

Awareness Level of Al-Rahn (Islamic pawn broking) among Malaysian Muslim Non-Users

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Abstract: Pawn broking services in Malaysia have developed rapidly since the early 60s. Unfortunately, public awareness of Islamic pawn broking or Al-Rahn remains limited, especially among Muslim non-users. This study examines the awareness levels among Malaysian Muslim non-users of Al-Rahn. Self-administered questionnaires using purposive sampling were distributed to 150 respondents, 88 of which were. This study concludes that gender, income level, educational background, and occupation did not have a significant impact on awareness levels among respondents with the exception of age.

Keyword: Al-Rahn services, Awareness, Non-Muslim Users and factors

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I. Introduction

Pawnshops appear to hold the status of a small bank as they are able to offer credit facilities in Malaysian financial markets (Ismail, 1997). The working mechanism of pawn broking functions where the pawnbrokers offer money based on pledged items provided by the customer or the borrower as a guarantee for repayment of the money provided by the lender. The lender subsequently charges an interest rate on the loan granted to the customer. The lender therefore gains profit from the total amount of the loan, which constitutes the main means for lender to generate profit. However, some pawnbrokers impose interest rates those stipulated under Section 46 of the Malaysian Pawnbrokers Act 1972. In an event where the borrower is unable to repay the amount in the agreed maturity period, the lender has the right to sell the collateral. This is one example in which the conventional pawn broking system fails in facilitating a just relationship between the lender and the borrower, as well as upholding the rights of the customer partaking in the transaction. The collateral or pledged item is a vital instrument that acts as a security or guarantee of loan to the lender for any possible condition of default payment from the borrowers' part and, at the same time, to decrease the level of risk of the lender and increase the borrowers cost of default.

There were an estimated 329 institutions offering Islamic pawn broking services and almost 259 licensed conventional pawnshops operating side by side during year 2010. The numbers show a significant increase of Islamic pawn broking since it first appeared in 1992, compared to traditional pawnshops that have been established since the 19th century in Malaysia (Azila, 2011). People including Muslims all over the globe and particularly in Malaysia do not have an alternative to approach an interest-free and low cost, short-term cash advance except from the typical pawn broking system. The situation has somewhat improved through the introduction and establishment of a *Shariah* based Islamic pawn broking system known as *Al-Rahn*, which offers an interest free source of micro credit to certain groups of the society who are in need of financial assistance. The appearance of both conventional and Islamic pawn broking services gives customers the choice to select the best service provider that offers fast and easy access to cash without interest compared to obtaining loans from the commercial banks or financial institutions. The pawn broking system provides those from a lower income group the opportunity for short-term financing to resolve their cash flow complications.

Unfortunately, the level of awareness among the public towards the existence of Islamic pawn broking practices in Malaysia remains low. Although there are those who acknowledge *Al-Rahn*, it remains unclear whether they understand how Islamic pawn broking differs from their conventional counterparts. This can possibly suggest why the public, especially Muslims, have a tendency to select conventional pawn broking, as there are no perceived differences in terms of advantages or disadvantages among the two. It is therefore evident that there is a need to increase public awareness towards Islamic pawn broking systems. Hence, it is the intention of this study to measure the Muslim non-users level of awareness towards *Al-Rahn* in Malaysia in order to promote Islamic pawn broking for Muslims, as well as Malaysians in general.

II. Problem Statement

Pawnshops are well known in the society due to their flexible requirements for credit facility processing. Customers are therefore more inclined to associate with conventional pawnshops or even illegal moneylenders since they provide higher margins of value based on the collateral provided compared to Islamic pawnshops. For instance, borrowers can receive high credit facilities up to 90 percent of the pledged assets (Hisham, Shukor, Salwa & Jusoff, 2013). It has been discovered that customers may display hesitancy in choosing Islamic pawn broking due to the misconception that the scheme targets the underprivileged and less fortunate (Hisham *et al.*, 2013). This therefore serves as an imperative cause to educate potential customers on the schemes provided by *Al-Rahn*, as well as what advantages Islamic pawn broking holds over conventional pawn broking.

