

What Drives *Rahn* Adoption?

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Abstract

Objective: Sharia pawning, or *Rahn*, is one of the Islamic financial products adopted by society to solve cash needs and have assets as collateral. Adoption of this product is limited in scholarly work. This study examines the effects of religiosity, service quality, and location on adopting Islamic (Sharia) pawning services.

Design/Methods/Approach: A self-administered questionnaire was distributed to 200 Islamic bank customers. Both offline and online questionnaires were employed for data collection. SPSS 22 and SmartPLS 4.0 software were used to perform comprehensive data synthesis, confirmatory factor analysis, and rigorous hypothesis testing, fostering a data-driven approach to ensure the integrity and validity of this research.

Findings: The results show that only religiosity has a significant relationship with *Rahn* adoption. Location and service quality do not drive customers to use *Rahn* products. These results indicate the significant role of religious values in *Rahn* adoption.

Originality/value: This study contributes to the limited Islamic marketing literature on *Rahn* or Sharia pawnshops, primarily on the determinant of this financing adoption using the Indonesian context.

Practical/policy implications: Islamic pawnshops must emphasize Sharia compliance in the *Rahn* product provision because customers, primarily those in relatively religious regions, highly consider this aspect when using the pawnshop service.

Keywords: Acceptance, Islamic finance, *Rahn*, Religiosity, Service

JEL Classification: G410, G510, Z120



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1. Introduction

Islamic finance is considered to have a fair and efficient mechanism of financial intermediation since it forbids interest-based transactions and speculative practices while promoting real economic transactions, such as buying-selling and real investment activities (Hassan & Khan, 2019). Islamic financial services are currently present, including Sharia savings and deposits of Islamic banks, Islamic insurance, sukuk, Islamic fintech products, and Sharia pawn or *Rahn* (*ar-Rahnu*). Among these types, *Rahn* has a smaller size in terms of total assets and market share than Islamic banks. For example, *Rahn* in Indonesia is part of particular Sharia financial institutions in Sharia IKNB (non-bank financial institutions). Sharia IKNB includes Sharia insurance, pension funds, financing institutions, microfinance, and financial technology. The asset value in 2022 was around 11 trillion rupiahs or 4,74% of the total assets IKNB of 146,12 trillion rupiahs (OJK, 2022a). Sharia bank assets reached 792 trillion rupiahs (OJK, 2022b). However, although *Rahn* is relatively small, it plays a pivotal role in society.

Rahn is a swift and prominent solution for urgently securing critical funds, demonstrating a commitment to providing efficient financial assistance (Sukardi et al., 2023). Muslim communities prefer *Rahn* because it charges lower than conventional pawnshops and thus might be more preferred during difficult times (Bahari et al., 2021). *Rahn* is also an efficient fund source for small and micro enterprises with limited access to banking services (Yahaya, 2020). However, with its significant role in the community, studies on *Rahn* remain underexplored.

The number of *Rahn* studies is smaller than other topics, such as Islamic banks and stocks (e.g., Hasan et al., 2020; Hassan & Aliyu, 2018). To our observation, *Rahn*'s studies using Indonesia's context are also limited. Most of the scholarly literature about *Rahn* employs Malaysia's context (Abdul Razak & Asutay, 2022; Amin & Hassan, 2022; Bahari et al., 2021; Hussen & Ibrahim, 2018; Mohd Thas Thaker et al., 2020; Muhamat et al., 2011; Nik Azman et al., 2018). Thus, to fill the gap in the literature, this study attempts to investigate *Rahn*, primarily the factors that determine its usage. This study employs a quantitative method with a partial least square structural equation modelling (PLS-SEM) approach. Data were collected using a questionnaire disseminated to respondents in Padang City, Indonesia. Thus, this study aims to determine the significant factors influencing *Rahn* adoption.

This paper contributes to marketing literature, primarily the purchase intention theory in Islamic finance settings. Specifically, this study reveals the significance of religiosity as a predictor of purchase behaviour among Muslim consumers. This finding is essential to marketing managers and business practitioners targeting Muslim consumers, primarily by implementing appropriate marketing strategies for stimulating the usage or purchase of Islamic financial services.

