

## **The Concept of *al-Rahn* from the Shariah Perspective**

Islamic pawnshop is not new in the Malaysian market and it has been 20 years since it was first introduced by the Terengganu State Government, known as Muassasah Gadaian Islam Terengganu (MGIT) scheme in 23 January 1992. The main objective was to help poor people to get short term fund by pawning gold as collateral or in Islam it is called *rahn*. This concept also refers to various terms such as mortgage, pledge, charge or even collateral. The same concept has also been adopted in today's Islamic financial industry. Before we further contemplate on the application of *rahn* in the industry, it is best for us to know the Islamic view on *rahn*.

Theoretically, *rahn* is a contract that makes something as a guarantee to the completion of settlement of a debt. Usually the collateral is asked by the creditor to the debtor during the commencement of the contract to avoid default from the debtor of not paying the debt.

The legality of concept of *rahn* has been mentioned in the Quran in al-Baqarah verse 283 : “And if you are on a journey and cannot find scribe, then a security deposit (should be) taken”

This verse validates the permissibility to secure a loan or financing with a collateral in Islam.

This has also been supported by the practice of the Prophet from a hadith narrated by Aishah (RA): “Rasulullah bought food on credit from a Jew and gave his steel armour as a collateral towards the seller.” (Sahih al-Bukhari)

### **The Pillars and conditions of Rahn**

The majority of the Islamic jurists agree that there are four pillars in *rahn* concept, as follows;

1. Offer and acceptance (*sighah*)
2. Parties in the *rahn* contract (*rahin* and *murtahin* – the person who provides the collateral and the person who receives the collateral)
3. Collateral asset (*marhun*)
4. The debt itself (*marhun bih*)

### **The application of the concept of *al-rahn* in Islamic banking practice**

Under the current practice of Islamic banking, the concept of *rahn* can be applied in two different applications. The first application is by using the collateral asset or *marhun* as the pure security.

As an example under house financing, normally the bank will provides the financing facility for the customer to purchase the house that makes the bank as the creditor and the customer as a debtor as the financing is on credit sale which creates the debt. In this situation, the creditor will make the financed house as the *marhun* (collateral) to secure his payment obligations towards the bank. During the security term, the debtor (customer) is unable to sell the house to another party unless permitted by the bank as the creditor. If the customer fails to settle his debt with the bank, the bank has the authority to sell the house to settle the outstanding amount from

the sale. The bank can only take what is owed to the bank and the surplus from the sale (if any), will be returned to the customer. This example basically gives the picture of the first application of *rahn*, i.e., as the pure security.

Whereby in the second application the *al-rahn* will be an instrument to facilitate the micro-financing. Here, the amount of financing given will be depend on the value of the *marhun* (pledge asset). In normal al -rahn micro financing, the customer pledges their valuable assets such as gold to the pawnshop or known as “*kedai pajak gadai Islam*” as the *marhun*. The *marhun* will be valued and the Customer will be granted a loan based on certain percentage, say 70% of the value of the *marhun*. During the borrowing period, the pawnshop as the keeper of the asset, charges a fee based on daily or monthly calculations for its service safekeep of the pledged item until it is reclaimed and the debt is settled. By this, the practice of *rahn* as an instrument to facilitate the financing can be seen especially in obtaining micro financing.

The practices of above applications are in line with the growth of Islamic financial industry especially in regards of types of *marhun* used for *rahn*. The asset that is being used as collateral in today’s transaction can be in the form of property documents, shares, sukuk certificates and other valuable Islamic instruments which was previously more focused on physical assets such as gold, jewellery and other physical assets. This provides flexibility of *rahn* to evolve together with more sophisticated instruments.

In conclusion, *rahn* is a concept that is permitted by the Shariah where its main objective is to protect the well being of the debtor and the creditor to guarantee the settlement amount. Furthermore, the application of *rahn* will enable the society to enhance the economy and gain more benefits out of it. Thus, the application of *rahn* in the current banking practice is important to realise the above agenda and hand in hand to safeguard the interest of both parties by ensuring the customers fulfil the duties of a debtor in the most efficient and secure manner.