

A longitudinal analysis of the Ar-rahn's customer profile in Malaysia

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ARTICLE INFO

Article history:

Received 18 August 2017

Received in revised form 26 October 2017

Accepted 2 November 2017

Available online 8 November 2017

Keywords:

Ar-rahn, customer profile, longitudinal

ABSTRACT

Though much research has revealed on the significance of ar-rahn as an effective financial instrument to curb poverty and financial exclusion problems, little is known about the changing trends in the profile of the ar-rahn consumers that can be used by the operators as to provide competitive ar-rahn schemes. Thus, this study attempts to analyse the changes in customer profile of ar-rahn financing in Malaysia using a longitudinal analysis over a six-year period with two sets of observations. The findings show that there are changes in terms of region, level of education, and income throughout the six-year period. Importantly, the usage of ar-rahn financing for production purpose, such as economic activity is claimed to be vital in enhancing the customers' well-being and hence, improving the financial and socioeconomic development of the society.

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1. Introduction

In identifying the ultimate objective of any action, inclusive of, economic and financial action, in Islam, Chapra [1] stated that it lies in promoting people's well-being as conceptualised by maqasid al-Shari'ah, or the higher objectives of Shari'ah which is well-defined as 'human well-being'. Thus, ar-rahn or Islamic pawnbroking which is permissible according to shari'ah principles is perceived to be ideal in contributing to social and economic justice, the equitable distribution of income and wealth, and eradicating poverty. The key objective of ar-rahn is to assist those who face financial difficulties so as to protect them from becoming involved with interest-based loans as these are forbidden in Islam.

Ar-rahn is fundamentally a contract involving pledging an item as a security which becomes binding once the possession of the pledge has taken place [2]. Since the importance of helping the poor and the needy is emphasized and strongly encouraged in the Islamic faith, ar-rahn plays an important role in providing financial support for those people without involving the elements of interest or riba and uncertainty or gharar which are prohibited in Islam. In addition, ar-rahn also acts

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as an instrument to encourage saving and investment involving the buying and selling of gold, where customers benefit from the difference in gold prices [3].

Due to its capacity and capability to fulfil the short term credit need [2], ar-rahn has attracted a great deal of attention from researchers. Much research has been conducted ranging from understanding the role of ar-rahn in curbing poverty and social exclusion in the society [4, 5], bringing the conceptual ruling of ar-rahn into practical [6] to determining the factors that may induce ar-rahn acceptance [7, 8]. Limited studies have been devoted to examine the profile of ar-rahn customers [9] and even little research have attempted to examine the changing trends of the ar-rahn customers. Realizing that such information is critical for the operators to design the effective scheme that match the need of the customers and consequently strengthen the ar-rahn industry, this study seeks to examine the changing trend in the profile of ar-rahn customers in Malaysia.

2. Literature Review

The existing studies in the literature relating to *ar-rahn* in the case of Malaysia have primarily focused on the history and background of the establishment of *ar-rahn* and conventional pawnshops in Malaysia [10] [11], identifying the customers of *ar-rahn* [12] [13], determining the factors affecting customer acceptance and the selection of particular pawnbrokers [14] [15] [16], customer satisfaction on *ar-rahn* schemes [17] [18], as well as the analysis of the *modus operandi* of Islamic pawnbroker systems, including recommendations for improving their service quality so as to ensure that the systems are consistent with *shari'ah* rules and principles. With regards to regulation, Bahari *et al.* [19] and Sanusi and Johari [20] examined *ar-rahn's* operating procedures manual under the Bank Rakyat and Pawnbrokers Act of 1972 in relation to defending the rights of pawnshop customers in Malaysia. A study by Mohamed Fairouz *et al.* [21] also examined the issue of *shari'ah* in *ar-rahn* schemes in terms of Islamic microcredit instruments. In terms of the role of *ar-rahn* financing, Abdul Razak [13] demonstrated that 70 percent of the customers of *ar-rahn* agreed with the positive role of financing in improving their socio-economic conditions, whilst more than 80 percent of the conventional pawnshop respondents disagreed with the statement. Evidently, those who disagreed with the statement argued that pawning would only help them to be financially better-off on a temporary basis or in emergency circumstances, but not for the long-term improvement.

3. Methodology

To fulfil the research objectives, this research involves quantitative data collection based on purposive sampling through questionnaire surveys distributed to the customers of *ar-rahn* institutions throughout Malaysia. These questionnaires were distributed in the year of 2010 and 2016 to compare the trend of customers' profile between these years. In an actual survey in 2010, about 311 out of 364 customers responded the questionnaire. On the other hand, out of 300 questionnaires distributed to the customers of *ar-rahn* in the year of 2016, 294 were duly completed and further analysis was conducted on these.

