DOI: https://doi.org/10.62017/syariah

The Concept of Pawnbroking (Rahn) in Sharia Financial Institutions

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Abstract

In muamalah, Islam also recognises pawnbroking, or rahn. A rahn contract is a debt agreement between the rahin (borrower/pawnbroker) and the murtahin (pawnbroker/lender), who's someone who pawns their goods as collateral for their debt. To meet economic needs, people sometimes face many difficulties, and various methods can be used to ensure that their needs are still met. For example, by pawning valuable items such as gold, land, and others. There are various views among Islamic scholars in discussing rahn. In general, pawnbroking is permitted under certain terms and conditions. Islamic pawnbroking (rahn) with standard rules still faces many problems, such as legal norms in rahn. Therefore, it's also necessary to discuss the norms in rahn activities that are expected to be in accordance with Islamic law. In terms of collateral (rahin), this is a legal issue that also needs to be discussed in the concept of pawnbroking. There has been a paradigm shift in pawnbroking in Islamic legal and economic terminology to debt. In addition, this article aims to explain the concept of rahn, law, and other matters related to rahn (pawnbroking) so that the public can better understand pawnbroking and the concept of pawnbroking that's justified according to Islam.

Keywords: *Fiqh Muamalah, Pawn, Rahn*

INTRODUCTION

Rahn, which literally means "pawn," is one of the oldest and most fundamental financial instruments in the Islamic economic system. The presence of Rahn in modern Islamic financial institutions—from banks to Islamic pawnshops—demonstrates the enduring relevance of this guarantee mechanism, which is deeply rooted in Islamic law. This concept serves not only as a financing tool, but also as a tangible manifestation of the principles of justice, transparency, and sustainability that distinguish Islamic finance from conventional systems.

In fiqh terminology, Rahn is defined as the retention of a borrower's property (rahin) as collateral for a loan or debt (marhun bih) that he receives from the lender (murtahin). The essence of this contract is the granting of rights to the murtahin to sell the collateral if the rahin fails to fulfil his obligations. The main function of Rahn is very significant in driving the micro and macro economy. It offers a liquidity solution for individuals or companies that need cash without having to relinquish ownership of their valuable assets, such as gold, certificates, or vehicles. Thus, Rahn plays a role in maintaining the stability of the rahin's assets while ensuring capital security for the murtahin.

When accessing banking services, some people will go through administrative processes and difficult requirements, so some will choose to go to loan sharks, even though the interest rates are quite high. For some people who have assets that can be used as savings, pawnshops are an alternative, because pawnshop transactions are safer, legal, and institutionalized (Subagiyo, 2014).

The primary objective of this study is to identify and examine in depth the basic concept of Rahn, referring to its legal sources from the Qur'an, Hadith, and fatwas of scholars, and to

DOI: https://doi.org/10.62017/syariah

critically compare it with the conventional pawn system, particularly in relation to its legal basis and cost structure. This objective is essential for building a solid framework of understanding. In addition, this study also aims to identify and formulate in depth the legal basis, pillars, conditions, and contracts that form the concept of Rahn based on the main sources of Sharia (the Qur'an and Hadith). It also aims to analyse the comparison between the contract structure, pillars, and cost consequences in the Rahn system and the conventional pawn system in order to highlight the advantages and fundamental differences between the two systems, particularly in terms of the elimination of usury.

METHOD

Rahn has become a major topic of discussion, not only in academic discourse. However, there is a fragmented understanding of the differences between the concepts of Islamic pawnbroking and conventional pawnbroking, which are often misunderstood by the public. Previous studies contained in various literature, such as the works of Tentiyo Suharto and Mardanis, have provided a strong theoretical foundation, but these studies often focus only on the concept and its implementation.

This article aims to fill this gap through a comprehensive literature study approach. By reviewing and synthesizing various primary sources, including books, this research aims to explore a deeper understanding of the entire concept of rahn, which is quite different from conventional pawnbroking, as well as several examples of its implementation by the general public. The results are expected to provide knowledge that will enable readers to distinguish between the two without misunderstanding. Therefore, we conducted a full two months of research from October 2025 to November 2025 in order to maximize our research in this work.

