

Customer Perception on Islamic Pawning System: Based on Sainthamaruthu Division

MFF. Zahira¹, AH. Rifas², MAF. Faroosha³ & SI. Nimsith⁴

^{1&3}Department of Islamic Studies, Faculty of Islamic Studies and Arabic Language, South Eastern University of Sri Lanka,

^{2&4}Lecturer (Prob.), Faculty of Islamic Studies and Arabic Language, South Eastern University of Sri Lanka, fathimazahira.fal@gmail.com, farooza525@gmail.com, ahrifas@gmail.com, sinimsith@gmail.com

Abstract

Today banks and financial institutions, their products and services are most renowned among the people. Likewise the using of the banks by people for their banking needs is going up day by day. Today pawning is broadly used as a main path for financing in everywhere. The objective of the research was that identify the perception of Islamic pawning system, and evaluate the percentage of the pawning customers who are interested in pawning system in Sainthamaruthu division. The research is made as descriptive based on primary data which from structured questionnaire. The study target population compromises the Sainthamaruthu division. The data was collected through closed and structured questionnaires by distributing to 220 people who live in research boundary selected by randomly from for getting the better result and 188 questionnaires were received. MS excel is used for the data analysis. The findings of the study was that respondents of Sainthamaruthu division are thinking about Islamic Pawning where most of them answered that Islamic Pawning system is based on Islamic law. The Islamic pawning system is growing fast in Sri Lanka. It is noted that there are a numbers of issues, challenges and obstacles. The task to attain the objective of its establishment is challenging but promising. In order for the Islamic pawning system to continue and grow, undivided support and assistance from the government and regulators are essential.

Key words: Islamic pawning, Sainthamaruthu division, Perception and Islamic law.

Introduction

Modern world mainly concerns about quick business and transaction practices. This business and the transaction are the foundation of the survival of this world. Transaction simply means exchange of goods or service between a buyer and a seller. This kind of transaction process have three components such as transfer of good or service and money, transfer of title which may not be accompanied by a transfer of possession and transfer of exchange rights. However, to conduct a business needs liquid money, but practically there are such obstacles arisen in business. There are some expected and unexpected incidents occurs called as risk. So to overcome from this kind of challenges business and

world directs us to obtain loan. The term 'loan' simply means as an arrangement which a lender gives money or property to a borrower with agreeing to return the property or repay the money along with interest at some future point(s) in time. Now a days loans are obtaining by pledged of their assets and gold articles in financial institutions such as banks and pawning centres. But when loan is granted by these institutions it faces some verse challenges. So to mitigate this doubtful debt and nonperforming loan business practitioners suggest to borrow valuable asset from the borrower or debtor this called as pawning. It means something that leave it with bank or at pawnbroker, who can sell it, if debtor did not pay within a certain time. Then the creditor can feel free without any scared because the loan money can be recovered by selling of particular asset. Pawn loan is a form of service that is easy and fast to require collateral only. If the loan is not repaid when the term of the securities will be auctioned to settle debts (Sharif, 2002).

Sri Lanka having a good experience with pawning services generally most of the conventional banks have pawning through this high rate of income such as People's Bank, Bank of Ceylon, HNB, Sampath Bank, LB Finance and more pawning centers. But it is against with sharia principles majorly it consists of Interest. On the other hand Islam also guides us to deal pawning in the light of Quran and Sunnah. Muslims are practicing their every single activity in the way of Islamic shariah according to this concern their expectance is obligation.

One who wants to borrow money from Ar-Rahnu provider just needs to bring with him or her valuables such as gold or jewelries as mortgage of money that he or she borrows. Amount of borrowing is based on the percentage of the valuables. Usually between 50 to 70 per cent. Customer will be charged based on the worth of wealth of valuable based on principle of Al-Wadiah ad Dhammanah. Fees of keeping the valuables is based on worth or value of gold, but not based on total borrowing. More often than not gold is used as guarantee of borrowing because gold is easy to sell back, chances to auction if the borrowers could not settle their loans. Apart from that genuineness of valuables can be easily determined and the risk of misvalue of pawn items can be easily dealt with (Skully, 1994).

