

**Development of Islamic Pawn-broking Services: Differentiating Profiles of their
Respective Patrons**

By

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Abstract

Traditionally, pawnshops in Malaysia had played the role of "poor-man's bank" by providing procedurally non-cumbersome loans against the mortgage of jewellery and other such small items of value. Though the oppressive elements of the conventional pawnshops may have been much reduced by the provisions of the Pawnbrokers Act 1972, the practices are still inconsistent with the tenets of *Sharia*. This led, initially, to the emergence of the first *Islamic* pawnshop in 1991. Subsequent development led to the institutionalization of *Islamic* pawn-broking, initially on a localized basis in the Islamic dominant states, and currently on a national basis.

This paper seeks to develop a comparative demographic and lifestyle profiles of the small independent *Islamicised* conventional pawnshops vis-à-vis their larger institutionalised counterparts. The study employs a stratified sample of customers of the different types of pawn-broking organizations. A Multiple Discriminant Analysis (MDA) is employed to determine the demographic and lifestyle factors that have the predictive ability to differentiate the patrons of the different group of organizations. Results showed that two demographic variables – family income and age – possess significant discriminatory power. Additionally, among the lifestyle dimensions tested, the sociables and the outdoors are also significant discriminators. The predictive ability of the discriminatory model developed is reasonably well above the maximum chance classification and was also observed to be stable.

Given the greater visibility of the institutional customer and the expansion in the network of *Ar-rahm* outlets, the patronage of *Ar-rahm* services is expected to continue to increase.

Introduction

Traditionally, pawnshops played the role of “poor-man’s bank” by providing procedurally non-cumbersome credit against the mortgage of jewellery and other such small items of value. Though the oppressive elements of the conventional pawnshops may have much been reduced by the provisions of the Pawnbrokers Act 1972, their practices are still inconsistent with the tenets of *Sharia*¹.

Thus, following the tides of *Islamization* of the Malaysian banking system, the State Government of Terengganu², in 1991 established the first *Islamic* pawnshop, *Muassasah Gadaian Islam Terengganu* (MGIT), in the country. This was soon followed, in 1992, by the opening of the *Ar-rahn* (Mortgage) shops by the *Permodalan Kelantan Berhad* (PKB), a subsidiary of the Kelantan Economic Development Corporation, the economic development arm of the Kelantan State Government³. Subsequently, in 1993, *Bank Kerjasama Rakyat Malaysia Berhad* (*Bank Rakyat*)⁴ introduced its *Ar-rahn* products. Meanwhile, in 1995, the State Government of Kelantan ordered the cessation of all *riba*⁵-based conventional pawnshops in its jurisdiction. Nonetheless, the conventional pawnshops primarily owned and operated by non-Muslim, may continue to operate if they were to deal in accordance with the *Ar-rahn* principles.

When first conceptualized, the *Ar-rahn* was designed to provide an alternative source of easing temporary financial burden to the traditional patrons of the conventional pawnshops – the low-income stratum of the society. However, the customer-base had expanded beyond those of the conventional pawnshops, to finance various consumptions and lifestyle needs (Ruslina, 1995, p.35). During the first eighteen (18) months of its operation, the PKB *Ar-rahn* had attracted about 48,000 customers -- an average of more than 100 per working day. Of these, about 45 percent were said to be from the middle and upper income strata of the society. Many of the customers were also said to be small business operators who turned to the *Ar-rahn* shops for their working capital. In 1995, the cumulative total transactions amounted to about RM300 million involving about 0.6 million customer. As at March 2003, it was reported that the Kota Bharu’s pawnshop (one of the four pawnshops in the state of Kelantan) had a total of RM319 million

¹ Literally, *sharia* means the ‘path’. In *Islamic* jurisprudence it refers to the *Quran* and the *sunnah* (the sayings and the conduct of Prophet Muhammad), the material sources of *Islamic* law (Hamid, Craig and Clarke).

² one of the two state governments in Malaysia that are currently under the control of the *Islamic*-based political party, the Pan Malaysia Islamic Party.

³ The other state which largely had been under the control of the said *Islamic*-based political party

⁴ Bank Rakyat was established in September 1954 under the Co-operative Ordinance 1948, following a period in which the Co-operative Credit Movement began its rapid expansion in Peninsular Malaysia. With the expansion of its role, on 6 January 1973, the bank’s name was changed to the present name of Bank Kerjasama Rakyat Malaysia Berhad or Bank Rakyat. Bank Rakyat is the second bank in the country, which offers fully *Islamic* products.

