

Ar-Rahnu Scheme as Flexible Micro Financing Mechanism for Society: Case Study on Yapeim Ar-Rahnu in State of Perak

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ABSTRACT

The implementation of ar-rahnu scheme which aims to assist the poor and enhance Islamic banking institution in Malaysia, since 1993 has proven to be able to provide immediate micro financing services to those with financial difficulties. Nevertheless, after two decades in operation, it is found that the involvement of members of Malaysian society in the scheme is still relatively low where the participants are mainly those of low income and the poor. The unique scheme which is not driven by profit-making and free of riba (usury) elements should be expanded to benefit all people and not confined to certain groups only. Hence, this study is conducted to identify the level of knowledge among general public about the ar-rahnu system and the level of acceptance among the masses of the scheme as a means to solve financial problems. It is hoped that the study which focuses on ar-rahnu institution of YaPEIM can be used as a guideline by relevant agencies or parties to ensure greater involvement of members of the society in the scheme, thus further augment the position of ar-rahnu institution in mainstream Islamic banking system in Malaysia.

KEYWORDS: Financing, Society, Islamic Mortgage, Ar-Rahnu, YaPEIM.

INTRODUCTION

Islamic mortgage transaction or ar-rahnu is not an unknown contract in the Islamic banking system in the country. Even though there are people in the society who maintain cynical and negative views towards the system, associating ar-rahnu with the poor or underprivileged, its importance and benefits in Islamic muamalah (dealings) render the system truly indispensable. Certainly, the cynicism or negativism felt towards the system should be eliminated for it leads to narrow-minded view among the society and financial loss especially for the Muslim community. In fact, it is worth noting that such pessimism is different from the standpoint of financial institutions which consider those who engage in mortgage transactions as not individuals without assets or the poor. Instead, they are viewed as well-to-do individuals who do not possess assets in the form of cash for their own personal use. The group is also perceived as occupying a special position in comparison to customers of other financing products. Unfortunately, due to lack of knowledge and understanding about the ar-rahnu scheme, very often individuals with assets failed to manage their finance well, hence, leading to various financial problems.

Having realized the need to develop Muslim society or ummah through the culture of charity, Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM) or Islamic Economic Development Foundation of Malaysia has directly involved in the ar-rahnu scheme. The effort which began since 1993 has greatly benefited the group of low income in particular. The question now, are the efforts and work done so far by YaPEIM sufficient since there are still many especially the poor whose interests are being suppressed by conventional financing schemes? Hopefully, the study can throw light on effective steps and solutions from the perspective of customers and general public, based on the given feedbacks, on how to improve the ar-rahnu scheme further.

Definition of Al-Rahn

The Ar-rahnu literally means fixed, lasting. From the perspective of Islamic law (syarak) it refers to a valuable item made as assurance and attached to a collateral debt payable with the item if the debtor could not settle the debt [3]. Meanwhile, in [4] defined ar-rahnu as solid and lasting. From syarak viewpoint, a mortgage transaction or agreement means to retain or hold on to an item that can redeem debt. The collateral item must be something of value, from syarak point of view, that it can pay up the whole or part of the debt. In another word, it is an insured debt that is the debt is insured by collateral assets.

A mortgage took place when a valuable item was made as collateral or assurance for debt and that the item could be sold to redeem the unsettled debt with the balance henceforth returned to the owner of the item. A

mortgage transaction or agreement is therefore, intended to convince the debtor that his rights pertaining to a particular debt or loan will be protected if he could not settle the contracted debt or loan [14].

In conclusion, ar-rahnu or Islamic mortgage scheme refers to a transaction that involves valuable items or assets as collateral items surrendered by a debtor to parties that provided loans as assurance for the contracted debt. The mortgage can be used to settle debt in case the debtor could not afford to pay up the debt and whatever balance left would then be given to the owner of the mortgaged item.

