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An Overview of the Shariah Issues of *Rahn*-Based Financing in Malaysia

Tinjauan Isu-isu Syariah dalam Pembiayaan Berasaskan al-Rahn di Malaysia

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ABSTRACT

Ever since the establishment of Islamic pawn broking (*al-rahn*) in Malaysia more than two decades ago, this kind of short-term microfinancing has now become a promising business. The increase in demand for *al-rahn* based products was contributed by some factors among others low storage charge, service efficiency, religiosity, attitude, low earning and so forth. Despite the positive growth of *al-rahn* from the demand side on the one hand, some issues have been identified in a number of researches from the other. One of them pertains to Shariah issues on the theory and practice of *al-rahn*. This paper is an attempt to study the Shariah issues theoretically in the aspects of custodial fee, conflict in the substance of combined contracts, benefitting from *al-rahn*, financing structure, transaction sequence and some other issues. In identifying and understanding the issues, the literatures will be reviewed and examined using content analysis. It is expected that this paper could shed some thoughts about the Shariah issues in *al-rahn*-based products theoretically and practically.

Keywords: Microfinancing, *Al-Rahn*, Shariah Issues

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ABSTRAK

Semenjak kewujudan pajak gadai Islam (*al-rahn*) di Malaysia lebih dua dekad yang lalu, pembiayaan mikro jangka pendek ini telah menjadi satu perniagaan yang menjanjikan pulangan. Peningkatan permintaan terhadap produk-produk berasaskan *al-rahn* telah disumbangkan oleh beberapa faktor antaranya caj simpanan yang rendah, kecekapan perkhidmatan, unsur keagamaan, sikap, hasil yang rendah dan sebagainya. Walaupun terdapat pertumbuhan positif *al-rahn* dari sudut permintaan, namun dari sudut yang lain beberapa isu telah dikenalpasti berdasarkan beberapa kajian yang telah dijalankan. Salah satu daripadanya berkaitan isu-isu Syariah dalam teori dan praktis *al-rahn*. Kertas ini cuba untuk mengkaji beberapa isu Syariah secara teori dalam aspek-aspek fī simpanan, konflik dalam maksud kontrak yang digabungkan, mengambil manfaat dari *al-rahn*, struktur pembiayaan, urutan transaksi dan beberapa isu lain. Dalam mengenalpasti dan memahami isu-isu tersebut, penulisan literatur terdahulu akan dikaji menggunakan kaedah analisa kandungan. Adalah diandaikan bahawa hasil penulisan ini akan memberikan beberapa idea tentang isu-isu Syariah dalam teori dan praktis serta penyelesaiannya terhadap produk-produk berasaskan *al-rahn*.

Kata Kunci: Microfinancing, *Al-Rahn*, Shariah Issues

INTRODUCTION

The development of Islamic banking and finance in the last few decades in Malaysia has led to the introduction of various Islamic financing products which are free from the prohibition of *riba*, *gharar* and *maysir*. Ranging from short to long term financing, exchange-based and equity-based, micro financing and a lot more products and services, Malaysia has become one of the leading Muslim countries in the world in which the volume of Islamic finance business has grown rapidly.

Micro financing is one of the means to help the lower income segment of the society to solve their short-term liquidity needs. The importance of helping the needy is made a priority Islam. Therefore, lending to the needy should be the main focus in Islamic finance (Azila 2008). In this context, the Islamic pawnshop (*al-rahn* scheme) could be the most appropriate mechanism as it provides a financial product for the lower-income group and small businesses which usually have limited capital or have been excluded from the mainstream financial system.

While taking note of its importance to meet the need of certain segment of consumers on the one hand, some theoretical and practical aspects of *rahn* have been identified to trigger Shariah concerns by the scholars on the other. This paper attempts to overview some of the literatures that highlight a Shariah issues of *rahn*-based financing with special reference to theoretical aspect of it.

