohaida and Rizal, Kak Hanimon and children, Maureen (porter), Uncle Zainuddin and Aunty, Amir and Azizah, Nizam and Normi, Zul and Wan, Cikgu Talib and Kak Zu, Norazila and Hanafi, Kak Anisah, Najib and Ros, Fauzi and Adlina, Agus and Ami, Tay Meng Guan and Ng Pei Fen, Azhar and Lily, Dewi, Indah and Erwin, Dian and Abdi, Aisyah, Faizal and Yasmin, Hajjah Masnooraini and Hj Rosli, Kak Lin and Abang Rohizi, Nazimah and Zam, Yusran and Aisyah, Amir Ngah and Marlina, Hanira and Fadli, Zakaria and Kak Yam, Zarina and Naso, Zul Hasan and Nani, Helmi, Zariman, Hamidah, Ayu Fendi, Mar, Kak Mahani, Kak Zuraini Wandu (HR), Miss Zarina (HR), Lela and Hamdan, Kak Su and Pak Su, Kak Norlia, Kak Asiah and Pakcik Yusuf, Kak Rohaila, and Umar for their encouragements and moral support.

Last but not least, I owe my loving thanks to my mother and father, Aripah Bedu and Abdul Razak Palangga, my dearest husband, Zulkhairi Mohamed Yatim, my children, Fatimah Az-Zahrah, Luqman Al-Hakeem, Sumayyah and Khadijah, my late uncle (Walid) and Ibu, my in-law, Mohamed Yatim Abu Bakar and Halimah Abd. Ghani, and my siblings, Azizi and Azizul Azra for their encouragements, concerns, moral support, love and care that makes me fully understood what life takes and able to achieve what seems impossible.

Chapter 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Throughout the world, emerging economies use various types of informal financing such as moneylenders or pawnbrokers before more sophisticated formal banking systems ever develop. Operating alongside the formal financial sector, there has been less recognition of the important role of informal finance although they have played a complementary role in providing credit to the society for so many years. As stated by Ghate *et al.* (1992: 3), the informal financial sector tends to be hidden from view due to their loans that are relatively small and the sensitivity attached to credit on lenders and borrowers which make it a particularly difficult subject for empirical studies.

Among informal finance, pawnshops have grown in importance over the past few years especially during the tough economic climate. In Malaysia, for instance, the pawnbroking business has served society in need of small, instant cash since the 15th century through the diplomatic relationship between the government of Malacca¹ and China. This continued to flourish in the 19th century when the Chinese immigrant came to work in the tin industries and other trading.

It should be stated that, in terms of the working mechanism, pawnbrokers lend money based on collateral provided by the borrower and then charge an interest rate upon this loan, which is the main way for them to derive income. While pawnbroking is a commonly used method of financing in the low strata of the society, Adnan (2004) lists nine weaknesses of conventional pawnshops operating in Malaysia, which includes the excessive interest rates charged by pawnbrokers. The concern over high interest rates and the usurious and exploitative activities imposed by the pawnbrokers explains the negative perception of this business among society.

¹ Malacca is a small state on the Western of Peninsular Malaysia which experienced an amazing historical, cultural, and economical influence during the Malay Sultanate (1400 – 1511). Retrieved 5th June 2009 from: <http://www.lecco.polimi.it/premiolecco/premiolecco2007/MalaccaHistory.pdf>.

With the significant growth of Islamic banking and finance since the establishment of the Lembaga Tabung Haji, used to facilitate savings for pilgrimage to Makkah in 1963 and the first Islamic bank in 1983, the Malaysian Islamic financial sector has become one of the most progressive and attractive in the world. In terms of pawnbroking, Malaysia has once again become a pioneer of Islamic pawnbroking with the establishment of the Muassasah Gadaian Islam Terengganu (MGIT), which was set up by the Terengganu Islamic Religious and Malay Customs Council (MAIDAM) in 1992 (Abdul Razak, 2008). The Prime Minister of Malaysia (Najib Tun Razak), in his speech at one of the YaPEIM programmes on 28th June 2010, stated that the scheme needs to be widened because “firstly, it is in accordance with Islamic principles, secondly it is simple, thirdly the system is fair, furthermore it will avoid borrowers from going to the loan sharks and conventional pawnshops which charge high interest rates”.² In 2010, there were 329 institutions offering Islamic pawnbroking operating side by side with 259 licensed conventional pawnshops, which showed a remarkable increase in Islamic pawnbroking, despite the fact that they had only been established in 1992 as compared to the conventional pawnshops that have been operating since the 19th century.

This research study arose out of a need to know more about the characteristics of pawnshops operating in Malaysia in an attempt to transform pawnbroking’s shady image of a mechanism for making money from other people’s misery, to that with a positive impact, in the sense that it will be able to enhance the socio-economic status and well-being of the Malaysians, especially the low-income and high risk groups, by providing short-term financing. This negative perception will be shed with the existence of Islamic pawnbroking, which is permissible according to *shari’ah* principles which encourage positive attributes such as fairness, justice, transparency, and honesty to the borrowers as well as to the lenders.

1.2 RESEARCH AIM AND OBJECTIVES

The research aims to explore and analyse the socio-economic consequences of pawnshops crediting in Malaysia through the perceptions of the participants. In doing

² Retrieved 28th June 2010 from:
<http://www.cibafi.org/NewsCenter/English/Details.aspx?Id=8859&Cat=0>.

so, it will analyse specifically the impact of Islamic pawnbroking on the socio-economy of Malaysian society. This study also examines the factors determining people's preferences for pawnshop. Importantly, this study also aims to explore the perceptions and opinions of the participating pawnbrokers in Malaysia.

The following objectives will be fulfilled to reach the research aim:

- (i) To explore the role of the informal financial markets that fill the gap created by mainstream financial institutions towards constraining credit to the financially 'excluded' part of society;
- (ii) To provide an overview of the history and characteristics of conventional and Islamic pawnshops operating in Malaysia that provide small credit to the Malaysian population;
- (iii) To provide an overview of the mechanism of Islamic pawnbroking which eliminates the element of interest, avoids unethical procedures, and aims for social justice, which are areas of weakness in conventional pawnshops;
- (iv) To identify the difference between conventional pawnshops and Islamic pawnshops in lending, redeeming, auctioning, complaining, and compensation and regulatory processes through questionnaires;
- (v) To analyse the role of each pawnshop in enhancing the socio-economic status of society from the customers and pawnbrokers point of view through questionnaires;
- (vi) To analyse potential and future prospects of Islamic pawnbroking as an alternative to conventional pawnshops through interviews; and
- (vii) To suggest recommendations to the customers, pawnbrokers, and policy makers for the sustainability of Islamic pawnbroking.

1.3 RESEARCH QUESTIONS

The research questions of this study are as follows:

- (i) What are the socio-demographic attributes of customers who get loans from pawnshop?
- (ii) What is the opinion of customers of conventional and Islamic pawnbroking in Malaysia regarding the role of pawnshops in solving financial exclusion?
- (iii) What is the opinion of the different groups in Malaysia regarding the role of pawnshops in solving socio-economic issues?
- (iv) What is the opinion of different groups in Malaysia regarding the role of pawnshops as an alternative to formal financial institutions?
- (v) Does faith contribute to the choice of pawnshop?
- (vi) Is financing for production purposes instead of consumption purposes supportive to the socio-economic development of customers?
- (vii) What is the opinion of customers in Malaysia towards the services provided by pawnshops?
- (viii) Can Islamic pawnbrokers sustain their business without charging any fee or for a small percentage of safekeeping fees?
- (ix) Is there any dilemma between social responsibility and profit maximisation in the Islamic pawnbrokers' point of view?
- (x) Is there any attempt from the selected Islamic pawnbroking institutions to standardise their policies and regulations?
- (xi) Is there any agreement between customers and pawnbrokers on the factors influencing pawnshop preferences?
- (xii) Do the processes held in the pawnshop tally with the regulations provided in the Pawnbrokers Act 1972?
- (xiii) What is the ultimate role of pawnshops from the perspective of the pawnbroker itself?

1.4 RESEARCH MOTIVATIONS AND SIGNIFICANCE OF THE STUDY

Even though pawnshops were one of the most popular informal financing methods in early traditional Malay society, there have been limited studies of pawnbroking, regardless of the type of pawnshops that exist in Malaysia. Perhaps one of the reasons that pawnbroking has been understudied is that people do not really understand what pawning is. Literally, pawning involves a transaction using a piece of movable property as collateral to secure a short-term cash loan (Wolloson, 1964). Historically, pawnbrokers are criticised as being usurious and profiting by exploiting the poor, leading to an unsavoury image while ignoring the positive features of this credit provider, which can impact social and economic growth negatively. Perhaps, because they are frequented by people of low-income who seem to desperately need quick money, their image has been tarnished.

The image of pawnshops, however, has gradually improved due to the establishment of Islamic pawnbroking in Malaysia in 1992, which is free from *riba* and *gharar*, and enjoys transparent microcredit facilities. Although Islamic pawnbroking is relatively new in Malaysia, its existence has influenced the end users of short term credit market. Ever since the introduction of the scheme, the demand for it has increased continuously. For example, YaPEIM (Malaysian Islamic Economic Development Foundation) experienced an increase in the number of branches, customers, transactions, and financing in the last five years of operation.

Table 1.1: Total Loan Disbursement for YaPEIM from 2005 to 2009

Year	Total of Branch	Total of Customer	Total of Transaction	Total of Financing (RM)
2005	19	5,908	43,050	29,724,957
2006	26	7,199	49,406	41,947,707
2007	32	11,082	62,939	58,661,734
2008	54	28,019	112,484	133,217,176
2009	64	39,394	182,081	254,310,418

Source: YaPEIM (2009).

This study, hence, is expected to fill the gaps in informal financing as well as Islamic micro credit literature through understanding the nature of both pawnshops and their significant role to both the social and economic aspects of society in Malaysia. Furthermore, this study also suggests several recommendations that would be useful

to Islamic pawnbrokers and policy makers in order to promote Islamic pawnbroking as an alternative to conventional pawnbroking in Malaysia.

1.5 RESEARCH METHODOLOGY

This research is conducted using a combination of qualitative and quantitative methods. First, two questionnaires are distributed to both the customers and pawnbrokers of conventional and Islamic pawnshops in order to explore the characteristics of both pawnshops, factors determining the pawnshops' selection, and to examine the perceptions of Malaysian customers and pawnbrokers on the role of the pawnshop institution in social development and economic growth.

Second, a semi-structured interview was subsequently conducted with the pioneers of Islamic pawnbrokers in order to develop in-depth ideas and to understand the underlying principles of Islamic pawnbroking, the prospect of this institution in the future and other related issues.

1.6 STRUCTURE OF THE THESIS

The thesis consists of ten chapters. The introduction chapter provides a background of the study, the research aim and objectives, research motivation, research methodology and a summary of each chapter. The remaining chapters of this thesis are organised as follows:

Chapter 2 reviews the relationship between economic growth and financial development. Several issues, such as the financial exclusion of low-income groups from the main financial institutions are a result of the lack of creditworthiness and also the role of the informal financial markets that can outreach the demand of these groups are also being discussed in this chapter.

Chapter 3 introduces the history of pawnshops as an alternative credit provider to those in society that are excluded from mainstream financial institutions. Several issues related to pawnshops, such as their role as a credit provider to low-income groups, the regulations imposed in terms of interest rate charges, entries and competition, non rate regulatory and stolen goods, transaction costs, transportation costs, gold as pledge, pawnshops as an alternative to mainstream financial institutions,

and pawnshops as an alternative institution in economic downturns are also addressed in this chapter.

Chapter 4 elaborates the concept of pawnbroking in the *shari'ah* framework which eliminates the elements of *riba* and *gharar* in the transaction and promotes social justice. This chapter also reviews the experience of several countries, such as Thailand, Brunei, and Indonesia, which have established Islamic pawnbroking services after Malaysia.

Chapter 5 renders an overview of the history of pawnshops in Malaysia and explores the weaknesses of traditional pawnshops which lead to the establishment of Islamic pawnbroking in Malaysia in 1992 by the Muassasah Gadaian Islam Terengganu (MGIT). Although the Islamic pawnbroking scheme seems to be the best solution to conventional pawnshops, there are still some issues in Islamic pawnbroking that need to be highlighted, based on prior studies such as the issue of the *shari'ah* perspectives, capital and funding, pricing systems, pledge assets, location and loyalty, microcredit provision, and the potential for capital accumulation.

Chapter 6 is the research methodology chapter and focuses on research design, method, instrument, sampling strategies, and hypotheses in order to answer the research questions. It also presents the research limitations and difficulties.

Chapter 7, being the first empirical chapter, provides a brief descriptive analysis on the characteristics of the responding customers of pawnshops and pawnbrokers in order to develop a better understanding of the characteristics of both parties in this research.

Chapter 8 discusses the results of the inferential statistical analysis through crosstabulation and other statistical analysis and hypotheses testing methods that were developed in the Research Methodology Chapter in order to explore the attributes, behaviours, and opinions of Malaysian customers and pawnbrokers on the role of the pawnshop institution in enhancing the socio-economic growth of society and the overall economic growth of Malaysia, and the future prospect of Islamic pawnbroking as opposed to the conventional pawnbroking system. From the results of the analysis, it may be concluded that the customers of Islamic pawnshops perceive the positive roles of pawnshops in both the economic and social aspects of their lives, especially

to the low-income groups, as compared to conventional pawnshops. On the other hand, results from the pawnbrokers' analysis revealed that Islamic pawnbrokers demonstrate a promising prospect for the pawnbroking business as compared to the conventional pawnbrokers, especially during the economic downturn when banks were very stringent in giving loans to the customers.

Chapter 9 provides an analysis of the opinions of the early Malaysian pioneers of Islamic pawnbroking regarding their motivation for establishing Islamic-based pawnshops, and other significant issues underlying the Islamic pawnbroking business in Malaysia. Overall, the results from this semi-structured interview are useful to prospective customers, whether Muslim or non-Muslim, in order for them to opt for Islamic pawnbroking, which certainly does not involve *riba* and *gharar* and also promotes social justice. In addition, the findings are also useful for businesses and government to take the initiative to set up more *ar-rahn* shops and establish standard regulations in order to promote Islamic-based pawnbroking as an alternative to conventional pawnbroking in Malaysia.

Chapter 10 summarizes the content of this thesis along with the research findings that relate to the existing literatures. It also discusses the prospect of Islamic pawnbroking in the future by using SWOT analysis, along with recommendations, and highlights the study's limitations and future research.

Chapter 2

FORMAL AND INFORMAL CREDIT MARKETS AND ECONOMIC GROWTH

2.1 INTRODUCTION

Financial institutions play an important role in the economic growth of all countries. Although there are various views regarding the importance of financial institutions in the economic growth of a nation, the general view is that they are considered the backbone of the economy. This chapter, hence, will explore the relationship between economic growth and financial development, and the role of other alternative financial institutions, such as the informal financial market, which has filled the gap created by mainstream financial institutions towards constraining credit to the 'excluded' society.

2.2 CREDIT AND CREDIT MARKETS

The arrangement of 'credit' involves two parties: the lender that gives loans and the borrower that receives the loans. Lenders, which can be either an individual or an organization, will set up certain regulations and restrictions to ensure the borrowers pay back their loans. In such a conventional setting, interest has to be paid on a loan, which is the amount a borrower pays a lender for the use of the funds borrowed.³ In addition to such conventional workings of economy and finance, there are other culturally or religiously formed alternative ways of economic and financial conduct. One of such systemic understanding is Islamic economics and finance, in which, interest is forbidden. The only permissible credit in Islamic economics is through zero interest loans which are also known as *al-qardhul hasan* or loans with a certain service charge (Ahmed, 2007: 364).

Credit markets can be categorised into the formal and informal credit market, which are further elaborated in the following sections with the links of those markets towards economic growth also being discussed. Finally, the chapter will focus on one

³ Retrieved 25th May 2007 from: http://www.fmd.co.za/FMD/Reference_library/reference.htm.

instrument in informal credit markets, an important institution of which pawnshops are seen to play a significant role, especially in serving credit finance to low-income groups in developing countries where dual economy systems prevail and financial exclusion is still an issue in rural areas.

2.3 ECONOMIC GROWTH AND FINANCIAL SYSTEM

Economic growth is the ultimate objective of most, if not all, economies and has been the main subject of a large body of economic studies. In an attempt to discover the determinants of economic growth, economists have studied various influences; among them is the role of the financial markets in economic growth.

In economic theory, initially it was considered that financial markets had no relevant role in promoting economic growth. What was thought to matter as determinants of economic growth were only technological progress and population growth (Solow, 1956). The role of financial intermediation in the process of economic development had been ignored in 19th Century classical literature until Bagehot (1873) argued that the significant role of financial systems and the money market in setting off industrialisation in England by allowing capital to flow across England in search of the projects with the highest rate of return.

It was not until the arrival of Schumpeter⁴ (1911) that financial intermediation was explicitly presented. He argued that banks play a major role in economic development because they choose which firms get to use society's savings. According to this view, the banking sector alters the path of economic progress by affecting the allocation of savings and not necessarily by altering the saving rate. Thus, Schumpeter's view of finance and development highlights the impact of banks on productivity growth and technological change.

According to Keynesian and neo-classical theories, low interest rates would promote investment spending and economic growth in developed and developing countries

⁴ Schumpeter (1911: 107) argued for finance and development nexus as follows: "Granting credit in this sense operates as an order on the economic system to accommodate itself to the purposes of the entrepreneur, as an order on the goods which he needs: it means entrusting him with productive forces. It is only thus that economic development could arise from the mere circular flow in perfect equilibrium".

(Molho, 1986: 90). This theory was challenged by McKinnon (1973) who analyzed an economy with very limited possibilities of external finance for the vast majority of investors. McKinnon (1973) argued that, “because of the lumpiness of physical capital, savers may find it convenient to accumulate funds in monetary assets until they have enough resources to invest in higher-yielding physical assets. The availability of deposits with positive real rates of return may thus encourage both saving and capital accumulation.” (McKinnon, 1973 as cited in Molho, 1986: 90-91)

On the other hand, Pagano, (1993: 615-619) outlined three different channels through which finance can impact economic growth within an endogenous growth model – the ‘AK’ model, where aggregate output is a linear function of the aggregate capital stock. The resulting models showed that financial development can affect economic growth by: (i) increasing the proportion of savings funnelled to investment; and (ii) improving the allocation of funds to those projects where the marginal product of capital is highest. However, improvements in the household credit market and risk-sharing (insurance markets) will lead to a decrease in the saving rate, hence the growth rate.

The role played by financial intermediation in the development of the real activities of economy and the causality between them is still debated in economic development. The new classical view is that financial and monetary factors do not have any effect on real variables such as GDP growth and considers money as neutral. Lucas (1988) does not think that the financial system has any significant role in economic development. Economic development literature, represented by the work of the pioneers of economic development such as Bauer, Clark, Hirschman, Lewis, Rostow, Singer, and Tinbergen, simply ignored the linkages between finance and development. None of these pioneers mentions or lists the financial system as a contributor to the process of economic development (Chandavarkar, 1992).

Empirically, in recent years, the issue of causality between the financial system and economic development has been the subject of a growing body of economic research.⁵ Most of these studies find a strong link between the financial system and economic

⁵ Refer to Levine (2004).

growth. As Goldsmith (1969: 400) suggests, “the financial superstructure of the economy accelerates economic growth, and improves economic performance to the extent that it facilitates the migration of funds to the best user, *i.e.* to the place in the economic system where the funds will yield the highest social return”.

The positive relationship between financial development and economic growth predicted by Schumpeter (1911), has received considerable, empirical support from recent cross-country studies such as King and Levine (1993), and Beck *et al.* (2000). Using data on 80 countries over the 1960-1989 period, King and Levine (1993: 734) found that the indicators of the level of financial development, such as the size of the formal financial intermediary sector relative to GDP, the importance of banks relative to the central bank, the percentage of credit allocated to private firms, and the ratio of credit issued to private firms to GDP, are strongly and robustly correlated with growth, the rate of physical capital accumulation, and improvements in the efficiency of capital allocation. In addition, Beck *et al.* (2000) examines whether the level of the banking sector development exerts a causal impact on real per capita GDP growth (capital per capita growth, productivity growth, and private saving rates) using a cross-country dataset of 63 countries over the period 1960-1995. They found that higher levels of banking sector development produced faster rates of economic growth and total factor productivity growth. These results are consistent with Schumpeter’s (1911) view that the level of banking sector development importantly determines the rate of economic growth by affecting the pace of productivity growth and technological change. On the contrary, they did not find any robust relationship between the banking sector’s development and private saving rates. However, Modeste (1993), who tested the McKinnon⁶ model from some Caribbean countries, supports the hypothesis that financial repression can slow down economic growth.

While King and Levine (1993) analyze a large cross-section of countries that are affected equally by financial development, De Gregorio and Guidotti (1995) suggest that the positive impact of financial development on growth changes according to regions, time periods, and levels of income. Unlike King and Levine (1993), De Gregorio and Guidotti (1995) only focus on the banking sector’s development as a

⁶ McKinnon (1973) profounded the ‘financial liberalization’ thesis, arguing that government restrictions on the banking system restrain the quantity and quality of investment (Arestis, 2005: 2).

proxy for financial development. Thus, they found that this positive effect is particularly strong in middle-income and low-income countries, whilst there is a weak relationship observed in high-income countries.

The above cross-section correlations are also consistent with alternative explanations of the relationship between financial development and economic growth by Robinson (1952), and Thangavelu and Ang (2004). Robinson (1952: 86) argues that “the causality was reversed; economies with good growth prospects develop institutions to provide the funds necessary to support those good prospects”. In other words, finance always follows economic growth and that the general tendency is that the supply of finance moves with the demand for it: “by and large, it seems to be the case that where enterprise leads, finance follows” (Robinson, 1952: 86). Using time-series evidence from 16 countries⁷, Demetriades and Hussein (1996) find that economic growth systematically causes financial development in quite a few countries such as Korea and Thailand, which experienced financial reforms, as well as other countries such as Greece, India, Portugal, and Turkey). Thangavelu and Ang (2004: 259), using Australia as a case study, also suggested that economic growth will lead to financial development.

It should, however, be stated that the effects of credit market development are multidimensional and depend upon which sector of the credit market is being developed. Some economists believe that financial institutions are not essential to the growth process and respond passively to other factors promoting growth. Jappelli and Pagano (1994) find that saving and growth rates are negatively and significantly correlated with indicators of the development of household lending, such as the ratio of consumer credit to GDP, and the maximum loan-to-value ratio in the mortgage market, a finding that confirms that some forms of financial development are not conducive to faster economic growth. On the other hand, little empirical support is found regarding the positive correlation between the financial market, saving, and growth. Modigliani (1986) emphasized that the constraints of borrowing may force an

⁷ The countries include Costa Rica, El Salvador, Greece, Guatemala, Honduras, India, Korea, Mauritius, Pakistan, Portugal, South Africa, Spain, Sri Lanka, Thailand, Turkey, and Venezuela with rich experiences in relation to both economic and financial development.

economy to save more. This obviously will decrease the effects of credit market on economic growth.

It should, hence, be stated that the available body of knowledge emphasizes the relationship between credit markets, saving and growth. However, Rosenthal (2005) argues that credit markets can contribute to the reduction of inequality. Credit becomes especially important when reducing inequality in short-term consumption. They can provide for the redistribution of capital from the rich to the poor. Investment by the poor may then reduce inequality. This argument has been supported by Bolton and Rosenthal (2005: 3) who consider credit as a motor for entrepreneurship, providing the funds for the poor to escape from poverty. At the same time, the rich also will get a benefit from the investment if lending is expected to be profitable.

The importance of financial markets in economic growth is still being debated by many economists.

2.4 FORMAL vs INFORMAL MARKETS

As the working of financial markets indicate, credit is taken to finance *fixed capital* (the purchase of fixed inputs such as factories, production processes, machines, or warehouses), *working capital* (ongoing production activity), and *consumption credit* (sudden downturn in the production or increase in consumption needs caused by illness, death, or festivities) (Ray, 1998).

There are two sources of credit in the credit market: the formal and informal market. The coexistence of the formal and informal credit markets is a wide spread phenomenon in developing economies. Recently, there has been a gradual change in borrowing trends where the informal credit market has been extensively developed in developing countries in comparison to the formal market.

Financial markets are defined as formal when they are controlled by government regulations or any related financial regulations (Kropp *et al.*, 1989). For formal financial institutions, the government, or state, usually establishes a central bank as an instrument of central control. Schrader (1996: 8) lists the formal markets, therefore, as the central banks, commercial or business banks, development banks, savings banks, cooperative banks, merchant banks, building societies, and the insurance and social

security sector. Licensed investment companies, hire-purchase companies, public pawnshops⁸ (and sometimes private licensed ones), and so on may also be part of formal financial markets.

According to Schrader (1996: 10), however, the formal financial institutions have strengths such as: (i) they provide modern financial services; (ii) they can finance long-term, large volume, and large-scale businesses; (iii) they collaborate with national and international partners and have access to refinancing and other supporting institutions; and (iv) they are integrated into the formal and public sector. They are also bound to the following weaknesses: (i) they can only reach medium and high income groups of customers, and inadvertently exclude low-income groups of customers and small business entrepreneurs from their services; and (ii) they ignore socio-cultural, socio-political and socio-economic conditions.

With the advantages of unregulated money supply, easy accessibility, easy liquidity, low administrative and procedural costs, little or no collateral requirements, and flexibility in interest rate structures and repayment schedules, informal finance is ideally suited towards lower income groups (Daniel, 2000: 1).

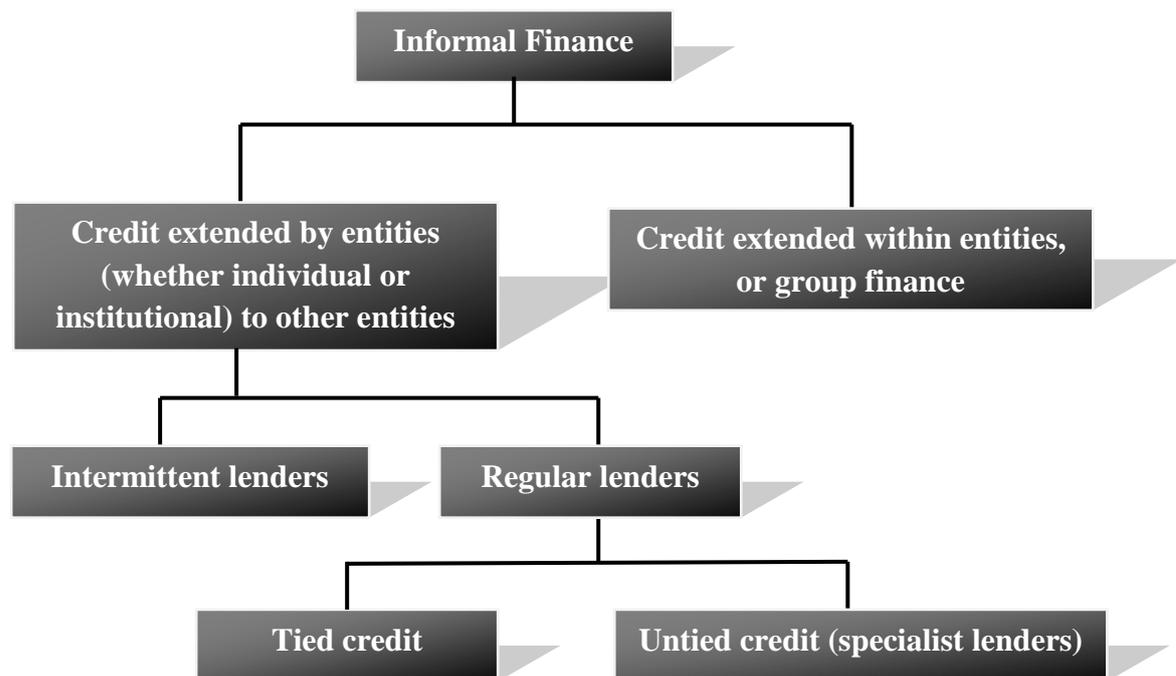
According to Ghate *et al.* (1992) and Adams (1992), informal finance can be classified as follows:

- (i) Intermittent lenders (friends or relatives)
- (ii) Untied loans (moneylenders, pawnbrokers, indigenous bankers and finance companies)
- (iii) Tied credit (landlords)
- (iv) Group finance (Rotating Savings and Credit Associations)

Figure 2.1 shows how the four categories are related to each other.

⁸ Other researcher include pawnshop in the informal financial market.

Figure 2.1: Major Types of Informal Finance



Source: Ghate *et al.* (1992).

In terms of characteristics, Waldron (1995) describes informal finance as: (i) using their own funds to provide loans; (ii) lending transactions as being on a face to face basis; (iii) flexible in terms of interest rates charge, rescheduling the maturity of the loan and collateral requirement; and (iv) the probability of getting loans is high. In addition, informal credit markets respond quickly to short-term financing at a relatively low cost, and allow access to low-income groups (Bouman, 1989). Apart from that, the activities in informal and non-organised sectors are usually unregulated and are inadequately represented in the standard accounts of national income (Daniel, 2000).

In addition, Ray (1998: 540-543) also discusses some characteristics of the informal markets focusing on rural credit markets as follows:

- (i) *Informational constraints* (which create repayment problems);

- (ii) *Segmentation* (in which lenders seem to deal with demarcated zones of borrowers)⁹;
- (iii) *Interlinkage* (in which lenders and borrowers are simultaneously transacting with each other on at least one other market, such as land or output);
- (iv) *Interest rate variation* (in which the rates vary by geographical location, the source of funds, and the characteristics of the borrower)¹⁰;
- (v) *Credit rationing* (a borrower may wish to borrow more at the going rate of interest in the transaction but is not permitted to); and
- (vi) *Exclusivity* (a borrower typically deals with one lender at a time).¹¹

Waldron (1995) expressed his view that the role of the informal sector had filled the void created by the natural limitations of the formal sector. He argued that there are large segments of the East Asian economy where the formal sector simply does not reach. Furthermore, because informal credit is better distributed than formal credit, it is remarkably effective in reaching small farmers, entrepreneurs, small businesses, and in meeting the needs of individuals (Braverman and Gausch, 1986). These groups have been ‘financially excluded’¹² from the formal financial sectors, and, as a result, they opt to informal finance that is likely serve to all sections of the population without discrimination.

⁹ Aleem’s (1993) survey of fourteen moneylenders in the Chambar region of Pakistan showed that as many as ten moneylenders lent more than 75% of their funds to old clients – those with whom they had dealt in the past.

¹⁰ In Thailand, due to lack of access to the formal sector, the interest rates charge by informal sector were around 25% in the Central Plains, whereas 60% or higher in other regions (Siamwalla *et al.*, 1993).

¹¹ It is reported that over 70% of informal sector borrowers in Thailand had borrowed from only one lender over the past three years (Siamwalla *et al.*, 1993).

¹² Financial exclusion refers to those procedures that restrict the poor and unfortunate social groups from obtaining loan from the financial system (Leyshon and Thrift, 1995). A study carried out in the UK by the Financial Services Authority (2000: 9) argued that financial exclusion can be identified from a number of aspects such as; “(i) *Access exclusion*: the restriction of access through the process of risk assessment; (ii) *Condition exclusion*: where the conditions attached to financial products make them inappropriate for the needs of some people; (iii) *Price exclusion*: where some people can only gain access to financial products at prices they cannot afford; (iv) *Marketing exclusion*: whereby some people are effectively excluded by targeted marketing and sales; and (v) *Self exclusion*: people may decide that there is little point applying for a financial product because they believe they will be refused. Sometimes this is a result of having been refused personally in the past, sometimes because they know someone else who has been refused, or because of a belief that ‘they don’t accept people who live round here’”.

Operating side by side with the formal sectors, there has been less recognition of the important role of informal credit markets¹³, although they have played a complementary role in providing credit to society for so many years (Schrader, 1992; Ghate *et al.*, 1992).¹⁴ However, in recent years, an increasing number of studies have begun to evaluate the role of informal credit markets to the socio-economy of the society.

The following section will discuss several issues associated with informal markets.

2.4.1 Issues in Informal Markets

The main issue in the credit market is the principal-agent theory, which provides many insights to the problems in credit markets. There are numerous empirical studies which examine the credit market's imperfections, and which may cause friction in an economy's resource allocation. Specifically, it is recognised that credit market imperfections may result in credit rationing, and thus, may prevent entrepreneurs from borrowing as much as desired for capital investment.

There are several literatures in economics and finance that establish a fundamental link between credit rationing and imperfect information such as Stiglitz and Weiss (1981), Jaffee and Stiglitz (1990), and El-Shazly (2005). Credit rationing occurs when lenders are imperfectly informed about their borrowers' creditworthiness. As Galestovic (1994) points out, the more important friction in the credit market is associated with incentives regarding conflicts of interest between lenders and borrowers. Borrowers will not truthfully reveal all their information (which includes characteristics, actions, and outcomes) to lenders which will lead to problems of adverse selection and moral hazard. By reducing the incidence of credit rationing, it is possible to enhance the efficiency of resource allocation, whereby the credit market's development will enhance economic growth and development (Bencivenga and Smith, 1993; Ma and Smith, 1996; Bose and Cothren, 1996).

¹³ According to Daniel (2000: 1), the early recognition of informal credit markets was pioneered as long as 1948 by Wai (1980) in the moneylenders' context.

¹⁴ The informal credit market is also called as indigenous or unorganized credit market (Fry, 1995).

Due to imperfect information in the credit market (especially informal market), the determination of interest rates is most likely to be very high in informal markets. Informal markets usually charge a very high interest rate to borrowers due to their lack of information regarding the ability of the borrowers to repay their loans (Aleem, 1993; Stiglitz and Weiss, 1981). In addition, the credit histories of borrowers in informal markets are not as well documented as in formal markets. Ray (1998: 543-544) explains that the informal lenders can charge very high rates of interest due to having an exclusive monopoly over their clients. In addition, he argues that the high interest rates are grasped from the lender's risk hypothesis which comes from two sources: (i) *involuntary default*: the borrower does not have enough money to repay when the loan matures because of crop failure, unemployment, disease, death, *etc.*, and (ii) *strategic default*: the borrower can repay the loan, but simply refuses to pay up. On the contrary, Sarap (1987) found that if the quality or marketability of collateral is high, the interest rate charge will be decreased. Another theory is that interest rates are high in informal markets because they are determined by custom and have always been high, which might be called the theory of the 'customary rate of interest' (Wai, 1957: 107). For example, Newlyn and Rowan, discussing interest rates in British Colonial Africa, conclude that "in the type of economy we are considering, interest rates are likely to be determined mainly by law or convention and to respond very little to changes in the local demand and supply for loanable funds." (taken from Wai, 1957: 107). Wai (1957: 108) also claims that the high rates of interest are influenced by demand (higher demand from low-income groups) and supply factors (shortage of capital).

Apart from the issue of high interest rates charged by the informal markets, another issue that is being debated by many researchers is the purpose of borrowing from the markets. Many researchers claim that informal finance lends most of their money for consumption or for non-productive purposes to the borrowers. Mohieldin and Wright, (2000: 667) for instance, claim that most of the people use the loans given by formal finance for production purposes and loans from informal finance for consumption purposes. Pischke *et al.* (1983) argues that informal lending adds nothing to the borrowers; in fact, they put them in debt. Hence, "providing loans for consumption or non-productive purposes were not in the best interest of the capital scarce economies" (Daniel, 2000: 20). Ghate (1998), on the other hand, rejects these facts. He argues that

the term ‘consumption’ is always misinterpreted because in rural households, consumption goods such as fridges, ovens, other electrical appliances, vehicles, *etc.* can be considered as investments goods for agricultural production, whilst those goods are considered as consumption by the urban household.

Above all the issues regarding the impact of the asymmetric information problem on the credit market, this asymmetric information phenomenon does not apply to one type of the informal credit market, which is pawnbroking, due to the nature of the business itself. Pawnbroking normally needs less information regarding the borrowers because they will need collateral as a pledge of the transaction. According to Adams (1992), unlike banks, moneylenders, and traders, pawnbrokers need almost no information about their borrowers unless they are wary about receiving stolen goods as collateral. In addition, Al-Zuhayli (2003) claims that pawning is one of the most powerful means of preventing default because of the collateral being held by the lenders. He added that “documentation and guaranty provide less certain insurance of the creditor’s right compared to a pawned object that he holds in his possession, and which he may sell to collect what the debtor owes him with the permission of a judge or the object’s owner” (Al-Zuhayli, 2003: 81-82). In terms of purpose of lending, previous literatures (Ismail *et al.*, 2007; Awang Kechil *et al.*, 2004; Samsudin, 2002) have found that pawnbroking not only lends money for consumption purpose but also for production purposes in Malaysia.

2.5 CONCLUSION

An overview of financial markets, which consists of the formal and informal markets given above, makes it clear that financial intermediation plays an important role to improve the socio-economy of the society. Previous studies proved that formal sectors are unlikely to extend credit facilities to all the strata in the economy due to many reasons; hence, there is a wide mismatch between demand and supply of credit. This gap is likely to be filled by the informal markets, thus they have a potential in making a valuable contribution to economic growth. There are several informal financial institutions established to fill the gap, such as pawnshops, microfinance, moneylenders, and others. In this research, we will focus on pawnshops as an informal financial institution and how they can improve the socio-economy of the society.

Chapter 3

PAWNSHOPPING: LITERATURE REVIEW

3.1 INTRODUCTION

A survey of the related literature supports the notion that the financial system plays a vital role in supporting the growth of the economy (Beck *et. Al.*, 2000; Levine, 1997; King and Levine, 1993; McKinnon, 1973; Shaw, 1973; and Schumpeter, 1911). For this to work, the financial system must provide a complete range of products and services to meet the different needs of all strata in the economy by expanding the financial base of society and preventing financial exclusion. Therefore, informal credit institutions such as pawnshops are recognized as providing loans to those in society that are excluded from mainstream bank loans. Operating side-by-side with the mainstream financial sector, but largely ignored, the pawnshops as part of the informal sector are significant in providing credit finance, particularly to low-income groups and in areas where mainstream institutions are hampered by bureaucracy (Chan and Owyong, 2007).

In the context of development, Caskey (1994) emphasizes the importance of pawnshops as ‘banks for the poor’. He elaborates that pawnshops have a high outreach, are often financially viable, and have several advantages; compared to other informal market institutions, clients are not expected to fall into long-term indebtedness. Moreover, it reduces the risk of a pawnbroker to provide loans to poor people, and monitoring is not necessary.

Although pawnshops have grown in importance and influence part of the population in various societies, there is still a lack of research regarding these important informal credit institutions. In other words, despite the flourishing business, the theoretical and empirical studies of pawnshops are very limited. The following studies are some of the earlier studies in the U. S. among the little available literature: Patterson (1899a and 1899b), as a comparative study, investigated American and European pawnshops, Levine (1913) provides an extensive description of the pawnbroking business, and Nugent (1939) estimates the total pawnshop credit (Caskey, 1991: 86). Since then, there has been no serious study of pawnbroking in the United States due to the

limitation of data and statistics on this forgotten institution and a lack of academic studies on pawnshop operation (Caskey, 1991). Until 1990, Caskey, who is known as “the founding father of research in this field” (Johnson and Johnson, 1998: 31), explored the role of the pawnbroking industry in providing credit to consumers excluded from mainstream credit markets in the United States. This was followed by Caskey (1991, 1994 and 2005), who looked at the importance of pawnbroking in the United States economy; Oeltjen (1996), who studied the history and regulations of pawnshops; Bienkowski and Davis (1997), who studied the characteristics of the pawnbroking industry and regulatory policies, particularly in Victoria states; Johnson and Johnson (1998) who described the profile of pawnshop customers; and Francis (2007) who explored the characteristics of pawnshops as retail and stolen goods trading.

Meanwhile, in Britain, research on pawnbroking received less attention and mainly focused on the historical development of British pawnbroking through studies by Hows (1847), Hudson (1982) and Tebbutt (1983).

In contrast, with pawnshops being common in much of Asia compared to the developed countries, more attention has been given to their role as a short term lending solution for consumption purposes and as microcredit for small and medium businesses.

3.2 DEFINITION AND ASPECTS OF PAWNBROKING

Pawnshops are informal financial institutions which are found all over the world and provide quick and easy access to money for their customers who are short of cash. Andrews (1994 as cited in Schrader, 1999: 5) noted that,

Most people who need to borrow relatively small sums of cash in a hurry don't want the fuss and formality of a bank loan. It's a simple equation, but if your credit card is heaving at its limit – or you simply don't have one – then the shops (...) can be an attractive proposition.

Basically, pawnshop lending is characterized by small-sum loans, short maturities, and fully collateralized by personal property with an interest charge that is extremely high relative to other types of lending (Caskey, 1990).

According to Oeltjen (1996: 997), ‘pawn’ originated from the French word ‘pan’, which means the skirt of a gown. ‘Pan’, on the other hand, is traced out from the Latin word ‘pannum’, which describes clothing in general. This definition makes it clear that in that time, in 1828, more than one-half of the pawn items in New York City were articles of clothing.

The two parties which are involved in pawnshop transactions are the pawnbroker (lender) and the pawner (borrower). A pawnbroker is defined as “one engaged in the business of lending money upon interest on the security of articles of personal property pawned or pledged” (Attenborough, 1913: 1). It is the very advantage of pawnbroking that the collateral or property pledged eliminates the lender’s cost of assembling information on the creditworthiness of the borrower.¹⁵ Some researchers state collateral as a ‘pledge’ or a ‘pawn’. For instance, according to Oeltjen (1996: 996), “a ‘pledge’ and a ‘pawn’ are virtually identical: a bailment of personal property as security for payment of a debt for which the holders of the property have an implied power of sale on default”. However, he also makes a distinction between pawns and pledges concepts. Business practice in general perceives that ‘pawns’ are applied to tangible, personal property only, for example goods and land, while ‘pledges’ may refer to either tangible or intangible personal property, including goods or commercial papers and securities.

Who is the customer of pawnshops? According to Mottershead (1938: 150), the customers of pawnshop businesses can be described as “the wealthy spendthrift, who pawns his personal belongings rather than get a loan from his bank on commercial collateral; the demimonde, the gamblers, the owners of resorts and nightclubs, persons of dubious professions, who invest their excess cash in ‘ice’ against the unfortunate days when they may need to raise money in a hurry; petty entrepreneurs, people doing business on a ‘shoestring’, street peddlers turned shopkeeper, sandwich stand operators, haberdashers, sweatshop owners, and the like, whose bank credit is worth

¹⁵ In the U. S., economists have generally criticized state usury laws as detrimental to low-income consumers. Financial institutions under binding interest rate ceilings tend to allocate credit to only the most creditworthy borrowers, who generally belong to middle-income or high-income group. This is not the case with pawnshops, because all customers provide collateral, eliminating the need to distinguish high-risk from low-risk borrowers (Caskey, 1991).

little but who have something of value to pledge; another group comprises the careless artisans who pawn their tools; newspapermen who hock their cameras, railroad men who pledge their watches; and the private citizen of small means who owns no particularly valuable jewelry, but who has a radio, a davenport, a frigidaire, or other furniture, upon which he can obtain some money in order to keep alive". Maamor and Ismail (2006) consider pawnshops as a source of short term financing, generally used by lower income groups¹⁶ to alleviate their cash flow problems. It is also employed by petty traders as a means of obtaining working capital for their small business. Caskey¹⁷ (1994) classified a pawnshop¹⁸ as a 'fringe bank' or 'banks for the poor'¹⁹ that provide credit services primarily to low and moderate income households, many of whom rarely interact with, or have access to mainstream financing and are excluded from the formal banking system. These may include people who have a low income but not those living under the poverty line like housewives, private sector workers, the unemployed and also small-time traders (Mohamed, 1986). Generally, they borrow money for daily spending purposes, schooling fees, medical bills, paying debts and also for providing capital for business.

Surprisingly, recent findings have proved that pawnshops are not only patronized by lower-income groups but also by the middle and higher income groups with the exception of the very poor.²⁰ For example, Oeltjen (1996) provides evidence that pawnshops in the United States experienced an increasing number of middle-class customers in 1990s, despite its popularity among lower-income group. According to him, the rise of these 'new' customers getting loans from pawnshops is due to the

¹⁶ Not only are many low-income excluded because of their income, but they are also much likely than the middle class to have unstable incomes and employment patterns (Andreason, 1975).

¹⁷ Johnson and Johnson (1998: 31) acknowledge Caskey as "the founding father of research in this field" that is pawnshops, due to his initiative to explore more in depth on pawnshop despite of inattention of previous researcher towards this issue.

¹⁸ In an article in ADB's quarterly newsletter (2003) on microfinance, *Finance for the Poor*, Fernando (from ADB's Lead Rural Finance Specialist) argues that pawnshops, in fact, an important source of microcredit in many developing countries, especially in Asia.

¹⁹ As noted by Bosanquet (1896: 213), "The pawnbroker especially is extolled by many who have no dealings with him as the 'poor man's friend' and the system of credit at the general shop is very generally regarded as the one salvation of the wage-earner in bad times".

²⁰ A very poor customer can hardly belong to the target group because they have nothing to offer (Schrader, 1999; and Chechovskich and Schrader, 2000).

economic recession, bankruptcies, and foreclosures. In addition, the higher demand of pawnshop loans are due to the dramatic decrease of the people's standard of living caused by the instability of the economy, low wages, and pension payments, which are often below the official subsistence line and are paid irregularly (Schrader, 1999). These new customers found that pawnshops were much more convenient for 'lenders of last resort' (Oeltjen, 1996; Caskey and Zikmund, 1990). In fact, the increasing in demand of pawnshop loans from the middle and higher income groups can also be found in the studies of Maamor *et al.* (2005), Maamor *et al.* (2006), and Johari *et al.* (2007).

3.2.1 The Working Mechanism of Pawnbroking

The pawnshop is a place where a customer, who is in dire need of money, pledges any valuable item as collateral with the pawnbroker in exchange for a mutually agreed amount of money. The pawnbroker, after valuing the item, uses his discretion to determine the maximum amount of money to be given in exchange. Typically, the practice is that the pawner²¹ gets 50-60% of the item's net market value (Soon and Choon, 2001; Ismail and Ahmad, 1997; and Caskey and Zikmund, 1990). In the past, items such as watches, pens, bicycles, expensive clothes, sewing machines, jewellerys, and other ornaments were used for this purpose (Attenborough, 1913; Emery, 1970; and Hudson, 1982). Now, most pawnbrokers accept gold ornaments as collateral as they command higher payout compared to other items and can be disposed off in short notice (Meera, 2008; Chan and Owyong, 2007; Khan and Nisar, 2004; Soon and Choon, 2001; Ismail and Ahmad, 1997; Skully, 1992; and Bouman and Houtman, 1988). Table 3.1 shows the types of pledges that are common in some Asian countries.

With regards to the operation of pawnbroking, if the borrower wants to redeem his pawned items, he must pay back the principle of the loan, together with interest rates and other fees such as storage and insurance fees, within the contractual period. On the other hand, if the borrower fails to pay the debt, or chooses not to renew the loan by paying interest only, then the pawnbroker has the right to take possession of the

²¹ A pawner is another term for pawnshops' customer which is described by the Malaysia Pawnbrokers Act 1972 as "a person delivering an article for pawn to a pawnbroker".

pawned items and terminate the contract. The items can be sold or auctioned and the entire surplus belongs to the pawnbroker. However, if it is required by law, the pawnbroker may retain the amount that the borrowers' owe and return the surplus gained to the borrower.

Table 3.1: Types of Pawnshops Pledges in Some Countries

Country	Pledges
China	Jewellery, classic Chinese calligraphy, electric appliances, antiques, bicycle, watches, and expensive clothing items.
Hong Kong	Gold jewelry (particularly rings and chains), watches, other jewelry, some consumer goods if located in housing estates.
Indonesia	Bicycles, TVs, kitchenware and other household goods, <i>batik</i> , gold, other jewellery, and other valuables.
Japan	Jewelry, gold, some watches, electrical goods, cameras, expensive kimono, and other clothing.
Malaysia	Gold and other jewellery items.
Philippines	Gold and other jewellery.
Singapore	Gold and other jewellery items.
Thailand	Gold, other jewellery, watches, TVs, VCRs, radios, and other electronic goods.

Source: Skully (1992).

Soon and Choon (2001: 1) note that:

Pawnbrokers made most of their profits from the interest differentials between the interests charged on the loans and the cost of capital of providing the loans. They were allowed to auction off unredeemed pledges through approved auction houses to recover their losses.²² Pawnbrokers were also allowed to purchase unredeemed pledges that had been pawned with themselves at the auction.

Another special niche of pawnbroking is that it differs from most banks' lending in terms of a higher volume of small size loans within a short contractual period of time. Presumably, the transaction costs would be quite high given the loan processing, security, valuating, and storage of the collateral and the high risk of losses compared to the percentage of the small amount lent. Nevertheless, these incurred costs are partly offset as it is unnecessary for the pawnbroker to identify the credit ratings of the borrower or to monitor the loans.

²² This is one of the reasons why pawnbrokers in general had no problem in dealing with bad debts (Soon and Choon, 2001).

In other words, pawnbrokers can mitigate the credit ration problem. If the borrower does not repay the loan at the end of the contractual period, the pawnbroker can obtain the principle of the loan with less risks and additional expenses, hence, the credit risk²³ and the related recovery costs can be avoided.

3.2.2 A Grey Area in Pawnbroking

There is also the perception that pawnbroking credit is not a real credit but a sale under value with the right to repurchase such as the sale-buy back arrangement (Skully, 1992: 2). Even Nugent (1934: 3) agrees with the statement that “pawnbroking cannot be considered as debt without qualification. The pawnbroking transaction approximates a sale of property on a contract which permits repurchase at an increased price (measured in terms of interest) within a certain time. There is no promise to pay involved in the pawn, or pledge loan; the pawnbroker has a right only against the article pledge. Technically, there is no debt involved in pawnbroking loans”.

According to Skully (1994: 360),

One should consider the person borrowing money from a pawnshop, as effectively selling the item in question to the pawnbroker, in return for the cash amount of the loan, plus a call option to repurchase the item at a set price at a future date.

This is supported by Oeltjen (1996: 1025) by stating that, in contrast with the pawn loan, the buy-sell agreement enables the pawnbroker to buy an item from the seller (pawner) through the contract agreement that provides the seller the right to repurchase the item within a particular period of time. For example, a minimum of sixty days in Florida, U. S. The repurchase price will be higher than the initial ‘sales’ price where a mark-up of 25% is commonly applied.

²³ Mainstream financial institutions screen customers for credit risk for both types of loans either secured (large-value loans such as home mortgages and automobile loans) and an unsecured (small-value loans such as items purchased with credit cards) lending. The rationale of screening procedure for unsecured lending is important since the financial institution has no collateral if the borrower defaults. Whilst for secured loan, screening is important because the collateral may be worth less than the loan and because significant costs often arise when transferring collateral in case of default. Method to determine credit risk is by using ‘credit scoring’ which content the applicant’s years on job, education, occupation, checking and savings account status, credit card ownership, total outstanding debt excluding mortgage debt and credit repayment history (Caskey, 1990).

As a conclusion, the definitions discussed above clearly state that the buy-sell agreements are pawn business activities subject to the pawnbroker's regulations.²⁴ Yet, pawnbroking literature often overlooks this issue as pawning is generally treated explicitly as a lending activity.

Another type of loan under the guise of pawnbroking is the title loan. Unlike the buy-sell agreements, title loans have been prohibited in some states in the United States (Oeltjen, 1996). According to Oeltjen (1996: 1003), the title loan is defined as "a loan of money secured by bailment of a certificate of title to a motor vehicle".

An example of title loan transaction would be as follow:

As title pawns have developed – exchange for a loan, the borrower signs over his title and hands over a set of keys. The borrower then pays a monthly fee of as much as 22% (The Florida statutory maximum) until the loan amount is repaid. Say you need \$500. You would pay a fee of \$110 a month until you repaid the loan. If you kept the loan six months, the fees alone would total \$660. None of that money would be earmarked to pay off the underlying loan; you would still owe the initial \$500. If you can't make your payments, the lender eventually can repossess your car. (Oeltjen, 1996: 1003)

In Florida, for instance, where title loans have been authorized, they are forced not to use the term 'pawn', 'pawnbroker', or any pawn logos in their entities' names, advertisement, or presentation (Oeltjen, 1996).

To conclude, pawnshops constitute a special niche market in the financing sector, *i.e.*, for individuals who need short term financing on an immediate, loan-on-demand basis while providing collateral in exchange.

²⁴ Oeltjen (1996: 1025-1026) noted that, "Under the Florida Uniform Commercial Code, if a pawn is a loan, it is a secured transaction; the pawnbroker would have a security interest. If there were no special rules for pawnbroker transactions that trumped the Code provisions, under chapter 679, the parties could agree for the secured party to forgo any deficiency there may be between the amount of the loan with accrued service charges and the sales proceeds of the pawn. The parties however, could not ignore, or otherwise waive, the notice of sale required by chapter 679 and the requirement that the debtor must be paid any surplus generated by the sale of the pawn. However, if a pawn is a buy-sell, it is a purchase transaction. It is the pawnbroker's position as a purchaser that is the basis for the pawnbroker's rights. If the pawner does not buy back the pawn, the pawnbroker is free to sell it. Whether the pawnbroker realized from the sale more or less than the pawner received from the pawnbroker is of no relevance because the transaction was characterized as a sale with an option to repurchase, which option has expired".

3.3 THE HISTORY AND THE DEVELOPMENT OF PAWNBROKING

The relevant historical material demonstrates that pawnbroking is a type of collateral based lending which has been in practice for quite a long time. For example, as a religious text, the *Qur'an* (Surah *Al-Baqarah*, verse 283) from many centuries ago states that, “If you are on a journey and cannot find a scribe, then use the receipt of pawned objects”, which indicates the practice of pawnbroking even in those times. The Bible’s Old Testament (Exodus, chapter 22, verse 26) also mentions when lending to a fellow Hebrew about taking “his clothing as a pledge of his repayment”. As such, examples show that, while it is not known when pawnbroking developed into a specialist business, it is certainly quite old.

It should also be stated, however, that this kind of establishment stretches further back in time in Asia than in Europe. According to Whelan (1979), the earliest formal pawnshops may have developed in China, dating from the last quarter of the fifth century A. D. As for Britain, Hudson (1982: 22) mentioned that there is no evidence for pawnbroking in Roman Britain, but the existence of anything similar to it after the collapse of the Roman civilization in Britain was established and flourished in the later Middle Ages, “primarily to meet the needs of powerful and ambitious rulers, who required money to finance wars and the building of castles, palaces and churches, and to maintain a standard of living which they considered appropriate to their rank, power and social position”.

3.3.1 The Pawnshop Experience in China

The Buddhist origin of pawnbroking in China²⁵ has also been noted by several Chinese and Japanese scholars. According to Yang (1950: 175):

The celebrated Sung poet Lu Yu (1125-1210) in his *Lao-hsüeh-an pi-chi* mentions pawnshops known as *ch'ang-shêng k'u*, lit. “long-life treasures,” in Buddhist monasteries of his time and traces the practice back to the end of the fifth century when a certain CHÉN Pin pawned a bolt of hemp cloth in the treasury of a monastery. Later, having redeemed it, he found in it five taels of gold, which he promptly returned.

²⁵ In Chinese history, there are four money-raising institutions which either originated in or had close connections with Buddhist temples and monasteries *i.e.*, the pawnshop, the mutual financing association, the auction sale, and the sale of lottery tickets (Yang, 1950).

As Buddhism is perceived to have arrived from India to China via central Asia, many scholars such as Whelan (1979: 2) believe that the pawnbroking business institution is “a consequence of the interaction between Buddhism, newly arrived on the scene, and the rather advanced Chinese money economy”.

During the period in question, the Chinese pawnshop was a commercial enterprise restricted to Buddhist monasteries, where it was to remain as such for several hundred years. Similar to the early Italian pawnshops, the Buddhist monastery institution was built to serve the poor, not as a profit-making organization. Indeed, probing through historical documentations, Chinese scholars could not find the term ‘interest’ in any business transaction within this time period. Loans were always repaid in time or later with wheat or rice. Likewise, it is found that pawn contracts were interest-free loans in the Chinese government manual during the T’ang Dynasty (618-907 A. D.) (Skully, 2005).

Apart from having purely religious functions, the Buddhist temples during the T’ang Dynasty also undertook a series of secular activities in economic, commercial, and charitable spheres (Ch’en, 1973: 154), as most of the land was owned by the Buddhist temples. In fact, they were among the great land-owners of the empire. Such land was acquired by outright genuine donations from the imperial household and the great families of the realm and also by purchase.

The temples were also the recipients of contributions from the devoted followers of the religion.²⁶ Often, such contributions far exceeded the needs of the monastic community living in the temples and gradually accumulated to form a sizeable surplus. Also, the income in the form of produce from the land owned by the temple or monastery was often more than sufficient to feed and clothe the monks, and, again, there was a surplus. The monastic law did not permit the sale of such surplus goods for the private benefit of the monks, but if the income derived from the sale was used

²⁶ The tremendous amount of donated wealth in the monastery was used for the repair of temples and monasteries all over the country in the early T’ang period, until the treasury was confiscated by imperial order in 713 A. D. (Yang, 1950: 177). Emperor Jui-tsung (710-712 A. D.) prohibited further donations of land to monasteries due to several complaints made by the Confucian memorialists and another official, Hsin T’i-fou regarding the Buddhist monasteries controlled 70% to 80% of the wealth of the empire (Ch’en, 1973: 128-129).

for the furtherance of the religion, then the sale was allowed. One of the *Vinaya*²⁷ that took a more conciliatory attitude towards this issue is the *Vinaya* of the Sarvāstivādin School. Ch'en (1973: 158) noted that,

In the Chinese version of this *Vinaya*, there is a passage telling about some merchants who were on the point of departing for some distant land to trade. Before they left, they deposited some goods, which they had donated to the saṅgha, with the monks, and instructed them to loan these goods out for interest, and thus earn a profit. The monks replied that they were not authorized to do so by the Buddha, but went ahead and reported the matter to the Blessed One. Upon hearing of the proposal, the Buddha gave permission to accept the goods, and authorized the *ching-jen* or pure people within the monastery grounds to carry out the commercial transactions for gain, such gain to be used for the benefit of the dhamma and saṅgha.

In order to dispose of the surplus, the Buddhist organization established a peculiar institution known as the *Inexhaustible Treasury* which proceeded to use the surplus as its capital to carry on commercial transactions.

Rather than depending on Buddha to guarantee the loan repayments²⁸, the monks discovered that they could reduce their risks by imposing the compliance of pledged items, like third party guarantors from prospective borrowers to support the loan application.

An example of such a contract can be found detailed in the Tun-huang²⁹ manuscript (as cited in Ch'en, 1973: 165) as follows:

Yu year, first day, third month. Commoner Ts'ao Mou-sheng of the lower village, owing to lack of seedlings, borrowed one *shih* and eight *tou* of beans from Monk Haich'ing (of the Ling-t'u Monastery). The beans must be returned before the thirtieth day of the eighth month. If he disregards this contract and does not pay at that time, then he shall have to pay double the amount. His diverse belongings shall be seized to pay for the value of the beans. If he should disappear, then the guarantors shall repay the loan for him. If there should be an amnesty during the interval, it shall not affect the

²⁷ The *Vinaya* (a word in Pāli as well as in Sanskrit, with literal meaning 'leading out', 'education', 'discipline') is the regulatory framework for the Buddhist monastic community (Wikipedia).

²⁸ During the early T'ang Dynasty, loans were made from the *Inexhaustible Treasury* even without written documents. Most of the borrowers will pay back the loans for "fear of divine retribution" (Yang, 1950: 177).

²⁹ The Tun-huang manuscript is the oldest (earliest) version of the *sutra* (*The Platform Sutra of the Sixth Patriarch*) that is still extant and is therefore considered to be the most accurate (Yampolsky, 1967).

stipulations stated here. This contract is drawn up because of the fear that there would be an absence of trust. Both parties mutually consider it to be fair and clear, and attach their fingerprints to record it.

Borrower, Ts'ao Mou-sheng, age 50.

Witness, Monk Tz'u-teng.

These pledged items could be movable, such as clothes or animals, or immovable articles, such as lands and property buildings. For the movable items, a debt default indicated that the pledges items were forfeited, while for the immovable articles, the borrowers still retained ownership of the property until the debt was repaid. However, the creditor is entitled to any benefits accumulated from the property.

Following their Italian counterparts, these interest-free loans and debts gradually ceased to exist as a practice. Loans were made to people, grains to peasants, and goods to traders and merchants, with a sizeable interest being charged in all instances. The treasuries soon broadened their activities to include pawnbroking and banking operations (Ch'en, 1973: 154). According to Whelan (1979: 1), during the T'ang Dynasty (618-907 A. D.) independent pawnbrokers soon flourished outside the monastery. As Yang (1952: 6) observed during the reign of the Ming Dynasty (1368-1644) "one or more pawnshops would be found in every city and town and in many villages and reached up to 25,000 pawnshops by the early 1800s".

The literature informs that the Ch'ing Dynasty (1644-1912) witnessed a phenomenal rise in the number of pawnshops. By the early nineteenth century, there were almost 25,000 of them, and pawnbroking yielded a higher rate of return on investment (Whelan, 1979). The Ch'ing Dynasty also saw this industry in decline. When the People's Bank of China opened the Citizens' Petty Loan Offices in the early 1950s in order to furnish workers and peasants with low interest loans, and when the transformation of private enterprises occurred in 1956, the last of the pawnbrokers, holding out in urban areas such as Shanghai, were forced to close their doors, and pawnshops ceased to exist on the mainland (Whelan, 1979: 1). Officially in 1956, the People's Republic banned pawn businesses, denouncing them as a symbol of an exploitative economy.

The need for pawnshops re-emerged after China entered the opening up and reform period in the late 1970s. After decades of prohibition, a private economy was

permitted on the mainland, igniting a boom in private enterprises. By 1990, companies were being formed in Beijing at the rate of 2,000 a month. Meanwhile, state-owned commercial banks were still hamstrung by old regulations capping loans for private businesses at RMB50,000. China's swelling legion of private enterprises hungered for capital, stimulating the resurgence of pawnbroking services. Yet in 1987, the Huamao Pawnshop in Sichuan Province opened for business, the first pawnshop on China's mainland since 1956 (Yahong, 2008). In the 1990s the majority of pledged items were gold, silver, and electrical home appliances. Nowadays, there are various types of pledge items accepted by the pawnshops such as vehicles, automobiles, houses, bonds, and securities. The interest charges depend on the types of the items pledged. For regular items, the loan period is one month with a 2% interest rate for items which are less valuable, house properties (3.2%), and vehicles (4.7%) (Ming, 2006).

According to Ming (2006), there are 2,052 pawnshops with a registered capital of RMB17 billion in 2006. In 2007, the Ministry of Commerce reported that China had 2,342 pawnshops whose gross assets increased to RMB86.2 billion. Their total business value reached RMB44.1 billion in the first six months of 2007, a 31% increase from the same period in 2006 (Yahong, 2008). These statistics proved that the pawnbroking industry in China was still relevant in terms of providing short and quick finance to their society in need.

3.3.2 The Pawnshop Experience in European Countries

Like China, the first Italian *mont-de-piété*³⁰, which was established by a priest at Perugia in 1440, also had a religious affiliation which was charitable in character, and became the model for early state pawnshops in Europe, especially in Germany, France, and Belgium (Hudson, 1982: 28).

³⁰ Caskey (1994) translated *mont-de-piété* as 'banks that take pity'. *Mont-de-piété* provides small loans and redefined 'interest' as a contribution to defray the costs of operations *i.e.* the salaries of the officials of the *monti* (Johnson and Johnson, 1998). On the other hand, Donald (1894) defines *mont-de-piété* as a charitable institutions intended to deliberate the poor from the hands of the usurers, and to accommodate them with loans at moderate rates of interest, or without interest at all.

According to Schrader (1999: 5-6),

The first pawnshops in Italy had a religious affiliation with social character, but they were distinct from present pawnshops in their way of operating. They mainly loaned means of production such as tools, ploughing animals of the monastery, etc. to needy people. To reduce the risk they sometimes required a pawn or a guaranty by a third party.

Donald (1894: 178), who wrote during a period of developing public discourses on ethics and charity, as the “statesman-monk and social democrat, Savonarola” initiated these social institutions in response to combat usury, they soon mushroomed in Italy and spread to France (1577), the Netherlands (16th century), Spain (1705) and other European countries.

As the Church lost influence after the reformation period, more and more of these pawnshops were operated by the municipal governments. The municipal pawnshops³¹ sought to charge low interest rates on loans and return any surplus (the difference between the amount earned from the sale of the collateral and the amount the customers would have to pay to redeem the collateral) on forfeited pledges to the customer. Despite being municipal institutions with strictly regulated interest rates and also provided low-cost small collateralized loans to artisans and the poor, these pawnshops worked profitably (Caskey, 1994).