LITERATURE REVIEW

Literature review on existing sources included journals, conference proceedings, unpublished academic exercises and dissertations. Several issues or questions have been raised in the literature related to ar-rahnu concept and practices, the efficacy of the system, the acceptance of the ar-rahnu scheme among members of the society, ar-rahnu scheme as micro-financing instrument and so forth.

Among studies carried out on the concept and practices of ar-rahnu scheme, one being the work of [20] on comparative analysis between traditional mortgage and Islamic mortgage in Malaysia from Islamic perspective. Based on qualitative method, the author concludes that there is still an element of syubhatriba (likened usury) in the implementation of Islamic mortgage i.e. the existence of 'very inappropriate elements' that are not compatible with Islamic law. Hence, the mortgage scheme is still in need of further improvement so as to be in line with the Islamic law or syarak.

In [19] discussed ar-rahnu principles which formed the basis of the implementation of the scheme in Malaysia. Using Quranic verses and views of authoritative ulama or religious scholars, the authors discovered that several principles of muamalat or dealings need to be combined together in order to successfully implement the ar-rahnu scheme. Such a practice has been done by Bank Rakyat and it is clearly compatible with the requirement of syarak.

Furthermore, in [6] analyzed the practice of Islamic mortgage institutions in Malaysia in terms of sustainability and competitiveness of their products. Several aspects were taken into consideration in the study, one being financing issue focusing on the involvement and awareness of the society with regard to Islamic mortgage. The study concentrated on three main pioneers of Islamic mortgage in Malaysia, namely MAIDAM, YaPEIM and Bank Kerjasama Rakyat. The result of their study shows that Islamic mortgage can compete and expand in the Malaysian financial market as it has few advantages such as syariah (Islamic law) compliant, low storage fee and being more socially responsible without focusing too much on operational profits.

On the aspect of the efficacy of the ar-rahnu scheme for participating customers, this was examined by [5] who attempted to identify the role and efficacy of the scheme within the socio-economic context of the Malaysian society. The findings indicate that the scheme has a positive outcome on the customers economically and socially and has the ability to micro balance the Malaysian economy. With the kind of benefits offered by the scheme, the people now have a more feasible option in the form of ar-rahnu scheme in dealing with financial problems that they might have.

In [21] in his study on the efficacy of the ar-rahnu services in fulfilling and uplifting the level of socio-economic needs of customers has carried out a research in Kuantan and Kuala Terengganu. His study shows good acceptance of the scheme that it was viewed by customers as an effective way to obtain short term micro credits whether to cater for the cost of living, education and business purposes. Other studies that also discussed the efficacy of the ar-rahnu are those by [2, 25]. Both are academic exercises done at Universiti Malaya, Malaysia. Another research is done by [23].

Discussion on the acceptance among the society of the products of ar-rahnu scheme has been dealt with by [18] who studied factors for customers' acceptance of the ar-rahnu scheme at Ar-Rahnu Centre, Bank Rakyat, Alor Setar, Kedah. The findings show that there are significant links between several factors which include knowledge about the ar-rahnu scheme, privileges of the scheme, weaknesses of conventional mortgage, customer services provided by staff at the centres and location of ar-rahnu premises. Moreover, in [16] explained that there are factors that influenced the acceptance of the scheme by entrepreneurs of small industries as micro financing program. Among such important factors are syariah knowledge, customer services provided by staff, mortgaged assets, pricing system, location and advertisement. A similar study was done by [11] who wanted to assess the extent of people's confidence in the scheme in Kota Bharu, Kelantan by looking at the pattern of acceptance by members of the society. The study shows that the reasons for the people to be attracted to the scheme among others include syariah compliant, easy loans, easy access to services, easy access to information and fast loan procedures. In the meantime, studies done on non-Muslims' response to Islamic banking products by [10, 12] in Penang and Perak respectively also indicate though not overwhelmingly, a certain level of acceptance among the non-Muslim community of the ar-rahnu scheme.