APPLICATION STRUCTURE OF RAHN-BASED FINANCING

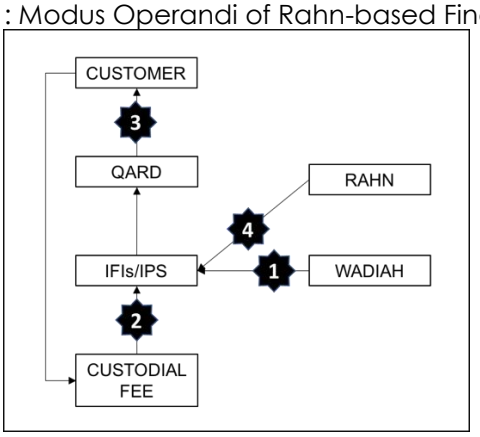
The structure of current Islamic pawn broking depends on the underlying contracts adopted. Based on the current market practice of Malaysia, the applicable contracts are *wadi'ah yad al-damanah* (guaranteed custody contract), *qard* (interest-free loan contract), *rahn* (Islamic pawn broking contract) and *ujrah* (fee) (Shamsiah and Salleh 2008, Mohamed Fairooz, Badri, and Hussain 2012, SKM 2013, Imani and Zambahari 2013, Ahmad Faizal, Mohammad Hatta, and Kamis 2017).

As the customers are in short of cash, they would normally go to the Islamic pawn broking institutions which could be Islamic financial institutions (IFIs) or any other Islamic pawn shop (IPS). Typically, the transaction flow will start with the customers bring the pledged items (*marhun*) normally in the form of golden jewelry because of its stable market value to the IFIs or IPS. As earlier mentioned, the purpose of customers coming to the IFIs or IPS is to get some cash through micro financing. For that purpose, the pledge is handed in to the IFIs or IPS to be valued at market price for that specific type of gold. Normally the amount of financing approved by the IFIs or IPS is less the market value of pledged gold by certain percentage as a risk mitigation to avoid non-settlement of debt by the customers. The putting up of golden jewelry with the IFIs and IPS is governed by the contract of *wadi'ah yad al-damanah*.

For keeping up the customers' pledge, the IFIs or IPS charges some amount of fee (*ujrah*) – which amount is based on the *marhun* value – for the risk of taking care the custody of the *marhun*. However, certain institution namely Muassasah Gadaian Islam Terengganu (MGIT) waive the custodial fee for loan amount below RM 1000 (Nur Hayati and Markom 2014).

Subsequently the IFIs or IPS will loan some amount of monies to the customers, governed by the *qard* contract. And lastly the contract of *rahn* will come into the picture as a security for the financial obligation created through this arrangement (Bank Islam 2015, Affin Islamic Bank 2016, Bank Muamalat 2016, Bank Kerjasama Rakyat Malaysia 2018, Agro Bank 2015, YAPEIM 2018, Kedai Ar-Rahn 2017, POS ArRahnu 2018, MAIDAM 2017). Based on the description above, Figure 1 below illustrates the modus operandi of Islamic pawn broking:

Figure 1: Modus Operandi of Rahn-based Financing



Source: Author

Some *rahn*-based financing structure starts with *qard* first in which the financial obligation is established prior to the conclusion of *wadi'ah yad al-damanah* contract. Whilst, the other structure commences with *wadi'ah yad al-damanah* first before the conclusion of *qard* contract. Owing to that, the service fee charged for keeping the *marhun* is justified from Shariah perspective on the ground that the financial obligation is not established yet.

Despite the promising development of Islamic pawn broking business, it is not free from Shariah issues or concerns. Based on the identified literatures, among the concerns raised by the Shariah scholars in regard to *rahn*-based microfinancing in Malaysia are conflict in the essence of the combined contracts, custodial fee, benefiting from the *marhun*, and the possible financing structures. The following sub-sections will discuss the abovementioned concerns.

SHARIAH ISSUES

This part of writing aims to shed lights on several Shariah issues of Rahn-Financing in Malaysia namely (i) conflict in the essence of the combined contracts, (ii) custodial fee, (iii) benefitting from the *marhun*, and (iv) possible financing structure.