This paper is structured as follows. Following this introduction is a concise literature review discussing *Rahn* and the study variables. Research hypotheses are also outlined in that section. The following section after the literature review is the method section, followed by results and discussion. The final section is the conclusion and suggestions for future research stemming from this study's results.

2. Literature Review and Hypothesis Development

Rahn or Islamic pawning is an activity to make assets as collateral for debt to be repaid with the guarantee when unable to pay it off. The party receiving or withholding the guarantee can collect a fee from the borrower, which is used as a deposit or maintenance fee in the contract according to mutual agreement. *Rahn* is different and has advantages over conventional pawn-broking (not Islamic). First, *Rahn* is a cheaper financing source and does not apply interest. Thus, it aligns with the teaching of Islamic laws derived primarily from the Quran and Hadith. The Sharia pawnshop does not charge interest for the loan (*marhun bih*) given to customers, only charging the fee (*mu'nah*) for keeping the collateral (*marhun*) of customers (Karnawijaya, 2019). Second, the safekeeping of the pawned assets is guaranteed, and fair auctioning and bidding procedures are followed (Hisham et al., 2013). *Rahn* is often also used as a funding source by small enterprises and entrepreneurs and for educational purposes. Furthermore, according to the *fatawa* of Indonesia Ulema Council (DSN MUI Fatwa No. 68 of 2008), *Rahn* can be offered by a specific pawnshop, Islamic bank, and other Sharia-compliant financial service providers (Karnawijaya, 2019).

Rahn transaction benefits both the customer and the pawnshop. For example, by entrusting assets such as gold, a customer can earn some money to fulfil his needs, while the pawnshop can earn fees from keeping the customer's asset. This mechanism is a straightforward solution primarily for the customer because he does not have to go into a debt contract or pay interest, which Islam forbids. Besides, *Rahn* facilitates financial inclusion and other Sharia financial instruments, such as zakat (Salleh, 2015). *Rahn* is also one of the sources of funding during the COVID-19 pandemic (Hilaluddin et al., 2022).

To our observation, academic literature on *Rahn* is limited. Some studies have revealed some factors that determined *Rahn*'s adoption. First, using the Malaysian context of Kelantan Malaysia, Yahaya (2020) explores the effect of internal customer factors on *Rahn* service usage. His study reveals that halal-haram consideration is the most dominant factor determining *Rahn*'s adoption. Second, in a study of 267 Malaysian respondents, Amin and Hassan (2022) examined the effect of Islamic religiosity, Islamic altruism, and Islamic debt collection policy on *Rahn* adoption among millennial

customers, documenting that those three factors significantly affect this adoption. Thus, based on the explanation of prior studies, religiosity is an essential element affecting the usage of *Rahn* products among customers, primarily in Muslim-majority countries. The following hypothesis is formulated in this study.

H1: Religiosity significantly affects *Rahn*'s adoption.

In a study on bank customers in the Selangor and Kuala Lumpur area, Mohd Thas Thaker et al. (2020) investigated the influence of various variables under the ARSAM (Ar-Rahnu acceptance model) and DTPB (decomposed theory of planned behaviour) model. One of their findings is a significant positive association between social factors and perceived risk with *Rahn* acceptance. Understandably, perceived risk can relate to various factors, such as safety of place (buildings), convenience, and service delivery. Furthermore, in a study on 600 female entrepreneurs in three states of Malaysia (Kedah, Kelantan, and Terengganu), Nik Azman et al. (2018) found that service fee is a significant factor that affects *Rahn* usage. Their study implies that product charge is essential for female business owners. Thus, based on this explanation, the following hypothesis is formulated.

H2: Service quality significantly affects *Rahn*'s acceptance.