Several studies have also been done on the significance of ar-rahnu scheme for the society. Among them include awareness among Muslim small entrepreneurs about the scheme in developing further their businesses [9]. It was also found that the scheme has the role to produce successful and competitive entrepreneurs of small

and medium-sized industries, based on the experience of YaPEIM [24]. In comparison to conventional system, the scheme clearly has the ability to provide financing services that are full of benefits to all members of the society [8].

In conclusion, there has been no studies done so far that highlighted the ar-rahnu scheme as an instrument for easy micro-financing i.e. to solve micro-financial problems and as easy financial solution to problems faced by members of the society. Therefore, in highlighting the scheme to the public, first and foremost, it is imperative to find out the extent of knowledge among the people about the ar-rahnu scheme since the knowledge factor serves as one main reason for the people's acceptance of the Islamic financial products as illustrated in some past studies. As for now, no studies have yet been directly carried out on customers of YaPEIM since there is a greater tendency among researchers to conduct study on mainstream financial institutions. That said, it is therefore, important for this study to be done in ascertaining the level of knowledge and understanding among the society about the ar-rahnu especially in view of the fact that the scheme has been in existence for over 20 years in Malaysian financial market, and consequently to suggest some suitable and effective measures for the implementation of the scheme so as to ensure that the ar-rahnu would be seen by the society as an alternative financing scheme to that of conventional system.

Objectives and Significance of Study

Given the advantages and benefits of the Islamic mortgage scheme as a financial product, instead of other financial products such as conventional mortgage system, the ar-rahnu should accordingly be preferred as an effective solution for financial problems. This study aims to determine the understanding among Muslims in the state of Perak in particular with regard to the ar-rahnu scheme offered by Islamic mortgage institutions like YaPEIM. It is also the objective of this study to find out whether the people's acceptance of the scheme is a result of their understanding of the ar-rahnu concept and practices and to what extent the chosen scheme fulfils the needs of the customers involved.

This study is important in order to assess the level of knowledge among the people pertaining to the meaning of the ar-rahnu scheme and its privileges in comparison to conventional mortgage schemes. Naturally, knowledge about the advantages offered by the scheme could result in greater participation by members of the society which consequently renders the scheme as a competitive product in the Malaysian financial system. The findings of the study could indeed provide a platform for YaPEIM in particular, to affect necessary improvement plans in order to enhance further the position of the ar-rahnu and its products in this country.

Statement of Problem

In line with the development of Islamic financial institutions in the country and increasing participation of the society in such institutions, this study attempts to determine the level of knowledge among Muslim community regarding the existing Islamic financial products in Malaysia. Focusing on the ar-rahnu products which have increasingly drawn attention from amongst members of the Malaysian society in general, this study was carried out to see the response or level of acceptance of the product among those who chose the ar-rahnu scheme provided by YaPEIM, one of the institutions that first introduced such a scheme in Malaysia. Naturally, the aspect of knowledge among the society about a particular product is crucial to ensure the success of the product. In fact, there have been many writings done confirming the advantages of Islamic financial products in comparison to conventional products. Nevertheless, insufficient information or lack of exposure about the Islamic products could lead them being sidelined by the society as alternative options to those of conventional schemes, and consequently result in a huge loss particularly to the Muslim society itself. It is strongly believed that greater participation by the society could be achieved if the people have the necessary knowledge and a deeper understanding about the Islamic financial products in terms of their concepts, implementation and advantages which are meant for mutual benefits. At the same time, it is important that the ar-rahnu scheme is not portrayed as a 'bank' for the underprivileged but as an alternative and effective financial solution to all members of the society, Muslims and non-Muslims alike.