Conflict in the Essence of the Combined Contracts

According to Mohamed Fairooz, Badri, and Hussain (2012) the combination of *rahn* with *wadi'ah yad al-damanah* could result in the legal effects of both the contracts are conflicting in terms of returning the pledged and the deposited item. On the same page, Sastra Mihajat (2015) cited AAOIFI in its Standard No. 25 conditions for a combined contracts or hybrid contract to be permissible:

i. Combining contracts should not include the cases that are explicitly banned by Shariah. For example, contracts that combine a sale and a loan into one contract;

ii. Combining contracts should not be used as a ploy to commit *riba*, such as an agreement between two parties to practice a sale and buyback transaction (*bay' al-inah*) or *riba al-fadl*;
iii. The combination of contracts should not be used as an excuse for practicing *riba*;
iv. Combined contracts should not reveal disparity or contradiction with regard to their underlying rulings and ultimate goals (essence of the contract).

Apparently, the last condition is pertinent to the issue at hand where the problem arises from the conflict in the underlying rulings and ultimate goals (*muqtada al-'aqd*) of both contracts. In the light of this condition, the deposited item in *wadi'ah yad al-damanah* contract needs to be returned at the request of the depositor at any time. As for the *rahn*, the *marhun* cannot be taken back by the owner or mortgagors at any time he or she so wishes as that will not serve the purpose of pledge i.e. to secure the amount loaned. The conflict of *muqtada al-'aqd* between the two contracts contributes to Shariah concern.

In addition, according to Shamsiah and Salleh (2008), the purpose of *wadi'ah* it for custody while the objective of *rahn* is as a pledge for financial obligation. Delivery of the *marhun* to the creditor is not motivated by the intention to keep the same under the pretext of *wadi'ah* contract. As such, it is not in line with Shariah rulings for *wadi'ah yad al-damanah* to be employed as the underlying arrangement for Islamic pawn broking.

Nevertheless, the bigger Shariah concern is about the inclusion of *wadi'ah yad al-damanah* in *rahn* as to whether it is a kind of *hilah* or legal trick to circumvent *riba*. The issue of *riba* comes into the picture due to the custodial fee that IFIs or IPS impose on deposited item.

Custodial Fee

Generally, the custodial fee charged by IFIs and ISP could be on daily, monthly, and yearly basis. There are three issues concerning custodial fee i.e. (i) issues about the determination of custodial fee, (ii) issues regarding excessive charge of the custodial fee, and (iii) other consequential issues.

Issues About the Determination of Custodial Fee

As far as market practice is concerned, the custodial fee is determined by calculating certain percentage on the value of *marhun*, but not on the amount loaned. If it is charged on the amount loaned, it will result in charging interest (*riba*) on the amount loaned. So far, there is no standard charge for custodial fee as it may range from RM 0.10 to RM 0.85 per RM 100 *marhun* so long as the maximum charge per month is 1 percent of the *marhun* value. (SKM 2013, Nur Hayati and Markom 2014). In drawing a parallel, the closest case in the IFIs pertaining to charging cost on pledge is the safe box in which the customers keep their valuables. However, the storage cost of the safe box is much lower than that of pawn broking (Mohamed Fairooz, Badri, and Hussain 2012,

Dziauddin et al. 2013). Nevertheless, in comparison to conventional pawn broking, *rahn* financing scheme's charge is much lower than that of the former (Bhatt and Sinnakkannu 2008).

As a suggestion, Abdul Nasir (2013) opined that custodial fee should be determined in the form of fixed amount rather than in percentage rate in addressing the concern that the lender might charge excessive custodial fee and consequently earn extra benefit or profit from the same. Nonetheless, charging a fixed amount of custodial fee does not necessarily mean that the lender has no room to impose hidden charges. As such, determination of custodial fee at an actual cost remains a challenging issue.