⁵ *Riba*, generally refers to interest. However, the term is broader than ‘interest’. Literally, it means ‘increase’. Thus, in *Islamic* jurisprudence, it refers to any form of ‘unjustified’ earnings.

transactions, which involved about 613,000 customers.(Wan Mohd Shariff, 2003, p.4). The MGIT *Ar-rahn*, since its inception had attracted an average more than 30,000 customers per annum. As of November 2001, Bank Rakyat had the most extensive network of 39 *Ar-rahn* outlets, spread over 7 of the 11 states in Peninsular Malaysia. The service generated a net profit of about RM2.67 million for the financial year 2002.

Objective

This paper reports the results of a study to determine the comparative profile of the institutional *Ar-rahn* customers vis-a-vis those of the *Islamicised* conventional pawnshops. Specifically, the study tries to compare the demographic and life style profile of customers of the two types of *Ar-rahn* service providers and subsequently tries to employ the relative profile to develop a predictive model that could discriminate between the two groups of customers.

Methodology

The study employed a sample of 267 respondents from the state of *Kelantan*. The composition of the sample is: 184 institutional (PKB and *Bank Rakyat*) *Ar-rahn* customers (henceforth, referred to as institutional users) and 83 *Islamicised* conventional pawnshops customers (henceforth, referred to as conventional users).

Data was collected through personal interviews with the aid of structured questionnaires. The demographics that were collected are those dimensions as reported in Table 1. The lifestyle characteristics were solicited by asking the respondents to state the extent of their agreements (on a 5-point Likert scale) with each of the 21 statements (see Appendix 1 for the list of the statements), which variously reflects their activities, interest and opinion (AIO). The AIO statements were then factor-analysed to reduce them to a few underlying lifestyle dimensions.

The demographic data were then subjected to a cross-tabulation analysis to determine the comparative demographic profile of the patrons of the institutional *Ar-rahn* vis-à-vis their *Islamicised* conventional pawnshops counterparts. The metric demographics together with the lifestyle dimensions were then subjected to a Multiple Discriminant Analysis (MDA) to develop a predictive model of users of the respective *Ar-rahn* providers. In applying the MDA model, a split sample or cross validation approach was used. A proportionate stratified sampling procedure was used to divide the total respondents into an analysis sample for the development of the discriminant function and a holdout sample for model validation.

Findings

Demographics

Table 1 shows the results of the cross-tabulation analysis comparing the profiles of the institutional users vis-à-vis the conventional ones. The overall sample is composed of an almost equal proportion of males and females with an average age of about 39 years old. About 85 percent of them are married. On an average, the overall sample has more than 4 children, 2 of whom are of school going age. Slightly less than 60 percent of the respondents work in the public sector, close to 30 percent in the private sector, while the remaining 10 percent are largely self-employed. In terms of education, about 23 percent of the respondents had post-secondary education. The mean monthly family income of sampled respondents is about RM700.

Generally, it is observed that the institutional users exhibit a demographic profile that differs from the conventional ones, except for the type of sector employed. With respect to gender, the institutional users comprise of about equal proportion of males and females. In marked contrast, the conventional users are preponderantly females, specifically about 61 percent females and 39 percent males.

With respect to age, the institutional users registers an average age of about 38 years old while the conventional users are marginally older, about 42 years old. The institutional users are generally better off than their conventional counterparts. The former recorded a mean monthly family income of about RM800, compared to just about RM555 for the conventional users.

| Characteristics | Ar-Rahn (PKB + Bank Rakyat) | | Ar-Rahn Non Muslim Owners | | Total | | Significance |
|-------------------|-----------------------------|------------------|---------------------------|------------------|---------|------------------|--------------|
| | Mean/No | Standard Error/% | Mean/No | Standard Error/% | Mean/No | Standard Error/% | |
| 1. Sex | | | | | | | 0.05 |
| Male | 93 | 50.5 | 32 | 38.6 | 125 | 52 | |
| Female | 91 | 49.5 | 51 | 61.4 | 142 | 48 | |
| 2. Age | 37.63 | 0.63 | 41.55 | 1.19 | 38.84 | 0.54 | 0.01 |
| 3. Marital Status | | | | | | | 0.01 |
| Bachelor | 14 | 7.6 | 11 | 13.3 | 25 | 21.8 | |
| Married | 160 | 87 | 68 | 81.9 | 228 | 74.3 | |
| Widow/Widower | 10 | 5.4 | 4 | 4.8 | 14 | 4 | |