4. Results and Discussion

4.1 Changes in Demographics

Table 1 illustrates the demographics of *ar-rahn* customers as respondents for the years of 2010 and 2016. In 2010, the majority of the respondents were from the East Coast (71.8%), while there were even less from the Central region (14.9%) and none from the Northern region. In contrast to

2016, the majority of the respondents came from the Central region (43.5%) whilst 30.3% and 19.4% respondents were from the East Coast and Northern regions respectively. Previously, *ar-rahn* financing was popular on the East Coast especially by small entrepreneurs and low-income groups. Nowadays, there is a trend for Malaysians (especially from Kuala Lumpur) buying gold bars and jewellery to cash in on the rising price of the commodity either in *ar-rahn* institutions or banks. This is due to the low confidence in the currencies on the world market and future economic stability especially after the currency and financial crisis of 1997-98, which saw the dumping of Asian currencies causing rapid currency devaluation.

In terms of gender, in 2010, women dominated the number of respondents with 60.8%, while in 2016, respondents were closely divided between women (54%) and men (46%). Historically and traditionally gold is synonymous with women as compared to men, and they tend to buy and hold gold as jewellery, saving or investment, as gold seems to be a fairly liquid asset [13]. Behavioural economists reveal that women tend to pawn sentimental items (such as gold wedding rings) to encourage themselves to repay the loan [22].

As far as the significance of the age of the respondents is concerned, *ar-rahn* institutions were patronised by more than 80% of middle-age and older-age groups, which is between the ages of 30 years old and 59 years old (87.8%) in both years. This should be due to their need for an instant cash loan in order to bridge income gaps while making a living. It is also clear from both years that among the older people, there are a small number who appear to use *ar-rahn* as a source of borrowing.

In 2010, approximately 80% of the respondents of *ar-rahn* were married with 59.7% of them having a large number of family members that ranged from 3 to 5 dependents. Although the percentage of married respondents decreased to 70.4% and the number of respondents with 3-5 dependents was at 55.8% in 2016, *ar-rahn* financing was still highly influenced by married respondents with a large number of dependents as compared to single persons and widows. As a whole, the larger the family, the higher the expenditures they had to cover to make ends meet, possibly serving as their reason for borrowing from *ar-rahn* institutions.

In 2010, the results revealed that *ar-rahn* institutions were patronised by less-educated customers (67.4%), while the trend had changed in 2016 whereby respondents were closely divided between well-educated (52.3%) and less-educated (47.7%). It seems that with the offering of *ar-rahn* schemes by the banks, the image of the pawnshop actually improved and attracted the well-educated groups to deal with the institutions.

As can be seen in Table 1, in 2016, in terms of the sectoral distribution of the participants, approximately 46% of the respondents were self-employed (businessman, farmer, mechanic, shopkeeper, etc.), followed by 26.5% and 19.7% who worked for the government (teacher, army, policeman, fireman, lecturer etc.) and the private sector (bank officer, clerk, supervisor, engineer etc.); the remaining 8.1% were housewives, students, the unemployed and pensioners. According to the Abdul Razak [13], the non-bank forms of lending such as *ar-rahn* are often preferred by customers, because they are often seen as more flexible, convenient and accessible. In comparison, the analysis of 2010 data shows fewer self-employed respondents (34.7%) and those working in the government (19%) and more respondents working in the private sector (23.5%). The number of people who were housewives also drastically decreased from 16.7% in 2010 survey to 4.4% in 2016. Presumably, with the higher cost of living faced by society nowadays, housewives tend to get a job or start small businesses in order to become financially better off and move them away from dependency on their husband. In the state of Kelantan in Malaysia, for instance, women are actively involved in small businesses and enterprises especially at Siti Khadijah's market. Most of the female micro-entrepreneurs buy gold to use when they are in need of instant cash to raise capital or to expand their businesses.