III. Motivation and Objective of the Study

Despite pawnshops being well known as an informal financial system in Malaysia, there remains a dearth of studies on pawn broking in Malaysia. One crucial element that has been overlooked is the fact that not many comprehend and are aware of what pawning essentially is and to a larger extent, what Islamic pawn broking is. This does not help eliminate public perceptions that pawn broking is a mechanism to exploit the less fortunate through the stipulation of unreasonable interest rates in addition to other obscure fees. This environment has led to further investigation in regards to the level of public awareness towards *Al-Rahn* schemes, more so among Muslims, many of whom still hold such a perception. If no action is taken to change the situation, then the effort of introducing the *Shariah* based pawn broking in Malaysia would be futile. This study, hence, is expected to fill the gaps in Islamic pawn broking or *Al-Rahn* in Malaysia as it examines the level of Muslim awareness among potential customers.

IV. Level of Awareness towards Al-Rahn Schemes

Identifying factors that contribute to an increased awareness of Islamic banking practices by Malaysian customers have become a priority, which stems from the high levels of competition between established conventional banks that provide dual banking system practices prevalent today. Studies performed by Ishak & Zabil (2012) indicate that some demographic variables such as gender and education level contribute to the level of awareness and knowledge of customers. Studies conducted in Johor indicated significant results in which the education background was a factor that contributed to the customers' level of awareness.

The research concluded that those who possessed higher educational qualifications displayed an increased awareness in comparison to their less educated counterparts. It was surmised that this stemmed from the fact that the former group were exposed to more information regarding the issue which in turn led to increased awareness.

Moreover, Ishak & Zabil (2012) observed that the proliferation of various education programs targeting Malaysian consumers have enabled consumers to understand and acknowledge their rights as a customer. This validates the importance of such programs in educating the society on various products and services provided by Islamic banking systems in Malaysia. This is all the more relevant today, where Malaysia finds itself in an environment where Islamic banking plays a major role in the growth and expansion of the country's financial system (Dusuki & Abdullah, 2007).

Gender

Mustafa (2006), as quoted by Appannan and Doris (2011), measured the level of awareness using gender variables. From the research conducted, around 53 percent of female respondents were aware of Islamic pawn broking; meanwhile about 47 percent of male respondents displayed levels of awareness towards Islamic pawn broking. Furthermore, another analysis performed by Appannan and Doris (2011) concerning the level of awareness towards *Al-Rahn* schemes at Sungai Petani, Kedah shows that about 82 percent of males and about 85 percent of female respondents were aware of the *Al-Rahn* scheme. These results suggest that gender variables have an influence on the customer's variation of awareness towards the scheme.

Mokhlis (2012) also highlights the importance of gender as a significant demographic variable. He illustrates the prevalence of gender differences in customer behaviours, as males and females have been found to respond differently towards products. Hence varying awareness levels can also be attributed to gender variables.

In a study conducted in Hong Kong, Chow, Luk, and Wan (2005) discovered a relationship between gender variables and the adoption of internet banking in the country. From the outcome, the researchers concluded that male respondents have a higher level of awareness on banking products and services whereas female respondents showed a lower awareness level. This reinforces the statement that gender plays a role in level of awareness towards banking products and services.

Another study highlights the significance of gender with regards to the criteria imposed on bank selection, such as locations of Automated Teller Machines (ATMs), bank locations and others. Gender was a

factor in how respondents answered, which reiterates how the variable is a factor due to different levels of awareness among genders (Almossawi, 2001).

Age

Mustafa (2006), as quoted by Appannan and Doris (2011), has determined in his research that age variables are among the factors that influence the level of awareness towards Islamic pawn broking. He highlights in his study that the majority of Islamic pawn broking customers, 45 percent were aged between 26 to 35 years, 31 percent were between 36 to 45 years old, and 10 percent of respondents were between the 18 to 25 years. Eight percent fell under the 46 to 55 category, whilst the remaining five percent were aged 55 and above. These numbers illustrated that the majority of customers fell under the 26 to 36 age group, and were exposed to the *Al-Rahn* scheme.