RESULT AND DISCUSSION

Pawn or rahn in Islam is a form of sharia contract that regulates the transfer of goods as collateral for a debt or specific obligation. According to sharia principles, rahn aims to provide protection for creditors while providing legal certainty for debtors. Rahn is a financial instrument that is legally valid under Islamic law, based on the arguments of the Qur'an and Hadith, including Surah Al-Baqarah verse 283, which mentions the transfer of goods as collateral for debt.

Rahn is defined as the retention of a borrower's property (rahin) as collateral for a loan or debt (marhun bih) that he receives from a lender (murtahin). The essence of this contract is to give the murtahin the right to sell the collateral if the rahin fails to repay his obligations. The main function of Rahn is very significant in driving the micro and macro economy. It offers a liquidity solution for individuals or companies that need cash without having to relinquish ownership of their valuable assets, such as gold, certificates, or vehicles. Thus, Rahn plays a role in maintaining the stability of the rahin's assets while ensuring capital security for the murtahin.

Rahn consists of the parties entering into the agreement (creditor and debtor), the collateral, and the agreement itself. The conditions for a valid rahn include ownership of the collateral, clarity regarding the type and amount of debt, and agreement between both parties without any element of gharar (uncertainty) or riba (interest). In addition, the collateral must be valuable and can be stored safely.

In practice, Islamic financial institutions such as Islamic banks and Islamic financing companies implement the rahn system to support credit without violating Islamic principles. Collateral is usually in the form of gold, silver, or productive assets that have a definite value. In addition to ensuring the certainty of the contract, the institution is also responsible for safeguarding the collateral until the debt is repaid. With a transparent and Sharia-compliant system, rahn provides a fair and secure financing solution while upholding the principles of justice and blessings in Islamic financial transactions.

Pawnbroking is a type of debt agreement, whereby the creditor grants trust to the debtor, who then pawns their property as collateral for the debt. The collateral remains the property of the pawner (the debtor) but is controlled by the pawnbroker (the creditor). This concept in Islamic jurisprudence is known as rahn or pawn (Muhammad Firdaus, 2005).

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Legal Basis of Rahn

As a basis for Rahn to be accepted by society, the Qur'an and Hadith explain: Quran, Surah Al Baqarah: 283

وَإِن كُنتُمْ عَلَىٰ سَفَرٍ وَلَمْ تَجِدُوا۟ كَاتِبًا فَرِهَٰنٌ مَّقْبُوضَةٌ ۖ فَإِنْ أَمِنَ بَعْضُكُم بَعْضًا فَلْيُؤَدِّ ٱلَّذِى ٱؤْتُمِنَ أَمَٰنَتَهُۥ وَلْيَتَّقِ ٱللَّهَ رَبَّهُۥ ۗ وَلَا تَكْتُمُوا۟ ٱلشَّهَٰدَةَ ۚ وَمَن يَكْتُمْهَا فَإِنَّهُۥٓ ءَاثِمٌ قَلْبُهُۥ ۗ وَٱللَّهُ بِمَا تَعْمَلُونَ عَلِيمٌ

Meaning: "If you are on a journey (and the mu'amalah is not done in cash) and you do not find a writer, then there should be a dependent that is held (by the debtor). However, if some of you trust others, then let the one who is trusted fulfill his mandate (debt) and let him fear Allah his Lord and do not you (witnesses) hide the testimony. And whoever hides it, then indeed he is a sinner at heart and Allah is All-Knowing of what you do it."

Hadist In a narration it is said:

ُاشْتَرَى رَسُولُ اللَّهِ – صلى الله عليه وسلم – مِنْ يَهُودِيٍّ طَعَامًا وَرَهَن دِرْعَه

Rasulullah shallallahu 'alaihi wa sallam bought foodstuffs (read: wheat) from the Jews without cash and he handed over to the Jews his armor as collateral." (HR. Bukhari 2378). From Abu Hurairah r.a. The Prophet SAW said: Ownership of the pawned item cannot be separated from the owner who pawned it. He gets the benefits and bears the risks (HR Asy'Syafii, al Daraquthni and Ibnu Majah).