It should also be noted that private pawnshops also existed in Europe alongside the services offered by religious institutions. Although they charged higher interest rates than municipal pawnshops, they were patronized by some borrowers, because they provided larger loans on collateral, more discreet, and more conveniently located (Caskey, 1994).

In England, pawnbroking was carried out by the Jewish merchants in the eleventh century. The history of the Jews in England began when they were encouraged to settle there by William the Conqueror. They remained for more than two hundred years until 1290 when Edward I issued a proclamation ordering all Jews to leave the country. Such a drastic step was taken because of the Pope’s strong condemnation of

³¹ According to Donald (1894: 186), the municipal pawnshops serve as the poor man’s bank, and sometimes as the rich man’s safe deposit.

usury at the Council of Lyon that had stirred up public hatred against the Jews because of the incredibly extortionate interest rates charged by them (Hudson, 1982: 24-25). By the end of the thirteenth century, their places were filled by foreign merchants, chiefly by the Lombards³², Italian financiers, and the Cahorsins, who derived their name from the French town of Cahors in Languedoc, which is was a famous centre of Italian financiers and money changers in the Middle Ages (Hudson, 1982).

In the early years, no attempt was made to regulate the trade until the reign of George III which resulted in the very high interest rates charged by the market, despite the laws against usury (Donald, 1894: 181). This situation continued until the 1980s, where the first statutory regulation for British pawnshops were apparently imposed in 1603 (Hows, 1847: 36; and Levine, 1911: 35). In 1759, pawnbroking was made an exception to the general maximum interest law and in 1784, a further Act established a maximum interest rate for all loans larger than ten pounds, and in 1785, the British government established national licensing requirements (Donald, 1894; Hudson, 1982; Tebbutt, 1983). The more comprehensive Act of 1800 contained a number of specific provisions which helped to clarify the legal situation and gave both the pawnbrokers and their customers a more easily understandable basis for their transactions. Several alterations and amendments have taken place in these Acts of Parliament and the British government established the new Pawnbrokers Act of 1872 where it stated clearly the exact level of interest rates that could be charged for different amounts of loans and their duration.

With the Pawnbrokers' Act of 1872, the establishment of the National Pawnbrokers' Association, and the development of *The Pawnbrokers' Gazette*, the number of pawnshops in Britain grew throughout the nineteenth and early twentieth centuries, reaching a peak in 1913 and 1914 (Hudson, 1982). However in 1950, the number of pawnshops decreased and the amount was about the same as the number in 1846 when the population was considerably less than half the present level (Minkes 1953). Minkes (1953) points that changes in the economic climate and popular habits have

³² In Russia, pawnshops is called *dom lombard* which means lombard house. It is related to the historical fact that moneylenders from Lombardia (Italy) went to France to start moneylending (Chekhovskich and Schrader, 2000). In Belgium, pawnshops are called as *lombard* or 'cahorsins' (Johnson and Jonhson, 1998).

brought a radical alteration in the sources of small credit used by the poor. In addition, Minkes (1953), Hudson (1982), Tebbutt (1983) and Johnson and Johnson (1998) attribute this contraction in British pawnbroking to the growth of new consumer credit sources, rising personal incomes, increased public welfare measures, and the growing social stigma³³ attached to the use of pawnshops and entry into the profession.

The Pawnbrokers Act of 1872 remained imposed until it was incorporated into one of the sections of the Consumer Credit Act of 1974 (Hudson, 1982). Since then, the pawnbroking business has flourished, attracting many customers who need short-term loans and becoming part of financing system besides the mainstream financial system.

Still, the interest rates charged by the pawnbrokers are very high, ranging typically from a 7% to 9% flat rate per month, depending on local competition and the location of the outlet (H & T Group plc, 2006). Nowadays, most pawnbrokers, the Harvey and Thompson Group in the United Kingdom for example, not only provide pawnbroking services but other services as well, such as gold purchasing, pay day advances, KwikLoan, cheque cashing, jewellery retail and prepaid debit card (H & T Group plc, 2010). With 8% interest rates charged per month for pawnbroking, the H & T Group experienced an increased in the total amount of pledges from £25.2 million in 2006 to £39.5 million in 2010.³⁴

Historically, British pawnbroking is acknowledged as the first to use the three balls as a symbol for the profession. The most compelling explanation of the symbol is that it originated in the mid-eighteenth century in Britain, when,

.....the three balls, either golden or blue, became generally adopted by pawnbrokers as a sign of their trade. Before then, pawnbroking establishments were distinguished by a variety of signs, although the 'Three Blue Balls' or

³³ Oeltjen (1996: 995) describes the 'pawnbroker stigma' as "shady, unkempt, overweight character working out of filthy, run-down, back street hock shop with barred windows – a person who is involved in morally questionable practices, such as providing continuing support to "druggies" and other "low lifes" in exchange for pawns of stolen goods. Frequently associated with such concepts as 'fenced property', 'sleaziness', 'shylocking' and 'usury'".

³⁴ Refer H & T Group plc Annual Report and Accounts 2010.

‘Three Blue Bowls’ were much the most frequent. Blue was, in fact, a more fitting colour than gold, since the sign almost certainly comes from the three blue discs which appear on the lower part of the coat of arms of the Medicis, from whose territory the Lombard goldsmiths [the first great moneylenders in Britain] originally came. (Hudson, 1982: 35)

Levine (1911: 32-33), drawing on Hardaker (1892: 8), provides a similar account, adding that,

.....the signs suspended over the doors of the Lombards were originally three flat yellow effigies of byzants, or gold coins, laid heraldically upon a field sable. But [pawnbrokers found it] More convenient to convert the flat discs into spherical gilt balls, as glittering in the light they could be seen from all sides and so attract customers to the houses above which they were suspended.³⁵

3.3.3 The Pawnshop Experience in the United States of America

As for the United States, the history of pawnshops in American history began when Isabella of Castile, the Emperor of Spain, pawned her jewels to finance Christopher Columbus’ first voyage to America (Levine, 1911). According to legend, after rejecting Columbus’s initial proposal of financing his explorations, Isabella of Castile nobly pledged her jewels to raise money for the venture. Hardaker (1892: 15) notes that one of the 19th century scholars facetiously commented, “If Americans had duly reflected on this accident ... they certainly, with the stars and stripes had quartered the three balls in their national flag”. Whether true or not, the event clearly indicates that the pawnbroking business activity in the U. S. has existed since the colonial period, where Foulke (as cited in Caskey, 1994: 16) discovered that in New York City, the establishment of the first pawnshop was recorded in 1657, while in Philadelphia in 1782.

³⁵ There is also a fanciful account that relates the three ball emblem to a legend involving St. Nicholas, the Bishop of Pantheria (Hardaker, 1892: 6-8; De Roover, 1946). According to the legend, there was a poor starving nobleman in the town with three daughters. He was so poor that there would be no means of obtaining foods for his daughters other than to sacrifice them to an ‘infamous’ life. The maidens wept constantly from hunger and fear for their prospects. St. Nicholas, upon learning of this, contrived to provide for the man and his family. Accordingly, he wrapped three handfuls of gold in handkerchiefs, one for each daughter, and threw them in an open window of the poor man’s house so the man would not know their origin. It is said that some early pawnbrokers, who saw themselves as helping those in financial distress, adopted the three gold balls to represent the three purses of gold in this legend.

Another interpretation of the three ball symbol is provided by a traditional joke among pawnshop customers, which maintains that it means the odds are two to one that customers will never see their collateral again (Caskey, 1994).

Unlike Britain, the pawnbroking³⁶ industry in the United States grew rapidly until 1997. Over time, the industry shifted from a concentration in older major urban areas, primarily in the Northeast, to Southern and Central Mountain states. During the 1980s, the increased demand for pawnshop services could largely be attributed to the rising number of Americans who were unable to access mainstream financial institutions due to poverty³⁷, the decrease in average real wages for production labour, and the consequences of bank deregulation (Caskey, 1991).

In addition, the following reasons could be mentioned: (i) banks discourage small checking and savings accounts by assessing service charges and other fees to offset their higher costs of funds due to the 1980 statute that removed the ceilings on rates that banks could pay on their savings accounts, enabling them to compete more efficiently with money market funds and, (ii) the consumers' discomfort or even fear of banks (Caskey, 1990).

Eventually, the number of pawnshops declined between 2000 and 2002. Caskey (2005) observed that the major reason as to why pawnbroking lost its momentum in many states in the U. S. was the rise of payday lending³⁸. Survey data indicated that majority of the pawnshop customers have bank accounts now and might be eligible to make a payday lending. They also felt more convenient using this type of credit because the customer's 'collateral' was based on cheques and not on personal belongings.

³⁶ Caskey (2005) refers the check-cashing outlets, pawnshops, and payday lending as "fringe banks".

³⁷ The relevant measure of poverty to financial markets is not household income; it is the households' ability to maintain financial savings (income level as well as its structure, stability of income, special needs and lifestyles choices) (Johnson and Johnson, 1998).

³⁸ In payday loan, a customer writes a personal check made out to the lender, which the lender agrees to hold for about two weeks before depositing. In exchange, the payday lender advances to the customer a cash payment that is somewhat less than the amount of the check. The difference, which is the "finance charge", combined with the maturity of the loan determines the annualized interest rate (Caskey, 2005). Johnson and Johnson (1998: 26) added that only the post-dated check (payday loan) and small loan companies financing would be possible competitor to pawnshop.

3.3.4 The Pawnshops Experience in Southeast Asian Countries

In contrast to the decline of pawnshops in the United States and Great Britain, pawnshops increased in importance in developing countries. Today, pawnshops are well represented throughout Southeast Asia, having become an important credit institution for short loans, consumption-oriented loans, small-scale business loans, and emergency loans in developing countries such as Malaysia, Philippines, Sri Lanka, Singapore and Indonesia. The following sections relate to development in these countries:

3.3.4.1 Pawnbroking in Malaysia

In Malaysia, pawnbroking was introduced in the 15th century through the diplomatic relationship between the government of Malacca and China. During the reign of the smaller independent states, local rulers accepted higher supplies of funds from many sources, and Chinese businessmen were one of them. For instance, a farmer would rent some land and pay the rent from the profits made from selling crops. The same analogy can be applied to these businessmen; where they may rent a particular piece of land and retain any income earned.

This concept is known as ‘farming’, which covers a variety of businesses including gambling, opium, and liquor sales as well as pawnshops (Skully, 1992). In most cases, the Chinese not only rented the ‘farm’, but they became the farmers as well. The start of ‘farming’ is practically unknown, but it was undoubtedly well-established during the time of the Malay-rulers, long before European colonialism in Malaysia. This practice was also exercised in Indonesia, Thailand, and Philippines. In the days of European colonialism, European pawnbrokers also adopted a similar approach. However, many local people were unsatisfied with the ‘farming’ pawnbroking because it only gave profit to gambling, opium, *etc.*, and did not facilitate productive activities. To date, the conventional pawnbroking business in the region is still controlled by the Chinese.

In Malaysia, the conventional pawnbroking business has been governed by the Pawnbrokers Act 1972 which laid down the basic guidelines for both pawnbrokers and pawners. The interest rate charged by the pawnshops is 2% per month. In 2011, there were 259 licensed, conventional pawnshops operating throughout Malaysia. It is

also important to state that there are Islamic pawnshops operating side by side with the conventional pawnshops in Malaysia.

A number of studies have been conducted on pawnshops in Malaysia. Ismail and Ahmad (1997: 1349), for instance, examine the role of pawnshop lending in Malaysia. They find that pawnshops in Malaysia have become one of the most recognizable lending institutions and will continue to do so in the future due to many factors. For example, these factors are: (i) cheaper transportation costs; (ii) interest rate regulations; (iii) accessibility to the formal financial market; (iv) the effects of financial liberalization; (v) the duration of the loan; (vi) the confidentiality of the loan; and (vii) the banking hours.

The discussion of pawnshops in Malaysia, however, will be presented in detail in Chapter 5.

3.3.4.2 Pawnbroking in Philippines

Lamberte (1988) also found that pawnshops were more popular than ever in the Philippines. With their rapid expansion, pawnshops have definitely taken a developmental role in the financial development of the Philippines. According to Padilla (1985);

These farmers and small entrepreneurs frequently run out of seed money or working capital fund for their trade. With no acceptable collateral for bank loans, they will seek financial relief from usurious lenders. Now, they get their funds from pawnshop in the city, which accept various types of collaterals, such as jewellery and other items of value. When they need money for weddings, funerals, education, pilgrimage, or business, they go to the nearest pawnshop for funds.

Pawnbroking in the Philippines has experienced various patterns of development throughout the years. Before 1972, the business of pawnshops in Philippines was independent and not covered by the Usury Law enacted in 1916. But in 1972, the Central Bank took control of the entire financial and credit system, including pawnshops (they were authorized to lend but not allowed to accept deposits). This implementation created some inefficiency, where profits of pawnshops were squeezed because the Usury Law was applied to them. Under this new regulation (Presidential Decree No. 114, dated 29th January 1973), pawnshops in the Philippines were allowed

to impose a maximum service charge of five pesos, or not exceed 1% of the principal loan.³⁹ When the Central Bank imposed a higher interest rate ceiling in 1980, it was a favourable moment for pawnshops, and hence, contributed to improvements in the profitability of pawnshops. In 1984, due to the high inflation rate (more than 50%), pawnshops went through a difficult period, but they quickly recovered.

According to Lamberte (1988: 14), during the financial crisis (1984 – 1986), pawnshops improved their profitability considerably. Strong demand for the services of pawnshops by households who suffered a loss in real income and by small firms that encountered financial difficulties, may have contributed to the rise in interest rates charged by pawnshops in 1986. But in 1987, the effective interest rates charged by pawnshops had already gone down. Due to stiffer competition, they broadened their scope of items from jewellery to electrical goods such as electric fans and radios. The stiff competition brought down the effective lending rates charged and the profitability of pawnshops as well. Presently, all pawnshops no longer impose service charges and liquidated damage fees for overdue loans in order to attract more customers. While most pawnshops still charge 5% per month for their loans, others have started giving discounts, especially to highly-favoured clients.

3.3.4.3 Pawnbroking in Singapore

The pawnbroking business in Singapore started in 1875 and was regulated under the Pawnbrokers Ordinance implemented in 1898 (Ismail, 2002). The core business was to offer loans to customers who presented valuables as collateral. According to Soon and Choon (2001), items such as electrical appliances, antiques and paintings, branded items such as mobile phones, camera, *etc.*, are generally unacceptable in the Singapore pawnshops due to complications in determining their authenticity or market value, but items such as gold and jewellery, including gold bracelets, necklaces, watches and diamonds were accepted, since these items have a sufficiently large secondary market (Chan and Owyong, 2007). Normally, the business is owned by Dabu people, a Chinese Hakka ethnic group.

³⁹ Retrieved 5th August 2008 from:
http://www.lawphil.net/statutes/presdecs/pd1973/pd_114_1973.html.

Pawnshops in Singapore are located throughout the island, particularly in densely populated residential areas and work places. There are no pawnshops in some private and landed residential areas (occupied by wealthier people at lower population density), rural areas, nature reserves, farm land, and areas designated for factories, power/water treatment plants, up-market shopping and financial services, military bases, heavy industries and others (Mohd Noor, 2004) .

The literature shows that pawnbroking in Singapore enjoyed stable growth despite political turbulence (1960's), the oil crises (1970's) and the economic recessions (mid-1980's and 1997-1998). According to Mohd Noor (2004), the financing amount of pawnshops in Singapore in 2003 was S\$1.2 billion with pawned items valued at S\$2.7 million in average. Each conventional pawnshop conducted transactions worth S\$14 million.

Regarding the regulations, pawnshops in Singapore were controlled under the Registrar of Pawnbrokers in the Ministry of Law (under the Pawnbrokers Act 1955). Interest rates were fixed at 1.5% per month, which was lower than the interest rates imposed in Malaysia. They were not allowed to make more profits than the rates stated in the Act and must allow pawners to redeem (with interest) pledges exceeding S\$50 even after the loans had matured, as long as the pawned items had not been auctioned off. Pawners could demand that the surplus (if any) of the net sale proceeds of the loans, interests, and other charges, be returned to them within four months after the auction. Pawnbrokers, however, might use the surplus to offset any other outstanding loans, interests, and charges arising from the sale of other unredeemed pledges belonging to the same pawners. Unlike the pawnbroking industry in developed countries, pawnshops in Singapore still retain a very conservative management style and pawnbrokers generally feel that their survival will not be threatened in the immediate future (Soon and Choon, 2001).

3.3.4.4 Pawnbroking in Indonesia

Perusahaan Umum Pegadaian is an enterprise owned by the Indonesian Republic Government, which is the only enterprise allowed to operate the pawnshop service in Indonesia. The enterprise was established in 1901 by the Dutch East Indies Governor according to the laws (staatsblad) No. 112, 1901 (Djuhar, 2004: 24). By the time of

Indonesian independence in 1945, ownership and control of pawnshops was signed over from the Colonial to the Indonesian government. In 1990, the government monopolised the pawning business activity and converted it into a profit-oriented state enterprise (Perum Pegadaian). Since then, it has been managed professionally, and has been established as a service oriented organisation that caters the low-income households, to hold their savings in movable assets, and acts as an essential source of liquidity. The Ministry of Finance is accountable for regulating and managing this institution.

Perum Pegadaian experienced tremendous development throughout the years. According to Fernando (2003), between 1980 and 2003, it was found that the number of Perum Pegadaian branches increased from 450 to 722. In 2001, the total amount of loans given to customers was \$22.2 million with 15.7 million borrowers. Acceptable collateral in Indonesia is in the form of gold and jewellery, electrical appliances, household items, vehicles, and even invaluable fabrics or clothes. Five credit schemes are developed for borrowers to choose from, ranging from a minimum of Rp5,000 to Rp20 million and above. The interest rates vary between 1.25% to 1.75% per 15 days with 120 days maturity. Also, renewable loans using the same collateral is deemed to be a normal practice in Indonesia.

3.4 ISSUES IN PAWNBROKING AND PAWNSHOPPING

As the discussion so far indicates, the pawnbroking business addresses some of the following issues: (i) pawnshops as a credit provider to low-income groups; (ii) the regulation of pawnshops which consist of the interest rates charged, entries, and competition, non rate regulatory and stolen goods; (iii) the transaction costs; (iv) the transportation costs; (v) gold as pledge; (vi) pawnshops as an alternative to mainstream financial institutions, and (vii) pawnshops as an alternative institution in economic downturn. These issues are further elaborated thoroughly by pointing out some of the cases in the countries mentioned previously.

3.4.1 Pawnshop as a Credit Provider to the Low-Income Group

In the discourse on development issues, pawnshops are discussed as an important credit sources for the low-income groups by many contributors in the field (Bosanquet, 1896; Yang, 1950, 1952; Whelan, 1979; Mohamed, 1986; Bouman and

Houtman, 1988; Caskey and Zikmund, 1990; Caskey, 1991, 1994 and 2003; Andrews, 1994; Skully, 1994, 2005; Oeltjen, 1996; Ismail and Ahmad, 1997; Johnson and Johnson, 1998; Schrader, 1996, 1999, 2000a, 2000b; Soon and Choon, 2001; Lim, 2001; Ming, 2006; Maamor and Ismail, 2006; Maamor *et al.*, 2006; Francis, 2007; Chan and Owyong, 2007; and Johari and Sanusi, 2007). Literature, therefore, refers to pawnshops as fringe banks, which translates as ‘banks for the poor’ (Caskey, 1994).

Several literatures have proved that pawnshops are not only being patronised by low-income groups but also by the middle and higher income groups as well (Mottershead, 1938; Woloson, 1964; Schrader, 2000; Maamor *et al.*, 2005; Maamor *et al.*, 2006; and Johari *et al.*, 2007). In addition, Caskey (1991: 87) characterizes the pawnshops’ customers as having a comparatively low level of income and education, and also having poor financial management. Woloson (1964: 4) claims that pawnshop loans have helped them make ends meet from one payday to the next, due to the insufficiency of their income in covering their expenses.

In addition, recent literature provides evidence for various country cases that pawnshop loans have not only been used for consumption purposes but also for productive purposes such as a start-up capital for small and medium businesses (Abdul Razak, 2008; Bhatt and Sinnakkannu, 2008; Chan and Owyong, 2007; Maamor and Ismail, 2007 and 2006; Maamor *et al.*, 2006; Sanusi and Johari, 2006; Ming, 2006; Maamor *et al.*, 2005; Mohammed *et al.* 2005; Mohd Nor, 2004; Soon and Choon, 2001; Mohamed, 1986; Ismail and Ahmad, 1997; Skully, 2005 and 1992; Bouman and Houtman, 1988).

3.4.2 Regulation of Pawnshop

The issues involving the regulations of pawnshops can be divided into four important areas as below:

3.4.2.1 Interest rates

Despite moral and religious objections to high interest rates, pawnbrokers generally impose a very high interest rate to customers (Visser and MacIntosh, 1998). For

example, in Malaysia, a monthly charge of 2%⁴⁰ or more than 24% per annum for getting a small advance loan from pawnshops can be considered exorbitantly high, more so for the lower and middle-income groups who are the main customers of such credit markets. Apparently, the history of pawnshops in China being banned by the government in 1956 does not seem to deter the pawnshops from charging higher interest rates to customers, 2% for regular items, 3.2% for housing properties, and 4.7% for vehicles. This can be more harmful to United States citizens where the charge is much higher, that is around 20% a month and with interest rates set differently by the individual states (NPA, 2008).

According to Skully (1992: 1), pawnbrokers charge a very high interest charge due to the fact that there is no credit check of the borrower or monitoring of the loan which normally happens in formal financing. In addition, pawnbrokers normally use their own funds to offer credit, which leads to high opportunity costs for them (Lamberte, 1988: 20). It should also be noted that, as suggested by Daniel (2000: 42), the interest rate will be low if the quality or marketability of the collateral is high. According to this view, high default is secured by pledged collateral.

Interestingly, many researchers have proven that, although the interest rate imposed by the pawnshops is very high, they are still patronised by customers, especially those excluded from mainstream financial institutions, due to the desperate states they are in (Bouman and Houtman, 1988; and Caskey, 1991). Oeltjen (1996: 1032) finds that most of the customers of pawnshop disregard the interest rates charged or any other fees incurred related to the loan made. Their main concern relates to the amount of the loan given by pawnbrokers with disregard to the interest rate charged. This behavior stems from the urgency of raising a particular amount of cash to accommodate certain needs and expenditures and stretch the intertemporal budget constraint.

Nevertheless, since usury matters have been involved in the case of pawn lending, efforts have been made to limit the charges for the loan, especially for the benefit of lower-income groups. To achieve social goals through price controls is not easy and might even be impossible (Tenney, 2004). In fact, Caskey (1990) and Johnson and Johnson (1998) in their study argue that the efforts of regulators to lessen interest

⁴⁰ Refer the Pawnbrokers Act 1972, Section (17) (1).

rates for the benefit of borrowers, however, has an unintended opposite impact. They claim that reducing the allowed interest rates on pawnshop loans forces surviving pawnshops to reduce the loan-to-value ratio of pawnshop loans. Moreover, by driving some pawnshops out of the market, the reduced ceiling rates would encourage the remaining pawnshops to move to more affluent markets (urban areas) in order to raise the average size of loan. Adversely, the lower-income group especially from the rural areas will remain in disadvantageous position for not getting the pawnshop services. Thus, in the case of pawnbroking, regulators face a somewhat different trade-off than those faced in mainstream markets.

3.4.2.2 Regulation on pawnshop entry, competition and local monopoly

The high interest rates charged by pawnshops have made many of their operations very profitable (Lamberte, 1988). Due to the highly profitable gains made by the pawnbroking business, new pawnshops get encouraged to enter the market. With this stiff competition in the pawnshop business, the customer base per pawnshop reduces since many of them will turn to the most suitable pawnshops. As a result, the profit gained will fall as every pawnshop must cover its fixed costs from less money earned.

Despite decreasing profit gains by pawnshops, customers on the other hand, will obtain benefits through the competition. Customers will have a wider range of pawnshops to get the best bargain from the collateral they provide. Moreover, the stiff competition also brings down the effective lending rates charged (Lamberte, 1988). Besides, on the pawnbrokers' part, its low interest rate charged, particularly in the city area, could be compensated with more customers, and will thus be able to cover its overhead costs (Ismail and Ahmad, 1997).

Positively, even though the profit of each pawnshop in the industry falls due to the high competition, the quality, the process of their service and their shady image is improving. For example, the emergence of pawnshop chains from the mid 1980s through the early 1990s has challenged the family-owned pawnshop of the U. S. to a more modernised form of pawnshop in terms of technology and computerised operation, regulations displayed at pin boards, high quality service, and quick and

easy procedures (Johnson and Johnson, 1998).⁴¹ With these improvements, their premises and services are more similar to banks or insurance companies; hence, they may create new demand and drive the sector to grow.

In contrast, conventional pawnbroking sectors in Southeast Asia such as Singapore, Malaysia, Indonesia, and Philippines are still characterized by conservative management styles, though this does not appear to negatively affect the profitability and survival of individual pawnbrokers because of the years of stable growth and healthy profit margins attained in the past (Soon and Choon, 2001).

What if only one large pawnshop serves the whole community? As Oeltjen (1996: 1032) points out, the pawnshop operating in such a manner will be considered a 'local monopoly'. He claims that the reasons as to why there may exist only one pawnshop is that: (i) the existing community is very small and cannot allow more than one pawnshop; (ii) regulatory limitations on pawnshop density; and (iii) wise pawnbroker who realize that, in order to maintain their long-run prosperity, high entry-barriers must be well-constructed.

For this type of pawnshop, if the location is quite far, it will not be attractive for potential pawners because many of the customers may not possess suitable means of transportation; the pawned items could be immense and heavy; the possibility of a small amount of loan given; and relatively high cost of transportation. It is in these types of circumstances that loan sharks thrive (Oeltjen, 1996: 1033).

3.4.2.3 Licensing

In Malaysia, pawnbrokers are required by law to obtain licenses in order to operate legally. However, this regulation does not prevent other unlicensed pawnbrokers to provide equivalent financial services. In fact, these illegal pawnbrokers may prove just as significant, if not more significant, than their licensed counterparts.

In Indonesia, for example, it is reported that 58% of the Indonesian pawnshop industry is made up by these illegal operators, despite the fact that the legal pawnshop business is monopolised by government, (SEACEN, 1986: 257).

⁴¹ Family-owned pawnshops were operated in the early 1800s (Johnson and Johnson, 1998).

With regards to Malaysia, there are many illegal pawnshops that operate side by side the licensed pawnshops as the enforcement of the Pawnshop Act 1972 is rather ineffective (Ismail and Sanusi, 2005). Findings by other studies, such as Bouman and Bastiaanssen (1989), Bouman and Houtman (1988), Harriss (1983), Sivakumar (1978) and Wells (1980) indicate that there is a strong presence of illegal pawnshops operating throughout Southeast Asian countries. Nevertheless, even though these unlicensed pawnbrokers operate illegally and charge higher interest rates than their legal counterparts, customers seem to prefer to deal with them. Many reasons contribute to why they flourish. Among other reasons are more privacy, less formalities, efficient services, higher lending values, convenient operating times, and locations (Skully, 1994).

3.4.2.4 Regulation in stolen goods

Previous literature states that pawnshop business also facilitates traffic in stolen goods (Levine, 1913; Cromwell, 1991; Caskey, 1991; and Francis, 2007). According to Caskey (1991), all pawnbrokers adamantly insist that they do not knowingly accept stolen goods as collateral.⁴² It is not in their interest as police may seize the pawned items and the pawnbroker may end up losing the borrowers' collateral and the money lent to the customers.

In 1988, in the United States, the police seized only 0.1% of pawned goods for being stolen property (Francis, 2007). This is because in many states in the United States, the manager must send a copy of the pawn-ticket or a description of the item pawned and its serial number to the local police department to check against its records of stolen goods. Often, the pawnbroker is required to hold the pawned item for a minimum number of days so that the police have time to discover it. Some statutes provide that the pawnshops must obtain the thumbprints of pawners. In addition, most pawnshops have video surveillance cameras that will provide pictures of the individual pawning the stolen items (Francis, 2007).

⁴² Lombard avoids stolen goods (Johnson and Johnson, 1998).

In China, all the urban pawnshops are closely monitored and supervised by police authorities with the objective of preventing pawnshops from being a medium for the disposal of illicit goods (chinadaily.com.cn, 2006).

Although the strict enforcement succeeded in the U. S., it is less applicable in Southeast Asia because regulators are only interested in regulating the institutions but not the activities of the pawnshops (Ismail and Sanusi, 2005).

3.4.3 Transaction Cost

According to Fernando (2003) and Bouman and Houtman (1988), pawnbroking transaction costs are low due to minimal overhead and administration costs, record keeping is simple, no need to assemble information on the loan applicant's creditworthiness, and the procedure is quick and simple. The loan provided by pawnshops can also be labelled as 'no further strings attached', because its operation involves collateral in case of a loan default. This means that, if the borrower fails to pay the loan with interest within the contractual period, the pawnbroker may take possession of the collateral assets. Thus, the transaction ends and there is no such thing as ever-increasing debt in pawning (Fernando, 2003).

Schrader (1999), however, rejects this statement. Reversely, he argues that the transaction cost of pawnshop credit is quite high due to the storage and safekeeping of these goods. Nevertheless, he agrees that the transaction costs of pawnshop can be reduced to some extent by only accepting items with a small size and high value such as jewellery, gold and silver items, and precious stones.

On the borrowers' part, Lamberte (1988) claims that they face very minimal transaction costs due to easily obtained loans, and because getting loans from pawnshops only involves providing collateral.

3.4.4 Transportation Cost

Obviously, with an average loan of around \$50, customers of pawnshops in the U. S. will generally patronize the closest shop in order to reduce transportation costs (Caskey, 1991). With the increased usage of transportation systems, pawnshops are now not only well represented in the urban areas but rural areas as well (Caskey,

1990). Johnson and Johnson (1998) describe that, in the early years, the pawnshop business was located within cities in the United States, but, because of the change in the nature of items pawned and the greater availability of transportation, pawnshops were more likely to be along highways in strip malls with ample parking. As a result of the infrastructure development, the transportation cost could be reduced.

3.4.5 Gold as Pledge

Gold is synonymous to women in terms of accessories as well as a means of safe keeping. As mentioned by Bouman and Houtman (1988: 73), “a woman without ornaments is like a woman without background, without a family to protect her”. For Asian women, gold is used as dowry or as wedding gifts, and they are particularly prone to collecting valuables that are passed down the family line as something very personal that others cannot easily claim.

Gold is very commonly used as collateral over other items due to a number of reasons. According to Abdul Razak (2008: 5-6), “first, undoubtedly gold can be sold and liquidated without much difficulty, and if there is such a need arise, the auction can be performed should the borrower become unable to redeem the pledged gold. Second, the process of determining the gold’s purity and authenticity is uncomplicated; therefore there is less risk in mispricing the collateral. Third, gold chains and rings typically require only a small flat envelop for storage and so can be kept securely in the bank’s safety box at little, if any, additional cost”.

Gold is not only in demand for its own sake, but it also has an intrinsic value and functions as a hedge against inflation (Bouman and Houtman, 1989: 73). According to Bouman dan Houtman (1988: 87), in India, the price of gold has never lost more than 20% of its peak market value from 1946 to 1984. Hence, for pawnbrokers, accepting gold as collateral is more secure and profitable compared to other items that would depreciate against time.

3.4.6 Pawnshop as an Alternative to the Mainstream Financial Institution

According to Caskey (1991) and Johnson and Johnson (1998), during the 1980s, due to higher rates of poverty in the U.S, many Americans turned to pawnshop services from mainstream financial institutions. They also believed that these following factors

greatly enhanced the use of pawnshop services: (i) a higher number of households who were unable to have bank accounts; (ii) a rise in household credit risk rating; (iii) a decline in the number of unsecured consumer lending by banks and small loan companies; (iv) an increase in gold prices; (v) more interest from investors in fringe banking such as those exercised by pawnbrokers; and (vi) growing preference by customers to use this easy and convenient service (Francis, 2007). In addition, the pawnshops' customers are free from further, possibly embarrassing obligations (Bouman and Bastiaanssen, 1989: 12)

Nevertheless in most developing countries, researchers agree that the role of pawnshops is to serve the poor (including the low-income groups) who are facing insufficient cash, emergency needs, and exclusion from mainstream financial institutions (Yong, 2008; Bouman and Houtman, 1988; Ismail and Ahmad, 1997; Lamberte, 1988; Skully, 1994 and 2005). Evidently, there has been a change in the types of customers patronising pawnshops; they are not only patronised by the lower-income and the middle-income groups but also by the higher-income groups (Mottershead, 1938; Schrader, 2000; Maamor *et al.*, 2005 and 2006; and Johari *et al.*, 2007).

3.4.7 Pawnshop as an Alternative in Economic Downturn

Caskey (1991) claims that pawnbrokers will restrict credit in economic downturn because, in the recession, the same collateral may be worth less than it would be in normal times. Moreover, pawnbrokers may become illiquid and reduce the average loan to collateral ratio if the downturn leads to a decline in pawnshop sales or loan redemption.

Conversely, with the economic slowdown and a significant tightening of conventional credit, many customers of mainstream credit institutions, understandably, switch to other sources of credit such as pawnshops. Furthermore, due to the escalated credit crunch phenomena, many banks and credit card companies have become more selective in choosing potential loan borrowers; hence, pawnbrokers fill the gap.

Despite providing many means in shaking off its reputation as a 'bad times' industry, pawnbrokers evidently benefit from the economic crises. In the early days, the customers of pawnshops were patronaged by low income groups, petty traders, and

poor people. Due to the credit crunch in 2008, pawnshops operating in the United Kingdom experienced a boom in their business (Brennan, 2008). Surprisingly, the National Pawnbrokers Association (NPA) reported that the customers of pawnshops in the United Kingdom come from middle income and higher groups such as brokers, pawning their Rolex watches to pay the wages of their workers, bankers pawning their gold rings to pay their mortgage repayments, and property tycoons, as well as wealthy wives, pawning their gold jewellery and art valued up to £30,000 (Gleeson, 2008).

Similarly, pawnbrokers such as Cash America in the U. S. are expected to see their customers increase tremendously because more consumers are being cut off from mainstream financial institutions as banks take fewer risks in a slowing economy (Edward, 2008).

As with the United Kingdom and the United States, the business of pawnbroking in China has also experienced booms during the economic downturn (Yahong, 2008). In addition, the increase in businesses utilizing pawnbroking services can partly be attributed to prevailing, domestic economic conditions. According to Yahong (2008), the Chinese economy began to face the risk of overheating and suffering serious inflation after a persistent 11% growth throughout the first three quarters of 2007. The risks prompted the government to take precautions, which was to shift to a tight monetary policy in 2008. The effects were immediately felt by China's smaller companies, which were inevitably always at the bottom of the banks' corporate borrowers lists. This provided a perfect opportunity for pawnshops to expand their business. In 2007, a study on local pawnshops by the Beijing Pawn Trade Association revealed that 90% of pawnshop customers were individuals and 10% of them were medium-sized and small businesses (Yahong, 2008). Surprisingly, in 2006, 90% of pawn loans were channelled to manufacturing and business purposes (Ming, 2006). As a conclusion, pawnshops will not only alleviate poverty but it can also contribute to economic growth per se.

3.5 CONCLUSION

While pawnbroking is frequently associated with such negative elements as moneylenders, it is a somewhat benign form of lending in comparison. Pawnshops are one of the many financial institutions supplying consumer credit; yet do not compete

directly with other financial institutions for customers. Rather, they lend to those excluded from mainstream financial markets. For instance, in the U. K., the positive publicity and the work of the National Pawnbrokers Association (NPA) in raising its profile makes pawnbroking a resource available to all. Even local terminology is also much friendlier. It is the 'banks for the little man' in the United States, 'small man's bank' in Malaysia, known as 'uncle' in the U. K. and 'my aunt' in the U. S. (Mottershead, 1938). Certainly, formal markets are the most important financial institutions but economists will have a very incomplete understanding of alternative credit sources that are available for those excluded from mainstream financial institutions such as pawnbroking.

Chapter 4

PAWNBROKING IN *SHARI'AH* FRAMEWORK AND ITS APPLICATION IN ISLAMIC FINANCE

4.1 PRINCIPLES OF ISLAMIC FINANCE

Islamic finance is not a new phenomenon as the basic principles and practices were expounded by the Prophet Muhammad (*pbuh*) over fourteen hundred years ago (Baldwin and Wilson, 1988; Khan, 2008). Up to the 13th century, the progress made in the Islamic financial instruments helped Muslim societies to progress. However, after the Muslim world became stagnant due to many reasons such as the Mongol invasion and political instabilities, the West on the other hand has undergone a period of renaissance that resulted in significant scientific achievements (Hamid, 2006: 27). During the later period and in particular during the colonialisation period, Islamic finance was abandoned and was displaced by Western financial systems; hence, the institutionalization of Islamic finance could not be achieved (Wilson, 2002; Vogel and Hayes, 1998; Wilson, 1995; Baldwin and Wilson, 1988).

It was only in 1940s that the works on Islamic economics and finance were initiated and developed by Muslim scholars in an attempt to provide an alternative system to capitalist and socialist systems (Hamid, 2006: 27). One of the early institutions of Islamic finance that was implemented in modern times was the Pilgrims Fund Corporation (*Lembaga Tabung Haji*) in Malaysia, which was established in November 1962, and commenced its operation on 30th September 1963. Its operation focused more on managing the pilgrimage matters by investing the money of the participants into the scheme through a *shari'ah* compliant manner. In Egypt, however, the modern Islamic bank was equivalent to the savings bank that was based on the profit sharing, introduced in 1963 in the Egyptian town of Mit Ghamr.

It should be noted that the early years of Islamic banking system witnessed a striking resemblance to conventional banking products. Nevertheless, due to institutionalisation, competitiveness, and a search for authentic Islamic solutions, the industry has recently started to develop its own products closely compliant with *shari'ah* principles, standards, and guidelines such as Islamic insurance (*takaful*),

Islamic pawnbroking (*ar-rahn*), Islamic bonds (*sukuk*) etc. Among the products offered by the Islamic finance institutions, in particular in Southeast Asia, Islamic pawnbroking has a potential to serve a wide range of customers from lower income to upper level income groups.

This chapter, hence, discusses and analyses the concepts of pawnbroking in the *shari'ah* framework. However, in order to contextualise the discussion, the three important norms of Islamic financial ethics, which are the prohibition of *riba* and *gharar*, and also the concept of social justice, will be examined first.

4.2 THE SALIENT FEATURES OF ISLAMIC FINANCE

There are two distinct aspects that differentiate the modes of finance between the Islamic and conventional finance which include *riba* and *gharar*.

4.2.1 *Riba*

The central proposition in Islamic financial ethics and law is that every single financial transaction and business contracts conducted must be independent from any traces of *riba*, which is strictly prohibited in Islam (Abdul Samad, 2007). According to Ayub (2007: 47), *riba* is defined as earnings from loans, such as personal or commercial loans, and debts where the borrowers pay more than the principle amount of loans.

The *Holy Qur'an* and *Sunnah* have clearly stated the prohibition of *riba* repeatedly, for example:

That which ye lay out for increase through the property of (other) people will have no increase with Allah: but that which ye lay out for charity seeking the Countenance of Allah (will increase): it is these who will get a recompense multiplied. (30: 39)

O ye who believe! Devour not usury doubled and multiplied; but fear Allah; that ye may (really) prosper. (3: 130)

Those who devour *riba* will not stand except as he stands who has been driven to madness by the touch of Satan...Allah has permitted trade and forbidden *riba*...Allah will deprive *riba* of all blessing. (2: 275-6)

O ye who believe! Fear Allah, and give up what remains of your demand for *riba*, if you are indeed believers. If you do not, take notice of war from Allah. (2: 278-79)

During his final sermon at his last hajj or pilgrimage, the Prophet (*pbuh*) emphasized the prohibition of *riba* as Allah (*swt*) forbade the act of taking and accepting *riba*. He stated that “every form of *riba* is cancelled; capital indeed is yours which you shall have; wrong not and you shall not be wronged. I start with the amount of *riba* which people owe to my uncle Abbas and declare it all cancelled” (Ayub, 2007: 46). Subsequently, on behalf of his uncle Abbas, the Prophet (*pbuh*) wrote off the total amount of interest charge from his borrowers’ loan (Ayub, 2007: 46).

The Arabic word *riba* can be interpreted as ‘increase’, excess, or ‘usury’, and while many discussions have aroused in determining its literal meaning, it is generally accepted that it means ‘interest’ (Khan, 2008: 10). Even though most Muslim scholars deem that *riba*, or interest is prohibited, some scholars nevertheless have an opposite view, as “Siddiqui (1995) states that a controversy has arisen that interest paid by banks on deposits or charged on advances is not tantamount to *riba* and is hence permissible” (Khan, 2008: 10; Dhumale and Sapcanin, 1992: 2). In addition, scholars such as Sheikh Tantawi and Sheikh Wasil believe that the conventional banking interest is merely a profit-shared of growth-inducing capital investments; hence, is not the *riba* prohibited by Allah (*swt*) (El-Gamal, 2001: 2; Soliman, 2004: 277).

Other small minority scholars’ claim that interest may be lawfully permitted if the objective of the interest charged is to shape the people’s behaviour by acting as a late payment penalty, or it should not be permitted in cases where the borrowers are being oppressed by the lenders who charge at *exorbitant* interest rates, which is equal to usury rather than interest (Dhumale and Sapcanin, 1999: 2).

Despite this, the scholarly consensus reached amongst Islamic jurists, *fuqaha*, and specialists is that all types of interests are forbidden under the rules of *Shari’ah* and all parties that have taken part in the contract, including the writers and the witness, are party to the sin. *Riba* or interest is strongly prohibited in Islam due to, first, the unlawful gains from the financial contracts, as the lender does not share the risk, and second, interest boosts the inclination of wealth to be highly concentrated in the hands of a few (Khan, 2008: 10). Interest charged is considered an unjust mechanism of

financing in Islam because “if the borrower’s venture is unsuccessful through no fault of his or her own, it is unfair for the lender to consider a fixed rate of return or demand repayment; while if the borrower earns a very high rate of profit on the venture, it is unfair that the lender should receive only a small proportion of the profit even though he/she may well have provided the majority of the finance for the venture” (Khan, 2008: 10)⁴³. In other words, since Islam considers risk and also the profit/loss sharing, interest does not fulfil such conditions, and therefore results in an unfair outcome.

The decree of *riba* prohibition, thus, indicates that the purposes of money lending activity must be for either a charitable purpose (*al-qardhul hasan*), or for generating lawful investments which are based on profit and risk sharing concepts (*mudharabah, musharakah, etc.*). Indeed, the undertaking of legitimate economic activities and productive efforts that conform to *shari’ah* laws is considered to be a pious merit or even a religious duty in Islam, as it allows Muslims to earn and consume *halal* products.

Riba, hence, is clearly prohibited in order to establish a fair economic system that ensures the prevalence of justice and the removal of any forms of exploitation practiced in trade and loan activities. In other words, Islam aims at social optimality and efficiency as well as financial and economic optimality and efficiency.

4.2.2 Gharar

The second underlying prohibition in Islamic finance ethicality is *gharar*. It includes the elements of uncertainty/ambiguity, risk or hazard about the end result of the contract and its nature, the quality value and conditions specified in the contract, the rights and obligations of the parties involved, the ownership or custody of the item and its time of delivery (Ayub, 2007: 58; Al-Saati, 2003).

⁴³ An example of a just financing as a viable financial instrument in Islamic finance is *musharakah* financing. As a financial contract, *musharakah* financing means the relationship established under a contract by the mutual consent of the parties for sharing of profits and losses, arising from a joint enterprise or venture. The ratio of profit for each partner must be determined in proportion to the actual profit accrued to the business, and not in proportion to the capital invested by him. In the case of a loss, each partner shall suffer the loss exactly according to the ratio of investment (Usmani, 1999).

Reliable sources from several of the Prophet's companions have provided narrations concerning the proscription of *gharar* in trading by the Prophet (*pbuh*). Abu Hurayra, for example, narrated that, "The Messenger of Allah prohibited *husah*⁴⁴ sale and *gharar* sale" (Sahih Al-Bukhari: 2783); and Ibn Hanbal narrated the Prophet (*pbuh*) saying, "Do not sell fish while they are yet in the sea for this is *gharar*" (Cattelan, 2009: 394).

Al-Saati (2003) challenges the notion that all *gharar* transactions are sinful and thus are forbidden. He claims that some Muslim jurists allow some flexibility in certain *gharar* transactions on the ground of *maslahah* and is essential for that transaction in order to lessen the causes of disagreement to a tolerable level. Al-Saati (2003: 10-14) classified *gharar* in four categories as follows:

- (i) The prohibited *gharar*: The prohibited *gharar* is considered as exorbitant *gharar* such as gambling (*maysir*)⁴⁵. This is the type of *gharar* which refers intentionally to *gharar* taking and involves unproductive money and goods transfer between parties, with no added value from the transaction.
- (ii) The permissible *gharar*: *Gharar* can be permissible when the school of jurisprudence cannot come to an agreement on whether the *gharar* in the contract is prohibited, thus the contract is invalid. The *gharar* would be permissible even if only one Muslim jurist gives permit to it.
- (ii) The acceptable *gharar*: The acceptable *gharar* is a situation, which involves exogenous uncertainties such as changes in weather or climate, consumer preferences, *etc.*, and endogenous uncertainties such as the commodity's quality that the buyers' have bought or the terms of the trade that will take place.

⁴⁴ *Husah* sale is "a type of sale practiced by the Arabs prior to Islam where the sale was determined by the casting of pebbles. Classical commentators mention three forms of the *husah* sale: (1) the seller would say to the would-be purchaser, "When I throw the pebbles in my hand, then deal is closed and binding on you, (2) the seller would say to the potential purchaser, "I shall sell you the commodity that your pebbles hit, or (3) in a land, the seller would say, "I shall sell you the plot of land" " (Islamic Finance Project, Harvard Law School).

⁴⁵ According to Ayub (2007: 61), *maysir* refers to "easily available wealth or acquisition of wealth by chance, whether or not it deprives the other's right".

- (iii) The mandatory uncertainty: The mandatory *gharar* is a prerequisite to the validity of the contract which is practiced in *mudharabah*, *musharakah*, or *ijarah* contracts. According to Al-Saati (2003: 14), this *gharar* is based on the Islamic lawful axiom that is, “Damage and benefit go together,” whereby “in the *musharakah* contract all parties are partners in case of profit and liable in case of loss and no minimum profit can be assured to one party, or one party is entitled to a share in profit only while the other party is made liable for the entire loss along with his share in profit as these situations could contradict the above maxims”.

Concisely, not all *gharar* trading are proscribed by Muslim jurists. Thus, Islamic jurists allow some flexibility in certain *gharar* transactions on the ground of *maslahah* or public interest and consent-stipulated conditions in order to lessen the causes of disagreement among the contracting parties and reduce the *gharar* involved to a tolerable level.

As a conclusion, the prohibitions of transactions involving *riba* and *gharar* are to ensure that the interests and benefits of all parties involved in the market transaction are fully protected in order to achieve social justice.

4.2.3 The Concept of Social Justice

Apart from being concerned with *riba* and *gharar*, Islamic finance is also committed towards social justice. Social justice can be defined as “a basic value in the life of a community to respect human dignity and provide for the best possible quality of life for all human beings” (An-Na’im *et al.*, 2006: 19).

Several passages in the *Holy Qur’an* mention the important of social justice and well-being in Islam especially in helping the poor or the needy. For example:

Worship none but Allah (Alone) and be dutiful and good to parents, and to kindred, and to orphans and *Al-Masakin*⁴⁶ (the poor), and speak good to people, and perform *As-Salat*, and give *Zakat*. (2: 83)

And give to the kinsman his due and to the poor and to the wayfarer. (17: 26)

⁴⁶ As narrated by Abu Hurairah, the Prophet (*pbuh*) said, *Al-Masakin* (the poor) is that “who has not enough money to satisfy his needs and whose condition is not known to others, that others may give him something in charity, and who does not beg of people”. (Shahih Al-Bukhari, 2/1479).

Do good to parents, kinsfolk, orphans, the poor, the neighbour who is near of kin, the neighbour who is stranger, the companion by your side, the wayfarer you meet, and those slaves whom your right hands possess. (4: 36)

Based on this definition and these verses, it is essential for Islamic finance institutions to offer ethical alternatives to conventional financing that can enhance social justice and the well-being of society, especially for those from low-income groups and also those who are excluded from mainstream financial institutions.

4.3 PAWNBROKING IN *SHARI'AH* FRAMEWORK

While Islamic finance has enjoyed considerable growth and success in recent years, Islamic financial alternatives, which are free from *riba* and *gharar*, have only now begun to make inroads. One of the new Islamic financial alternatives which is in compliance with *shari'ah* precepts and is significant for consumers, especially the lower-income groups, is *ar-rahn* or Islamic pawnbroking, and Malaysia has become the pioneer of this product.

The *ar-rahn* scheme is anticipated to be the most appropriate mechanism to overcome the excessive interest rates imposed by conventional pawnshops, which relate to *riba* and other malpractices such as undervaluing the collateral price, and no information regarding the weight, length, or type of collateral stated in the pawn-ticket which relates to *gharar*.

Apart from being the best alternative to conventional pawnshops, the *ar-rahn* scheme is expected to improve the well-being of society as it provides financial opportunities and short-term financing to lower-income groups and small businesses which are usually excluded from the mainstream financial system due to limited capital.

The following sections elaborate the concept of pawnbroking in the *shari'ah* framework. As discussed in the following section, *shari'ah* scholars in Malaysia have come to an agreement that the underlying concept of the Islamic pawnbroking contract is based on the *al-qardhul hasan*, *al-wadi'ah yad dhamanah*, *al-ujrah* and *ar-rahn*.

4.3.1 Concept of *Ar-Rahn*

The Arabic term of *rahn* may refer either to ‘constancy’, or to ‘holding’ and ‘bindingness’. In this regard, the verse “Every soul will be held (*rahinah*) in pledge for its deeds” (*Qur’an*, 74: 38) associates the binding element of the term. In addition, the Prophet (*pbuh*) quotes that “the soul of the believer is *marhuna* or pledged for the debt until it is paid off” (as cited in Khan and Nisar, 2004: 20). In financial terms, however, one uses the term *rahn* to refer to the object that was pawned to ensure a debt repayment should the debtor unable to repay their loan. The pledge contract is drawn to provide such security by binding the collateral to the creditor in the events of the debtor’s failure of payment.

According to Al-Zuhayli (2003: 79), the definition of pawning or mortgage contracts involves possessing an item in lieu of a legal right that may be satisfied from that item. There is also a similarity in terms of the definition of pawning among the four *madhabs* (School of *Sunni* Jurisprudence). The *Shafiis* define the pawning contract as thus: “Taking a non-fungible property as insurance against a fungible debt, whereby the debt may be extracted from the held property if it is not repaid” (Al-Zuhayli, 2003: 79). In addition, the *Hanbalis* define pawned object as “a property used as insurance for a debt, so that the debt may be extracted from the property if it is not possible to recollect from the debtor” (Al-Zuhayli, 2003: 80). Similarly, the *Hanafis* define pawning as retaining valuable items by giving loans with the probability of taking possession of the items (Mohamed Naim, 2005). In addition, Mohamed Naim (2005) notes that the *Zaidiyyah*⁴⁷ defines pawning as a contract on specific assets and the ownership of the assets can be transferred to the pawnbroker if the debt is not paid off.

The most precise definition of pawning is given by the *Malikis*. As noted by Al-Zuhayli (2003: 80), the *Malikis* define the pawning contract as:

It is the act of taking a valued property from its owner, as a means of insuring a loan that has matured or is about to mature. Thus, they allow this contract to include taking non-fungible properties such as real estate, animals, or

⁴⁷ The *Zaidiyyah* refers to a sect within *Shia* that separated from the main branch [Twelvers (*al-Ithnay ‘Ashariyyah*)] over the fifth imam. It is named after the Imam Zayd Ibn ‘Ali, the grandson of Husayn Ibn ‘Ali, the grandson of the prophet Muhammad (*pbuh*).

commodities, as well as usufruct, as pawned objects. In the latter case, pawned usufruct must be tied to a specific time period or task, and must be deducted from the debt. As for the debt itself, they stipulated that it must be matured, *e.g.* the price in a concluded sale, the repayment of a matured debt, or the value of ruined objects; or it must be about to become matured, *e.g.* taking an object from an artisan or borrower to ensure against losing one's capital or lent object. In the latter cases, the pawned object is used as insurance against the value of the objects for which the artisan or borrower is liable.

4.3.1.1 Islamic rationale for *ar-rahn*

There are proofs of legality of the pawning contract in the *Qur'an* and the *Sunnah*, which are discussed below:

4.3.1.1.1 *The Qur'an*

Evidence from the *Qur'an* (2: 283) is provided by the verse, "If you are on a journey and cannot find a scribe, then use the receipt of pawned objects" (as an act of insurance, instead of the scribe documentation). Based on this verse, only *Mujahid* and the *Zahiris* restrict pawning to the state of travelling, while most jurists agreed that taking pawned objects is permissible both at home and while travelling, based on the Prophet's *Sunnah* which allowed it unconditionally (Al-Zuhayli, 2003: 81). In this regard, the *Qur'anic* verse mentioned the state of travelling to alert people that there is an easy means of documenting and insuring a debt if there is no scribe at hand.

4.3.1.1.2 *The Sunnah*

The *Sunnah*, being the second legal and knowledge source in Islam, is provided by the *Hadith* narrated by Al-Bukhari on the authority of Aisha (*mAbpwh*) that "The Prophet (*pbuh*) bought some food from a Jew, and he pawned his iron shield with him".

In another *Hadith*, Anas (*mAbpwh*) said: "The Prophet (*pbuh*) pawned a shield with a Jew in Madinah, and he took from him some barley for his family".

It is also established in a *Hadith* narrated by Abu Hurayrah that the Prophet (*pbuh*) often said: "pawned riding animals may be mounted in exchange for their expenses, and the milk of pawned dairy animals in exchange for their expenses; and the one who rides or drinks is thus responsible for the animal's expenses" (Al-Zuhayli, 2003: 81).

Based on the textual provisions from the *Qur'an* and *Sunnah*, it can be concluded that the rationale of *ar-rahn* (collateral) in a pawning transaction is to ensure the repayment of debt; hence the objective of *ar-rahn* is to offer the creditor the option to sell the collateral in the event of non-payment (DeLorenzo, 2004: 121).

4.3.1.2 Principles, requisites and components

According to Mohamed Naim (2004), the pawning contract has four components:

- (i) *Sighah* implying ‘offer and acceptance of both parties’;
- (ii) *Ar-rahin*, meaning ‘who pawns an object of his’ and *Al-murtahin* ‘who receives the pawned object’;
- (iii) *Al-marhun*, ‘the pawned object as insurance of the debt’; and
- (iv) *Al-marhun bih*, ‘the debt in lieu of which the object is pawned’.

In this regard, the *Hanafis* stipulate that the offer and acceptance from the debtor and creditor, respectively, as the cornerstone of the pawning contract, is analogous to most other contracts (Al-Zuhayli, 2003: 82). However, the *Hanafis* rule that the contract is not finalized or binding until the pawned object is delivered either by transportation to the creditor, or by giving him access to it. The offer and acceptance must be clear, concise, and free from any *gharar* (Ibrahim *et al.*, 2006). Thus, the debtor may make an offer such as: “I pawn this object with you in lieu of the debt I owe you”, and the creditor may indicate his acceptance by saying: “I accept”. In this regard, the term “pawn” need not be uttered in the offer. For instance, a buyer may give an object to the seller saying: “keep this until I pay you the price”, in which case the pawning contract is concluded, since what matters in contracts is their economic content (Al-Zuhayli, 2003: 82).

Similarly, the non-*Hanafis* also stipulated four essential principles or requisites for the pawning contract: ‘contract language’, ‘contracting parties’, ‘pawned object’, and ‘underlying debt’ (Al-Zuhayli, 2003: 82). They added that the contracting party is considered as a requisite, since it is impossible to imagine a contract without contracting parties.

4.3.2 Concept of *Al-Qardhul Hasan* (Benevolent loan)

One of the underlying principles of Islamic pawnbroking is *al-qardhul hasan* which comes from two Arabic words; (i) *qardh* (to cut)⁴⁸ and (ii) *hasan* (kindness). According to Ayub (2007: 492), *al-qardhul hasan* can be defined as “a loan with the stipulation to return the principal sum in the future without any increase. In Islamic law, all loans have to be virtuous, as seeking any benefit from loaning amounts to *riba*”. In addition, the borrower is only required to repay the principal amount borrowed, but he/she has the absolute discretion to pay an additional amount to the lender as a token of appreciation, which is called *hibah* (Mohd. Ariffin and Adnan, 2010: 2). Thus, this type of financing is highly recommended to be practiced by financial institutions because it helps those people in need; hence enhances the social justice and well-being of society. There are several verses in the *Holy Qur'an* that clearly state the term ‘*al-qardhul hasan*’ (see: *Surah Al-Baqarah*, verse 245; *Surah At-Taghabun*, verse 17; *Surah Al-Maidah*, verse 12; *Surah Al-Hadid*, verses 11 and 18; and *Surah Muzammil*, verse 20).

Accordingly, the concept of *al-qardhul hasan* is applied in the Islamic pawnbroking mechanism. Basically, the pawnbroker will offer a *al-qardhul hasan* loan to the borrower who wants to pawn his belonging. At the maturity of the contractual period, the borrower is expected to repay the principal amount borrowed in order to redeem the pawned item.

4.3.3 Concept of *Al-Wadiyah Yad Dhammanah* (Keeping valuable asset safe with guarantee) and *Al-Ujrah* (safekeeping fee)

Under the concept of *al-wadiyah yad dhammanah*, the Islamic pawnbroker will accept custody of the valuable asset and they will have to promise to keep the valuable asset in a safe place and return it to the borrower at the end of contractual period (Bhatt and Sinnakkannu, 2008). The pawnbroker has to take full responsibility to the collateral such as providing security and insurance (*takaful*) to ensure its safe return once the borrower redeems his/her belongings. If the collateral item is damaged or lost not due to the lender’s negligence, the lender is not required to replace the item. Otherwise,

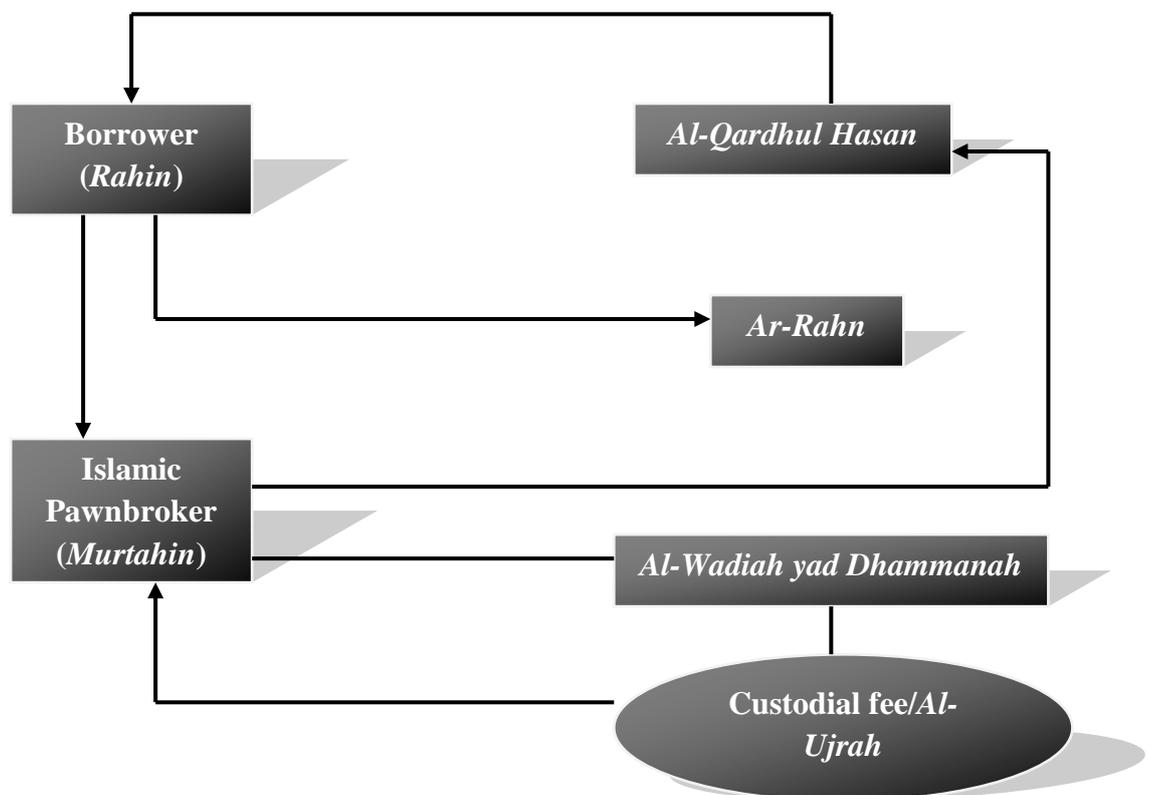
⁴⁸ According to Mohd Ariffin and Adnan (2010), the word ‘*qardh*’ means that the lender’s property will be cut off by giving loan to the borrower.

the lender is responsible to replace the damaged or stolen collateral to the owner if they fail to keep to the agreement due to self negligence (Bhatt and Sinnakkannu, 2008).

As a related concept, Islamic pawnbroking will charge a service fee which is known as *al-ujrah*. According to Bhatt and Sinnakkannu (2008), the pawnbroker is allowed to charge a reasonable fee for the services rendered in keeping the borrowers' pledged items secured and in good form. Furthermore, in the *al-ujrah* concept, the acceptance of offer by the specified person (borrower) is necessary (Ayub, 2007).

As a whole, the mechanism of Islamic pawnbroking can be illustrated in Figure 4.1. Based on Figure 4.1, when the pawnbroker lends out money, it uses the contract of *al-qardhul hasan*, implying a benevolent loan or interest free loan. To avoid loan defaults, it employs the contract of *ar-rahn*. In order for the collateral to be kept safely and guaranteed by the lender, *al-wadi'ah yad dhammanah* is employed. To earn profits, the lender will charge the borrower a custodial fee contracted under the principle of *al-ujrah*.

Figure 4.1: The Ar-rahn Structure



Source: Rosly (2005: 130).

4.4 THE PRACTICE OF ISLAMIC PAWNBROKING IN SOUTHEAST ASIA

After presenting the *shari'ah* dimensions of Islamic pawnbroking, this section provides an overview of the experiences of running *ar-rahn* operations in Southeast Asia.

4.4.1 Thailand

One of the institutions that conduct *muammalat* practices in Thailand is the Pattani Islamic Cooperative Limited (Koperasi Islam Pattani Berhad), which was established on the 28th October 1987 under the act of the Cooperative Act of 1968 and later amended to the Cooperative Act of 1999. It conducts almost all *shari'ah* compliant products such as *al-wadiah*, *al-mudharabah*, *al-musharakah*, *al-bai-bithaman ajil*, *al-salam*, *al-wakalah* and *ar-rahn*.

Since the establishment of the Pattani Islamic Cooperative Limited, there has been a positive response for the *ar-rahn* scheme among Muslims, especially in Pattani. The first *ar-rahn* scheme operated by this cooperative was launched on the 27th June 1999 through its first counter in Pattani City in the Muang Province of Pattani Region. The concept of management and operation of this scheme was adapted from the *ar-rahn* scheme implemented by the Permodalan Kelantan Berhad (PKB) in Malaysia (Ismail Dewani, 2002). The scheme was implemented in order to prevent Muslims from using conventional pawnshops which operate under a usury basis.

Similar to Islamic pawnbroking in Malaysia, the Pattani Islamic Cooperative Limited charges safekeeping fees, instead of interest, which is commonly imposed by conventional pawnshops. The rate of the safekeeping fee charged by the cooperative is shown in table 4.1. The loan amount is 75% of the collateral value and the period of the loan is six months, which can be extended to three months and finally for one month.

The conventional pawnshops in Thailand are controlled under the Pawnshop Act which was established in the Buddhist year of 2480 (1937) and has been amended for several times in the Buddhist year of 2517 (1974), 2525 (1983) and 2534 (1991) (Tohmeena, 2004). Unlike conventional pawnshops, the *ar-rahn* scheme conducted

by the Pattani Islamic Cooperative Limited is controlled under the Cooperative Act due to the non-existent regulations for the *ar-rahn* scheme in Thailand.