Table 1
 Changes in the *ar-rah*'s customer profile

Customer Profile	2010		2016	
	Frequency	Percentage	Frequency	Percentage
<i>Region:</i>				
Northern	-	-	57	19.4
Central	27	14.9	128	43.5
Southern	24	13.3	13	4.4
East Coast	130	71.8	89	30.3
East Malaysia	-	-	7	2.4
<i>Gender:</i>				
Male	71	39.2	136	46.3
Female	110	60.8	158	53.7
<i>Age (year):</i>				
20 – 29	4	2.2	-	-
30 – 39	36	19.9	76	25.9
40 – 49	62	34.3	99	33.7
50 – 59	51	28.2	83	28.2
60 – 69	28	15.5	36	12.2
<i>Marital status:</i>				
Single	25	13.8	49	16.7
Married	146	80.7	207	70.4
Widow/Widower	10	5.5	38	12.9
<i>Number of dependents:</i>				
0 – 2				
3 – 5	25	13.8	123	41.8
6 – 8	108	59.7	164	55.8
9 – 11	43	23.8	7	2.4
	5	2.8	-	-
<i>Education:</i>				
No formal education	6	3.3	30	10.2
Primary school	26	14.4	8	2.7
Secondary school	90	49.7	102	34.7
Certificate/ Diploma	28	15.5	30	10.2
Bachelor Degree	26	14.4	113	38.4
Masters/ Ph.D	5	2.8	11	3.7
<i>Working sector:</i>				
Government	59	19.0	78	26.5
Private	73	23.5	58	19.7
Self employed	108	34.7	134	45.6
Housewife	52	16.7	13	4.4
Unemployed	10	3.2	3	1.0
Other	9	2.9	8	2.7

Table 2

Changes in *ar-rah*n's customer total income, expenditure, savings, and other income sources

	2010		2016	
	Frequency	Percentage	Frequency	Percentage
<i>Total income:</i>				
RM0 – RM2,000	50	27.6	72	24.5
RM2,001 – RM4,000	30	16.6	74	25.2
RM4,001 – RM6,000	54	29.8	94	32.0
RM6,001 – RM8,000	47	26.0	42	14.3
RM8,001 – RM10,000	-	-	10	3.4
RM10,001 – RM12,000	-	-	2	0.7
<i>Total expenditure:</i>				
RM0 – RM2,000	43	23.8	77	26.2
RM2,001 – RM4,000	43	23.8	91	31.0
RM4,001 – RM6,000	63	34.8	101	34.4
RM6,001 – RM8,000	27	14.9	23	7.8
RM8,001 – RM10,000	5	2.8	2	0.7
<i>*Total saving:</i>				
No saving			156	53.1
RM1 – RM1,000			112	38.1
RM1,001 – RM2,000			16	5.4
RM2,001 – RM3,000			7	2.4
RM3,001 – RM4,000			3	1.0
<i>*Net Income:</i>				
Less than RM0			157	53.4
RM1 – RM500			53	18.0
RM501 – RM1,000			50	17.0
RM1,001 – RM2,000			23	7.8
RM2,001 – RM3,000			7	2.4
More than RM3,001			4	1.4
<i>Income sufficient:</i>				
Yes	92	50.8	127	43.2
No	89	49.2	167	56.8
<i>Reasons for insufficient income:</i>				
High cost of living	73/181	40.33	146/294	49.66
Children start schooling	32/181	17.68	61/294	20.75
Tied with debt				
Unstable income	21/181	11.60	58/294	19.73
	20/181	11.05	48/294	16.33

As depicted in Table 2, in 2010, the respondents' income ranged from RM0 to RM8,000, with the total average household income per month being RM4,083.23. In 2016, the range of total monthly income of the respondents expanded to RM12,000 with the total average household income per month being RM4,151.36. Both results show that the customers of *ar-rah*n not only consisted of lower-income and middle-income groups, but also higher-income groups; presumably they are considered as high risk given their current economic condition whereby mainstream financial institutions are stringent in their loan approval. For total expenditure, in 2016, most respondents

(34.4%) had an expenditure of RM4,001 – RM6,000 and this was a very slight decrease from 2010 (34.8%). As can be seen from Table 2, those spending less than RM2,000 and between RM2,001 – RM4,000 saw an increase of 23.8% - 26.2% and 23.8% - 31% respectively from 2010 – 2016, presumably due to the increase in daily expenses, because of the government imposed goods and services tax (GST) running at 6% since 1 April 2015. In terms of savings in 2016, half of the respondents did not have savings and nearly 40% of them had savings between RM1 and RM1,000. As can be seen, those with savings above RM1,000 only accounted for 8.8%, presumably from the savings of those higher income groups with a total monthly household income of more than RM6,000. With a lack of savings, Ismail [23] found that the GST imposed a burden on low-income households, because they spend more on essential items, such as food and utilities. A tax on food consumption, among other things, will further limit the capability to save for many of the lower income households.