The Pillars of Rahn

Rahn has several pillars that form the basis for a rahn transaction to be valid according to sharia law. Al-'Aqidain is the main requirement for the validity of this contract is that both parties must have full legal capacity, the standard of which is similar to other muamalah (transaction) contracts in Islam. This capacity is realized by ensuring that Rahin and Murtahin are individuals of sound mind and have reached the age of puberty. In addition to cognitive factors and age, the aspect of willingness is absolute; the contract must be made without coercion or pressure from any party, so that it reflects a fair and voluntary transaction. In contemporary practice, this pillar sets legal and ethical standards for customers and Islamic financial institutions, ensuring that pawn transactions are carried out by parties who are fully aware of their rights and obligations.

Al-Ma'qud 'Alaih is a material objects pledged by Rahin as collateral for debt. The quality of the Marhun greatly determines the validity of the contract. The main requirement is that the pawned item must have economic value, which means that it must have market value and generally recognized benefits. Furthermore, the pawned object must be halal and legal to trade; therefore, items that are prohibited in Islamic law (such as alcoholic beverages or stolen goods) cannot be used as Marhun. Another crucial aspect is the certainty of Rahin's legal ownership, as well as the ability to transfer the item to Murtahin. With these conditions fulfilled, Murtahin has a physical guarantee that can be accounted for if Rahin fails to fulfill his debt repayment obligations.

As-Sighat is the outward manifestation of the inner willingness of both parties. The expression of this pillar is not limited to verbal statements, but can also be done through written documents or through actions that are generally recognized as a form of agreement in muamalah, in line with modern practices. The essence of As-Sighat is the realization of the principle of ridha as emphasized in Islamic teachings. This pillar ensures that Rahn transactions, like other transactions, are based on sincere agreements and do not contain elements of fraud or coercion. If Sighat is unclear or ambiguous, the Rahn contract can be considered legally flawed.

Al-Ma'l refers to debt or financial obligations that are the essential reason for the Rahn contract. The main function of the Rahn contract is as a guarantee for the repayment of the debt. Scholars agree that if there is no debt (Al-Ma'l), then the Rahn contract is legally meaningless and invalid. In other words, Rahn is a derivative contract (tabi') whose existence depends on the

DOI: https://doi.org/10.62017/syariah

existence of debt. The secured debt must be clear in amount and certain at the time the contract is made. This pillar provides strong legal certainty for the Murtahin; it guarantees that the pawned goods will be the final settlement if the Rahin fails to fulfill their debt payment obligations. Without a definite debt, the Murtahin's retention of the pawned goods will be considered an unjustified seizure of another person's rights.

Rahn Requirements

In order for the contract to be valid and binding under Islamic law, there are several conditions that must be met, including the parties to the contract, the collateral, the secured debt, and the form of acceptance (shighat)

According to Rahin & Murtahin, the first requirement is to ensure that Rahin (the mortgagor/debtor) and Murtahin (the mortgagee/creditor) have sufficient legal competence. This competence is measured by the same standards as sales contracts in Islam. In essence, the parties must be individuals who are of sound mind and have reached the stage of mumayyiz (able to distinguish between what is beneficial and harmful). Consequently, a Rahn contract is explicitly considered invalid if it is entered into by a person who has not reached puberty, a person who is mentally incompetent, or a foolish person who is incapable of managing their assets. This requirement serves as a safeguard to ensure that the rights and obligations in a Rahn contract are carried out with full responsibility. The next one is Marhun Bih which is a debt or financial obligation secured by collateral. These conditions are imposed to prevent future disputes. The debt must be fixed (tsabit) and have a usable value (mutaqawwim). This means that the secured debt must have a clear existence and value, not just a promise or estimate. When the Rahn contract is executed, the debt must be clear and known with certainty by both the Rahin and the Murtahin. The purpose is to ensure transparency and eliminate uncertainty in the value of the collateral, so that the contract can be based on fairness and clarity.