History of Ar-Rahnu in Malaysia

It is very often that mortgage system serves as a micro-financing alternative for the poor and underprivileged apart from loans obtained from banks. Unfortunately, conventional mortgage which clearly contains elements of riba and exploitation have gained greater attention of the public including Muslims [1]. Aimed to assist the poor and those of low income household from amongst the Muslim community in particular, as well as to further expand the Islamic financial institutions in Malaysia, a Cabinet Meeting on 30 January 1985 has approved Islamic Mortgage Foundation Plan based on ar-rahnu concept. Founded on the concept of necessity of syarak, the Plan was to provide to the public a substitute to the existing conventional mortgage system. The first Islamic mortgage system was pioneered by Terengganu State Government through the establishment of Muassasah Gadaian Islam Terengganu (MGIT) or Basic Islamic Mortgage of Terengganu on 23 January 1992. The initiative was then followed by Kelantan State Government which instituted al-Rahn Shop on 12 March 1992. Encouraging response

from the public towards the Islamic scheme eventually led the Government to announce the implementation of Islamic mortgage system throughout the country by 1993. Of various financial institutions in Malaysia, the most active in implementing the scheme are National Bank, Bank Kerjasama Rakyat Malaysia (Bank Rakyat) and Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM) [13].

Implementation of Ar-Rahnu by YaPEIM

Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM) or Islamic Economic Development Foundation of Malaysia is a non-governmental institution established on 13 October 1976 as a result of an initiative by the federal government. As a foundation, it is subject to trust deed registered under Trustee Act (Incorporation) or Akta Pemegang Amanah (Pemerbadanan) of 1952 or in short YaPEIM Trust Deed. YaPEIM is basically a government enterprise aims to improve the economy of Muslim community and contribute to the betterment of Muslim society as a whole through the introduction of Islamic financial instruments or products. The one product of YaPEIM that generates the highest income is ar-rahnu [15].

To achieve the said objective, YaPEIM and National Bank of Malaysia (at that time under the governorship of Tan Sri Jaafar Husin) has taken the initiative to establish a Steering Committee Scheme (Jawantankuasa Pemandu Skim) in 1992 to materialize the implementation of Islamic Mortgage. On 21 August 1993, Malaysian Minister of Finance launched ar-rahnu scheme in Kuala Terengganu proclaiming that the scheme would be executed by Bank Kerjasama Rakyat Malaysia (Bank Rakyat) with the cooperation of YaPEIM. In implementing the scheme, Malaysian National Bank acted as an advisor and provided experts in relevant areas, while YaPEIM undertook the role as main investment coordinator and Bank Rakyat to provide necessary infrastructure for the application of Islamic mortgage transactions [7, 17, 22].

The execution of the first phase of ar-rahnu scheme on 27 October 1993 by the first cooperative in Malaysia i.e. Bank Rakyat elicited a positive response from amongst the public that by the end of 1994, RM19.3 million worth of loan has been approved comprising 24,218 loan accounts. The next phase by YaPEIM in November 1997 saw collaboration with Bank Islam Malaysia Berhad and later with Bank Pertanian Malaysia (Agro Bank) in August 2002. The method of implementation was similar to that employed by Bank Rakyat. Due to the positive response, YaPEIM eventually launched its own scheme on 2 October 2000 known as YaPEIMar-rahnu.

Until 2002, the scheme has operated through 136 counters with RM738.7 million worth of financing loan that benefited 817,910 customers. For year 2014, the income accumulated by YaPEIMar-rahnu increased RM11 to RM83 million surpassing RM72 million in the previous year [15, 17]. By the end of 2015, the total income generated by YaPEIM's ar-rahnu micro-credit program, banking institutions and cooperatives ever since the implementation of the scheme in 1993 amounted to RM30 billion [26].

As one of the pioneers of ar-rahnu scheme in this country, YaPEIM has successfully placed the scheme in the mainstream Malaysian finance as it strives to fulfil the needs of the society and contribute towards the betterment of socio-economic conditions of the people particularly of low-income group. With the aim to expand further the service of YaPEIMar-rahnu by having at least a minimum of one branch in each constituency including Sabah and Sarawak, by 2014, there were 274 YaPEIMar-rahnu branches or 400 branches in total inclusive of those of banking institutions set up throughout the country. This illustrates the seriousness and high commitment on the part of YaPEIM in contributing towards the socio-economic development of the Muslim ummah. The questions now, what is the extent of public knowledge about the scheme and what is the level of acceptance among the public of the scheme after 20 years in operation? This study which was done in Perak state was meant to provide answers to these questions.