Based on our field observation, *Rahn*'s customers typically go to the shop to pawn their collateral and obtain financing. Thus, the procedure can hardly be done online since the physical products need to be delivered, and the employees of the Sharia pawnshop should perform the site visit for the collaterals whenever they are in the form of land or house. With such a business model, location has been an essential element for *Rahn* adoption, which differs from the adoption case of Islamic bank products (Dusuki & Abdullah, 2007; Nugraheni & Widyani, 2020). In other words, *Rahn* customers will consider proximity to the Sharia pawnshop as one of the factors affecting the service usage. Therefore, the following hypothesis is proposed.

H3: Location significantly affects *Rahn*'s acceptance.

Employing three independent variables (religiosity, location, and service quality), this study is expected to enrich the scant literature on *Rahn* adoption (dependent variable), primarily in the context of Indonesia as the largest Muslim country. Based on the arguments outlined in this section, the conceptual model of this study can be presented in Figure 1.

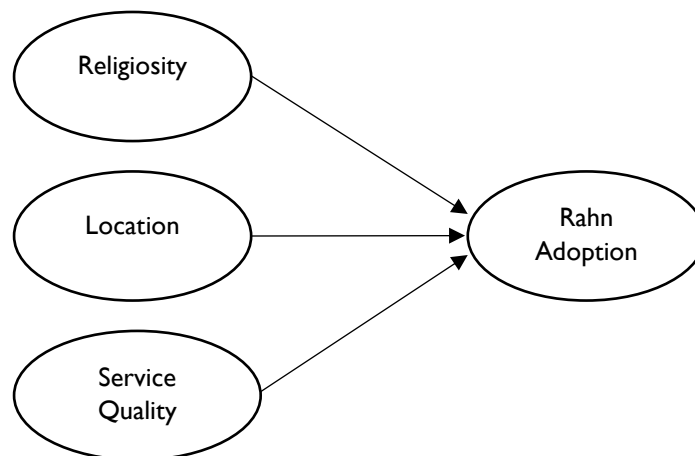


Figure 1: Conceptual Model

3. Method

3.1. Data Collection Procedure

This study surveyed 200 customers from four branches of Sharia pawnshops (50 customers each) who have ever conducted a transaction or used the *Rahn* service at the Sharia pawnshop. All Sharia pawnshops sampled in this study are in Padang City, Indonesia. Padang City was selected for this study for the following reasons. First, Padang City is one of the most religious cities in Indonesia, whereby Islamic values highly influence its culture (Aziz et al., 2020). Thus, investigating customers in this area may shed light on their acceptance determinant for *Rahn* as an Islamic financial service. Second, Padang is a city with positive growth in terms of the number of *Rahn* customers as a result of active efforts of *Rahn* companies to increase financial literacy and inclusiveness of Padang society (Hendra, 2023), leading to the third factor, namely the prospect of *Rahn* practice in Padang City, which was predicted to be promising in the future (Irwan, 2012).

Data in this study were collected using a questionnaire containing two main sections. We used a closed questionnaire consisting of 20 questions (items) for the four variables in the study and some questions regarding gender, monthly income, and age. Since *Rahn* product is not as popular as Islamic bank products, we used online and offline

questionnaires to maximize data collection. For the offline questionnaire, we asked the respondents to fill in the form directly whenever they finished having a transaction on the spot. Before this interview, we obtained the permit from the managers of *Rahn* pawnshops. The five-point Likert scale is used for each questionnaire question, with a score of 1 for strongly disagree and 5 for strongly agree (Dey et al., 2019, 2021).

Partial Least Square Structural Equation Modeling (PLS-SEM) is used with the help of SmartPLS software to examine the factors that affect customer adoption or acceptance of *Rahn* products. Customer acceptance of *Rahn* products is the dependent variable, while location, service quality, and religiosity are the independent variables.

3.2. Operationalization of latent variables

The questionnaire in this study was adapted from previous studies (shown in Table 1). The questionnaire items were derived from the purchase intention concept since choosing the *Rahn* is comparable to buying a product. The latent variables and outer loadings of items are shown in Table 1.