Marhun is a goods used as collateral, must meet a series of criteria related to value, benefit, and ownership status. The criteria are that Marhun must be goods that have economic value and are valid for sale and purchase under Sharia law. The aspect of ownership is strongly emphasized because the collateral must be the full property of Rahin and under his control. If Rahin pawns someone else's property without legal permission, the Rahn contract is automatically void or invalid. In addition, Marhun must also be able to be handed over to Murtahin and not be mixed with other people's property. This pawned item can be immovable or movable property, as long as it meets the criteria. We have marhun that means we have Shighat too. Shighat refers to the form of ijab kabul that marks the beginning of the Rahn contract. This condition is the subject of disagreement among fiqh scholars. Hanafi scholars view Shighat Rahn as similar to buying and selling, which must be fulfilled immediately and cannot be subject to certain conditions. In contrast, the Shafi'i scholars emphasize that Shighat must contain maslahah (benefit) for the contracting parties, ensuring that the Rahn contract is carried out with the principle of prudence. Meanwhile, the Malikiyah school of thought stipulates that conditions that contradict the main purpose of the Rahn contract are not permitted. This is because the purpose of Rahn is to hold collateral, not to transfer ownership. Therefore, the essence of the Shighat condition is clarity, sincere agreement, and the absence of conditions that undermine the core of the collateral contract.

Rahn Contracts

The Rahn contract has two main variants that differ fundamentally in terms of physical control of the collateral, namely Rahn 'Iqari and Rahn Hiyazi. Although both serve as debt collateral, the differences in their mechanisms greatly determine their application and suitability in the context of modern law and economics. Rahn 'Iqari, which is often equated with the concept of Rahn Tasjily, focuses on collateral in the form of legal ownership or official asset documents. In this form, only the ownership documents (such as vehicle registration certificates or land certificates) are transferred to the Murtahin, while the physical assets themselves remain in the

DOI: https://doi.org/10.62017/syariah

possession and use of the Rahin. This concept operates based on trust and the legal transfer of ownership rights, making it similar to the Fidusia mechanism in positive law. The advantage of Rahn 'Iqari lies in its ability to provide collateral without disrupting the productivity of the Rahin's assets. The Rahin can continue to use the car or machine that is used as collateral to generate income, which in turn facilitates debt repayment.

For example, Mr. Herman, a contractor, applied for financing of Rp100,000,000 from Bank Syariah "Barokah" to purchase raw materials for a project. As collateral, Mr. Herman offered the Certificate of Ownership (SHM) for his land. In the Rahn 'Iqari agreement, Mr. Herman handed over the SHM to the Bank, and the Bank recorded the collateral. However, Mr. Herman continues to control and utilize the land and buildings (for example, as a project office or residence). During the financing period, Mr. Herman retains the right to use the land. The collateral will only be executed by the Bank if Mr. Herman fails to repay his debt. Thus, control of the collateral lies with the document, not the physical asset.

Rahn Hiyazi is the most traditional form of pawn, where collateral is based on physical possession (Hiyazah) by the Murtahin. In this contract, collateral items such as gold, jewelry, or vehicles are handed over entirely to the Murtahin and remain under their supervision until the debt is repaid. Rahn Hiyazi is very similar to the concept of pawn in general. If the object being pledged is something that can be used for benefit, the Murtahin is allowed to take that benefit, but with the strict condition that it must be used to cover the costs of care and maintenance of the item, in order to avoid usury. This form of Hiyazi provides a higher level of collateral certainty because the physical assets are in the hands of the creditor, but as a consequence, the assets cannot be used by the debtor during the pawn period.

This concept provides maximum protection for Murtahin, because by controlling the assets, the risk of the assets being transferred, damaged, or sold without their knowledge is eliminated. In the context of financial institutions, Rahn Hiyazi is the primary choice for assets that are easily transferred and stored, such as gold, jewelry, or electronic goods. Rahn Hiyazi fiqh also regulates important issues regarding the use of pledged items; if the Murtahin benefits from the pledged assets, then he is obliged to bear the costs of maintaining those assets, ensuring that there is no element of usury where the loan generates profits without any risk or responsibility.

For example, when Mrs. Maya needed Rp20,000,000 in quick funds for her small business capital, she decided to use her gold jewelry as collateral. Mrs. Maya visited a Sharia Pawnshop. In the Rahn Hiyazi agreement, Mrs. Maya (Rahin) was required to physically hand over the gold jewelry to the Sharia Pawnshop (Murtahin). The pawnshop then appraises the value of the gold, provides a loan, and stores the gold in a secure vault. During the loan period, for example one year, the gold jewelry is completely under the control of the pawnshop. Mrs. Maya cannot use the jewelry. After one year, if Mrs. Maya successfully repays her loan of Rp20,000,000 plus storage fees, only then is the Sharia Pawnshop obligated to return the gold jewelry in its entirety. Thus, physical control serves as a lock that is only opened after the debt is settled.