| | | | | | | | |
|--------------------------|--------|-------|--------|-------|--------|-------|------|
| 4.No.of children | 4.27 | 0.17 | 4.67 | 0.29 | 4.39 | 0.14 | 0.01 |
| 5.No. of school children | 2.5 | 0.13 | 2.59 | 0.17 | 2.53 | 1.80 | 0.01 |
| 6. Job | | | | | | | n.s. |
| Public | 109 | 59.6 | 51 | 61.4 | 160 | 56.7 | |
| Private | 56 | 30.6 | 22 | 26.5 | 78 | 30.7 | |
| Self employed | 14 | 7.7 | 9 | 10.8 | 23 | 9.8 | |
| Housewife/Jobless | 4 | 2.2 | 1 | 1.2 | 5 | 2.8 | |
| 7. Family Income | 801.48 | 33.72 | 555.71 | 24.56 | 725.09 | 28.81 | 0.01 |
| 8. Education level | | | | | | | 0.01 |
| 6 Standard | 10 | 5.4 | 8 | 9.6 | 18 | 10 | |
| Form 3 | 42 | 22.8 | 18 | 21.7 | 60 | 16.8 | |
| Form 5 | 89 | 48.4 | 42 | 50.6 | 131 | 41.5 | |
| Form6 | 36 | 19.6 | 14 | 16.9 | 50 | 18 | |
| College/University | 7 | 3.8 | 1 | 1.2 | 8 | 13.8 | |
| 9.Education background | | | | | | | 0.01 |
| Pondok/Arabic | 7 | 3.8 | 4 | 4.8 | 11 | 4.1 | |
| Malay | 163 | 88.6 | 74 | 89.2 | 237 | 88.8 | |
| English | 8 | 4.3 | 4 | 4.8 | 12 | 4.5 | |
| College/University | 6 | 3.3 | 1 | 1.2 | 7 | 2.6 | |

Number of respondents:

1. Ar-Rahn (Kelantan States + Bank Rakyat) = 184
2. Ar-Rahn Non Muslim Owners = 83

Table 1
Demographic Profile
of the Institutional and Conventional *Ar-Rahn* Users

Lifestyles

The factor analysis of 21 AIO statements results in an extraction of seven (7) factors. The factors and the statements associated with each are as per Appendix. An examination of the statements associated with each, to identify the common underlying dimensions, results in the lifestyle dimensions as shown in Table 2.

| Factor | Lifestyle Label | Underlying Dimension |
|--------|------------------|--|
| 1 | The sociables | Love for activities that relate with others, such as charitable (X ₁), sporting (X ₂ , X ₃), social (X ₅), religious (X ₇ , X ₈) and others (X ₄ , X ₆) |
| 2 | The leisurely | Love for leisure activities (X ₉ , X ₁₀ , X ₁₁) and less appreciation for home centred activities (X ₁₂ , X ₁₃). |
| 3 | The homebody | Preference for home and family centred activities (X ₁₄ , X ₁₅) |
| 4 | The outdoors | Liking for out of home activities (X ₁₆ , X ₁₇). |
| 5 | The friendliers | Inclination towards friends (X ₁₈) and disinclination towards home (X ₁₉). |
| 6 | The urbanites | Preference for housing estate dwellings (X ₂₀). |
| 7 | The country folk | Preference for country living (X ₂₁). |

Table 2
Lifestyle Dimensions Extracted by Factor Analysis

Discriminatory Demographics and Lifestyles

The discriminant function, developed from the analysis sub-sample, with its canonical correlation of 0.5565 explained significantly ($p < 0.001$) about 31 percent of variations in the respondents choice of patronage between the institutional *Ar-rah*n and the *Islamicised* Conventional Pawnshops.