Table 4.1: Safekeeping Fees Charge by the Pattani Islamic Cooperative Limited

Value of item pledge (Bath)	Fees rate for every 100.00bath per month (Bath)
1.00 – 5,000.00	0.83
5,001.00 – 15,000.00	0.86
15,001.00 – 30,000.00	0.89
30,001.00 – 45,000.00	0.92
45,001.00 – 60,000.00	0.95
Above 60,001.00	1.00

Source: Regional Ar-Rahnu Secretariat (2002/2004).

As shown in table 4.2, the *ar-rahn* scheme implemented by the Pattani Islamic Cooperative Limited shows a very progressive performance from 1999 till the mid-year of 2005.

Table 4.2: Performance of Ar-Rahn Scheme in Thailand from 1999 – 2005

Year	Total Loans (Bath)	Total Customers
1994 – 2004	211,083,790.00	14,745
2005 (Jan – June)	42,832,450.00	2,468
Total	253,916,240.00	17,213
Total value of item pledge	348,554,980.00	

Source: Regional Ar-Rahnu Secretariat (2004)

4.4.2 Brunei

According to Matahir (2002), the practice of pawning under the *shari'ah* principle in Brunei began since the writing of the *Hukum Kanun Brunei* during the rule of Sultan Hasan (1605 – 1619) and was implemented during the rule of Sultan Jalilulakbar (1619 – 1649). However, the *shari'ah* compliant pawnbroking stopped their operations during British colonization and pawnbroking was obliged by the Common Law.

Nowadays, with the establishment of Bank Islam Brunei Berhad (BIBB), *shari'ah* finance products have become popular again among Muslims. In order to cater for the financial needs of the lower income groups, BIBB has decided to expand its *shari'ah* products such as the *ar-rahn* scheme. The establishment of the *ar-rahn* scheme in 1996 was most probably after the BIBB made an observation of a huge number of

Muslims who visited one goldsmith⁴⁹ shop in the capital city of Brunei to get cash (Matahir, 2002). With that scenario, BIBB was prompted to introduce the *ar-rahn* scheme which would help the people get quick cash which was permissible by *shari'ah* principles.

According to Matahir (2002), the BIBB only accepts gold and precious stones as collateral. The loan amount is based on 50% of the gold prevailing market. Customers are allowed to get a maximum financing of up to B\$5,000.00 per day, and the maximum total limit for whole financing is B\$25,000.00. In addition, safekeeping fees will be charged based on the value of gold, which is B\$0.70 per B\$100.00 value of gold.

4.4.3 Indonesia

Perum Pegadaian (PP) is an enterprise which has provided pawnbroking services since 1901 in Indonesia. Since the early ages, Muslims who represent up to 85% of the whole Indonesian population have always been interested in dealing with economic transactions based on *shari'ah*.

The implementation of the *ar-rahn* scheme was planned by the PP back in 1999. Firstly, the PP set up an internal team which cooperated with the consultants who were familiar with the *ar-rahn's* terms and regulations. Next, the PP sent some of their staff to Malaysia to gain more knowledge about the practice of the *ar-rahn* scheme in Malaysia. Finally, with the cooperation of Bank Muammalat Indonesia, PP launched its first *ar-rahn* scheme which was called *Shari'ah Pawning* (Pegadaian Shari'ah) on 14th January 2003.

With the establishment of the *ar-rahn* scheme in 2003 and its implementation by the PP, it is clear that this scheme is experiencing stable growth. The performance of *Shari'ah Pawning* is illustrated in table 4.3.

⁴⁹ Most of the goldsmith shop operated in the Southeast Asia not only selling gold but also buying gold from the customers, similarly like the pawnshop business.

Table 4.3: The *Shari'ah* Pawning Performance in 2003 – up to April 2005

No.	Regional Offices	Customers			Loans (Rp.)		
		2003	2004	Up to April 2005	2003	2004	Up to April 2005
1.	Medan	4,646	74,762	25,971	7,481,401	112,623,856	30,350,154
2.	Padang	0	4,052	2,025	0	5,189,688	3,102,417
3.	Jakarta	712	7,334	4,444	5,236,375	12,608,953	8,387,154
4.	Bandung	0	2,614	3,127	0	2,587,086	2,734,298
5.	Makassar	356	6,765	6,289	3,511,540	12,792,108	8,098,964
6.	Semarang	188	7,269	7,108	525,840	7,740,687	6,774,611
7.	Yogyakarta	272	7,181	4,627	538,750	5,314,780	2,934,432
8.	Surakarta	124	4,234	1,225	73,354	3,403,989	1,532,717
9.	Surabaya	111	3,818	3,430	2,523,620	8,280,512	4,987,317
10.	Balikpapan	0	449	571	0	1,039,412	1,477,648
11.	Manado	0	6,011	6,526	0	8,099,937	6,711,087
Total		6,489	124,489	65,343	19,890,880	179,681,008	77,090,799

Source: *Shari'ah* Pawning in Indonesia (2005).

As can be seen in table 4.3, the loans rose dramatically from Rp19,890,880 billion in 2003 to Rp179,681,008 billion in 2004. Simultaneously, the customers have vastly increased from 6,489 people in 2003 to 124,489 people in 2004. Such fast development indicates a potential for business development in the future.

4.5 CONCLUSION

While conventional pawnbroking has been established since the 15th century in Malaysia, their operations are based on the elements of *riba* and *gharar*, which are against Islamic principles. Due to oppression and other malpractices by conventional pawnbrokers, the Malaysian government has made an effort to establish a just financial system such as the *ar-rahn* scheme which represents a viable solution to replace conventional pawnshops through Islamic principles. *Shari'ah* scholars in Malaysia have come to an agreement that the underlying concept of the Islamic pawnbroking contract is based on the *al-qardhul hasan*, *al-wadiyah yad dhamanah*, *al-ujrah*, and *ar-rahn*.

Chapter 5

MALAYSIAN PRACTICE OF *AR-RAHN*: TRENDS AND DEVELOPMENT⁵⁰

5.1 INTRODUCTION

The importance of helping the needy, especially the poor, has long been emphasized in much of the Islamic faith. Therefore, lending to the needy is considered as one of the main focuses of Islamic finance. In this context, the Islamic pawnshop (*ar-rahn scheme*) is one of the most appropriate mechanisms as it provides financial relief for lower-income groups and small businesses which usually have limited capital or have been excluded from the mainstream financial system. In support of this, prior studies have shown the importance of Islamic pawnshops to Muslim societies (Maamor *et al.*, 2006; Bhatt and Sinnakkannu, 2008; Johari *et al.*, 2007; Mohamed, 1986).

Before the implementation of the Islamic pawnshop system, conventional pawnshops used to charge high interest rates on the loans given, which had an adverse impact on the social welfare of the people involved in such transactions. The conventional pawnshops were more motivated on making profit from needy individuals, which was only restricted by the laws in the Pawnbrokers Act 1972. Conventional pawnshops had indeed oppressed and put a burden on the lower-income group.

The purpose of the Pawnbrokers Act 1972 was to guarantee a healthy pawnshop industry, as well as safeguarding the interests of the consumers. However, it failed to control the problems of the oppression of the lower income groups and the pawnbrokers' malpractices. In fact, it seemed to encourage the practice of usury with high interest rates of 2% per month. The high interest rates made it difficult for the consumers to reclaim their goods or jewellery. As for those who needed the loan as business capital, they found that their capital rapidly diminished, as a result. The conventional pawnshop system, hence, is more likely to put a burden on lower-

⁵⁰ Some parts in Chapter 5 has been presented at the Conference on Malaysian Study Islam, organised by the Malaysian Students Department for the United Kingdom and Eire, and University of Wales, Lampeter, on 28th – 29th June 2008, United Kingdom, and also published in the <http://www.assaif.org/content/download/1490/10030/file/Islamic%20Pawnbroking.pdf> website.

income groups and small businessmen, which is considered as against *shari'ah* practices.

The concern over higher interest rates, and the usurious and exploitative activities imposed by conventional pawnshops, hence, makes customers choose to deal with Islamic pawnshops. Table 5.1 shows the allocation of conventional pawnshops and Islamic pawnshops throughout Malaysia. In 2010, there were 329 institutions offering Islamic pawnbroking services operating side by side with 259 licensed conventional pawnshops, which showed a remarkable increase in Islamic pawnbroking provided they were only established in 1992, as compared to the conventional pawnshops that had been operating since the 19th century. The growing numbers of pawnshops in Malaysia suggest that there is still a significant demand for their services and this would explain why formal financial institutions such as Bank Kerjasama Rakyat Malaysia, AgroBank, and Bank Islam Malaysia Berhad are beginning to provide Islamic pawnbroking products to customers.

This chapter, thus, reviews the historical background of conventional pawnshops, the modus operandi of conventional pawnshop, their weaknesses as practised in Malaysia, and also the development and issues related to the Islamic pawnshops in Malaysia.

5.2 THE HISTORICAL DEVELOPMENT OF PAWNBROKING IN MALAYSIA

The history of pawnbroking in Malaysia can be divided into four main stages, as discussed in the following sections:

5.2.1 Early Traditional Malay Society

During the reign of smaller independent states in the 15th century, local rulers accepted higher supplies of funds from many sources, and Chinese businessmen were one of them. According to Wan Abdullah (1999), there are three different ways in which the Malay society obtains credit by giving up their property as a security of a debt.

Table 5.1: The Number of Pawnshops in Malaysia According to States in 2010

STATES	Conventional Pawnshops	Islamic Pawnbroking	MGIT/ MGI	PKB	Bank Rakyat	Co-operatives	YaPEIM	AGRO Bank	BIMB	Total
Johor	34	30			14	1	9	6		64
Kuala Lumpur/ Putrajaya	14	22			13	2	2	5		36
Kedah	29	27			9	1	8	9		56
Kelantan	11	50		22	8	1	9	8	2	61
Melaka	12	7			4	0	0	3		19
Negeri Sembilan	18	16			6	1	4	5		34
Pulau Pinang	27	17			7	0	5	5		44
Pahang	14	26			10	2	7	7		40
Perak	40	31			11	2	6	12		71
Perlis	4	6			2	2	0	2		10
Sabah	7	14			10	1	0	3		21
Sarawak	3	15			10	0	0	5		18
Selangor	39	40			23	5	4	8		79
Terengganu	7	28	10		6	1	5	6		35
Total	259	329	10	22	133	19	59	84	2	588

Source: Ministry of Housing and Local Government, Department of Co-operative Development, Bank Kerjasama Rakyat, Bank of Agricultural Development and the Malaysian Islamic Economy Development Foundation (YaPEIM), MGIT and PKB (2010).

Firstly, *land pawning*. With this method, the borrower gives permission to the lender to usufruct his land in order to get money. Usufructing the land is assumed to be interest to the loan. Previously, the contract of pawning is made verbally. However, recently, a written contract is made by two parties, which is witnessed by the borrower's Chief of the Domicile (*Penghulu Mukim*). A copy of the contract will be given to each party involved. There is no particular date of repayment for the debt and it all depends on the borrower's ability to repay. In cases where the lender wants his money back, he will go to the borrower and claim it. If the borrower has no money to repay, the pledged land will be evaluated according to its market price. The balance of the land's price, if any, will be returned to the borrower, and ownership of the land will be transferred to the lender.

The second method of pawning is called *goods pawning*. For this pawning, the borrower will pledge their valuable assets such as gold rings, necklaces, earrings, watches, *etc.* to their relatives or friends to get cash. This type of pawning is similar to recent pawnshops, except a verbal agreement is preferred rather than a written contract in which the creditor will give their permission to the debtor to use their property. Similar to land pawning, there is no limit of time for repayment.

The third method of pawning that evolved in early Malay society was *to sell a promise*. Under this transaction, a person who is in need of money will sell his proprietary right in the land to a purchaser to whom the land will be transferred. The transfer is subject to the condition that, if the seller is able to repay within a specified time, or at any time thereafter to repay the sum advanced by the purchaser, the land will be transferred back to the seller. If the seller intends to retain possession of the land, he may do so upon paying rental to the purchaser. Otherwise, produce from the land or any income derived from the harvest or the crops will be given to the purchaser in possession. No documentation or registration takes place at all, making the whole process bureaucracy-free.

5.2.2 British Colonialism and the Chinese Immigrations

The British came into Malaysia in 1786 when they succeeded in their trial to govern Penang from the Sultan of Kedah. Thereafter, they introduced their system of governance, administration, and law. Because of the shortage of manpower to support

them in trading and mining activities, the British encouraged Chinese immigrants from China to immigrate to Malaysia. Later, the Chinese were involved in tin industries and other trading. The Chinese introduced pawnshops as an institution in which to reinvest their capital, which they had obtained from mining and other economic activities. Although the pawnbroking institution in Malaysia originated from China, the law governing is based on English law due to the British colonization period. The introduction of English Law in Malaysia through the three Charters of Justice of 1807, 1826 and 1855, subsequently gave rise to some form of law and order (Aun, 1986). It should be noted that before the independence of Malaysia, there existed nine separate legislations with regard to pawnbroking (Wan Abdullah, 1999).

5.2.3 Post-Malaysian Independence and the Era of Islamic Resurgence

Not many changes took place in the legislation of pawnbroking until 1972 when the Pawnbrokers Act 1972 was passed to repeal all nine existing legislations and bring the pawnbrokers under one act. This act was amended in 1982 and 2003.

Recent developments in the world and in Malaysia in particular, have witnessed a rise in the Muslim's consciousness and awareness to practice Islam in all aspects of life since the 1970s. One of the consequences of such developments has been the emergence of Islamic banking and finance. The establishment of the first Islamic bank in Malaysia in 1983 motivated scholars and the government to implement the *shari'ah* principle in other financial institutions such as insurance, unit trust, and pawnshops.

Finally, the Terengganu Islamic Religious and Malay Customs Council (MAIDAM), through the Muassasah Gadaian Islam Terengganu (MGIT), established the first Islamic pawnbroking in the state of Terengganu in January 1992, followed by PKB (March 1992), Bank Kerjasama Rakyat Malaysia (27th October 1993), YaPEIM cooperatives (2000), EON Bank (August 2002), AgroBank (September 2002) and other cooperatives.

The objectives of introducing Islamic pawnbroking are as follows: (i) to create an alternative financing channel to conventional pawnbroking which is more transparent and ethical; (ii) to eliminate the interest element imposed by conventional pawnshops; (iii) to eliminate *gharar* in the assessment of the pawned item's value, auctioning without sending notice to the customer, *etc.*; and (iv) to promote social justice and the

well-being of the borrowers (Aziz, 2001). In other words, Islamic pawnbroking not only aims to provide an alternative financing which is permissible in Islamic principles but also to overcome financial exclusion among the lower economic strata in Malaysia in order to improve the socio-economy of the society.

5.3 DEVELOPMENTS OF CONVENTIONAL PAWNSHOP IN MALAYSIA

As mentioned above, pawning activities in Malaysia can be traced back to early traditional Malay society in the 15th century which began to flourish after the arrival of Chinese immigrants in the Larut region of Malaysia in the 19th century. The discovery of tin in Larut saw Chinese immigrants flocking to that region, which had struck its wealth from the tin mines. Many of them began to reinvest some of their accumulated savings through moneylending to the heads of the *Kangchu*⁵¹ settlements who were given sole rights to running the pawnbroking business. In addition, they also had the right to collect tax from farmers and a range of businesses such as gambling, opium, and liquor sales as well as pawnshops (Skully, 1994). The pawnbrokers were all of Chinese origin of the *Hakka* clan.

The first formal regulation for pawnbroking institutions in Malaysia was the Pawnbrokers Ordinance of 1871 (Wan Abdullah, 1999). This ordinance was enforced for some time until it was abrogated by the Pawnbrokers Ordinance of 1898. At that time, several states introduced their own enactments. This was due to the fact that Malaysia's component states had not always existed as a single federation but rather as separate states. According to Wan Abdullah (1999: 75), the nine enactments and ordinances that were implemented by each state before the Pawnbrokers Act 1972 were: 'the Pawnbrokers Ordinance Straits Settlements Cap. 216', 'Pawnbrokers Enactment of Federal Malay States Cap. 85', 'Pawnbrokers Enactment of Johore No. 36 of 1917', 'Pawnbrokers Enactment of Kedah No. 71', 'Pawnbrokers Enactment of Terengganu No. 42 of 1356/1937', 'Pawnbrokers Enactment of Perlis No. 5 of 1335/1916', 'Pawnbroking Farm Enactment of Kelantan No. 8 of 1910',

⁵¹ *Kangchu* is a system that gives permission to Chinese agricultural workers to form settlements along certain Malayan rivers for the purpose of planting pepper and gambier. Each of the Chinese workers will be given a 'river letter' to enable them to stay in particular place (Mohamed, 1986).

‘Pawnbrokers Ordinance of Sabah Cap. 94’, and ‘Pawnbrokers Ordinance of Sarawak Ordinance Cap. 115’. Finally, the government introduced the Pawnbrokers Act 1972 in order to standardize the regulation of pawnbroking in Malaysia, which is still in existence today with certain amendments in 2003.

5.3.1 Modus Operandi of Conventional Pawnshop

5.3.1.1 The lending process

The loan process of pawnbroking transactions can be described in the following stages. First of all, the customer must be 18 years of age and can show a valid identification card. Not like the banking system, the pawnbroker will not make any credit scoring and will not ask for the purpose of the loan.

Secondly, when a customer walks in a pawnshop with their potentially pawned item, they will be entertained by a clerk or an officer that is an expert as a valuer. The task of the valuer is to determine the value of the pawn (used as a collateral) to make the loan. Based on this, the valuer decides on the size of the loan. Commonly, in the case of conventional pawnshops in Malaysia, customers can negotiate the amount of the loan with pawnbrokers in relation to the perceived value of the collateral.

Detailed account of the pledge assets, the ratio of borrowed amount and maturity are provided in table 5.2.

Table 5.2: Types of Pledged Assets, Amount, and Maturity in Pawnshop

Types of pawnshop	Pledge Assets	Maximum borrowed amount (RM)	Maturity (Months)
Conventional	Jewellery, watch, handphone and electronic instruments	50 percent of the value of pledged assets/negotiation	6

Source: Ismail and Ahmad (1997: 1345)

After following these processes, the customer will receive the loan immediately in cash. The pawnbroker will give a pawn-ticket to the person as a proof of transaction and record the particulars of the transaction in the pawnbroker’s book. The pawn-ticket states the customer’s name and address, a description of the collateral, the amount lent, the maturity date, and the amount that must be paid to redeem the assets. In conventional pawnshops, the customer must repay the loan with an interest rate of

2% of the loan per month, as stated in the Pawnbrokers Act 1972, Section 17(1). The entire transaction seldom takes more than a couple of minutes.

5.3.1.2 The redeeming process

In most transactions, pawnbrokers make loans with maturities up to six months. Every pawnbroker within this period from the pawning transaction date must deliver the pledge to any person who presents the pawn-ticket issued by him or her.

However, if a customer is not able to repay the loan with interest within a predetermined period, the loan can be extended within which the pledge may be redeemed for a further period of not less than three months⁵² by paying the interest that has built up over time through the compound interest rate mechanism. A note of such extensions shall be made in the pawnbroker's book and an endorsement will be made on the pawn-ticket.

If the pledge cannot be redeemed within the six month period or the extension period agreed by both parties, there will be two possible outcomes: (i) if pawned for a sum not exceeding two hundred ringgit, the pawn item shall become the property of pawnbroker, and (ii) if pawned for a sum exceeding two hundred ringgit, the pawnbroker can dispose of the pledge by auction.⁵³

5.3.1.3 The auctioning process

It should be noted that according to the prevailing mechanism, the auction of the unredeemed pledge must be conducted by a licensed auctioneer. The pawnbroker can bid for, and purchase at a sale by auction and they shall be deemed the absolute owner of the pledge purchased. If the pawned item is sold with a surplus in the auction, the customer is entitled to that surplus within the period of four months. On the other hand, if no claim for the surplus is made, the pawnbroker shall pay the surplus to the Accountant General within fourteen days after the expiration of the period of four months. The Accountant General shall pay the amount paid to the Consolidated Trust Account.

⁵² Refer Section 19, Pawnbrokers Act 1972.

⁵³ Refer Section 23(1) (a) dan (b), Pawnbrokers Act 1972.

5.3.2 The Weakness of Conventional Pawnshop

It can be acknowledge that conventional pawnshops provide a solution for the short-term financial needs of individuals and entrepreneurs from the lower strata of the society. However, the practice over the years indicates certain weaknesses inherent in the system, which can be seen in the process and the consequences of the system.

In supporting this, Adnan (2004) has listed nine weaknesses faced by the conventional pawnshop. Firstly, the biggest number of complaints received from customers is related to the decreasing value of pawned goods. Many report that their gold jewellery had decreased in weight or length after the pawning period. According to the Federation of Consumers Association (FOMCA), this happened because under the Pawnbrokers Act 1972, it is not compulsory for the pawnbrokers to write down the weight, length, or type of gold of the jewellery to be pawned. In such cases, despite the fact that the customers who had complained suspected that the pawnbrokers had tampered with the jewellery, it could be difficult for the customer to prove this matter due to the failure in the recording system, which was not systematic or transparent.

The second weakness is that pawnbrokers are likely to offer a higher interest rate compared to the rate stated in the Pawnbrokers Act 1972. This often happens to illiterate customers or impoverished people and villagers from rural areas, who may not necessarily have financial knowledge and skills to deal with the details of such contracts.

Thirdly, pawnbrokers are likely to give a low collateral value during the valuation process. This usually happens because the Pawnbrokers Act 1972 does not state a certain value or criteria to determine the value of the collateral. Unscrupulous pawnbrokers will refuse to give out loans of more than RM200 for jewellery valued at RM400. As stated in the Pawnbrokers Act 1972, pawnbrokers are allowed to take possession of any collateral valued less than RM200 if the customer fails to redeem it in the specified period.

The fourth weakness is that unscrupulous pawnbrokers will often issue an illegible pawn-ticket. This happens when the pawnbroker offers a much higher interest rate or does not complete the information needed as stated in Pawnbrokers Act 1972. The pawnbroker tries to cover his misconduct by using a large rubber stamp so that the

receipt cannot be read. The pawnbroker also uses language or technical jargons, which may not usually be understood by the customers due to financial illiteracy. The pawn-ticket is also usually made of poor quality paper and can be easily torn, which then facilitates wrong-doing in the system.

As for the fifth weakness, it has been reported that some unscrupulous pawnbrokers have asked for 50 cents for each replacement of pawn-tickets and extensions of the pawning period. According to Section 21, Pawnbrokers Act 1972, customers are allowed to get a free replacement for any torn, destroyed, or lost pawn-tickets. However, some pawnbrokers neglect to follow this guideline when customers ask for an extension for the pawning period by exploiting their financial illiteracy and shortcomings in their understanding of bureaucratic forms.

The sixth weakness is that some immoral pawnbrokers will auction pawned goods worth more than RM200 without the customer's knowledge. Even worse, the pawnbroker does not auction the goods off and takes possession of the goods instead. This is against Section 23(1) (b) of the Pawnbrokers Act, in which any collateral worth more than RM200 should be auctioned off by a licensed auctioneer.

As for the seventh weakness, it has been reported that pawnbrokers do not return the surplus after the goods have been auctioned off. This irresponsible act will no doubt be a burden to the customers who need the money. As such, the customers should enquire the pawnbroker about any surplus that has been taken by the pawnbroker after the auction of the goods.

The eighth weakness of the conventional pawnshop system is that many customers do not know when their collateral will be auctioned off. The notices about the auction are only publicized in Chinese and English language papers. Usually, these notices will be overshadowed by other more interesting notices. This is a disadvantage to the pawnshop customers who are usually Malays from the villages or Indians from the estates who do not have access to the language. Only a handful of them read the English or Chinese papers, and some of them are illiterate. This will cause them to lose the opportunity to redeem their goods.

Finally, some pawnbrokers will also ask for advance payment from the pawnshop customers although this is against the Pawnbrokers Act 1972. This will add further burden to the customer's misfortune.

5.4 ISLAMIC PAWNSHOP AS A *SHARI'AH* COMPLIANT SOLUTION TO PAWNSHOPPING

According to Baharuddin (2002: 30-32), the initiative to form Islamic pawnbroking was discussed in the National Council of Islamic Matters (Majlis Kebangsaan Bahagian Hal Ehwal Islam Malaysia) meeting in April 1993. The meeting suggested that the State Islamic Council (Majlis Agama Islam Negeri) or Bank Islam Malaysia Berhad should implement Islamic pawnbroking. However, the two parties did not show any interest except for the Terengganu Islamic Religious and Malay Customs Council (MAIDAM) and Permodalan Kelantan Berhad (PKB).

MAIDAM had taken the first step in January 1992 to launch the Muassasah Gadaian Islam Terengganu (MGIT). This institution was the first to start Islamic pawnbroking which was based on the concepts of *ar-rahn* and *al-qardhul hasan*. This was followed by PKB which started the Ar-Rahn shop in Kota Bharu on 12th March 1992 and introduced the concept of a safekeeping fee for Islamic pawnshops.

The Islamic Economic Development Foundation Malaysia (YaPEIM) also had planned to implement an Islamic pawnshop but faced problems as it was against the 1972 Pawnbrokers Act. Due to the needs of the Muslim community for a pawnshop institution but to implement an act would take a long time, the Central Bank of Malaysia (BNM) requested Bank Kerjasama Rakyat Malaysia to implement the *ar-rahn* and suggested co-operation with the YaPEIM. This suggestion was made based on the factors below:

- (i) Bank Kerjasama Rakyat Malaysia is a cooperative which is exempted from the 1972 Pawnbrokers Act;
- (ii) Bank Kerjasama Rakyat Malaysia owns many branches which are situated in each state capital; and

- (iii) Commitment to the Islamic faith is in line with Bank Kerjasama Rakyat Malaysia's objective that is to become a full Islamic bank.

This suggestion was taken seriously by Bank Kerjasama Rakyat Malaysia who was interested in exploring the tools of Islamic financial services as well as using the present platform as a starting point for the *ar-rahm* institution. Indirectly, it would also help Bank Rakyat reduce the high operating costs had they set it up individually.

As such, on 21st August 1993, the Finance Minister at that time announced that the *ar-rahm* scheme would be implemented by Bank Kerjasama Rakyat Malaysia with the cooperation of YaPEIM. A memorandum of understanding had been signed between Bank Rakyat and YaPEIM and this signaled a partnership with an equal profit-sharing agreement.

Later, on 27 October 1993 the first phase of the *ar-rahm* scheme was launched at six branches of Bank Kerjasama Rakyat Malaysia Berhad. In 2010, there were 133 branches of Bank Kerjasama Rakyat Malaysia Berhad offering this scheme throughout Malaysia. YaPEIM had also taken the initiative to launch 59 counters of the *ar-rahm* scheme through YaPEIM co-operatives (See table 5.1). The next financial institution to enter the Islamic pawnbroking is EON Bank (August 2002) and Bank Pertanian Malaysia (AgroBank) in September 2002 followed by other cooperatives.

5.4.1 The *Shari'ah* Determination on the Implementation of *Ar-rahm* scheme in Malaysia⁵⁴

From 10th – 12th April 2007, the Malaysia's Department of Islamic Development (JAKIM) held the 77th *Muzakarah* (meeting) of the Fatwa Committee of the National Council for Islamic Religious Affairs to discuss *shari'ah* determination on the *ar-rahm* scheme in Malaysia to those interested in establishing the scheme.

In the meeting, they came to an agreement by providing the following conditions:

- (i) The working capital for Islamic pawnbroking (*ar-rahm*) must be gained from Islamic banks or lawful (*halal*) sources and free from usury (*riba*), gambling

⁵⁴ Refer to <http://www.e-fatwa.gov.my>.

(*maysir*), uncertainties (*gharar*), and other activities that do not meet the *shari'ah* requirements;

- (ii) The pawnbroker should subscribe to Islamic insurance coverage (*takaful*) and is not allowed to get involved with conventional insurance;
- (iii) If the collateral is lost, stolen, damaged or alike, the pawnbroker has to pay compensation for the remaining value of the collateral at the time of valuation; and
- (iv) The pawnbroker should appoint internal *Shari'ah* legal advisor to supervise the operation and activities of *ar-rahn*.

On the next meeting, JAKIM organized the 78th *Muzakarah* of the Fatwa Committee of the National Council for Islamic Religious Affairs on the 12th June 2007 to determine the safekeeping fees charge in Islamic pawnshops. The committee has come to a conclusion that the safekeeping fees will be charged as table 5.3.

Table 5.3: The Determination of Value of Item Pledge and the Safekeeping Fee

Value of Item Pledge	Safekeeping Fee (RM/ monthly)
RM100.00 – RM1,000.00	The first 3 months = 0.60 The next 3 months = 0.70
RM1,001.00 – RM5,000.00	The first 3 months = 0.65 The next 3 months = 0.80
RM5,001.00 – RM10,000.00	The first 3 months = 0.80 The next 3 months = 0.95

Source: JAKIM (2010).

In addition, the committee also agreed that if the specified period expires, and the collateral is not redeemed, agreement from both parties must be obtained in order to determine the extension period and the charge.

5.4.2 Modus Operandi of Islamic Pawnshop

Generally, the modus operandi for conventional and Islamic pawnshop transactions was quite similar. Despite the similarities, the contract (*aqad*) in the Islamic pawnshop is different from the conventional pawnshop. The loan granted is based on four concepts as discussed in the previous chapter: *al-qardhul hasan* (interest free

loan), *al-wadiah yad dhammanah*⁵⁵ (keeping valuable asset safe with guarantee), *al-ujrah* (storage fees), and *ar-rahn* (collateral). It should be noted that Islamic pawnbrokers set the safekeeping fee based on the value of collateral and not on the amount of loan.

In addition, the only item accepted as collateral in the Islamic pawnbroking is gold. As stated in Chapter 3, gold has several advantages as collateral over other items (Skully, 2005). During the pawning process, the valuation is based on the purity of the gold item. The gold will be valued at the prevailing market price. The best method of assessing gold jewellery in Islamic pawnshop is by using acid test. The method involves rubbing the piece of the pawned jewellery on a black stone. The quality of gold will depend on the friction; the rougher the feel of the gold, the better the quality. The method of rubbing will be done at the edge of the gold as these parts are the easiest to determine if the gold is not genuine. In addition, a special density meter is used to value the gold.

In terms of legislation, the Islamic pawnbroking is not regulated under the Pawnbrokers Act 1972 except the MGIT and PKB. Most of the Islamic pawnbroking institutions are cooperatives which are subject to the Co-operatives Societies Act (1993) and their own *Ar-Rahn* Manual Guidelines. For example, the *ar-rahn* scheme in Bank Kerjasama Rakyat Malaysia Berhad is subject to three different acts, which are the Bank Kerjasama Rakyat (M) Berhad Act 1978, the Co-operative Societies Act (1993) and the Development Finance Institutions Act 2002. In addition, Bank Kerjasama Rakyat Malaysia Berhad has introduced separately the *Ar-Rahn* Manual Guidelines.⁵⁶ Other relevant acts are the Occupational Safety and Health Act for staffs that are exposed to acid for the gold test and the Weight and Measurement Act, in which the gold weighing device has to be licensed every year (Sehan, 2004).

⁵⁵ The jurists have different views on the responsibility of the item pledge. Most of the *Shafiiis*, *Hanbalis* and *Zahiriyyah* claim that the lender (the pawnbroker) is not responsible for any damages that occur to the collateral because they are a trustee (*yad amanah*), unless due to the carelessness of the lender himself. In contrast, the *Hanafis*, *Zaidiyyah* and *Ibadhiyyah* argue that the lender is fully responsible for the damages (*yad dhammanah*) that occur to the collateral, unless the defects have occurred before the contract is made. This view is in line with the provision in the Pawnbrokers Act 1972 in Malaysia (Muhammad Naim, 2007).

⁵⁶ Refer Bank Kerjasama Rakyat (M) Berhad (2000, 2002 dan 2003). *Manual Pinjaman Pajakgadai Islam*. Not published.

Principally, Islamic pawnbrokers would prefer the customers to redeem their collateral within six months. However, if there is no repayment in the end of contractual period, there is an extension period of three months after which the client is informed that the item will be sold by auction within a further two months period. Based on the *Ar-Rahn* Manual Guidelines of Bank Kerjasama Rakyat Malaysia Berhad, any surplus from the sale of the gold over the amount owed to the pawnbroker, including accumulated safekeeping fees and any costs related to the sale has to be returned to the customer. In case the customer cannot be located, the surplus will be forwarded to the *Baitulmal* from which the customer is entitled to make future claims.

5.5 SURVEYING ISLAMIC PAWNBROKING INSTITUTIONS IN MALAYSIA

Pawnbroking based on *shari'ah* principles was pioneered by MAIDAM through Muassasah Gadaian Islam Terengganu (MGIT) in Terengganu state in January 1992. This initiative was followed three months later by Kelantan State Economic Development Corporation (KSEDC) through its subsidiary, Permodalan Kelantan Berhad (PKB) which launched the *Ar-Rahn* shop in March 1992. Both of these institutions similarly provided Islamic pawnbroking services only to local customers in each state, Terengganu and Kelantan respectively.

Later, the Malaysian government, through the Central Bank of Malaysia (BNM), took the initiative to promote all formal financial institutions to implement the *shari'ah* compliant pawnbroking in order to prevent Muslims from borrowing from conventional pawnshops which are based on *riba* and *gharar* (Skully, 2005). With assistance from the Central Bank, the Malaysian Islamic Economic Development Foundation (YaPEIM) signed a memorandum of understanding with Bank Kerjasama Rakyat Malaysia to commence the *ar-rahn* scheme on 27th October 1993. Initially, Bank Kerjasama Rakyat Malaysia operated in six branches, and they expanded this scheme to all branches (133) in 2010. Although YaPEIM launched its first *ar-rahn* scheme on November 2000, it has expanded to 59 YaPEIM cooperatives in 2010.

The next institution which offered this product to the public were EON Bank and Bank Pertanian Malaysia (AgroBank) which commenced on August 2002 and

September 2002 respectively. In 2010, AgroBank expanded its services to 84 branches throughout Malaysia.

After having difficulties in getting a license to operate the *ar-rah*n scheme from the Ministry of Housing and Local Government, MAIDAM launched Muassasah Gadaian Islam (MGI) through its own cooperatives and other joint-ventures cooperatives in 2003, followed by other cooperatives. The commencement date of each Islamic pawnbroking in Malaysia is shown in table 5.4.

Table 5.4: Islamic Pawnbroking in Malaysia

Institutions	Commencement Date
Muassasah Gadaian Islam Terengganu	January, 1992
Permodalan Kelantan Berhad	March, 1992
Bank Kerjasama Rakyat Malaysia	27 October, 1993
EON Bank	August, 2002
Bank Pertanian Malaysia (AgroBank)	September, 2002
Muassasah Gadaian Islam (Terengganu)	2003
Kedai Al-Rahnu Kelantan	2003
Pahang Consumer Co-operative	2003

Source: Skully (2005: 3).

The following section discusses the background, operation, and working mechanism of selected Islamic pawnbroking operating in Malaysia such as MGIT, PKB, Bank Kerjasama Rakyat Malaysia, and AgroBank.

5.5.1 Muassasah Gadaian Islam Terengganu (MGIT)

Muassasah Gadaian Islam Terengganu (MGIT) was given a licence by the Ministry of Housing and Local Government as the first Islamic pawnbroking operating in January 1992 under MAIDAM supervision. The sole objective was to fulfil the needs and welfare of the less fortunate.

The loans offered in the MGIT *ar-rah*n scheme are free from interest as it is based on *al-qardhul hasan*. However, customers are encouraged to contribute a small sum to the *Muassasah* treasury account. This is known in Islamic finance as ‘*hibah*’ or gift.

The collateral for loans may be in the form of gold or diamond jewellery. The loans given should not be more than 75% of the jewellery’s value. In addition, the customer is only eligible for loans of up to RM1,500.00 for each item. If the customer fails to pay in three months, they can apply for a three month extension. If they fail to pay

after the extension period, the collateral will be auctioned off by MGIT to pay off the loan. If there is any surplus after the loan has been settled, it will be returned to the customer. This service is available for those 18 years old and above and it gives priority to the residents of Terengganu only. The customers need to show valid proof of ownership of the goods.

It should be mentioned that the business of the MGIT has flourished since its first formation, as it started with 12,732 customers in 1992, which increased to 26,632 customers in 2005. The value of pawned items has increased from RM9.85 million in 1992 to RM28.9 million in 2005 (Johari *et al.*, 2007).

5.5.2 Permodalan Kelantan Berhad (PKB)

In March 1992, the Kelantan State Economic Development Corporation (KSEDC), through its subsidiary, Permodalan Kelantan Berhad (PKB), set up the *Ar-Rahn* shop as the second Islamic pawnshop in Malaysia in order to fulfil *shari'ah* needs. It is part of the Kelantan government's effort to help those in need by giving out interest-free loans with a small amount of safekeeping fee charges based on collateral value as shown in table 5.5. Currently, there are about 22 outlets of *Ar-Rahn* shops operating in Kelantan (See table 5.1).

Table 5.5: The Safekeeping Fees Charge in PKB's Pawnshop

Value of pledged asset	Safekeeping fee (for every RM100.00 of gold value per month)
RM1-RM400	RM0.60
RM401-RM2,000	RM0.85
RM2,001-RM5,000	RM0.95

Source: Permodalan Kelantan Berhad (2010)

The collateral accepted is only in the form of gold jewellery. The loan given is 60% of the value of jewellery and not more than RM5,000.00. The pawning period is six months. Those who are unable to pay back may extend the pawning period, subject to approval of both parties, and the customers need to pay the safekeeping fees of the previous six months. If customers are still unable to pay back after the extension period, the *ar-rahn* pawnshop will send an auction notice before the auction is held by licensed auctioneers. The customers are eligible to get any balance of the auction price after subtracting costs and any debts.

5.5.3 Bank Kerjasama Rakyat Malaysia Berhad

The Bank Kerjasama Rakyat Malaysia Berhad *ar-rahn* scheme was introduced on the 27th October 1993, which was first introduced in six branches. In 2010, there were 133 branches operating throughout Malaysia. Interestingly, the bank had also opened the first stand-alone *Ar-rahn* shop in Kota Bharu, Kelantan in June 2000. These schemes leaned more towards social-orientation with the borrowers rather than being profit-oriented, and thus, the borrowers will benefit from it. Table 5.6 shows the rates of safekeeping fees charge by the *ar-rahn* counters.

Table 5.6: The Fees for *Ar-rahn* Scheme in Bank Kerjasama Rakyat Malaysia

Type of Scheme	Financing amount	Safekeeping fee for every RM100.00 of gold value per month
<i>Ar-rahn</i>	RM1,000.00 and below	RM0.65
	RM1,001.00 – RM10,000.00	RM0.75
<i>Az-zahab</i>	RM10,001.00 – RM50,000.00	RM0.75

Source: Bank Kerjasama Rakyat Malaysia Berhad (2011)

The scheme is open to Malaysian residents aged 18 and above and not more than 65 years old. Only gold jewellery, including gold bars, is accepted as collateral. Loans for the pawned goods will not be more than 70% of the goods value. Each pawned item must not exceed RM10,000.00 per day or a cumulative amount not exceeding RM50,000.00 for each customer. While for the *az-zahab* scheme, the maximum loan is RM50,000.00 with a RM0.75 safekeeping fee for every RM100.00 of gold value. The pawning period is only six months, which may be extended for another three months. If the customer fails to redeem their belongings, the bank will send a notice to auction off the goods. The bank will subtract the loan amount, fees for safekeeping, and other costs involved in the auction process from the sells. Then the surplus will be given to the customer.

A week before the six month period, the bank will send the first reminder. After six months, a second reminder will be issued. After the third reminder, if the customer is unable to redeem their goods, the pawnbroker will dispose the goods by auction to the licensed auctioneer. Supposing the value of the item pawned is worth RM1,428.00, the bank will only release a maximum loan of RM1,000.00 within repayment period of six month. If the fee for safekeeping is 75 sen for every RM100.00, then the fees will be RM10.71 per month or RM64.26 for six months. For comparison, it should be

noted that with the same amount of loan, customer of conventional pawnshops will have to pay almost double which cost RM20.00 per month. Going back to the example, if the goods are auctioned at RM1,428.00, the bank will subtract RM1,000.00 for the loan, RM96.39 for safekeeping fees (9 months), and administration fees for the auction RM50.00, then the balance of RM281.61 will be returned to the customer.

The Managing Director of Bank Rakyat, Datuk Kamaruzaman Che Mat points that through its fully owned subsidiary, Rakyat Management Services Sdn. Bhd, would open 15 branches of the Islamic based pawn franchise outlets, which is called *Ar-Rahnu X-Change*, in the next three years (Bernama, 2008).

The prototype branch of *Ar-Rahnu X-Change* in Sentul which has been in operations since 2007 has shown good performance with an average loan payout of RM900,000.00 a month. In the future, Bank Rakyat plans to expand the *Ar-Rahn* outlets to various locations such as Medan Tuanku, Kuala Lumpur (managed by Koperasi Pendidikan Islam Malaysia Bhd), Pokok Sena, Kedah (managed by Koperasi Kementerian Kesihatan Negeri Kedah Bhd), and Sri Gombak (managed by Koperasi Serbaguna Iman Malaysia Bhd).

Table 5.7: Total of Financing, Collateral Value and Customers for Bank Kerjasama Rakyat Malaysia from January to June 2010

Month (2010)	Total of Financing (RM)	Total of Collateral Value (RM)	Total of Customer (thousand)
January	96,228,000.00	148,043,000.00	32,895
February	77,523,000.00	119,226,000.00	26,102
March	94,542,000.00	145,449,000.00	33,311
April	85,677,000.00	131,810,000.00	30,285
May	112,741,000.00	173,447,000.00	34,155
June	120,025,000.00	184,653,000.00	38,626

Source: Bank Kerjasama Rakyat Malaysia Annual Report (2010).

The Islamic pawnbroking scheme operated by Bank Kerjasama Rakyat Malaysia is also experiencing a positive growth in terms of total financing, collateral value, and customers in 2010. As shown in table 5.7, the total customers increased from 30,285 in April 2010 to 38,626 customers in June 2010. The total financing has also increased from approximately RM86 million in April 2010 to RM120 million in June 2010.

5.5.4 Bank Pertanian Malaysia Berhad (AgroBank)

Initially, AgroBank launched its *ar-rahn* scheme in 12 out of 132 branches in September 2002. In 2010, AgroBank expanded the scheme to 84 branches throughout Malaysia. The bank introduced the scheme to meet the short-term financial needs of the rural people, who were mainly farmers and fishermen, to improve their business and modernize their methods. This scheme is open to Malaysian residents of 18 years and above. All types of gold such as necklaces, earrings, rings, wrist and leg bracelets, brooches, gold coins, and gold bars are accepted as collateral. A loan of not more than 70% of the market value of pawned item will be issued. The maximum loan is RM150,000.00 subject to the RM50,000.00 daily limit, and the pawning period is six months and can be extended to three months with a final extension of another two months.⁵⁷ The margin of financing and the storage fee charge in AgroBank is illustrated in table 5.8.

Table 5.8: The Fees for *Ar-rahn* Scheme in AgroBank

Margin of financing	Monthly Storage Fee per RM100 of jewellery value
50%	RM0.50
60%	RM0.60
70%	RM0.75

Source: AgroBank (2011)

5.6 ISSUES IN MALAYSIAN ISLAMIC PAWNBROKING

There exists scarce information on Islamic pawnbroking in Malaysia. However, there are several studies aiming to critically reflect on Islamic pawnbroking. Prior studies have documented on the importance of having pawnshops in Malaysian society. Such studies include: Johari *et al.* (2007), Skully (2005), Bhatt and Sinnakkannu (2008), Ismail and Ahmad (1997), and Mohamed (1986). The following discussion highlights some of the issues explored by these studies:

⁵⁷ Refer Bank Pertanian Malaysia. *Ar-rahnu Scheme*. Available at: <http://www.bpm.com.my/article.cfm?id=560> Access Date: 2nd February, 2008.

5.6.1 *Shari'ah* Perspectives

As with most Islamic financial products, the question is how to ensure the transaction itself will be *shari'ah* compliant. Ismail and Sanusi (2005) examined Islamic pawnbroking and the importance of *shari'ah* rules in the implementation of Islamic pawnbroking. They argue that Islamic principles such as *al-qardhul hasan*, *ar-rahn*, *al-wadiah yad dhammanah*, and *al-ujrah*⁵⁸ must be given careful consideration in establishing Islamic pawnbroking. Similarly, Mohammed *et al.* (2005) render a similar explanation as Ismail and Sanusi (2005), who argue that these financial instruments make Islamic pawnshop clearly different from conventional pawnshops. The element of *riba* and *gharar* can totally be eliminated in the system through the use of these products. Skully (2005) explains that there are no disguised interest charges or application fees involved in Islamic pawnbroking system. Indeed, the four concepts above have been incorporated in the operation of all Islamic pawnbroking institutions in Malaysia, including Indonesia, Brunei, and Pattani.

5.6.2 Capital and Funding

The implementation of Islamic pawnshops has provided a means to overcome the problems of social failure and mismanagement by the conventional pawnshops. While it may be considered that the Islamic pawnbroking system does not appear to have problems in terms of operations, a study from Baharuddin (2002) has shown that the main problem with Islamic pawnshops is the lack of funds. The high demand for pawnshop services has caused the pawnshop operators to face a lack of capital.

Among the institutions that experience problems concerning a lack of funding is MGIT. MGIT is the only Islamic pawnbroking that does not charge any safekeeping fee to the borrower due to their aims is solely to help the people in need. The same problem also occurred at the *Ar-Rahn* shop under PKB in Kelantan.

5.6.3 Pricing System

Prior studies by Mohammed *et al.* (2005) and Ismail and Ahmad (1997) have examined the importance of pricing associated with the pawnshop lending. In more

⁵⁸ Refer Chapter 4 for the description of these instruments.

specific terms, they argued that the safekeeping fee imposed by Islamic pawnbroking is relatively cheaper than the conventional pawnshops (2%). This means that the cost of getting instant cash in Islamic pawnshop is cheaper, thus, little burden is carried by the customers. On the basis of these findings, it is important to have the *ar-rahn* shop, which offers competitive rate, reflect the average pricing system in the market.

With regard to this issue, table 5.9 shows a comparison between conventional pawnbroking, Islamic pawnbroking, and bank personal loan in terms of fee charge and total amount of loan that the customer needs to pay when the loan period is due, *i.e.* one year tenure. Customers will usually benefit more if they borrow from the bank as compared to the conventional and Islamic pawnshop. But, normally, those who borrow money from banks have an established income and can produce pay-slips as compared to customers who borrow money from the pawnshop.

Table 5.9: The Comparison of Fee Charge and Total Amount of Loan between Conventional Pawnbroking, Islamic Pawnbroking, and Personal Loan from Bank

Conventional Pawnbroking	Islamic Pawnbroking	Personal Financing (Bai' Al-Inah)
Total of loan = RM 10,000	Value of item = RM14,285 60 % from collateral value = RM 10,000	Total of loan = RM10,000
Interest rate = 2% per month	Fee charge = RM0.75 (for every RM100.00)	Profit rate for a year = 3.25%
Financing tenure = 1 year	Financing tenure = 1 year	Financing tenure = 1 year
<u>Calculation:</u> Total of interest rate = $2/100 \times 10,000 \times 12$ month = RM2,400	<u>Calculation:</u> Total fee charge = $14,285/100 \times 0.75 \times 12$ month = RM1,285.65	<u>Calculation:</u> Total of profit rate = $3.25/100 \times 10,000$ = RM325
Monthly installment (plus total of loan) = (RM10,000 + RM2,400)/12 = <u>RM1,033.33</u>	Monthly installment (plus total of loan) = (RM10,000 + RM1,285.65)/12 = <u>RM940.47</u>	Monthly installment (plus total of loan) = (RM10,000 + RM325)/12 = <u>RM860.42</u>
Conclusion	Total of fee charge a year, RM1,285.65 is equal to 12.86% profit rate. If we compare the personal financing with Islamic pawnbroking, the fee rate is more expensive by 9.61%. On the other hand, if we compare	

	the interest rate charge by conventional pawnbroking with the Islamic pawnbroking fee rate, the fee rate will be more cheaper by 11.14%.
--	------------------------------------------------------------------------------------------------------------------------------------------

As discussed previously, safekeeping fees for collateral is allowed according to *shari'ah*. This is because customers should pay all maintenance costs for collateral. However, Muhammad Naim (2007) argues that fixing specific fees based on collateral value could bring back *riba* into the system, especially if the real cost of maintaining it is same for each of collateral, which is prohibited in Islam. He suggests that Islamic pawnbrokers may charge a fee for safekeeping, but this should not be based on the collateral value. It should be based on the real cost occurred in keeping the item.

5.6.4 Pledge Asset

Previous studies by Sanusi and Johari (2006), Mohammed *et al.* (2005) and Ismail and Ahmad, (1997) have shown that Islamic pawnshops accept collateral that has a market value, such as gold and jewellery only. According to Ismail and Ahmad (1997), these items will maintain their value over a reasonable period of time and are easy to store.

Comparatively, in conventional pawnshops, the items to be accepted are beyond gold and jewellery, including branded watches and diamonds. Ismail (2002) has raised the issue on whether Islamic pawnshops can accept a wider spectrum of items such as land, property and bond certificate in terms of item pledge. He argues that the price of gold can fluctuate and was also concerned about the pricing of gold and whether it was based on weekly market price or daily market price. According to Johari *et al.* (2008), MGIT uses the weekly market price as an indicator for determining the price of gold. In contrast, most banks will use the daily market price as an indicator.

Like the Muslim Funds of North India that practice Islamic pawnbroking, acceptable collateral includes papers of security, property documents, bonds, cheques, shares, vehicles paper, ornaments, and other valuables *etc.* (Khan and Nisar, 2004). With this policy, the customer can have a wide range of items to offer for getting cash from pawnshop lending.

5.6.5 Location and Loyalty

The accessibility of pawnshops is an important issue as well. However, there exists scarce information on the importance of location factors for pawnshops. Two important studies can be utilized to draw some conclusions. The first study is by Mohammed *et al.* (2005) who argued that location is a significant factor for pawnshop development, who also argued that individuals tend to choose pawnshops that are near to their houses and work places. Ismail and Ahmad (1997) also suggested the importance of location for setting up pawnshops businesses because in their study, they discovered that pawnshops are highly unevenly distributed across the Malaysian states. In order to promote Islamic pawnbroking, it is expected that there will be less pawnshops per capita in states that do not charge interest, whilst more pawnshops per capita in states with higher interest rates (Ismail and Ahmad, 1997: 1347). In addition, they found that most of the pawnshops were built in town areas to facilitate transactions.

In terms of loyalty, Woloson (1964: 176) discovered that pawners were normally loyal to their pawnbrokers because they felt more comfortable negotiating loan terms knowing what to expect.

5.6.6 Microcredit Provision

There appears to be a clear gap between those with a stable income and with assets that can be offered as collateral for loans, and the people who have low income and do not have any valuable assets as collateral. The gap between the two income groups could be made less obvious by offering an *ar-rahn* microcredit scheme to help the needy; and hence, in such a strategy, *ar-rahn* can help as a redistributive scheme through developing social capital within a microcredit framework.

According to Ismail *et al.* (2007) and Awang Kechil *et al.* (2004), the *ar-rahn* scheme has the potential of being formal credit to small-scale enterprises, which is evidenced by Samsudin (2002) who argued that the customers use the *ar-rahn* scheme for education and business purposes. He added that the *ar-rahn* scheme is also useful for small traders who are unable to get loans from banks and other financial institutions due to their small income and lack of valuables assets to offer. Normally, traders who pawn their jewellery for business capital will repay the loans after they acquire profit

from their businesses. Barjoyai (1999) also evidences that the pawnshop system was able to help small businesses and market traders in the Klang Valley, Kuala Terengganu, and Kota Bharu to acquire more capital.

5.6.7 Potential for Capital Accumulation through Islamic Pawnbroking

Ar-rahn can be a better alternative to finance stock purchase compared to credit cards and share-financing loans. At least the money individuals obtain via *ar-rahn* is backed by productive assets. However, can the company use the asset to generate income? For example, if the collateral is a gold bracelet worth RM10,000.00, can it be sold for investment purposes with the proceeds going to the company alone? This may be one way to compensate for the opportunity cost forgone to the company for the loan given.

According to Abi Bakar Marghinani in the *Hedaya* (as noted by Rosly, 2005: 132), it is not lawful to take pledges for trusts such as deposits, loans or *mudharabah* or partnership stock. The pawnbroker (*murtahin*) is not entitled to use the collateral (*rahn*) for his right is only in the possession of the pledge and not in its use. If the pawnbroker uses the pledge for its own benefit without informing the debtor, and then incurs a loss, it takes full liability for the loss incurred.

In contrast, Meera (2008) suggests that, in order to make productive use of the increasing amount of gold accumulating in the pawnbrokers stock, presumably due to a high number of default causes by the lower income group, the pawnbroker can convert the unredeemed gold items into gold dinars which can be pushed back into the economy.

5.7 CONCLUSION

The emergence of conventional pawnbroking operating side by side with Islamic pawnbroking (dual system) provides an option for the customers to choose the best pawnbroking service based on the features explained in the preceding section. As for Muslims, this opportunity will enable them to reject monetary transactions involving *riba* and *gharar*. In addition, it is expected that Islamic pawnbroking will be able to eliminate the informal lending activities such as loan sharks or ‘*ah-long*’ which have clearly oppressed and victimized the lower-income groups.

As for Malaysia, the government has always been committed to developing Islamic financial products. In order to enhance the growth of this product, the participation of mainstream financial institutions in the *ar-rahn* scheme will complement the existing range of Islamic banking products offered by financial institutions. It can be stated without any hesitation that pawnshop institutions have a significant impact on the development of society and hence contribute to economic growth. Finally, the Malaysian experience of Islamic pawnbroking seems to offer a very useful model which other countries might wish to consider.

Chapter 6

RESEARCH METHODOLOGY

6.1 INTRODUCTION

The foregoing chapters provide a synthesized review of literature that addresses several issues regarding conventional pawnbroking operating in China, the United Kingdom, the United States of America, and some of the Southeast Asian countries, and the current implementation of Islamic pawnbroking initiated in Malaysia. In this chapter, the study proceeds by elaborating on the research methodology designed to explore the attributes, behaviours, and perceptions of Malaysian customers and pawnbrokers about the role of pawnshop institutions in social development, economic growth, and the future prospect of Islamic pawnbroking as opposed to the conventional pawnbroking system.

Following sections in this chapter discuss the research methodology and method related in this study in terms of discussing the actual procedure followed.

6.2 RESEARCH FRAMEWORK AND QUESTIONS

In particular, the empirical part of the study in later chapters sets out to seek answers to the research questions addressed below, which are identified in the introductory chapters:

- (i) What are the attributes of customers getting loans from pawnshop?
- (ii) What is the opinion of different groups in Malaysia regarding the role of pawnshop in solving the financial exclusion?
- (iii) What is the opinion of different groups in Malaysia regarding the role of pawnshop in solving socio-economic issues?
- (iv) What is the opinion of different groups in Malaysia regarding the role of pawnshops as an alternative to formal financial institution?
- (v) Does faith contribute to the choice of pawnshop?

- (vi) Is financing production purposes instead of consumption purposes supportive to the socio-economic development of the customer?
- (vii) What is the opinion of customers in Malaysia towards the services provided by pawnshop?
- (viii) Can Islamic pawnbrokers sustain their business without charging any fee or small percentage of safekeeping fee?
- (ix) Is there any dilemma between social responsibility and profit maximization from the Islamic pawnbrokers' point of view?
- (x) Is there any solution from the selected Islamic pawnbroking institutions to standardize their policy and regulation?
- (xi) Is there any agreement between customers and pawnbrokers on the factors affecting the selection of their preferred pawnshop?
- (xii) Do the processes held in the pawnshop tally with the regulation provided in the Pawnbrokers Act 1972?
- (xiii) What is the ultimate role of pawnshops from the perspective of the pawnbroker itself?

The questionnaire method aims at measuring the participants' behaviour and opinions related to these main research questions. These should also be considered as the base of the hypotheses of this study, which are defined in detail in the following section.

6.3 RESEARCH METHODOLOGY

According to Asutay (2008), research methodology is “the study of methods and principles and of their application in a given field of academic inquiry”. *Methodology* itself is defined as the framework of philosophy and the essential assumptions of research (Van Manen, 1990). Similarly, Creswell *et al.* (2007) refers to research methodology as the framework pertaining to the whole process of research.

Researchers generally agree that there are two natures of research methodology within social science research: quantitative and qualitative methods. Normally, the structured

approach is classified as quantitative methodology, whereas the unstructured approach as qualitative methodology. Both of them differ in the underpinning philosophy as well as in design, strategy, methods used, and data analysis. According to Asutay (2008), the main objective of qualitative study is to measure the subjects' perceptions, understanding, and behaviour regarding to the relevant topic, while quantitative research aims to discover and examine the interrelationship between related variables.

Since the aim of this research is to measure the attributes, behaviours and perceptions of Malaysian customers and pawnbrokers about the role of pawnshop institutions to society's development and its contribution to economic growth, and the future prospect of Islamic pawnbroking as opposed to the conventional pawnbroking system, a qualitative methodology is employed to achieve the research aim.

6.4 RESEARCH DESIGN

One of the preliminary steps in conducting social research is to identify a research design or structure before launching any data collection or completing data analysis. According to Jupp (2008), research design is a design or strategy that validates and rationalizes the logic, structure, and the principles incorporated in any research methodology and methods and how these elements link with the research questions, hypothesis, or proposition. In other words, the function of a research design is to ensure the proper method of obtaining clear, unambiguous, and strong evidence in answering the research questions. There are four types of research design; which are experiment, case study, longitudinal design, and cross-sectional design.⁵⁹

In this study, the researcher adopts the cross-sectional design method, which is also the most widely-employed design in social science research. According to Bryman (2008), the cross-sectional design, which is also known as a social survey design, is popular for those researches which involve questionnaires and structured interviews. This is one of the reasons that the cross-sectional design is used in this study. Vaus (2003) provides the rationale of employing this research design as follows:

⁵⁹ For a detailed discussion on the various the various research designs, refer Vaus (2003), Kumar (2005), Sekaran and Bougie, (2009), Bryman (2008).

- (i) Allow the researcher to gather the data and interpret the results relatively easily and quickly. Since the data are collected at one point of time, it is unnecessary for a range of follow-up stages or interventions prior the data analysis;
- (ii) The designs are more cost effective compared to other research designs.

Cross-sectional surveys can be defined as any collection of data from a sample of individuals (or groups) at a specific time as a basis for inferring the populations' characteristics from which the sample is drawn from. A cross-sectional survey of the population may be carried out once or repeatedly at different points of times, thus enabling estimates and the monitoring of the population's responses toward any changes in social, economic and political policies.

Cross-sectional sample surveys are also described as 'descriptive' or 'analytic' depending on whether the prime purpose is to provide descriptive estimates of the population's parameters or to test hypotheses about the relationships between the variables encompassed by it. This study includes both descriptive and analytical aspects.

It should also be mentioned that this study is a *case study*, as it is based on the experience of Malaysians in terms of pawnshop behaviour.

6.5 RESEARCH STRATEGY

According to Silverman (2000: 88), "choice of method should reflect an overall research strategy". Basically, research strategy can be distinguished between quantitative and qualitative research.

Bryman and Bell (2007: 28) claim that the quantitative study "can be construed as a research strategy that emphasizes quantification in the collection and analysis of data and that entails a *deductive* approach to the relationship between theory and research, in which the accent is placed on the testing of theories". In contrast, they believe that qualitative study "can be construed as a research strategy that usually emphasizes words rather than quantification in the collection and analysis of data and that predominantly emphasizes an *inductive* approach to the relationship between theory

and research, in which the emphasis is placed on the generation of theories” (Bryman and Bell, 2007: 28).

In other words, the *deductive* approach begins from the general theory to a specific case. On the other hand, the inductive approach is exactly the opposite of the deductive approach as it moves from the specific-to-general, where the general conclusions are made based on the specific observations (Sekaran and Bougie, 2009: 28).

Considering the nature of this study, hence, the *inductive* approach is applied in this research because it is a qualitative research and engages in generating hypothesis by commencing the study from field research to establish trends and generalize results.

6.6 RESEARCH METHOD AND INSTRUMENTS

The choice of research methods is a necessary step in the research process taken between setting objectives and commencing fieldwork. According to Buchanan and Bryman (2009), the determinant of methods in the research process is crucial in order to find the appropriate tools consistent with research topics and objectives. They also note that the “choice of research methods, shaped by aims, epistemological concerns, and norms of practice, is thus also influenced by organizational, historical, political, ethical, evidential, and personal factors, which are typically treated as problems to be overcome” (Buchanan and Bryman, 2009: 1).

There are three different categories of research methods which consists of: *first*, the qualitative methods which typically involve an instrument such as in-depth interviews (both structured and semi-structured), observation, focus groups, or critical incident techniques (Fitzgerald and Dopson, 2009: 479); *second*, the quantitative methods which involves surveys using structured questionnaires; and *third*, the mixed methods, also known as triangulation methods, which combine the quantitative and qualitative methods (Bryman, 2009: 518).

For the purposes of this study, the researcher adopts combining methods, or employing triangulation using questionnaires and interview with the respondents. Henn *et al.* (2006) had demonstrated the objectives of combining methods as follows:

- (i) To gain their individual strength and overcome any weaknesses stemmed from utilizing one particular method;
- (ii) To overcome bias in research; and
- (iii) To assist the researcher in obtaining an entire overview of the relevant matters under investigation.

Therefore, triangulation methods enable the researcher to explore a specific research area from various different points of views and perspectives, focusing on different queries and issues, gathering different types of data, evaluating these data using different techniques and examining and analyzing the results from a variety of different outlooks (Henn *et al.*, 2006: 21).

As the descriptive method, secondary data is used in this study, which is assembled from the reports kept routinely by selected Islamic pawnbroking institutions from YaPEIM, MGIT, and Bank Kerjasama Rakyat Malaysia, data collected earlier by other researchers such as working papers, journals, magazines and also in the internet. No official statistics of the pawnbroking system can be found in the Central Bank of Malaysia except for a list of pawnshops' brief details (which are regulated under the Pawnbrokers' Act 1972) from the Ministry of Housing and Local Government website and also data from the annual report of Bank Kerjasama Rakyat Malaysia and YaPEIM.

6.6.1 Questionnaire Design

The design of the questionnaire will largely depend on the research purpose and the respondents who are to answer the questions. In order to develop the questionnaires, the researcher adapted and modified two questionnaires that were previously developed in pawnshop research, such as Johnson and Johnson (1998) and Maamor *et al.* (2005) as well as other relevant Islamic banking and finance studies. In addition, other journals, Ph.D theses, and Masters dissertations, Islamic banking and patronage factors related studies were also reviewed in order to design a reliable questionnaire.

When a questionnaire is used, the design must be such that it is easy to administer by the researcher and is easily understood by the respondent. In this study, the majority

of the respondents who deal with pawnshops came from the lower and middle-income group. Therefore, the questions tend to be relatively simple and strive to quantify, to make sure that the persons are comfortable in reporting their behaviour and opinions, as well as having a certain level of communication skill and memory recall.

As for this study, the questionnaires were designed to achieve various objectives that include the customers and the pawnbrokers of several pawnshop. The questionnaire in this study is designed according to identified objectives, which are to enquire about the customers' and pawnbrokers' perception on conventional and Islamic pawnshops towards the role of pawnshops in enhancing the socio-economic growth, to evaluate the current operations and regulations of the conventional pawnshop as well as the Islamic pawnshop, and to improve the services of Islamic pawnshops in order to make the institution an alternative financial institution. Thus, two types of questionnaire sets were developed: for customers of pawnshops and pawnshop owners or managers.

Each of the items in the questionnaire were designed according to the hypotheses developed for this study. Table 6.1 summarises the variables, the hypotheses and the list of items in the questionnaires related to the hypotheses.

6.6.1.1 Types of questionnaire items

In asking questions in the questionnaire, researchers have two options regarding the questionnaire design: closed questions and an open-ended questions. A closed question provides the respondents with a predetermined choice of responses. Advantages of this type of questions include their relative ease to be answered and to be administered and coded into computer database for subsequent analysis. However, the researcher needs to be confident that the limited set of responses provide adequate coverage of the range of possible responses (Miller *et al.*, 2005: 250).

In contrast, open-ended questions offer the respondents the opportunity to express their opinions using their own words. The advantage for using this type of question is that it allows for elaboration in a response, thus providing insight on the respondents' ideas, actions and beliefs (Miller *et al.*, 2005: 251). Nevertheless, for coding, open-ended responses and making comparisons between respondents' responses is much more difficult.