The main difference lies in the location of the goods. Rahn 'Iqari is a solution for productive asset collateral where physical control must be retained by Rahin, while Rahn Hiyazi is a form of collateral that requires physical control by Murtahin to ensure asset security, and is often used for high-value movable goods that are relatively easy to store. Both are important instruments in Islamic banking to secure various types of financing.

Implementation of Rahn Contracts

Operational mechanisms of rahn is about the practice of rahn at LKS focuses on an agreement between customers (rahin) who submit valuable items (marhun) as collateral to sharia institutions (murtahin) in order to obtain loan or financing funds. Items that can be used as collateral include gold, jewelry, vehicles, electronics, securities, and property in accordance with sharia provisions and Indonesian positive law. Typically, the rahn application process involves the following stages about handover of collateral by the rahin to the murtahin, appraisal of the value of the goods by the sharia pawnshop or sharia bank, signing of the rahn contract accompanied by ijab-qabul and receipt of the Rahn Proof Letter (SBR), disbursement of financing

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funds in accordance with the proportion of the estimated value of the marhun, and Payment of maintenance and administration fees, not loan interest. LKS is only entitled to collect fees for maintenance/custody services (ujrah), in accordance with Fatwa DSN-MUI No.25/DSN-MUI/III/2002, and is not permitted to derive direct benefits from the collateral, except with the owner's permission and only to the extent of maintenance costs.

Schemes and Contracts Sharia pawnshops apply several rahn financing contract schemes according to customer needs and the type of collateral. Qardhul Hasan is interest-free loans for consumptive needs, with simple administration and storage fees. Mudharabah is productive financing (business capital) based on profit sharing, if the collateral is in the form of movable or immovable assets. And then Ijarah is a lease/custody agreement, with the rahin paying the rental fee for the storage of collateral. Last is Bai' Muqayyadah which is a sale and purchase agreement for productive financing purposes, where the collateral remains the property of the rahin but can be sold in the event of default.

Every agreement that is agreed upon will be signed and implemented through carefully established Standard Operating Procedures (SOPs). These procedures are designed to ensure clarity, fairness, and legal certainty for both parties involved. Term and flexibility of the agreement In general, the loan term agreed upon in this agreement has a maximum duration of 120 days from the date of signing and implementation. This four-month period is considered the ideal duration for the intended transaction. However, recognizing the potential for unexpected fluctuations in conditions and needs, this SOP also provides room for flexibility. If the rahin and murtahin both reach a mutual agreement, the loan term may be extended or changed, but this must be documented in writing as an amendment to the agreement. Payment and collateral return procedures, when it is time for the rahin to settle their debt obligations, the payment process must be followed with strict administrative procedures. Debt repayment must be accompanied by the return of the Pledge Proof Letter that was previously issued. This letter serves as a receipt and legal document for the collateral. In addition, the rahin is also required to show valid proof of identity to ensure that the return and cancellation of the pledge is carried out by the rightful party. After all obligations have been settled and the documents verified, the collateral (marhun) will be returned to the rahin. Collateral (Marhun) Execution Mechanism This SOP also strictly regulates the consequences and settlement mechanisms in the event of payment default. If the rahin is proven to have failed to settle their debt obligations after the specified due date—including after the extension period (if any)—then the murtahin has the full right to execute the collateral (marhun). This execution can be carried out in two ways, namely direct sale or through a transparent auction process. A crucial point regulated in this SOP is the principle of fairness in collateral execution. After the marhun is successfully sold or auctioned, the proceeds from the sale will first be used to cover the rahin's remaining debt and related costs (such as storage or execution costs). If there are excess proceeds from the sale after deducting all obligations, then the excess proceeds become the sole right of the rahin. This principle ensures that the murtahin only takes his rights in the amount of his receivables, while the rahin is not disadvantaged from the full economic value of the collateral that has been submitted.