Table 1: Measurement item

| Construct | Item | Code | Source | Factor loading (initial model) |
|-----------------|---|------|--------------------|--------------------------------|
| Location | 1. Sharia pawnshops can be accessed easily using public transport. | L1 | (Rakhmanita, 2018) | 0.67 |
| | 2. Sharia pawnshop is in a strategic location. | L2 | | 0.64 |
| | 3. Sharia pawnshop can be seen clearly from the main road. | L3 | | 0.60 |
| | 4. Sharia pawnshop is nearby the downtown. | L4 | | 0.72 |
| | 5. Sharia Pawnshop has a large parking area. | L5 | | 0.69 |
| Service Quality | 1. Employees of Sharia pawnshop are friendly. | SQ1 | (Rakhmanita, 2018) | 0.79 |
| | 2. Employees of Sharia pawnshop explain the products in detail. | SQ2 | | 0.81 |
| | 3. The waiting room of Sharia pawnshop is comfortable and clean. | SQ3 | | 0.83 |
| | 4. Employees of Sharia pawnshop give greetings and smiles. | SQ4 | | 0.82 |
| | 5. Transaction service at Sharia pawnshop is fast and easy. | SQ5 | | 0.82 |
| Religiosity | 1. As a Muslim, I use Sharia pawnshop services. | R1 | (Nasrullah, 2015) | 0.84 |
| | 2. I feel closer to Allah if I use Sharia pawnshop services. | R2 | | 0.88 |
| | 3. I want to be free from riba, so I use Sharia pawnshop services. | R3 | | 0.89 |
| | 4. I have religious knowledge, so I use Sharia pawnshop services. | R4 | | 0.87 |
| | 5. Using Sharia pawnshop services gives me tranquillity. | R5 | | 0.86 |
| Rahn Adoption | 1. I use Sharia Pawnshop services because they fulfil my needs. | RA1 | (Nasrullah, 2015) | 0.71 |
| | 2. I use Sharia pawnshop services because of the recommendations of people around me. | RA2 | | 0.71 |
| | 3. I use Sharia Pawnshop services because they are safe. | RA3 | | 0.51 |
| | 4. I use Sharia pawnshop services because I feel comfortable. | RA4 | | 0.73 |

| | | |
|--|-----|------|
| 5. I use Sharia Pawnshop services because of promotions. | RA5 | 0.60 |
|--|-----|------|

Table 1 shows that some factor loadings of the items are less than the threshold of 0.7 and thus will be dropped prior to further analysis. These items are L1, L2, L3, L5, RA3 and RA5. These items are the ones that make the location and *Rahn* adoption constructs have the average variance extracted (AVE) values lower than 0.5. Therefore, in the final model, those items are removed, except for item L5, since its factor loading value is close to 0.7.

4. Results and Discussion

4.1. Descriptive results

This study reveals that in terms of gender, most respondents are female by 145 persons (72.5%). This is sensible because most of the collateral in *Rahn* is gold, and the users or owners of this asset type are women. Furthermore, based on the age category, most consumers of Sharia pawnshops in this study are 36-45 years old, which is 29%, followed by those aged 26-35 years, 28.5%. We found no customers under 15 years old as they are considered underage and might be too young to conduct this type of financial transaction. Meanwhile, based on occupation, most customers are housewives, which is 30.5%. This result also aligns with the finding regarding gender, implying that females mostly play a more active role in pawning since they usually have jewellery or gold to be pawned. We further reveal that the most minor category in occupation is farmer, which is only 1.5% of the total sample. Table 2 shows the demographics of the respondents in this study.