The establishment of Islamic Pawn Broking (Ar-Rahnu) was made available to the Muslim public. For those who meet the requirement, it means that they were given a backup financial assistance when needed. But in getting the assistance one need to pay for its services. Thus it is the main objective of Ar Rahnu to help people who face financial difficulties services and ensuring them to be free from "riba" (Haron, 1996).

In Sri Lanka, Islamic financial and socio centered institutions also providing pawning services under the concept of Islamic sharia Such as Amana bank, Islamic services society (ISS)-Akurana, Kinniya Services Society (KSS), Al-Mashraful Islamiya- Sammanthurai, Al- Makthafuth Takaful-Sainthamaruthu etc. Newly Amana bank provides gold pawning services to society to make man free from interest. Amana bank offers Gold Certificate Financing as an innovative alternative for

conventional pawning. Customers obtain this facility which operates as two separate models offered independently, the first product ‘gold safekeeping’ operates as a safe-custody service for gold jewellery, while the second product ‘emergency cash’ operates as an instant loan, which can be backed by the certificate issued for safekeeping of the gold jewellery.” The Gold Certificate financing product serves the un-banked and under-banked segment with the objective of facilitating convenient credits at a grassroots level to help fund personal as well as micro industries

Sainthamaruthu is one of a dense city in Sri Lanka located in a middle part of some other villages such as Sammanthurai on the west, Kalmunai on the North, and Karaitivu on the South of Ampara district of Eastern province with a population of 27,412 where 50.4% are men and 49.6% are women. Sainthamaruthu is highly urbanized and congested due to increasing commercial activities in the main area of the village, the eastern site is potential for fishing and western site is fully engages with paddy cultivation. The reason for conducted this research on the perception on Islamic pawning system in this division is Sainthamaruthu is the only division with hundred percentage Muslims in Ampara district.

Research Problem

As far as the research area is concerned, as many Islamic financial institutions have been established in the Island and the world. There are many people involve in banking activities day by day. Although, the conventional and Islamic financial institutions provide lots of products and services with the concept of interest, there is a gap in the interest of people in getting the services among the Islamic financial institutions. It is the problem in the intention of the people live in research area.

Now a days most of the people living in Sainthamaruthu are educated as well as business. It is moving fast in economical track, the people need more capital and assets to conduct the business, for that they are receiving capital needed as loan from financial institutions. The business transactions are mostly based on conventional financial system, although it is more developing in the educational manner in particular area. The people consist a different opinion on Islamic financial institution. So the research is going to identify the perceptions and the barriers to transfer our business dealing in the way of Islamic financial sectors.

Research Objectives

- To identify the perception on Islamic pawning system among the people live in Sainthamaruthu division.
- To identify that how people are aware of Islamic pawning system in this division
- To evaluate the size of pawning customers who are interested in pawning system in Sainthamaruthu division.

Research questions

- What is the perception on Islamic pawning system among the people in Sainthamaruthu division?
- Are the Sainthamaruthu division people on awareness of pawning system?
- How many people are interested in pawning system in Sainthamaruthu division?

Literature Review

Norudin Mansoor & S.A. Bashir Ahmad (2013) conducted a research to investigate selected demographic factors towards customer acceptance at Ar-Rahnu Maidam as their Islamic Pawn Broking. Specifically, the investigation is expected to examine the possibility of significant differences among the selected profiles as related to the acceptance of Ar-Rahnu (Islamic pawning).

Primary data was used. All questions in there were approximately 2,700 clients that had received the service of the Islamic Pawn Broking from the agency. However, the findings and the discussion on their study still found to be useful for the management of Ar-rahnu Maidam in assessing the more appropriate strategies for handling the customers. For some cases one approach may be good enough while some other group, several strategies may be considered to be more effective

Nur Azura Sanusi & Mohamad Shukri Johari (2007), customers that does not having proper banking account are eligible to get the service of Pawn Broking, while they may has difficulties to borrow money from most financial institutions without it. The above procedure is unnecessary when having transaction with Ar-rahnu Maidam. Islamic Pawn Broking offered charges in term of storage facilities which are much lower compared to interest charge by conventional financial institution

S. Hisham et al., (2013) in his article reviews on Ar-Rahnu's concept and challenges faced by Islamic pawn shops in Malaysia. The Islamic pawn broking have several advantages over conventional pawn broking because it provides a cheaper way to obtain financing and is free from interest. The study also found that assets pawned are guaranteed to be kept safely and there is a fair practice in auctioning and bidding.