METHODOLOGY

The study attempts to assess the knowledge and level of acceptance among the public of the ar-rahnu scheme products that exist in the Malaysian financial system using both quantitative and qualitative methods. In gathering quantitative data, 40 questionnaire forms have been distributed then collected from respondents who have been randomly picked from among members of the society in untargeted locations in the state of Perak. The distribution of the forms was carried out to obtain direct feedbacks from the public on their knowledge of the ar-rahnu scheme products and its implementation. Employing frequency method, the researchers then analyzed the accumulated feedbacks from the respondents on the scheme.

In terms of qualitative data, the study involved the method of structured interview. Several questions were designed to ascertain the level of understanding among the respondents of the ar-rahnu products and the implementation of the scheme. The interview method was done on respondents who are customers of the ar-rahnu YaPEIM only. The locations of study, which have been chosen from the beginning, were three ar-rahnu branches of YaPEIM namely at Seri Iskandar, Sitiawan and Lumut. About 33 customers have been successfully interviewed. The data collection which took less than two months to complete enabled the researchers to identify the level of understanding among the customers of the ar-rahnu scheme and its execution. At the same time, the study is meant to ascertain whether their understanding has indirectly contributed to their involvement

or participation in the scheme. Meanwhile, unstructured interviews were carried out involving YaPEIM officials in order to obtain further information on the topic under study.

RESULTS AND DISCUSSION

Analysis of Knowledge of Ar-Rahnu System and Its Acceptance by Society

The study involved two groups of respondents namely randomly selected members of the public and customers of YaPEIMar-rahnu. For the first group, each respondent was chosen randomly from several areas in Perak such as Manjung, Perak Tengah and Kinta. 40 respondents have provided feedback through questionnaire forms distributed earlier to ascertain their knowledge about Islamic mortgage. Questions of part A deal with respondents’ knowledge about matters related to Islamic mortgage, while part B is related to sources of information about Islamic mortgage and part C concerns with respondents’ knowledge about procedures and implementation of Islamic mortgage.

For the first group, each respondent was required to answer by choosing yes or no answer for part A and C while for part B to choose between 1-5 scale namely, from very disagree (1) until very agree (5). For part C, the respondents were allowed to choose more than one answer. As for the second group which comprised customers of YaPEIMar-rahnu, the method adopted was structured interview. The respondents consisted of customers from three branches of YaPEIMar-rahnu namely in Lumut, Setiawan and Bandar Baru Seri Iskandar. The selection of respondents was done randomly and openly. The questions posed were related to the respondents’ knowledge about the ar-rahnu scheme in which they involved and their acceptance of the scheme in fulfilling their financial needs.

Knowledge about Islamic Mortgage

Table 1: Knowledge about Islamic mortgage

| Item | Very Disagree(%) | Less Agree(%) | Not Sure(%) | Agree(%) | Very Agree(%) |
|---|------------------|---------------|-------------|----------|---------------|
| Know the meaning of Islamic mortgage | 15 | 7.50 | 45 | 30 | 2.50 |
| Know the location of nearby Islamic mortgage premises | 12.50 | 7.50 | 30 | 45 | 5 |
| Know the benefits of Islamic mortgage | 12.50 | 7.50 | 40 | 32.50 | 7.50 |

As shown in Table 1, in identifying the level of knowledge of respondents, items on the meaning of Islamic mortgage, location of nearby Islamic mortgage premises as well as their knowledge about the benefits of Islamic mortgage were inserted in the list of questions. Based on the feedbacks, most respondents that is 67.5% (27 persons) either did not know or were unsure about the meaning of Islamic mortgage. On the location of nearby mortgage centers, half of the respondents displayed some knowledge that is about 50% (20 persons). This shows that the public was not fully aware of the existence of the Islamic institutions. Again on the knowledge about the benefits and privileges of the ar-rahnu scheme, most of the respondents were not certain that is about 60% (24 persons).