Studies have also been conducted in the Klang Valley on non-Muslims regarding Islamic pawn broking services. The analysis was that respondents that displayed the highest level of awareness were aged between 41 to 50 years, which thus creates some disparities in comparison with other researches on the relationship between the age variable and level of awareness on Islamic pawn broking in the Klang Valley (Muhamat, Rosly, and Jaafar, 2011).

Almossawi (2001) concluded that banks therefore hold a tough responsibility to generate awareness, especially targeting a younger age group in the promotion of their provided products and service. As a means to enhance young customers' knowledge towards banking products or services, banks should find appropriate alternatives to connect with these groups and inform the youth regarding the products and services available in the banking systems today. This simply illustrates the significance that age holds on the customer's knowledge on products and services provided by various banking institutions.

From the investigation regarding the perspectives and implications of banking behaviour of Islamic bank customers carried out by Almossawi and Metawa (1998), they noted that there is a relationship between socio demographic factors and the usage of Islamic bank products and services by customers. From the analysis, they stated that there is a significant relationship that exists between the age of customer and the types of products chosen by the customer. For example, the usage of ATM cards is more popular among the customers aged between 25 to 50 years as they are more aware of the technological advantages associated with the banking services.

Occupation

Another variable identified in order to measure the level of awareness of the *Al-Rahn* scheme is determined by the working status of the customer. Muhamat *et al.* (2011) reported on the non-Muslims' response towards Islamic pawn broking. The result illustrates that 66 percent from the 50 respondents were self-employed, whereas about 24 percent of the respondents were from the private sector. The remaining 10 percent represented the respondents who were government servants. The analysis demonstrated that most of the customers were operating their own businesses. This in turn suggests that those under this group generated the highest level of awareness, since it was the largest group that utilized the scheme

A study done by Johari, Rais & Sanusi (2007) on the demand of pawn broking services in Malaysia illustrates that the highest demand for Islamic pawn broking services are among private sector workers, which represents 24 percent. This was followed with government servants and housewives at 22 percent. Respondents involved in business activities measured at 21 percent. These varying results suggest that the level of awareness on *Al-Rahn* schemes vary according to the demand of services based upon the working status of the customer.

Level of Income

Appannan and Doris (2011) associated the level of income with the usage of Islamic pawn broking services. Twenty one percent of respondents earned less than RM500, whilst 39 percent, which comprised of the majority, earned less than RM1, 000. Twenty two percent of respondents earned less than RM1, 500 while eight percent earned between RM1, 500 to RM 2,000. The remaining eight percent earned between RM2, 000 to RM4, 000. From the above it can therefore be surmised that most of the customers fall under the lower and middle income groups. Based upon the above findings, it can be surmised that the higher the income level, the lower the awareness level towards Islamic pawn broking services. This can be attributed to decreased demand required from the higher income group for the *Al-Rahn* scheme

Muhamat *et al.* (2011) found that the majority of respondents' income fell on the range between RM1, 001 to RM3, 000 that represented 80 percent. The second group of respondents comprised of 10 percent of the study, which represented those earning less than RM 1,000. The remainder of the respondents represented those who earned between RM 3,001 to RM 5,001 and above. This relates to the study they conducted on non-Muslims and their awareness of Islamic pawn broking, in which a large number of their respondents who displayed awareness and knowledge on the services earned between RM1, 001 to RM3, 000.

An investigation by Mustafa (2006), as quoted by Appannan and Doris (2011), discussed that most respondents (50%) received an income above RM1, 200, followed by 25 percent who received between RM801 to RM1, 200, who demonstrated that they were aware of Islamic pawn broking services. Moreover, respondents who received an income between RM501 to RM800 represented 15 percent of the respondents, while the remaining portion represented three percent of respondents, who received an income between RM200 to RM500. The study concluded that the majority of Islamic pawn broking customers received an income above RM 1,200 and were aware of the services.