Table 2: Demography of respondents

| Characteristic | Category | Frequency | Percentage |
|----------------|--------------------------|-----------|------------|
| Gender | Male | 55 | 27.5% |
| | Female | 145 | 72.5% |
| Age | Under 15 years | 0 | 0.0% |
| | 16-25 years | 35 | 17.5% |
| | 26-35 years | 57 | 28.5% |
| | 36-45 years | 58 | 29.0% |
| | Above 45 years | 50 | 25.0% |
| Occupation | Student/ college student | 26 | 13.0% |
| | Civil servant | 14 | 7.0% |
| | Entrepreneur | 39 | 19.5% |
| | Employee | 46 | 23.0% |
| | Farmer | 3 | 1.5% |
| | Housewife | 61 | 30.5% |
| | Others | 11 | 5.5% |

4.2. Assessment of measurement model

Examining the measurement model is essential in structural equation modelling (SEM) because it helps us understand how hidden and visible variables are linked (Hair et al., 2017). Confirmatory factor analysis (CFA) was used to validate and enhance the items and latent variables within the measurement model. In this study, an array of evaluations encompassing Cronbach's alpha (Cronbach, 1951), composite reliability (Hair et al., 2010), and assessments of discriminant and convergent validity were employed to ascertain the unwavering reliability and robust validity (Henseler et al., 2014) of the measurement model. SEM model in this study, shown in Figure 2, where we dropped several items as outlined previously. Having dropped the items less than 0.7, the outer loading values in the new model are above 0.7. Reliability has improved since the composite reliability value is above 0.7, though through Cronbach's Alpha and rho_A, the constructs of location and *Rahn* adoption are considered less reliable. The validity of all constructs is also improved, as shown by the AVE values larger than 0.6. Based on the results shown in Table 3, the hypotheses testing proceeded.

Table 3: Reliability and Validity Results

| | Cronbach's Alpha | rho_A | Composite Reliability | Average Variance Extracted (AVE) |
|-----------------|-------------------------|--------------|------------------------------|---|
| Location | 0.586 | 0.601 | 0.827 | 0.706 |
| Rahn Adoption | 0.649 | 0.662 | 0.808 | 0.585 |
| Religiosity | 0.920 | 0.924 | 0.940 | 0.757 |
| Service Quality | 0.874 | 0.881 | 0.908 | 0.664 |

In a strategic move to shield against the influence of both common method bias (CMB) and self-serving bias (SSB), we discreetly collected data from different distinct respondent groups in isolation, fortifying our approach with the implementation of a sophisticated time-lag technique (Min et al., 2016). This proactive methodology underscores our commitment to ensuring the integrity and rigour of our research. Even so, experts often use correlation coefficients and VIF to detect multicollinearity in statistical analysis. Table 4 displays the results of Variance Inflation Factors (VIF). Identifying multicollinearity involves considering VIF values exceeding 5 or 10 (Donath et al., 2012), yet no universally accepted threshold exists for pinpointing multicollinearity based on VIF values. Nonetheless, the findings reveal that the lowest VIF value stands at 1.208, and the highest VIF value registers at 3.266. These values surpass the minimum threshold of 1.0 and stay well below the standard maximum threshold of 5 (Hair et al., 2010). Thus, it is ascertained that the study remains untainted by bias and multicollinearity. The model validation test has been conducted, and the SRMR value of 0.076 comfortably surpasses the 0.80 threshold, confirming the model's goodness of fit (Joreskog & Sorbom, 1993). However, the aforementioned confirmatory factor analysis (Harrington, 2009; Salam et al., 2021), evaluation of bias (Podsakoff et al., 2003), and examination of multicollinearity (Graham, 2003), coupled with the goodness-of-fit test (Andersen, 1973), collectively affirm the reliability and validation of the data for hypothesis testing, underscoring the suitability of the proposed model.

Table 4: Variance Inflation Factors (VIF) Results

| Variables | Refined Items | VIF | Variables | Refined Items | VIF |
|------------------|----------------------|------------|------------------|----------------------|------------|
| Location | L4 | 1.208 | Rahn Adoption | RA1 | 1.305 |
| | L5 | 1.208 | | RA2 | 1.264 |
| | R1 | 2.473 | | RA4 | 1.242 |
| | R2 | 3.185 | | SQ1 | 1.852 |
| | R3 | 3.266 | | SQ2 | 2.146 |
| Religiosity | R4 | 2.725 | Service Quality | SQ3 | 2.115 |
| | R5 | 2.532 | | SQ4 | 2.401 |
| | | | | SQ5 | 2.478 |

The path coefficient test in this study uses the two-tailed test type with a maximum iteration of 300. The bootstrapping subsample is set to 1,000 with the confidence interval method of bias-corrected and accelerated (BCa) bootstrap. The analysis shows that the R-Square is 0.611, indicating that *Rahn* adoption can be explained by three independent variables of this study by around 61% (shown in Figure 2).