Table 2: Sources of information about Islamic mortgage

| Item | Frequency |
|-----------------------|-----------|
| Family | 7 |
| Friends | 13 |
| Employer | 3 |
| Banks/cooperatives | 19 |
| Learning institutions | 7 |
| Mass media | 27 |

Based on Table 2, the main source of information about the ar-rahnu scheme is mass media, be it electronic or printed media (27), followed by banks or cooperatives (19) and friends (13). Yet, though the mass media seems to be the main source of information, some of the respondents maintained that the acquired information was mainly brief and insufficient. Some even suggested relevant authorities to be more proactive in disseminating the needed or necessary information. Meanwhile, information gained through family, learning institutions and employer is very low.

Table 3 indicates that the level of understanding among the respondents with regard to the implementation of Islamic mortgage scheme is good. It also illustrates that total feedback for all items is over 50% thus serves as an indication that increasing number of people are aware of the scheme after about two decades of its implementation in the country. Two items, however, show lack of understanding namely, that is related to assets which can be mortgaged, 57.5% and method of payment through installments as practiced in the scheme, 67.5%. This is perhaps due to the confusion facing the public as they tend to view the conventional mortgage as similar

to the ar-rahnu scheme, whereas, unlike the former, in the ar-rahnu scheme, other assets apart from gold are allowed to be converted into mortgaged items and that the payment method is through installments. Moreover, both schemes are different since ar-rahnu is compatible with syarak whether in terms of its dealing and implementation.

Table 3: Understanding about Islamic mortgage

| Item | Number | Percentage |
|--|--------|------------|
| Mortgage only involves gold items | 23 | 57.50% |
| Value of mortgaged items is based on contemporary gold market price | 33 | 82.50% |
| Mortgaged items charged with low storage fee | 32 | 80% |
| Payment of loan through instalments | 27 | 67.50% |
| Failure to make payment after stipulated period will be considered for extension | 29 | 72.50% |
| Every mortgaged item will be protected by insurance | 31 | 77.50% |
| No elements of riba in Islamic mortgage | 30 | 75% |
| Unredeemed mortgaged items will be auctioned with the knowledge of mortgager | 34 | 85% |
| All mortgage procedures will be done in clear and transparent manner | 30 | 75% |

For the second group of respondents i.e. customers of YaPEIMar-rahnu scheme, 33 individuals have been successfully interviewed in a random manner at three different branches of YaPEIM. In terms of their knowledge about the ar-rahnu scheme, as illustrated in Table 4, the main source of information is mass media. This indicates the effectiveness of mass media in conveying information to the public. This is followed by other sources of information namely family, friends and others.

Table 4: Sources of information about YaPEIMar-rahnu scheme

| Item | Frequency |
|------------|-----------|
| Family | 8 |
| Friends | 8 |
| Mass media | 14 |
| Others | 6 |

Table 5: Purpose of financing through ar-rahnu scheme

| Item | Frequency |
|-----------|-----------|
| Personal | 19 |
| Education | 2 |
| Business | 10 |
| Others | 2 |

From Table 5, it shows that most of the customers obtained ar-rahnu financing scheme in order to fulfill personal needs, referring mainly to daily expenses such as household expenses, housing rents and so forth. The second main reason for financing is for business purposes which involve small scale businesses in order to supplement household income such as online business, etc.

One of the questions posed to the respondents is whether they knew the differences between Islamic and conventional mortgages. The feedbacks indicates that 81.8% that is 27 respondents admitted that they knew the differences between the two, yet not very specific. Among the features that they were aware of pertaining to the Islamic mortgage compared to that of conventional system include the absence of riba elements in the ar-rahnu, low charge rate, low-repayment as well as guarantee against lost items. In fact, there were confessions made by some respondents who have previously involved in the conventional system that the charge fee imposed by the ar-rahnu system is far lower and safer. Some of them learned about the scheme and its low charge fee from friends and advertisements. The same response was given upon being inquired regarding their knowledge about procedures and implementation of the Islamic mortgage. 91% (30 individuals) maintained that they were clearly aware of the involved procedures, have knowledge about identification of gold quality and matters related to payment method, and this was due to lucid explanation given by YaPEIM staff members. Generally, the respondents were satisfied with the ar-rahnu system yet, there were also some who lacked deep understanding as they believed that item-keeping charge fee is equivalent to low riba rate.