Table 6.1: Variables, Hypotheses and Items on Questionnaire (Refer to Appendix 6A and 6B)

Variable Name	Hypothesis	Related Question in Questionnaire
1. Customer attributes	H_1 : Women go to pawnshop more than men.	Q1 (Set A)
	H_2 : The higher the age, the higher the customers' demand for pawnshop.	Q2 (Set A)
	H_3 : The higher the income, the lower the customers' demand for pawnshop.	Q12, Q13 (Set A)
	H_4 : The less education level, the greater the customers' demand for pawnshop.	Q5 (Set A)
	H_5 : There is a relationship between marital status and the customers' demand for pawnshop.	Q6 (Set A)
	H_6 : There is a relationship between own/ spouse employment status and the customers' demand for pawnshop.	Q9, Q10 (Set A)
	H_7 : The greater the household size, the greater the customers' demand for pawnshop.	Q7 (Set A)
	H_8 : The greater the household dependents is in full-time education, the greater the customers' demand for pawnshop.	Q8 (Set A)
2. Sources of instant cash	H_9 : There is no significant difference among the customers in selection of various sources of getting instant cash.	Q18 (Set A)
3. Pawnshop vs other instant cash loan	H_{10} : There is no significant difference among the customers in reasons of choosing pawnshop than other sources of instant cash loan.	Q19 (Set A)
4. Determinants of pawnshop selection	H_{11} : There is no significant difference among the customers in terms of determinants of pawnshop selection.	Q23 (Set A)
	H_{12} : There is no significant difference among the pawnbrokers point of view regarding the customers' determinants of pawnshop selection.	Q40 (Set B)
	H_{13} : Islamic pawnbrokers are able to distinguish among the various of services that they need to improve.	Q40 (Set B)
	H_{14} : Conventional pawnbrokers are able to distinguish among the various of services that they need to improve.	Q40 (Set B)

5. Purpose of loan	<i>H₁₅</i> : Customers makes loan from pawnshop for consumption purpose rather than production purpose.	Q26 (Set A)
	<i>H₁₆</i> : There is no significant difference among the customers regarding the degree of agreement that when the money received from pawnshop is used for consumption and no redemption, it will sustains financial difficulty.	Q60 (Set A) Item no. 5
	<i>H₁₇</i> : There is no significant difference among the pawnbrokers regarding the degree of agreement that when the money received from pawnshop is used for consumption and no redemption, it help to sustains the pawnbroking business.	Q47 (Set B) Item no. 5
6. Product satisfaction	<i>H₁₈</i> : There is no significant difference among the customers of the degree of satisfaction of all processes involved in pawnshop.	Q55 (Set A)
7. Pawnshops' role	<i>H₁₉</i> : Pawnbroking business help in a positive manner to Islamic pawnshop rather than conventional pawnshop.	Q58 (Set A)
	<i>H₂₀</i> : There is no significant difference among the customers regarding the degree of agreement that pawnshop helps to solve financial exclusion.	Q60 (Set A) Item no. 1
	<i>H₂₁</i> : There is no significant difference among the pawnbrokers regarding the degree of agreement that pawnshop helps to solve financial exclusion.	Q47 (Set B) Item no. 1
	<i>H₂₂</i> : There is no significant difference among the customers regarding the degree of agreement that pawnshop helps to solve social problem.	Q60 (Set A) Item no. 2
	<i>H₂₃</i> : There is no significant difference among the pawnbrokers regarding the degree of agreement that pawnshop helps to solve social problem.	Q47 (Set B) Item no. 2
	<i>H₂₄</i> : There is no significant difference among the customers regarding the degree of agreement that pawnshop is an alternative to the formal financial institution.	Q60 (Set A) Item no. 3
	<i>H₂₅</i> : There is no significant difference among the pawnbrokers regarding the degree of agreement that pawnshop is an alternative to the formal financial institution.	Q47 (Set B) Item no. 3
	<i>H₂₆</i> : Customers from Islamic pawnshops are more financially better off pawning their belonging as compared to the conventional pawnshops' customers.	Q61 (Set A)
8. Economic downturn effect	<i>H₂₇</i> : There is no significant difference between the levels of agreement of each pawnbrokers regarding the impact of pawnbroking business during the economic downturn.	Q43 (Set B)

9. Faith effect	H_{28} : There is no significant difference among the customers regarding the degree of agreement that faith of abstaining from <i>riba</i> effect the selection of pawnshop.	Q60 (Set A) Item no. 4
	H_{29} : There is no significant difference among the pawnbrokers regarding the degree of agreement that faith of abstaining from <i>riba</i> effect the selection of pawnshop.	Q47 (Set B) Item no. 4

For the questionnaires in this study, all of the questions were designed as the close-ended type.

6.6.1.2 Questionnaire administration

According to Buckingham and Saunders (2008: 69), questionnaires can be operated by a number of different means, such as self-completed questionnaires, face-to-face interviewing, and telephone interviewing. Self-completed questionnaire or self-administrated questionnaires are typically used in mail surveys. A letter of instruction is normally included, which informs the respondents how they are to go about answering the questionnaire. This type of administration has several advantages: they are cheap to administer; there are no interviews involved and the costs are mainly for printing and postage; they are rather effective with regard to sensitive questions, which respondents would not necessarily want to answer in front of an interviewer; as well as being able to collect data from highly motivated and specialized groups.

However, self-administered questionnaires tend to have a low response rate, which can affect the representativeness of the sample. Another disadvantage is that, unlike the interviewers, the respondents are not experts with regard to answering questionnaires and may encounter problems despite the instructions. If returned, the questionnaire may be incomplete or questions may have been misunderstood.

The above problems are avoided when the researcher administers questionnaires, which can either be done by face-to-face interviews or telephone interviews. The response rate is normally very high and questionnaires are less incomplete because specifically the researcher can help with the more complicated questions and clarify misunderstandings. However, this type of questionnaire administration tends to be rather cost-intensive based on the sample size and the number of interviewers required.

Based on all the advantages and disadvantages of each administration, the researcher combined the three methods in order to get a high response from the respondents. Questionnaires were distributed to the customers who dealt with Islamic pawnshops as well as those who used conventional pawnshops in getting instant cash. Because some of the respondents who dealt with pawnshops came from lower-income groups,

the researcher decided to use the face-to-face interview with the group. The researcher also had to use this method, plus telephone interviewing, to get more responses from the pawnbrokers, especially the Chinese pawnbrokers, to get past language difficulties. As for Islamic pawnbrokers, the researcher used a self-administered questionnaire and also mail survey. For the mail survey, the recommendation letter from the supervisor was attached together with the pawnbrokers' questionnaire and cover letter to stimulate response. Finally, a stamped, self-addressed envelope was provided to facilitate the returning of the questionnaire.

6.6.1.3 Cover letter

A cover letter is important in order to influence the respondents' willingness to participate. Following Buckingham and Saunders (2008) suggestion, the information given in the cover letter must be short and informative and in simple language so as to be easily understood by the respondents. Anonymity and confidentiality are very important. The respondents will be assured that their identity cannot and will not be exposed, and their responses will be treated in the strictest confidence.

The cover letter for questionnaires in this study contains information such as the simple background of the researcher, including the supervisor's particulars, the title of the research, the research purpose, a clear explanation of procedures to be followed, a statement about the societal benefits that will be gained from this research, a description of the confidentiality that will be maintained, and a contact number and email of the researcher if there is any enquiries (refer to Appendix 6C).

6.6.1.4 Sources of error in questionnaire

There were a few potential sources of error in questionnaire administration. The first error concerns the behaviour of the respondents where they may intentionally provide erroneous answers in order to seek the interviewer's approval. The embellished responses given by the respondents are 'socially desirable' in their opinions, thus preventing interviewers from learning about the true nature of the respondents (Bradburn, 1983: 291).

The second error relates to the task's features, that is, the technique of the questionnaire administered through face-to-face or telephone, or the sequence or wording of the questions (Denzin and Lincoln, 2006: 702).

In order to minimize these sources of error in the questionnaire, the sampling design, the method of questionnaire administration and the wording of the questions needs to be carefully done. This brings validity and reliability issues to the agenda.

6.6.1.5 Validity and reliability in questionnaire

In accomplishing a survey research, it is vital to ensure the validity and the reliability of the data collected from the questionnaires distributed. According to Babbie (2003: 275), in general, the survey research method is less valid and robustly reliable. He further illustrates that people's perceptions on relevant issues in the form of strongly agreeing, agreeing, disagreeing, or strongly disagreeing has to be considered as fairly accurate indicators of what researchers believe when they design the research questions. Additionally, the validity of data can be improved through meticulous sampling, right instruments, and the suitable statistical treatment of data (Cohen *et al.*, 2005).

In contrast, reliability can be measured clearly. It is through the same questions asked in similar ways to respondents that can contribute to the high score of reliability. As the standardised form of questions are distributed to population samples, the bias due to the effect of researchers is assumed to be minimised. Furthermore, careful choices of wording also contribute significantly to the reduction of the respondents' own unreliability.

One method that can be used to test the reliability of the questionnaires is by doing a pre-test or pilot test on the questionnaires. Another test commonly used to test internal reliability is Cronbach's alpha. A computed alpha coefficient will vary between 1 (perfect internal reliability) and 0 (no internal reliability) (Bryman, 2008: 151). This study applied the pilot test and also the Cronbach's alpha reliability test since they appear to result in less bias and produce a more accurate statistical result. The alpha was 0.62, which was measured from a subgroup of questions from the customers' questionnaire. According to Berthoud (2000: 169), the minimum level of 0.60 was considered 'good' reliability. Thus, it shows that the data is reliable and further

analysis can proceed. Vaus (2003: 31) concludes that measures will never be perfectly reliable and perfectly valid, but the goal is to maximise the reliability and validity.

6.6.1.6 Translating procedure

Since the sample of the questionnaire design in this study attempts to collect data from people who may not necessarily understand and use English comfortably, the questionnaire had to be translated into the Malay language.

According to Maxwell (1996), the four categories of procedures used in verifying translations are, first, multiple-forward translation; second, back-translation; third, translation review done by bilingual judges, and lastly statistical review.

Multiple-forward translation, also known as *parallel translation* (Peterson, 2009) can be carried out by two people separately translating a survey into the target language, and then either the translator or others will compare the translations and make corrections. Back-translation is a three-step procedure. For example, one party translates a survey, another translates it back to the source language, and then both engage in a process of comparison and correction. Another type of translation procedure is translation review done by bilingual judges which could be deemed as a variation of back-translation. Nevertheless, unlike back-translation, translation review focus on both the target and the source language.

The fourth type of translation procedure is the statistical review. This procedure is also known as pretest procedure where, once a translation has been completed, it will be pretested to ensure the depth of understanding of the respondents towards all questions in the future (Brislin, 1970: 187).

This study combined the back-translation and pretest procedures in an attempt to gain translation adequacy. The questionnaire was originally framed in English and was translated into Malay language. It was then translated back into English by another translator unfamiliar with the English version. Finally the back translation and the original questionnaire were compared before the final form was printed. A pilot test of thirty customers and six pawnbrokers were conducted in Johor, Malaysia in order to measure the understanding of the respondents towards the questions asked and to

determine the adequacy of the translation procedure use in devising a well-worded question.

6.6.1.7 Piloting the questionnaire

Prior to the actual survey, a pilot study was conducted to test the appropriateness and relevance of each items in the questionnaires. Before distributing the questionnaires for a pilot test, the research supervisors and lecturers mastering in this field were invited to comment on the items for content validity. Based on the comments from the expertise, several modifications were made to both questionnaires, including the wording of some questions, modifying ambiguous questions, adding some relevant issues, and omitting some questions in order to reduce the length of the questionnaire.

Then the pilot test was conducted using the modified questionnaires. The researcher conducted a pilot test using the questionnaire administered instruments on ten random pawnshops regardless of the type of pawnshop. The researcher selected fifteen customers and three pawnbrokers from both types of pawnshops in the state of Johor. By using this type of data collection method, a hundred percent of the randomly selected pawnshops and purposive sampling customers responded to the pilot survey. Then, each of the items on the questionnaires were revised to see whether there were still glitches in the questionnaires. Based on the feedback from both respondents, several ammendments were made carefully because mistakes in questionnaire design cannot be rectified once fieldwork has begun. Finally, the final version of the questionnaires were developed and ready to be distributed to the real fieldwork. Appendix 6A and 6B provides the final draft of questionnaires (customer and pawnbroker) which were distributed to each respondents.

6.6.1.8 Sampling procedure

Before doing a sample design, the researcher identified the unit of analysis involved in this study:

- (i) Customers

Those who are using the pawnshops services to get an instant cash such as the working people, self-employed people, housewives, students, retired

people, unemployed people *etc.* The types of pawnshops are divided into two categories, which are Islamic pawnbroking institutions and conventional pawnshops. The customers may go to pawnshops for lending purposes, redemption, extending the redemption period, auctioning, receiving compensation due to the lost of their collateral, or making a complaint to the pawnbroker.

(ii) Pawnbrokers

This study also assembled data through a questionnaire from the pawnbrokers themselves, which includes: all state managers and branch managers including the employees of different types of pawnshops in the four states (Kelantan, Terengganu, Kuala Lumpur, Selangor, and Johor). The institutions involved were the conventional pawnshops and *Ar-Rahn* institutions held by YaPEIM, Bank Kerjasama Rakyat Malaysia, MAIDAM/MGIT, PKB, and other cooperatives.

6.6.1.8.1 Sampling design

Sampling design can be classified as random/probability sampling, non-random/probability sampling, and ‘mixed’ sampling designs (Kumar, 2005).⁶⁰ A random sample indicates the ability of each component in the relevant population to have an equal and independent chance of selection.

There are three random designs which include simple random sampling, stratified random sampling, and cluster sampling (Kumar, 2005). Whereas, there are four types of non-probability sampling design which consist of reliance on available subjects, purposive or judgemental sampling, snowball sampling and quota sampling (Babbie, 2003).⁶¹

As for the latter, systematic sampling is classified under the ‘mixed sampling’ design as it has the properties of both probability and non-probability sampling designs

⁶⁰ In contrast with Kumar (2005), Babbie (2003) classified the ‘mixed’ sampling design or systematic sampling as a functional equivalent of simple random sampling.

⁶¹ For detailed discussion of non-probability sampling, refer to Jupp *et al.* (2008), Babbie (2003), Kumar (2005), Buckingham *et al.* (2008), Henn *et al.* (2006), Denscombe (2005).

(Kumar, 2005). The list of advantages and disadvantages of each sampling design is discussed in Table 6.2.

For this study, the practicable mode of tracing suitable respondents would be through the use of *purposive sampling* techniques, since the aim of this research is to measure the attributes, behaviours, and perceptions of Malaysian customers and pawnbrokers about the role of the pawnshop institution to society's development and economic growth. The rationale of using purposive sampling is because the researcher could go to those people who, in her opinion, were directly involved with pawnbroking, *i.e* the pawners and pawnbrokers, and who are possibly in the best position to offer the best information about the pawnbroking experience, thus answering the targeted research questions and achieving the aim of the study.

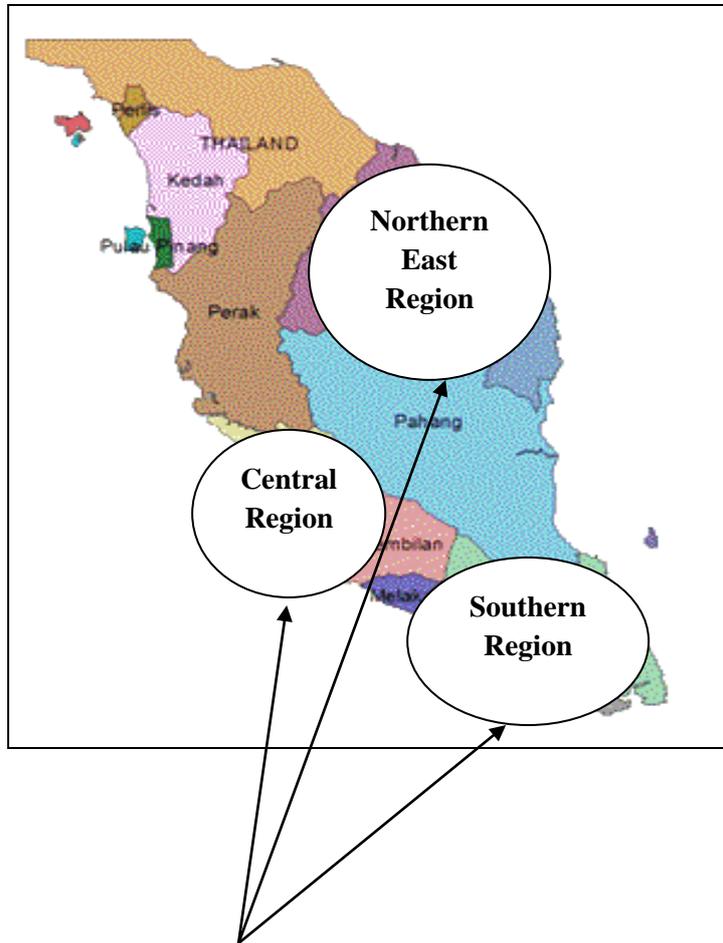
Although it will bring up a possible element of bias, the researcher needs the opinion of these respondents in order to really explore the overall ideas of pawnbroking with them. Additionally, the *snowball sampling* technique had also been used by the researcher to achieve a high response of participants in the study. These sampling designs were chosen due to its effectiveness in helping to bring the necessary data but at the same time being time efficient. Figure 6.1 represents a graphic overview of the samples developed in this research within three regions in Peninsular Malaysia.

6.6.1.8.2 The study areas and sampling strategy

In the actual survey, a sub-sample of 182 (105 from conventional pawnshop and 77 from Islamic pawnshop) pawnshops from the total population list of 588 was selected purposively across three different regions in Peninsular Malaysia with different types of pawnshops (refer Figure 6.1). The entire pawnshops in the three regions have equal probability to be selected as a sample to the sampling framework based on the state that covers the states of Kelantan and Terengganu (Northeast region), Selangor/ Kuala Lumpur (Central region) and Johor (Southern region).

While for the customers, the researcher selected two customers from each pawnshop respectively using purposive sampling. Thus, from the total of 364 questionnaires distributed, about 311 customers responses were available for further analysis, which implies an 83% return rate. As for the pawnbrokers' questionnaire, from the total of 60 questionnaires distributed, only 30 pawnbrokers returned back their questionnaires.

Figure 6.1: Purposive Sampling in the Pawnshop Survey



Northern Zone	Kelantan	CP = 7; IP = 14
	Terengganu	CP = 11; IP = 8
Central Zone	Selangor/ Kuala Lumpur	CP = 53; IP = 37
Southern Zone	Johor	CP = 34; IP = 18

Note: CP and IP refer to conventional pawnshop and Islamic pawnshop.

Table 6.2: List of Advantages and Disadvantages of Different Types of Sampling Design

SAMPLING DESIGN	TYPE	ADVANTAGE	DISADVANTAGE
Probability sampling	Simple random sampling	It is appropriate for making inferences from samples to populations	It may not be the most statistically efficient method of sampling as there are inadequate good representative from the the subgroups in a population.
	Stratified random sampling	It can ensure that the individuals selected are representative of the population in terms of certain variables.	It cannot guarantee that very small groups are represented. For example, the reseacher would need to know which members of the population were in employment and which were not. If there were only four men who were not in employment, the likelihood is that none of them would be included in the sample.
	Cluster sampling	It could be employed if the difficulties such as compiling an exhautive list of the relevant population elements arise. Target population include the population of city residents, all Durham University' students, and so fort. It is also cost-effective.	The sample does not adequately represent the relevant population.
Non-probability sampling	Reliance on available subjects	This method disallow any control over the representativeness of a sample, and is justified on the ground of feasibility.	There is no evidence that the participants are representative of the populations to which the researchers wish to generalise.
	Purposive judgemental or sampling	The researchers are able to distinguish respondents who are most likely to provide informative, detailed and relevant data.	There is a source of potential bias because purposive sampling depends on the subjectivity of the researcher's decision making.
	Snowball sampling	It enables the researcher to identify potential	It is dependent upon each participant

		participants when it would otherwise be extremely difficult to do so.	sufficiently understanding the nature of the research in order to be able to identify another suitable participant.
	Quota sampling	It permits the researchers to control variable without providing a sampling frame	There are sources of potential bias. First, interviewers may misjudge a potential respondent's characteristic. Secondly, the interviewer runs the risk of subconsciously making a subjective judgement before approaching a potential respondent. Thirdly, certain factors may hamper certain groups of people from being selected for the research.

Sources: Babbie (2003) and Jupp *et al.* (2008).

6.6.2 Interview

The second part of the primary data used in this study was obtained through interviews as part of a qualitative research method. Because interview designs is more flexible and open-ended, in this research it is used to develop an in-depth understanding of the underlying principle of Islamic pawnbroking, its prospects and other related issues. Interviews were also used in order to get information on sensitive issues which could not be asked in the structured questionnaire. This section, hence, provides further details on the interview process pursued in the study.

6.6.2.1 Types of interviews

In general, there were three main types of interviews: structured, semi-structured, and unstructured. The structured interviews shared similar characteristics with the survey questionnaire in which they were drawn on a standard format comprising of pre-determined questions in a fixed order. Also, most structured interviews do not provide any room for the involvement of the interviewer's independent judgment.

On the other hand, semi-structured interviews are generally open-ended in order to gain richer information about certain issues. Interviewers have power in deciding what relevant topics are to be covered and what appropriate questions need to be asked. In contrast to the structured questionnaire, the researcher may alter the sequence of the question and at the same time probe the interviewee to expand on their answer in more detail. In addition, the format of semi-structured interviews is primarily discursive, thus allowing the respondents to provide answers in their own terms and at their own length and depth (Miller and Brewer, 2003: 167).

As for unstructured interviews, this method is notably useful when the respondent's life style, religion, or ethnic culture are obscure to researchers. Thus, the unstructured interviews are significant in establishing a rapport between the interviewees and researchers, as well as granting the researcher a rich information concerning various aspects (Miller and Brewer, 2003: 168).

Since one of the objectives of this study is to develop an in-depth understanding on the underlying principles of Islamic pawnbroking and other issues, a semi-structured

interview is employed which allows the researcher to pursue topics of particular interest from the representatives of the Islamic pawnbrokers *i.e.* YaPEIM, MGIT and Bank Kerjasama Rakyat Malaysia. The semi-structured interview provides the same questions to the respondents which helps with easy classification for analysis purpose (See Appendix 6D).

6.6.2.2 Rationale for Using Interviews

There are several advantages of using interviews in the qualitative design such as, first, respondents are more likely to provide verifiable and important information as they would not be observed directly; and second, the researcher is able to completely manage the line of questioning (Creswell, 2009: 178).

In addition, interviews are popular for reasons of cost-effectiveness and for the speed of data collection (Jupp, 2006). In contrast, there are also limitations for this type of method such as, first, the responses are more likely to be biased due to the interviewees' own interpretation pertaining to the relevant issues and questions. Second, the method produces information in a designated situation rather than in a natural field setting. Third, partial responses may be produced due to the presence of the researcher, and lastly, some respondents may not be articulate, sensitive to, and knowledgeable about the related issues which are the interests of the researcher (Creswell, 2009).

In this study, the researcher conducted interviews on a face-to-face basis and electronic communication using email in a form of semi-structured surveys with a standardised list of questions. According to Bernard (2000), semi-structured interviews were more appropriate to be applied in the research where the interviewer and respondents were mainly high-level administrators which viewed efficient time-management as essential. The more guided the interview, the less time-consuming and less problematic the analysis.

6.6.2.3 Interview Sampling

The most common approach of sampling in interviews is purposive sampling. Creswell (2009: 178) believes that in qualitative research, respondents were deliberately chosen by the researcher as it was anticipated that these participants would provide the best information and data pertaining to the research problems,

issues and questions. Thus, purposive sampling provides effectiveness in collecting the expected data.

In order to gather information on the history of Islamic pawnbroking in Malaysia, the contribution of this product to the society's development and other related issues, the researcher identified three main Islamic pawnbroking institutions that pioneered this product: Muassasah Gadaian Islam Terengganu (MGIT), YaPEIM (Islamic Economic Development Foundation Malaysia) and Bank Kerjasama Rakyat Malaysia. The detail of the interviewees and their respective institutions are shown in Chapter 9.

By using semi-structured interviews, there were a list of twelve questions written for three different Islamic pawnbroking institutions that were interviewed. Among the three institutions, only one of them had a *shari'ah* scholar who monitored the products' development, this was Bank Kerjasama Rakyat Malaysia. Other Islamic pawnbroking institutions such as YaPEIM and MGIT were monitored by an officer that would be fully in charge of the development of the product.

The questions in the interviews covered the salient features of Islamic pawnbroking, the purpose of lending, the competitiveness of Islamic pawnbroking, the role of this institution and how to increase the awareness of this product to make it competitive to the current conventional pawnbroking.

6.6.2.4 Interview administration

Before going for the interview, the researchers built an interviewing relationship with the potential interviewees by making preliminary contact through telephone, walk in, and email, stating a brief introduction concerning the purpose of the interview, the clarification of how the interviewer can gain access to the person's name, and an arrangement on when to meet. Clearly, the details of the interviewees can be obtained from their respective institution's website. While sometimes participants will easily disregard an initial contact by email from an unknown person, however, once the contact has been made in person, by telephone, or via regular mail, email becomes useful in conforming the interview appointments and maintaining contact throughout the research process. In this study, the researcher identified three Islamic pawnbroking institutions in Malaysia *i.e.* MAIDAM/MGIT, YaPEIM and Bank Kerjasama Rakyat Malaysia that can provide a sufficient information on the subject

matter with an assurance of confidentiality in the information given. Two of the representatives from MAIDAM and YaPEIM agreed to be interviewed in a face-to-face basis, whilst the representative from Bank Kerjasama Rakyat Malaysia preferred to respond to the interview questions via email.

6.7 RESEARCH METHODS – DATA ANALYSIS

After determining possible data collection methods, it is clearly imperative to consider how these data will be analysed.

6.7.1 Analysing Questionnaire Data

The study adopted a combination of data analysis methods which combined the *univariate*, *bivariate* and *inferential* analysis. This simple form of quantitative analysis is called *univariate analysis*, which refers to “summarizing the characteristics of some phenomenon in terms of distributions on variables. The most basic format for presenting univariate data is to report all individual cases, that is to list the attribute for each case under the study in terms of the variable in question” (Blaikie, 2003: 47).

One of the formats to present univariate data is by using frequency distribution. The definition of frequency distribution is “the number of times the various attributes of a variable are observed in a sample” (Babbie, 2003: 401). For example, in this study, frequency distribution was used to measure the frequency of variables such as gender, age, race, religion, educational level, *etc.* In relation to their pawnshop behaviour and opinions.

Beyond simply representation of the overall distribution of value, a researcher may opt to report the results in terms of an average or a measure of the central tendency such as by arithmetic means (the result of dividing the sum of the values by the total number of cases) and the mode (the most frequently occurring attribute).

The study also presents subgroup comparisons for descriptive purposes and comparative purposes as well. For example, “Women go to pawnshop more than men”. In this case, it is assumed that there is something about being a woman that result in their behaviour of going to pawnshops. The Likert scale is also used as a measurement in order to investigate the customers’ satisfaction towards the services

provided by pawnshops and to find the perception of customers towards the pawnshops' role in society. Normally the format for indicating the level of agreement in the Likert scale is a 5 to 1 which goes from 'strongly agree' to 'strongly disagree'. A common problem in analysing survey data is how to handle the phrase 'do not know' in the Likert scale, which is usually shown as a 3. Whether to include or exclude the 'do not know' will depend on the researchers purpose in analysing and interpreting the data. It is appropriate to put the phrase in the study, for example, if the researcher wanted to know how people react with this issue such as "Does faith effect the Muslim customer choice of pawnshop such as *riba* factor?". If the respondent said that they do not know, then the researcher can make an assumption that some of the Muslim customers are still not aware of the term '*riba*' and the prohibition of *riba* in the pawnbroking system.

While the *univariate analysis* examines one variable at a time, the *bivariate analysis* involves the analysis of two variables simultaneously. The *Bivariate analysis* incorporates the descriptions of the form and strength of relationships between variables, in addition to a comparison of the characteristics of similar variables in distinct populations or different variables in the same population (Blaikie, 2003: 47).

With nominal and ratio level data, this normally involves *cross-tabulation*. For example, the researcher divides the group of subjects into two subgroups i.e. lower income and higher income customers, and then describes the behaviour of each subgroup. Then, the researcher classifies the subject research into different levels of Islamic pawnshops' demand and illustrates each of these subgroups in terms of the percentage of men and women and other control variables. In such a scenario, this relationships will suggest that different level of income will affect the frequency of Islamic pawnshops' demand. In addition, the *chi-square* test value is also being looked into in order to test the significance for association between nominal level variables.

Finally, *inferential analysis* is adopted for "estimating whether the characteristics or relationships found in a sample, or differences between samples, could be expected to exist in the population or populations from which the sample or samples were randomly drawn; the procedures allow us to generalize sample statistics to population parameters" (Blaikie, 2003: 47).

In this study, the sample size for both Islamic and conventional customers and pawnbrokers are not equal. As part of the *inferential analysis*, the *Mann–Whitney U test* is employed, which compares two samples which are unequal (Hardy, 2004: 53). Other than that, Blaike (2003: 197) defines that the *Mann–Whitney U test* as a “distribution-free test that is appropriate either when the parametric requirements of the *t* test cannot be met (in particular, when the distribution of the population on the variable being considered is not normal) or with ordinal-level variables”. This test is also used when members of two categories can be ranked in terms of their scores on the same variable. This test was applied to test the difference in perceptions between the conventional and Islamic customers’ and pawnbrokers’ in certain issues. Another non-parametric test is also employed, *i.e.* the *Friedman* test for testing the difference between several related samples.⁶² This test was applied to test the difference of preferable sources of instant cash loan between the customers, and also the important reasons of choosing pawnshops rather than other sources of instant cash loan.

6.7.2 Analysing Interview Data

The main methods of composing texts from interviews is through recording the interview using tape and then transcribing it later. Every word uttered by the interviewee carries his or her opinions, concerns and knowledge (Vygotsky, 1987). Tape-recorded interviews are a permanent evidence, a primary source of information, and can be transferred to other researchers for their benefits (Bernard, 2000).

Recorded interviews offer other benefits as well. The accuracy of the information can be confirmed by revisiting the interview transcripts. Later, if they are accused of mishandling their interview material, they can go back to their original source to demonstrate their accountability to the data. Respondents also well-benefit from the tape-recorded interview in terms that the accuracy of their words are assured and accounted responsibly by the researcher (Seidman, 2006).

This is a strategy followed in this research as well. Transcribing tape-recorded interviews is time consuming and a costly task. In the case of this research, it approximately took 6 to 8 hours per tape to be transcribed, depending upon several

⁶² Retrieved 17th July 2011 from: http://www.medcalc.org/manual/friedman_test.php.

factors such as the clarity of the tape and the researcher's language proficiency and typing skill.

The cross-checking of answers given by each interviewee was conducted internally to overcome any potential bias answers and to obtain greater validity and reliability in interviews. The analysis of the interview focused on the different opinion of each interviewee on various research questions identified by the researcher. According to Konold and Well (1981: 5-6), there are three general levels of interview analysis: (i) *coded* analysis; (ii) *descriptive* analysis; and (iii) *interpretative* analysis. In this research, the *descriptive* analysis is applied for analysing interview data in an attempt to provide a clear restatement of certain issues from the interviewee's point of view without making any inference on the underlying structures.

6.8 LIMITATIONS AND DIFFICULTIES

While every effort was made to overcome any limitations, this research was also a control research which faced some potential difficulties and limitations. This research has its limitations as follows:

- (i) The sample in this study could not generalise the population of pawnshops' customers and pawnbrokers throughout Malaysia because it only covered certain states such as Kelantan, Terengganu, Selangor, Kuala Lumpur and Johor. It would be beneficial if larger numbers of respondents were surveyed.
- (ii) The semi-structured interviews were only done in three institutions of Islamic pawnbroking, excluding other Islamic banks in Malaysia that provide pawnbroking products such as AgroBank, RHB Bank, and other cooperatives.
- (iii) The data gathering methods were limited to questionnaire and semi-structured interview because of time and budget constraints.

Beside its limitation, the researcher also came across several difficulties during the fieldwork such as below:

- (i) Due to a lack of formal statistical data regarding the pawnbroking business in Malaysia available in the Central Bank of Malaysia, the researcher had to identify which institutions provided Islamic pawnbroking in order to get the lists of branches of each institutions with the addresses and contact number. For conventional pawnshops, the researcher located the name and the address of the pawnshops using the Ministry of Housing and Local Government's website.
- (ii) There was difficulty in getting respondents to fill in the questionnaire. Most of the customers of pawnshops came from the lower and middle income group. Some of them refused to give full cooperation due to several reasons such as the different 'dialect' used by the interviewer, especially people who came from the northern east of Peninsular Malaysia, feeling embarrassed about going to pawnshops if they were too desperate for money, and some of them were afraid of being interviewed.
- (iii) Due to the background of some of the respondents who were less educated and had language difficulties, the researcher had to administer the questionnaire using face-to-face interviews. After three months in Malaysia, the researcher had to be satisfied with the limited questionnaires that had been completed.
- (iv) The researcher also experienced difficulty in getting cooperation from the pawnbrokers, especially the conventional pawnbrokers, which was dominated by the Chinese. Hence, the number returned of questionnaires from the conventional pawnbrokers was very low.
- (v) As for Islamic pawnbrokers, the branches of each Islamic pawnbroking institution refused to complete the questionnaire as they claimed that the headquarters had already filled it in. Hence, the return rate from Islamic pawnbrokers was very low.

Chapter 7

LOCATING THE PROFILE AND CHARACTERISTICS OF CUSTOMERS AND PAWNBROKERS: AN EMPIRICAL STUDY

7.1 INTRODUCTION

The aim of this chapter is to provide a brief descriptive analysis on the characteristics of the responding customers of pawnshops. An understanding of the customers' characteristics is important as this study represents pioneering work that investigates this informal market role in Peninsular Malaysia.

This chapter is structured as follows. The first section shows the descriptive and crosstabulation analysis of the pawnshops' customers profile including their total monthly income and expenditure. The second section provides a descriptive and crosstabulation analysis of the pawnbrokers' respondents as a basic understanding of the characteristics of pawnbrokers involved in this research.

7.2 PROFILE ANALYSIS OF THE CUSTOMERS

This section presents the demographic characteristics of the pawnshops' respondents to the survey. It includes characteristics such as the respondents' gender, age, race, religion, educational level, marital status, total dependents, dependents with full time education, occupation, other sources of income, total household income, and total household expenditure. It provides the frequency and percentage distribution for the responses to each variable and a brief description of the variable's general behaviour.

The customer sample is divided by the pawnshop type they preferred in order to identify any differences in characteristics between conventional and Islamic pawnshops customers. As mentioned in the foregoing chapter, a total of 311 customers were generated from 364 questionnaires distributed. The samples were taken from three main regions of Peninsular Malaysia (Northeast, Central and Southern) respectively to ensure a wide representation of the sample.

7.2.1 Profile of Customers by Region

As reported in table 7.1, the majority (51.8%) of the respondents came from the northeast, whilst 24.8% and 23.5% respondent were from the central and southern regions respectively. Table 7.1 also depicts that about 38.5% of the representatives of conventional pawnshop were taken from the central region, whilst 37.7% and 23.8% represent the southern and northeast region of Peninsular Malaysia. As for Islamic pawnshops, more than two-thirds (71.8%) of the respondents came from the northeast region, whilst 14.9% and 13.3% represent the central and southern region of Peninsular Malaysia. States such as Kelantan and Terengganu have a high population of Malays, and hence have the tendency of having a large number of Islamic pawnshops than conventional pawnshops.

Since the total number of respondents from each type of pawnshops was not equal, the results may undoubtedly affect the significance of any statistical analysis that might be carried out due to the possible bias arising from the skewed distribution. Therefore, this source of potential bias was considered as a limitation in this study.

Table 7.1: Profile of Customers by Region

			Pawnshop		Total
			Conventional	Ar-rahn	
Region	Central	Count	50	27	77
		% within Region	64.9%	35.1%	100.0%
		% within Pawnshop	38.5%	14.9%	24.8%
	Northeast	Count	31	130	161
		% within Region	19.3%	80.7%	100.0%
		% within Pawnshop	23.8%	71.8%	51.8%
	Southern	Count	49	24	73
		% within Region	67.1%	32.9%	100.0%
		% within Pawnshop	37.7%	13.3%	23.5%
Total	Count	130	181	311	
	% within Region	41.8%	58.2%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

7.2.2 Profile of Customers by Gender

As shown in table 7.2, respondents were closely divided between females (55.3%) and males (44.7%). In terms of pawnshops, 52.3% of conventional pawnshop customers were male, whereas 47.7% were female. Negatively, the respondents of

Islamic pawnshops were predominantly female, constituting about 60.8% compared to 39.2% of male respondents.

Table 7.2: Crosstabulation: Type of Pawnshop by Respondents' Gender

			Pawnshop		Total
			Conventional	Ar-rahn	
Gender	Female	Count	62	110	172
		% within Gender	36.0%	64.0%	100.0%
		% within Pawnshop	47.7%	60.8%	55.3%
	Male	Count	68	71	139
		% within Gender	48.9%	51.1%	100.0%
		% within Pawnshop	52.3%	39.2%	44.7%
Total	Count	130	181	311	
	% within Gender	41.8%	58.2%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Chi-square = 5.238; d.f = 1; Significance = 0.022

This relationship was supported by the chi-square test value of 5.238 which is higher than the critical chi-square statistics ($\chi^2 = 3.841$) at 0.05 level of significance. The null hypothesis of no relatedness between the types of pawnshop and gender is rejected. The significance value is well below the alpha level of 0.05 and its 'relatedness' is therefore significant.

Based on the horizontal frequencies, *i.e.* the breakdown of gender according to pawnshop type, it can be concluded that the female customers prefer to obtain instant cash from Islamic pawnshops, while the male customers do not show a marked preference for either pawnshop.

7.2.3 Profile of Customers by Age

According to the Pawnbrokers Act 1972, for pledging an item one has to be over 18 years old. As shown in table 7.3, the majority (78.4%) of conventional pawnshops customers fall in the range of 31 to above 50 years old compared to 21.6% of a younger age. Combined together, of the 311 respondents, 61.8% were customers of Islamic pawnshops with a range of age 31 to 50 years old, followed by almost one-fifth (19.9%) with the age of 20 – 30 years old.

In terms of relatedness, the results show that there is no statistically significant difference between both types of customers by age. The computed chi-square test

value of 7.042 is lower than the critical chi-square statistics ($\chi^2 = 9.488$) at 0.05 level of significance. The null hypothesis of no relatedness between the type of pawnshop and age cannot be rejected because the significance value is above the alpha level of 0.05 and is therefore insignificant. This implies that the null hypothesis that both types of pawnshops are equally preferred by all ranges of age cannot be rejected; and hence age is not a significant factor determining pawnshop preference.

Table 7.3: Crosstabulation: Type of Pawnshop by Respondents' Age

			Pawnshop		Total
			Conventional	<i>Ar-rahn</i>	
Age < 20	Count	1	4	5	
	% within Age	20.0%	80.0%	100.0%	
	% within Pawnshop	.8%	2.2%	1.6%	
20 – 30	Count	27	36	63	
	% within Age	42.9%	57.1%	100.0%	
	% within Pawnshop	20.8%	19.9%	20.3%	
31 – 40	Count	35	54	89	
	% within Age	39.3%	60.7%	100.0%	
	% within Pawnshop	26.9%	29.8%	28.6%	
41 – 50	Count	32	58	90	
	% within Age	35.6%	64.4%	100.0%	
	% within Pawnshop	24.6%	32.0%	28.9%	
> 50	Count	35	29	64	
	% within Age	54.7%	45.3%	100.0%	
	% within Pawnshop	26.9%	16.0%	20.6%	
Total	Count	130	181	311	
	% within Age	41.8%	58.2%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Chi-square = 7.042; d.f = 4; Significance = 0.134

7.2.4 Profile of Customers by Race

Table 7.4 shows the racial composition of the pawnshop sample. It reveals that more than 90% of the respondents belonged to the Malay race. Most Malay respondents preferred Islamic pawnshops (61.7%) as compared to conventional pawnshops (38.3%) whilst 16.7% of the non-Malays showed interest in dealing with the Islamic pawnshop. Undoubtedly, the vast majority of the Chinese (83.3%) and Indian (100.0%) tend to chose conventional pawnshops to get instant cash as compared to Islamic pawnshops.

This relationship is supported by the chi-square test value of 22.520 which is higher than the critical chi-square statistics ($\chi^2 = 5.991$) at 0.05 level of significance. The null hypothesis of no relatedness between the type of pawnshop and race is rejected, as the significance value is well below the alpha level of 0.05 and is therefore significant.

Table 7.4: Crosstabulation: Type of Pawnshop by Respondents' Race

			Pawnshop		Total
			Conventional	Ar-rahn	
Race	Malay	Count	111	179	290
		% within Race	38.3%	61.7%	100.0%
		% within Pawnshop	85.4%	98.9%	93.2%
	Chinese	Count	10	2	12
		% within Race	83.3%	16.7%	100.0%
		% within Pawnshop	7.7%	1.1%	3.9%
	Indian	Count	9	0	9
		% within Race	100.0%	.0%	100.0%
		% within Pawnshop	6.9%	.0%	2.9%
Total		Count	130	181	311
		% within Race	41.8%	58.2%	100.0%
		% within Pawnshop	100.0%	100.0%	100.0%

Chi-square = 22.520; d.f = 2; Significance = 0.000

Based on the horizontal frequencies, *i.e.* the breakdown of race according to pawnshop type, it can be concluded that the Malay customers prefer to obtain instant cash from Islamic pawnshops. In contrast, Chinese and Indian customers show a preference for conventional pawnshops rather than the Islamic pawnshops.

7.2.5 Profile of Customers by Educational Level

For education level, this study simplified this variable into two categories which comprised the less-educated and well-educated. Less-educated people were defined as those who did not have a formal education, and those who hold a primary and secondary school qualification. Those who held certificates, diplomas, bachelor's degrees, and postgraduate degrees, were considered well-educated people.

Overall, more than two-thirds (68.5%) of 311 respondents from the sample were less-educated and 31.5% were well-educated (table 7.5). In terms of pawnshop selection, both groups showed interest in choosing Islamic pawnshops as their loan provider compared to other options.

In terms of relatedness, the result shows that there is no statistically significant difference between both types of customers by education level. The computed chi-square test value of 0.000 is lower than the critical chi-square statistics ($\chi^2 = 3.841$) at 0.05 level of significance. The null hypothesis of no relatedness between the type of pawnshop and education level cannot be rejected because the significance value is above the alpha level of 0.05 and is therefore not significant. This implies that the null hypothesis that both types of pawnshops are equally preferred by all ranges of education level cannot be rejected.

Table 7.5: Crosstabulation: Type of Pawnshop by Respondents' Education Level

			Pawnshop		Total
			Conventional	Ar-rahn	
Education	Less educated	Count	89	124	213
		% within Education	41.8%	58.2%	100.0%
		% within Pawnshop	68.5%	68.5%	68.5%
	Well educated	Count	41	57	98
		% within Education	41.8%	58.2%	100.0%
		% within Pawnshop	31.5%	31.5%	31.5%
Total	Count	130	181	311	
	% within Education	41.8%	58.2%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Chi-square = 0.000; d.f = 1; Significance = 0.993

Based on horizontal frequencies, *i.e.* breakdown of educational level according to pawnshop type, it inferred that either customers with a less or well educated background do not show a marked preference for either pawnshops implying that education is not a significant factor in determining pawnshop choice.

7.2.6 Profile of Customers by Marital Status

Table 7.6 shows the marital status of respondents according to their preferred pawnshops. Approximately 75.0% of the respondents who went to both pawnshops to get loans were married followed by single people (15.8%) and widows/widowers (8.4%). A cross-tabulation of age by marital status indicates that the majority of the respondents who were married were in the age of 31 to 50 years old (See Appendix 7A).

In terms of pawnshop selection, the married and single respondents would much more prefer Islamic pawnshops as compared to conventional pawnshops. As for the

widows/widowers, they tend to choose conventional pawnshops (61.5%) as compared to Islamic pawnshops which constitute only 38.5%.

Table 7.6: Crosstabulation: Type of Pawnshop by Respondents' Marital Status

			Pawnshop		Total
			Conventional	Ar-rahn	
Marital	Single	Count	24	25	49
		% within Marital status	49.0%	51.0%	100.0%
		% within Pawnshop	18.5%	13.8%	15.8%
	Married	Count	90	146	236
		% within Marital status	38.1%	61.9%	100.0%
		% within Pawnshop	69.2%	80.7%	75.9%
	Widow/widower	Count	16	10	26
		% within Marital status	61.5%	38.5%	100.0%
		% within Pawnshop	12.3%	5.5%	8.4%
Total	Count	130	181	311	
	% within Marital status	41.8%	58.2%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Chi-square = 6.505; d.f = 2; Significance = 0.039

This relationship is supported by the chi-square test value of 6.505 which is higher than the critical chi-square statistics ($\chi^2 = 5.991$) at 0.05 level of significance, implying that the null hypothesis of no relatedness between the type of pawnshop and marital status of the customers is rejected. The significance value (0.039) is well below the alpha level of 0.05 and is therefore significant. In other words, personal status should be considered as an important determining factor in pawnshop choice.

Based on horizontal frequencies, *i.e.* the breakdown of marital status according to pawnshop type, it can be concluded that single customers do not show a marked preference for either pawnshop, whilst married customers preferred to deal with the Islamic pawnshops. On the contrary, most widow/widower customers are more likely to go to conventional pawnshops in order to obtain instant cash.

7.2.7 Profile of Customers by Total Dependents of Household

Table 7.7 shows that more than half of the respondents (50.8%) had total dependents between the ranges of three to five in a household for both types of pawnshops. Of the 262 respondents to this question, 23.7% of the respondents with large household sizes (six to eight people) preferred to go to pawnshops to get quick cash.

In addition, by comparing the means of the total dependents of household by number of dependents with full-time education, it shows that those with large-sized households had more than four people in full-time education in their household (See Appendix 7B). Except for households with no dependents and households with more than eight dependents, most of the respondents tend to choose Islamic pawnshops as their loan provider in order to settle education expenses and to alleviate their financial difficulties.

Table 7.7: Crosstabulation: Type of Pawnshop by Respondents' Total Dependents

			Pawnshop		Total
			Conventional	<i>Ar-rahn</i>	
Dependents	None	Count	2	0	2
		% within Dependents	100.0%	.0%	100.0%
		% within Pawnshop	1.9%	.0%	.8%
	1 – 2	Count	23	28	51
		% within Dependents	45.1%	54.9%	100.0%
		% within Pawnshop	21.7%	17.9%	19.5%
	3 – 5	Count	53	80	133
		% within Dependents	39.8%	60.2%	100.0%
		% within Pawnshop	50.0%	51.3%	50.8%
	6 – 8	Count	19	43	62
		% within Dependents	30.6%	69.4%	100.0%
		% within Pawnshop	17.9%	27.6%	23.7%
	> 8	Count	9	5	14
		% within Dependents	64.3%	35.7%	100.0%
		% within Pawnshop	8.5%	3.2%	5.3%
	Total	Count	106	156	262
		% within Dependents	40.5%	59.5%	100.0%
		% within Pawnshop	100.0%	100.0%	100.0%

Chi-square = 9.198; d.f = 4; Significance = 0.056

7.2.8 Profile of Customers by Employment Characteristics

Table 7.8 summarizes responses to a series of questions about the occupational backgrounds of the customers according to the types of pawnshops. Overall, approximately 19.0% of the respondents worked as government servants, followed by 17.8% who worked in private sectors, 17.0% who were small business traders, and 16.1% housewives. For conventional pawnshops, the majority of the respondents were working in the private sector (20%), followed by those involved in small business (18.5%), government servants (16.9%), and housewives (13.8%). As for

those who patronised Islamic pawnshops, the majority of them worked as government servants (20.4%), followed by housewives (17.7%), those working for private sectors (16.0%), and those involved in small business (16.0%).

Table 7.8: Profiling the Respondents Occupations

Occupation	Conventional		Ar-rahn		Total (N)	Percentage (%)
	Number of Respondent	Percentage (%)	Number of Respondent	Percentage (%)		
Government servant	22	16.9	37	20.4	59	19.0
Private sector	26	20.0	29	16.0	55	17.8
Businessman	11	8.5	16	8.8	27	8.7
Small businessman	24	18.5	29	16.0	53	17.0
Shopkeeper	1	0.8	2	1.1	3	1.0
Petty trader/hawker	3	2.3	1	0.6	4	1.3
Labour	8	6.2	10	5.5	18	5.8
Farmer/fisherman	10	7.7	8	4.4	18	5.8
Student	0	0.0	4	2.2	4	1.3
Housewife	18	13.8	32	17.7	50	16.1
Retired	2	1.5	4	2.2	6	1.9
Unemployed	3	2.3	8	4.4	11	3.5
Driver	2	1.5	1	0.6	3	1.0

Likewise, the occupational background of the respondents' spouse was quite similar to the pattern of respondents' occupation where three groups were identified to be the main customers of pawnshops which were housewives, government servants and those working in the private sector (See Appendix 7C).

7.2.9 Profile of Customers by Total Monthly Household Income and Expenditure

Table 7.9 shows the categories of total household income of respondents ranging from under RM500 to over RM2,000 by the type of pawnshops preferred. The table depicts that more than one-third the respondents (35.0%) who got loans from pawnshops came from respondents who had a total monthly household income between RM501 – RM1,000. Another one-third of the respondents had a range of total monthly income between RM1,000 and RM2,000, whereas 24.4% had a monthly income more than RM2,000. The remainder (7.4%) had a total monthly household income of less than RM500.

In terms of relatedness, the results show that there is no statistically significant difference between both types of customers by total household income. The computed

chi-square test value of 3.756 is lower than the critical chi-square statistics ($\chi^2 = 7.815$) at 0.05 level of significance. The null hypothesis of no relatedness between the type of pawnshop and total household income cannot be rejected because of the significance of value is above the alpha level of 0.05 and is therefore not significant. This implies that the null hypothesis that both types of pawnshops are equally preferred by all ranges of total household income cannot be rejected; hence, income is not a significant factor determining pawnshop preference.

Table 7.9: Crosstabulation: Type of Pawnshop by Respondents' Total Monthly Household Income

			Pawnshop		Total
			Conventional	Ar-rahn	
Income	RM0 – RM500	Count	5	18	23
		% within Income	21.7%	78.3%	100.0%
		% within Pawnshop	3.8%	9.9%	7.4%
	RM501 – RM1,000	Count	47	62	109
		% within Income	43.1%	56.9%	100.0%
		% within Pawnshop	36.2%	34.3%	35.0%
	RM1,001 – RM2,000	Count	43	60	103
		% within Income	41.7%	58.3%	100.0%
		% within Pawnshop	33.1%	33.1%	33.1%
	> RM2,000	Count	35	41	76
		% within Income	46.1%	53.9%	100.0%
		% within Pawnshop	26.9%	22.7%	24.4%
Total		Count	130	181	311
		% within Income	41.8%	58.2%	100.0%
		% within Pawnshop	100.0%	100.0%	100.0%

Chi-square = 3.756; d.f = 3; Significance = 0.289

Table 7.10 shows the categories of the total household expenditure of respondents ranging from under RM100 to over RM500 by the type of pawnshop preferred. The result shows that a majority of the respondents (60.1%) had a total monthly household expenditure above RM500, 17.0% from those with total monthly expenditure between RM401 – RM500, and 14.8% for RM301 – RM400. The remainders (8.0%) fall in the range from under RM100 to RM300.

In terms of relatedness, the results show that there is no statistically significant difference between both types of customers by total household expenditure. The computed chi-square value of 8.704 is lower than the critical chi-square statistics ($\chi^2 = 11.070$) at 0.05 level of significance. The null hypothesis of no relatedness between

the type of pawnshop and total household expenditure cannot be rejected because the significance value is above the alpha level of 0.05 and is therefore not significant. This implies that the null hypothesis that both types of pawnshops are equally preferred by all ranges of total household expenditure cannot be rejected.

Table 7.10: Crosstabulation: Type of Pawnshop by Respondents' Total Monthly Household Expenditure

			Pawnshop		Total
			Conventional	Ar-rahn	
Expenditure	< RM100	Count	0	1	1
		% within Expenditure	.0%	100.0%	100.0%
		% within Pawnshop	.0%	.6%	.3%
	RM101 – RM200	Count	0	8	8
		% within Expenditure	.0%	100.0%	100.0%
		% within Pawnshop	.0%	4.4%	2.6%
	RM201 – RM300	Count	4	12	16
		% within Expenditure	25.0%	75.0%	100.0%
		% within Pawnshop	3.1%	6.6%	5.1%
	RM301 – RM400	Count	17	29	46
		% within Expenditure	37.0%	63.0%	100.0%
		% within Pawnshop	13.1%	16.0%	14.8%
	RM401 – RM500	Count	18	35	53
		% within Expenditure	34.0%	66.0%	100.0%
		% within Pawnshop	13.8%	19.3%	17.0%
	> RM500	Count	91	96	187
		% within Expenditure	48.7%	51.3%	100.0%
		% within Pawnshop	70.0%	53.0%	60.1%
Total		Count	130	181	311
		% within Expenditure	41.8%	58.2%	100.0%
		% within Pawnshop	100.0%	100.0%	100.0%

Chi-square = 8.704; d.f = 5; Significance = 0.121

Respondents were also asked whether their total monthly household income was sufficient enough to support their living expenses. As shown in table 7.11, more than half of the respondents (55.3%) reported that their total monthly household income was insufficient, whereas the remainder (44.7%) had a sufficient total monthly income.

In terms of relatedness, the results show that there is no statistically significant difference between both types of customers by income sufficiency. The computed chi-square test value of 2.209 is lower than the critical chi-square statistics ($\chi^2 = 3.841$) at 0.05 level of significance. The null hypothesis of no relatedness between the type of

pawnshop and income sufficiency cannot be rejected because the significance value is above the alpha level of 0.05 and is therefore not significant. Thus, income insufficiency cannot be a significant determining factor.

Table 7.11: Respondents Response to Income Sufficiency

			Pawnshop		Total
			Conventional	Ar-rahn	
Sufficient	Yes	Count	49	90	139
		% within Sufficient	35.3%	64.7%	100.0%
		% within Pawnshop	37.7%	49.7%	44.7%
	No	Count	81	91	172
		% within Sufficient	47.1%	52.9%	100.0%
		% within Pawnshop	62.3%	50.3%	55.3%
Total		Count	130	181	311
		% within Sufficient	41.8%	58.2%	100.0%
		% within Pawnshop	100.0%	100.0%	100.0%

Chi-square = 2.209; d.f = 1; Significance = 0.137

Furthermore, the respondents had been asked the reasons as to why their total monthly income was insufficient. As shown in table 7.12, regardless of the customers' preferred pawnshop, more than one-third (34.1%) of the respondents indicated the main reason for income insufficiency was the high cost of living.

Table 7.12: Reasons of Total Monthly Income Insufficiency

Reasons (Respondents can state more than one reason)	Conventional		Ar-rahn		Total (N)	Percentage (%)
	Frequency	(%)	Frequency	(%)		
I have no job	15	7.0	22	9.2	37	8.1
Dismissed from job	2	0.9	2	0.8	4	0.9
Self/Children schooling	45	20.9	44	18.3	89	19.6
Family sick	8	3.7	7	2.9	15	3.3
Spouse no job	11	5.1	21	8.8	32	7.0
Increase in family member	15	7.0	22	9.2	37	8.1
High cost of living	72	33.5	83	34.6	155	34.1
Tied with debt	29	13.5	28	11.7	57	12.5
Spouse passed away	7	3.2	1	0.4	8	1.8
Newly wed	1	0.5	0	-	1	0.2
Business performance fall	3	1.4	0	-	3	0.7
Unstable income	7	3.2	10	4.2	17	3.7

Of the remaining respondents, approximately 19.6% stated that the reasons were because of their children's schooling expenses, tied with large sum of debt (12.5%),

an increase in family members (8.1%) and joblessness (8.1%), unemployed spouses (7.0%), and other reasons that contribute to income insufficiency.

The distribution of the answers to each pawnshop category demonstrates similar results, indicating that the reason of economic hardship is not a significant determining variable in pawnshop choice.

7.3 PROFILE ANALYSIS OF THE PAWNBROKERS

This section presents the demographic characteristics of the pawnbrokers' responses from the survey which include the pawnbrokers' region, years of establishment, type of ownership, source of capital and number of staffs employed. It provides the frequency and percentage distribution for the responses of each of the control variables stated above.

The pawnbrokers sample is divided by pawnshop type to measure any significantly different characteristics between conventional and Islamic pawnbrokers. As mentioned in the preceding chapter, a total of 30 pawnbrokers were generated from 60 questionnaires distributed. The samples were taken from three main regions of Peninsular Malaysia (Northeast, Central and Southern) respectively to ensure a wide representation of the sample.

7.3.1 Profile of Pawnbrokers by Region

Table 7.13 depicts that nearly half (43.3%) of the respondents come from the northeast, whilst 36.7% and one-fifth of the respondents were from the central and southern regions respectively. From a total of 30 respondents, approximately nearly half (46.7%) of the representatives of conventional pawnshops were taken from the central region, whilst the remaining (53.3%) were equally divided between northeast and southern region of Peninsular Malaysia.

As for Islamic pawnshops, more than half of the respondents were taken from the northeast region, whilst 26.7% and 13.3% represent the central and the southern regions of Peninsular Malaysia. This scenario is also similar to the pattern observed in the customers' distribution due to the willingness of pawnbrokers to cooperate with the researchers. As a result of the unequal distribution of the pawnbrokers' region, the

result may undoubtedly affect the significance of any statistical analysis that might be carried out on the data due to the possible bias arising from skewed distribution. Therefore, this source of potential bias is acknowledged as a limitation in the study.

Table 7.13: Profile of Pawnbrokers by Region

			Pawnshop		Total
			Conventional	Ar-Rahn	
Zone	Central	Count	7	4	11
		% within Zone	63.6%	36.4%	100.0%
		% within Pawnshop	46.7%	26.7%	36.7%
	Northeast	Count	4	9	13
		% within Zone	30.8%	69.2%	100.0%
		% within Pawnshop	26.7%	60.0%	43.3%
	Southern	Count	4	2	6
		% within Zone	66.7%	33.3%	100.0%
		% within Pawnshop	26.7%	13.3%	20.0%
Total		Count	15	15	30
		% within Zone	50.0%	50.0%	100.0%
		% within Pawnshop	100.0%	100.0%	100.0%

7.3.2 Profile of Pawnbrokers by Years of Establishment

Table 7.14 depicts the range of years of establishment for each pawnshop from the year below 10 years to above 30 years. As shown in Table 7.14, a vast majority (93.4%) of conventional pawnbrokers fall in the range of 21 to a maturity above 30 years of establishment, whilst a mere 6.7% of respondents were had been in operation for 11 to 20 years. In contrast, more than half (53.3%) of Islamic pawnbrokers fell in the range of below 10 years and the remainder (46.7%) were around 11 to 20 years of establishment.

This relationship is supported by the chi-square test value, as the chi-square statistics ($\chi^2 = 7.815$) is 0.000, which is below the critical level of 0.05. The null hypothesis of no relatedness between the type of pawnshop and the years of establishment, hence, is rejected. The significant value is well below the alpha level of 0.05 and is therefore significant.

Based on horizontal frequencies, *i.e.* the breakdown of years of establishment according to pawnshop type, it can be concluded that a vast majority of pawnshops established within less than 10 years to 20 years were from Islamic pawnshops, whilst

100.0% of pawnshops established within the range of 21 to more than 30 years were from conventional pawnshops.

Table 7.14: Profile of Pawnbrokers by Years of Establishment

			Pawnshop		Total
			Conventional	Ar-Rahn	
Year < 10 years	Count	0	8	8	
	% within Year	.0%	100.0%	100.0%	
	% within Pawnshop	.0%	53.3%	26.7%	
11 – 20 years	Count	1	7	8	
	% within Year	12.5%	87.5%	100.0%	
	% within Pawnshop	6.7%	46.7%	26.7%	
21 – 30 years	Count	7	0	7	
	% within Year	100.0%	.0%	100.0%	
	% within Pawnshop	46.7%	.0%	23.3%	
> 30 years	Count	7	0	7	
	% within Year	100.0%	.0%	100.0%	
	% within Pawnshop	46.7%	.0%	23.3%	
Total	Count	15	15	30	
	% within Year	50.0%	50.0%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Chi-square = 26.500; d.f. = 3; Significance = 0.000

7.3.3 Profile of Pawnbrokers by Type of Ownership

As shown in table 7.15, nearly half (46.7%) of the pawnbrokers are sole proprietors, followed by branches, cooperatives, corporations, and partnerships which constitute 23.3%, 20.0%, 6.7%, and 3.3% respectively. A vast majority (93.3%) of the conventional pawnshops were formed as sole proprietorship, whilst the remainder (6.7%) were formed as partnership. On the contrary, most of the Islamic pawnbrokers were branches and cooperatives, constituting 46.7% and 40.0% respectively, whilst the remainder (13.3%) were formed as corporations.

This relationship is supported by the chi-square test results of 0.000, which is below the critical value of 0.05. The null hypothesis of no relatedness between the type of pawnshop and type of ownership is, therefore, rejected. The significance value is well below the alpha level of 0.05 and hence the alternative hypothesis is significant.

Based on horizontal frequencies, *i.e.* breakdown of type of ownership according to pawnshop type, it can be concluded that sole proprietorship and the partnership form

of pawnshops mostly refer to conventional pawnshops, whereas branches, cooperatives, and corporations mostly refer to Islamic pawnshops.

Table 7.15: Profile of Pawnbrokers by Type of Ownership

			Pawnshop		Total
			Conventional	<i>Ar-Rahn</i>	
Ownership	Sole proprietorship	Count	14	0	14
		% within Ownership	100.0%	.0%	100.0%
		% within Pawnshop	93.3%	.0%	46.7%
	Partnership	Count	1	0	1
		% within Ownership	100.0%	.0%	100.0%
		% within Pawnshop	6.7%	.0%	3.3%
	Corporation	Count	0	2	2
		% within Ownership	.0%	100.0%	100.0%
		% within Pawnshop	.0%	13.3%	6.7%
	Cooperative	Count	0	6	6
		% within Ownership	.0%	100.0%	100.0%
		% within Pawnshop	.0%	40.0%	20.0%
Branch	Count	0	7	7	
	% within Ownership	.0%	100.0%	100.0%	
	% within Pawnshop	.0%	46.7%	23.3%	
Total	Count	15	15	30	
	% within Ownership	50.0%	50.0%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Chi-square = 30.000; d.f. = 4; Significance = 0.000

7.3.4 Profile of Pawnbrokers by Source of Capital

Table 7.16 shows responses about the source of capital of the pawnbrokers according to types of pawnshop. Based on vertical frequencies, obviously most conventional pawnbrokers operate their businesses by using their own capital (35.7%), followed by getting loan from the family (33.3%) and banks (31.0%).

However, more than one-thirds (36.4%) of Islamic pawnbrokers obtained their capital from their parent company, followed by the cooperative members' share (27.3%), and subsidised by the government or the state government which comprised 22.7%. Combined together, only 13.5% started their business by getting loans from banks (9.0%) and the remaining used their own capital (4.5%).

Table 7.16: Profile of Pawnbrokers by Source of Capital

Source of Capital (Respondents can state more than one)	Conventional		<i>Ar-rahn</i>		Total (N)	Percentage (%)
	Frequency	(%)	Frequency	(%)		
Own capital	15	35.7	1	4.5	16	25.0
Loan from bank	13	31.0	2	9.0	15	23.4
Loan from family	14	33.3	-	-	14	21.9
Subsidised by Government/State Government	-	-	5	22.7	5	7.8
Parent company	-	-	8	36.4	8	12.5
Cooperative members' share	-	-	6	27.3	6	9.4

7.3.5 Profile of Pawnbrokers by Number of Staff Employed

Table 7.17 shows the number of staff ranging from less than two to five people by the type of pawnshop. Based on vertical frequencies or the distribution according to the type of pawnshop, the table shows that nearly two-third (65.0%) of the conventional pawnshops have between two to three staff employed, followed by a mere 13.4% pawnbrokers with employees between four to five and less than two respectively. On the other hand, a slim majority (53.3%) of Islamic pawnbrokers employ more than four staff, and the remaining (46.7%) out of fifteen Islamic pawnbrokers have two to three staff members to manage their business.

