

Assessing the Key Success if Ar Rahnu Usage in Malaysia

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Abstract

Ar Rahnu means pledge or pawn. Rahn is a contract of security. One of the objectives of Ar Rahnu is to develop the economics of Ummah (person who pawn their property/asset). While this concept had been practising until today, many customers tend to use the services for their personal consumption and contingency expenditure. Therefore, the objective of the study is to analyse the factors that might influence personal consumption and investment usage. Multi dependent variables are used in order to identify the relationship between the factors of usage towards personal consumption and investment. The method of structural equation modelling specifically a method of partial least square (PLS) was utilized in this study. From the model run by using PLS-SEM, the results revealed that people used Ar-Rahnu as an investment is contributed by customer service provided, location of the Ar-Rahnu services and also based on the Shariah view with 48% of variation. While, the customer uses Ar-Rahnu for personal consumption due to the factor of customer service and Shariah view with 39.7% of variation. The result might benefit the regulator in finding a new alternative to develop the socio economic of society through Islamic product and principle.

Keywords: Ar-rahnu, shariah view, customer service, location, Islamic micro credit

1. Introduction

In Malaysia, Ar Rahnu commonly refers to Islamic micro credit instrument. Gold is well known as one of pawn item. The services of pawning of any kind of these luxury items are available to both locals and foreigners, Muslims and Non-Muslims. Pawning period (loan tenures) ranges from 1 to 6 months and can be up to 12 months for certain condition. The pawnshop is responsible to safe keep the security (assets) until the original owner redeem the security. This was also mentioned in Hadith by the Prophet Nabi Muhammad p.b.u.h: "A pledge does not become the property of the mortgage, it remains to the property owner who mortgaged it; it is entitled to its benefit and he is liable for its expenses"

The first Islamic pawn broking in Malaysia is Muassasah Islam Terengganu (MGIT) in 1992, followed by Permodalan Kelantan Berhad and Yayasan Pembangunan Ekonomi Islam Malaysia (Yapiem). The number of Islamic pawn broking outlets has been increasing every year. Based on 2013 data, there were 464 outlets for Islamic pawn broking in Malaysia compared to 259 outlets for conventional pawn broking [1]. The number of outlets kept increasing since there are demands for this product. By having Ar Rahnu in Malaysia, demand for conventional pawn broking is reducing [2].

Previous studies show that people tend to choose Ar Rahnu in order to finance their personal needs [3] and make their funds grow [4]. Therefore, it is interesting to study on the factors that influence the personal consumption and investment usage of Ar Rahnu.

2. Literature Review

A study shows that Malaysian respondents are more likely to use Ar-Rahnu financing for the purpose of personal consumption rather than to use for productive purpose or resurfacing commercial capital [5]. According to [6], Ar Rahnu is flourished because people used it to finance wedding ceremony, home and vehicle purchases, education and investment. Difficulties in getting fund from the bank encourage people to use pawn broking for household consumptions. However, Ar-Rahnu also offers investments opportunities besides preventing illegal or unlicensed financing activities [7,8] highlighted that, for improving standard of living for the long term, investments are needed. Ar- Rahnu can be one of the facilities that act as an instrument to encourage saving and investment, since one of the objective of Ar-Rahnu is to develop socio economics well-being for the poor.

[9] stated that the operation for Islamic pawnshop transaction is quite similar with the conventional but the only difference is in the contractual terms (aqad) that is based on Islamic jurisprudence. It makes the contract more systematic from others with transparent characteristics. Besides, customers are more confident to enter into the contract. Operational aspect of banking gives an impact to nurture customer's mind and perceptions [10]. A research conducted by [11] stated that people tend to choose Islamic pawn broking because of Shariah view and the implementation of Shariah principle in operating system. Similarly, [12] found that Sharia view is one of the important factors that affect the acceptance level of Ar-Rahnu usage. [13] clearly mentioned firm's

or organization’s debt maturity policy play an important role to gain customer’s trust.

In order to provide effective service, Ar-Rahnu provider needs to understand the needs of customers. In other words, Ar-Rahnu provider needs to conduct market survey beforehand to identify the needs of majority of local customers.

Besides, [14], business location is one of the critical success factors on the usage of [15] found that customers use Ar Rahnu because of service quality, locality and management of the provider. Besides, locality and customer service have significant relationship with customer acceptance on Ar Rahnu [16].

3. Research Methodology

In this study, the researcher analysed the factors that contribute to the investment and personal consumption. More specifically, the study investigated the influence of customer services delivered, location of Ar Rahnu pawnshop and Shariah view towards the investment and personal consumption for Ar Rahnu.