Issues Regarding Excessive Charge of the Custodial Fee

According to Mohamed Fairooz, Badri, and Hussain (2012), the amount of fee chargeable is relatively higher than the financing charges of IFIs with special reference to Personal Financing-i. Furthermore, charging of fee in the context of *rahn* financing is deemed as a kind of benefit arising from the loan. Subscribing to this view, Ahmad Faizal, Mohammad Hatta, and Kamis (2017) suggested that there is a direct link between *ujrah* imposed with the loan given to the customers. Despite a fixed rate of *ujrah*, inflated fee is applicable on the charge i.e. the higher the amount of *marhun* the higher amount of loan the customer will get and consequently the larger amount of *ujrah* is chargeable. According to them, this practice is much similar to loan given by conventional bank in which the higher the loan, the higher profit bank will get due to interest charge on the loan.

Unless the derived benefit or charge reflects the actual cost of the lender, the benefit or charge is considered *riba* (AAOIFI 2015, Standard No. 9/1). The concern on attainment of benefit from loan contract is indicated in the *hadith* which reads:

كل قرض جر نفعا فهو ربا

> *Every loan which gives benefit (to the creditors) is considered riba.*
> (Abu al-Jahmi, Juz', No. 92; Al-Ḥarith, Musnad al-Ḥarith, No. 437; al-Daylami, al-Firdaus, No. 4778)

According to Shamsiah and Salleh (2008), *ujrah* on the *marhun* is not justifiable from Shariah point of view on the ground that the pledgee is entitle to the actual cost but not fee. Charging the actual cost of maintenance (*nafqah*) for the *marhun* is acceptable based on a hadith cited by al-'Asqalani which was reported from Ḥammad bin Salamah in his Jami' that reads:

إذا ارتهن شاة شرب المرتهن من لبنها بقدر علفها، فإن استفضل من اللبن بعد ثمن العلف فهو ربا

> *If a sheep is pledged, the pledgee can drink its milk as much as the price of feed, if he drinks the milk above the price of fodder, it is riba.*
> (Fath al-Bari, Kitab al-Rahn, Bab al-rahn markub wa mahlub, No. 144)

The above *hadith* indicates that the lender's entitlement over the pledged item is compensated with the cost that he has incurred. Based on this *hadith*, Abdul Nasir (2013) attempted to define actual cost (*al-taklifah al-haqiqiyyah*) as equivalent as the original cost (*al-taklifah al-asliyyah*) forgone in producing goods and services but not the retail or market value. In the avoidance of doubt, actual cost should be distinguished from expenses as well. The former represents the entire cost whereas the latter are part of the former. Any residual balance after deducting expenses from the actual cost is recognized as asset. However, the relationship between the actual cost defined by him and the actual cost for custodial fee is not clearly explained. Azman and Haron (2016) proposed only actual incurred cost can be imposed on *rahn* financing.

Other Consequential Issues

Another concern that arises is as to whether *wadi'ah yad al-damanah* justify the charge of *ujrah*. According to Hanafi, *ujrah* is not applicable to *wadi'ah* since *wadi'ah* is not a job but a trust to keep the deposited item, which is why it should be *wadi'ah yad al-amanah* all the time instead of *wadi'ah yad al-damanah*.

Thus, only *ijarah* or *wakalah* justify the charging of *ujrah*. If the charge is recognized as *ujrah*, it will result in the combination of sale of usufruct or *ijarah* with *qard* or *bay' wa salaf* which is prohibited in Islam (Mohamed Fairooz, Badri, and Hussain 2012, BNM 2016, Standard 14.1 (a)). This is clearly indicated in the *hadith* below:

لا يحل سلف وبيع

> *It is not permissible to execute a loan (salaf) contract (in combination) with a sale contract.*
> (Majmu' al-Fatawa, No. 29/528)

A parallel can be drawn between *bay' wa salaf* and *qard jarra naf'an*. This is because, in the former, loan that generates benefit for the lender comes from the sale contract. The price of sale contract would normally constitute cost price plus profit. Thus, the profit portion of sale price is the extra benefit the lender i.e. IFIs or IPS will gain out of the *salaf* or *qard* loaned to the customers.