Appannan, S. and Doris, G. (2011) had conducted research about the level of public awareness towards Islamic pawn broking Ar-Rahnu Scheme in Sungai Petani, Kedah. The findings indicated that Sungai Petani's community is aware of the term Islamic pawn broking but the awareness is at a different level among the races. The majority of Chinese and Malays were aware of this scheme. The main factor influencing public to pursue Islamic pawn broking was its cheap cost of loan.

Muhammad Saiful Islami (2010) in his article discussed about the principles of Ar-Rahnu which underlying the Islamic pawn broking scheme in Malaysia. The findings of this study indicated that the combination of the principle of Ar-Rahnu together with other Muamalat principle like Al-Qard al-Hasan, Al-wadi'ah ad damanah and al-ujrah are needed to create a product of Islamic pawn broking.

The above researches have been done in various countries to examine details about Islamic pawning. But, so far there were no any single research conducted on Islamic pawning in Sri Lanka therefore this research is going to examine the perception on Islamic pawning based on Sainthamaruthu division and the main reason to conduct the above research in Sainthamaruthu division is that full Muslim dominate division and to identify the perception on Islamic pawning system. We are sure this research will fulfill the needs in Islamic pawning to future researchers

Research methodology and data collection

The research is made as descriptively based on primary data with structured questionnaire. Structured questionnaires were distributed directly and through mail among 220 people who are living in Sainthamaruthu division. Selected by randomly from 220 for getting the better result. 188 duly completed questionnaires were got back and data were collected. Most of the questionnaires were collected directly, only 12 questionnaires were collected through the mail. Random sample is used for distribute questionnaires. Researchers applied MS excel for the data analysis. Descriptive analytical techniques such as column charts, tables, graphical illustration etc. were used.

Findings and Discussion

Collected data are verified according to the Microsoft Excel software and analyzed with figures and tables. Those figures and tables are helpful for examine the data related to the research to come across a correct conclusion through 188 Questionnaires collected from respondents by issuing 220 questionnaires of Sainthamaruthu division.

Part-A

Demographic features

Gender:

Male -115

Female-73

Age:

Age range	18-30	31-40	41-55	56<Above	Total
Amount	26	45	89	28	188

Educational Qualification:

Grade 1-9	G.C.E.O/L	G.C.E.A/L	Bachelor's Degree	Master Degree	Ph.D.	Total
23	54	49	47	10	5	188

JOB Qualification:

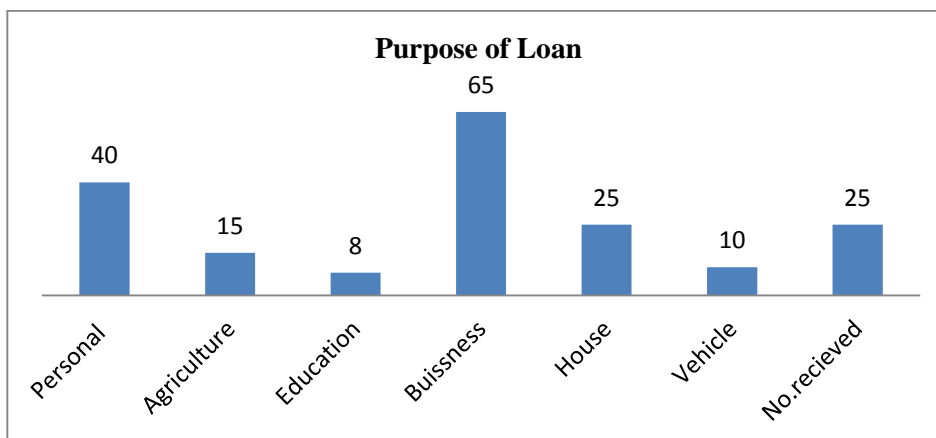
Student	Pvt.Sec	Pub.Sec	Self Employed	Retried	Other	Total
20	10	84	54	5	15	188

Monthly Income:

Below< 20,000	20,000-35,000	35,000-45,000	45,000 above	Total
27	57	58	46	188

The purpose of obtaining pawning

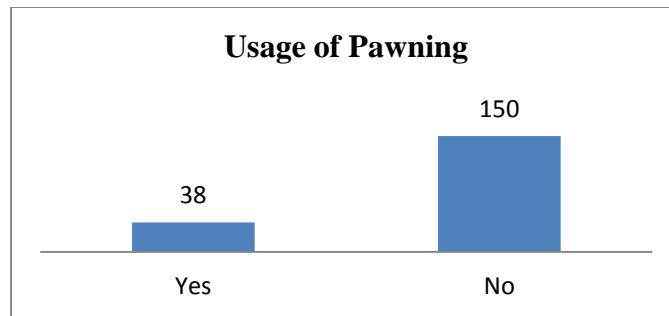
Personal	Agriculture	Education	Business	House	Vehicle	Not received	Total
40	15	8	65	25	10	25	188



Part B

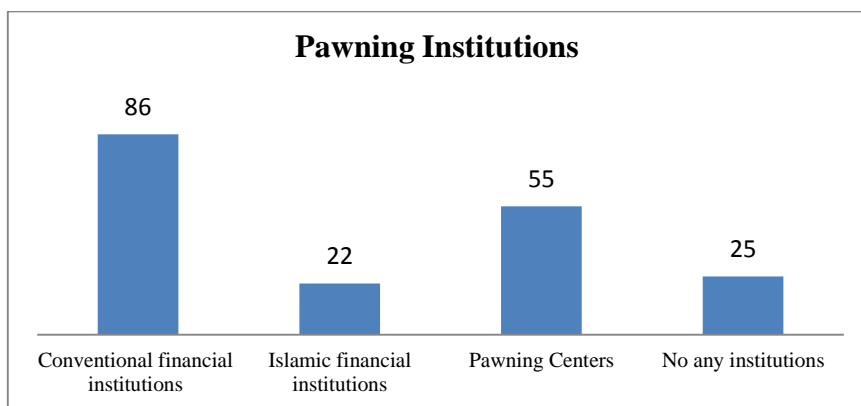
Usage of pawning often by the respondents

		Total
Yes		38
No		150



In the above bar chart states that majority people do not often use pawning system. Because 150 people are in high income levels and 38 people only suggest they often use pawning because of their poverty line. According to their reply, majority of the people suggest as obtain pawning is not good because they are in good position in the society and remaining people suggest pawning is good through their opinion who were identified as they are poor.

Conventional financial institutions	Islamic Financial institutions	Pawning Centers	No any institution
86	22	55	25



According to above Chart, 46% of people (86) states that they involve their pawning with conventional financial institutions because they are traditionally dealing with conventional financial institutions. 12%

of people (22) states that they are engage with only Islamic financial institutions to deal their pawning transactions because they are aware of Islamic finance and having a great believe in religious aspects.

And 29% of people (55) deals with pawning centres for pawning services because they do not care any religious point of view they just need to fulfill their immediate financial remedies. 13% of people (25) is not deal with any pawning institutions because these kind of people don't need any pawning facilities due to their pre planning management, no willingness, economical position, etc.

The respondents have more opinions which are arrived as follow from on the conventional pawning services.

Immediate remedy for financial needs	76
Highest interest rate	46
Highest Security & Government involve	34
Not applicable	15
Stress, Difficulty in repaying loan	17

From the above chart, 40% of people (76) obtains pawning because of overcome for their immediate financial remedy 24% of people (46) states when they are dealing with conventional financial institutions they feel that they have to pay highest interest rate and 18% (34) of people states when they deal with conventional institutions they charge highest security in conventional institutions 15 people do not engage in any financial institutions and 17 people feel stress when they deal pawning transactions with conventional financial institutions.