In conducting the study, questionnaires were distributed to 400 respondents in Klang Valley, however only 341 questionnaires were returned. In order to ensure the reliability of the data, a pilot test is conducted onto the data with a total of 50 respondents. It is observed that, the data was reliable since the cronbach’s alpha for each of the construct is more than 0.7 , i.e (customer service = 0.914, location = 0.968, Shariah view= 0.932, investment = 0.980 and personal consumption = 0.711).

After ensuring the data was reliable, PLS-SEM is used to determine the relationship among the variables and also the strength of the relationship. PLS-SEM method is based on iterative techniques approach that maximizes the explained variances of endogenous constructs. It has similar characteristic to multiple regression technique [16]. This characteristic makes the method of PLS-SEM is valuable for exploratory research.

Average variance extracted (AVE) determines the amount of variance captured by the construct from each of the variables due to measurement errors. As suggested by [16] a minimum of 50% of variance should be captured by the construct. This implies that the values of AVE should be more than 0.50. Composite reliability, CR value is used to check for the consistency of the model. The model is said to be consistent if the value for CR is more than 0.7.

The structural model in PLS is examined by evaluating the path coefficients value at 5% level of significance in order to examine the nature of the relationship between the constructs. In order to

validate the model, the diagnostic checking was conducted onto the model by observing the value of R^2 which determine the strength of the model. In addition, effect size is also examined using f^2 value, the value determines the magnitude or strength of the relationships among the constructs. This helps the researchers to assess the overall contribution of the study. A value of effect size of 0.02 indicates small effects, 0.15 indicates medium effects and more than 0.35 indicates large effects respectively [17].

4. Results

Partial least square (PLS) is used to test our model since there is two responds variables (i.e: personal consumption and investment). Using a smart-PLS 3 software, the diagnostic checking was done onto the measurement model by using the AVE value. It is observed that the AVE value for all the construct is more than 0.50 which indicate there is at least 50% variance explained by the variables. The model also is consistent since the composite reliability value; CR is more than 0.7 for each of the construct (Table 1).

Table 1: Measurement Model Properties

Construct	Composite reliability	AVE
Customer Service	0.935	0.782
Location	0.975	0.885
Shariah View	0.948	0.820
Personal consumption	0.984	0.910
Investments	0.814	0.640

After ensuring the model is valid and suitable, structural models as in Figure 1 were constructed. The path coefficients from the PLS analysis is shown in Table 2 below. The coefficient and statistical analysis indicated that customer service delivered (p-value = 0.000), location of Ar Rahnu pawnshop (p-value = 0.001) and Shariah view (p-value = 0.000) are statistically significant with the investment. It also revealed that customer service delivered (p-value = 0.000) and Shariah view (p-value = 0.000) are statistically significant towards personal consumption. Nevertheless, location of Ar Rahnu pawnshop (p-value = 0.628) is not statistically significant with personal consumptions. It can be concluded that the investments of an individual are influenced by customer service delivered, location of Ar Rahnu pawnshop and Shariah view. Also, the personal consumptions of an individual are influenced by customer service delivered and Shariah view.