Education Background

Appannan and Doris (2011) quoted Mustafa (2006) as having analysed that 50 percent of the respondents, of whom acknowledged that they were aware of *Al-Rahn* services, had completed secondary education. Twenty one percent of respondents possessed a diploma, whereas 18 percent were degree holders. The remaining 10 percent represented those who completed primary education. From the above results, we can conclude that the majority of respondents who were interested in Islamic pawn broking represented those who earned only a secondary level of education.

Another study performed by Sam, Tahir & Latif (2010) in measuring awareness and the acceptance of Islamic pawnshops in Malaysia measured the level of awareness against the variation of education backgrounds of the respondents towards existing Islamic pawnshops offered by AgroBank Malaysia. For every education level such as primary/secondary, diploma, and degree holder there were only slight differences among respondents on whether they are aware of such services. Based on the findings, education level did not play a large factor on the awareness levels of the respondents. This implies that awareness levels in Malaysia remain low irrespective of education level. This therefore justifies that necessary action should be taken towards generating greater awareness on *Al-Rahn* schemes in Malaysia.

Education background was also used in determining the knowledge of customer concerning the Islamic pawn broking systems. A research relating to the awareness of the Islamic financial products in Malaysia shown the highest frequency that reflects a general lack of awareness of Islamic financial products. Furthermore, the analysis indicated that customers did not display the intent to adopt the services in the future, which stemmed from a lack of awareness and understanding concerning Islamic financial products and services. In such a context, it can be assumed that both low levels of education, paired with insufficient knowledge and understanding can contribute to a low level of awareness pertaining to Islamic pawn broking services (Rahman, 2007).

Lastly, Almossawi and Metawa (1998) revealed that there is a significant relationship between education level and the importance of *Shariah* principles as a bank's selection criterion by customers in Bahrain. According to them, respondents who possessed degree and diploma certificates, who can be considered as well educated customers, have a tendency to stress the importance of Islamic principles on the selection of their banking institutions more so compared to the customers from other education levels. The findings indicate that more than 40 percent of respondents possessed a high school diploma. In the meantime, half of respondents, which were 50 percent, held a bachelor degree and above. This suggests that customers with higher educational qualifications tend to be more aware and knowledgeable on which banks are in compliance with *Shariah* principles.

V. Methodology

In answering the research questions in the preceding section, Muslims are selected using purposive sampling after identifying that they have never used the scheme before. It is expected that the respondents would provide relevant information required by the study. The researcher distributed 150 questionnaires to the respondents in order to obtain information regarding the level of Muslim awareness of *Al-Rahn* scheme. This assessment is mainly descriptive in nature. Data collection methods are obtained through the administration of a questionnaire. Prior to this, a pilot study was undertaken by administering the questionnaire to several respondents. For the purpose of translating the data, a statistical technique is applied in this study, where the analysis is conducted using the Statistical Program for Social Science (SPSS).

VI. Findings and Discussion

The main purpose of the study is to measure respondents' awareness of the *Al-Rahn* scheme by evaluating respondents' demographic backgrounds. This mirrors previous studies which have used demographic markers as an indicator to determine how aware respondents were of Islamic pawn broking services. The demographic factors used included age, gender, education background, occupation, and income level. For analysis, the Chi square analysis is applied to evaluate the formulation of the demographic factors.

Table 1: Respondents' frequency of awareness on *Al-Rahn* through demographic profile

Awareness	Yes	No	Awareness	Yes	No
Gender:			Income level:		
Male	37	12	< RM1000	17	13
Female	27	12	RM1001-RM1500	10	3
Age:			RM1600-RM2500	15	2
18-25 years old	28	16	RM2600-RM3500	11	3
26-35 years old	32	4	RM3600-RM4500	9	2
36-45 years old	3	3	>RM4600	2	1
46-55 years old	0	1	Education level:		
> 56 years old	1	0	No formal education	1	0
Occupation:			Primary school	1	0
Student	18	12	Secondary school	6	2
Private sector	22	8	Certificate/Diploma	10	9
Government servant	22	4	Bachelor/Master	46	13
Self employed	2	0			

Gender

Based on the results, the data depicts that 37 males and 27 females indicated awareness, whilst the remaining 24 respondents were unaware of the *Al-Rahn* scheme. Pearson's analysis shows the value is 0.432, while the significant value is 0.511. This illustrates that gender is not a significant factor on the awareness level towards *Al-Rahn* schemes.