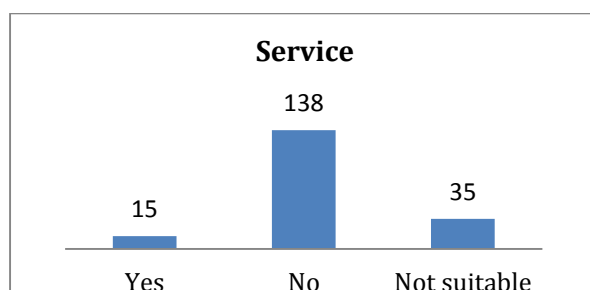
When one of the questions examined regarding the understanding about Islamic pawning system, 91% of people is having knowledge in Islamic pawning services and 6.4% of people does not have proper knowledge in Islamic pawning system. The research area consists majority of Muslims which is one of the reasons to know about Islamic pawning system and realize the actual status of Islamic banking process. And the issue is, research area people are not accepting 100% Islamic banking and financial practices in because of its practice such as the supervision of central bank of Sri Lanka. The above negative mind set up won't fully support to this shariah based practice in any products implementations. And 140 (74%) people state Amana bank provides Islamic pawning system and 12 (6%) people state Masrafal Islamiya Sammanthurai as providing Islamic Pawning Service and 31 (16.5%) people state Makthafal takaful-Sainthamaruthu as providing Islamic pawning service and remaining 5 (3.5%) people state that they don't know the exact Islamic institution where providing Islamic pawning service.

Institution	Respondents	Percentage
Amana bank	140	74%
Mashraful Islamiya	12	6%
Makthaf al Takaful	31	16.5%

And also while asked the respondents about the current pawning system approach accepted to the Islamic Shariah, 10 (5%) people suggest their pawning system according to that, they are sure about their pawning system is based on Islamic sharia principles and 40 (21%) people suggest their pawning dealings that are not permissible in shariah aspect, because they deal with conventional institutions. Other remaining 40 (21%) people are not sure about the two systems due to this they are very complicated to answering above question.

The following information is regarding the service quality which is felt of both Islamic and conventional pawning systems. The data was collected

Yes	15
No	138
Not suitable	35



According to above chart, only 7.9% (15) of people states that conventional pawning system is good and 73% (138) of people is frankly saying that the conventional pawning system is not providing good service to their customers because these people do not have any single knowledge in Islamic finance. But, most of people in Sainthamaruthu addict on pawning to fulfill their financial needs and 18% (35) of people takes other help unless the pawning system when they are in financial trouble and especially conventional pawning is not advisable. So most of the Sainthamaruthu people offering pawning system with knowing the actual burden of pawning

There was a well-structured question asked to measure the quality of service of Islamic pawning system in Islamic financial institutions.

Yes	56
No	87
Not suitable	45

According to above table 29% of people (56) faces difficulties when they obtain Islamic pawning service in Islamic financial institutions, the above people indicate that Islamic banking and financial institutions looking forward more documentary practices when comparing to conventional institutions. But practically, this practice is good because of customers reliability is rare in this fast moving world. That's the major reason for this opinion. 24% of people (45) suggests this question is not suitable to them because of they are not involved. Giving an awareness regarding Islamic pawning service in this division, conducting workshops regarding Islamic pawning systems, giving best advertisements about Islamic pawning services, not to take service charges, reducing more documental process are as the influencing factors while looking to the service quality in Islamic financial institutions.

Conclusion

Islamic pawning system is an alternative system to Conventional Pawning. And they are trying to shift to Islamic pawning system in future aspects as we are researchers in this field we hope to promote Islamic Pawning as researchers suggest in our recommendations. According to the findings that found about respondents of Sainthamaruthu division thinking about Islamic Pawning where most of them answered that Islamic Pawning system is based on Islamic Sharia law.

Although the Islamic Pawning System is growing fast in Sri Lanka. It is noted that there are a numbers of issues, challenges and obstacles. The task to attain the objective of its establishment is challenging but promising. In order for the Islamic pawning system's to continue to grow, undivided support and assistance from the government and regulators are essential. In the meantime, Most of the problems and issues in the Islamic pawning system in the country can be resolved through constant discussions and the exchange of ideas between regulators and the industry players .Further researches in Sri Lanka context have to be continued in order to achieve this goal.it must be done based on ijthihad through investigation of the Quran and the Sunnah while making comparison with modern economic, legal .Islamic pawning system should more applicable in society to attain a best place to enlighten the loan facility based on sharia. And also the following recommendations are prefixed for making Islamic pawning system better

- ✓ Establishing Islamic pawning system everywhere in the country.
- ✓ Should have good awareness program to public and make mobile services
- ✓ Most of the respondants suggest is to gain good customer care in Islamic financial institutions when they in need to obtain pawning

- ✓ Islamic pawning system should spread out their service
- ✓ More separate divisions should implement Islamic pawning services in Islamic financial institutions
- ✓ Make well trained resource person to demonstrate about Islamic pawning system to society

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