Table 2 also shows the result of the net income of respondents in 2016 and 2010: more than half of the respondents experienced a deficit net income, while 35% of them managed to have a surplus in net income up to RM1,000. The remaining 3.8% of the respondents, presumably from the higher income groups, experienced a surplus of net income, which was above RM2,001. In 2016, of 294 respondents, approximately 57% claimed that their income was insufficient for several reasons: higher costs of living (49.66%) and children’s school expenses (20.75%). This was an increase from 2010, where only approximately 50% of the respondents stated that they did not have sufficient income. In 2016, 49.66% of respondents agreed that the high cost of living contributed significantly to them not having a sufficient income. This was similar to 2010, where the majority of the respondents (40.33%) also stated the high cost of living as the main reason for their insufficient income. Presumably, the increase in the cost of living in 2016 was due to the implementation of GST by the government. Therefore, *ar-rahn* financing is seen as a crucial tool which helps people make ends meet because their sources of income are often not enough to cover their expenses.

4.2 Changes in Preferable Sources of Financing

As depicted in Table 3, respondents provided different importance levels to sources of financing. As the findings show, in 2016, borrowing from relatives was the most preferable source of financing with a mean of 2.54, followed by pawnshops with a mean of 2.62. This is in contrast to 2010, where pawnshops (2.13) were the most preferable source of financing as compared to relatives (2.31). Although there is a difference in terms of preferences, this result shows that people tend to obtain loans by borrowing from informal financing or non-bank financing institutions rather than formal institutions due to easy access in terms of procedures and documentation.

Table 3
 Preferable sources of financing

Sources	Mean	Rank	Mean	Rank
	2010		2016	
Pawnshop	2.13	1	2.62	2
Relative	2.31	2	2.54	1
Friend	3.12	3	2.97	3
Bank	3.64	4	5.34	6
Cash advance from credit card	4.39	5	3.74	4
Cooperative company	4.92	6	4.39	5
Moneylender	5.53	7	5.61	7
Others	-	-	7.99	8

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

4.3 Changes in the Purpose of Pawning

The usage of lending is split into two categories: consumption and production purpose. The usages that fell under consumption purposes were 'medical expenses', 'utility bills', 'household expenses', 'repayment for other loan', 'car expenses for personal use', 'festival expenses', 'refinancing household appliances', 'treat yourself', and 'buy gift'. As for the remaining purposes, the followings are listed: 'buying property', 'education expenses', 'start-up business', 'business expansion', and 'car expenses for productive purpose', these were categorised as production purposes.

Table 4

Purpose of pawning

		2010		2016	
		Frequency	Percentage	Frequency	Percentage
Consumption	Medical bill	10/181	5.52	26/294	8.84
	Utility bill	18/181	9.94	25/294	8.50
	Daily expenses	69/181	38.12	123/294	41.84
	Other loan repayment	61/181	33.70	23/294	7.82
	Car expenses	34/181	18.78	28/294	9.52
	Festival	13/181	7.18	24/294	8.16
	Refinancing household appliance	30/181	16.57	-	-
	Treat yourself	19/181	10.50	3/294	1.02
Production	Buying property	9/181	4.97	14/294	4.76
	Education expenses	70/181	38.67	110/294	37.41
	Start-up business	14/181	7.73	97/294	32.99
	Business expansion	50/181	27.62	37/294	12.59
	Car expenses for productive purpose	8/181	4.42	11/294	3.74
	Buying gold	-	-	30/294	10.20

Based on Table 4, the pattern in the use of credit obtained from *ar-rahn* is similar in 2010 and in 2016, where customers tend to use the money for daily expenses. However, it is important to note that more than 30% of the customers in both the data sets obtained loans through *ar-rahn* for productive purposes and income generation activities such as education expenses and business start-up including expanding business activities.

5. Conclusion

This study attempted to examine the significant role of *ar-rahn* financing as a tool for financial inclusion for the well-being of society. Based on the profile of the customer that patronises *ar-rahn* financing, there are changes in terms of the region, level of education and income level between 2010 and 2016. This financing is not only desired by the less developed regions and those with low income levels, but also by those developed regions such as Kuala Lumpur, and those from middle and high incomes. The higher cost of living in Malaysia in recent years has shrunk each person's income, which is mainly due to the government imposed goods and services tax on most transactions in the production process in 2015. As a result of their insufficient income, those individuals who have been affected people would patronise *ar-rahn* financing in order to make ends meet.

In order to promote *ar-rahn* financing as the best alternative to interest-based microlending loan, *ar-rahn* providers should encourage their customers to utilize their *ar-rahn* financing for business purposes. Secondly, *ar-rahn* providers should nurture small scale entrepreneurs by providing social

development programme to them in the form of management, knowledge pertaining to business, marketing, business opportunities, and networking efforts among themselves. Thirdly, to assist *ar-rahn* development, the government should play an active role in monitoring the pawnshop's industry and promoting formal sectors to provide *ar-rahn* financing.

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