In the same vein, Ahmad Faizal, Mohammad Hatta, and Kamis (2017) opined that the combination of *qard* with sale may also take the form of *takaful* subscription by which the customer will purchase the *takaful* to cover the pledged item. However, this opinion is not valid as the *aqd* that underlies *takaful* subscription is not a sale but a *tabarru'* contract. In addition, the prohibition of *bay' wa salaf* is understood as the benefit that the lender will reap from the combination of both contracts which is not the case in subscribing *takaful* for the pledged item as it eventually benefits the customer or pledgor.

Benefitting from the *Marhun*

Another Shariah issue arises from practice of *rahn* is benefitting from the *marhun* by the IFIs and IPS. As the underlying contract used is *wadi'ah yad al-damanah*, it somehow resembles *qard* contract. However, since the financial obligation is not yet established between the IFIs or IPS and the customers in the first place, most possibly *wadi'ah yad al-damanah* contract is used instead. But after the financial obligation was established by the IFIs or IPS through the loan or *qard*, the question arises as to why the *wadi'ah yad al-damanah* still goes even after the establishment of financial obligation. The contract of *rahn* should start to take effect after the *qard* contract was concluded keeping in view that the item pledged should be kept as a *marhun*.

Keeping in view that *wadi'ah yad al-damanah* is deemed as *qard* contract, it looks like two *qard* contracts were concluded here. First between the customer and the IFIs or IPS via *wadi'ah yad al-damanah* contract where the former deposited his property with the latter on guarantee basis. Second, the *qard* contract is conversely established between the IFIs or IPS and the customer where the former loans some amount of monies to the latter. This arrangement gives a debt offset effect or *muqaṣṣah* in view of both the parties loan to each other.

However, to claim that the *wadi'ah yad al-damanah* is akin to *qard* in this case is not accurate. This is because the pledge does not fully meet the criteria of item used for *qard* contract. In other words, the item for *qard* contract is something typically fungible or *mithli* and consumable. But in the case of golden jewelry put up as a pledge, it meets the criteria of *mithli* but it doesn't fall in to the category of consumable. It is not consumable as the IFIs and IPS has guaranteed to keep the pledge. Thus, it is not completely accurate to say that *qard* contract in the form of *wadi'ah yad al-amanah* is appropriately applied here. As such, the issue of back-to-back *qard* does not arise.

So, what makes the IFIs or IPS still interested to adopt *wadi'ah yad al-damanah* instead? On the one hand, *wadi'ah yad al-amanah* is adopted as assurance and guarantee that the pledged item will be safe under the custody of IFIs or IPS (Ahmad Faizal, Mohammad Hatta, and Kamis 2017). On the other hand, another possible answer to this question would be to justify the charging of custodial fee on the customer. Therefore, it ends up with the IFIs or IPS earn benefit from the *marhun* through custodial fee. However, the practice of benefitting from *qard* contract via a fee in this context is against Standard 15.3 (b) of the Rahn Policy Document by BNM (2018, 7)

Possible Financing Structure

The structure of *rahn* financing with the combination of *qard* and *wadi'ah yad al-damanah* is deemed problematic due to concerns on *riba* it causes. Eventually, the idea of altering the financing structure by substituting the underlying contracts has become an important agenda. There are two possibilities coming out from this idea i.e. either by (i) substituting the entire structure or by (ii) maintaining the original structure with alterations on any of the underlying contracts.

Substituting the Entire Structure

As far as the first possibility is concerned, the entire structure need to be substituted with the contract which could serve the purpose of *rahn* and *wadi'ah yad al-damanah*. From the perspective of *fiqh al-muamalat*, the nearest contract which shares common features with *rahn* is *bay' al-wafa* (Demetriades and Effendi 2000). *Bay' al-wafa* is a contract in which the owner of the asset sells it to the buyer with the conditions that the buyer will fulfill (*wafa*) the agreement to sell back the asset to the owner or seller. Putting *bay' al-wafa* in the context of *rahn* financing, the customer acts as the seller while the IFIs or IPS is the buyer. The legal consequence created from this arrangement is that the ownership of asset is transferred from the seller (the customer) to the buyer (the IFIs or IPS), which entitles the latter the benefit of using the asset as well as incurring loss. (Majma' al-Fiqh al-Islami, 1992) in its Resolution number 68/4/7 has decided that *bay' al-wafa* is not permissible due to its resemblance with *qard jarra naf'an*. Nonetheless, in the author's understanding, *bay' al-wafa* will become interest bearing if it operates like *bay' al-inah*, in which one of the parties will gain benefit. However, *bay' al-wafa* would be permissible if it generates no benefit or profit to the parties or in other words there is no change in the price of first and second sale.

