

Gold for Cash?

**The Ar-Rahnu
X'Change
by Koperasi
Hidayah
Malaysia Berhad**
by Nicholas Tan



Ar-Rahnu is essentially an Islamic pawnshop. The traditional pawnshop is considered a source of short-term financing generally used by the lower income group to alleviate their cash flow problems. It is also employed by petty traders as a means to obtain working capital for their business. As a financial institution, the pawnshop plays an important role in providing funds especially for members of the society who face difficulties in obtaining funds from formal financial institutions.

On 3rd June 2009, we assisted Koperasi Hidayah Malaysia Berhad (Koperasi Hidayah) to secure the Ar-Rahnu X'Change Franchise from Rakyat Management Services Sdn Bhd (RMS), a wholly-owned subsidiary of Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat). Subsequently on 15th March 2010, Koperasi Hidayah commenced its Ar-Rahnu business at Sri Muda, Shah Alam.

With the franchise granted by RMS, Koperasi Hidayah has the right to manage the Ar-Rahnu Business, using its own business name, exercise the franchise system and use of the trade mark based on the franchise agreement, while in return pay a franchise fee, royalty fee, and contribute to the national marketing fund.

The Ar-Rahnu was introduced as an alternative to traditional pawnshops and an easy source for credit, with gold as collateral, in exchange for cash. It ensures that clients are free from public attention than the ordinary pawnshop. The Ar-Rahnu system provides a transparent, confidential and secure transaction. It also helps reduce the incidence of people going to unlicensed money lenders. The Ar-Rahnu is a business based on Islamic mortgages offering interest-free loan, with a minimum fee charged for storage of valuable goods, that provides high mortgage value and flexible mortgage.

For example, under a conventional mortgage brokerage system, an individual who leases a gold ring worth RM1,000 will only be granted

loans of RM600, whereas the Ar-Rahnu gives RM650 for the same item. Conventional pawnshops generally charge higher interest rates, whereas the Ar-Rahnu charges only 65 cents for each valuable worth RM100 saved. For jewellery valued at RM1,000, the charge is merely RM6.50 per month for storage fees, a significant disparity compared with the conventional system. Among the benefits, goods stored are protected and insured. In the event of theft or loss, the reimbursement will be based on the value of lost items. The test for determining the value of the jewellery is made in front of the customer.

Prior to commencement of the business, We had assisted Koperasi Hidayah to obtain the necessary approval from the relevant authorities such as RMS and Suruhanjaya Koperasi Malaysia. Besides that, we also assisted Koperasi Hidayah in securing a working capital financing-i (revolving) facility of RM5,000,000 from Bank Rakyat for funding the Ar-Rahnu. In addition, we also provide payroll services, human resources, finance and administration for Koperasi Hidayah. Application has also been made for a second Ar-Rahnu outlet in Kota Damansara, Petaling Jaya.