The implementation of Islamic pawnbroking, or rahn, in Islamic Financial Institutions (IFIs) is built on a solid foundation, integrating fundamental Islamic financial principles with high business ethics. All rahn transactions at these institutions must strictly comply with the prohibition of usury and all forms of transactions categorized as haram, ensuring that all financing provided is pure and halal. To create a fair and responsible transaction environment, LKS places great emphasis on full transparency of all costs and procedures applied, thereby ensuring fairness and providing comprehensive protection for consumers. More than just a business transaction, rahn is carried out in the spirit of mutual assistance (ta'awun), with the main objective of expanding access to financing for people who need quick funds, especially for urgent needs such as health costs, education, micro-business development, or unavoidable consumption needs.

Within the framework of rahn, the principle of ownership is highly upheld, whereby ownership of the collateral (marhun) remains in the hands of the rahin (borrower) throughout the entire loan period. LKS only acts as a trustee responsible for storing the collateral. This

DOI: https://doi.org/10.62017/syariah

ownership status will only change in the event of a default that exceeds the agreed time limit. In addition, both Islamic pawnshops and Islamic banks actively develop strict monitoring mechanisms, which include accountability systems in the management of collateral and funds. This step is complemented by customer guidance efforts through intensive education on sharia principles, so that the objective is achieved: to create transactions that are not only fair and transparent, but also provide sustainable benefits (maslahah) for the community.

The practical application of the (rahn) scheme is commonly found in the services offered by Pegadaian Syariah and the Sharia Business Unit (UUS) at Sharia Banks. One of the most common examples is when a customer needs funds for urgent purposes, such as financing educational needs. The customer can pledge their gold as collateral. For example, by pledging 50 grams of gold with an estimated value of around IDR 15 million, the customer (rahin) can withdraw funds as needed, for example IDR 10 million. These funds are not interest-bearing loans, but facilities provided on the basis of collateral. In return, the customer will be charged a deposit (ujrah) and maintenance fee for the collateral, for example, IDR 3,500 per day. This fee is paid to the institution (murtahin) for secure storage services.

If the customer experiences difficulties and is late in making repayment after the due date, the customer has the option to apply for an extension of the pawn period in accordance with a new agreement. However, if the customer completely fails to fulfill their obligations (default), the collateral will go through a sale or auction process. The proceeds from the sale, after deducting the remaining principal and related costs, will be returned in full to the rahin, in accordance with the principles of sharia justice.

Sharia financial institutions accept various types of assets as collateral (marhun), which are flexible and tailored to customer needs and institutional policies. Items that can be pawned include gold and jewelry, vehicles (motorcycles or cars), and securities (such as sharia stocks or bonds). Although the institution (murtahin) holds the collateral, the important principle that applies is that the payment of maintenance and custody fees (ujrah) remains the full responsibility of the rahin. Meanwhile, the murtahin is strictly prohibited from utilizing or using the collateral for its own commercial or operational interests. Utilization may only be carried out if it is absolutely necessary (for example, periodically starting the vehicle's engine for maintenance) and must be in accordance with the agreed agreement and obtain permission and approval from the rahin.

Differences and Similarities between Rahn and Conventional Pawnbroking

Sharia financial institutions are fundamentally different from conventional financial institutions in terms of authority, objectives, scope, mechanisms, and accountability. Each institution in a sharia financial institution is part of the overall sharia financial system. Sharia financial institutions aim to help achieve socio-economic objectives in Islamic societies (Soemitra, 2016).

Actually, conventional pawnbroking and rahn have similarities and differences. The most important similarity lies in the function of collateral. In both conventional pawn and rahn systems, valuable items are always used as security or collateral for the funds provided to customers. The items accepted as collateral are also often similar, including high-value and easily liquidated items such as gold, jewelry, motor vehicles, electronic goods, or securities. This collateral forms the basis of trust in these financing transactions. The second similarity is the main purpose of the services they offer. The essence of both systems is to provide relatively quick and easy access to financing for people who are facing urgent financial needs. These two services are often the first choice when someone needs immediate liquidity, whether it is to cover unexpected education costs, pay for medical treatment, increase working capital for small businesses, or meet other urgent personal needs.