Hence, it appears that substituting *rahn* with *bay' al-wafa* is unable to solve the issue of gaining extra benefit as the buyer can use the item sold. However, according to Mohamed Fairooz, Badri, and Hussain (2012), this possible arrangement is less worse than the current structure of *rahn* financing that adopts *wadi'ah yad al-damanah* since the amount of sale back is as same as the amount of purchase. In other words, there is no monetary gain from *bay' al-wafa* unless the benefit of using the item sold. Yet, making it more complicated is the item used in context of *rahn* financing is golden jewelry. Shariah wise, can golden jewelry be transacted as the item of *bay' al-wafa*? As far as transaction of gold is concerned, it should comply to its prescribed rulings without which the transaction of gold is considered *ribawi* or interest-bearing. The answer is negative in the sense that the transaction of gold in *bay' al-wafa* arrangement is done on spot basis and the transaction amount is the same in two legs of the sale.

Another option is by substituting the *qard* contract with other types of financial obligations, the debt of which might be resulting from sale-based contract such as *bay' al-tawarruq* via commodity *murabahah* (Azman and Haron 2016). However, the application of *bay' al-tawarruq* is subject to its permissibility according to the different view of Shariah scholars. As far as Malaysian jurisdiction is concerned, *bay' al-tawarruq*

is acceptable as a mode of financing (BNM 2010). On that note, the custodial fee charged for holding the pledge is Shariah justifiable on the ground that profit is normally inherent in sale contracts.

If sale-based contracts are applicable as mode of financing, it means the sale-based contract other than *bay' al-tawarruq* is equally applicable for example the idea of applying *bay' al-sarf* as suggested by Mohamed Fairooz, Badri, and Hussain (2012). By *bay' al-sarf* it means the sale of currency which could also take the form of gold bar. The gold bar (extendable to golden jewelry as well) is sold to the IFIs on spot or cash at a price slightly lower than the market price. Later, through the mechanism of *wa'ad min ṭarf wahid* (unilateral undertaking from one party), the IFIs may or may not sell back the gold bar to the customer at a cash price slightly higher than the first sale price. Generally, it looks like a sale and buy back arrangement like that of the controversial *bay' al-wafa* or to certain extent *bay' al-inah*. However, the insertion of *wa'ad min ṭarf wahid* in the second leg of the transaction differentiate this type of *bay' al-sarf* from *bay' al-wafa* or even *bay' al-inah*. This is because *wa'ad min ṭarf wahid* could address the issue of interconditionality between the first leg and the second leg of *bay' al-sarf* by which the IFIs or IPS is not obliged to sell the same gold bar or jewelry to the customer. Nevertheless, this arrangement might be problematic if the customers insist to repurchase the same jewelry.

Nonetheless, the chance of applying this possibility might be thin as it could trigger another Shariah concern especially when it comes to combining the sale contract with the loan contract which could result in the net effect of *bay' wa salaf*. This is especially when sale contract – namely *bay' al-tawarruq*, *bay' al-sarf* etc. – is combined with *wadi'ah yad al-damanah* (which is equivalent to *qard* according to BNM (2010, 101)). Ultimately, this arrangement would lead to the prohibited *bay' wa salaf*. However, if only *rahn* contract is used to collateralize the financial obligation arising from *bay' al-tawarruq* and *wadi'ah yad al-damanah* contract is removed from the arrangement, the concern on *bay' wa salaf* will not arise. Hence, there is no need for the IFIs or IPS to charge any custodial fee at all as the profit can be earned from the *tawarruq* arrangement (Azman and Haron 2016). As for the proposed *bay' al-sarf* structure, the issue of loan with profit will be resolved and the arrangement is considered free from *riba* if *wadi'ah yad al-damanah* is excluded from the financing arrangement. Even the application of *rahn* is not relevant in this structure.