Table 7.17: Profile of Pawnbrokers by Number of Staff Employed

			Pawnshop		Total
			Conventional	<i>Ar-Rahn</i>	
No. of staff < 2	Count	1	0	1	
	% within No. of staff	100.0%	.0%	100.0%	
	% within Pawnshop	6.7%	.0%	3.3%	
2 – 3	Count	13	7	20	
	% within No. of staff	65.0%	35.0%	100.0%	
	% within Pawnshop	86.7%	46.7%	66.7%	
4 – 5	Count	1	8	9	
	% within No. of staff	11.1%	88.9%	100.0%	
	% within Pawnshop	6.7%	53.3%	30.0%	
Total	Count	15	15	30	
	% within No. of staff	50.0%	50.0%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Chi-square = 8.244; d.f. = 2; Significance = 0.016

The results indicate that there is a significant difference between staff numbers and the pawnshop type, which is supported by the chi-square test value of 0.016 which is less than the critical value of 0.05. The null hypothesis of no relatedness between the type of pawnshops and the number of staff employed is rejected implying that number of staff is significantly different between the types of pawnshops.

Based on the horizontal frequencies or the distribution of staff numbers according to pawnshop type, it can be concluded that the number of staff is likely to be small for conventional pawnshops, whilst it tends to be slightly larger for the Islamic pawnshop.

7.4 CONCLUSION

This profile analysis chapter has provided a fundamental understanding on some of the characteristics of the responding customers and pawnbrokers for each type of pawnshop being studied. In terms of customers, the result shows that the Islamic pawnshops were patronised by female customers whilst the males did not show any preference. In addition, the results in the preceding section demonstrate that most Malays would also prefer to go to Islamic pawnshops whilst other races prefer the conventional. Furthermore, most of the pawnshop customers were among the middle-age and older-age groups from several groups of income-earners who worked as government servants, private sector employees, housewives, or small businessmen. Moreover, more than half of the respondents obtained cash from pawnshops because of the insufficiency of income due to high costs of living, children's schooling expenses, large sums of debt, an increase in family member and others.

Whilst, in terms of pawnbrokers, the results reveal that the establishment of Islamic pawnshops in Malaysia is very new compared to conventional pawnshop institution, which had been in operation since the 15th century. As the findings indicate, Most of the conventional pawnshops were sole proprietorships and partnerships, whilst Islamic pawnshops had branches, cooperatives, and corporations as their type of ownership. As for the source of capital, most conventional pawnshops obtained their capital from their own capital, borrowing from banks and family, whilst Islamic pawnshop institutions generate their capital from subsidies by the government or state government, parent companies, or the cooperative members' share. In terms of human

resource, the findings depict that the number of staff being employed by the conventional pawnshops is less than the Islamic pawnshops, presumably because of their capital constraint.

Chapter 8

FINDINGS AND ANALYSIS

(CUSTOMERS AND PAWNBROKERS)

8.1 INTRODUCTION

This chapter presents the results of descriptive, crosstabulation, statistical analysis, and also the results of the testing of the hypotheses that were developed in the Research Methodology Chapter. As mentioned in the previous chapter, the main research objectives are to explore the attributes, behaviours, and opinions of Malaysian customers and pawnbrokers about the role of the pawnshop institution in enhancing the socio-economic growth of society and hence contribute to the overall economic growth of Malaysia, and the future prospect of Islamic pawnbroking as opposed to the conventional pawnbroking system. In order to fulfil these objectives, this analysis is divided into two sections, (i) the customers' perception on pawnbroking role; and (ii) the pawnbrokers' perception on pawnbroking's role in economy.

8.2 CUSTOMER PERCEPTION ON PAWNBROKING

8.2.1 Sources of Instant Cash Loan

In this study, seven items were chosen to represent different sources of instant cash. These items, which consist of banks, cooperative companies, pawnshops, moneylenders, cash advances from credit cards, and relatives and friends were adapted from studies by Johnson and Johnson (1998) and Maamor *et al.* (2006). The respondents were asked to rank these items ranging from 1 = the most preferable to 7 = the least preferable. The null-hypothesis is stated as below:

H₀: There is no significant difference among the customers in selection of various sources of getting instant cash.

As depicted in table 8.1, respondents show different importance levels to sources of instant cash. The most preferable source of instant cash loan considered by both customers was pawnshops with the lowest mean rank of 2.47, followed by relatives,

friends, banks, cooperative companies, cash advances from credit cards, and moneylenders with the highest mean rank of 5.69.

Table 8.1: Friedman Test to Rank the Preferable Sources of Instant Cash Loan

Sources of Instant Cash Loan	Mean Rank	Preferable Rank
Bank	3.50	4
Cooperative company	4.92	5
Pawnshop	2.47	1
Moneylender	5.69	7
Cash advance from credit card	4.94	6
Relative	2.99	2
Friend	3.48	3

Note: Mean values – Scoring: 1 = The most preferable; 7 = The least preferable

Sources of Instant Cash Loan	Mean Rank
N	127
Chi-Square	229.859
Df	6
Asymp. Sig.	.000

In order to compare the mean scores of all items, the Friedman two-way analysis of variance test is applied. Table 8.1 shows that the chi-square value ($\chi^2 = 229.859$) was higher than the tabulated chi-square value ($\chi^2 = 12.592$) at 0.05 confidence interval and 6 degrees of freedom. The observed significance level $p = .000$ was lower than the 0.05 confidence level, which implies that variations between the seven items are likely to hold in the population. Thus, we may infer that the difference in the preferred sources of instant cash among the respondents is statistically significant which implies the rejection of the null-hypothesis.

8.2.2 Pawnshop vs Other Instant Cash Loan

This research adapted eight items describing the reasons for using pawnshops as opposed to other sources of instant cash loans from the studies of Johnson and Johnson (1998) and Maamor *et al.* (2006). The items consist of *probability of getting loan is high, no credit check, short time to get cash, cost of loan is low, little paper work, convenient hours, privacy and possibility of getting back the item.* The

respondents were asked to rank these items according to the scale ranging from 1 = the most important reason to 8 = the least important reason.

In relation to this, the Friedman two-way analysis was again carried out. Thus, the null-hypothesis is stated as below:

H₀: There is no significant difference among the customers in reasons of choosing pawnshop than other sources of instant cash loan.

Table 8.2 shows that the respondents assigned different importance levels to the reasons in choosing pawnshops, as opposed to the other sources of instant cash loan. The most important reasons for choosing pawnshops is the ‘short time to get cash’ with the lowest mean rank of 1.66, followed by the ‘probability of getting loan is high’, ‘little paperwork’, ‘no credit check’, ‘cost of loan is low’, ‘privacy’, ‘possibility of getting back the item’, and ‘convenient hours’ as the least important reason.

Table 8.2: Friedman Test to Rank the Important Reasons of Choosing Pawnshop rather than Other Sources of Instant Cash Loan

Sources of Instant Cash Loan	Mean Rank	Preferable Rank
Probability of getting loan is high	3.27	2
No credit check	4.52	4
Short time to get cash	1.66	1
Cost of loan is low	4.66	5
Little paper work	4.33	3
Convenient hours	6.67	8
Privacy	5.14	6
Possibility of getting back the item	5.75	7

Note: Mean values – Scoring: 1 = The most important; 8 = The least important

Sources of Instant Cash Loan	Mean Rank
N	311
Chi-Square	844.574
Df	7
Asymp. Sig.	.000

Furthermore, table 8.2 shows that the chi-square value ($\chi^2 = 844.574$) is higher than the tabulated chi-square value ($\chi^2 = 14.07$) at 0.05 confidence interval and 7 degrees of freedom. The observed significance level $p = .000$ is lower than the 0.05

confidence level, which implies that variations between the eight items are likely to hold in the population. Thus, we may conclude that the difference in the reasons of choosing pawnshops as a source of instant cash rather than other small instant cash loan among the respondents is statistically significant. Hence, the null-hypothesis is rejected.

8.2.3 Determinants of Pawnshop Selection

The next issue that arises in this study is regarding the factors that determine the selection of pawnshop. This research adapted thirteen items describing the reasons for using pawnshop as articulated by Maamor *et al.*'s (2006) study. The items consists of *underlying principle, speed in loan approval, lower interest/fee rate, acceptance of various collateral, location being near home/office, confidentiality, convenient park and interior comfort, knowledgeable and competent staff, possibility of redemption, security of the collateral guaranteed, process is more transparent, image of the pawnshop and loyalty*. The respondents were asked to rank these items according to the scale ranging from 1 = the most important reason to 13 = the least important factor.

In relation to this, the Mann-Whitney U-Test was carried out in order to compare the mean ranks of the determinants of pawnshop selection between the Islamic and conventional pawnshops' customers. Thus, the null-hypothesis is stated as below:

H_0 : *There is no significant difference among the customers in terms of the determinants of pawnshop selection.*

Let u_1 and u_2 be the mean ranks of customers' factors of choosing their preferred pawnshop. Thus;

$$H_0: u_1 = u_2$$

$$H_1: u_1 \neq u_2$$

As shown in table 8.3, the mean ranks of all factors are not equal for both types of customers. The finding shows that the mean ranks of items such as 'interest free loan', 'lower fee rate', 'convenient park and interior comfort', 'possibility of redemption', 'security of the collateral guaranteed', 'process is more transparent', and 'image of the pawnshop' are lower for Islamic pawnshops' customers compared to conventional

pawnshops' customers. This indicates that the Islamic pawnshops' customers are more influenced by all the factors stated above in selecting the types of pawnshops they preferred.

On the other hand, the mean ranks of items such as 'speed in loan approval', 'acceptance of various collateral', 'location near to home/office', 'confidentiality', 'knowledgeable and competent staff', and 'loyalty' are lower for conventional pawnshop customers compared to Islamic pawnshop customers which denotes that the conventional pawnshops' customers are more influenced by all these factors in selecting pawnshops.

Table 8.3: Mann-Whitney U-Test Comparing the Mean Ranks of the Determinants of Pawnshop Selection

	Pawnshop	N	Mean Rank	Sum of Ranks	z value	Probability (2-tailed)
Interest free loan	<i>Ar-rahn</i>	181	91.00	16471.00	-16.085	.000
	Conventional	130	246.50	32045.00		
Speed in loan approval	<i>Ar-rahn</i>	181	195.31	35352.00	-9.819	.000
	Conventional	130	101.26	13164.00		
Lower interest/fee rate	<i>Ar-rahn</i>	181	132.98	24070.00	-5.475	.000
	Conventional	130	188.05	24446.00		
Acceptance of various collateral	<i>Ar-rahn</i>	181	221.00	40001.00	-16.802	.000
	Conventional	130	65.50	8515.00		
Location being near to home/office	<i>Ar-rahn</i>	181	188.67	34149.00	-7.624	.000
	Conventional	130	110.52	14367.00		
Confidentiality	<i>Ar-rahn</i>	181	184.99	33484.00	-6.747	.000
	Conventional	130	115.63	15032.00		
Convenient park and interior comfort	<i>Ar-rahn</i>	181	147.76	26744.50	-1.928	.054
	Conventional	130	167.47	21771.50		
Knowledgeable and competent staff	<i>Ar-rahn</i>	181	194.77	35252.50	-9.027	.000
	Conventional	130	102.03	13263.50		
Possibility of redemption	<i>Ar-rahn</i>	181	144.15	26092.00	-2.767	.006
	Conventional	130	172.49	22424.00		
Security of the collateral guaranteed	<i>Ar-rahn</i>	181	118.38	21427.00	-8.778	.000
	Conventional	130	208.38	27089.00		
Process is more transparent	<i>Ar-rahn</i>	181	111.80	20236.00	-10.293	.000
	Conventional	130	217.54	28280.00		
Image of the pawnshop	<i>Ar-rahn</i>	181	135.31	24400.50	-5.206	.000
	Conventional	130	184.81	24025.50		
Loyalty	<i>Ar-rahn</i>	181	187.04	33855.00	-7.284	.000
	Conventional	130	112.78	14661.00		

Note: Mean values – Scoring: 1 = The most important; 13 = The least important

Furthermore, the z score for the sample in table 8.3 is higher than the tabulated $z_{0.05} = 1.645$ for all factors that determine the customers' preferred pawnshop. In addition, the observed 2-tailed probability for all of the factors is smaller than the 0.05 level of

significance which implies that there is a significant difference between both types of customers in all of the factors. Therefore, the null hypothesis of equal mean ranks for all the customers' factors of choosing their preferred pawnshop is rejected.

Ultimately, based on the mean ranks of each pawnshops, it can be inferred that factor such as 'interest free loan' is considered the most important factor for Islamic pawnshop customers in choosing their preferred pawnshop, followed by the 'process is more transparent', 'security of the collateral guaranteed', 'lower fee rate', 'image of the pawnshop', 'possibility of redemption', and 'convenient park and interior comfort'. Other remaining factors such as 'loyalty', 'confidentiality', 'location being near home/office', 'knowledgeable and competent staff', 'speed in loan approval', and 'acceptance of various collateral' were ranked by the Islamic pawnshops' customers as the least important factors in choosing their preferred pawnshop.

On the other hand, the conventional pawnshops' customers ranked 'acceptance of various collateral' as the most important factor in choosing their preferred pawnshop, followed by 'speed in loan approval', 'knowledgeable and competent staff', 'location being near home/office', 'loyalty', and 'confidentiality'. Other remaining factors such as 'convenient park and interior comfort', 'possibility of redemption', 'image of the pawnshop', 'lower interest rate', 'security of the collateral guaranteed', 'process is more transparent', and 'interest free loan' were ranked by conventional pawnshop customers as the least important factors in choosing their preferred pawnshop.

As the test results indicate, except for the 'park and interior comfort' variable, there is a significant difference between Islamic and conventional customers in relation to the factors affecting their choice of a particular type of pawnshop.

8.2.4 Pawnshop Awareness

As shown in table 8.4, the majority of the respondents from both pawnshops were aware of the existence of other pawnshops. As for respondents from conventional pawnshops, the sources of their knowledge mainly come from signboards (49.1%), friends and relatives (47.9%), and newspapers (3.0%). Other sources of information such as television and radio advertisement, and internet were not as effective for conventional respondents. In contrast, respondents from Islamic pawnshops are aware of the existence of their preferred pawnshops mainly from friends and relatives

(33.2%), followed by signboards (32.7%), television and radio advertisements (18.1%), newspapers (10.1%), and via the internet (5.9%).

These results shows that Islamic pawnbroking institutions, as an alternative to conventional pawnbroking, have employed a wide range of methods in order to reach the customers, especially the lower-income groups.

Table 8.4: Pawnshops Awareness

	Conventional (%)	Ar-rahn (%)
1. Aware the existence of other pawnshops?		
▪ Yes	80.0	92.2
▪ No	20.0	7.8
2. Source of knowledge of preferred pawnshop (Respondents can state more than one source):		
▪ Signboard	49.1	32.7
▪ Friends and relatives	47.9	33.2
▪ Newspapers	3.0	10.1
▪ TV or radio advertisement	-	18.1
▪ Internet	-	5.9

8.2.5 Lending process

Table 8.5 reports the procedure of lending in pawnshops. As can be seen, the Islamic pawnshop customers use gold as their collateral to obtain loans because gold is the only item accepted by the Islamic pawnbrokers.⁶³ In contrast, conventional pawnshop accept a wide range of items to be used as collateral such as gold, silver, grants, electrical appliances, and branded watches. As noted in table 8.5, gold is the most popular item to pawn (91.4%) in conventional pawnshops followed by other types of collateral which contribute a mere 8.6%.

In terms of the ownership of the collateral, as can be seen in table 8.5, most of the respondents reported that the collateral belongs to them, followed by their spouse, relatives and children. Both customers were also required to show some identification along with their pledging item during the pawning process. Interestingly, some Islamic pawnshops require a receipt of purchase of the pledge item as part of the lending process. The result also shows that normally the loan process for each type of

⁶³ At present, YaPEIM took the first attempt of diversifying their acceptance of collateral to diamond, which is stated by YaPEM representative during one of the interview sessions for this research.

pawnshops will take only 10 – 20 minutes and only a small percentage of them will be settled in more than 30 minutes.

Table 8.5: Process of Lending

	Conventional (%)	Ar-rahn (%)
1. Type of collateral (Respondents can state more than one):		
▪ Gold	91.4	100.0
▪ Silver	0.7	-
▪ Grant	3.6	-
▪ Electrical appliances	0.7	-
▪ Branded watches	3.6	-
2. Real owner of the collateral (Respondents can state more than one person):		
▪ Myself	59.8	57.2
▪ Spouse	29.2	32.6
▪ Children	2.2	0.5
▪ Relatives	8.8	9.6
3. Things to provide during pawning process (Respondents can state more than one source):		
▪ Collateral	50.0	46.8
▪ Identification card	50.0	46.8
▪ Receipt purchase of item	-	6.4
4. Loan processing last:		
▪ Less than 10 minutes	23.1	12.7
▪ 10 – 20 minutes	39.2	59.1
▪ 21 – 30 minutes	22.3	18.2
▪ More than 30 minutes	15.4	9.9
5. Staff knowledgeable and competence:		
▪ Very knowledgeable and competent	82.3	95.0
▪ Lack of knowledgeable and competent	3.1	-
▪ I do not care	14.6	5.0
6. Amount of loan received:		
▪ Maximum loan	65.4	69.6
▪ Limited to the amount needed	34.6	30.4
7. Interest rate/ fee paid:		
▪ No charge	-	7.7
▪ Safekeeping fee	-	89.5
▪ Interest rate of 2%	48.5	-
▪ I do not care	51.5	2.8

The customers of both types of pawnshops agree that the staff of the pawnshops they dealt with were knowledgeable and competent. Only a few of the respondents did not care about the knowledge ability and competency of the staff provided that their loan was approved.

As depicted in table 8.5, in terms of the amount of loan received, more than 65% of both types of customers revealed that they received the maximum loan they needed, whilst less than 35% of both respondents received a limited amount of their loan.

This research also revealed in table 8.5 that a slim majority (51.5%) of the respondents from conventional pawnshops did not care about the interest or fee rate charged by the pawnshops, out of which 48.5% of the respondents stated that they had been charged an interest rate of 2%. On the other hand, there were mixed results for the respondents of Islamic pawnshops, where a vast majority (89.5%) knew that they had been charged a safekeeping fee, followed by 7.7% with no charge, and the remaining (2.8%) who did not care about the charge.

Respondents were also asked to identify their purpose of getting loans from pawnshops. As shown in table 8.6, the primary purpose of getting a loan from both types of pawnshops was to settle ‘household expenses’ (25.2%) and ‘repayment for other loan’ (23.4%). Settling ‘education expenses’ (16.5%) and ‘extend business’ (12.0%) were also among the common purposes of getting loans from pawnshop. The remaining respondents (22.8%) acquired loans from pawnshops to settle ‘medical expenses’, ‘car expenses for personal’, ‘treat yourself/buy gift’, ‘buying property’, ‘start-up business’, and ‘car expenses for business’.

Table 8.6: Purpose of Lending

Purpose of lending (Respondents can state more than one reason)	Conventional		<i>Ar-rahn</i>		Total (N)	Percentage (%)
	Frequency	(%)	Frequency	(%)		
Medical expenses	10	3.1	10	2.5	20	2.7
Bills	12	3.7	18	4.4	30	4.1
Household expenses	62	19.3	69	17.0	131	18.0
Repayment for other loan	58	18.0	61	15.1	119	16.4
Car expenses (personal)	17	5.3	34	8.4	51	7.0
Festival expenses	10	3.1	13	3.2	23	3.2
Refinancing household appliances	22	6.8	30	7.4	52	7.1
Treat yourself	20	6.2	19	4.7	39	5.4

Buy gift	4	1.2	-	-	4	0.5
Buying property	7	2.2	9	2.2	16	2.2
Education expenses	51	15.8	70	17.3	121	16.5
Start-up business	6	1.9	14	3.5	20	2.7
Extend business	38	11.8	50	12.3	88	12.0
Car expenses (business)	5	1.5	8	2.0	13	1.8

In investigating the impact of each type of pawnshops' loans towards the socio-economy of the society, the researcher split the usage of lending into two categories, *i.e.* consumption and production purpose. The usage that fell under consumption purposes were 'medical expenses', 'bills', 'household expenses', 'repayment for other loan', 'car expenses for personal', 'festival expenses', 'refinancing household appliances', 'treat yourself', and 'buy gift'. As for the remaining such as 'buying property', 'education expenses', 'start-up business', 'extend business', and 'car expenses for business', these usage were categorized as production purpose. Table 8.7 indicates that both types of customers tend to obtain loan from pawnshops for consumption purpose (approximately 60.0%) rather than production purpose (approximately 40.0%).

Table 8.7: Consumption vs Production Purpose

Purpose of lending	Conventional		Ar-rahn		Total (N)	Percentage (%)
	Frequency	(%)	Frequency	(%)		
Consumption	215	66.8	254	62.7	469	64.5
Production	107	33.2	151	37.3	258	35.5

8.2.6 Redeeming, Extending and Auctioning Processes

Table 8.8 reports the procedure of redeeming, extending, and auctioning in pawnshop lending. Of 311 respondents, more than 40% of both types of pawnshop customers redeemed their collateral in one to six months, followed by 36.1% of conventional pawnshops' customers and 35.3% Islamic pawnshops' customers redeeming their collateral in seven to twelve months. The remaining respondents could only redeem their belongings more than once a year.

Table 8.8: Process of Redeeming, Extending, and Auctioning

	Conventional (%)	Ar-rahn (%)
1. Period of redemption: <ul style="list-style-type: none"> ▪ 1 – 6 months ▪ 7 – 12 months ▪ More than 12 months 	40.8 36.1 23.1	48.1 35.3 16.6
2. If no repayment within 6 months: (Respondents can state more than one statement) <ul style="list-style-type: none"> ▪ The pawnbroker will endorse a notice. ▪ The pawnbroker will allow extension. ▪ If collateral value below RM200, it will become the pawnbroker property. ▪ If the collateral value more than RM200, the pawnbroker can dispose it by auction. 	34.2 44.2 6.8 14.7	34.2 36.2 14.5 15.1
3. Extension period offered by pawnbroker: <ul style="list-style-type: none"> ▪ Less than 3 months ▪ More than 3 months 	39.2 60.8	35.4 64.6
4. Ever failed to redeem? <ul style="list-style-type: none"> ▪ Yes ▪ No 	36.2 63.8	16.7 83.3
5. Reason of failing to redeem: (Respondents can state more than one statement) <ul style="list-style-type: none"> ▪ Not enough cash to redeem ▪ Being dismissed from employment ▪ Spouse dismissed from employment ▪ Children begin schooling ▪ Family member sick ▪ Increase in family member ▪ Money used for festival expenses ▪ Pay other debt ▪ Business performance fall 	42.4 5.7 0.9 17.9 11.3 9.4 4.7 5.7 1.9	53.7 1.8 1.8 24.1 5.5 9.2 3.7 - -
6. Reason managed to redeem: (Respondents can state more than one statement) <ul style="list-style-type: none"> ▪ Used money productively ▪ Salary/ bonus ▪ Received unexpected money ▪ Borrowed from family/ friends/ relatives ▪ Monthly allowance ▪ Saving 	35.7 19.4 15.3 21.4 5.1 3.1	31.7 20.3 6.9 19.8 8.9 12.4
7. Ever received notice regarding unclaimed item? <ul style="list-style-type: none"> ▪ Yes ▪ No 	14.6 85.4	13.3 86.7

8. Redeem collateral after receiving notice?		
▪ Yes	42.1	37.5
▪ No	57.9	62.5
9. Receive any surplus after auctioning process?		
▪ Yes	7.7	92.3
▪ No	76.9	23.1

According to the findings, if the pawnbrokers did not receive any repayment within six months of lending, most of the respondents reported that the pawnbroker would allow them to have loan a extension, followed by endorsing a notice of reminder. As can be seen in table 8.8, nearly two-thirds of the respondents noted that they were normally offered, by the pawnbrokers, an extension period of more than three months. Although the pawnbrokers granted an extension period, the findings reveals that more than one-third (36.2%) of conventional pawnshops’ customers and 16.7% of Islamic pawnshops’ customers failed to redeem their collateral in the last twelve months. A majority of the respondents stated ‘not enough cash to redeem’ as the major reason of this issue. Presumably, the reason of ‘not enough cash to redeem’ can be linked to the usage of money for their children’s schooling expenses when term begin, sick family members, an increase in family members, dismissed from employment, *etc.* On the contrary, more than 30% of the respondents of each type of pawnshop’s customers managed to redeem their collateral by using the money that they lent productively. Other than that, ‘salary/bonus’, ‘borrowed money from family/friends/relatives’, ‘unexpected money’, ‘saving’ and *etc.* were among the sources to get back their collateral.

Respondents who failed to redeem their collateral were also asked whether they had ever received any notice of reminder from the pawnbroker about the unclaimed items that would be auctioned. As can be seen in table 8.8, of 311 respondents, only 19 respondents from conventional pawnshops and 24 respondents from Islamic pawnshops received a notice of reminder from the pawnbrokers regarding this issue. From the total of 43 respondents who received notices, almost 40% of the respondents did redeem their collateral and the remaining failed to redeem due to problems that had been mentioned previously. In terms of the auctioning process, a vast majority of Islamic pawnshop customers (92.3%) received a surplus from the auctioning process compared to only 7.7% from conventional pawnshop customers. In contrast, a large

percentage of respondents who did not receive any surplus of the sale of the item came from conventional pawnshops. A majority of the respondents claimed that they did not know that could claim the surplus (See Appendix 8A).

8.2.7 Complaining and Compensating Processes

Table 8.9 reports the problems that respondents faced in dealing with their preferred pawnshops and the process of complaining. Most of the items listed for the types of problems were adopted from Adnan (2004) who considered those factors as the weaknesses of conventional pawnshops in Malaysia. Of 311 respondents, only 23 of the respondents experienced problems with pawnbrokers. From the total of 23 respondents who faced problem, almost 74.0% of the respondents were dealing with conventional pawnshops and the remaining 26.0% dealt with Islamic pawnshops. It is reported that ‘pawner do not receive any notice from the pawnbroker’ (18.9%) as the main problem faced by the pawner in conventional pawnshops, followed by ‘decreasing value of the collateral’ (16.2%), ‘low collateral value’ (13.5%), ‘higher interest rate’ (13.5%), and ‘inappropriate use of term on the pawn ticket’ (13.5%). ‘Pawnbroker charge for replacement of lost ticket’ (10.8%), ‘pawnbroker do not return any surplus from the auction’ (10.8%), and ‘collateral lost in the hand of pawnbroker’ (2.7%) constituted the least problems to the pawner. For Islamic pawnshop customers, most of them complained that ‘pawners do not receive any notice from the pawnbroker’ (42.9%), followed by ‘collateral lost in the hand of pawnbroker’ (28.6%), ‘pawnbroker do not returned any surplus from the auction’ (14.3%), and ‘pawnbroker charge for replacement of lost ticket’ (14.3%).

Table 8.9: Process of Complaining and Compensating

	Conventional	Ar-rahn
1. Ever experienced problem?		
▪ Yes	17 (13.1%)	6 (3.3%)
▪ No	113 (86.9%)	175 (96.7%)
2. Nature of the problem (Respondents can state more than one statement):		
▪ Decreasing value of the collateral.	6 (16.2%)	-
▪ Low collateral value.	5 (13.5)	-
▪ Higher interest/ fee charge.	5 (13.5%)	-
▪ Pawnbroker charge for a replacement of lost ticket.	4 (10.8%)	1 (14.3%)
▪ Inappropriate use of term on the pawn ticket.	5 (13.5%)	-

<ul style="list-style-type: none"> ▪ Pawnbroker do not returned any surplus from the auction. ▪ Pawnners do not received any notice from the pawnbroker. ▪ Collateral lost in the hand of pawnbroker. 	4 (10.8%)	1 (14.3%)
	7 (18.9%)	3 (42.9%)
	1 (2.7%)	2 (28.6%)
3. Make any complaint?		
<ul style="list-style-type: none"> ▪ Yes ▪ No 	10 (58.8%)	6 (100.0%)
	7 (41.2%)	-
4. To whom make complaint?		
<ul style="list-style-type: none"> ▪ Pawnbroker itself ▪ FOMCA 	7 (70.0%)	6 (100.0%)
	3 (30.0%)	-
5. Any action taken?		
<ul style="list-style-type: none"> ▪ Yes ▪ No 	6 (60.0%)	5 (83.3%)
	4 (40.0%)	1 (16.7%)
6. Was the outcome in favour of you?		
<ul style="list-style-type: none"> ▪ Yes ▪ No 	4 (66.7%)	4 (80.0%)
	2 (33.3%)	1 (20.0%)

In terms of making a formal complaint, all of the six Islamic pawnshop customers who faced problems made a complaint, whilst only 58.8% out of 17 respondents from conventional pawnshops did so. Apart from forwarding complaints to the pawnbrokers themselves, the conventional pawnshop customers also referred the complaint to FOMCA, whilst the Islamic pawnshop customers would prefer to forward any complaints to the pawnbrokers themselves. As a result, they revealed that the respective pawnbrokers or institutions had overcome the problems that had been raised, and most of the outcome was in favour of the respective pawner. For example, pawnners who lost their collateral had been given a compensation of cash of 25% more than the amount of loan from the respective conventional pawnbrokers, whilst those customers who dealt with Islamic pawnshops had been given compensation with the value of the item minus the amount of the loan given and the accumulated safekeeping fee before the collateral was lost.

8.2.8 Services Satisfaction

As a conclusion of this section, respondents were asked to rate their level of satisfaction for all the procedures of pawn lending which consists of lending, redeeming, extending, auctioning, compensating, and complaining according to the

five-point Likert scale ranging from 1 (absolutely not satisfied) to 5 (very satisfied). The results in table 8.10 do not indicate much difference between conventional and Islamic pawnshop customers for all processes involved in pawnshop lending. Both types of customers were satisfied with the ‘lending’, ‘redeeming’, and ‘extending’ processes practiced by their selected pawnshop, whilst ‘auctioning’, ‘compensating’, and ‘complaining’ processes were ranked as ‘do not know’. Presumably, they reported the latter transaction as ‘do not know’ due to the fact that they had never experienced the related processes.

However, in terms of overall satisfaction, the results in table 8.10 show that the mean value of customers’ satisfaction for all the processes involved in the Islamic pawnshops was slightly higher (3.69) than the mean value of satisfaction from the conventional pawnshops’ customer (3.56).

Table 8.10: Level of Satisfaction of all Processes

	Conventional		Ar-rahn	
	Mean	Implications	Mean	Implications
Lending	4.22	S	4.54	VS
Redeeming	4.15	S	4.25	S
Extending	4.02	S	4.18	S
Auctioning	2.94	DNK	3.12	DNK
Compensating	2.99	DNK	3.04	DNK
Complaining	3.02	DNK	3.04	DNK
Overall satisfaction	3.56		3.69	

Note: (VS = Very satisfied; S = Satisfied; DNK = Do not know; NS = Not satisfied; ANS = Absolutely not satisfied)

In further analysing the differences in the satisfaction level, the Mann-Whitney U-Test was carried out to see whether both types of customers had the same mean score for each of the processes involved in pawn lending. Thus, the null-hypothesis is stated as below:

H₀: There is no significant difference among the customers of each pawnshops of the degree of satisfaction of all processes involved in pawnshop.

Table 8.11 shows that the mean ranks of the degree of satisfaction experienced by each customer of all the processes involved in each type of pawnshops are not equal between the Islamic and conventional pawnshop customers.

Table 8.11: Mann-Whitney U-Test Comparing the Mean Ranks of Customers' Satisfaction of all the Processes Involved in Pawnshop

	Pawnshop	N	Mean Rank	Sum of Ranks	z value	Probability (2-tailed)
Lending	<i>Ar-rahn</i>	181	174.11	31514.00	-4.846	.000
	Conventional	130	130.78	17002.00		
Redeeming	<i>Ar-rahn</i>	181	163.23	29544.00	-1.857	.063
	Conventional	130	145.94	18972.00		
Extending	<i>Ar-rahn</i>	181	163.59	29610.00	-1.909	.056
	Conventional	130	145.43	18906.00		
Auctioning	<i>Ar-rahn</i>	181	163.40	29574.50	-2.975	.003
	Conventional	130	145.70	18941.50		
Compensating	<i>Ar-rahn</i>	181	158.28	28649.00	-2.216	.027
	Conventional	130	152.82	19867.00		
Complaining	<i>Ar-rahn</i>	181	156.43	28313.00	-.257	.797
	Conventional	130	155.41	20203.00		

Note: Mean values – Scoring: 1 = Absolutely not satisfied; 5 = Very satisfied

Based on the result, the mean ranks of the degree of satisfaction of all processes (such as lending, redeeming, extending, auctioning, compensating, and complaining) undergone in pawnshops are higher for Islamic pawnshop customers compared to conventional pawnshop customers. For example, in terms of the lending process, the mean rank for those involved in the *ar-rahn* transaction is 174.11 as compared to 130.78 for the conventional.

It can be concluded that Islamic pawnshop customers are highly satisfied with all the processes (such as lending, redeeming, extending, auctioning, compensating, and complaining) held in Islamic pawnshops compared to the conventional.

In addition, the z score shown in table 8.11 is higher than the tabulated $z_{0.05} = 1.645$ for all items except for the 'complaining' variable. On the other hand, the observed 2-tailed probability for items such as 'lending', 'extending', 'auctioning', and 'compensating' is smaller than the 0.05 level of significance which implies that there is a significant difference in the degree of satisfaction between each type of pawnshop customers in all the processes mentioned above. Therefore, the null hypothesis of equal means ranked among customers of each pawnshops of the degree of satisfaction of all processes involved in pawnshop is rejected, except for two processes which are 'redeeming' and 'complaining'. No significant differences existed between Islamic and conventional pawnshop customers in terms of 'redeeming' and 'complaining'.

However, with a small degree of relaxation of the statistical rule, the ‘redeeming’ category can be accepted as significant at 7% level of significance.

8.2.9 Customers Perception towards the Role and the Impact of Pawnshops

In this section, the customers’ perception towards the role of pawnshops to society is investigated. Respondents were asked whether pawnbroking had helped them in a positive manner in making their socio-economic situation better. Table 8.12 depicts that a vast majority of them (98.4%) agreed with the statement while only a mere 1.6% of respondents denied the pawnshops’ positive role.

Table 8.12: Pawnbroking Having Positive Impact

			Pawnshop		Total
			Conventional	Ar-rahn	
Positive	Yes	Count	128	178	306
		% within Positive	41.8%	58.2%	100.0%
		% within Pawnshop	98.5%	98.3%	98.4%
	No	Count	2	3	5
		% within Positive	40.0%	60.0%	100.0%
		% within Pawnshop	1.5%	1.7%	1.6%
Total	Count	130	181	311	
	% within Positive	41.8%	58.2%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Chi-square = 0.007; d.f = 1; Significance = 0.934

Following the crosstabulation analysis, the results reveal that there is no statistically significant difference between both types of customers regarding their opinion about the role of pawnbroking. The computed chi-square value is lower than the critical chi-square statistics ($\chi^2 = 3.841$) at 0.05 level of significance and 1 degree of freedom. Therefore, the null hypothesis that there is no relatedness between the customers’ type of pawnshop and the positive role of pawnshops cannot be rejected due to having the significance value above the alpha level of 0.05.

Subsequent to the above statement, the researchers listed eight statements in order to identify the positive impact brought from pawnshop lending as shown in table 8.13. The eight items are *finance economic activity, overcome money shortage, finance consumption purpose, finance education expenses, improved standard of living, improved business performance, helped survived during recession and as safekeeping.*

The results in table 8.13 show that both types of customers ranked ‘overcome money shortage’ as the highest priority followed by ‘finance consumption purpose’, ‘finance economic activity’, and ‘finance education expenses’ as the second, third and fourth priority of pawnshops’ positive contributions. This result is expected since these are the main roles of pawnshops in providing loans to people in need, as was discussed in Chapter 3 and 4.

Table 8.13: Contribution of Pawnshops’ Lending

In what ways (Respondents can state more than one statement)	Conventional			Ar-rahn			Total	%
	Frequency	(%)	Rank	Frequency	(%)	Rank		
Finance economic activity	52	15.8	3	77	16.6	3	129	16.3
Overcome money shortage	108	32.9	1	136	29.4	1	244	30.8
Finance consumption purpose	76	23.2	2	83	17.9	2	159	20.1
Finance education expenses	46	14.0	4	67	14.5	4	113	14.3
Improved standard of living	12	3.7	6	27	5.8	7	39	4.9
Improved business performance	23	7.0	5	37	8.0	5	60	7.6
Helped survived during recession	10	3.0	7	31	6.7	6	41	5.2
As a safekeeping	1	0.3	8	5	1.1	8	6	0.8

In addition, respondents were also asked about their opinions regarding the pawnshops’ role towards the following statements: *solve financial exclusion, solve social problem, alternative to banks, conforms to my faith and when it is used for consumption and no redemption, it sustains financial difficulty.*

It is also essential to look into whether there is any significant difference in the perception of customers regarding the role of pawnshops in the community as mentioned above. The null hypothesis reads:

H_0 : *There is no significant difference between the levels of agreement of each customer regarding the positive role of pawnshop in the community.*

To test this particular hypothesis, the Man-Whitney U-Test was again undertaken and the results are reproduced in table 8.14.

As shown in the results of table 8.14, the mean ranks of all statements regarding the positive role of pawnshops in the community are not equal for both types of customers. The findings show that the mean ranks of roles such as ‘solving financial exclusion’, ‘solving social problem’, ‘alternative to banks’, ‘conforming to my faith’, and ‘when it is used for consumption and no redemption, it sustains financial difficulty’ were higher for Islamic pawnbroking customers compared to conventional. It indicates that the Islamic pawnbroking customers very much agreed with the positive roles of pawnshop in the community.

Table 8.14: Man-Whitney U-Test Comparing the Mean Ranks of Customers Perception on the Positive Role of Pawnshop

	Pawnshop	N	Mean Rank	Sum of Ranks	z value	Probability (2-tailed)
Helps solve financial exclusion	<i>Ar-rahn</i>	181	159.41	28852.50	-.980	.327
	Conventional	130	151.26	19663.50		
Helps solve social Problem	<i>Ar-rahn</i>	181	169.99	30768.00	-3.420	.001
	Conventional	130	136.52	17748.00		
An alternative to formal institution	<i>Ar-rahn</i>	181	165.09	29881.50	-2.736	.006
	Conventional	130	143.34	18634.50		
Abstaining from <i>riba</i>	<i>Ar-rahn</i>	181	220.43	39897.50	-15.442	.000
	Conventional	130	66.30	8618.50		
Used for consumption and no redemption	<i>Ar-rahn</i>	181	177.58	32142.50	-5.834	.000
	Conventional	130	125.95	16373.50		

Note: Mean values – Scoring: 1 = Strongly disagree; 5 = Strongly agree

In addition, the z score for the sample in table 8.14 is higher than the tabulated $z_{0.05} = 1.645$ for all of the pawnshops’ roles being mentioned earlier. The observed 2-tailed probability for all of these variables is smaller than the 0.05 level of significance which implies that there is a significant difference between both types of customers on these roles except for ‘helping to solve financial exclusion’. Therefore, the null hypothesis that there is no significant difference between the levels of agreement of each customer regarding the role of pawnshops to the community therefore can be rejected except for ‘helping to solve the financial exclusion’ variable. Thus, it seems that the opinions on financial exclusion are close in both types of customers.

Table 8.15: Overall Conclusion

			Pawnshop		Total
			Conventional	Ar-rahn	
Better off	Yes	Count	73	171	244
		% within Better off	29.9%	70.1%	100.0%
		% within Pawnshop	56.2%	94.5%	78.5%
	No	Count	57	10	67
		% within Better off	85.1%	14.9%	100.0%
		% within Pawnshop	43.8%	5.5%	21.5%
Total	Count	130	181	311	
	% within Better off	41.8%	58.2%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Chi-square = 65.735; d.f. = 1; Significance = 0.000

Finally, the respondents were asked whether pawning their belongings to the pawnshops to obtain cash could result in a financially better off situation. Overall, table 8.15 shows that approximately more than two-third of the respondents (78.5%) agreed with the statement and the remaining (21.5%) disagreed with it. In addition, the table also shows that the Islamic pawnbroking customers very much agreed (70.1% out of 181 Islamic pawnbroking respondents as compared to 56.2% out of 130 respondents from the conventional pawnshop) with the statement that after pawning their belongings, they were financially better-off. Based on the results from the open-ended question, the remaining customers who disagreed with the statement argued that pawning would only help them financially better-off for a temporary period or under emergency circumstances but not for long-term period. Thus, the customers were in agreement in terms of the temporary positive impacts of pawnshoping; therefore, the long-run welfare impact remains an issue to be resolved.

As can be seen table 8.15, this argument is also supported by the chi-square value of 65.735 which is higher than the critical chi-square statistics ($\chi^2 = 3.841$) at 0.05 level of significance and 1 degree of freedom. The null-hypothesis of no relatedness between the type of pawnshop customers' preferred and pawning could lead to financially better-off results can be rejected, as the significance value is well below the alpha level of 0.05 and is therefore significant.

Based on the horizontal frequencies, *i.e.* the breakdown of financially better off according to pawnshop type, it can be concluded that Islamic pawnshop customers felt that using the *ar-rahn* will lead them to financial better off, whilst conventional

pawnshop customers disagreed with the statement, indicating a particular difference between both types of pawnshop customers.

8.3 PAWNBROKER'S PERCEPTION ON PAWNBROKING

The previous section focused on the perceptions and opinions of the clients of conventional and Islamic pawnbrokers on various aspects of pawnbroking. The following section, however, aims at analyzing the data collected from the pawnbrokers in terms of the issues identified.

8.3.1 Lending Process

Table 8.16 reveals the differences of lending practices imposed in both types of pawnshops, which shows that conventional pawnshops accept a wide spectrum of items as collateral such as gold and branded watches as the most popular items, followed by grant (66.7%), electrical appliances (53.3%), silver (46.7%) and diamond which contribute to only 20.0%. On the other hand, Islamic pawnshops show that the acceptance of collateral is limited to gold (100.0%) and diamond (20.0%).

Table 8.16: Process of Lending

	Conventional (%)	Ar-rahn (%)
1. Acceptance of collateral (Respondents can state more than one):		
▪ Gold	100.0	100.0
▪ Silver	46.7	-
▪ Diamond	20.0	20.0
▪ Grant	66.7	-
▪ Electrical appliances	53.3	-
▪ Branded watches	100.0	-
2. Service charge:		
▪ No charge	-	6.7
▪ Safekeeping fee	-	93.3
▪ Interest rate of 2%	100.0	-
3. Determinant of the fee/ interest charge:		
▪ Based on the amount of loan	100.0	-
▪ Based on the value of collateral	-	100.0
4. Financing margin (Percentage loan offered of collateral):		
▪ 50 – 60%	-	33.3
▪ 61 – 70%	-	46.7
	-	20.0

<ul style="list-style-type: none"> ▪ 71 – 80% ▪ Depends on the customers' demand 	100.0	-
5. Things to provide: <ul style="list-style-type: none"> ▪ Collateral ▪ Identification card ▪ Purchasing receipt 	100.0 40.0 -	100.0 100.0 53.3
6. Person in charge of measurement (Respondents can state more than one): <ul style="list-style-type: none"> ▪ Owner ▪ Qualified staff 	100.0 100.0	- 100.0
7. Method used to record customer profile: <ul style="list-style-type: none"> ▪ Database in the computer ▪ Pawnbrokers' sale book 	26.7 73.3	100.0 -
8. Details in receipt (Respondents can state more than one): <ul style="list-style-type: none"> ▪ Pawner's name ▪ Pawner's address ▪ Type of collateral ▪ Date of pawning ▪ Total of loan ▪ Identification card no. ▪ Collateral value ▪ Fee charge 	100.0 100.0 6.7 100.0 100.0 - - -	100.0 100.0 100.0 100.0 100.0 100.0 100.0 100.0
9. Number of customer per day: <ul style="list-style-type: none"> ▪ Less than 10 ▪ 11 – 20 ▪ 21 – 30 ▪ More than 30 	6.7 13.3 53.3 26.7	6.7 20.0 20.0 53.3
10. Length of loan approval: <ul style="list-style-type: none"> ▪ Less than 10 minutes ▪ 10 – 20 minutes 	73.3 26.7	40.0 60.0

In terms of service charges, all of the conventional pawnbrokers report that they impose a 2% interest rate based on the amount of loan, which is prohibited in Islam. On the contrary, by definition, there is no element of interest in Islamic pawnbroking. Almost all of the responding Islamic pawnbrokers (93.3%) offer interest-free loans

with a minimum fee charged⁶⁴ for the safekeeping of the pawning items based on the value of the collateral, whilst the remainder (6.7%) did not charge any fee. The only *ar-rahn* institution that did not charge any fees to the loan given is the MGIT which was the pioneer of Islamic pawnbroking in Malaysia.

In general, pawnshops will offer a financing margin which is lower than the value of the collateral. As shown in table 8.16, the loan offered by Islamic pawnbrokers fall in the range of 50% to up to 80% depending on the value of the collateral. Nearly half (46.7%) of Islamic pawnbrokers offer a percentage of loans between 61% and 70% from the collateral value, following one-third (33.3%) offered up to 50% to a 60% per transaction, while the remaining one-fifth (20.0%) offered a maximum financing of up to 71% to 80%. In contrast, all of the conventional pawnbrokers offer instant cash depending on customers' demand.

In terms of the procedure of lending, both types of pawnshops require customers to bring identification cards, to ensure that they are 18 years old and above, along with their collateral. In addition to collateral and an identification card, a slim majority of the Islamic pawnbrokers (53.3%) require their customers to show the purchasing receipt of their collateral as an evidence of possession.

Table 8.16 also shows that the owner, or a qualified staff member of the conventional pawnshop, will be in charge of measuring the value of the collateral. As for Islamic pawnshops, the measurement of collateral value will be done by a qualified staff member employed by each institution.

As for recording customer profile purposes, as can be seen in table 8.16, more than two-thirds (73.3%) of conventional pawnbrokers are still using traditional methods of recording such as the pawnbrokers' sale book, whilst the remaining 26.7% are more modernized by entering the customers' profile in the computer database.

Generally, after a loan has been approved, a pawnbroker will produce a receipt as an evidence of pawning a transaction. As was reported in table 8.16, some of the items listed in the receipt are similar for both types of pawnshops such as the pawner's

⁶⁴ The schedule of safekeeping fee for various Islamic pawnbroking institutions has been discussed in Chapter 5. In comparison to conventional pawnshops, the fee charge is relatively very low with only 1 percent from the total loan given per month.

name, address, type of collateral, date of pawning and the total of the loan. Additionally, all Islamic pawnbrokers list more details in the receipt, such as identification card number, the collateral value, and the safekeeping fee charge.

Table 8.16 also shows the total average of customers that attend each of the corresponding pawnshops regardless of their intention. On average, a slim majority (53.3%) of conventional pawnshops receive customers of around 21 to 30 people per day, followed by 26.7% of them receiving more than 30 customers, 13.3% with customers between 11 and 20 people, while the remaining 6.7% with less than 10 customers a day. On the other hand, of 15 respondents of the Islamic pawnbrokers, more than half of them (53.3%) received customers of more than 30 people a day, followed by 40.0% between the range of 11 to 30 people, while the remaining 6.7% with less than 10 customers per day. Specifically, those pawnbrokers dealing with many transactions per day were from the central and northern east regions (See Appendix 7B). This scenario is predictably due to the higher cost of living in the central region such as Kuala Lumpur and Selangor, and the high demand of pawn lending from customers in the northern east region, such as Terengganu and Kelantan, to obtain instant cash to finance their businesses.

The result, as depicted in table 8.16, also show that 11 out of 15 transactions in conventional pawnshops can be settled in less than 10 minutes, whilst the remaining 26.6% of them finish between 10 and 20 minutes. Meanwhile, more than half (60.0%) of the Islamic pawnbrokers experience lengths of 10 to 20 minutes for the loan approval process, while the remaining 40.0% stated that they can settle the process in less than 10 minutes.

8.3.2 Redeeming, Extending, Auctioning, Complaining and Compensating Processes

The findings in table 8.17 revealed the differences in redeeming, extending, auctioning, complaining, and compensating processes imposed on both types of pawnshops. As shown in table 8.17, both types of pawnbroking are similar with regards the person who can redeem the collateral. Both pawnbrokers agreed that the owner of the collateral and the person who has the pawn receipt are the ones entitled

to redeem their belongings. In addition, Islamic pawnbrokers also allow a person who has a representative letter from the real borrower to redeem the item.

In terms of the period of redemption, the majority of pawnbrokers, regardless of the type of pawnshop, offered six months and above for a period of redemption. Only a small percentage (20.0%) of conventional pawnbrokers and 6.7% of the Islamic pawnbrokers offered three months or less, as depicted in table 8.17. According to Chan and Owyong (2007), this is one of the advantages of using pawnshops, which is their capability of giving a flexible repayment period compared to their counterparts such as banks and other mainstream lending institutions which tend to fix their repayment schedules.

Normally, the pawnbrokers will grant an extension period if the customers fail to redeem their belonging within six months. The result in table 8.17 reveals that more than two-thirds (73.3%) of conventional pawnbrokers were willing to offer less than 3 months of extension to their customers. Nearly half of them (46.7%) endorsed a notice of reminder to the customers about their loan expiration, and the others did not apply. Unlike conventional pawnbrokers, all of the Islamic pawnbrokers send a notice of reminder of the expiration period to the customer and a majority of Islamic pawnbrokers (80.0%) tend to grant more than 6 months as an extension period with a notice sent earlier if the customers want to postpone their settlement, as long as they can settle the outstanding safekeeping fee.

The responding pawnbrokers were also asked about the percentage of collateral that was unredeemed in their pawnshops. Almost half of conventional pawnbrokers (46.7%) had a range of 5% to 10% of collateral that was left unredeemed, following one-third (33.3%) with the range of 11% to 15% and the remaining one-fifth with 16% to 20.0%. On the other hand, a majority of Islamic pawnbrokers (86.7%) had a range of 5% to 10% unredeemed collateral and only small percentage of them (13.3%) held less than 5%.

Despite the amount of unredeemed collaterals that were quite high (5% to 20% from the total amount of loan given), conventional pawnbrokers can still survive from this loan forfeit by putting the collateral into auction, selling the forfeited collateral at their

pawnshops or by melting the gold⁶⁵. Table 8.17 shows that the second and third methods of disposal were more preferable to the conventional pawnbrokers than auctioning off the pledges. These two options are not contravened by the Pawnbrokers Act 1972, Section 23(1) (a) provided that the total amount of loan given to the customer did not exceed RM200. However, if the loan given is exceeding RM200, the pawnbroker is obliged to dispose of the unclaimed pledges by auction conducted by a licensed auctioneer. Presumably in this research, the amount of loan given was not exceeding RM200, which would lead to the undeliverance of the notice to the customer and no auction need to be conducted by the conventional pawnbrokers.

Table 8.17: Process of Redeeming, Extending, Auctioning, Complaining and Compensating

	Conventional (%)	Ar-rahn (%)
1. Person who can redeemed (Respondents can state more than one):		
▪ Owner	100.0	100.0
▪ Person with pawn ticket	100.0	100.0
▪ Person with has a representative letter	-	100.0
2. Period of redemption (Respondents can state more than one):		
▪ 3 months or less	20.0	6.7
▪ 6 months and above	100.0	93.3
3. Extension period:		
▪ Less than 3 months	73.3	20.0
▪ More than 3 months	26.7	80.0
4. Notice about expiration period:		
▪ Yes	46.7	100.0
▪ No	53.3	-
5. Percentage of collateral not redeemed:		
▪ Less than 5%	-	13.3
▪ 5 – 10%	46.7	86.7
▪ 11 – 15%	33.3	-

⁶⁵ From the pawnbroker's survey, it shows that the conventional pawnbrokers not only accept gold as collateral but other items as well, such as branded watches, electrical appliances, grant, silver, and diamond. Presumably, the pawner did not want to redeem their belonging because they expect the price of the collateral (such as electrical appliances, watch, vehicle, *etc.*) will drop which led to the debt owed greater than the value of the collateral. As discussed in Chapter 2, this scenario can be considered as 'strategic default' where the borrowers decide to stop making payments on loan although they have the ability to pay the debt because they believe that it is in their financial interest.

<ul style="list-style-type: none"> ▪ 16 – 20% 	20.0	-
6. Action taken towards unredeemed collateral: <ul style="list-style-type: none"> ▪ Auctioned collateral ▪ Sells collateral at pawnshop ▪ Melting the gold 	- 93.3 6.7	100.0 - -
7. Notice about auctioning: <ul style="list-style-type: none"> ▪ Yes ▪ No 	- 100.0	100.0 -
8. Surplus return after auctioned: <ul style="list-style-type: none"> ▪ Yes ▪ No 	- -	100.0 -
9. If no claim for the surplus: <ul style="list-style-type: none"> ▪ Surplus will be transferred to <i>Baitulmal</i> ▪ Surplus will be transferred to the company's account 	- -	100.0 -
10. Ever received complaint from customer? <ul style="list-style-type: none"> ▪ Yes ▪ No 	- 100	6.7 93.3
11. Nature of the problem (Respondents can state more than one statement): <ul style="list-style-type: none"> ▪ Decreasing value of the collateral. ▪ Low collateral value. ▪ Higher interest/ fee charge. ▪ Pawnbroker charge for a replacement of lost ticket. ▪ Inappropriate use of term on the pawn ticket. ▪ Pawnbroker do not returned any surplus from the auction. ▪ Pawner do not received any notice from the pawnbroker. ▪ Collateral lost in the hand of pawnbroker. 	- - - - - - - -	- - - - - - - 100
12. Collateral damaged/ stolen: <ul style="list-style-type: none"> ▪ Yes ▪ No 	- 100	6.7 93.3
13. Compensation given: <ul style="list-style-type: none"> ▪ Yes ▪ No 	- -	100 -
14. The value of compensation: <ul style="list-style-type: none"> ▪ 25% more than the amount of loan. ▪ Value of the item minus the amount of loan given and accumulated fee/interest charge before the collateral lost. ▪ Depends on the pawnbroker's judgement. 	- - -	- 100 -

Unlike conventional pawnbrokers, all Islamic pawnbrokers dispose of unclaimed pledges by auction. According to table 8.17, before putting the items into auction, all the Islamic pawnbrokers will send a notice informing the customers about the auctioning process, whereas conventional pawnbrokers do not send any reminder to their customers. They will only auction off the unredeemed collateral after getting no response from customers. According to the Pawnbrokers Act 1972, Section 25(1), pawnbrokers are obliged to return any surplus from the sale of the collateral over the amount owed to the pawnbroker, including accumulated deposit fees and any costs related to the sale. In the event of no claim on the surplus, the Islamic pawnbrokers will transfer the entire surplus into the *Baitulmal* account in case the owner or their relatives makes a claim in the future.

In terms of the complaining and compensation process, as the table in 8.17 shows, there is one institution of Islamic pawnbroking which receive complaints from the customers regarding the issue of collateral lost or being robbed in its premises which was from the PKB branch. Due to the incident, the state government gives compensation to all customers involved with a total amount of the value of the item minus the amount of loan given and the accumulated safekeeping fee before the collateral was lost.

8.3.3 Determinants of Pawnshop Selection

The next issue that arises in this study is related to the factors that affect the customer's choice of pawnshops from the pawnbrokers' point of view. Similar to the customers questionnaire, the items consist of the *underlying principle/interest free loan, speed in loan approval, lower interest/ fee rate, acceptance of various collateral, location being near home/office, confidentiality, convenient park and interior comfort, knowledgeable and competence staff, possibility of redemption, security of the collateral guaranteed, process is more transparent, image of the pawnshop and loyalty*. The respondents were asked to rank these items according to the scale ranking from 1 = the most important reason to 13 = the least important factor.

In relation to this, the Mann-Whitney U-Test was carried out in order to compare the mean ranks of the pawnbrokers opinion on the determinants of the nature of pawnshops. Thus, the null-hypothesis is stated as below:

H₀: There is no significant difference among the pawnbrokers point of view regarding the customers' determinants of pawnshop selection.

Let u_1 and u_2 be the mean ranks of customers' determinants of pawnshop selection from the pawnbrokers point of view. Thus;

$$H_0: u_1 = u_2$$

$$H_1: u_1 \neq u_2$$

As shown in table 8.18, the mean ranks of all factors are not equal for both types of pawnbrokers. The findings show that the mean ranks for variables such as 'underlying principle/interest free loan', 'lower fee rate', 'convenient car park and interior comfort', 'possibility of redemption', 'security of the collateral guaranteed', 'process is more transparent', and 'image of the pawnshop' were lower for Islamic pawnbrokers compared to conventional pawnbrokers. It indicates that Islamic pawnbrokers believe that the customers were more influenced by all the factors stated above in choosing their preferred pawnshops.

On the other hand, the mean ranks of items such as 'speed in loan approval', 'acceptance of various collateral', 'location being near home/office', 'confidentiality', 'knowledgeable and competence staff', and 'loyalty' were lower for conventional pawnbrokers compared to Islamic pawnbrokers, which denotes that the conventional pawnbrokers deem that customers were more influenced by all these factors in choosing their preferred pawnshop.

In further analysis, the z score for the sample in table 8.18 is higher than the tabulated $z_{0.05} = 1.645$ for some factors that influenced the customers' selection of pawnshops from the pawnbrokers' perspectives such as 'underlying principle/interest free loan', 'speed in loan approval', 'acceptance of various collateral', 'knowledgeable and competence staff', 'possibility of redemption', and 'process is more transparent'. In addition, the observed 2-tailed probability for these factors is smaller than the 0.05 level of significance which implies that there is a significant difference between both types of pawnbrokers on these factors. Therefore, the null hypothesis of equal mean

rank of factors affecting the choice of pawnshop through the type of pawnbrokers' perspective is therefore rejected; implying that there is a significant differences.

Table 8.18: Mann-Whitney U-Test Comparing the Mean Ranks of the Pawnbrokers Opinion in the Customers' Determinants of Pawnshop Selection

	Pawnshop	N	Mean Rank	Sum of Ranks	z value	Probability (2-tailed)
Interest free loan	Conventional	15	23.00	345.00	-5.385	.000
	<i>Ar-Rahn</i>	15	8.00	120.00		
Speed loan approval	Conventional	15	8.00	120.00	-4.934	.000
	<i>Ar-Rahn</i>	15	23.00	345.00		
Lower fee/ interest rate	Conventional	15	20.30	304.50	-3.231	.001
	<i>Ar-Rahn</i>	15	10.70	160.50		
Acceptance of various collateral	Conventional	15	8.00	120.00	-5.008	.000
	<i>Ar-Rahn</i>	15	23.00	345.00		
Location near	Conventional	15	12.33	185.00	-2.088	.037
	<i>Ar-Rahn</i>	15	18.67	280.00		
Confidentiality	Conventional	15	14.47	217.00	-.690	.490
	<i>Ar-Rahn</i>	15	16.53	248.00		
Convenient park and interior comfort	Conventional	15	19.10	286.50	-2.436	.015
	<i>Ar-Rahn</i>	15	11.90	178.50		
Knowledgeable staff	Conventional	15	10.97	164.50	-2.951	.003
	<i>Ar-Rahn</i>	15	20.03	300.50		
Possibility of redemption	Conventional	15	23.00	345.00	-5.099	.000
	<i>Ar-Rahn</i>	15	8.00	120.00		
Security of collateral	Conventional	15	18.83	282.50	-2.158	.031
	<i>Ar-Rahn</i>	15	12.17	182.50		
Process transparency	Conventional	15	23.00	345.00	-4.770	.000
	<i>Ar-Rahn</i>	15	8.00	120.00		
Image	Conventional	15	22.00	330.00	-4.709	.000
	<i>Ar-Rahn</i>	15	9.00	135.00		
Loyalty	Conventional	15	8.00	120.00	-4.891	.000
	<i>Ar-Rahn</i>	15	23.00	345.00		

Note: Mean values – Scoring 1 = The most important factor; 13 = The least important factor

On the contrary, table 8.18 also shows that there is no statistically significant difference between both types of pawnbrokers on other factors such as 'lower interest/fee rate', 'location being near home/office', 'confidentiality', 'convenient car park and interior comfort', 'security of the collateral guaranteed', 'image of the pawnshop', and 'loyalty' due to the computed z score for these factors that is lower than the tabulated $z_{0.05} = 1.645$. In addition, the observed 2-tailed probability for these factors is higher than the 0.05 level of significance, which implies that there is no significant difference among the pawnbrokers' point of view in relation to these

variables affecting the customers' pawnshop selection. Hence, the null hypothesis is therefore accepted.

Ultimately, based on the mean ranks of each pawnshop type, it can be inferred that, according to the perceptions of the Islamic pawnbrokers, factors such as 'underlying principle/interest free loan', 'process is more transparent', and 'possibility of redemption' were considered as the most important factors in determining customers' pawnshop selection, followed by the 'image of the pawnshop', 'lower fee rate', 'convenient car park and interior comfort', 'security of the collateral guaranteed', 'confidentiality', and 'location being near to home/office'. Other remaining factors such as 'knowledgeable and competence staff', 'speed in loan approval', 'loyalty', and 'acceptance of various collateral' were ranked by the Islamic pawnbrokers as the least important factors determining customers' pawnshop selection.

On the other hand, conventional pawnbrokers ranked 'speed loan approval', 'acceptance of various collateral', and 'loyalty' as the most important factors in determining conventional customer's pawnshop selection, followed by 'knowledgeable and competence of staff', 'location being near home/office', and 'confidentiality'. Other remaining factors such as 'security of the collateral guaranteed', 'convenient car park and interior comfort', 'lower interest rate', 'image of the pawnshop', 'process is more transparent', 'possibility of redemption', and 'underlying principle/interest free loan' were ranked by the conventional pawnbrokers as the least important factors affecting customers' pawnshop selection.

8.3.4 Frequencies of Customers Involved in Pawn Lending Process

The responding pawnbrokers were also asked to rate the frequencies of customers involved in all pawn lending process which consisted of lending, redeeming, extending, auctioning, compensating and complaining according to the Likert scale ranging from 1 (never) to 4 (very often). The results in table 8.19 do not present much of a difference between the conventional and Islamic pawnbrokers' responses for all processes involved in pawnshop lending. The results shows that both types of pawnshops were either experienced a very often or quite often transactions on the 'lending', 'redeeming', and 'extending' processes, whilst rarely experiencing the 'auctioning' process. Interestingly, as stated by the participants from pawnshops, both

types of the pawnshops have never experienced ‘compensating’ and ‘complaining’ from their customers in the last 12 months.

Table 8.19: Frequencies of Customers Involved in Pawn Lending Processes

	Conventional		<i>Ar-rahn</i>	
	Mean	Rank	Mean	Rank
Lending	4.00	VO	4.00	VO
Redeeming	3.07	QO	3.47	QO
Extending	3.47	QO	3.73	VO
Auctioning	1.60	R	1.93	R
Compensating	1.00	N	1.27	N
Complaining	1.13	N	1.13	N
Overall satisfaction	2.38		2.59	

Note: (VO = Very often; QO = Quite often; R = Rarely; N = Never)

However, in terms of overall frequency, the results in table 8.19 show that the mean value for all the categories of processes in the Islamic pawnbrokers is slightly higher (2.59) than the mean value for their counterpart (2.38). In other words, considering that all these categories coming together constitute satisfaction from the services offered by the pawnshops, the results in table 8.19 depicts that according to the pawnshop representatives’ perceptions, Islamic pawnshop customers are more satisfied compared to conventional ones.

To substantiate this, the Mann-Whitney U-Test was carried out to see whether both types of pawnbrokers have the same mean scores for each of the processes involved in pawn lending. Thus, the null-hypothesis is stated as below:

H₀: There is no significant difference among the pawnbrokers regarding the frequency of customers involved in each of the pawn lending processes.

The findings in table 8.20 show that the mean ranks of frequency customers involved in following processes such as ‘redeeming’, ‘extending’, ‘auctioning’, and ‘compensating’ were not equal between Islamic and conventional pawnbrokers. Based on the result, the mean ranks for those processes were higher for Islamic pawnbrokers compared to conventional pawnbrokers. It can be indicated that customers were more frequently dealing with the Islamic pawnbrokers rather than the conventional pawnbrokers in the categories of processes mentioned above. As for the ‘lending’ and ‘complaining’ processes, both pawnbrokers showed no difference in the mean ranks of how frequent customers were involved in these processes at their pawnshops.

Table 8.20: Mann-Whitney U-Test Comparing the Mean Ranks of Customers Involved in Pawn Lending Processes

	Pawnshop	N	Mean Rank	Sum of Ranks	z value	Probability (2-tailed)
Lending	Conventional	15	15.50	232.50	.000	1.000
	<i>Ar-Rahn</i>	15	15.50	232.50		
Redeeming	Conventional	15	12.73	191.00	-2.091	.036
	<i>Ar-Rahn</i>	15	18.27	274.00		
Extending	Conventional	15	13.50	202.50	-1.466	.143
	<i>Ar-Rahn</i>	15	17.50	262.50		
Auctioning	Conventional	15	12.97	194.50	-1.972	.049
	<i>Ar-Rahn</i>	15	18.03	270.50		
Compensating	Conventional	15	13.50	202.50	-2.112	.035
	<i>Ar-Rahn</i>	15	17.50	262.50		
Complaining	Conventional	15	15.50	232.50	.000	1.000
	<i>Ar-Rahn</i>	15	15.50	232.50		

Note: Mean Value – Scoring 1 = Never; 5 = Always

Furthermore, as shown in table 8.20, the tabulated $z_{0.05} = 1.645$ for half of the items such as ‘redeeming’, ‘auctioning’, and ‘compensating’ shows a significant difference in terms of the frequencies of customers involved between each type of pawnshops. Therefore, the null hypothesis of equal mean ranks among the pawnbrokers regarding the frequency of customers involved in each of the pawn lending processes except ‘lending’, ‘extending’, and ‘complaining’ can be rejected.