Table 3 shows the discriminant function loadings of the predictor demographics and lifestyle variables in descending order. As can be seen from the table, only two out of the four demographic variables, family income and the age of the respondents, were found to be significant predictor of patronage. Additionally, out of the seven lifestyles only one, the sociables exhibit significant discriminatory power. One other, the outdoors, could be considered to be marginally significant.

| Independent Variables | Loadings |
|-----------------------|----------|
| Family Income | 0.53113 |
| The sociables | 0.48819 |
| Age | -0.27652 |
| The outdoors | 0.21177 |
| The friendliers | 0.16045 |
| The country folk | -0.12038 |
| The leisurely | -0.05540 |
| Family size | -0.04404 |
| The homebody | 0.03925 |
| The urbanites | -0.01394 |
| School going children | 0.00236 |

Table 3
Discriminant Function Loadings

The direction of the influence of the above-observed variables on patronage is vividly illustrated by Table 4, which shows the results of the test of the equality of the group means.

| Variables | Institutional | | Difference in Means | Wilks Lambda | F |
|-----------------------|---------------|--------------|---------------------|--------------|-----------|
| | Institutional | Conventional | | | |
| Family income | RM767 | RM 509 | RM258 | 0.888 | 16.708** |
| The sociables | 12.430 | 10.263 | 2.167 | 0.903 | 14.115** |
| Age | 38.87 yrs | 42.48yrs | 3.61yrs | 0.97yrs | 4.529* |
| The outdoors | 4.276 | 3.925 | 0.351 | 0.980 | 2.656* |
| The friendliers | 0.818 | 0.632 | 0.185 | 0.989 | 1.525 n.s |
| The country folk | 1.565 | 1.690 | 0.125 | 0.994 | 0.858 n.s |
| The leisurely | 6.812 | 6.925 | 0.113 | 0.999 | 0.182n.s |
| Family size | 4.53 | 4.69 | 0.160 | 0.999 | 0.115 n.s |
| The homebody | 2.702 | 2.643 | 0.059 | 0.999 | 0.091 n.s |
| The urbanities | 2.522 | 2.548 | 0.026 | 0.999 | 0.0115n.s |
| School going children | 3.054 | 3.048 | 0.006 | 1.000 | 0.000 |

* significant $p < 0.05$

** significant $p < 0.01$

n.s not significant

Table 4
Results of the Test of Equality of Group Means

Consistent with the results of the cross-tabulation analysis, patronage is significantly ($p < 0.01$) related with family income. Generally, the institutional users are of relatively higher income than the conventional users. The mean monthly income is about RM767 and RM509 respectively, resulting in a difference of mean monthly family income of more than RM250 per month. In other words, the mean monthly income of the institutional *Ar-rahn* customers is about one and half times that of the *Islamicised* Conventional Pawnshops users.

In terms of age, as observed earlier, the mean age of the users of institutional *Ar-rahn* is only marginally older than the overall sample. Corroborating the results of the cross-tabulation analysis, the mean age of the users of the institutional *Ar-rahn* is significantly ($p < 0.01$) lower than the *Islamicised* Conventional Pawnshops users. The mean age for the two groups of users is about 38 years and 43 years respectively.

With respect to the other demographic predictor tested, i.e. family size, no significant difference is observed between the two group of users. On an average, the two groups of users have about five children, three of whom are of school-going age.

In terms of lifestyle, the institutional *Ar-rahn* users register a significantly ($p < 0.01$) higher score on the 'sociables' dimension compared to the *Islamicised* Conventional Pawnshops. The mean score for the two groups of users on the dimension is 12.430 and 10.623 respectively, resulting in a mean difference of about 2.167. This means that the institutional users have a greater inclination to participate in various activities that relate with others than the *Islamicised* Conventional Pawnshops users do. The former would be more inclined to be involved in various charitable, sporting, recreational, social, and religious activities. They also have a greater tendency to read.

Additionally, the institutional *Ar-rahn* users exhibit a significantly ($p < 0.10$) higher score on the "outdoor" lifestyle dimension than their *Islamicised* Conventional Pawnshops counterparts. The mean score on this lifestyle dimension is 4.276 for the former and 3.925 for the latter. The institutional *Ar-rahn* users also tend to spend more time out of home on work activities and have a greater liking for outdoor activities.

Discriminant Function

The analysis results in the following discriminant function:

$$Z = 0.788 D_1 + 0.622 D_2 - 0.648 D_3 + 0.359 D_4$$

Where Z = Discriminant Score
D1 = Family income
D2 = Sociable
D3 = Age
D4 = Outdoors

The group centroids for the institutional *Ar-rahn* is 0.449 and -0.98396 for the *Islamicised* Conventional Pawnshop.

The MDA model developed from the analysis sub-sample results in about 76 percent correct classification. The discriminative ability of the model is reasonably high, considering a proportional chance classification of about 22 percent and a maximum chance classification of about 68 percent. Additionally, the predictive ability of the model is fairly stable, exhibiting a 62 percent correct classification on the validation sub-sample.