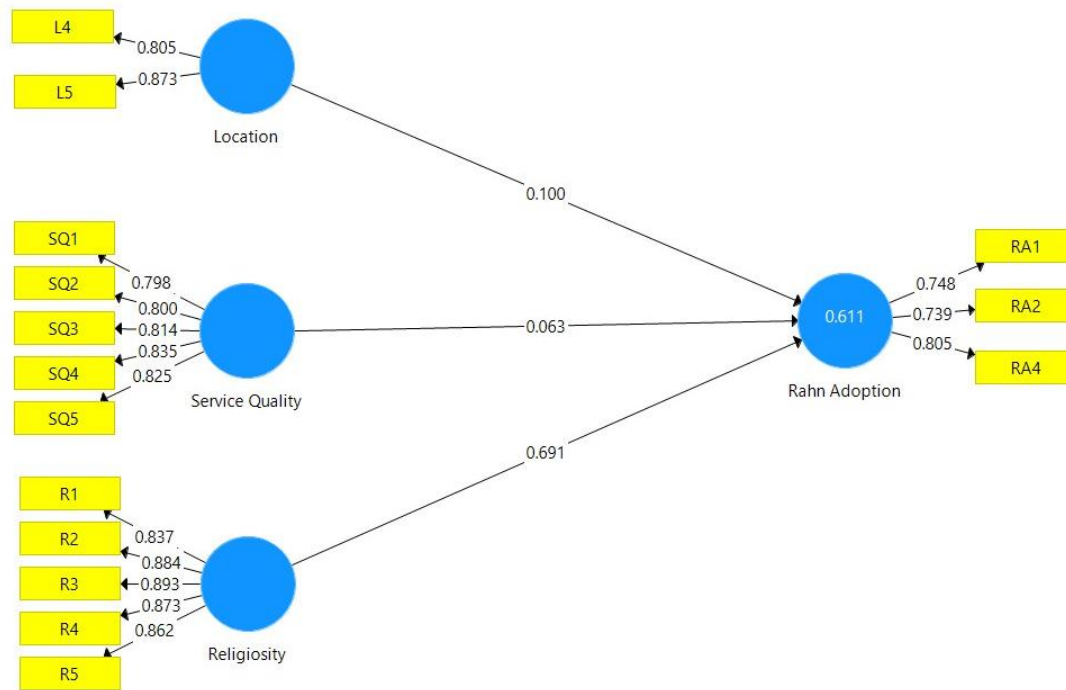


Figure 2: The estimated structural model

4.3. Hypothesis testing

This study reveals that among the four independent variables, only religiosity is significant in determining the acceptance of *Rahn*, as shown by the p-value of the religiosity construct, which is less than 0.05. This means the first hypothesis (H1) of this study is supported, while the second (H2) and the third (H3) hypotheses are not supported because their p-values are larger than 0.05. Furthermore, Table 5 shows this study's findings as explained as follows.

Religiosity is a significant determinant of *Rahn*'s adoption due to several factors. One of them would be that Padang City is one of the most religious areas in Indonesia, and people from this area are known for upholding Islamic values. People in Padang (Minangkabau) count on an ancestral way of life known as "*Basandi Syarak, Syarak Basandi Kitabullah, Sarak mangato adat mamakai*," which means that tradition is based on Islam, which, in turn, is based on the holy Quran (Zurnetti & Muliati, 2022). With this value, it is understandable that people's awareness of Islamic teachings significantly drives *Rahn*'s adoption. This result is consistent with previous studies, documenting that religiosity is a significant determinant of *Rahn* adoption (Amin & Hassan, 2022; Yahaya, 2020). This result also aligns with a study by Muhamat et al. (2011), who excluded religiosity to measure the demand side of *Rahn* among non-Muslims.