8.3.5 The Challenge of Pawnbroking Business

This research also enquired the challenges faced by the pawning business by asking the opinions of the respondents on these issues. Table 8.21 discusses the challenges that the pawnbrokers are facing in running their business in terms of regulation, common problem in pawnbroking and competition. The results reveal that both types of pawnbrokers are regulated under the Pawnbrokers Act 1972 with an exceptional under Section 17(1) for Islamic pawnbroking which allows licensed pawnbrokers to take profit on pawn lending. As a result, a majority of the corresponding Islamic pawnbrokers (86.7%) were unsatisfied with the current regulative environment which stems from the ambiguousness of the Act, not having specific regulations for Islamic pawnbroking, and facing very stringent license granting by the Ministry of Housing and Local Government. In addition, as the results show, both pawnbrokers are also governed by the Weight and Measurement Act 1972 to verify their measurement tools.

As was discussed in Chapter 5, there are three institutions that are exempted from the Pawnbrokers Act 1972, namely all banks operating in Malaysia, AgroBank, and cooperative societies. Cooperatives and franchise cooperatives are governed by the Cooperatives Societies Act 1993, and Franchise Act 1998 alongside the *ar-rahn* Manual Guideline which was developed differently by each institution.

In terms of auditing, as the results indicate, all Islamic pawnbrokers follow a formal auditing procedure which is conducted mostly by internal auditors (80%) and one-fifth by auditors from the state government. However, the results show that almost none of the conventional pawnbrokers follow formal auditing in their business. Normally, the operation of conventional pawnshops is handled by the owner himself with support from a few staff that can be categorized as loyal and reliable.

Table 8.21: The Challenge of Pawnbroking Business

	Conventional (%)	Ar-rahn (%)
1. Regulation related to pawnbroking (Respondents can state more than one):		
▪ Pawnbrokers Act 1972	100.0	100.0
▪ Cooperatives Societies Act 1993	-	40.0
▪ Weight and Measurement Act 1972	53.3	100.0
▪ Franchise Act 1998	-	13.3
▪ <i>Ar-rahn</i> Manual Guideline	-	100.0
2. Happy with current regulative environment:		
▪ Yes	100.0	13.3
▪ No	-	86.7
3. Reasons of unhappy (Respondents can state more than one):		
▪ Ambiguous regulation	-	100.0
▪ No specific regulation	-	100.0
▪ Stringent license granted	-	100.0
4. Follow formal auditing:		
▪ Yes	6.7	100.0
▪ No	93.3	-
5. Audit institution involved:		
▪ Internal auditor	100.0	80.0
▪ Auditor from state government	-	20.0

6. Business challenge (Respondents can state more than one):		
▪ Loan default	86.7	46.7
▪ Customer pawn stolen good	33.3	6.7
▪ Difficulty in ascertaining the market value of the item	60.0	20.0
▪ Collateral being stolen/ damage	-	6.7
▪ Competition from other pawnshops	100.0	100.0
▪ Unreachable address	-	6.7
7. Action to be taken if customer mislead (Respondents can state more than one):		
▪ Report to the police	53.3	60.0
▪ Stringent in loan approval	100.0	100.0
▪ Blacklist the customer	-	100.0
8. Accuracy of measurement (Respondents can state more than one):		
▪ Send their staff training	100.0	100.0
▪ Use the instrument verified by Inspector	53.3	100.0
9. Competition (Respondents can state more than one):		
▪ <i>Ar-rahn</i> pawnshops	66.7	100.0
▪ Conventional pawnshops	100.0	100.0
▪ Banks	6.7	53.3
▪ Cooperatives	26.7	100.0
▪ Microcredit institution	6.7	-
▪ Moneylender	73.3	46.7
▪ Middleman	13.3	26.7

In terms of business challenges, the most common problem faced by both pawnbrokers was the competition from other financial providers. In addition, the second challenge faced by both types of pawnbrokers was loan default especially, with conventional pawnbrokers (86.7%). The third common problem faced by both pawnbrokers is the difficulty in ascertaining the market value of collateral items. Other than these challenges mentioned above, conventional pawnbrokers (33.3%) faced the tendency of customers pawning stolen goods at their pawnshops, as compared to the Islamic pawnbrokers (6.7%). Furthermore, a mere 6.7% of Islamic pawnbrokers reported that they had problems with the customers' collateral being stolen or damaged and having problems in reaching the customers' address, which lead to information about the expiration of the loan period or the auctioning process not reaching the customers.

As depicted in table 8.21, in order to have an accurate measurement on the item pledge, both pawnbrokers send their staff for training and use the measuring instrument which is verified by the Inspector.

In terms of customers' who mislead, all conventional pawnbrokers have a stringent loan approval process and, as the results indicate, half of them will report the case to the police. As for the Islamic pawnbrokers, all of them follow stringent loan approval processes, blacklist the customer, and more than half of them (60.0%) report it to the police when the case emerges.

Finally, table 8.21 also reveals the perceptions of the participants on the competition faced by pawnshop in small lending business. All of the conventional pawnbrokers stated that they were competing with the other conventional pawnshops, followed 73.3% by money lender (or known as '*ah-long*' in Malaysia), 66.7% by the *ar-rahn* pawnshops, 26.7% by cooperatives, 13.3% by the middleman (informal lender who buy and sell gold in the Northeast of Peninsular Malaysia), and 6.7% by banks and microcredit institutions respectively. On the other hand, all of the Islamic pawnbrokers stated that they were threatened by other *ar-rahn* pawnshops, conventional pawnshops, and cooperatives, followed by banks and moneylender, but also by middleman who were found to be the least competitors for Islamic pawnbrokers.

8.3.6 Performance of Pawnshops Business in Economic Downturn

This research also attempted to reveal the perceptions of the participants from the pawnshops on the impact of economic downturn on the performance of pawnshops. The findings in table 8.22 reveal that all the pawnbrokers agree with the impact of economic downturn on the pawnbroking business.

Table 8.22: Pawnshops' Performance in Economic Downturn

	Conventional (%)	<i>Ar-rahn</i> (%)
Impact in the economic downturn:		
▪ Yes	100.0	100.0
▪ No	-	-

In order to identify the impact of economic slowdown on the pawnbroking business, this research provided six possible impact areas to the participants to choose from, the

results of which are shown in table 8.23. The six impacts are *increased number of loan, increased repayment rate, increased profit, alternative to bank, and microbalancing the total economy*.⁶⁶

The results in table 8.23 clearly indicate that all of the responding pawnbrokers of each pawnshop are either agreed or strongly agreed with the statement that their pawnshops experience an increase in the number of loans during economic downturns.

As the results in table 8.23 show, although the demand for the loan from both pawnshops has increased, there was mixed response from both pawnshops in terms of the repayment rate during the economic downturn. Despite the increasing demand for pawnshops' loans in economic downturn, nearly half (46.7%) of the conventional pawnbrokers faced a problem with the repayment rate, whilst the remaining 53.3% of them agreed with the statement. In terms of regional distribution, it can be concluded that the pawnbrokers from the central and southern regions were adversely affected in gaining profit during the economic downturn. Considering that findings from the previous chapter (Chapter 7) showed that the majority of the customers of conventional pawnshops in these two regions work as government servants and staff in private sectors (Selangor/Kuala Lumpur), whilst in Johor, most of the participants are full-time housewives. With the economic contraction, individual pawners have difficulty in paying back their loan within the agreed period of time.

In contrast, all of the Islamic pawnbrokers experienced an increase in the rate of repayment from the customers during the same economic downturn. Since the majority of the respondents of Islamic pawnbroking were from Kelantan and Terengganu, a repayment of loans was not an issue because most of their customers work as government servants or small businessmen (as described in Chapter 7). Presumably, such customers obtained instant cash from pawnshops to finance

⁶⁶ "Microbalancing the total economy: in the globalised sophisticated financial and money markets, the small economic units and individual financial needs are not paid the due attention. As the main focus of the economies are the large financial institutions and mostly the high-network and the middle class individuals. The lower strata of the societies are excluded in the financial system not only in terms of borrowing but also in terms of investing. Therefore, small financial institutions such as pawnbroking and microfinancing institutions aims at filling such a gap so that a stable society can be possible, hence they provide microbalancing role to the economy". (The definition of 'microbalancing the total economy' is obtained from an interview with Dr. Asutay in 20th January, 2009).

emergency expenses needed prior to the next payday or as rolling capital in the case of entrepreneurs.

As for the impact of the economic downturn towards the pawnbroking business' profit, different patterns emerged as a response between the conventional and Islamic pawnbrokers. As the results show, approximately, more than two-thirds (73.3%) of the conventional pawnbrokers disagreed with this statement, followed by more than one-fifth (26.7%) of them agreeing with it. Although they experienced bulking pledges in their storage, half of them had a problem with an increasing number of loan defaults, and yet they were facing difficulty in selling some items (other than gold). On the contrary, the majority of Islamic pawnbrokers (80.0%) agreed with the statement, whilst one-fifth (20.0%) of them disagreed with it. The Islamic pawnbrokers who did not gain profit claimed that they were still new in business and faced competition from other pawnbrokers (the YaPEIM cooperatives branches) and the others (MGIT and PKB) have expressed social obligation to the borrowers rather than profit maximization.

Table 8.23 also shows that both types of pawnbrokers either agreed or strongly agreed with the statement of pawnbroking as an alternative to banks during the economic downturn. With the economic downturn, mainstream financial institutions such as banks will be more selective in giving loans to customers. The 'unfortunate' customers who are unable to meet the requirement will definitely go to pawnshops to obtain small cash loans for a short term with least documentation and procedure.

Although, Caskey (1994: 115) claimed that the negative perception of pawnbroking business will still remain even if there is an effort to change the image. Table 8.23 reveals that all of the Islamic pawnbrokers agreed that the establishment of the *shari'ah* based pawnshops has improved the image of business, especially during the economic downturn. Similarly, conventional pawnbrokers either agreed or strongly agreed with this statement. This is consistent with the findings in Chapter 7, which show that customers from well-educated backgrounds and, middle and higher income customers seek assistance from pawnshops, although previously, these lenders served mainly for lower income groups. Thus, the economic downturn had an impact in changing their attitude and also helped to remove the negative stigma of the pawnbroking business.

Table 8.23: Degree of Agreement on the Impact of Pawnbroking Business in Economic Downturn

Degree of Agreement	Value	Increased number of loan (%)		Increased repayment rate (%)		Increased profit (%)		Alternative to bank (%)		Improve their image (%)		Microbalancing the total economy (%)	
		Con.	<i>Ar-rahn</i>	Con.	<i>Ar-rahn</i>	Con.	<i>Ar-rahn</i>	Con.	<i>Ar-rahn</i>	Con.	<i>Ar-rahn</i>	Con.	<i>Ar-rahn</i>
Strongly disagree	1	-	-	-	-	-	-	-	-	-	-	-	-
Disagree	2	-	-	46.7	-	13.3	40.0	-	-	-	-	13.3	-
Cumulative (%)		-	-	46.7	-	13.3	40.0	-	-	-	-	13.3	-
Agree	4	66.7	13.3	53.3	100.0	86.7	60.0	93.3	33.3	66.7	-	53.3	26.7
Strongly agree	5	33.3	86.7	-	-	-	-	6.7	66.7	33.3	100.0	-	73.3
Cumulative (%)		100.0	100.0	53.3	100.0	86.7	60.0	100.0	100.0	100.0	100.0	53.3	100.0
Do not know	3	-	-	-	-	-	-	-	-	-	-	33.3	-
Mean value		4.33	4.87	3.07	4.00	3.73	3.20	4.07	4.67	4.33	5.00	3.40	4.73
Standard deviation		0.488	0.352	1.033	0.000	0.704	1.014	0.258	0.488	0.488	0.000	0.737	0.458
Overall Mean	Conventional = 3.822; <i>Ar-rahn</i> = 4.412												

As the results show, there were different patterns of response between the conventional and Islamic pawnbrokers in the statement regarding pawnshops' role in microbalancing the total economy. Approximately, more than half (53.3%) of the conventional pawnbrokers agree with this statement, followed by one-third (33.3%) of them being undecided with it, while the remaining 13.3% disagreed with the statement. On the contrary, all of the responding Islamic pawnbrokers either strongly agree or agree with the statement.

Overall, it can be concluded that Islamic pawnbrokers acknowledge the positive impact of the pawnbroking business during the economic downturn, as evidenced from each mean value of the listed impacts: the overall mean value is higher (4.412) than the conventional pawnshops (3.822).

Furthermore, a statistical analysis using the Mann-Whitney U-Test was applied in order to find whether the respondents from both types of pawnbrokers had the same level of agreement in terms of the impact of pawnbroking business in the economic downturn. Thus, the null-hypothesis is stated as follows:

H₀: There is no significant difference between the levels of agreement of each pawnbroker regarding the impact of pawnbroking business in the economic downturn.

Table 8.24 shows that the mean ranks of agreement of each type of pawnbrokers towards the impact of the pawnbroking business in the economic downturn were not equal. It shows that the mean ranks of all the statements mentioned above are higher for Islamic pawnbrokers compared to the conventional. The result reveals that Islamic pawnbrokers very much agreed with the positive impacts of the pawnbroking business in the economic downturn, such as experiencing an increased number of loans, repayment rate, and profit, plus being an alternative to the banks, thus improving their image and microbalancing the total economy.

Furthermore, table 8.24 also shows that the probability for all of the statements is smaller than the 0.05 level of significance, which implies that there is a significant difference between the levels of agreement of each type of pawnbroker regarding the impact of the

pawnbroking business in the economic downturn. Therefore, the null hypothesis can be rejected.

Table 8.24: Mann-Whitney U-Test Comparing the Level of Agreement of Pawnbrokers’ towards the Pawnbroking Business in Economic Downturn

	Pawnshop	N	Mean Rank	Sum of Ranks	z value	Probability (2-tailed)
Increased number of loan	Conventional	15	11.50	172.50	-2.931	.003
	<i>Ar-Rahn</i>	15	19.50	292.50		
Increased repayment rate	Conventional	15	12.00	180.00	-2.971	.003
	<i>Ar-Rahn</i>	15	19.00	285.00		
Increased profit	Conventional	15	11.50	172.50	-2.878	.004
	<i>Ar-Rahn</i>	15	19.50	292.50		
Alternative to bank	Conventional	15	11.00	165.00	-3.352	.001
	<i>Ar-Rahn</i>	15	20.00	300.00		
Improved their image	Conventional	15	10.50	157.50	-3.808	.000
	<i>Ar-Rahn</i>	15	20.50	307.50		
Microbalancing the total economy	Conventional	15	9.07	136.00	-4.260	.000
	<i>Ar-Rahn</i>	15	21.93	329.00		

Note: Mean value – Scoring: 1 = Strongly disagree; 5 = Strongly agree

Additionally, respondents were asked whether they had managed to gain any profit for the last twelve months. Overall, the result in table 8.25 show that approximately more than two-thirds (86.7%) of conventional pawnbrokers did not make a profit for the last twelve months, whilst the remaining (13.3%) did not gain any profit. Similarly, more than half of the Islamic pawnbrokers (60.0%) experienced a positive profit, whilst 40.0% of them did not make any profit.

Table 8.25: Pawnshops’ Gain Profit

			Pawnshop		Total
			Conventional	<i>Ar-Rahn</i>	
Profit?	No	Count	2	6	8
		% within Profit?	25.0%	75.0%	100.0%
		% within Pawnshop	13.3%	40.0%	26.7%
	Yes	Count	13	9	22
		% within Profit?	59.1%	40.9%	100.0%
		% within Pawnshop	86.7%	60.0%	73.3%
Total	Count	15	15	30	
	% within Profit?	50.0%	50.0%	100.0%	
	% within Pawnshop	100.0%	100.0%	100.0%	

Following the questions, seven possible statements were provided for the respondents to locate what triggered the profit to the pawnbrokers. These are: *increased number of loan, impact from the economic downturn, competitive pricing, increased of collateral price, increased of customers' repayment rate, acceptance of various collateral and a wide promotion.*

Table 8.26: The Reasons of Pawnbrokers Obtaining Profit

List of Reasons (Respondents can state more than one reason)	Conventional		<i>Ar-rahn</i>		Total (N)	Percentage (%)
	Frequency	(%)	Frequency	(%)		
Increased number of loan	13	100.0	9	100.0	22	100.0
Impact from the economic downturn	9	69.2	9	100.0	18	81.8
Competitive pricing	13	100.0	9	100.0	22	100.0
Increased of collateral price	9	69.2	0	-	9	40.9
Increased of customers' repayment rate	7	53.8	9	100.0	16	72.7
Acceptance of various collateral	13	100.0	1	11.1	14	63.6
A wide promotion	2	15.4	9	100.0	11	50.0

The results in table 8.26 clearly indicate that all of the responding Islamic pawnbrokers agreed that the 'increased number of loan', 'impact from the economic downturn', 'competitive pricing', 'increased of customers' repayment rate', and 'a wide promotion' are the factors contributing to the increased profit in the last twelve months. In addition, one of the Islamic pawnbrokers (YaPEIM) claimed that the introduction of acceptance of other collateral such as diamonds also contributed to the increase of profit for their business.

Similarly, as shown in table 8.26, conventional pawnbrokers considered an 'increased number of loan', 'competitive pricing', and 'acceptance of various collateral' as the push factors of gaining a profit for their business, followed by 'impact from the economic downturn' and 'increased of collateral price'. Other remaining factors such as 'increase of customers' repayment rate' and 'a wide promotion' are ranked by the conventional pawnbrokers as the least important factors in contributing to business profit. Presumably,

conventional pawnbrokers did not have to promote their business to attract the customers as they had been established for so long as compared to their competitors.

Those pawnbrokers who did not gain profit for the last twelve months provided several reasons for this, for which they were given nine possible reasons of not making profit to the pawnbrokers, as in table 8.27: *increased in loan default, impact from the economic downturn, competition from other pawnbrokers, competition from other informal financial institution, the decreased on collateral price, social obligation rather than profit maximisation, limited of collateral acceptance, lack of promotion, and the business is still new.*

The results in table 8.27 reveals that the main reason for not making profit by all the conventional pawnbrokers was due to the increase of loan default, stiff competitiveness among pawnbrokers in the industry and other informal institutions, and the lack of promotion. Other than that, they also did not reject the fact that the economic downturn and the decreased market price of the collateral, other than gold, led to the decreased profit in that year.

Table 8.27: The Reasons for Not Making Profit

List of Reasons (Respondents can state more than one reason)	Conventional		<i>Ar-rahn</i>		Total (N)	Percentage (%)
	Frequency	(%)	Frequency	(%)		
Increased of loan default	2	100.0	-	-	2	25.0
Economic downturn	1	50.0	-	-	1	12.5
Competition from other pawnbrokers	2	100.0	6	100.0	8	100.0
Competition from informal financing	-	-	2	33.3	2	25.0
Decreased on the market price of the collateral	1	50.0	-	-	1	12.5
Social obligation rather than profit maximisation	-	-	6	100.0	6	75.0
Limited collateral acceptance	-	-	2	33.3	2	25.0
Lack of promotion	2	100.0	-	-	2	25.0
Still new in business	-	-	3	50.0	3	37.5

As for Islamic pawnbrokers who did not gain profit in that year, as the results demonstrate, they were more focused towards the social obligation of the customers and not on profit maximisation as practiced by conventional pawnbrokers. In addition, the competition from other rivals in the pawning business was also among the possible reasons for not making profit by the Islamic pawnbrokers. Furthermore, the reason of being new in the pawning business also contributed to the failure in making profit in that year, followed by competition from other informal financial institutions and the limited acceptance of collateral by Islamic pawnbrokers.

8.3.7 Pawnbrokers' Perception towards the Role of Pawnshop

Respondents were also asked about their opinions regarding the pawnshops' role through a number of statements: *solve social problem, alternative to mainstream financial institution such as banks, conforms to the pawnbrokers faith of abstaining from riba, and when it is used for consumption and no redemption, it helps to sustain the business.*

The results in table 8.28 clearly indicate that all the responding pawnbrokers of each pawnshop type either agreed or strongly agreed with the role of pawnshop to solving the financial exclusion which was probably faced by the lower income groups who have constraints in accessing mainstream financial institutions, and therefore, it can be an alternative source of obtaining instant cash to financial institutions.

Moreover, table 8.28 also reveals a similar pattern of response on the role of pawnshop as an alternative to the mainstream financial institution such as bank, for which all of the pawnbrokers either agreed or strongly agreed with the statement.

As for the role of pawnshops in solving social problems, there were different patterns of responses between the conventional and Islamic pawnbrokers. About one-third (66.7%) of the conventional pawnbrokers disagreed with this statement, followed by one-fifth (20.0%) of them agreeing with it, while the remaining 13.3% were undecided. On the contrary, a majority of the Islamic pawnbrokers (86.7%) were either agreed or strongly agreed and only a small percentage (13.3%) of them disagreed with the statement.

Table 8.28: Degree of Agreement on the Role of Pawnshop

Degree of Agreement	Value	Solve financial exclusion		Solve social problem		Alternative to bank		Abstaining from <i>riba</i>		Consumption usage and no redemption, sustain the business	
		(%)		(%)		(%)		(%)		(%)	
		Con.	Ar- rahn	Con.	Ar- rahn	Con.	Ar- rahn	Con.	Ar- rahn	Con.	Ar- rahn
Strongly disagree	1	-	-	-	-	-	-	-	-	-	13.3
Disagree	2	-	-	66.7	13.3	-	-	-	-	6.7	46.7
Cumulative (%)		-	-	66.7	13.3	-	-	-	-	6.7	60.0
Agree	4	73.3	26.7	20.0	80.0	93.3	26.7	-	6.7	66.7	20.0
Strongly agree	5	26.7	73.3	-	6.7	6.7	73.3	-	93.3	13.3	-
Cumulative (%)		100.0	100.0	20.0	86.7	100.0	100.0	-	100.0	80.0	20.0
Do not know	3	-	-	13.3	-	-	-	100.0	-	13.3	20.0
Mean value		4.27	4.73	2.53	3.80	4.07	4.73	3.00	4.93	3.87	2.47
Standard deviation		0.458	0.458	0.834	0.775	0.258	0.458	0.000	0.258	0.743	0.990
Overall Mean	Conventional = 3.548; Ar-rahn = 4.132										

A similar pattern of contradicting responses between both types of pawnbrokers can also be seen on the last role listed in table 8.28, where a vast majority (80.0%) of the conventional pawnbrokers were either agreed or strongly agreed with the statement of ‘when the money from pawning is used for consumption and no redemption, it helps to sustain the business of the pawnbroker’, followed by 13.3% who were undecided, and the remaining 6.7% disagree with the statement. Conversely, Islamic pawnbrokers show a mixed response towards this statement when more than half (60.0%) of them were either disagreed or strongly disagreed, and 40.0% of them were either agreed or remained undecided with the statement.

As for the role of pawnshops in providing services in conforming to the pawnbrokers’ faith in terms of abstaining from *riba*, table 8.28 clearly indicate that hundred percent of the Islamic pawnbrokers strongly agree and agree with this statement. Predictably, all of the responding conventional pawnbrokers did not know about the term *riba* as they were non-Muslim.

In terms of the mean value of each of the assigned roles, table 8.28 shows a distinct result between both types of pawnbrokers. For example, the mean value for Islamic pawnbrokers in terms of the role of pawnshops for solving financial exclusion is greater

(4.73) as compared to conventional pawnbrokers (4.27). Overall, the mean value for each of the roles listed for the Islamic pawnshops was greater than the conventional pawnshops, except for the last role regarding the consumption usage without redemption that sustains the pawnbrokers' business (the mean value for conventional pawnshop for this role is 3.87 as compared to only 2.47 for Islamic pawnshop). Overall, it can be concluded the Islamic pawnbrokers acknowledge the positive role of the pawnshop to society based on evidence shown from the overall mean value, which is higher (4.132) than conventional pawnshops (3.548). Presumably, conventional pawnbrokers will very much agree with this statement because the main objective is to maximise their profit, unlike Islamic pawnbrokers, which are more towards social obligation. However, it can be concluded that the Islamic pawnbrokers acknowledge the positive role of the pawnshop to society based on evidence shown from the overall mean value which is higher (4.132) than conventional pawnshops (3.548).

Furthermore, a statistical analysis using the Mann-Whitney U-Test was applied in order to find out those pawnbrokers who rated a higher level of agreement on each statement regarding the role of pawnshops to the society. Thus, the null-hypothesis is stated as below:

H₀: There is no significant difference between the levels of agreement of each pawnbroker regarding the role of pawnshop to the society.

Let u_1 and u_2 be the mean ranks of pawnbrokers rated a higher level of agreement on each statement regarding the role of pawnshop to the society. Thus;

$$H_0: u_1 = u_2$$

$$H_1: u_1 \neq u_2$$

Table 8.29 shows that the mean ranks of agreement of each type of pawnbrokers towards the positive role of pawnshop to the society are not equal. It shows that the mean ranks of all the statement mentioned above are higher for the Islamic pawnbrokers compared to the conventional, except for the last statement which is 'when it is used for consumption and no redemption, it helps to sustain the business'. The results reveal that the Islamic pawnbrokers very much agreed with the positive role of pawnshop such as solving

financial exclusion, reducing social problems such as crime, an alternative to mainstream financial institutions, and it can eliminate the element of *riba* and *gharar* in the pawn lending business. However, in terms of the last role listed, Islamic pawnbroker disagreed with the statement because their main objective was not only to eliminate the element of *riba* and *gharar* but also to fulfil the social obligation towards society rather than profit maximisation.

Furthermore, table 8.29 also shows the z score to be higher than the tabulated $z_{0.05} = 1.645$ for all statements regarding the role of pawnshops to the society. In addition, the observed 2-tailed probability for all the statements is smaller than the 0.05 level of significance which implies that there is a significant difference between the levels of agreement of each type of pawnshop regarding the role of pawnshops. Therefore, the null hypothesis that there is no significant difference between the levels of agreement of each type of pawnshop regarding the positive role of pawnshops to the society is therefore rejected.

Table 8.29: Mann-Whitney U-Test Comparing the Level of Agreement of Pawnbrokers towards the Role of Pawnshop

	Pawnshop	N	Mean Rank	Sum of Ranks	z value	Probability (2-tailed)
Helps solve financial exclusion	Conventional	15	12.00	180.00	-2.513	.012
	<i>Ar-Rahn</i>	15	19.00	285.00		
Helps solve social problem	Conventional	15	10.53	158.00	-3.430	.001
	<i>Ar-Rahn</i>	15	20.47	307.00		
An alternative to formal institution	Conventional	15	10.50	157.50	-3.664	.000
	<i>Ar-Rahn</i>	15	20.50	307.50		
Conforms to faith of abstaining from <i>riba</i>	Conventional	15	8.00	120.00	-5.303	.000
	<i>Ar-Rahn</i>	15	23.00	345.00		
Used for consumption and no redemption	Conventional	15	20.77	311.50	-3.463	.001
	<i>Ar-Rahn</i>	15	10.23	153.50		

Note: Mean value – Scoring: 1 = Strongly disagree; 5 = Strongly agree

8.4 CONCLUSION

This chapter provided a comprehensive analysis on the primary data collected through the questionnaire survey which was conducted with customers and pawnbrokers for each

type of pawnshop from three different regions in Malaysia. The following summarizes the major findings from the analysis which have been conducted throughout this chapter:

- (i) Pawnshops are the most preferable source to obtain instant cash for both types of customers compared to other financial institutions.
- (ii) In determining pawnshop selection, the results reveal that both customers and pawnbrokers from each type of pawnshop have a similar opinion regarding this matter. The result shows that both customers and pawnbrokers from the Islamic pawnbroking were more concerned with the services provided by the pawnshop such as the underlying principle, transparency, security, lower fee charge, the image, possibility of redemption and conveniences. Whilst, for the conventional customers and pawnbrokers, they assumed that they can capture the market by offering services such as accepting various items of pledge, speed in loan approval, knowledgeable and competent staff, location near to home/office, loyalty, and confidentiality.
- (iii) Although the lending, redeeming, extending, auctioning, complaining, and compensating process more or less are very much similar for both type of pawnshops, the Islamic pawnbroking system demonstrates positive attributes such as transparency, honesty, and reliability as compared to conventional pawnbroking which oppresses the borrower.
- (iv) Customers of both types of pawnshops also agreed with the potential role of pawnshop lending in enhancing the socio-economic development of the community, as they are not only financing for consumption but production purposes as well. But for some of them, they argued that pawning would only help them become financially better-off for a short-term period and not for a long-term period.
- (v) The Islamic pawnbrokers were relatively more concerned with social objectives rather than profit maximisation as compared to the conventional pawnbrokers.

Overall, the results of the analysis in this chapter revealed that Islamic customers and pawnbrokers show more positive perceptions and attitudes towards the role of pawnshops in enhancing the socio-economic development of the community, as well as the promising prospect of the pawnshop business in the long-run, as compared to conventional pawnshops, which concentrate more towards profit maximisation and neglect the social welfare of the customer.

Chapter 9

AN EMPIRICAL ANALYSIS ON THE PERCEPTIONS OF THE ISLAMIC PAWNBROKERS

9.1 INTRODUCTION

The previous two empirical chapters focused on the behaviour and opinions of the clients of Islamic pawnbrokers on various issues. This chapter aims to extend the analysis by analysing the opinions of those early Malaysian pioneers of Islamic pawnbroking regarding their motivations for establishing Islamic-based pawnshop, and other significant issues underlying the Islamic pawnbroking business in Malaysia.

For this semi-structured interview conducted with three main Islamic pawnbroking institutions; the detail of the interviewees and their respective institutions are shown in table 9.1.

Table 9.1: Details of the Interviewees and their Respective Institutions

	Name	Job Title/ Institution
1.	Mr. Wan Farid Imran Wan A. Latif	Assistant Manager of <i>Ar-Rahn</i> Management Unit, MAIDAM
2.	Mr. Rozaidi Abdul Majid	Accountant of <i>Ar-Rahn</i> Management Unit, YaPEIM
3.	Mr. Meor Haris Meor Akim	Senior Officer of Bank Kerjasama Rakyat Malaysia, Tanjung Malim, Perak

These institutions were objectively chosen as they were among the pioneers of the Islamic pawnbroking business in Malaysia. All the responses from the interviewees were evaluated in order to assess the impact of Islamic pawnbroking in enhancing the socio-economic development of the society. The questions for the interviewees are attached in Appendix 6D.

In analysing the primary data collected from the interviewees, *descriptive* analysis is used, which is described in details in the Research Methodology Chapter. Accordingly, all the recorded answers from the interviewees were restated according to each particular question followed by further analysis.

9.2 ANALYSING INTERVIEW DATA

A number of questions were established for the interview in an attempt to have a clear understanding on the development of the three main Islamic pawnbroking institutions in Malaysia, *i.e.* MAIDAM/MGIT, YaPEIM, and Bank Kerjasama Rakyat Malaysia. The analysis and the findings are presented in the following sections.

9.2.1 The Establishment of the *Ar-rahn* Product and the Motivating Factors

The first two questions of the semi-structured interview were combined due to the relatedness of the questions. The purpose of asking these questions such as: ‘(i) The establishment of the responding institutions’; and ‘(ii) Their motivation of initiating the product’ was to know when the product was launched and to understand the motivating factors for introducing the first Islamic pawnbroking scheme in Malaysia.

Table 9.2 shows the responses from the representatives of the each institution regarding the establishment of their *ar-rahn* products and also the motivation for doing so.

From the interviews conducted, it was revealed that the establishment of the Islamic-based pawnbroking can be traced back to 1992, and that the MGIT was the pioneer in the field. According to Mr. Wan A. Latif, the initiative to form Islamic pawnbroking was discussed in a meeting of National Council of Islamic Matters on April 1983. The meeting suggested that the State Islamic Council or Bank Islam Malaysia Berhad should implement Islamic pawnbroking. However, the two parties did not show any interest except for the Terengganu Islamic Religious and Malay Customs Council (MAIDAM) and Permodalan Kelantan Berhad (PKB). This institution took up the first step to launch Islamic pawnbroking which is based on the concepts of *ar-rahn* and *al-qardhul hasan*.

Table 9.2: Responses of the Interviewees to Questions 1 and 2

When did the institution establish the ar-rahn product and what is the motivation of doing so?

Interviewees	Responses
1	We initiated the product on the 23 January 1992. The motivations of establishing the <i>ar-rahn</i> scheme were to provide an alternative to the conventional pawnbroking system and to fulfil the social obligation of the needy customers.
2	We have launched the product on the November 2000. The motivations of establishing the <i>ar-rahn</i> scheme were to provide a micro-credit loan to the community and to fulfil the <i>shari'ah</i> principle in providing an Islamic-based pawnshop.
3	We have established the <i>ar-rahn</i> scheme on the 27 October 1993. The motivations of establishing the <i>ar-rahn</i> scheme were to provide an alternative source of obtaining immediate cash using collateral and circumvent from using the conventional pawnshops which oppressed the borrowers.
Conclusion	All of the institutions have been operating for more than ten years and their motivation of launching the <i>ar-rahn</i> scheme was to provide an Islamic alternative financing to the conventional pawnbroking with the objective of responding to short-term cash needs of the customers in a <i>shari'ah</i> compliant manner.

Subsequently, on 27 October 1993 Bank Kerjasama Rakyat Malaysia launched the first phase of the *ar-rahn* scheme in collaboration with YaPEIM after being requested by the Central Bank of Malaysia. Later in November 2000, YaPEIM finally commenced its' first *ar-rahn* branch at Sik, Kedah through the YaPEIM co-operative.

All of the interviewees agreed that their motivation for launching the Islamic pawnbroking system in Malaysia on one hand was to provide the community, especially the low-income groups who held their savings in movable assets, with an important source of liquidity; on the other hand, it was due to the needs of the Muslim community towards this product in order to provide an alternative to conventional pawnbroking and moneylenders (loan shark/*ah-long*) which do not follow *shari'ah* principles and exploit

the lower strata of the society by imposing very high interest rates. Thus, as one of the interviewees mentioned, the main motivation was to provide a response to such financial matters with the objective of fulfilling social obligations through an Islamic manner.

9.2.2 The Salient *Shari'ah* Features of Islamic Pawnbroking

Table 9.3 also combined the response of interviewees for questions 3 and 4. The purpose of asking these questions such as: '(i) The salient *shari'ah* features of Islamic pawnbroking'; and '(ii) The *shari'ah* problems encountered in Islamic pawnbroking' was to identify the underlying principles implied in the Islamic pawnbroking contract and the *shari'ah* problems encountered in Islamic pawnbroking.

Table 9.3: Responses of the Interviewees to Questions 3 and 4

What are the salient shari'ah features of Islamic pawnbroking and what particular shari'ah problems encountered in Islamic pawnbroking sector?

Interviewees	Responses
1	The salient <i>shari'ah</i> features applied in Islamic pawnbroking are <i>ar-rahn</i> , <i>al-qardhul hasan</i> and <i>al-wadiah yad dhammanah</i> . The <i>shari'ah</i> problems encountered in Islamic pawnbroking are the element of <i>riba</i> and <i>gharar</i> .
2, 3	The salient <i>shari'ah</i> features applied in Islamic pawnbroking are <i>ar-rahn</i> , <i>al-qardhul hasan</i> , <i>al-wadiah yad dhammanah</i> and <i>al-ujrah</i> . The <i>shari'ah</i> problems encountered in Islamic pawnbroking are the element of <i>riba</i> and <i>gharar</i> .
Conclusion	There are no major differences between the contracts of Islamic pawnbroking applied in all the institutions. The <i>shari'ah</i> problems encountered by all the institutions also shown the same response which were avoiding the element of <i>riba</i> and <i>gharar</i> .

According to the responses given by all the interviewees, they agreed that the loan granted by Islamic pawnbroking was based on three concepts, namely; (i) *ar-rahn* which refers to a valuable item that is collateralized to a debt which may be utilized as payment if the debt is not repaid within the agreed period; (ii) *al-qardhul hasan* which refers to an interest free loan which only requires the borrower to repay the principal amount

borrowed, but the borrower may pay an additional amount at his/her absolute discretion as a token of appreciation; and (iii) *al-wadiah yad dhammanah*, which refers to a contract between the borrower and the lender for safekeeping purposes. However, for YaPEIM and Bank Kerjasama Rakyat Malaysia, there is an additional concept, other than the ones stated above, which is *al-ujrah* which refers to the charge for the services rendered in keeping the asset/collateral.

In responding to the epistemological sources of pawnbroking in Islam, according to Mr. Abdul Majid from YaPEIM and Mr. Meor Akim from the Bank Kerjasama Rakyat Malaysia, Islamic pawnbroking is based on *fardhu kifayah* which is basically relinquishing a social obligation by helping those who are in need. It is also based on social responsibility (element of charity) and not on profit making. Mr. Abdul Majid added that the implementation of the *ar-rahn* scheme based on the *al-qardhul hasan* principle or interest free loans actually promotes a sense of cooperation and mutual aid among Muslims.

As was mentioned by all the interviewees, one of the *shari'ah* features of Islamic pawnbroking is that it is free from elements of *riba* and is in line with Islamic principles. With the implementation of Islamic-based pawnbroking, it helps prevent customers from being involved with usury. It should be noted that the safekeeping fee charged on the collateral is allowed by the Fatwa Committee of the National Council for Religious Affairs of Malaysia as long as it does not exploit the borrower.

Another *shari'ah* feature observed with the *ar-rahn* product is the element of *gharar*. The element of *gharar* occurs naturally in the conventional pawnbroking business such as giving a much lower value for the collateral, issuing an unclear pawn receipt which may be confusing to the borrower, and other unethical practices which are fully mentioned in Chapter 8's findings. By offering Islamic-based pawnbroking, YaPEIM helps to motivate Islamic pawnbrokers to practice positive attributes of honesty, reliability, transparency, knowledge, and management skills in the pawnbroking business as well as prevent the

exploitation of Muslim lower income groups by conventional pawnbrokers, of which a majority are owned by the Chinese.⁶⁷

In addition, Mr. Wan A. Latif from the MAIDAM claimed that in order to avoid the element of *gharar* in the Islamic pawnbroking transaction, all the pawners' details including the value of the item pledged, the total amount of the loan, the fee charged, the period of redemption, and other terms and conditions of loan default are all stated in the pawning receipt in order for the customer to get a clear information about their transaction.

9.2.3 The Sustainability of Islamic Pawnbroking

The next section in the interviews explored the participants' perceptions on the sustainability of Islamic pawnbroking; the results of the analysis of questions 5, 6 and 7 are depicted in table 9.4. The purpose of asking these questions such as: '(i) Can Islamic pawnbroking system sustained by charging minimal of safekeeping fee compared to the conventional'; '(ii) The possibility of accepting other type of collateral'; and '(iii) The current regulation and the intention of developing a standard regulation among the Islamic pawnbroking institutions' was to justify whether the Islamic pawnbroking can sustain their businesses in the long-run with these conditions.

From the interviews conducted, it seems that all of the institutions offering the *ar-rahn* product accept gold jewellery type 18K – 24K with an addition of Bank Kerjasama Rakyat Malaysia accepting gold bars as collateral. In recent times, MAIDAM is still exploring ways of diversifying the types of collateral and accepting a trust fund is one of the suggestions. However, there is need to discuss with the trust fund institutions regarding the security of certain trust funds. Previously, MAIDAM used to accept white gold as collateral. However, a problem occurred when the white gold items were not claimed by the customers, and the jewellery had to be auctioned off in some branches. It

⁶⁷ According to the statistic endorsed by the Ministry of Housing and Local Government of Malaysia, only 0.8% of the conventional pawnbrokers in Malaysia are Malay, and the remaining (99.2%) is operated by the Chinese. (Retrieved 1st August 2010 from: http://emaps.kpkt.gov.my/emaps/umum/cari_ppg.cfm)

is rather difficult to sell off white gold jewellery as people from the East Coast of Peninsular Malaysia do not prefer this type of jewellery.

Table 9.4: Responses of the Interviewees to Questions 5, 6 and 7

Can Islamic pawnbroking sustain their business in long-run by charging a minimal safekeeping charge, accepting only gold as collateral and regulated by the Pawnbrokers Act 1972?

Interviewees	Responses
1	At present, we only accept gold as collateral. Other than the Pawnbrokers Act 1972, we also obliged to the Manual Procedure of <i>Ar-rahn</i> Scheme MAIDAM 2006. By emphasizing the volume of customers and low fee charge, the Islamic pawnbroking can sustain their business in the long-run. The role of government is crucial in order to promote the <i>ar-rahn</i> scheme in a more effective and systematic manner.
2	At present, YaPEIM accepts diamond other than gold. We are not governed by the Pawnbrokers Act 1972. Instead, we referred to our own <i>Ar-rahn</i> Manual Guideline. YaPEIM can sustain their business in the long-run because the safekeeping fee is considered competitive and the government role is crucial for the development of the product in future.
3	At present, we only accept gold as collateral. Regarding regulation, our Islamic pawnbroking product has its own manual guideline which is known as Operation Guideline – Pawnbroking-i. Islamic pawnbroking business can sustain in the long-run due to their positive attribute as compared to the conventional pawnbroking. In addition, the government plays an important role in order to promote and educate the community with this product.
Conclusion	Apparently, all of the institutions accept only gold as collateral with an exception of YaPEIM that accepts diamond as well. Each of them established their own manual guideline. All of the representatives of each institution were very optimistic about the sustainability of the product in the long-run but admitted the important role of government in promoting this product and to overcome any issues related to the product.

Alternatively, YaPEIM took the first attempt at accepting diamond as collateral alongside with gold. According to Mr. Abdul Majid, previously, YaPEIM only calculated gold and excluded precious jewellery such as diamonds that were tied to the ornament. In order to give more value to the customer, YaPEIM introduced a combined measurement of gold and diamond when granting a loan. Prior to the introduction of diamonds as acceptable collateral, YaPEIM sent their staff for training in the Institute Gemology Paramita in Jakarta, Indonesia in order to train them in diamond grading.

Although there were discussions among all the institutions of Islamic pawnbroking in the issue of establishing a standard regulation for the *ar-rahn* scheme, to date there is no solid act or guideline imposed other than the Pawnbrokers Act 1972. From the interviews, all the corresponding institutions such as YaPEIM and Bank Kerjasama Rakyat Malaysia are exempted from being obliged with the Pawnbrokers Act 1972, as was stated in Section 46, except the MGIT.⁶⁸ Each of these institutions established their own *ar-rahn* manual guidelines as a reference for Islamic pawnbroking operations. Despite the different manual guidelines imposed by each institution, the contract is more or less the same; they may differ in terms of the loan margin and safekeeping fee.

In terms of the sustainability of the Islamic pawnbroking system, all the interviewees agree that the future of this institution in Malaysia as a loan provider is quite promising. According to Mr. Wan A. Latif, although MAIDAM has moved towards corporatisation, the original objectives such as focusing on social responsibility to the customers will not be disregarded. In order to be competitive to the conventional pawnbrokers without abandoning their main objective, MAIDAM concentrates more on the customers' volume. If the safekeeping fee is kept low, there will be an increase in customers; likewise, if the safekeeping fee is high, the number of customers would decrease. By

⁶⁸ According to Section 46 in the Pawnbrokers Act 1972, there are three organisations that shall be exempted from this act which are; (1) any bank licensed to carry on banking business in Malaysia; (2) Bank Pertanian Malaysia, and (3) any co-operative society registered under any written law in force in Malaysia. Due to that, Bank Kerjasama Rakyat Malaysia and YaPEIM are exempted from this act. As for MGIT, they are obliged with this act with an exemption of Section 17 (1) regarding allowing taking profit on a loan.

implementing a minimal safekeeping fee, the institution aims at helping to contribute to the community's socio-economic development could be realised.

Mr. Abdul Majid added that the sustainability of the business can be retained because pawn lending is a type of loan that could decrease the risk of loan default as all of the loans given to the borrower are back up with collateral. At present, although competition between *ar-rahn* institutions and conventional pawnshops in providing loans to the customers cannot be avoided, YaPEIM is very optimistic that the *ar-rahn* scheme is capable of replacing the conventional pawnbroking business in the future.

As for Mr. Meor Akim, the Islamic pawnbroking business can be sustained in the long-run due to the loans being conducted under Islamic principles and their positive attribute such as honesty (in terms of keeping the customers' assets) and transparency (in terms of valuing the collateral based on the current value) as compared to conventional pawnbroking. With banks operating the Islamic pawnbroking scheme,⁶⁹ it is expected that this could remove the negative stigma of the pawnbroking concept; hence it would improve the public view about Islamic pawnshops' lending and attract more customers, not only the Muslim customers but also the non-Muslims to deal with them. In fact, he added that the *ar-rahn* scheme should not be seen as a lender for the lower income groups, but it should also be introduced to the whole strata of community in Malaysia, as a resort of short-run liquidity needs for business as well. He also mentioned that if a bank operates the *ar-rahn* scheme, the cost of operation would be lessened as compared to establishing the *ar-rahn* shop individually.

All of the responding interviewees unanimously agree that the government plays an important role in ensuring that the Islamic pawnbroking business is sustainable in the long-run. According to Mr. Abdul Majid from YaPEIM, the Central Bank of Malaysia has been very supportive from the beginning for the introduction of Islamic pawnbroking

⁶⁹ Normally, the Malaysian bank such as Bank Kerjasama Rakyat Malaysia who offered the *ar-rahn* schemes will conduct the pawnbroking transaction (lending, redeeming, and extending) in a separate room off the main office and the customers will be attend privately. Thus, this makes the customers feel at ease and not embarrassed to do their transactions.

system in Malaysia. In a wider implementation, he explained that the *ar-rahn* scheme was established following a decision from the Malaysia Cabinet on the 30 January 1985. As a result, YaPEIM and the Central Bank of Malaysia have set up the Scheme Committee which was chaired by Tan Sri Dato' Nor Mohamed Yakcop (the Advisor of Central Bank at that time) with the objective of establishing Islamic pawnbroking in Malaysia. YaPEIM had planned to implement an Islamic pawnshop immediately but it faced problems as it was against the Pawnbrokers Act 1972. Due to the needs of the Muslim community for an Islamic based pawnshop, the Central Bank of Malaysia requested Bank Kerjasama Rakyat Malaysia to implement the *ar-rahn* scheme through the capital injection from YaPEIM. Consequently, a memorandum of understanding was signed between Bank Kerjasama Rakyat Malaysia and YaPEIM as a partnership agreement with an equal profit-sharing agreement. The pilot project was started on 27 October 1993 by Bank Kerjasama Rakyat Malaysia, followed by Bank Islam Malaysia Berhad on November 1997 and YaPEIM co-operative on November 2000. One of the major aspects that need to be explored seriously by the government is the issue of regulation and how it could affect the operation and development of the Islamic pawnbroking industry. It should be noted that up to now, there is only one legal act regulating the pawnbroking business, which, however, is more applicable to conventional pawnbroking.

As for Mr. Wan A. Latif, the issue of licence granting should also be focused and revised by the government in order to make the Islamic pawnbroking business sustainable in the long-run. MAIDAM, for example, previously faced difficulty in acquiring a license from the Ministry of Housing and Local Government to open new branches due to a few requirements that needed to be fulfilled as well as political difficulties. In the latest meeting among the MAIDAM management board, they were concerned with the proposal for the State Islamic Council to be exempted from acquiring a pawnshop licence from the ministry. With more new branches opening by the establishment of MAIDAM cooperatives and joint-ventures with other cooperatives, MAIDAM anticipates that they can operate more effectively and obtain sufficient funds to provide 'halal' (permissible) pawnbroking loans to Terengganu's community. Regarding funds, Mr. Wan A. Latif said that MAIDAM pawnshops (MGIT and MAR branches) faced a problem of fund shortage

to cover the high and growing demand of pawnshop services, especially during school/university opening terms and also during the economic recession in 1997. Due to these circumstances, the State Fatwa Council issued a fatwa saying that MAIDAM can borrow funds from *zakah* funds in order to cover the shortage.

For Mr. Meor Akim, in order to make the pawnshop business one of the financial institutions that will contribute to the economy, the government should put further efforts to plan and develop the pawnshop system systematically because up to now, the pawnshop business is still being seen as informal financing. Unlike MAIDAM, Bank Kerjasama Rakyat Malaysia, the first bank established the *ar-rahn* scheme does not face any problem raising capital to provide loan to the customer. Given enough working capital, human resources, equipment, and facilities needed, they could run the business very smoothly. At present, Bank Kerjasama Rakyat Malaysia has expanded the *ar-rahn* scheme with another product called the *az-zahab* scheme which is a product enabling individuals to get a bigger sum of loan from RM10,001.00 to RM100,000.00 with a comfortable and longer payment plan.

9.2.4 Consumption vs Production Purpose

The summary of the responses of interviewees for questions 8 and 9 were analysed and depicted in table 9.5. The purpose of asking these questions was to find out the opinion of the participants about the use of Islamic pawn lending for consumption as opposed to production purposes and what happens to the asset base of society if it is only used for consumption purpose.

As indicated in table 9.5, all the interviewees agreed that the *maslahah*⁷⁰ (public interest consideration) of the customers is more important than arguing about the purpose of pawning whether for consumption or production purpose.

⁷⁰ According to Dusuki (2009: 5), *maslahah* is “one of the juristic devices that have always been used in Islamic legal theory to promote public benefit and prevent social evils or corruption. The plural of the Arabic word *maslahah* is ‘*masalih*’ which means welfare, interest, or benefit. Literally, *maslahah* is defined as seeking the benefit and repelling harm”.

Table 9.5: Responses of the Interviewees to Questions 8 and 9

What do you think of the used of Islamic pawnbroking for consumption purpose as opposed to production purpose and does it undermine the asset base of the society if the loan is mainly used for consumption purpose?

Interviewees	Responses
1	The <i>maslahah</i> of the borrower should be considered in understanding the use of the loan given regardless of their purpose of pawning.
2	Although it makes a difference whether lending for consumption purpose or production purpose in terms of economic impact, but our mission is to help those especially those from the lower income group and people who are excluded from the mainstream financial institution who may require immediate cash based on <i>Islamic-based</i> pawnbroking.
3	Though from the economic perspective, lending for production purpose can generate the customers' income as compared to consumption purpose; we still have to consider the <i>maslahah</i> of the customer if they used it for consumption purpose.
Conclusion	All institutions agreed that the <i>maslahah</i> should be taken into consideration regardless the purpose of the customers obtaining cash from pawning.

As explained during the interview process, based on the informal survey done by MAIDAM, most of the customers used the loans given for consumption purposes rather than production purposes. They claimed that the ratio for customers who borrowed for daily usage and production purpose was 70: 30. Although it can be argued that borrowing for consumption purposes can undermine the asset base of the society, MAIDAM's main objective is to help people who need instant cash, regardless of the purpose for using the cash, as long as it is not being misused for negative purposes as identified by *shari'ah* law. Despite Islamic financing encouraging production as opposed to consumption purposes in loans, the *maslahah* should be considered in understanding when it is used for consumption. They presume that if the domestic needs are fulfilled (such as paying bills and household expenses), it can be predicted that the customers can then focus on making loans for the purpose of production, which will generate their total income and most of all improve their socioeconomic circumstances. For that reason, MAIDAM has

introduced entrepreneur package courses to potential customers (loyal customers) in order to use the funds obtained from pawnshops in a more productive manner; hence solving the issue of poverty or crime that usually emerge from their financial problem. On the other hand, if the customers pawn off their belongings for productive purpose (such as a start-up capital for business or extending their business), this would actually increase their asset base. According to Mr. Wan A. Latif, it is the culture of the community in Terengganu (especially the Malay) to buy more gold if they have extra money, which then can be used in pawning for borrowing money for business as well as social needs.

Likewise, although Mr. Abdul Majid and Mr. Meor Akim agree that, from an economic perspective, lending for production purposes will give more value-added to the customers in terms of generating their total household income rather than lending for consumption purposes, the main objective of launching Islamic pawnbroking is to assist those in need, especially the lower income groups and people who are being excluded from the mainstream financial institution and may require immediate cash based on *shari'ah* compliant pawnbroking regardless of the purpose of pawning. In addition, Islamic pawnbroking can also save Muslim customers from being exploited and being treated in an unfair manner by the conventional pawnbrokers.

9.2.5 Product Awareness of Islamic Pawnbroking

Table 9.6 summarises the responses of the interviewees for questions 10, 11 and 12. The purpose of asking these questions are as follows: '(i) Why do Muslims still use the conventional pawnshop while Islamic alternative is available'; '(ii) Is there any demand from non-Muslim towards the Islamic pawnbroking product'; and '(iii) What can the institution do to increase product awareness'.

Table 9.6: Responses of the Interviewees to Questions 10, 11 and 12

What do you think about the awareness of the community towards the existence of the Islamic pawnbroking institutions and what steps have been taken in order to attract the customers?

Interviewees	Responses
1	There is still lack of awareness among the Muslims community and definitely to the non-Muslims about the existence of this scheme, thus MAIDAM has taken a huge effort to promote awareness of the <i>ar-rahn</i> scheme amongst the community especially in Terengganu.
2	Some of the Muslims customers still prefer to go to the conventional pawnshops even though the Islamic pawnbroking has been introduced for quite some time in Malaysia. More marketing activities have been taken in order to promote awareness of this product.
3	Some of the Muslims customers still use the conventional pawnshops services due to some reasons. The non-Muslims customers have shown their interest in using the <i>ar-rahn</i> scheme especially among the Indian customers. Campaigns have been developed in order to capture the market and high awareness to the community.
Conclusion	All the institutions agreed that they have a huge responsibility to increase the awareness of the community in the existence of an alternative source of pawning which is permissible by the <i>shari'ah</i> principles, which encourage social justice to the borrower.

According to the defined questions, the analysis in this section is divided into three sub-sections which is the product awareness from the Muslim and non-Muslim perspective, and finally, how the responding institutions promote the *ar-rahn* product. The analysis of the interviews indicate that all of the institutions have a responsibility towards educating and increasing the awareness of the community for Islamic pawnbroking which, as such, is permissible according to *shari'ah* principles, which as a product has positive attributes such as fairness, justice, transparency, and honesty to both parties involved.

9.2.5.1 Muslims awareness

According to Mr. Wan A. Latif, although MAIDAM Islamic pawnshops (MGIT and MAR) offer a cheaper safekeeping fee, more conducive environment, customer-friendly, and easily accessible locations, there are still some Muslim customers who prefer to go to the conventional pawnshops. From their observation, they argue that factors such as the ‘embarrassment’ factor, loyalty to traditional pawnbroking, and no hassle with filling any form or showing any evidence of possession right may encourage many Muslims to choose conventional pawnshops over Islamic pawnshops.

According to all the participants, the negative stigma with the word ‘pawning’ still prevails, as, for many people, pawning assets imply losing face, losing assets, and dignity. In showing the shift taking place in pawning perception, Mr. Wan A. Latif noted in his interview that, “currently the demand trend for pawnshop is not dominated only by the lower income group, but also from the middle income group. Perhaps due to emergency needs or other factors forces them to pawn their belonging. To be fair with them, we can think of the pawnshop customers as those who actually have valuables compared to the bank customers. This is because the latter may not have any valuables as they are only required to present their payslips to secure the bank loans. In fact, the negative stigma should be removed as the Prophet Muhammad (*pbuh*) himself was involved in the pawning process.”

The interview analysis also indicates that some of the customers could not identify the difference between interest charges in conventional pawnshops and safekeeping fees charged in Islamic pawnshops. They still used the word interest even though they were apparently dealing with Islamic pawnshops. As for the issue of differentiating between interest rates and safekeeping fees, MAIDAM has instructed the staff (in-front desk) of each of its branches to explain and educate customers while doing the transaction.

In addition to the above mentioned factors, Mr. Abdul Majid expressed that conventional pawnbroking is still preferable due to the lack of awareness and knowledge about the existence of alternative sources of pawning which are in line with *shari’ah* principles. In addition, Mr. Meor Akim claimed that due to the total amount of Islamic pawnshops

available that is still low compared to the conventional pawnshops, people still go to the conventional pawnshops.

Another issue raised by respondents relates to accessibility and facilitation. In order to minimise the documentation procedure required by MAIDAM in the pawning process, they plan to introduce the use of MyCard (identification card for Malaysian) for verification, which would hold the details of the cardholder.

9.2.5.2 Non-Muslims awareness of Islamic pawnbroking

According to MAIDAM, there seems to be low demand from non-Muslims in dealing with Islamic pawnshops. For example, the MAR branch from Kemaman, Terengganu has received only one Chinese customer and one Indian customer. Presumably, this is because they are the minority group in the state and they are usually not interested in pawnshops services and are also not fond of collecting gold items. Unlike Malays, most Chinese would prefer to get loans from moneylenders (*ah-long*) which do not require any items to pledge in exchange for the loan.

Conversely, YaPEIM and Bank Kerjasama Rakyat Malaysia found that the non-Muslim community, especially the Indians, are now aware of the existence of Islamic pawnbroking and their demand for this scheme is quite promising. Therefore, these institutions are more optimistic that the Islamic pawnbroking scheme will attract even more non-Muslim customers in future. However, Mr. Abdul Majid stated that as the scheme is still in the early stages, in comparison to conventional pawnbroking, *ar-rahn* is only able to control 9.3% of the overall pawnshop market.

9.2.5.3 Promoting the product

Since the literature as well as the empirical analysis shows that Islamic pawnshops are new institutions, more time will be needed to further penetrate into the formal financial system. Thus, the promotion of the *ar-rahn* scheme is needed so that the lack of awareness can be overcome.

In discussing promotion issues, according to Mr. Wan A. Latif, MAIDAM with its ten branches of Islamic pawnshops around the Terengganu state has organised awareness campaigns on the *ar-rahn* scheme for lower income groups like small traders, as they are more likely to have less knowledge about *shari'ah* principles, especially regarding *riba* and *gharar*. As mentioned before, some customers still refer to the safekeeping fee as interest when making a transaction.

Interview analysis also indicates that, in order to enhance awareness, information is disseminated through Friday prayers, pamphlets, posters, videos, and on Terengganu FM radio. He added that the Islam Hadhari approach⁷¹ (introduced by the former Prime Minister of Malaysia, Tun Abdullah Ahmad Badawi) has helped greatly in enhancing society's awareness towards the product.

As for YaPEIM, they have initiated some promotional activities to the target customers by opening kiosks at supermarkets and in other public areas, circulating information through radio and television advertisements, using balloons and billboards along highways, and even setting up an event called 'A Day with Customers' to improve rapport with current customers and potential customers. In addition, Mr. Meor Akim from Bank Kerjasama Rakyat Malaysia urged that the government needs to make an initiative to establish more *ar-rahn* premises by granting more licenses and decreasing the tax as an incentive for companies which are interested to open *ar-rahn* premises.

9.3 CONCLUSION

This chapter analysed the semi-structured interviews which were conducted on three different institutions known as the pioneers of the Islamic pawnbroking institution in Malaysia such as MAIDAM, YaPEIM, and Bank Kerjasama Rakyat Malaysia. The following summarises the major findings from the analysis which have been conducted throughout this chapter:

⁷¹ According to Ahmad Badawi (2006: 3), *Islam Hadhari* approach is "an effort to bring the *ummah* (the worldwide community comprising all adherents of the Muslim faith) back to the basic of Islam, back to the fundamentals as prescribed in the Quran and the *hadith* which form the foundation for an Islamic Civilisation".

- (i) All of the participating institutions have been operating for more than ten years and their motivation for launching the *ar-rahn* scheme was to provide an Islamic financing alternative to conventional pawnbroking with the objective of responding to the short-term cash needs of customers in a *shari'ah* compliant manner.
- (ii) There are no major differences between the contracts of Islamic pawnbroking applied in the participating institutions. The *shari'ah* problems encountered by all the participating institutions also show the same response, that is the avoidance of the elements of *riba* and *gharar*.
- (iii) All the participating institutions accept only gold as collateral with the exception of YaPEIM which accepts diamond as well. Each of them has established their own manual guidelines. All of the representatives of each institution were very optimistic about the sustainability of the product in the long-run but admitted to the important role of the government in promoting this product and to overcome any difficulties related to the product.
- (iv) All institutions agreed that the *maslahah*, or the interest of the public, should be taken into consideration regardless of the purpose of the customers obtaining cash from pawning.
- (v) All the participating institutions agreed that they have a huge responsibility to increase the awareness of the community for an alternative source of pawning which is permissible to *shari'ah* principles and encourages social justice to the borrower.

In summary, the findings from these semi-structured interviews are useful for prospective customers, either Muslim or non-Muslim, in order for them to opt to Islamic pawnbroking which certainly is not involved in *riba* and *gharar*. In addition, the findings are also useful for businesses and the government to take the initiative to set up more *ar-rahn* shops and establish standard regulations in order to promote Islamic-based pawnbroking as an alternative to conventional pawnbroking in Malaysia.

Chapter 10

DISCUSSING AND CONTEXTUALISING THE FINDINGS AND CONCLUSION

10.1 INTRODUCTION

This chapter aims to reflect on the findings in a critical manner after highlighting the main findings of the research. Additionally, this chapter also discusses the prospect of Islamic pawnbroking in future by using SWOT analysis. Based on the findings and further reflections in this chapter, recommendations are also provided. Finally, this chapter concludes with the limitations and future work to further the study.

10.2 SUMMARISING THE RESEARCH

The aim of this research was to analyze the socio-economic impact and the consequences of pawnshop crediting in Malaysia. Following this aim, the first objective was to explore and explain the aspects of the exclusion of the low-income groups from main financial institutions as a result of lack of creditworthiness. The results show that banks are reluctant to offer credit to this group due to high costs, high risks, and insufficient collateral.

Given the exclusion of low-income groups from mainstream financial institutions, the second objective was to explore the role of other alternative financial institutions that can outreach the informal credit demand of these groups. The evidence in the developing countries, as mentioned in the survey chapter, articulated by Braverman and Gausch (1986), Bouman (1988), Ghate *et al.* (1992), Waldron (1995), Schrader (1996), and Azam *et al.* (2001) show that the informal financial markets has filled the gap created by mainstream financial institutions towards constraining credit to the ‘excluded’ parts of society.

Therefore, the objective in Chapter 3 was to investigate what type of informal financing was popular among lower-income groups. The research found that informal credit

institutions, such as pawnshops, were recognised as an alternative credit provider to those in society that were excluded from mainstream financial institutions, as was discussed in depth in Chapter 3. Despite being the ‘financial saver’ to the financially ‘excluded’ segments of society, this research discovered that pawnbrokers impose a very high interest rate and implement unethical lending practices, which lead to prioritizing profit with disregard for their social obligation towards society.

In order to find an appropriate mechanism of pawning which eliminates the element of interest, avoid unethical procedures, and aims for social justice, Chapter 4 elaborated the concept of pawnbroking in the *shari’ah* framework. Three important norms for Islamic financial ethics, such as freedom from *riba* and *gharar*, and social justice were discussed in Chapter 4. In addition, it also showed several samples of countries that had established Islamic pawnbroking after Malaysia. All the countries surveyed seemed to experience stable growth on the Islamic pawnbroking business, which forecasted great potential for the future.

Given the potential development of the scheme in the future, the fifth objective was to explore the weaknesses of conventional pawnshops in terms of the *shari’ah* perspective and unethical procedures in lending, redeeming, auctioning, complaining and compensating processes which led to the introduction of Islamic pawnbroking in Malaysia in 1992, is presented in Chapter 5. Although the Islamic pawnbroking scheme seems to be a viable alternative to conventional pawnshops, there are still some issues in Islamic pawnbroking which need to be highlighted based on prior studies such as: (i) *shari’ah* view (Ismail and Sanusi, 2005; Mohammed *et al.*, 2005; Skully, 2005); (ii) funding capital (Baharuddin, 2002); (iii) pricing system (Mohammed *et al.*, 2005; Ismail and Ahmad, 1997; Muhammad Naim, 2007); (iv) pledge asset (Sanusi and Johari, 2006; Mohammed *et al.*, 2005, Ismail and Ahmad, 1997; Ismail, 2002; Johari *et al.*, 2008; Khan and Nisar, 2004); (v) location of the pawnshop (Mohammed *et al.*, 2005; Ismail and Ahmad, 1997); (vi) purpose of pawning (Ismail *et al.*, 2007; Awang Kechil, 2004; Samsudin, 2002; Barjoyai, 1999); (vii) regulation of Islamic pawnbroking (Ismail and Sanusi, 2005); and (viii) use of collateral as an investment (Rosly, 2005; Meera, 2008).