Age

Under the age category, results illustrate that the majority of respondents who reported to be aware of the scheme fell under the 26-35 group, while respondents who reported they unaware were consequently under the 18-25 age group. Based on the Chi-square test conducted, a Pearson value of 11.17 was obtained with a significant value of 0.025. This clarifies that age is a factor that influences awareness level among respondents towards the *Al-Rahn* schemes.

Occupation

The majority of respondents who were aware of the scheme were mostly working in the private sector or government servants, whereas those who reported to be unaware were mostly students. Table 4.8 indicates the Pearson value is 5.058, followed by the significant value of 0.168. Based on the results, the numbers suggest that awareness levels of *Al-Rahn* did not vary depending on occupation; rather occupation was not one of items that determined awareness.

Level of Income

For level of income, it indicates that majority of respondents who reported to be both aware and unaware of the scheme came from the same category; both groups earned a monthly income of below RM1,000. The Chi-square test with a Pearson value of 6.833 subsequently reveals that there is no significant difference between level of income and awareness level.

Education background

The result shows that those holding a bachelors/Master's degree represented the majority of respondents who reported to be aware of the scheme. Interestingly, the highest number of respondents who reported to be unaware of the scheme also came from the same category. Through the Chi-square test, the Pearson value scored at 5.456, which denotes a 0.244 significant value. Hence, it reflects that the respondents' education background did not create variations on the awareness levels towards the *Al-Rahn* scheme.

VII. Conclusion

The first measured element was gender where the results show that there was no significant difference on level of awareness among male and female respondents. The result shows 37 male and 27 female respondents were aware of the *Al-Rahn* scheme and this indicates that out of 88 respondents, 64 of the

respondents were aware. Therefore, it signifies that gender does not reflect much difference on the respondents' level of awareness. Second, the result shows the age category as another element in measuring the awareness level among respondents. Based on the result, it indicates that there is a significant difference between the respondents' age category and the respondents' awareness levels towards *Al-Rahn*. This mirrors findings from Mustafa (2006) and Almossawi (2006) who mentioned that younger age groups tend to display more knowledge on products and services relating to banking institutions to days.

Third, the occupation category results show that respondents from the private sectors and governments sectors have an equal level of awareness towards the scheme, as there were 44 respondents from both these two categories. Moreover, 18 students and two self-employed respondents also indicated that they were aware. However, students also represented the highest number of individuals who were unaware, which was 12 respondents out of the 24 respondents. From the Chi-square analysis, the result indicated that there was no significant difference between variation of occupation and the respondents' awareness level.

Education background was also one of the elements in determining the awareness level of the scheme. From the results, it indicated that respondents with a higher education level represented the majority of those who were aware, which was 56 respondents out of the total number of 68 respondents. Among them, 46 respondents held a Bachelor and Masters degree, whilst the other 10 respondents held a certificate or diploma qualification. On the other hand, the number of respondents who represented those who were unaware was also represented by respondents with a high education level. The Chi-square result illustrates that differences on educational background among respondents did not create variations on awareness level.

For income level, the results stated that the majority of respondents that displayed awareness on the scheme earned an income level of below RM1,000. This represented 17 respondents. However, the majority of respondents who were not aware also came from the same category. This represented 13 respondents. The results obtained from the Chi-square analysis therefore demonstrates that income level does not create variations on the respondents' awareness levels.

In general, based on the analysis it can be concluded that level of awareness towards *Al-Rahn* schemes among Muslims remains limited. This is proved by the results obtained from each element measured in the study; all elements except for the age category did not create differences on awareness level. For instance, a higher education background did not denote an increased awareness level.

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