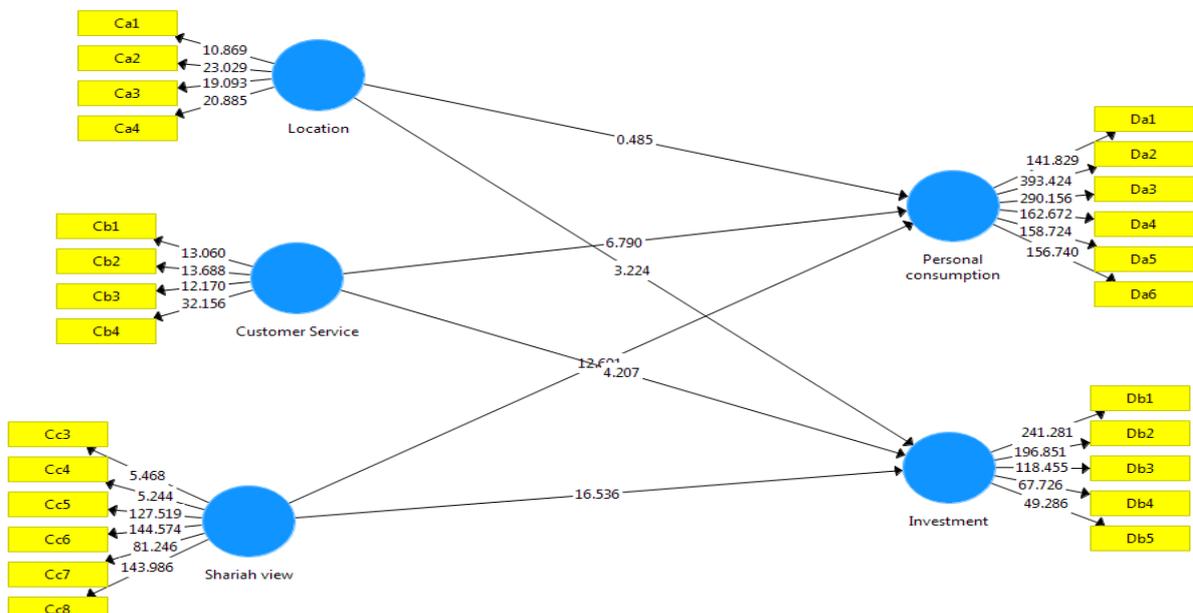


Figure 1: Structural Model

Table2: Structural Model Properties

Path	p-value	f^2	R^2
Customer service → Investments	0.000***	0.044	0.478
Location → Investments	0.001***	0.036	
Shariah view → Investments	0.000***	0.810	
Customer service → Personal consumption	0.000***	0.107	0.397
Location → Personal consumption	0.628	0.001	
Shariah view → Personal consumption	0.000***	0.561	

***significant at 0.05

The R^2 for the investment usage is 0.478. There is 47.8% of variation in investment that is explained by customer services delivered, location of Ar Rahnun pawnshop and Shariah view. The model for personal consumption revealed a value of R^2 which is equal to 0.397. It can be stated that 39.7% of variation in personal consumption is affected by customer service delivered and Shariah view. From the two models, it can be said that customer service contributes a small effect towards investment ($f^2=0.044$) whereas location of Ar Rahnun pawnshop ($f^2=0.036$) and Shariah view ($f^2=0.810$) contribute a large effect toward investment. In personal consumption model, both of the factors i.e: customer service ($f^2=0.107$) and Shariah view ($f^2=0.561$) contribute a large effect to personal consumption.

5. Discussion

Previous studies focus on the factors that contribute on the usage of Ar Rahnun in general. This study is conducted with the aim to examine specifically on the factors that contribute to the usage of Ar Rahnun for personal consumption and investment purposes. Based on previous literature, location, customer service and Shariah view have been identified as the independent variables while the personal consumption and investment serves as the dependent variables. From regression analysis, there is a significant relationship between the independent variables (location, customer service and Shariah view) and investment used. Meanwhile personal consumption is found to have a significant relationship with customer service and Shariah view. This is in line with [18] that found Shariah view is one of the important factors that affect the acceptance level of Ar Rahnun usage. Besides, [19] found that customers use Ar Rahnun because of service quality, locality and management of the provider. Meanwhile, [20], found that one of the critical success factors of Ar Rahnun acceptance by the customer is location. Malaysian citizen has high acceptance towards Islamic product because they have knowledge and awareness on Islamic product. This will make government aims become true, in which Malaysia aims to become as the Islamic Financial Hub in the world. Nowadays, customers are more aware on the Islamic issues. Customer service also plays an important role, since customers are more demanding that the frontline will provide them a better service. However, location factor is not in line with previous research. The result shows that location will not influence personal consumption usage. Customers who choose to use Ar Rahnun because of personal consumption reasons (emergency, paying utilities bills, paying medical bills and etc), tends to ignore the location factor. They are willing to travel just to make sure that they will receive money to fulfil their needs. In other hand, for investment purpose, it is significantly influenced by location factor. Such customers are more likely to consider the location of the outlet due to cost effective reason.

6. Conclusion

The result could be used by Ar Rahnun Pawnshop operators to plan their future expansion by focusing on the location and staff development. Islamic pawnshops can also disseminate awareness and knowledge about Ar Rahnun and how it correlates with Shariah

or religious obligation to the society. Society needs guidance and explanation why they should go to Ar Rahnun instead, as compared to the conventional pawnshop. Ar Rahnun concept is a unique concept where it combines debt and equity financing.

Apart from the achievement, this study also has limitations. The data was collected from only Selangor sub districts and mere 341 questionnaires were distributed. This result may not generalize the Selangor society as a whole. Therefore, future research should expand the scope and sample of study. Consequently, more contributions can be made to Ar Rahnun studies.

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