To further investigate whether pawnshops have a significant role in improving the socio-economic situation of society, Chapter 7, 8 and 9 discussed the empirical evidence based on surveys and semi-structured interviews from three different groups (customers, pawnbrokers and the pioneer institutions of Islamic pawnbroking) which were conducted in three different regions in Peninsular Malaysia. Overall, the results of the analysis in these chapters revealed that the customers and also the Islamic pawnbrokers showed more positive perceptions and attitudes towards the role of the pawnshop in enhancing the socio-economic development of the community, especially for the low-income groups. The findings also indicate that there is a promising prospect for the pawnbroking business in the long-run, as compared to conventional pawnshops, which is mostly due to the social welfare concerns of Islamic pawnbroking by definition.

10.3 REFLECTING ON THE FINDINGS: AN INTERPRETATIVE DISCUSSION

10.3.1 The Influence of Demographic on Consumers' Preference Pawnshop

10.3.1.1 Gender

With regards to the significance of the gender, the findings in this study show that the pawnshops' customers are predominantly female, which is consistent with other studies by Francois (1998), Schrader (1999 and 2000), and Maamor *et al.* (2006). However, the findings of this study were inconsistent with Johnson and Johnson (1998), among other studies. In terms of pawnshop, the results show that female customers prefer to obtain instant cash from Islamic pawnshops, whilst male customers do not show as strong preference for either type of pawnshop. This result tends to be in line with the findings of previous research on pawnshop studies (See Maamor *et al.*, 2005 and 2006; Johari *et al.*, 2007; Amin *et al.*, 2007). As was mentioned in Chapter 7, the strong Northeast respondents' bias in the sample, with most of them dealing with Islamic pawnshops, led to the female bias with regard to their choice of pawnshop. Female dominance in most pawning transactions also reflects that, in this modern day, women have to work for a living in addition to managing their household work in order to move away from dependency on men.

10.3.1.2 Age

As far as the significance of the age of the respondents is concerned, the findings in this study reveal that there is no significant difference between the respondents' age and type of pawnshops they preferred. However as a whole, both types of pawnshops were patronised by the middle-age and older-age groups, presumably because they required short-term credit in order to bridge income gaps for making a living, which is similar to the results found by Schrader (1999 and 2000). In addition, Johnson and Johnson (1998) linked the relationship between the respondents' age and customer type (active borrower, inactive borrower, and shop only). Their results indicates that active borrowers of pawnshops came from customers in the 25 – 34 years group, which is considered as the age group that is just starting a family and is facing instability in their job and marital status.

10.3.1.3 Race

Generally, Maamor *et al.* (2005; 2006) found that, in Malaysia, the highest customers of pawnshops are Malays followed by the Indian and Chinese. Results show that there is a significant difference between race and the type of pawnshops the customers preferred. The results of this study confirmed the findings of Johari *et al.* (2007) in which the majority of the Malay customers preferred to obtain instant cash from Islamic pawnshops, whilst the Chinese and Indian customers showed a preference for conventional pawnshops, rather than Islamic pawnshops. The results were predictable because the main religion of the Malays is Islam, so they are more likely to deal with Islamic pawnshops in order to eliminate *riba* and *gharar* transactions in pawn lending. Nevertheless, based on the findings, although Islamic pawnshops have been operating side by side with the conventional, it is expected that some Malaysian Muslims still prefer conventional pawnshops as their instant cash lender due to various reasons that have been discussed thoroughly in Chapter 8 (from the customers' and pawnbrokers' perspectives) and 9 (from the Islamic pawnbrokers' perspective). In a similar manner, Johnson and Johnson (1998) found that race varied significantly by type of customer in

the case of pawnshops in the U. S. where customers from the black ethnic group were larger in percentage compared to ethnically white customers.

10.3.1.4 Education level

Results reveal that pawnshops were patronised by less-educated customers, which is in line with the finding of Caskey (1991), Johnson and Johnson (1998) and Maamor *et al.* (2005; 2006) but is inconsistent with the findings from Schrader (1999 and 2000) because of the education policy of the Soviet Union at that time. It is important to note that well educated segments of society have better economic and financial circumstances, and, therefore, their need for instant cash through pawnshops is limited as, even if they need such short-term cash, they have access to other financial means to meet their need. Although pawnshops are still patronised by less-educated customers, there is no doubt that the trend has already been changing with the education level of the customers which has increased over time and is evidenced by this study.

In terms of pawnshops, this study inferred that either customers with a less or well educated background do not show a marked preference for either pawnshop. This result is in line with Johari *et al.*'s (2007) findings, except for the well-educated customers who opt out conventional pawnshop as their preferred pawnshop.

10.3.1.5 Marital status

The finding of this study show that pawnshops are highly influenced by married respondents as compared to single persons and widows/widowers, which typically face expensive family formation, child rearing demands, and high costs of living. These findings support the findings of Johnson and Johnson (1998), and Schrader (1999 and 2000).

10.3.1.6 Total dependents of household

The findings in this study indicate that the majority of pawnshop customers were generally from middle-sized and large-sized households, mostly in order to settle the education expenses of their children and to alleviate their short-term and emergent

financial difficulties. These findings are in line with the results established by Maamor *et al.* (2005; 2006) and Johari *et al.* (2007), but inconsistent with the findings established by Schrader (1999), in which he found that the majority of Russian pawnshops were patronised by married couples who did not have any children, followed by those with one child and more. In terms of pawnshop choice, these groups preferred Islamic pawnshops rather than the conventional, which supports the findings of Johari *et al.* (2007).

10.3.1.7 Employment characteristics

The findings of this study show that both types of pawnshops have a similar pattern of customers who work in the private sector, being proprietors of small businesses, government servants, and housewives. Having small business proprietors to demand such services for their short-term financing need is important, as it implies that they either they do not have access to short-term financing or they prefer pawnshops due to the fact that the transaction costs are low and without any formality.

The findings of this study, hence, are parallel with the research conducted by Mohamed (1986) and Maamor *et al.* (2005; 2006). Likewise, the occupational background of the respondents' spouses were quite similar to the patterns of respondents' occupations where three groups were identified to be the main customers of pawnshops which were housewives, government servants, and those working in the private sector. However, findings by Maamor *et al.* (2005; 2006) only focused on the customers' occupational background and not on their spouses. In addition, Schrader (1999) found that pawnshop customers in Russia were mostly among pensioners, the unemployed, teachers and social workers, and their partners' jobs were pensioners, office jobs, the unemployed, and those still in education.

10.3.1.8 Total monthly household income

The findings of this study show that there was no significant difference between the total monthly household income and the types of pawnshop. However as a whole, results show that the majority of the pawnshop customers were among those from lower-income and middle income groups. The finding also shows that the mean for the total monthly

household income of the pawnshops' customers (See Appendix 10A) was between the range of RM1,001.00 to RM2,000.00, which is higher than poverty-level income for Malaysia (based on the Economic Report of 2010 which is RM750.00 and below). This indicates that the pawnshop customers as sampled in this study were not from individuals with abject poverty. This is reasonable, as Mottershead (1938), Schrader (1999), and Chechovskich and Schrader (2000) argued that these groups had nothing to offer as collateral, but the lower and middle-income groups which had belongings to pawn in exchange for a small amount of cash which corresponds to Oeltjen's (1996) study. In addition, the survey also revealed that more than half of the respondents claimed that they went to pawnshops due to the insufficiency of their income to cover household expenses, a result in line with Woloson (1964). Based on this findings, the customers of pawnshops were not only patronaged by the lower-income and middle-income groups but also by the higher-income groups. This is in line with the findings of Mottershead (1938), Caskey (1991), Schrader (2000), Maamor *et al.* (2005; 2006), and Johari *et al.* (2007). However, Schrader (2000) added the predominantly poor as one of the main customers of the Lombard pawnshop due to the transformation process after the fall of the Soviet Union and the introduction of market economy in Russia.

10.3.1.9 The reasons of insufficient income

With regards to the income level being one of the factors for utilizing the financial facilities offered, the findings show that more than half of respondents claim that their income was not sufficient due to various reasons such as having to face a high cost of living, followed by children's schooling expenses, tied with large sums of debt, an increase in family members, no job, and spouses not having a job. All these were found to be the reasons incentivising individuals to get financial access through pawnshops.

It should be noted that the results of this study are consistent with the findings of Maamor *et al.* (2005; 2006) in which they found children's schooling expenses to be the main reason for using pawnshops.

10.3.2 The Pawnbrokers' Background

This research also investigated the profiles of pawnbrokers and also their opinions on various issues related to pawnbroking. Upon analysis of previous literature, only one research also investigated the background of pawnshops in Malaysia, which was by Maamor *et al.* (2005).

10.3.2.1 Years of establishment

The findings of this study reveal that the majority of Islamic pawnshops were established within the past 10 years to 20 years, while all conventional pawnshops had a maturity of 21 to more than 30 years. It should be noted that this finding is in line with the findings of Maamor *et al.* (2005). Since conventional pawnshops in Malaysia have been established since the 15th century, and, hence, most pawnshops have been operating for a very long period, compared to Islamic pawnbroking which had only been initiated by the MGIT in 1992.

10.3.2.2 Type of ownership and source of capital

In terms of ownership and the source of capital of the pawnshops, the results show that the form of ownership in all conventional pawnshops were sole proprietorships and partnerships, whilst branches, cooperatives, and corporations are mostly referred to Islamic pawnshops.

The types of ownership can also reflect the source of capital of the pawnshop. Obviously most of conventional pawnbrokers operate their business by using their own capital, followed by getting loans from their families and banks. As for the Islamic pawnbrokers, they obtained their capital from their parent company, followed by their cooperatives members' share and were subsidised by government or the state government.

As a comparison between both types of pawnshops, conventional pawnbrokers experienced the limitation of expanding their business and the establishment of Islamic pawnshops could be a threat or rival to their business. As mentioned earlier, the only study that supports these findings is Maamor *et al.* (2005).

10.3.2.3 Number of staff employed

Results reveal that conventional pawnshops were likely to have a small number of staff, while Islamic pawnshops tend to have a slightly larger staff number. In order to reduce operating costs, most of conventional pawnbrokers employ few staff. However, Islamic pawnbrokers faced no problem in employing many staff members due to the sources of capital that they had gained and the support that they had received from the government or state governments.

10.3.3 The Determinants of Pawnshop Selection

This section of the research presents the findings related to the determinants of pawnshop selection by providing a more detailed discussion.

10.3.3.1 Sources of instant cash loan

The findings in this study show that the most preferable sources of instant cash loans considered by both Islamic and conventional customers was pawnshops, followed by relatives, friends, banks, cooperative companies, cash advances from credit cards, and moneylenders. Possibly, customers chose not to deal with banks, credit cards, and cooperative companies to obtain instant cash loans due to the strictness and formalities of bank regulations, excessive formal documentation, or not having access to the financial system. Moneylenders were considered as the last choice of the source of funding, probably due to high interest rates leading to further hardship and misery to the borrowers if they failed to repay their loans. In addition, the exorbitant interest rates and strong-arm debt collection tactics have driven dozens of moneylenders' debtors to commit suicide. Therefore, with this finding it can be said that pawnshops have an important role in providing instant cash loans or small loans to the people in need.

It should be noted that the selection of pawnshops as the most preferable source of instant cash by respondents, compared to other sources, was consistent with the findings by Maamor *et al.* (2006). Similar results were also found by Johnson and Johnson (1998) which shows that the best alternative to pawnshops was borrowing from a relative or friend.

10.3.3.2 Pawnshop vs other instant cash loan

In terms of the reason for using pawnshops as opposed to other sources of instant cash loans from the customers' point of view, the findings reveals that pawnshops were preferred due to easy access due to the short period process, having the probability of getting the loan being high, having less hassle on procedure which requires less documentation and not having a credit check as compared to formal financing, and also the low cost of the loan.

These results are in line with the findings of Johnson and Johnson (1998) and Maamor *et al.* (2005, 2006). Other factors such as privacy, the higher possibility of getting back the collateral, and convenient hours seems to be less important to the customers in terms of opting for pawnshops as their main source of instant cash loan.

10.3.3.3 Determinants of pawnshop selection from the customers' and pawnbrokers' point of view

The findings reveal that both types of pawnshop customers and pawnbrokers have different points of view in terms of factors that motivate them to deal with their preferred pawnshops to make loan.

According to the results, customers patronised Islamic pawnshops mainly because of (i) no element of interest in loan; (ii) practicing more transparent processes in terms of procedures to determine the authenticity and valuing the collateral, the usage of computers for keeping the customers' profile and details of the loan, and the production of a very detailed receipt after the loan is approved; (iii) the security of the collateral is guaranteed in which all the collateral will be kept safe in a deposit boxes and are insured under the *takaful* insurance policy; (iv) a minimum fee is charged for the safekeeping of the pawned items based on the value of the collateral, whilst conventional pawnshops charge 2 – 3% of interest based on the amount of loan; (v) positive images such as Bank Kerjasama Rakyat Malaysia who conduct the pawn lending in a private room off the main office and the customer will be attended to privately, and this transaction would not be too obvious to other customers; and (vi) a high possibility in redeeming collateral as

compared to conventional pawnshops where, according to the conventional pawnbrokers' survey, most of them did not send a notice of the reminder of the expiration period to customers which led to a high percentage of unredeemed collateral in their pawnshops.

It should be noted that the above findings correspond to Maamor *et al.* (2006) and Skully's (2005) findings, as they found that the underlying principles imposed by Islamic pawnshops such as loan free from interest, the collateral is guaranteed secured, and a very low safekeeping fee were among the main factors of customers patronising Islamic pawnshops. Undoubtedly, this result revealed that the cost of obtaining a loan from Islamic pawnshops was substantially lower than other sources of informal credit whereby Islamic pawnbroking charged about 1% per month of safekeeping fee rather than conventional pawnbrokers with 2% of interest rate, and moneylenders as high as 20% per month, which were consistent with Bhatt and Sinnakkannu (2008), Mohammed *et al.* (2005), Skully (2005), and Ismail and Ahmad's (1997) findings.

However, on the contrary, the six factors mentioned above were revealed to be the major reasons as to why customers opted out of the conventional pawnshop. For example, the negative stigma or image of pawnshops still cannot be removed by society due to a very high/exorbitant interest rate per loan charged by the pawnbrokers (Bouman and Houtman, 1988; Oeltjen, 1996; Visser and MacIntosh, 1998) and other malpractices mentioned by Adnan (2004) in Chapter 5. As practiced in Malaysia, the counters in conventional pawnshops are built high off the floor to protect the pawnbrokers from any possibility of crime. Although the structure of the counter is related to the security, it seems that there is a different caste between the customer and pawnbroker which will lead to the humiliation of the customer.

All of the above results from the perspective of the Islamic and conventional customers are likely to be the reasons as to why the degree of satisfaction with all processes (such as lending, redeeming, extending, auctioning, compensating, and complaining) undergone by customers in the Islamic pawnshops is higher than those who deal with conventional pawnshops. One of the examples of high satisfaction in the auctioning process undergone in Islamic pawnshops is the fact that if the borrower fails to redeem their belongings by

the maximum period allowed, a notice of reminder will be sent to the customer informing them that the item will be auctioned off. After being auctioned off, if the borrower cannot be traced, the Islamic pawnshop is responsible in handing out the surplus from the auction in the *Baitulmal* so that the customers or their heir can claim it in future which, as a practice, is not implemented by conventional pawnshops.

Interestingly, results also reveal that conventional pawnshops are still patronised by some customers despite their malpractices and oppression to the customers due to (i) the acceptance of a wide spectrum of items as collateral such as gold, silver, grants, electrical appliances, and branded watches as compared to Islamic pawnshop which only permit limited items such as gold⁷² and recently diamond;⁷³ (ii) their speed in loan approval which, according to the pawnbrokers' survey, normally takes less than 10 minutes, whilst Islamic pawnshop will take a little bit longer, *i.e.* 10 – 20 minutes than that which is consistent with Lanäs and Nowak's (2007) findings, due to the documentation procedure and assessment of the collateral; (iii) knowledgeable and competence of the staff which can be explained with the fact that they have existed longer within a range of 21 to more than 30 years, whilst Islamic pawnshops have only been established within less than 10 years to 20 years. A similar reasoning was found by Maamor *et al.* (2005); (iv) location of the conventional pawnshop being near to home or office; this corresponds to Ismail and Ahmad's (1997) study, whilst the accessibility of Islamic pawnshop in rural areas was still limited; (v) loyalty to traditional pawnbroking, which, as a result, is parallel to the result from the interviews with MGIT representative; and (vi) conventional pawnshops are more careful with confidentiality than certain Islamic pawnshops whereby borrowers from conventional pawnshops need not disclose the purpose of their lending, whilst, according to the interviewee from MAIDAM, their staff in the front desk tend to

⁷² Undoubtedly, gold is permitted because it maintained its values over a period of time and can be easily stored (See for example Meera, 2008; Chan and Owyong, 2007; Khan and Nigar, 2004; Soon and Choon, 2001; Ismail and Ahmad, 1997; and Bouman and Houtman, 1998).

⁷³ Based on the Islamic pawnbroking normal practice, diamond attached with ring or other jewellery will be excluded from being valued during the pawning transaction. But in 2009, YaPEIM under its *ar-rahn* cooperatives took the first attempt of accepting diamond as collateral alongside with gold. According to Dr. Abd. Malek Awang Kechil, Chief Executive Officer of YaPEIM, the acceptance of diamond was to give more value to the loan that the customer will received.

ask informally about the purpose of lending for their record. However, these factors tend to be the least important criteria in selecting Islamic pawnshop as the lender for instant cash loan. It can therefore be considered that these factors are perceived to be the challenges for Islamic pawnshops in competing with conventional pawnshops that have been in existence since the 15th century.

The above results seem to be parallel with Islamic and conventional pawnbrokers' opinions respectively in relation to being influenced by the decisions of their respective customers, although they ranked those factors in different level of importance.

Having mentioned the above result from the customers' perception of conventional pawnshops, the Islamic pawnbrokers are expected to operate effectively and efficiently side by side with conventional pawnshops and finally capture the whole market of pawnbroking by pursuing the following strategies: diversifying the type of collateral; requiring less documentation in loan process; providing adequate training to their staff in order to enhance knowledge and competence especially in measuring the collateral value or evaluating the authenticity of the item; dispersing the location of the Islamic pawnshops in order to draw more customers, especially in rural areas and over populated areas in order to eliminate any monopoly of pawnshops; and finally providing a very good rapport between staff and customers, effectiveness in handling the pawn lending transaction, and maintaining the confidentiality of the customers.

It should be noted that similar issues were raised by Maamor *et al.* (2006) in his attempt to locate the sources of patronage and in particular making reference to building up customers' loyalty, reputation of the pawnshop, and hence attract new comers to deal with Islamic pawnshops rather than their rival.

10.3.4 Pawnshop Awareness

The customers' survey findings reveal that conventional customers get information about pawnshops mainly from seeing signboards, friends and relatives, and newspapers, while television and radio advertisement, and the internet were not effective for conventional respondents. Similar findings were established by Johnson and Johnson (1998).

In contrast, respondents from Islamic pawnshops have been aware of the existence of their preferred pawnshops through a range of channels such as friends and relatives, signboards, television and radio advertisements, newspapers, and via the internet. These results show that Islamic pawnbroking institutions as an alternative to the conventional pawnbroking imply a wide range of channels in order to outreach customers especially lower-income groups. It can be inferred that conventional pawnshops in Malaysia have been in operation since the 15th century; therefore, the customers were well informed of their existence.

Furthermore, from the interview with MAIDAM, it was revealed that some Muslim customers still cannot differentiate between the safekeeping fee and interest rate. Therefore, staff in the front desk should be well equipped with the knowledge and competency, via intensive training, to educate the customers regarding the misconceptions on the safekeeping fee and the interest rate, and the prohibition of dealing with conventional pawnshops which involve *riba* and *gharar*. As for non-Muslim customers, the demand for this scheme by the Indians is quite promising, whilst the Chinese prefer to get small cash loans from moneylenders rather than pawnshops due to keeping gold as collateral being not part of their culture.

It should therefore be noted that not only the pawnbrokers should promote the *ar-rahn* scheme to the society, but the relevant authorities also play an important role in order to increase awareness of this scheme.

10.3.5 The Usage of Pawnshop Loan

Although pawnbrokers do not question the purpose of lending from their customers (unlike other financial institutions), results from the customers' survey and Islamic pawnbrokers' interview reveal that customers tend to obtain loans from pawnshop for consumption purposes rather than production purposes. This finding is in line with previous research conducted by Mohamed (1986) and Maamor *et al.* (2006).

Although it can be argued that borrowing for consumption purposes rather than production purposes can undermine the asset base of the society, all the interviewees

seem to suggest that the *maslahah* should be taken into consideration. They also claimed that once the domestic needs have been fulfilled, customers can channel their usage of loans to productive purposes that can contribute to the total economy even on a micro level.

10.3.6 The Role of Pawnshop to the Society

From the customers' survey, it is clear that customers recognise the positive role of Islamic pawnshops as a credit provider to the community, especially to those 'vulnerable' borrowers as compared to conventional pawnshops. They consider Islamic pawnshop as credit providers who help solve financial exclusion, reduce social problems such as crime, an alternative to mainstream financial institution, and avoid them from dealing with *riba* and *gharar* transaction. In addition, they also believe that if the loan from pawnshops is used for consumption and no redemption, it will sustain their financial difficulty.

Similarly, the pawnbrokers' survey also reveals the same result as above: all the Islamic pawnbrokers acknowledge the positive role of pawnshops to the society in terms of solving financial exclusion, mitigating social problems such as crime, being an alternative to mainstream financial institutions, and eliminating elements of *riba* and *gharar* in pawn lending. However, they disagree with the statement, which states that 'if the loan is used for consumption and no redemption, it helps their business to sustain'. The Islamic pawnbrokers disagree with the statement presumably because their main objective is not only to provide loans which are free from interest and the element *gharar*, but they also aim to fulfil the social obligation towards the society rather than prioritizing profit. Although the Islamic pawnbrokers do not aim to maximise their profit, the pawnbrokers' survey reveals that a majority of them did attain a positive profit for the last twelve months because of an increase in loan transactions due to customers switching to pawn lending rather than banks which have stringent loan approval due to the economic downturn, competitive rates, the increased repayment rate, and wide promotion, while most conventional pawnbrokers fail to gain profit because of decreased collateral price, increased loan default, competition from other pawnbrokers, and a lack

of promotion. These results indicate that the Islamic pawnshop has been acknowledged by society as an alternative to the traditional pawn lending with so many advantages, although the scheme has only been established for less than 20 years and can be a competitor to conventional pawnshops. In addition, the Islamic pawnshop has to give priority to maintaining social obligations to the customer instead of profit maximisation in order to build up the image of a pawnbroking business which previously had been criticised for making huge returns on small initial investments.

10.3.7 Performance of Pawnshops Business in Economic Downturn

The findings from the pawnbrokers' survey shows that all pawnbrokers agree with the impact of the economic downturn on pawnbroking business which is consistent with the research by Yahong (2008), Soon and Choon (2001), Bienkowski and Davis (1997), and Caskey (1991) but Bienkowski and Davis (1997) claims that this will only be applicable in the short-run.

The degree of agreement in terms of this impact, however, is higher for the Islamic pawnbrokers rather than the conventional. Results reveal that Islamic pawnbrokers very much agreed with the positive impacts of the pawnbroking business in the economic downturn due to the fact that their businesses experienced an increased number of loans, repayment rates, and profit. In order to mitigate the financial difficulty consequences from economic downturn, pawning will be the 'last resort' for people who are financially excluded and those groups with high risk due to stringent loan approval by mainstream financial institutions. Thus, the short-term impact of pawning is rather positive; in terms of mitigating the financial difficulty of the household and also microbalancing the total economy in the economic downturn.

10.3.8 The Challenges of Pawnbroking Business

The survey results indicate that both pawnbrokers are regulated under the Pawnbrokers Act 1972 with an exception under Section 17(1) for Islamic pawnbroking which allows licenses pawnbrokers to take profit on pawn lending. There are three institutions that are exempted from the Pawnbrokers Act 1972. These are all banks operating in Malaysia,

AgroBank, and the cooperatives society. Cooperatives and franchise cooperatives will be governed by Cooperatives Societies Act 1993, and Franchise Act 1998 alongside with the *Ar-rahn* Manual Guideline which is developed differently by each institution.

Under these different regulations, the survey results show that a majority of the corresponding Islamic pawnbrokers were not satisfied with the current regulative environment which shows the ambiguousness of the Act, no specific regulation for Islamic pawnbroking and very stringent license granting by the Ministry of Housing and Local Government. The findings related to the licensing issues seem to be consistent with Jaafar (as cited in Skully, 2005: 5), noting that “the Islamic pawnbroking business had not been expanded outside Kelantan into other states, partly due to difficulties in obtaining pawnbroking licenses from the Ministry of Housing and Local Government”.

In terms of auditing, the findings show that all Islamic pawnbrokers follow a formal auditing procedure, which is conducted mostly by their internal auditors and some of them by the state government. However, most of the conventional pawnbrokers do not have formal auditing in their business. This result is consistent with the research by Soon and Choon (2001: 257), which categorized the pawnbroking business as “closed or informal”. Normally, the operation of the conventional pawnshops will be handled by the owner himself and support from the few staff that can be categorized as loyal and reliable.

In terms of business challenges, the most common problem faced by both pawnbrokers is competition with other financial providers. Specifically, conventional pawnbrokers feel that they are challenged by the other conventional pawnshops, followed by money lenders (or known as ‘*ah-long*’ in Malaysia), the *ar-rahn* pawnshops, cooperatives, the middlemen (especially in Kelantan), banks, and microcredit institutions. On the other hand, Islamic pawnbrokers stated that they were more threatened by other *ar-rahn* pawnshops, conventional pawnshops, cooperatives, moneylenders, and middlemen.

The findings also demonstrate that both types of pawnbrokers also face a problem with loan default, especially conventional pawnbrokers. Although the risk of loan default in pawnbroking can be reduced by keeping their goods as security, this loan default has

become a major problem to the pawnbrokers if they cannot sell the items or the value of the items is lower than the amount loan given (Bienkowski and Davis, 1997: 7).

The third common problem faced by pawnbrokers, especially conventional pawnbrokers, according to the study, is the difficulty in ascertaining the market value of some items such as branded watches, electrical appliances, or other types of jewellery such as diamonds. In order to have an accurate measurement on the item pledged, both pawnbrokers send their staff for training and get their measuring instruments verified by the Inspector.

Furthermore, they also face the probability of having customers pawning stolen goods at their pawnshops. According to Bienkowski and Davis (1997: 12), if the customer pawns a stolen item, the pawnbroker will face the risk of losing the item when the real owner reclaims their item. In order to avoid this from happening, the findings reveal that conventional pawnbrokers will stringent loan approval or even report to the police regarding this mislead. As for Islamic pawnbrokers, they will stringent the loan approval, blacklist the customer, and also report to the police.

Finally, one of the Islamic pawnbrokers experienced a problem regarding robbery in their premises which led to lost of the customers' collateral. Those respective customers had been given compensation by the respective pawnbrokers with the total amount equal to value of the item minus the amount of the loan given and the accumulated safekeeping fees before the collateral was lost.

10.4 PROSPECT OF ISLAMIC PAWNBROKING

As the analysis and the findings indicate, the future prospect of Islamic pawnbroking in Malaysia looks bright. By allowing Islamic pawnbroking to operate side-by-side with the conventional pawnbroking, it is hoped that they would be able to fulfil their main objectives towards the customers, pawnbrokers and also the policy makers.

In this section, hence, the prospect of Islamic pawnbroking is discussed by assessing the strengths, weaknesses, opportunities and threats, namely through a SWOT analysis, with possible strategies for assessing the prospects.

10.4.1 Strengths

10.4.1.1 High support and demand from Malaysian Muslims

The current population of Malaysia is about 28.9 million and Muslims are about 55.36% of total population in Malaysia.⁷⁴ Given the statistics, it becomes imperative to introduce products that are in conformity with *shari'ah* such as the Islamic pawnbroking in Malaysia, as there is a wide potential demand from the Muslim community towards the product. Considering that Islamic finance is penetrating into the larger segments of the society, it is expected that Islamic pawnshops will follow suit to expand not only their presence but also their operations.

10.4.1.2 Government support for development of Islamic pawnbroking

The Malaysian government has taken a massive effort in developing the Islamic financing system and infrastructure since the establishment of the Pilgrims Fund Corporation in 1963, the first Islamic savings and investment institution to facilitate savings for pilgrimage to Makkah. In order to ensure that Islamic financing will be able to meet the needs of all segments of society, the government launched the first phase of the *ar-rahn* scheme under Bank Kerjasama Rakyat Malaysia in 1993. Currently, there are 329 Islamic pawnshops operating in Malaysia from a total of 588 pawnshops. The Government's adamant strategy in expanding Islamic banking and finance and its articulations in different areas of financial life, makes it also possible for Islamic pawnshops to expand.

10.4.2 Weaknesses

10.4.2.1 No specific regulation for Islamic pawnbroking and no standardization in the existing Islamic Pawnbrokers Manual Guideline

To date, there is no solid act or guideline imposed upon Islamic pawnbrokers other than the Pawnbrokers Act 1972. Each of these institutions establishes their own *ar-rahn*

⁷⁴ Retrieved 14th August 2010 from:
http://www.epu.gov.my/html/themes/epu/images/common/pdf/eco_stat/pdf/1.2.5.pdf.

manual guidelines as a reference to Islamic pawnbroking operations. Despite the different manual guideline imposed by each institution, the contract is more or less the same; they may differ in terms of the loan margin and safekeeping fee.

10.4.2.2 Lack of diversification in terms of collateral

According to the survey, the most important reasons for the customers patronising conventional pawnshops are the acceptance of various types of collateral from everyday life. This is one of the main challenges for the Islamic pawnbroking because at present, they only accept gold (jewelleries or bar) and diamond as collateral due to the ease at liquidating gold through an auction in case of loan default. In contrast, conventional pawnbrokers are more lenient in terms of pledged items such as branded watches, vehicle grants, electrical appliances, *etc.*

10.4.2.3 Lack of awareness about the existence of Islamic pawnshop

Based on the interviews, conventional pawnbroking is still preferable due to the lack of awareness and knowledge about the existence of alternative sources of pawning which are in line with *shari'ah* principles. In addition, although the total amount of Islamic pawnshops available is gradually increasing as opposed to the conventional pawnshops, people still go to the conventional pawnshops.

10.4.2.4 Lack of branches in rural areas

On the demand side, it seems that people from rural areas still use conventional pawnshops to obtain loans due to not having Islamic pawnshops in the periphery.

10.4.2.5 Lack of monitoring from the local authority

Although the government established the Pawnbrokers Act 1972 to regulate the pawnbroking business, some of the customers still are not satisfied with the pawnbroker's services in terms of valuing their collateral and other malpractices that is being discussed in Chapter 8. The local authority is only interested in regulating the institution but not the activities.

10.4.3 Opportunities

10.4.3.1 Being alternative credit provider to the low-income and high-risk group

As for those being excluded from the mainstream financial institutions because of lack of creditworthiness, they can be taken care of by introducing this scheme. It is here where the actual market potential of Islamic pawnbroking lies. Moreover, the survey conducted by this study on the customers revealed that there were different patterns in terms of the customers that deal with pawnshop. Traditionally, pawnshop lending is patronised by the low-income groups rather than the middle-income groups. The survey reveals that the middle-income and upper income customers now obtain loans from pawnshops, especially during the economic downturn where mainstream financial institutions are very stringent and selective in giving loans to high-risk customers to mitigate risks.

10.4.3.2 Expanding the opportunity spaces for demand from the non-Muslim

It is expected that Islamic pawnbroking in Malaysia is able to provide pawning services, not only to the Muslims, but to the non-Muslim customers as well as this study has evidenced there is a better economic deal offered by Islamic pawnshops compared to conventional ones.

10.4.3.3 Economic opportunity with the development of Islamic pawnbroking

With the concept of Islamic pawnbroking focusing more on productive purposes rather than consumption purposes, it will generate not only the borrowers' income but also contribute positively towards Malaysian economic growth as well. For example in Kelantan, Islamic pawnbroking is the most popular credit provider to the society, especially among the Muslim women's traders. Most of them do not resort to banks to finance their businesses due to lack of creditworthiness. By obtaining financing from Islamic pawnbrokers, they can use it as an initial capital or to expand their business with innovative changes which finally will improve their own economic position and increase women empowerment.

The opening of Islamic pawnbroking by banks can definitely be one of the routes to expand this scheme. Currently, Bank Kerjasama Rakyat Malaysia creates opportunities to any cooperatives intending to open Islamic pawnshops. The bank fulfils their dreams by providing capital to the cooperatives under the principles of *mudharabah* or trust financing.

Unlike the banking sector, the study also reveals that Islamic pawnbroking is sustainable and is growing in area, as it is experiencing an increase in the number of loans and gain profit regardless of the current global economic crisis. Basically, during the economic crisis, banks will squeeze out high-risk customers in order to mitigate risk. Hence, pawnbroking will be the next saviour for them to fulfil their money shortage.

10.4.4 Threats

10.4.4.1 Competition from other informal financing

According to the findings, one of the biggest challenges to the Islamic pawnbroking business is competition by other small-credit providers including Islamic pawnbroking providers themselves, the conventional pawnbrokers, cooperatives (franchise), moneylenders and middlemen (person who buy gold). Customers still patronise conventional pawnshops due to the acceptance of various collateral, the speed in loan approval, knowledgeable and competent staff, location near to office/home, and the loyalty factor.

Apart from conventional pawnbroking, illegal moneylenders or *ah-long* activity has become another challenge to Islamic pawnbroking. The moneylender activity is carried out as an illegal activity widely in Malaysia. This type of moneylenders provides ready cash advances to small income individuals and also for small scale businessmen with very high interest (as high as 20% per month) and other unfair charges like agreement fees and stamp duty charges. The only attraction of such activity is that the borrower need not pledge any collateral but to sign some documents. The challenge for Islamic pawnbroking specifically is that even people with gold jewellery opt to borrow from

moneylenders although they have to pay an exorbitant interest with the possibility of getting harmful threats or even murder if they unable to pay the debt.

10.4.4.2 Strict license granting due to political position

As the analysis of the interviews indicated, due to political reasons, Islamic pawnbroking faces a problem in obtaining license from the local authority.

10.5 RECOMMENDATIONS

Based on the analysis so far and the SWOT analysis in this chapter, the following recommendations can be offered:

- (i) Based on the interviewees with the Islamic pawnbrokers, it seems that they are facing a problem of getting license from the local authority, which creates an obstacle in front of the expansion of the Islamic pawnbroking. Therefore the government should be able to cater all the demands from Malaysian Muslims. With the existence of Islamic-based pawnshops, government strategies can help will divert the customers away from using interest-based product.

On the other hand, the local authorities can come out with a policy of opening the windows of Islamic pawnshops in existing conventional pawnshops in order to capture loyal conventional pawnshops' customers to deal with Islamic pawnbroking transaction.

Support from the government and state governments and Islamic institutions are also vital, especially at the growth stage of these pawnshops. They should come out with short-term and long-term plans for the Islamic pawnbroking scheme in order to improve the well-being of the Muslim community in Malaysia.

- (ii) The government should initiate some amendments to the Pawnbrokers Act 1972 to make the regulations applicable to both types of pawnshops. In order to support the growth of the Islamic pawnbroking, the government should be more encouraging in terms of license granting to the institutions that are interested in offering the scheme. Although recent amendments in the Pawnbrokers Act 1972

(See Pawnbrokers Act 1972, List of Section Amended, p. 54-56) relating to license granting to procedures in pawning and the pawnbroker's responsibility seem to enhance the protection for the consumers and the proper guideline to the pawnbrokers, it seems that there is no specific legislation for Islamic pawnshops. In addition, all the amendments will be ineffective if there is lack of enforcement by the relevant authorities and cooperation from the public. The relevant authorities should come out with a proposal for a standard regulation for Islamic pawnshops in order for them to provide better services and simultaneously provide better protection to the customers. The local authorities should also go on-site or establish formal auditing to ensure that all the pawnbrokers follow the rules stated in the act and to ensure the protection of the rights of both parties.

As for Islamic pawnbroking institutions, they should take the initiative to expand their branches in rural areas and also over populated areas so that the community can have access to Islamic pawnbroking schemes which are interest-free rather than conventional pawnshops which are definitely based on interest. Islamic pawnbrokers must take aggressive measures to create awareness among prospective customers and to change the negative stigma attached to pawnbroking in the society. With these potential customers, it means that there is a huge market which can be tapped by Islamic pawnbroking.

- (iii) Based on the findings from the customers' point of view, the factors that influenced them most in terms of pawnshop selection were the underlying principles of the product, which are an interest-free base and also the lower fee charge. This indicates that the customers opted for the Islamic pawnbroking genuinely due to the *shari'ah* concerns (religious factor) and also the fee that they have to pay to obtain loan (economic incentive).

Although the fee rate is quite high as compared to the profit rate charged by banks (See table 5.8 in Chapter 5), the pawnshops can still be an alternative financing to those with low-income and high risk who will still benefit from the

pawnshops' lending, especially from Islamic pawnbroking. Therefore, Islamic pawnbrokers must ensure that they are genuinely in compliance with the Islamic law and charge a very reasonable fee in order to avoid any misconceptions of the product.

The Islamic pawnbrokers should consider waiving the fee charge or, in other words, *al-qardhul hasan* (that is currently being practice by only one Islamic pawnbroker such as MGIT) under certain income levels to attract more customers and at the same time help the needy, which is parallel to the Islamic teaching. The fee charge should be more competitive in order for them to be sustainable in this business and at the same time charge a reasonable rate in order to protect customers from feeling oppressed. By introducing Islamic pawnbroking, it is hoped that the borrowing trend from loan sharks can gradually be reduced or eliminated in the long-term along with the potential reductions in conventional pawnbroking.

The survey also shows that Islamic pawnbroking is making significant inroads within the non-Muslim part of the society. The providers of Islamic pawnbroking should increase their promotional activities towards the *ar-rahn* product, although it's quite impossible due to their loyalty to traditional pawnbroking.

- (iv) In order to compete and be able to replace conventional pawnbroking and other informal financing, Islamic pawnbroking needs to improve the services not only in terms of diversifying their collateral acceptance, such as accepting vehicle grants or trust funds; but also improving the speed in loan approval with less documentation such as scanning the customers' MyCard to get the customers' personal detail; sending their staffs for training in order to enhance their knowledge and competency in valuing collateral; opening more branches that are easy for the customers to access, especially in the rural area, and thus attract loyal conventional pawnbroking customers, especially the Muslims, to deal with Islamic pawnshops which are free from *riba*, *gharar*, and promote social justice

to the borrower. Apart from that, the Islamic pawnbrokers should give discounts to those customers who do early repayment in order to encourage the customers to deal with them. Up to now, there is no discount promotion given to customers from all Islamic pawnbroking providers. Governments, on the other hand, should design and enforce regulations that will allow Islamic pawnshops to remain profitable without exploiting the customers who depend on them.

In terms of license granting, governments should intervene in granting license processes to ensure a transparent process is taken in dealing with it.

10.6 LIMITATIONS AND FUTURE RESEARCH

As part of applied social science related research, similar to any other study, hence, this research has also suffered from some limitations in terms of resources and time frame of the study. As was mentioned in Chapter 3, the literature on pawnshops, especially Islamic pawnbroking, is very limited, which has affected the study as was stressed by Caskey (1991) as “The Forgotten Market”. In addition, there is no formal statistical data on pawnshops available at the Central Bank or other institutions except for a list of pawnshops operating in Malaysia, including two Islamic pawnbrokers which are obliged by the Pawnbrokers Act 1972 which can be downloaded at the Ministry of Housing and Local Government website.

In terms of collecting data and responses from three main players such as the customers, pawnbrokers, and the Islamic pawnbrokers, the researcher faced a limitation of time and lack of cooperation from the respondents. Presumably, they did not want to give full cooperation to the researcher due to the potential reasons: (i) majority of the customers came from a lower and middle income people with a less-educated background and they felt embarrassed being seen pawning their belongings as if they were too desperate of money; (ii) most conventional pawnbrokers were Chinese, thus they felt that filling the questionnaire would only waste their time and may chase away their customers from dealing with them, plus some of the Chinese old folks were not articulate either in Malay or English; and (iii) the Islamic pawnbrokers from the branches were not willing to fill in the questionnaires because they claimed that the headquarters had already filled it.

Nevertheless, although these limitations had a significant effect on the research, the researcher remained adamant to ensure all the objectives of the study mentioned in Chapter 1 would be answered and the research can, hence, contribute to the body of knowledge.

In addition, it is hoped that the findings would also be very useful to the pawnbrokers and also the policy makers in order to improve the image of pawnshops, the regulatory environment related to pawnshops, the potential of pawnshops as a credit provider to all strata of the society in Malaysia, and their potential in microbalancing the total economy.

Below, the researcher listed six possible ways in which research could be extended in the future:

- (i) A comparative analysis between Islamic pawnbroking and other informal finance as a credit provider for the low-income groups;
- (ii) A comparative analysis between lending from Islamic pawnbroking and the personal loans offered by banks;
- (iii) Expanding the sample base of customers and pawnbrokers from each state in Malaysia (Peninsular and East Malaysia) in order to gain a comprehensive understanding of the pawnshops' roles and their contribution to the total economy;
- (iv) Conducting a comparative study on the operation and performance of Islamic pawnbroking between Malaysia and other Asian countries such as Indonesia, Brunei, and Thailand;
- (v) Exploring and analysing the potential of Islamic pawnbroking loans as capital accumulation or investment to the borrower; and
- (vi) The research can also be expanded into the role of Islamic pawnbroking on empowering women through measuring their involvement in Islamic pawnbroking and also the impact this has had on their lives.

10.7 EPILOGUE

It is important to recognise the invaluable contribution of the pawnshop industry to Malaysia socially, economically, and historically. Having existing over thousands of years, pawnbrokers are actually improving their image by demonstrating the benefits of offering credit access to low-income groups and presumably the middle and higher-income groups with high risk given their current economic condition where mainstream financial institutions are stringent in their loan approval. With all the advantages and a new reform of the pawnbroking industry shown by the Islamic pawnbroking that is pioneered by Malaysia, it will help to build up the reputation and the image of this business which was previously associated in the public mind with poverty and crime.

Finally, it is hoped that with this study can contribute to a better understanding of pawnbroking, which can duly be appreciated due to its positive roles as a complement to mainstream financial institutions.

This study fulfilled the aim and objectives set in the first chapter, as evidenced through the literature survey and empirical analysis conducted in the relevant chapters.

APPENDIX 6A

CUSTOMERS' SURVEY



School of Government & International Affairs
Durham University, Durham
DH1 3TU, United Kingdom
Email : azila.abdul-razak@durham.ac.uk

**A SURVEY OF
MICROCREDIT THROUGH ISLAMIC PAWNSHOPS IN
MALAYSIA AND ITS SOCIO-ECONOMIC IMPACT
(CUSTOMER)**

General Instructions and Information

1. All individual responses to this questionnaire will be treated as **CONFIDENTIAL**.
4. For most questions, tick the box(es) most applicable to you as for some, you would need to rank according to your preferences.
5. Please tick (√) in an appropriate box. Your answers are very important to the accuracy.

For Office Use Only:

Date of interview : Respondent number :

--	--	--	--

Time of interview : Region :

SECTION 1 : PERSONAL INFORMATION

(Please tick (✓) in an appropriate box)

1. Gender:

Male Female

2. Age:

Below 20 41 – 50
 20 – 30 Above 50
 31 – 40

3. Race:

Malay Indian
 Chinese Others (*Please specify*):
.....

4. Religion:

Islam Buddhism
 Christianity Others (*Please specify*):
 Hinduism

5. Please state your educational level:

No formal education Certificate/ Diploma
 Primary school Bachelor/ Postgraduate
 Secondary school

6. Marital status:

Single (*Proceed to Question 9*)
 Married (*Proceed to Question 7*)
 Widow/Widower (*Proceed to Question 7*)

7. Not counting yourself, what is your total number of dependents?

None (*Proceed to Question 9*)
 1 – 2 (*Proceed to Question 8*)
 3 – 5 (*Proceed to Question 8*)
 6 – 8 (*Proceed to Question 8*)
 More than 8 (*Proceed to Question 8*)

8. Out of your dependents, how many is in full-time education?

- | | | | |
|--------------------------|------|--------------------------|-------------|
| <input type="checkbox"/> | None | <input type="checkbox"/> | 4 |
| <input type="checkbox"/> | 1 | <input type="checkbox"/> | 5 |
| <input type="checkbox"/> | 2 | <input type="checkbox"/> | More than 5 |
| <input type="checkbox"/> | 3 | | |

SECTION 2 : HOUSEHOLD INCOME AND EXPENSES

(Please tick (✓) in an appropriate box)

9. What statement describes your work status?

- | | | | |
|--------------------------|-------------------------|--------------------------|----------------------------------|
| <input type="checkbox"/> | Government servant | <input type="checkbox"/> | Farmer or fisherman |
| <input type="checkbox"/> | Private sector employee | <input type="checkbox"/> | Student |
| <input type="checkbox"/> | Businessman | <input type="checkbox"/> | Housewife |
| <input type="checkbox"/> | Small business | <input type="checkbox"/> | Retired |
| <input type="checkbox"/> | Shopkeeper | <input type="checkbox"/> | Unemployed/ Searching for job |
| <input type="checkbox"/> | Petty trader/ hawker | <input type="checkbox"/> | Driver |
| <input type="checkbox"/> | Labour | <input type="checkbox"/> | Other (please specify):
..... |

10. What statement describes your spouse's work status? (if applicable)

- | | | | |
|--------------------------|-------------------------|--------------------------|----------------------------------|
| <input type="checkbox"/> | Government servant | <input type="checkbox"/> | Farmer or fisherman |
| <input type="checkbox"/> | Private sector employee | <input type="checkbox"/> | Student |
| <input type="checkbox"/> | Businessman | <input type="checkbox"/> | Housewife |
| <input type="checkbox"/> | Small business | <input type="checkbox"/> | Retired |
| <input type="checkbox"/> | Shopkeeper | <input type="checkbox"/> | Unemployed/ Searching for job |
| <input type="checkbox"/> | Petty trader/ hawker | <input type="checkbox"/> | Driver |
| <input type="checkbox"/> | Labour | <input type="checkbox"/> | Other (please specify):
..... |

11. Do you have any other sources of income? **Rank** the following consideration as one (1) being the most important, and four (4) being the least important:

- None
- Rental (e.g. house rental/ land pawning)
- Wage (e.g. part-time job)
- Profit/ Interest (e.g. direct selling/ investment)
- Beneficiary (e.g. *zakat* provision/ the Hard Core Poor Development Programme/ the Department of Social Welfare Malaysia/ scholarship)
- Pension
- Monthly allowance
- Other (please specify):
.....

12. What is your approximate total monthly household income?
- | | | | |
|--------------------------|-----------------|--------------------------|--------------------|
| <input type="checkbox"/> | RM0 – RM500 | <input type="checkbox"/> | RM1,001 – RM2,000 |
| <input type="checkbox"/> | RM501 – RM1,000 | <input type="checkbox"/> | Above than RM2,000 |
13. What is your approximate total monthly household expenditure?
- | | | | |
|--------------------------|------------------|--------------------------|------------------|
| <input type="checkbox"/> | Below than RM100 | <input type="checkbox"/> | RM301 – RM400 |
| <input type="checkbox"/> | RM101 – RM200 | <input type="checkbox"/> | RM401 – RM500 |
| <input type="checkbox"/> | RM201 – RM300 | <input type="checkbox"/> | Above than RM500 |
14. Is your total monthly household income sufficient for your living expenses?
- Yes (*Proceed to Question 16*)
- No (*Proceed to Question 15*)
15. Why do you think your total monthly household income is insufficient?
(Please tick as appropriate)
- I have no job
- Being dismissed from employment
- Children begin their schooling/ starts academic term in college or university
- Family member is sick
- Spouse has no job
- Increase in family member
- Cost of living is very high
- Tied with big amount of debt
- Newly wed
- Business performance fall
- Unstable income
- Others (*Please specify*):
.....

SECTION 3 : MOTIVATION

16. Do you have any account in bank?
- Yes (*Proceed to Question 18*)
- No (*Proceed to Question 17*)

17. Reason as to why you do not have bank account:
(Please tick as appropriate)

- Rejected by the bank
- Does not have any saving
- Does not believe with the bank services
- Limited access to financial service in my area
- Unstable income and employment pattern
- The existence of informal financial institution which provide more convenient financial services
- Others (Please specify):
.....

18. If you need instant cash for today, where would you consider going? **Rank** the following consideration as one (1) being the most preferable, and seven (7) being the least preferable:

- Bank
- Cooperative company
- Pawnshop
- Moneylender (e.g. 'ah-long' or 'chettiar')
- Get a cash advance from a credit card
- Relatives
- Friends
- Others (please specify):
.....

19. Why do you choose pawnshop to get instant cash? **Rank** the following reason as one (1) being the most important, and eight (8) being the least important:

- The probability of getting the loan is high
- No credit check
- Short time to get cash
- Cost of the loan is low
- Little paper work
- Convenient hours
- Privacy during process
- Possibility of redemption/getting back the item
- Others (please specify):
.....

24. Are you aware of the existence of other alternative pawnshop beside this one?
- Yes No

SECTION 5 : PURPOSE OF PAWNING

(Please tick (√) in an appropriate box)

25. What is your purpose of going to this pawnshop today?
(Please tick as appropriate)

- Pawning
- Redeeming
- To extend redemption period
- Safekeeping

26. Thinking of your pawn today, why did you need the money?
(Please tick as appropriate)

- | | |
|-----------------------------------------------------------|--------------------------------------------------------------------|
| <input type="checkbox"/> Medical expenses | <input type="checkbox"/> Gift for other(s) |
| <input type="checkbox"/> Utility bills | <input type="checkbox"/> Buying property (e.g. house, etc) |
| <input type="checkbox"/> Household expenses | <input type="checkbox"/> Education expenses |
| <input type="checkbox"/> Repayment for other loan | <input type="checkbox"/> Start-up business |
| <input type="checkbox"/> Car expenses (personal) | <input type="checkbox"/> Extend business |
| <input type="checkbox"/> Festival celebration expenses | <input type="checkbox"/> Car expenses (business) |
| <input type="checkbox"/> Refinancing household appliances | <input type="checkbox"/> Others <i>(please specify)</i> :
..... |
| <input type="checkbox"/> Treat for yourself | |

SECTION 6 : TYPE OF ITEM PLEDGE

(Please tick (√) in an appropriate box)

27. What type of item that you used as collateral?

- Jewellery (Gold)
- Jewellery (Silver)
- Grant (e.g. letter of undertaking)
- Electrical appliances
- Branded watch
- Others *(please specify)*:

28. Who is the real owner of the collateral?

- | | |
|-----------------------------------|--------------------------------------------------------------------|
| <input type="checkbox"/> Myself | <input type="checkbox"/> Relatives |
| <input type="checkbox"/> Spouse | <input type="checkbox"/> Others <i>(please specify)</i> :
..... |
| <input type="checkbox"/> Children | |

SECTION 7 : PROCESS OF LENDING

(Please tick (✓) in an appropriate box)

29. What are the documents that you have to provide during the pawning transaction?

- | | | | |
|--------------------------|---------------------|--------------------------|--------------------------------------------|
| <input type="checkbox"/> | Collateral | <input type="checkbox"/> | Receipt purchase of item |
| <input type="checkbox"/> | Identification card | <input type="checkbox"/> | Others (<i>please specify</i>):
..... |

30. How long did the whole process take?

- | | | | |
|--------------------------|----------------------|--------------------------|----------------------|
| <input type="checkbox"/> | Less than 10 minutes | <input type="checkbox"/> | 21 – 30 minutes |
| <input type="checkbox"/> | 10 – 20 minutes | <input type="checkbox"/> | More than 30 minutes |

31. Was the staff who dealt with your pawning transaction knowledgeable and competent in measuring the value of your collateral?

- | | |
|--------------------------|------------------------------------------------------------|
| <input type="checkbox"/> | Very knowledgeable and competent. |
| <input type="checkbox"/> | Lack of knowledge and competence. |
| <input type="checkbox"/> | I did not care about the staff's knowledge and competency. |

32. What is the amount of loan that you received from the pawnshop today?

- | | |
|--------------------------|--------------------------------------------------|
| <input type="checkbox"/> | Maximum loan that is approved by the pawnbroker. |
| <input type="checkbox"/> | Limited to the amount that is needed. |

33. Do you know the interest rate/ fee that you are paying?

- | | |
|--------------------------|------------------------------------------------------|
| <input type="checkbox"/> | No charge |
| <input type="checkbox"/> | Safekeeping fee based on the value of the collateral |
| <input type="checkbox"/> | Interest rate of 2% |
| <input type="checkbox"/> | Interest rate of more than 2% |
| <input type="checkbox"/> | I do not care |

SECTION 8 : PROCESS OF REDEMPTION AND EXTENSION

(Please tick (✓) in an appropriate box)

34. Period of redemption offered by the pawnbroker:

(Please tick as appropriate)

- | | |
|--------------------------|---------------------|
| <input type="checkbox"/> | 1 – 6 months |
| <input type="checkbox"/> | 7 – 12 months |
| <input type="checkbox"/> | More than 12 months |

35. Are you aware of the possible outcome if there is no repayment within the 6 months period from the date of pawning, or of such longer period as may have been agreed between a pawnbroker and the pawner?

(Please tick as appropriate)

- The pawnbroker will endorse a notice to the pawner.
- The pawnbroker will allow you to make an extension/ renew contract.
- If the collateral value is below RM200, it will become the property of the pawnbroker.
- If the collateral value is more than RM200, the pawnbroker can dispose of it by auction.

36. How long is the extension period offered by the pawnbroker?

- Less than 3 months
- More than 3 months
- Others *(please specify)*:
.....

37. Have you ever failed to redeem your collateral in the last 12 months?

- Yes *(Proceed to Question 38)*
- No *(Proceed to Question 40)*

38. How many times did you lose (forfeit)?

- Once
- Two times
- Three times
- More than three

39. What might be the reasons for this?

(Please tick as appropriate)

- Not enough cash to redeem
- Being dismissed from employment
- Spouse being dismissed from employment
- Children begin their schooling
- Family member is sick
- Increase in family member
- Money used for festival celebration (e.g. Eid Fitri, Chinese New Year, Deepavali or Christmas)
- Pay other debts
- Business performance fall
- Others *(Please specify)*:
.....

40. If you managed to redeem your collateral back, you managed through
(Please tick as appropriate)

- using the money productively.
- salary/ bonus.
- receiving unexpected money.
- borrowing from formal financial institutions (e.g. banks).
- borrowing from informal financial institutions (e.g. moneylender).
- borrowing from the family members/ friends.
- monthly allowance.
- saving.
- Others (please specify):

SECTION 9 : PROCESS OF AUCTION

(Please tick (✓) in an appropriate box)

41. Have you ever received any notice from the pawnbroker about your unclaimed item that will be auctioned?

- Yes (Proceed to Question 42)
- No (Proceed to Question 46)

42. Did you redeem your collateral after receiving the notice?

- Yes (Proceed to Question 46)
- No (Proceed to Question 43)

43. If your collateral being auction by the pawnbroker, did you receive any surplus of the sale of the item?

- Yes (Proceed to Question 44 and 46)
- No (Proceed to Question 45)

44. What is the value of the surplus? It is equal to

- the present market value of the item minus the outstanding balance of your loan and accumulated fee/ interest charge.
- depends on the pawnbrokers judgement.
- I do not know about the calculation.

45. What is the reason that you did not receive any surplus from the auction?

- The value of the collateral is below RM200.
- I did not know that I can claim the surplus.
- I do not care about the surplus.

SECTION 10 : PROCESS OF COMPENSATION

(Please tick (✓) in an appropriate box)

46. Have you ever experienced your collateral lost in the pawnshop?
- Yes (Proceed to Question 47)
 No (Proceed to Question 49)
47. Did you get any compensation from the pawnbroker?
- Yes (Proceed to Question 48)
 No (Proceed to Question 49)
48. What is the value of the compensation? It is equal to
- 25% more than the amount of loan.
 the value of the item minus the amount of loan given and accumulated fee/ interest charge before the collateral lost.
 depends on the pawnbroker's judgement.

SECTION 11 : PROCESS OF COMPLAINT

(Please tick (✓) in an appropriate box)

49. Have you experienced any problems when dealing with the pawnbroker?
- Yes (Proceed to Question 50)
 No (Proceed to Question 55)
50. What is the nature of the problem?
(Please tick as appropriate)
- Decreasing value of collateral after redeemed.
 Low collateral value.
 Higher interest/fee charge.
 Pawnbroker charge for replacement of pawn ticket.
 Inappropriate use of term on pawn ticket.
 Pawnbroker auctioned the collateral worth more than RM200 without informing the pawner.
 Pawnbroker do not returned any surplus from the auction.
 Pawner do not received any notice from the pawnbroker regarding the expiration period of the loan and the auctioning of the collateral.
 Collateral lost/ stolen in the hand of the pawnbroker.
 Others (please specify):
.....

51. Did you make any complaint regarding the problem?

- Yes (Proceed to Question 52)
 No (Proceed to Question 55)

52. To whom did you refer your complaint?

- The pawnbroker itself
 Police officer
 Ministry of Domestic Trade and Consumer Affairs
 Ministry of Entrepreneur and Co-operative Development
 Federation of Malaysian Consumers Associations (FOMCA)
 Malaysia Co-operative Societies Commission
 States Government
 Others (please specify):

53. Did they take any action regarding your complaint?

- Yes (Proceed to Question 54)
 No (Proceed to Question 55)

54. Was the outcome in favour of you?

- Yes No

SECTION 12 : PRODUCT SATISFACTION

(Please tick (✓) in an appropriate box)

55. As a conclusion, please state the level of satisfaction from the services you received from going to this pawnshop according to the following process.

Process	Absolutely not satisfied	Not Satisfied	Do not know	Satisfied	Very satisfied
▪ Lending	<input type="checkbox"/>				
▪ Redeeming	<input type="checkbox"/>				
▪ Extend redemption period/Renew contract	<input type="checkbox"/>				
▪ Auctioning	<input type="checkbox"/>				
▪ Compensating (if applicable)	<input type="checkbox"/>				
▪ Complaining (if applicable)	<input type="checkbox"/>				

SECTION 13 : IMPACT AND OPINION

(Please tick (✓) in an appropriate box)

56. Did the initial money you borrowed from pawnshop fulfill its objective?

- Yes (Proceed to Question 58)
 No (Proceed to Question 57)

57. In what ways?

(Please tick as appropriate)

- | | |
|-----------------------------------------------------------|------------------------------------------------------------|
| <input type="checkbox"/> Medical expenses | <input type="checkbox"/> Gift for other(s) |
| <input type="checkbox"/> Utility bills | <input type="checkbox"/> Buying property (e.g. house, etc) |
| <input type="checkbox"/> Household expenses | <input type="checkbox"/> Education expenses |
| <input type="checkbox"/> Repayment for other loan | <input type="checkbox"/> Start-up business |
| <input type="checkbox"/> Car expenses (personal) | <input type="checkbox"/> Extend business |
| <input type="checkbox"/> Festival celebration expenses | <input type="checkbox"/> Car expenses (business) |
| <input type="checkbox"/> Refinancing household appliances | <input type="checkbox"/> Others (please specify):
..... |
| <input type="checkbox"/> Treat for yourself | |

58. Do you think pawnbroking helped you in a positive manner?

- Yes (Proceed to Question 59)
 No (Proceed to Question 60)

59. In what ways?

(Please tick as appropriate)

- Enabled to finance my economic activity (e.g. start-up or expand business).
 Helped to overcome my money shortage for consumption purpose.
 Helped to finance the consumption purpose.
 Helped to finance education expenses.
 Improved my standard of living.
 Improved my business performance.
 Helped to survive during recession.
 As a safekeeping.
 Others (please specify):
.....

60. Would you please state your opinion on the following statements related to pawnshops?

Statement	Strongly disagree	Disagree	Do not know	Agree	Strongly agree
▪ Helps to solve financial exclusion.	<input type="checkbox"/>				
▪ Helps to solve social problem such as poverty or crime.	<input type="checkbox"/>				
▪ It is an alternative to the formal financial institution (e.g. banks).	<input type="checkbox"/>				
▪ Conforms to my faith of abstaining from <i>riba</i> .	<input type="checkbox"/>				
▪ When it is used for consumption and no redemption, it sustains financial difficulty.	<input type="checkbox"/>				

61. In overall, do you think you are financially better off pawning your belongings?

- Yes
 No

Thank you for taking the time to complete this questionnaire. Your assistance in providing this information is very much appreciated.

APPENDIX 6B

PAWNBROKERS' SURVEY

SECTION 1 : BUSINESS INFORMATION

(Please tick (✓) in an appropriate box)

1. Years of establishment:

- | | | | |
|--------------------------|--------------------|--------------------------|--------------------|
| <input type="checkbox"/> | Less than 10 years | <input type="checkbox"/> | 21 – 30 years |
| <input type="checkbox"/> | 11 – 20 years | <input type="checkbox"/> | More than 30 years |

2. Type of ownership:

- | | | | |
|--------------------------|---------------------|--------------------------|-----------------------------------|
| <input type="checkbox"/> | Sole proprietorship | <input type="checkbox"/> | Cooperative |
| <input type="checkbox"/> | Partnership | <input type="checkbox"/> | Branch |
| <input type="checkbox"/> | Corporation | <input type="checkbox"/> | Others (please specify):
..... |

3. Source of capital:

(Please tick as appropriate)

- Own capital
- Loan from banks
- Borrowed from family/relatives and friends
- Subsidized by the state government
- Parent company
- Cooperative members' share
- Others (please specify):
.....

4. Number of staffs employed:

- | | | | |
|--------------------------|-------------|--------------------------|-------------|
| <input type="checkbox"/> | Less than 2 | <input type="checkbox"/> | 4 – 5 |
| <input type="checkbox"/> | 2 – 3 | <input type="checkbox"/> | More than 5 |

SECTION 2 : PROCESS OF LENDING

(Please tick (✓) in an appropriate box)

5. Individual that can make loan:

- Owner of the collateral.
- Any person regardless the real owner of the collateral.
- Others (please specify):
.....

6. Acceptance of collateral:
(Please tick as appropriate)
- | | | | |
|--------------------------|-----------------------|--------------------------|------------------------------------|
| <input type="checkbox"/> | Jewellery (Gold) | <input type="checkbox"/> | Grant (e.g. letter of undertaking) |
| <input type="checkbox"/> | Jewellery (Silver) | <input type="checkbox"/> | Branded watch |
| <input type="checkbox"/> | Diamond | <input type="checkbox"/> | Others (please specify): |
| <input type="checkbox"/> | Electrical appliances | | |
7. Fee/interest charge:
- | | | |
|--------------------------|-------------------------------|-------------------------|
| <input type="checkbox"/> | No charge | (Proceed to Question 9) |
| <input type="checkbox"/> | Safekeeping fee | (Proceed to Question 8) |
| <input type="checkbox"/> | Interest rate of 2% | (Proceed to Question 8) |
| <input type="checkbox"/> | Interest rate of more than 2% | (Proceed to Question 8) |
8. If you charge fee/ interest for pawnbroking services, how do you determine the fee/interest?
- | | |
|--------------------------|---------------------------------------|
| <input type="checkbox"/> | Based on the amount of loan. |
| <input type="checkbox"/> | Based on the value of the collateral. |
| <input type="checkbox"/> | Others (please specify): |
| | |
9. Number of customers visiting pawnshop per day:
- | | | | |
|--------------------------|--------------|--------------------------|--------------|
| <input type="checkbox"/> | Less than 10 | <input type="checkbox"/> | 21 – 30 |
| <input type="checkbox"/> | 11 – 20 | <input type="checkbox"/> | More than 30 |
10. Loan offered from the percentage of the collateral:
- | | |
|--------------------------|-------------------------------------------------------|
| <input type="checkbox"/> | Less than 50% |
| <input type="checkbox"/> | 50% - 60% |
| <input type="checkbox"/> | 61% - 70% |
| <input type="checkbox"/> | 71% - 80% |
| <input type="checkbox"/> | Depends on the customers' demand (bargaining process) |
| <input type="checkbox"/> | Others (please specify): |
| | |
11. What are the documents that the customer has to provide during the pawning transaction?
- | | | | |
|--------------------------|---------------------|--------------------------|----------------------------------|
| <input type="checkbox"/> | Collateral | <input type="checkbox"/> | Purchasing receipt of collateral |
| <input type="checkbox"/> | Identification card | <input type="checkbox"/> | Others (please specify): |
| | | | |

12. Who is in charge of measuring the value of the collateral?

- The owner/manager
- Qualified staff
- External valuer
- Others (*please specify*):
.....