The result regarding religiosity implies practically that marketers of Islamic financial services should pay close attention to the cultural beliefs or values embraced by the customers. Those with firm religious values will tend to incorporate such values into their financial decision, including using *Rahn* services. These values are embedded and inseparable primarily among Muslims due to the strong belief in the comprehensiveness of Islam religion itself. Theoretically, this result contributes to Islamic marketing literature on religiosity, primarily in the Sharia pawnshop context, which has been underexplored in prior studies.

Table 5: Hypothesis Results

| | Sample Mean (M) | Standard Deviation (STDEV) | T-stat. | P-value | Hypothesis |
|---------------------------------------|-----------------|----------------------------|---------|---------|-------------|
| Religiosity -> Rahn Adoption (H1) | 0.70 | 0.048 | 14.60 | 0.00 | Supported |
| Service Quality -> Rahn Adoption (H2) | 0.06 | 0.065 | 0.92 | 0.35 | Unsupported |
| Location -> Rahn Adoption (H3) | 0.09 | 0.056 | 1.74 | 0.08 | Unsupported |

Furthermore, though service quality is essential in business (Bakir et al., 2022), our study shows that this is not the primary factor affecting *Rahn* adoption. This is because selecting *Rahn* is dissimilar from selecting other Islamic financial products. Customers going to the Sharia pawnshop are generally people who need fast cash. Thus, they may not feel the excellent quality of service. However, though the results are insignificant, *Rahn* companies or Sharia

pawnshops need to improve their service provision to customers to maintain loyalty, especially when the competition has become more intense. For instance, fintech firms have also increased competition since they provide customers loans (Edward et al., 2023). In dealing with fintech firms, in addition to improving service quality, *Rahn* companies should optimize the service offering by maximizing technology or going digital. This idea aligns with the result of the location variable found to be insignificant in this study. The location is no longer the issue since all financial transactions can be performed using a mobile phone.

5. Conclusion

This study examines the effect of religiosity, location, and perceived service quality on *Rahn* adoption using the context of Padang City, Indonesia. Our study reveals that only religiosity drives customers to adopt *Rahn* products. This result implies that Islamic pawnshops must emphasize Sharia compliance in the *Rahn* product provision because customers, primarily those in relatively religious areas, highly consider this aspect when using financial services, such as the pawnshop service. Theoretically, this study contributes to the two theories. First, our study adds Islamic finance literature on the determinants of *Rahn* adoption. Second, our results extend TPB by documenting religiosity, an element of subjective norm, as a significant predictor of usage behaviour.

Our study has some limitations. First, our study focuses on a single area of Indonesia; thus, future studies may employ different contexts in terms of city or country. Second, our study employs relatively underutilized constructs and items; thus, we suggest that future studies explore other constructs that may affect *Rahn*'s adoption.

Future research can broaden its horizons by including different cities, regions within Indonesia, and even other ASEAN countries or diverse nations with varying religiosity levels to assess the general applicability of these findings. Comparative studies contrasting regions with different degrees of religiosity can shed light on how the role of religiosity in *Rahn* adoption varies across various cultural and religious contexts. Additionally, research endeavours can delve into other potential influences of *Rahn* adoption, such as customer demographics, economic conditions, or the impact of cultural practices. Given the surge of FinTech companies and digital platforms in the financial landscape, it is worth investigating how technology and digitalization impact *Rahn* adoption. This exploration may encompass strategies for Sharia pawnshops to harness technology to enhance service delivery and broaden their reach.

Author Contribution

Author 1: conceptualization, writing original draft, data curation, formal analysis, investigation.

Author 2: methodology, data collection, data analysis, review, validation.

Author 3: conceptualization, validation, supervision.

Author 4: review, editing, supervision, validation.

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Conflict of Interest

The authors declare that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.

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