

CHAPTER 10

THE FACTORS THAT INFLUENCE THE CHOOSING AR-RAHNU OVER CONVENTIONAL PAWN SHOP IN PENKALAN CHEPA

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INTRODUCTION

Ar-Rahnu, also known as Islamic pawnbroking, is a financial concept that originates from Islamic principles and is widely practised in some Muslim-majority countries. It provides a means for individuals to obtain short-term loans using their valuable possessions as collateral. The word “ar-Rahnu” is derived from Arabic, where “Ar” means “the” and “Rahnu” refers to the practice of pawning or pledging an item. The concept is based on the Islamic principles of *mudarabah* (profit-sharing) and *qard al-hasan* (benevolent loan) (Abd Hamid et al., 2015; Amin & Hassan, 2022). Here is how ar-Rahnu typically works:

- 1) Collateral: The individual brings a valuable item, such as gold jewellery, to an ar-Rahnu institution. The item’s value is assessed by trained professionals who determine its worth.
- 2) Valuation and Loan: Based on the item’s appraisal, the ar-Rahnu institution offers a loan amount, usually a percentage of the item’s value. The loan is provided as a *qard al-hasan*, which means it is an interest-free loan.
- 3) Safekeeping: The item is kept securely by the ar-Rahnu institution during the loan period. The institution assumes responsibility for the safekeeping and maintenance of the collateral.