13. What method do you use to record customer profile?

- Database in the computer
- Pawnbroker's sale book
- Others (*please specify*):
.....

14. Details on the pawn ticket:

(Please tick as appropriate)

- Pawner's name
- Pawner's address
- Type of collateral
- Date of pawning
- Total of loan
- Purpose of the loan
- Others (*please specify*):
.....

15. The length of the loan approval process:

- Less than 10 minutes
- 10 – 20 minutes
- 21 – 30 minutes
- More than 30 minutes

SECTION 3 : PROCESS OF REDEMPTION

(Please tick (√) in an appropriate box)

16. The person who can redeemed:

(Please tick as appropriate)

- The owner of the collateral
- Any person who have the pawn ticket
- A person who has a letter of representative given by the real owner plus a photocopy of the real owner identification card
- Others (*please specify*):
.....

17. Period of redemption:

(Please tick as appropriate)

- 3 months or less
- 6 months and above
- Others (*Please specify*):

18. Extension period:
- Less than 3 months Others (*please specify*):
 More than 3 months
19. Did you send any notice to the customers about the expiration period of lending?
- Yes
 No
20. Percent of the customers' collateral not redeemed:
- Less than 5% 16% – 20%
 5% – 10% 21% – 25%
 11% – 15% More than 25%

SECTION 4 : PROCESS OF AUCTION

(Please tick (✓) in an appropriate box)

21. What is the action taken towards the collateral that is not redeemed?
- Auctioned the collateral to a registered auctioneer.
 Sells the collateral at my pawnshop.
 Melting the gold.
 Others (*please specify*):
.....
22. Did you send any notice to the customers about the auctioning of the customers belonging?
- Yes
 No
23. If there is a surplus after the unclaimed item being auction, did you return the surplus to the customer?
- Yes (*Proceed to Question 30 and 31*)
 No (*Proceed to Question 31*)
24. What will you do if no claim for the surplus is made within four months?
- I will pay the surplus to the Accountant General within fourteen days after the expiration of that period of four months.
 The surplus will be transferred to *Baitulmal*.
 The surplus will be transferred into the company's account.
 Others (*please specify*):

SECTION 5 : PROCESS OF COMPLAINT

(Please tick (✓) in an appropriate box)

25. Have you received any complaint from the customer?

- Yes (Proceed to Question 26)
 No (Proceed to Question 27)

26. What is the nature of the complaint?

(Please tick as appropriate)

- Decreasing value of collateral after redeemed.
 Low collateral value.
 Higher interest/fee charge.
 Pawnbroker charge for replacement of pawn ticket.
 Inappropriate use of term on pawn ticket.
 Pawnbroker auctioned the collateral worth more than RM200 without informing the pawner.
 Pawnbroker do not returned any surplus from the auction.
 Pawner do not received any notice from the pawnbroker regarding the expiration period of the loan and the auctioning of the collateral.
 Collateral lost/ stolen in the hand of the pawnbroker.
 Others (please specify):
.....

SECTION 6 : PROCESS OF COMPENSATION

(Please tick (✓) in an appropriate box)

27. Have you ever experienced the destroyed or damaged of collateral (because of fire, theft or robbery) held by you?

- Yes (Proceed to Question 28)
 No (Proceed to Question 30)

28. Did you give any compensation to the customer?

- Yes (Proceed to Question 29)
 No (Proceed to Question 30)

29. What is the value of the compensation? It is equal to

- 25% more than the amount of loan.
 the value of the item minus the amount of loan given and accumulated fee/interest charge before the collateral lost.
 depends on the pawnbroker's judgement.

SECTION 7 : REGULATION

(Please tick (✓) in an appropriate box)

30. The Act applicable for the business of pawnbroking:

(Please tick as appropriate)

- Pawnbrokers Act 1972
- Co-operative Societies Act 1993
- Development Finance Institutions Act 2002
- Occupational Safety and Health Act 1994
- Weight and Measurement Act 1972
- Others (please specify):

.....

31. Other regulation:

- Ar-rahnu manual guidelines
- Others (please specify):

32. Are you happy with the current regulative environment?

- Yes (Proceed to Question 34)
- No (Proceed to Question 33)

33. What is the reason?

(Please tick as appropriate)

- Ambiguous regulation
- No specific regulation for Islamic pawnbroking
- Strict regulation
- Strict in license granted
- Others (please specify):

34. Do you follow a formal and independent auditing?

- Yes (Proceed to Question 35)
- No (Proceed to Question 36)

35. Which institutions?

- Internal auditors
- Independent auditors
- Government auditor
- State Government auditor
- Others (please specify):

.....

SECTION 8 : PROBLEMS

(Please tick (✓) in an appropriate box)

36. Common problems faced by the pawnbroker:

(Please tick as appropriate)

- Loan default
- Customer pawn stolen goods
- Customer pawn non-authentic goods
- Difficulty in establishing the value of the item
- Collateral being destroyed or damaged (e.g. in consequence of fire, theft or robbery)
- Competition from other pawnshops or other financial institutions
- Others (please specify):
.....

37. The action to be taken out regarding customer misleading:

(Please tick as appropriate)

- Report to the police
- Stringent in loan approval
- Blacklist the customer
- Others (please specify):
.....

38. The action to be taken out regarding the accuracy of measurement:

(Please tick as appropriate)

- Send staffs for formal training (e.g. measuring skills, identify the authenticity of the collateral etc.)
- Employ an external valuer
- Use the measuring instrument verified by Inspector (according to the Weight and Measurement Act 1972)
- Others (please specify):
.....

39. Competition from other financial institutions:

(Please tick as appropriate)

- Ar-rahn pawnshops
- Conventional pawnshops
- Banks
- Co-operatives
- Microcredit institution (e.g. TEKUN and AIM)
- Moneylender
- Others (please specify):

40. In your opinion, how much do the following factors influence the customers' to deal with your pawnshop? **Rank** the following reason as one (1) being the most important, and fourteen (13) being the least important:

- Underlying principle impose on the lending (e.g. granting interest-free loan).
- Speed in loan approval (e.g. little of paperwork and no credit check).
- Lower interest rate/ fee rate.
- Acceptance of various collateral.
- Location being near home or workplace.
- Confidentiality (e.g. pawnier information and private room for dealing).
- Convenient (e.g. available parking space, interior comfort).
- Knowledgeable and competence staff.
- Possibility of redemption/getting back the item.
- The security of the collateral guaranteed.
- The process is more transparency (e.g. valuing the collateral, auctioning).
- Image of the pawnshop.
- Loyalty.
- Others (*please specify*):
.....

SECTION 9 : IMPACT AND OPINION

(Please tick (√) in an appropriate box)

41. In the last 12 months, how frequent do the customers involve in the following process?

Process	Always	Very often	Sometimes	Rarely	Never
▪ Lending	<input type="checkbox"/>				
▪ Redeeming	<input type="checkbox"/>				
▪ Extend redemption period	<input type="checkbox"/>				
▪ Auctioning	<input type="checkbox"/>				
▪ Compensation	<input type="checkbox"/>				
▪ Complaint	<input type="checkbox"/>				

42. Is there any impact on the pawnbroking business if there is an economic downturn?

- Yes (*Proceed to Question 43*)
- No (*Proceed to Question 44*)

43. In what ways?

Statement	Strongly disagree	Disagree	Do not know	Agree	Strongly agree
▪ Increased number of loan.	<input type="checkbox"/>				
▪ Increased repayment rate.	<input type="checkbox"/>				
▪ Increased profit.	<input type="checkbox"/>				
▪ Alternative to bank.	<input type="checkbox"/>				
▪ Improved their image.	<input type="checkbox"/>				
▪ Microbalancing the total economy.	<input type="checkbox"/>				

44. In the last 12 months of operation, have you made any profit?

- Yes (*Proceed to Question 45*)
 No (*Proceed to Question 46*)

45. How did you manage to make a profit?

(Please tick as appropriate)

- Increased the number of loan.
 Economic downturn caused the bank very selective of giving loans, and consequently the customer will prefer to get loan from pawnshop.
 Offered a very competitive pricing.
 Increased in the price of the collateral (e.g. gold price).
 Increased in the customers' repayment rate.
 The acceptance of various types of collateral.
 A wide promotion.
 Others (*please specify*):

46. What is the reason of not making profit?

(Please tick as appropriate)

- Increased in loan defaults.
 Impact from the economic downturn.
 Competition from other pawnbrokers.
 Competition from other informal institutions.
 Decreasing on the market price of the collateral (e.g. gold, other valuable item).
 The pawnshop objectives more towards the social impact rather than profit making.
 Limited types of collateral acceptance.
 Lack of promotion.
 Others (*please specify*):

47. Would you please state your opinion on the following statements as to the nature of pawnbrokers?

Statement	Strongly disagree	Disagree	Do not know	Agree	Strongly agree
▪ Helps to solve financial exclusion.	<input type="checkbox"/>				
▪ Helps to solve social problem such as poverty or crime.	<input type="checkbox"/>				
▪ It is an alternative to the formal financial institution (e.g. banks).	<input type="checkbox"/>				
▪ Conforms to my faith of abstaining from <i>riba</i> .	<input type="checkbox"/>				
▪ When it is used for consumption and no redemption, it helps to sustain the business.	<input type="checkbox"/>				

Thank you for taking the time to complete this questionnaire. Your assistance in providing this information is very much appreciated.

APPENDIX 6C

COVER LETTER FOR INTERVIEWS



To whom it may concern

20th February 2009

Dear Sir/Madam:

Re: Request for Interview on the Topic of “Microcredit through Islamic Pawnshops in Malaysia and its Socio-Economic Impact”

I am a full time Ph.D student in Islamic Finance registered at the School of Government and International Affairs, Durham University, UK. Currently, I am conducting my fieldwork in Malaysia from 16th February 2009 to 31st May 2009.

I will be conducting interviews with the institutions/individuals involved in Islamic and conventional pawnshops in Malaysia which is an essential part of my research. The purpose of the interview would be exclusively for the academic purposes in order to have a better understanding concerning the perceptions of pawnbrokers towards the role of pawnbroking in improving the socio-economic of the society. I will handle the information collected with confidentiality and sensitivity. I believe that your perspective will increase the knowledge that I have and will thus enable an expansive investigation into this area.

Should you wish to answer the interview questions via email or phone, you can reply to my email or contact me with the details stated below. Herewith I attached the list of interview questions and a support letter from my supervisor, Dr. Asutay regarding this research.

Please do not hesitate to contact me if you require further information. Your assistance and cooperation are highly appreciated.

I am looking forward to hearing from you.

Yours sincerely,

Azila binti Abdul Razak
Ph.D Researcher, Durham University, UK
Email: azila1973@yahoo.co.uk
Mobile phone: 019-7345291

APPENDIX 6D

LIST OF INTERVIEW QUESTIONS	
1.	When did this institution establish the <i>ar-rahn</i> product?
2.	What is the motivation of doing so?
3.	What are the salient <i>shari'ah</i> features of Islamic pawnbroking?
4.	What particular <i>shari'ah</i> problems are encountered in Islamic pawnbroking sector?
5.	In your opinion, can Islamic pawnbroking system be sustained by charging a minimal of safekeeping fees compared to the conventional?
6.	Is there any possibility to accept other types of collateral rather than gold in Islamic pawnbroking?
7.	Is there any intention to develop a standard regulation among the institution that provides Islamic pawnbroking?
8.	Do you think Islamic pawnbroking encourage consumption as opposed to used for production purpose? If this the case, do not you think that this runs against spirit of Islamic financing? Or do you think <i>maslahah</i> should be considered in understanding its use for consumption purpose?
9.	If Islamic pawnbroking is mainly used for consumption purpose, does not it undermine the asset base of the society? Should not this be avoided?
10.	Why do Muslims still use conventional pawnbroking while Islamic alternative is available?
11.	Is there any demand from the non-Muslim towards the Islamic pawnbroking product?
12.	Would you please comment on what can be done to increase product awareness?

APPENDIX 7A

Crosstabulation of Age by Marital Status

		Marital status			Total
		Single	Married	Widow	
Age	< 20	5	0	0	5
	20 - 30	35	28	0	63
	31 - 40	8	79	2	89
	41 - 50	1	84	5	90
	> 50	0	45	19	64
Total		49	236	26	311

APPENDIX 7B

The Means of Total Dependents of Household by Number of Dependents with Full-time Education

No. of Dependents with Full-time Education	Mean	N	Std. Deviation
None	2.41	61	.692
1	2.78	32	.420
2	3.31	49	.652
3	3.22	50	.507
4	3.58	36	.604
5	4.00	26	.490
> 5	4.50	6	.548
Total	3.15	260	.794

APPENDIX 7C

Crosstabulation of Occupation Background of the Respondents Spouse by Type of Pawnshop

		Pawnshop		Total
		<i>Ar-rahn</i>	Conventional	
Work (spouse)	Government servant	24	17	41
	Private	16	17	33
	Businessman	12	10	22
	Small business	20	13	33
	Shopkeeper	3	0	3
	Petty trader/hawker	1	0	1
	Labor	9	2	11
	Farmer/fisherman	10	5	15
	Homemaker	45	24	69
	Retired	4	0	4
	Unemployed	2	0	2
	Driver	0	2	2
Total		146	90	236

APPENDIX 8A

Crosstabulation of the Reasons of Not Receiving Surplus by Type of Pawnshop

	Pawnshop		Total
	<i>Ar-rahn</i>	Conventional	
Why did not receive surplus? Collateral value below any RM200	0	3	3
I did not know that I can claim the surplus	3	5	8
I did not care	0	2	2
Total	3	10	13

APPENDIX 8B

Crosstabulation of Number of Customer by Region

		Zone			Total
		Central	Northern East	Southern	
Customer	< 10	0	0	2	2
	11 – 20	2	1	2	5
	21 – 30	8	3	0	11
	> 30	1	9	2	12
Total		11	13	6	30

APPENDIX 10A

The Mean of Total Monthly Household Income by Type of Pawnshop

	N	Minimum	Maximum	Mean	Std. Deviation
Total household income	311	1	4	3.05	.922
Valid N (listwise)	311				

APPENDIX 8B

Crosstabulation of Number of Customer by Region

	Zone			Total
	Central	Northern East	Southern	
Customer < 10	0	0	2	2
11 – 20	2	1	2	5
21 – 30	8	3	0	11
> 30	1	9	2	12
Total	11	13	6	30

BIBLIOGRAPHY

- The Holy Qur'an: Interpretation of the Meanings of the Noble Qur'an*. Translated by Khan, M. M. and Taqi-ud-Din Al-Hilali, M. Maktaba Darussalam.
- Abdul Razak, A. (2008). *Malaysian Practice of Ar-rahn Scheme: Trends and Development*. Paper presented at the Conference on Malaysian Study Islam, organised by the Malaysian Students Department for the United Kingdom and Eire, and University of Wales, Lampeter, on 28th – 29th June 2008, United Kingdom.
- Abdul Samad, E. (2007). *The Perception of Malaysian Muslims Concerning Islamic Housing Finance*. Ph.D, Durham University.
- Abi Bakar Marghinani, A. (1989). *The Hedaya: Commentary on the Islamic Laws*. Karachi: Darul Ishaat.
- Adams, D. W. (1992). "Taking a Fresh Look at Informal Finance", in Adams, D.W. and D.A. Fitchett (Eds.), *Informal Finance in Low-income Countries* (pp. 5-23). Boulder: Westview Press.
- Adnan, M. H. (2004). *Pajak Gadai dari Sudut Pengguna*. Paper presented at the Konvensyen Ar-Rahnu Serantau 2004, organised by the Regional Ar-Rahnu Secretariat on 26th – 31st October 2004, Kuala Lumpur, Malaysia.
- Ahmad Badawi, A. (2006). *Islamic Hadhari: A Model Approach for Development and Progress*. Kuala Lumpur: MPH Publications.
- Ahmed, H. (2007). "The Islamic Financial System and Economic Growth: An Assessment", in Munawar Iqbal and Ausaf Ahmad (eds.), *Islamic Finance and Economic Development*. (pp. 29-48). New York: Palgrave Macmillan.
- Aleem, I. (1993). "Imperfect Information, Screening, and the Costs of Informal Lending: A Study of a Rural Credit Market in Pakistan," K. Hoff, A. Braverman and J. Stiglitz (eds.), *The Economics of Rural Organization: Theory, Practice and Policy*, chap. 7. London: Oxford University Press (for the World Bank).
- Al-Saati, A. R. (2003). "The Permissible Gharar (Risk) in Classical Islamic Jurisprudence". *J. KAU: Islamic Econ.*, 16(2), 3-19.
- Al-Zuhayli, W. (2003). *Financial Transactions in Islamic Jurisprudence*, Vol. 2. Damascus: Dar al Fikr.
- Amin, H., Chong, R., Dahlan, H. and Supinah, R. (2007). "An Ar-Rahnu Shop Acceptance Model (ARSAM)". *Labuan e-Journal of Muamalat and Society*, 1, 88 – 101.

- An, X. W. (2003). *Chinese Business in the Making of a Malay State, 1882-1941: Kedah and Penang*. London and New York: Routledge Curzon.
- Andreason, A. R. (1975). *The Disadvantaged Consumer*. New York: Free Press.
- Andrews, D. (1994). *Pawnbroking – A New Image*. CM. December.
- An-Na'im, A. A. and Abdel Halim, A. M. (2006). *Right-Based Approach to Philanthropy for Social justice in Islamic Societies*. Available at: <URL: <http://www.aucegypt.edu/research/gerhart/Documents/Rights-basedPhilanthropyAugust2006.pdf>> Access Date 1st April, 2011.
- Asutay, M. (2008). *Research Methodology*. Ph.D-Research Support Workshop Programme. School of Government and International Affairs, Durham University.
- Attenborough, C. L. (1913). *The Law of Pawnbroking with the Pawnbrokers' Act, 1872, and the Factors Act, 1889, and notes thereon* (2nd Ed.). London: Jackson, Ruston & Keeson, Stevens & Sons, Ltd.
- Awang Kechil, A. M. and Abdul Razak, M. (2004). *Ar-rahnu Scheme: A Model of Micro Credit and its Impact on Socioeconomic Status of the Ummah – Special Reference on Malaysian Context*. Paper presented at the Konvensyen Ar-Rahnu Serantau 2004, organised by the Regional Ar-Rahnu Secretariat on 26th – 31st October 2004, Kuala Lumpur, Malaysia.
- Aycliffe, J. (1732). *The Law of Pledges, or Pawns, as it was in use Amongst the Romans: and as it is now Practiced in most Foreign Nations/Humbly inscribed to a Member of Parliament*. London: F. Clay.
- Ayub, M. (2007). *Understanding Islamic Finance*. London: Wiley Finance.
- Azam, J. P., Biais, B., Dia, M. and Maurel, C. (2001). "Informal and Formal Credit Markets and Credit Rationing in Cote Divoire". *Oxford Review of Economic Policy*, 17(4), 520-534.
- Aziz, Z. A. (2001). *Ar-rahnu, an Alternative Financing Mode for Microcredit*. Paper presented at the Seminar on Understanding the Concept and Application of Ar-rahnu on 12th November 2002, Kuala Lumpur. Available at <URL: <http://www.mifc.com/publication/p.9.5.pdf>> Access Date 21st Mar 2008.
- Babbie, E. (2003). *The Practice of Social Research*. London: Thomson Learning.
- Bagehot, W. (1873). *Lombard Street: A Description of the Money Market*. London: H. S. King.

- Baharuddin, M. S. (2002). *Skim Ar-Rahnu: Ke Arah Pengukuhan Kerjasama Serantau. Proceeding of Konvensyen Ar-Rahnu Serantau*, 12-14 October, Hotel Renaissance, Kuala Lumpur.
- Baldwin, D. and Wilson, R. (1988). "Islamic Finance in Principle and Practice" in C. Mallat (Ed.), *Islamic Law and Finance* (pp.123-126). London: SOAS.
- Bandiera, O., Caprio, G., Honohan, P., and Schiantarelli, F. (2000). "Does Financial Reform Raise or Reduce Saving?", *Review of Economics and Statistics*, 82(2), 239-263.
- Bank Pertanian Malaysia. *Ar-rahnu Scheme*. Available at: <URL: <http://www.bpm.com.my/article.cfm?id=560>> Access Date 2nd February, 2008.
- Beck, T., Levine, R., and Loayza, N. (2000). "Finance and the Sources of Growth". *Journal of Financial Economics*, 58(1-2), 261-300.
- Bencivenga, V. R., and Smith, B. (1993). "Some Consequences of Credit Rationing in an Endogenous Growth Model". *Journal of Economic Dynamics and Control*, 17(1/2), 97-122.
- Bernard, H. R. (2000). *Social Research Methods: Qualitative and Quantitative Approaches*. London: Sage Publications.
- Bernama. (2008). *Bank Rakyat Aims to Open up 15 Ar-Rahnu Branches in 3 Years*. Kuala Lumpur. Available at <URL: <http://www.bernama.com/finance/news.php?id=333396>> Access Date 16th May, 2008.
- Berthoud, R. (2000). "Introduction: The Dynamics of Social Change", in Berthoud, R. and Gershuny, J. (Ed.), *Seven Years in the Lives of British Families: Evidence on the Dynamics of Social Change from the British Household Panel Survey*. Bristol: Policy Press.
- Bhatt, P. and Sinnakkannu, J. (2008). *Ar-Rahnu (Islamic Pawning Broking) Opportunities and Challenges in Malaysia*. Paper presented at the 6th International Islamic Finance Conference 2008, organised by the Monash University on 13th – 14st October 2008, Kuala Lumpur, Malaysia. Available at <URL: <http://www.kantakji.com/fiqh/Files/Markets/B106.pdf>> Access Date 31st August, 2009.
- Bienkowski, N. and Davis, K. (1997). *The Pawnbroking Industry: Evidence from Victoria*. Available at <URL: <http://kevindavis.com.au/secondpages/workinprogress/PAWNVICT.pdf>> Access Date 1st February, 2008.

- Blaikie, N. (2003). *Analyzing Quantitative Data: From Description to Explanation*. London: Sage Publications.
- Bolton, P. and Rosenthal, H. (2005). *Credit Markets for the Poor*. New York: Russell Sage Foundation.
- Bosanquet, H. (1896). "The Burden of Small Debts". *The Economic Journal*, 6(22), 212-225.
- Bose, N. and Cothren, R. (1996). "Equilibrium Loan Contracts and Endogenous Growth in the Presence of Asymmetric Information". *Journal of Monetary Economics*, 38(2), 363-376.
- Bouman, F. J. A. And Houtman, R. (1988). "Pawnbroking as an Instrument of Rural Banking in the Third World". *Economic Development and Cultural Change*, 37(1), 69-89.
- Bouman, F. J. A. (1989). *Small, Short and Unsecured: Informal Rural Finance in India*. New Delhi: Oxford University Press.
- Bouman, F. J. A. And Bastiaanssen, R. (1989). *Pawnbroking as an Attractive Alternative to Cheap Credit Policy: Cases from India and Sri Lanka*. Available at: <URL: http://pdf.usaid.gov/pdf_docs/PNABF062.pdf> Access Date: 6th June, 2008.
- Brace, I. (2008). *Questionnaire Design: How to Plan, Structure and Write Survey Material for Effective Market Research*. London: Kogan Page.
- Bradburn, N. M. (1983). "Response Effects", in Rossi, P. H., Wright, J. D., and Anderson, A. B. (Eds.), *Handbook of Survey Research*. New York: Academic Press.
- Braverman, A. and Guasch, J. L. (1986). "Rural Credit Markets and Institutions in Developing Countries: Lessons for Policy Analysis from Practice and Modern Theory". *World Development*, 14(10), 1253-67.
- Brennan, Z. (2008). *Never too Posh to Pawn: From Diamonds to Antiques - How the Upper Crust are Coping with the Credit Crunch*. Available at: <URL: <http://www.dailymail.co.uk/femail/article-1037343/Never-posh-pawn-From-diamonds-antiques--upper-crust-coping-credit-crunch.html>> Access 23rd July, 2008.
- Brislin, R. W. (1970). "Back-Translation for Cross-Cultural Research". *Journal of Cross-Cultural Psychology*, 1(3), 185-216.
- Bryman, A. (2008). *Social Research Methods. 3rd Edition*. Oxford: Oxford University Press.

- Bryman, A. and Bell, E. (2007). *Business Research Methods, 2nd ed.* New York: Oxford University Press.
- Buchanan, D. A., and Bryman, A. (2009). "The Organizational Research Context: Properties and Implications", in Buchanan, D. A., and Bryman, A. (Ed.), *The SAGE Handbook of Organizational Research Methods* (pp. 328-345). London: SAGE Publications.
- Buckingham, A. and Saunders, P. (2008). *The Survey Methods Workbook*. Cambridge: Polity Press.
- Burchardt, T., Le Grand, J., and Piachaud, D. (1999). "Financial Services and Social Exclusion". *Insurance Trends*, 18, 1-10.
- Burchardt, T. and Hills, J. (1998). "Financial Services and Social Exclusion". *Insurance Trends*, 18, 1-10.
- Caskey, J. P. and Zikmund, B. J. (1990). "Pawnshops: The Consumer's Lender of Last Resort". *Economic Review: Federal Reserve Bank of Kansas City*, 5-18.
- Caskey, J. P. (1991). "Pawnbroking in America: The Economics of a Forgotten Credit Market". *Journal of Money, Credit and Banking*, 23(1), 85-99.
- _____. (1994). *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor*. New York: Russell Sage Foundation.
- _____. (2005). "Fringe Banking and the Rise of Payday Lending", in Bolton, P and Rosenthal, H. (Ed.), *Credit Markets for the Poor*. New York: Russell Sage Foundation.
- Cattelan, V. (2009). "From the Concept of Haqq to the Prohibitions of Riba, Gharar and Maysir in Islamic Finance". *International Journal of Monetary Economics and Finance*, 2(3-4), 384-97.
- Chambers, C. L. (2004). *Financial Exclusion and Banking Regulation in the United Kingdom: A Template Analysis*. Ph.D, Bournemouth University.
- Chan, S. C. and Owyong, D. T. (2007). "Microfinance through Pawnshops – Commercial Sustainability and Impact Evaluation". *Small Enterprise Development*, 18(1), 57-64.
- Chandavarkar, A. (1992). "Of Finance and Development: Neglected and Unsettled Questions". *World Development*, 20(1), 133-142.

- Chekhovskich, I. and Schrader, H. (2000). *The History of Pawnshops in Russia: Documentation*. Available at: <URL: http://www.uni-bielefeld.de/%28en%29/tdrc/ag_soanth/publications/working_papers/wp325.pdf> Access 8th May, 2007.
- Ch'en, Kenneth, K. S. (1964). *Buddhism in China: A Historical Survey*. Princeton: Princeton University Press.
- _____. (1968). *Buddhism: The Light of Asia*. New York: Barron's Educational Series.
- _____. (1973). *The Chinese Transformation of Buddhism*. Princeton: Princeton University Press.
- China's Trapped Entrepreneurs Fuel Pawnbroking Boom*. (2006). Available at: <URL: http://www.chinadaily.com.cn/english/doc/2006-02/27/content_524363.htm> Access 8th May, 2007.
- Coakes, S. J. (2008). *SPSS Analysis without Anguish*, version 15.0 for Windows. Australia: John Wiley & Sons Australia, Ltd.
- Creswell, J. W. and Plano Clark, V. L. (2007). *Designing and Conducting Mixed Methods Research*. London: Sage Publications.
- Creswell, J. W. (1994). *Research Design: Qualitative & Quantitative Approaches*. London: Sage Publications.
- _____. (2009). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches, 3rd Ed.* London: Sage Publications.
- Cromwell, P. F. (1991). *Breaking and Entering: An Ethnographic Analysis of Burglary*. Beverly Hills: Sage Publications.
- Daniel, B. (2000). *Urban Informal Credit Markets: Structure, Dynamics and Intermediation*. Ph.D, Sree Sankara College.
- DeLorenzo, Y. T. (2006). *A Compendium of Legal Opinions on the Operations of Islamic Banks*. Vol. 3. London: Institute of Islamic Banking and Insurance.
- De Gregorio, J. and Guidotti, P. (1995). "Financial Development and Economic Growth". *World Development*, 23(3), 433-448.
- De Roover, R. (1946). "The Medici Bank Organization and Management". *Journal of Economic History*, 6(1), 24-52.
- Denscombe, M. (2005). *The Good Research Guide for Small-Scale Social Research Projects, 2nd ed.* Maidenhead: Open University Press.

- Denzin, N. K. and Lincoln, Y. S. (2006). *The Sage Handbook of Qualitative Research*, 3rd ed. London: Sage Publications.
- Dhumale, R., and Sapcanin, A. (1999). *An Application of Islamic Banking Principles to Microfinance*. UNDP Technical Note. Washington D.C: World Bank.
- Djuhar, W. (2004). *Skim Ar-Rahnu Model Mikro Kredit dan Kesannya kepada Sosio Ekonomi Ummah di Indonesia*. Paper presented at the Konvensyen Ar-Rahnu Serantau 2004, organised by the Regional Ar-Rahnu Secretariat on 26th – 31st October 2004, Kuala Lumpur, Malaysia.
- Donald, R. (1894). “Why Not Municipal Pawnshops?”. *Contemporary Review*, 66, 177-91.
- Dusuki, A. W. And Abdullah, N. I. (2007). “Why do Malaysian Customers Patronise Islamic Banks?” *International Journal of Bank Marketing*, 25(3), 142-160.
- Edward, A. (2008). *Pawnbroker’s Boom Is Sign of the Times*. Available at: <URL: <http://blogs.wsj.com/economics/2008/07/07/pawnbrokers-boom-is-sign-of-the-times/>> Access Date: 9th August, 2007.
- E-Fatwa. Available at: <URL: <http://www.e-fatwa.gov.my/fatwa-kebangsaan/penentuan-hukum-syarak-di-dalam-pelaksanaan-skim-pajak-gadai-islam-al-rahnu-di-malay>>. Access Date: 14th March, 2011.
- El-Ghamal, M. A. (2001). *An Explication of the Prohibition of Riba in Classical Islamic Jurisprudence*. Available at: <URL: <http://www.ruf.rice.edu/~elgamal/files/riba.pdf>> Access Date: 27th January, 2008.
- Elmes, D. G., Kantowitz, B. H. And Roediger III, H. L. (1999). *Research Methods in Psychology*, 6th ed. United States of America: Brooks/Cole Publishing Company.
- El-Shazly, A. (2005) “Imperfect Information and Credit Rationing Equilibrium: Evidence from Egypt”. *Review of Middle East Economics and Finance*, 3(2), 151-164.
- Emery, R. F. (1970). *The Financial Institutions of Southeast Asia: A Country by Country Study*. New York: Praeger.
- Evans, C. (1930). *Financing the Consumer*. New York: Harper and Brothers.
- Fernando, N. A. (2003). Pawnshops and Microlending: A Fresh Look is Needed. *Asian Development Bank: Finance for the Poor*, 4(1), 1-4. Available at <URL: http://www.adb.org/documents/periodicals/microfinance/finance_200341.pdf> Access Date: 20th August 2007.

- Financial Services Authority. (2000). *In or Out? Financial Exclusion: A Literature and Research Review*. Available at <URL: <http://www.fsa.gov.uk/pubs/consumer-research/crpr03.pdf>> Access Date: 4th June, 2008.
- Fitzgerald, L. and Dopson, S. (2009). “Comparative Case Study Designs: Their Utility and Development in Organizational Research”, in Buchanan, D. and Bryman, A. (Ed.), *The Sage Handbook of Organizational Research Methods* (pp. 465-483). London: Sage Publications.
- Francis, J. L. (2007). *Pawnbroking: Organization and Role of an Industry in Transition*. Ph.D, The University of Texas.
- Francois, M. (1998). *When Pawnshops Talk: Material Culture in Mexico City, 1780s-1870s*. Ph.D, The University of Arizona.
- Fry, M. J. (1995). *Money, Interest, and Banking in Economic Development*, 2nd Edition. London: The John Hopkins University Press.
- Galetovic, A. (1994). *Finance and Growth: A Synthesis and Interpretation of the Evidence*. Available at: <URL: <http://www.federalreserve.gov/pubs/ifdp/1994/477/ifdp477.pdf>> Access Date: 4th June, 2007.
- GDP Malaysia. Available at: <URL: http://www.epu.gov.my/c/document_library/get_file?uuid=bc5c161d-8dd0-432a-b4b5-ef218cb0b193&groupId=34492>. Access Date: 27th December, 2010.
- Ghate, P., Das-Gupta, A., Lamberte, M., Poapongsakorn, N., Prabowo, D., Rahman, A. and Srinivasan, T. N. (1992). *Informal Finance: Some Findings from Asia*. Asian Development Bank, Oxford University Press, Manila.
- Gleeson, E. (2008). *Boom Times for World's Second-oldest Profession*. Available at: <URL: <http://www.moneyweek.com/investments/stock-markets/boom-times-for-the-worlds-second-oldest-profession-13606.aspx>> Access Date: 9th October, 2007.
- Glenn, G. (1938). “The Pledge as a Security Device”. *Virginia Law Review*, 24(4), 355-380.
- Goldsmith, R.W. (1969). *Financial Structure and Development*. New Haven: Yale University Press.
- Gujarati, D. N. and Porter, D. C. (2009). *Basic Econometrics*, 5th ed. Singapore: McGraw-Hill International Edition.

- Hamid, S. A. (2006). *Philosophy and Practice of Islamic Economics and Finance*. Available at: <URL: <http://academicarchive.snhu.edu/bitstream/handle/10474/1663/cfs2006-01.pdf?sequence=1>>. Access Date: 27th January, 2009.
- Hao, C. (2006). "Development of Financial Intermediation and Economic Growth: The Chinese Experience". *China Economic Review*, 17(4), 347-362.
- Hao, Q. M. (2005). *Access to Finance and Poverty Reduction: An Application to the Rural Vietnam*. Ph.D: The University of Birmingham.
- Hardaker, A. (1892). *A Brief History of Pawnbroking*. London: Jackson Ruston and Keeson.
- Hardy, M. (2004). "Summarizing Distributions", in Hardy, M. and Bryman, A. (Ed.), *Handbook of Data Analysis* (pp. 35-64). London: SAGE Publications.
- Haron, S., Ahmad, N. and Planisek, S.L. (1994). "Bank Patronage Factors of Muslim and Non-Muslim Customers". *International Journal of Bank Marketing*, 12(1), 32-40.
- Harriss, B. (1983). "Money and Commodities: Their Interaction in a Rural Indian Setting", in Von Pischke, J. D., Adams, D. W., and Donald, G. (Ed.), *Rural Financial Markets in Developing Countries: Their Use and Abuse*. Baltimore: John Hopkins.
- Harvey & Thompson. (2006). *Annual Report and Accounts*. London.
- _____. (2010). *Annual Report and Accounts*. London.
- Hasan, M. K. and Alamgir, D. A. H. (2002). *Microfinancial Services and Poverty Alleviation in Bangladesh: A Comparative Analysis of Secular and Islamic NGOs* in Iqbal, M. (Ed), *Islamic Economic Institutions and the Elimination of Poverty*. Leicester: The Islamic Foundation.
- Haslam, S. A. and McGarty, C. (1999). *Doing Psychology: An Introduction to Research Methodology and Statistics*. London: Sage Publications.
- Henn, M., Weinstein, M. and Foard, N. (2006). *A Short Introduction to Social Research*. London: Sage Publications.
- Hermes, N. and Lensink, R. (1996). *Financial Development and Economic Growth: Theory and Experiences from Developing Countries*. New York: Routledge.

- Holloh, D. (2001). *Profi Microfinance Institution Study*. Available at: <URL: <http://www.coady.stfx.ca/resourceBin/public/mofi/file/Potential%20Case%20Studies/Lembaga%20Perkreditan%20Desa/ProFI%20Imicrofinance%20institutions%20study.pdf>> Access Date: 1st October 2007.
- Hows, W. A. H. (1847). *A History of Pawnbroking, Past and Present*. London: W. Jackson.
- Hudson, K. (1982). *Pawnbroking: An Aspect of British Social History*. London: The Bodley Head.
- Hung, F. S. and Cothren, R. (2002). "Credit Market Development and Economic Growth". *Journal of Economics and Business*, 54, 219-237.
- Hunter, T. (2001). *Born-again Way to Borrow: Pawnbroking is Enjoying a Fresh Lease of*. Available at: <URL: http://findarticles.com/p/articles/mi_qn4156/is_/ai_n13956427> Access Date: 9th October, 2007.
- Ibrahim, U., Salleh, S. and Ibrahim, A. (2006). *The Objectives of Al-Rahn and their Achievement in Charge/Mortgage in Islamic Home Financing: An Analysis*. Paper presented at the International Conference on Islamic Jurisprudence and the Challenges of the 21st Century: Maqasid al-Shariah and its Realization in Contemporary Society, organised by IIUM on 8th – 10th August 2006, Kuala Lumpur.
- Islamic Finance Project. Harvard Law School. Available at <URL: http://ifptest.law.harvard.edu/ifphtml/databank.php?module=sharia_recordfiqh&fiqh_id=3&subject_id=26&table_name=fiqh> Access Date: 11th July, 2008.
- Islamic Finance Project. Harvard Law School. Available at <URL: http://ifptest.law.harvard.edu/ifphtml/databank.php?module=sharia_recordfiqh&fiqh_id=53&subject_id=63&table_name=fiqh> Access date: 11th July, 2008.
- Ismail, A. G. (2004). *Skim Ar-Rahnu Pengukuhan Kerjasama Serantau: Pengalaman Malaysia*. *Proceeding of Konvensyen Ar-Rahnu Serantau*, 12-14 October, Hotel Renaissance, Kuala Lumpur.
- Ismail, A. G. and Ahmad, N. Z. (1997). "Pawnshop as an Instrument of Microenterprise Credit in Malaysia". *International Journal of Social Economics*, 24 (11), 1343-1352.
- Ismail, A. G. and Sanusi, N. A. (2005). *A Framework for Regulating Pawnshops: Why do, What Area and Syariah View*. *Proceedings of Malaysian Finance Association (MFA)'s 7th Annual Conference*, 9-10 May, Kuala Terengganu, Terengganu.

- Ismail Dewani, A. R. (2002). *Perlaksanaan Perkhidmatan Ar-rahnu di Koperasi Islam Patani Berhad*. Paper presented at the Konvensyen Ar-Rahnu Serantau 2002, organised by the Regional Ar-Rahnu Secretariat on 26th – 31st October 2002, Kuala Lumpur, Malaysia.
- Ismail, R. (2002). *Sistem Ar-Rahnu: Potensi dan Kebolehsanaannya di Singapura*. Paper presented at the Konvensyen Ar-Rahnu Serantau 2002, organised by the Regional Ar-Rahnu Secretariat on 26th – 31st October 2002, Kuala Lumpur, Malaysia.
- Jaffee, D. and Stiglitz, J. (1990). “Credit Rationing”, in Friedman, M. and Hahn, F. (Eds.), *Handbook of Monetary Economics* (pp. 837-888). Amsterdam: North-Holland.
- Jappelli, T. and Pagano, M. (1989). “Consumption and Capital Market Imperfections: An International Comparison”. *American Economic Review*, 79(5), 1088-1105.
- _____. (1994). “Saving, Growth and Liquidity Constraints”. *Quarterly Journal of Economics*, 109(1), 83-109.
- Jayaratne, J. and Strahan, P. E. (1996). “The Finance-Growth Nexus: Evidence from Bank Branch Deregulation”. *The Quarterly Journal of Economics*, 111(3), 639-670.
- Johari, M. S., Sanusi, N. A., and Badarudin Rais, M. I. (2007). *The Demand of Pawnbroking Services: Evidence from Malaysia*. Available at: <URL: <http://ibacnet.org/bai2007/proceedings/Papers/2007bai7490.doc>> Access Date 6th April, 2007.
- Johnson, R. W. and Johnson, D. P. (1998). *Pawnbroking in the U.S.: A Profile of Customers*. Washington D. C.: The Credit Research Center. Available at: <URL: <http://www.business.gwu.edu/research/centers/fsrp/pdf/Mono34.pdf>> Access Date: 3rd April, 2007.
- Jupp, V. (2006). *The Sage Dictionary of Social Research Methods*. London: Sage Publications.
- Kader, R. A. (1993). *Performance and Market Implications of Islamic Banking: A Case Study of Bank Islam Malaysia Berhad*. Ph.D, Durham University, Durham.
- Kapur, Basant, K. (1992). “Formal and Informal Financial Markets, and the Neo-Structuralist Critique of the Financial Liberalization Strategy in Less Developed Countries”. *Journal of Development Economics*, 38(1), 63-77.

- Khan, A. A. (2008). *Islamic Microfinance: Theory, Policy and Practice*. Available at <URL: <http://www.islamic-relief.com/indepth/downloads/Islamic%20Microfinance%20-%20Theory,%20Policyand%20Practice.pdf>> Access Date 5th August, 2008.
- Khan, J. A. and Nisar, S. (2004). Collateral (*Al-Rahn*) as Practiced by Muslim Funds of North India. *Journal of King Abdul Aziz University: Islamic Economic*, 17(1), 17-34. Available at <URL: <http://www.kau.edu.sa/centers/spc/jkau/Doc/Isl/17-1/Collateral.pdf>> Access Date 5th June, 2007.
- King, R. and Levine, R. (1993). "Finance and Growth: Schumpeter Might be Right". *Quarterly Journal of Economics*, 108, 707-737.
- Kinnear, P. R. and Gray, C. D. (1999). *SPSS for Windows Made Simple, 3rd ed.* Surrey: Psychology Press.
- Konold, C. E. and Well, A. D. (1981). *Analysing and Reporting of Interview Data*. Available at <URL: <http://www.eric.ed.gov/PDFS/ED204400.pdf>> Access Date 21st July, 2009.
- Kropp, E., Marx, M. T., Pramod, B., Quiñones, B. R., and Seibel, H. D. (1989). *Linking Self-Help Groups and Banks in Developing Countries*. GTZ, Eschborn, Germany.
- Krupnik, S. (2009). *Pawnonomics: A Tale of the Historical Cultural and Economic Significance of the Pawnbroking Industry*. USA: Cloud Ten Inc.
- Kumar, R. (2005). *Research Methodology: A Step-by-Step Guide for Beginners, 2nd Edition*. London: SAGE Publications.
- Lamberte, M. B. (1988). *An Analysis of the Role of Pawnshops in the Financial System*. Philippine Institute for Development Studies. Available at: <URL: <http://dirp4.pids.gov.ph/ris/wp/pidswp8804.pdf>> Access Date: 23rd November 2007.
- Lanäs, L. and Nowak, M. (2007). *E-Pawnshop: Investigating the Possibility to Incorporate the Usage of Internet for Pawnshop Specific Processes*. Master Thesis, Luleå University of Technology.
- Laws of Malaysia. (2006). *Pawnbrokers Act 1972*. Kuala Lumpur: The Commissioner of Law Revision, Malaysia in collaboration with Percetakan Nasional Malaysia Bhd.
- Levine, Ross. (1997). "Financial Development and Economic Growth: Views and Agenda". *Journal of Economic Literature*, 35, 668-726.

- Levine, R, Loayza, N. and Beck, T. (2000). "Financial Intermediation and Growth: Causality and Causes". *Journal of Monetary Economics*, 46(1), 31-77.
- Levine, S. (1911). *A Treatise on the Law of Pawnbroking: As Governed by the Principles of the Common Law, and as Modified by the Statutes of the Different States of the United States, and the Ordinances of the Municipalities, Regulating Pawnbroking: and a Review of Pawnbroking*. New York: F. Payne.
- _____. (1913). *The Business of Pawnbroking*. New York: D. Halpern Company.
- Levine, R. (2004). "Finance and Growth: Theory and Evidence". Available at <URL: http://www.econ.brown.edu/fac/Ross_Levine/Publication/Forthcoming/Forth_Book_Durlauf_FinNGrowth.pdf> Access Date: 12th July, 2011.
- Lewis-Beck, M. S., Bryman, A. and Liao, T. F. *The Sage Encyclopedia of Social Science Research Methods*. London: Sage Publications.
- Leyshon, A. and Thrift, N. (1995). "Geographies of Financial Exclusion: Financial Abandonment in Britain and the United States". *Transactions of the Institute of British Geographers*, 20(3), 312-341.
- Lim, G. S. (2001). "Pawnbroking in Singapore". *Asian Case Research Journal*, 5(2), 251- 270.
- Lohr, Steve. (1987). "Pawnbrokers in Britain Draw Affluent Clientele". *New York Times*, 25-26. Available at <URL: <http://www.nytimes.com/1987/09/07/business/pawnbrokers-in-britain-draw-affluent-clientele.html?pagewanted=all>> Access Date: 24th April, 2008.
- Lucas, Robert E. Jr. (1988). "On the Mechanics of Economic Development". *Journal of Monetary Economics*, 22(1), 3-42.
- Ma, C. H., and Smith, B. (1996). "Credit Market Imperfections and Economic Development: Theory and Evidence". *Journal of Development Economics*, 48(2), 351-387.
- Maamor, S., Ismail, A. G., Sanusi, N. A., Md. Tahir, R., Zainal, Z. (2005). *Pawn Shop in Malaysia: The Effectiveness and Expansionary of Micro-credit*. IRPA: 05-02-07-0077-EA001.
- Maamor, S. and Ismail, A. G. (2006). *Micro-Credit Program: Pawnshop vs Ar-Rahn*. Paper presented at the Seminar Kebangsaan Pengurusan Harta dalam Islam, organised by the Kolej Islam Pahang on 8th – 9th August 2006, Pahang, Malaysia.

- _____. (2007). *Ar-Rahn (Islamic Pawnshop)*. Paper presented at the Workshop on Islamic Financial Institutions and Market, organised by the Islamic Economics and Finance Research Group (EKONIS), Faculty of Economics and Business, Universiti Kebangsaan Malaysia on 27th – 28th February, 2007, Dengkil, Selangor.
- Maamor, S., Zainal, Z. and Md. Tahir, R. (2006). *Pengguna Pajakgadai: Dapatan Awal Kajian Selidik 2005*. Paper presented at the National Seminar in Islamic Banking and Finance (IBAF 2006) on 29th – 30th August, 2006, Kolej Universiti Islam Malaysia.
- Madhur and Nayar (1987): "*Informal Credit Markets in India: Their Size, Structure and Macro Implication*". Asian Development Bank, December.
- Manen, M. V. (1990). *Researching Lived Experience: Human Science for an Action Sensitive Pedagogy*. Albany: States University of New York.
- Matahir, Y. (2002). *Membangun Golongan Berpendapatan Rendah menerusi Pajak Gadai Islam – Model Mikro Kredit Serantau*. Paper presented at the Konvensyen Ar-Rahnu Serantau 2002, organised by the Regional Ar-Rahnu Secretariat on 26th – 31st October 2002, Kuala Lumpur, Malaysia.
- Mattesini, F. (1993). *Financial Markets, Asymmetric Information and Macroeconomic Equilibrium*. Aldershot: Dartmouth Publishing Company Limited.
- Maxwell, B. (1996). "Translation and Cultural Adaptation of the Survey Instruments", in Martin, M. O. and Kelly D. L. (Eds.), *Third International Mathematics and Science Study (TIMSS) Technical Report, Vol. I: Design and Development*. Chesnut Hill, MA: Boston College.
- McKinnon, R. I. (1973). *Money and Capital in Economic Development*. Washington D. C.: Brookings Institution.
- McRae, J. R. (1988). *Zen Buddhism: A History India and China*.
- Meera, A. K. M. (2008). "Integrating *Al-Rahn* with the Gold Dinar: The Initial Building-Blocks towards a Gold-Based Economy". *Review of Islamic Economics*, 12(1), 125-135.
- Miller, R. L. and Brewer, J. D. (2003). *The A-Z of Social Research: A Dictionary of Key Social Science Research Concepts*. London: Sage Publications.
- Ming, K. M. (2006). "Walk Close to Pawnshop". *New Finance and Economics*, 20-22.
- Minkes, A. L. (1953). "The Decline of Pawnbroking". *Economica*, 20(77), 10-23.

- Modigliani, F. (1986). "Life Cycle, Individual Thrift and the Wealth of Nations". *American Economic Review*, 76(3), 297-313.
- Mohamad, S. and Salleh, S. (2008). "Upah Simpan Barang dalam Skim Ar-rahnu: Satu Penilaian Semula". *Jurnal Fiqh*, 5, 47-65.
- Mohamed Naim, A. and Mokhtar, A. B. (2005). *Upah Simpan dalam Gadaian Islam-Suatu Perbincangan*. Paper presented at the Malaysian Finance Association 7th Annual Conference, organised by the Faculty of Business and Management & Faculty of Accountancy, UiTM Terengganu and the Malaysian Finance Association (MFA) on 9th – 10th May, 2005, Kuala Terengganu, Malaysia.
- Mohamed Naim, A. (2005). "Dirasah 'an al-Rahn wa Tatbiqatuhu al-Mu'asirah Fi Maliziya min al-Manzur al-Islami (The Study of al-Rahn (Islamic Pledge) and Its Application in Malaysia From Islamic Perspective)". *Journal of Islam in Asia*, 2.
- _____. (2004). "Sistem Gadaian Islam". *Islamiyyat*, 26(2), 39-57.
- Mohamed, R. (1986). "The Rate of Pawnbrokers as Non-Institutional Creditors in Malaysia". *Kajian Ekonomi Malaysia*, 22(2), 30-39.
- Mohammed, N., Daud, N. M. M., and Sanusi, N. A. (2005). *Analisis Skim Ar-Rahnu: Satu Kajian Perbandingan dengan Pajak Gadai Konvensional*. Proceeding of Seminar Kewangan dan Ekonomi Islam: Pengukuhan dan Transformasi Ekonomi dan Kewangan Islam, 29-30 August, Esset-Bangi, Selangor Darul Ehsan, 211-220.
- Mohd. Ariffin, N. and Adnan, M. A. (2010). *The Perceptions of Islamic Bankers on Qardhul Hasan in Malaysian Islamic Banks*. Available at < <http://ebookbrowse.com/143-f-dr-noraini-mohd-and-assoc-prof-dr-muhammad-akhyar-pdf-d96205782> > Access Date 5th April, 2011.
- Mohd Noor, N. S. (2004). *Isu dan Kekangan Pelaksanaan Skim Ar-Rahnu di Singapura*. Paper presented at the Konvensyen Ar-Rahnu Serantau 2004, organised by the Regional Ar-Rahnu Secretariat on 26th – 31st October 2004, Kuala Lumpur, Malaysia.
- Mohieldin, M. S. and Wright, P. W. (2000). *Formal and Informal Credit Markets in Egypt*. Available at < <http://idl-bnc.idrc.ca/dspace/bitstream/10625/34277/1/126329.pdf> > Access Date 10th July, 2007.

- Molho, L. E. (1986). "Interest Rates, Saving, and Investment in Developing Countries: A Reexamination of the McKinnon-Shaw Hypotheses". *Staff Paper – International Monetary Fund*, 33(1), 90-116.
- Mottershead, E. (1938). "Pawn Shops". *Annals of the American Academy of Political and Social Science*, 196, 149-154.
- McKinnon, R. I. (1973). *Money and Capital in Economic Development*. Washington, DC: Brookings Institute.
- National Pawnbrokers Association. Available at: <URL: <http://www.thenpa.com/pawnbroking.htm>> Access Date: 20th September, 2008.
- Nichols, P. (1991). *Social Survey Methods: A Fieldguide for Development Workers*. Oxford: Oxfam.
- NPA. (2008). *Pawnbroking Industry Overview: Meeting the Needs of America's Working Families*. National Pawnbrokers Association. Available at <URL: <http://www.nationalpawnbrokers.org/pdf/overview.pdf>> Access Date: 24th April, 2008.
- Nugent, R. (1939). *Consumer Credit and Economic Stability*. New York: Russell Sage Foundation.
- Obaidullah, M. (2007). *Islam, Poverty and Micro Finance "Best Practices"*. Available at <URL: <http://www.imad.in/obaidullah-micro1.pdf> > Access Date 5th August, 2008.
- Oeltjen, J. C. (1996). Florida Pawnbroking: An Industry in Transition. *Florida State University Law Review*, 23, 995-1042. Available at: <URL: <http://www.law.fsu.edu/journals/lawreview/downloads/234/oeltjen.pdf>> Access Date: 21st November, 2007.
- Padilla, J. T. (1985). "A Pawnshop Take on a Development Role". *Countryside Banking*, 11(3).
- Pandyan, A. D., Wijck, F. V., and Johnson, G. R. (2002). "Instrumentation in Experimentation", in Greenfield, T. (Ed.), *Research Methods for Postgraduates* (pp. 227). London: Arnold.
- Pagano, M. (1993). "Financial Markets and Growth: An Overview". *European Economic Review*, 37, 613-622.
- Patterson, W. R. (1899a). *The Relation of State and Municipality to Pawnbroking in Europe and the United States*. Ph.D: University of Pennsylvania.

_____. (1899b). "Pawnbroking in Europe and the United States". *U. S. Department of Labor Bulletin*, 4, 173-310.

Pawnbrokers Boom as Economy Slumps. (2008). Available at: <URL: <http://www.expressandstar.com/2008/06/03/pawnbrokers-boom-as-economy-slumps/>> Access Date: 9 October, 2008.

Peterson, C. (2003). "Truth, Understanding, and High-Cost Consumer Credit: The Historical Context of the Truth in Lending Act". *Florida Law Review*, 55.

Peterson, M. F. (2009). "Cross-Cultural Comparative Studies and Issues in International Research Collaboration", in Buchanan, D. A. and Bryman, A. (Eds.), *The SAGE Handbook of Organizational Research Methods* (pp. 328-345). London: SAGE Publications.

Pischke, Von J. D., Adam, D. W., and Donald, G. (1983). "Towards An Operational Approach to Savings for Rural Development", in Pischke, Von J. D., Adam, D. W., and Donald, G. (Eds.), *Rural Financial Markets in Developing Countries: Their Use and Abuse* (pp. 414-420). Baltimore and London: The John Hopkin University Press.

Presidential Decree No. 114: Regulating the Establishment and Operation of Pawnshops. Available at <URL: http://www.lawphil.net/statutes/presdecs/pd1973/pd_114_1973.html> Access Date 5th August, 2008.

Ray, D. (1998). *Development Economics*. New Jersey: Princeton University Press.

Richards, L. and Morse, J. M. *Readme First for a User's Guide to Qualitative Methods*. 2nd Edition. London: SAGE Publications.

Robinson, J. (1952). *The Rate of Interest and Other Essays*. London: Macmillan.

Rosenthal, H. (2005). "Inequality and Credit Markets: An Introduction to Political Economy Perspectives", in Bolton, P. and Rosenthal, H., *Credit Markets for the Poor* (pp. 259-298). New York: Russell Sage Foundation.

Rosli, S. A. (2005). *Critical Issues on Islamic Banking and Financial Markets: Islamic Economics, Banking and Finance, Investments, Takaful and Financial Planning*. Indiana: Authorhouse.

Salih, S. A. (1999). *The Challenges of Poverty Alleviation in IDB Member Countries*. Available at <URL: <http://www.kantakji.com/fiqh/Files/Economics/Poverty.pdf>> Access Date 5th August, 2008.

- Samsudin, A. (2002). Skim Ar-rahnu: Satu Model Mikro Kredit di Malaysia. *Proceeding of Konvensyen Ar-Rahnu Serantau*, 12-14 October, Hotel Renaissance, Kuala Lumpur.
- Sanusi, N.A., & Johari, M.S. (2006). Prestasi Perkhidmatan Ar-Rahnu: Kajian kes MGIT. *Proceedings of National Seminar in Islamic Banking and Finance: Islamic Wealth Management, Prospects, Issues and Challenges*, 29-30 August, Serdang, Selangor.
- Sanusi, N. A., Maamor, S., and Md. Supian, S. (2004). *Pajak Gadai Konvensional dan Ar-rahnu: Terjaminkah Hak Pengguna?* Paper presented at the Seminar Kebangsaan Fakulti Ekonomi dan Perniagaan 2004: Daya Saing Ekonomi dan Sosial ke arah Pemantapan Pembangunan Ekonomi, organized by the National University of Malaysia on 11th – 13th June, 2004, Port Dickson, Negeri Sembilan.
- Sapsford, R. (1999). *Survey Research*. London: Sage Publications.
- Schrader, H. (1992). “Socio-Economic Functions of Moneylender in Expanding Economics: The Case of the Chettiars”. *Savings and Development*, 16(1), 69-82.
- _____. (1996). *Informal Finance and Intermediation*. Available at: <URL: http://www.uni-bielefeld.de/tdrc/publications/working_papers/WP252.PDF> Access Date 5th May, 2007.
- _____. (1999). *The Role of Pawnshops in the Life Strategies of Lower Income Groups - A Preliminary Study in St. Petersburg/Russia*. Available at <URL: http://www.uni-bielefeld.de/tdrc/publications/working_papers/WP316.PDF> Access Date 6th May, 2007.
- _____. (2000a). *Pawnshop Customers in Saint Petersburg: Data Analysis of a Survey in Spring 1999*. Germany: Universität Bielefeld. Available at: <URL: http://www.uni-bielefeld.de/tdrc/publications/working_papers/wp332.pdf> Access Date: 6th May, 2007.
- _____. (2000b). *Lombard Houses in St. Petersburg: Pawning as a Survival Strategy of Low-Income Households?* London: Transaction Publishers.
- Schumpeter, J. A. (1911). *The Theory of Economic Development*. Cambridge, MA: Harvard University Press.
- _____. (1961). *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*. New York: Oxford University Press.

- SEACEN. (1986). "Report of the Seminar on Unorganized Money Markets in the SEACEN Countries", 20-22 November 1985. Petaling Jaya: SEACEN.
- Sehan, M. A. (2004). *Isu-isu dalam Pelaksanaan Pajak Gadai Islam di Negara Serantau – Malaysia*. Paper presented at the Konvensyen Ar-Rahnu Serantau 2004, organised by the Regional Ar-Rahnu Secretariat on 26th – 31st October 2004, Kuala Lumpur, Malaysia.
- Seidman, J. (2006). *Interviewing as Qualitative Research: A Guide for Researchers in Education and the Social Sciences*, 3rd ed. London: Teachers College Press.
- Sekaran, U. and Bougie, R. (2009). *Research Methods for Business: A Skill Building Approach*. 5th Edition. West Sussex: John Wiley & Sons Ltd.
- Shanmugam, B. (1991). "Socio-Economics Development through the Informal Credit Market". *Modern Asian Studies*, 25(2), 209-25.
- Shaw, E. S. (1973). *Financial Deepening in Economic Development*. New York: Oxford University Press.
- Siamwalla, A., C. Pinthong, N. Poapongsakorn, P. Satsanguan, P. Nettayarak, W. Mingmaneeakin, and Y. Tubpun. (1993). "The Thai Rural Credit System and Elements of a Theory: Public Subsidies, Private Information, and Segmented Markets," in K. Hoff, A. Braverman, and J. Stiglitz (eds.), *The Economics of Rural Organization: Theory, Practice and Policy*. London: Oxford University Press (for the World Bank).
- Silverman, D. (2000). *Doing Qualitative Research: A Practical Handbook*. London: Sage Publications.
- Sivakumar, S. S. (1978). "Aspect of Agrarian Economy in Tamil Nadu: A Study of Two Villages, Part III, Structure of Assets and Indebtness". *Economic and Political Weekly*, 20(May), 846-51.
- Skully, M. T. (1992). *Lending Collateral Problems and the Pawnbroker Solution: The Development of the Pawnshop Industry in East Asia*. Unpublished. Available at: <URL: <http://library.wur.nl/way/catalogue/documents/FLR21.pdf>> Access Date 1st June, 2007.
- _____. (2005). *Islamic Pawnbroking: The Malaysian Experience*. Paper presented at the 3rd International Islamic Banking and Finance Conference 2005, organized by the Monash University Malaysia, RHB Bank and ALDWICH WIPRO on 17th November, 2005, Kuala Lumpur, Malaysia.

- Soliman, S. (2004) "The Rise and Decline of the Islamic Banking Model in Egypt" in Henry, C. M. and Wilson, R. (Eds), *The Politics of Islamic Finance* (pp. 265-285). Edinburgh: Edinburgh University Press.
- Solow, R. (1956). "A Contribution to the Theory of Economic Growth". *Quarterly Journal of Economics*, 70(1), 65-94.
- Soon, L. G. and Choon, L. S. (2001). "Pawnbroking in Singapore". *Asian Case Research Journal*, 5(2), 251-270.
- Stiglitz, J. and Weiss, A. (1981). "Credit Rationing in Markets with Imperfect Information". *American Economic Review*. 71, 393-410.
- Tebbutt, M. (1983). *Making Ends Meet: Pawnbroking and Working-Class Credit*. New York: St. Martin's Press.
- Tenney. (2004). "Pawn Shops Serve a Public Function". Available at <URL: <http://mises.org/daily/1663>> Access Date: 27th August, 2007.
- Thangavelu, M. and Ang, B. J. (2004). "Financial Development and Economic Growth in Australia: An Empirical Analysis". *Empirical Economics*, 29, 247-260.
- Timberg, T. A. and Aiyar, C. V. (1984). "Informal Credit Markets in India". *Economic Development and Cultural Change*, 33(1), 43-59.
- Tohmeena. (2004). *Isu dan Kekangan Pengembangan Pajak Gadai Islam (Skim Ar-rahnu) di Negara Serantau – Thailand*. Paper presented at the Konvensyen Ar-Rahnu Serantau 2004, organised by the Regional Ar-Rahnu Secretariat on 26th – 31st October 2004, Kuala Lumpur, Malaysia.
- Usmani, M. T. (1999). "The Concept of *Musharakah* and its Application as an Islamic Method of Financing". *Arab Law Quarterly*, 14(3), 203-220.
- Vaus, D. D. (2003). *Research Design in Social Research*. London: Sage Publications.
- _____. (2007). *Surveys in Social Research*. London: Routledge.
- Visser, W. A. M. and MacIntosh, A. (1998). "A Short Review of the Historical Critique of Usury". *Accounting, Business and Financial History*, 8(2), 175-189.
- Wai, U. T. (1980). "The Role of Unorganized Financial Markets in Economic Development and in the Formulation of Monetary Policy". *Savings and Development*, 4(4), 259-92.

- Waldron, D. G. (1995). "Informal Finance and the East Asian Economic 'Miracle'". *Multinational Business Review*, 7(2). Available at <URL: http://findarticles.com/p/articles/mi_qa3674/is_199510/ai_n8711665/> Access Date 2nd November, 2008.
- Walliman, N. (2006). *Social Research Methods*. London: Sage Publications.
- Wan Abdullah, Wan Abd Rahman Khudzri (1999). "Historical Development of Pawning Practice in Malaysia: From Pajak Gadai to *Al Rahn*". *Jurnal Pembangunan Sosial*, 1, 66-80.
- Wells, R. I. G. (1980). "The Informal Rural Credit Market in Peninsular Malaysia". Unpublished Report.
- Whelan, T. S. (1979). *The Pawnshop in China*. Ann Arbor: Centre for Chinese Studies, University of Michigan.
- Wigmore, J. H. (1897). The Pledge-Idea: A Study in Comparative Legal Ideas. *Harvard Law Review*, 10(6), 321-350.
- Wilson, R. (1995). Islamic Banking and Its Impact on the International Financial Scene. *Journal of International Banking Law*, 10(10), 437-445. Available at <URL: <http://login.westlaw.co.uk/maf/wluk/app/document?src=toce&docguid=IC8D6D371E72111DA9D198AF4F85CA028&crumb-action=append&context=3>> Access Date 6th November, 2008.
- Wilson, R. (2002). "The Evolution of the Islamic Financial System" in Archer and Rifaat Abdel Karim (Eds), *Islamic Finance, Innovation and Growth*. London: Euromoney.
- Woloson, W. A. (1964). *In Hock: Pawning in America from Independence through the Great Depression*. Chicago and London: The University of Chicago Press.
- Yahong, Li. (2008). *Fiz Return to an Old Biz*. Available at: <URL: <http://www.chinatoday.com.cn/English/e2008/e200803/p24.htm>> Access Date: 8th October, 2008.
- Yampolsky, P. B. (1967). *The Platform Sutra of the Sixth Patriarch/ the Text of the Tun-huang Manuscript with Translation, Introduction, and Notes*. New York: Columbia University Press.
- Yang, Lien-Sheng. (1950). "Buddhist Monasteries and Four Money-raising Institutions in Chinese History". *Harvard Journal of Asiatic Studies*, 13(1/2), 174-191.
- _____. (1952). *Money and Credit in China: A Short History*. Cambridge: Harvard University Press.

Yong, Y. (2008). "Economy and Social Function of Latter-Day Pawnbroking Southern of Changjiang River". *Journal of Jiangxi University of Finance and Economics*, 1(55), 60-65.