Maintaining the Original Structure with Minor Alterations

The second possibility is also extendable to the case in which the entire *rahn*-based financing structure's status quo is maintained. As the main Shariah concern is about earning extra monetary gains in relation to *qard* contract, a thinkable way of avoiding from this gain is by making the fee or *ujrah* unconditional. This is the approach being practiced in *rahn* financing scheme offered by MAIDAM (2017). However, Shariah concern may arise if the unconditional *hibah* is commonly granted to the extent of becoming a customary practice in the market. Any action which is unconditional but widely practiced in the society could make it a condition according to the established

legal maxim "*al-ma'ruf 'urfan ka al-mashrut shartan*". After all, applying unconditional *hibah* would be much more feasible for non-profit organization like MAIDAM but not to the commercial IFIs or IPS.

The issue of commerciality also arises if the *rahn* financing is designed based on its original structure i.e. by applying *rahn* as a supporting contract to the main contract of *qard*. Under this financing structure, any maintenance cost and benefit coming from the pledged item belong to the pledgor or customer as indicated in a *hadith*:

لا يغلق الرهن من صاحبه الذي رهنه، له غنمه، وعليه غرمه

> *A pledge does not become the property of mortgagee; it remains the property of its owner who mortgaged it; he is entitled to its benefits and liable for its expenses.*
> (Al-Muwatta No. 2/278; Al-Um, No. 4/346; Al-Marasil, No. 186)

Despite the IFIs or IPS may have all the cost in keeping the pledged item covered by the pledgor or customer, charging hidden income from the cost should not be the idea as the former can only recover the cost, but not income, from the latter.

Another proposition is suggested by Azman and Haron (2016) in doing away from imposing extra charge on the customers. This can be done within the existing structure of *rahn* financing by arranging the third party to keep the pledged item and the custodial fee is payable to him. Again, commerciality issue might arise as the IFIs or IPS have no room to generate income from such arrangement.

CONCLUSION

In conclusion, the Shariah issues on the theory and practice of *rahn* in Malaysia is still ongoing so long as the original structure of *rahn*-financing (in reference to Figure 1) is operative. As mentioned earlier, the main concern is the benefit that the lender earns from extending the loan or *qarḍ*. Based on the previous writings, altering the financing structure is the best option to address this Shariah issue. There are two options in altering the structure, the first of which is substituting the entire financing structure and the second is maintaining the original structure but with minor alterations on its contracts.

Bearing in mind that IFIs and IPS are profit driven entities, the second option might not be feasible for the same to adopt since it gives no room for them to generate income from *rahn*-financing business. Therefore, other mechanism needs to be considered to address the concern on *ribā*, for example by adopting sale-based contracts specifically *bayᶜ al-tawarruq* and *bayᶜ al-ṣarf* to create indebtedness between the IFIs or IPS and the customer so that extra charge in the form of profit is Shariah justifiable. Looking from the commercial point of view, the first option would be more practical for the IFIs or IPS.

As for the second option, adopting the original structure with minor amendments is expected to address the concern on *ribā* i.e. the issue of earning extra benefit through the custodial fee. In this financing structure, the function of *rahn* is more of a supportive contract which safeguards financial obligation rather than generating income for the IFIs or IPS. Apparently, this option is not 'practical' for the IFIs or IPS to adopt. However, this might be a more attractive option for customers with lower income considering that there is no need for them to pay extra charges. On that note, the second option is feasible if it is operationalized by non-profit organizations. In other words, this type of organizations needs to be financially backed-up by a third party - the government for example - in running their business as they make no profit from extending loan to the lower income customers.

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