Finally, both have similar credit settlement mechanisms in cases where customers fail to meet their obligations. If the borrower (rahin in sharia or debtor in conventional) is unable to repay the debt after the specified deadline, the pawned item can be sold or auctioned. The purpose of this sale is to cover all of the customer's financial obligations to the institution. The most

DOI: https://doi.org/10.62017/syariah

important thing is that in both systems, the principle of fairness is upheld: any surplus or excess funds generated from the sale of collateral must be returned to the customer after all debts and costs have been covered.

The most fundamental difference lies in the philosophical and legal foundations that underpin the two systems. Conventional pawnbroking operates under the umbrella of Indonesian positive law, specifically the Civil Code (KUHPerdata). Meanwhile, Rahn is based on Islamic law (Sharia), whose main sources are the Qur'an, Hadith, and guidelines and decrees issued by scholars (Fatwa). This gives Rahn a broader purpose, namely to achieve maslahah (public good) and avoid practices that are prohibited by religion.

The difference most felt by customers is in the cost structure. The conventional pawn system applies interest on loans. This interest practice can be very burdensome, especially if the customer is late in making payments, which can trigger the accumulation of interest penalties. In contrast, the Rahn system strictly eliminates interest (riba). Instead, rahn imposes fixed and transparent administrative and custody fees (ujrah) in accordance with the storage and maintenance services provided. This ensures fairness and eliminates exploitation.

The difference is also evident in the use of contracts. Conventional pawnbroking generally uses only one type of contract that regulates secured debt-credit relationships. Meanwhile, Rahn often combines several types of contracts to ensure compliance with Sharia principles. A commonly used combination is a rahn (pawn) contract as collateral, combined with an ijarah (service lease) contract for the cost of storing goods, or a qard (benevolent loan) contract for the principal amount provided, all of which are designed to separate the cost of the loan from the cost of the service.

The aspect of utilizing the pawned goods is also a distinguishing factor. In conventional pawn, the utilization of collateral is generally not permitted by the pawn recipient institution. On the other hand, the Rahn system provides a little flexibility in the utilization of collateral, but this is bound by certain very strict conditions. Utilization is only permitted if necessary for the maintenance of the goods (for example, warming up a vehicle engine) and must be done with the explicit consent and permission of the rahin (owner of the goods).

These differences have significant social and economic implications for society, especially for vulnerable groups. Conventional pawn systems, which are primarily based on the application of interest, often become a heavy burden, especially for low-income communities. When individuals or families experiencing economic hardship need urgent funds—for example, for health or education—but then face ever-increasing interest obligations, the risk of becoming trapped in a cycle of debt becomes very high. Late payments in this system can trigger the accumulation of burdensome costs, which essentially contradicts the spirit of mutual aid.

In contrast, Rahn offers a more humane and fair alternative. By eliminating interest and replacing it with transparent and fixed service fees (deposit/maintenance), Rahn eliminates the potential for exploitation and excessive burdens. The social implications are very positive: rahn helps build a more inclusive financial system, where access to financing is based on the principle of social justice rather than profitability alone. This system is designed to avoid practices that could harm either party, whether the rahin or the murtahin. This approach is in line with the greater goal of supporting equitable economic development. By providing quick access to funds without burdening the community with usury, rahn contributes to improving social welfare and microeconomic stability among the lower classes.

CONCLUSION

Based on the results and discussion, it can be concluded that rahn is a holistic financing solution, supported by clear principles and conditions, and practiced in accordance with Islamic ethics. It offers a superior alternative that is fair and transparent compared to conventional pawnbroking, making it an important driver for the development of the global Islamic economy.

The essence of Rahn is to provide quick access to liquidity for people who need urgent funds, but its implementation must uphold social justice and eliminate prohibited usury practices. Its operational uniqueness is reflected in its combination of contracts. This implementation makes

Rahn a humane and fair alternative, especially for low-income communities, as it does not burden customers with the risk of accumulating interest. By ensuring that the surplus from the sale of collateral is returned to its owner after the obligations are fulfilled, Rahn not only contributes to financial inclusion but also actively embodies the spirit of mutual assistance and maslahah (public good), making it an important instrument for sustainable and equitable economic growth within the framework of Sharia Financial Institutions.

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