Acceptance of Ar-Rahnu Scheme

It is found that respondents comprising YaPEIM customers are generally content with their participation in the scheme and with the efficacy of the ar-rahnu financing. 42% (14 persons) expressed their satisfaction while the other 58% maintained that they were very satisfied with the financing scheme which they were part of it. The satisfaction comprises several aspects such as fine treatment provided to customers by YaPEIM staff

members, absence of suppressive elements, affordable payment method as well as quick and easy services, all of which contributed to the satisfaction of customers. For instance, affordable payment rate offered to the customers enable them to redeem the mortgage in less than 6 months due to low charge rate. Furthermore, registered single parents could obtain even a lower charge rate due to charity principle or motive upheld by YaPEIM. Convenient setting and comfortable space commonly found in ar-rahnu premises further contributed to the open and relaxed attitude shown by customers towards the scheme, participating publicly in the Islamic financing without much reservation or hesitation unlike their response towards conventional financing scheme.

From the aspect of efficacy of the ar-rahnu financing, the respondents' inputs show that the scheme succeeded to fulfill one hundred percent of customers' needs and at the same time reduced their financial burden. In fact, some of the respondents suggested for the scheme to be expanded to inaccessible areas especially in remote areas. They were also suggestions that for future YaPEIM's premises, they are to be built in more strategic locations since some of the existing ones are not in the best locations and hidden from the public. This is to ensure that a system that is not driven by profit-making formula like YaPEIMar-rahnu could reach out to the public, thus, strengthening the socio-economic condition of the society particularly of low income group in the country.

By and large, it is obvious that ar-rahnu scheme offers to the public, especially those of low income, an easy or flexible financial assistance that could fulfill their needs either for personal, business, educational purposes, etc. Furthermore, it also eliminates negative perceptions commonly associated with mortgage practice where it used to be looked down as a humiliating or dishonourable act. Looking back at the findings of the study, it shows that the knowledge and understanding of the scheme seem to evolve around ar-rahnu customers and underprivileged group. Whereas amongst the middle and upper classes of the society, very little is known about the scheme and sometimes no knowledge whatsoever, apart from very brief advertising information. Hence, there is a need to increase the knowledge and understanding among the people about the scheme using some effective methods since knowledge is the main factor for larger participation of the public in the Islamic mortgage system and the success of the system as a whole. The positive response from the public and the effectiveness of the scheme plus its benefits which include among others low payment rate and low charge fee prove that the scheme is indeed a flexible financing product worthy of attention and beneficial to people in dealing with their financial difficulties or problems.

CONCLUSION

In comparison to conventional mortgage system, ar-rahnu has many advantages and has so far managed to attract the attention of some sections of Malaysian society of today. Nevertheless, the Islamic scheme should not be confined to certain groups but to be expanded to others as well so that all members of the society could benefit from the system that is founded and derived from Islamic principles. Its implementation which is based on syarak rulings could provide as an effective solution to financial problems facing Muslim community in this country. In reality, however, although the Islamic system has been in existence in Malaysia for more than two decades, there is still room for improvement through the work of relevant parties or agencies. The lack of knowledge among members of the society about the Islamic financial products is relatively still rampant which consequently cause them to succumb to conventional mortgage system as well as 'ah long' or loan sharks. Therefore, more efforts need to be done in disseminating necessary knowledge to the masses in order to assist and develop Muslim community in particular as well as provide awareness to the people in the country in general about the right course of action in managing their finance so as to avoid from being involved in elements that are harmful or damaging to themselves.

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