Summary and conclusion

The findings of the study seem to demonstrate that the two types of *Ar-rahn* shops, the institutional and the Conventional, *Ar-rahn* are serving quite distinct segments of the market.

Generally, the *Islamicised* Conventional Pawnshops continued to attract the relatively low-income stratum of the society which they had been serving in their pre-*Islamicised* form. Besides, they appealed more to the females than they do to the males. In term of age, their customers are generally in the early 40's.

In contrast, the institutional *Ar-rahn* is seen to be carving a market among the relatively higher income groups compared to the *Islamicised* Conventional Pawnshops. It is also seen to be gender neutral -- appealing equally well to the males as well as the females. Besides, age-wise they seem to be attracting a relatively younger segment of the society..

The two types of *Ar-rahn* service are also seen to be appealing to customers with significantly different lifestyle, in some respects. The institutional *Ar-rahn* customers are

more sociable and outdoor in nature than the *Islamicised* Conventional Pawnshops customers are.

The study offers results that could possibly be used advantageously by the two groups of *Ar-rahm* service providers. Besides the demographic variables that are conventionally used in market segmentation, the study also offers some lifestyle dimensions that could enrich the development of marketing efforts of the relevant service providers. In view of the "outdoor" nature of the customers that had found an appeal to their services, the institutional *Ar-rahm* service providers, for example, could possibly use the outdoor advertisements. Besides, they could also appeal to the print media in view of the inclination to "read" among their customers. The findings could also be of help in developing advertising copy. To reach their customers, the institutional *Ar-rahm* could possibly employ an outdoor social setting among a relatively younger group of some economic means. The converse would be true for the *Islamicised* Conventional Pawnshops.

Given the 'more' open nature of the institutional customers and the more potent communication tools that they are capable of being exposed to, the patronage of institutional *Ar-rahm* is expected to expand in tandem with the expansion of the network of facilities that is occurring in the country.

Appendix 1

Factor Matrix

| Input Variables | Factor 1 | Factor 2 | Factor 3 | Factor 4 | Factor 5 | Factor 6 | Factor 7 |
|-----------------|----------|----------|----------|----------|----------|----------|----------|
| X ₁ | 0.74584 | | | | | | |
| X ₂ | 0.67338 | | | | | | |
| X ₃ | 0.65220 | | | | | | |
| X ₄ | 0.63496 | | | | | | |
| X ₅ | 0.55905 | | | | | | |
| X ₆ | 0.49146 | | | | | | |
| X ₇ | 0.47274 | | | | | | |
| X ₈ | 0.45983 | | | | | | |
| X ₉ | | 0.54726 | | | | | |
| X ₁₀ | | 0.53080 | | | | | |
| X ₁₁ | | 0.53043 | | | | | |
| X ₁₂ | | -0.52447 | | | | | |
| X ₁₃ | | -0.52280 | | | | | |
| X ₁₄ | | | 0.62774 | | | | |
| X ₁₅ | | | 0.49650 | | | | |
| X ₁₆ | | | | 0.62488 | | | |
| X ₁₇ | | | | 0.39029 | | | |

| | | | | | | | |
|-----------------|--|--|--|--|----------|---------|---------|
| X ₁₈ | | | | | 0.55089 | | |
| X ₁₉ | | | | | -0.39413 | | |
| X ₂₀ | | | | | | 0.68255 | |
| X ₂₁ | | | | | | | 0.60170 |

X₁ = love for charitable activities.

X₂ = effect of sporting activities on leadership

X₃ = preference for attending entertainment activities rather than involve in sports

X₄ = participation in recreational activities

X₅ = effect of social activity on leadership style

X₆ = effect of reading on knowledge

X₇ = effect of attending religious ceremonies on knowledge

X₈ = effect of attending religious talks on knowledge

X₉ = time spend on shopping

X₁₀ = visiting entertainment centers to release stress

X₁₁ = frequency of leisure travel

X₁₂ = family is most important matter of all things

X₁₃ = work hard for the sake of family

X₁₄ = watching television as a past time

X₁₅ = much time spend with family

X₁₆ = time spend out of home on work activities

X₁₇ = liking for outdoor activities

X₁₈ = spend much time talking to friends

X₁₉ = spend much time at home in the evenings

X₂₀ = cooperation among residents of housing estates

X₂₁ = peacefulness of country living

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