

COMPARATIVE STUDY BETWEEN CONVENTIONAL PAWNSHOPS AND SHARIA PAWNSHOPS: BENEFITS, CHALLENGES, AND IMPLICATIONS FOR CUSTOMERS

Frido Evindey Manihuruk, Eza Syahbana, Jeane Alisya, Filja Azkiah Siregar, Jonatan Marbun, Daniel Sanggam Luhutan Simbolon, Diva Alnaya, Noni Rozaini
State University of Medan
fridomanihuruk289@gmail.com

Abstract

This research seeks to uncover the advantages and disadvantages between conventional pawnshops and Islamic pawnshops. The focus of the research is on the advantages, challenges, and implications of both types of pawnshops for customers. This research is a descriptive qualitative type with a comparative study technique based on data from previous research. Conventional pawnshops operate based on an interest system, while Sharia pawnshops use usury-free Sharia principles and prioritize murabahah and ijarah contracts. The results show that conventional pawnshops tend to be more flexible in terms of requirements and processes, but are subject to interest charges that can be burdensome for customers. Islamic pawnshops, on the other hand, offer a fairer solution that complies with Islamic financial principles, although they often face challenges in terms of public understanding and more complex procedures. The implications for customers depend largely on their needs, understanding and values, with choices having to take into account both financial aspects and compliance with sharia principles. This research provides insights for customers in choosing the type of pawnshop that suits their needs and values.

Keyword: Conventional Pawnshops, Sharia Pawnshops, Profits, Challenges, Implications

Abstrak

Penelitian ini berupaya mengungkap kelebihan dan kekurangan antara pegadaian konvensional dan pegadaian syariah. Fokus penelitian adalah pada manfaat, tantangan, dan implikasi dari kedua jenis pegadaian tersebut terhadap pelanggan. Penelitian ini merupakan jenis deskriptif kualitatif dengan teknik studi komparatif yang diambil berdasarkan data dari penelitian sebelumnya. Pegadaian konvensional beroperasi berdasarkan sistem bunga, sedangkan pegadaian syariah menggunakan prinsip syariah yang bebas riba dan mengedepankan kontrak murabahah dan ijarah. Hasil penelitian menunjukkan bahwa pegadaian konvensional cenderung lebih fleksibel dalam hal persyaratan dan proses, namun dikenakan biaya bunga yang dapat membebani pelanggan. Sementara itu, pegadaian syariah menawarkan solusi yang lebih adil dan sesuai dengan prinsip keuangan syariah, meskipun sering menghadapi tantangan dalam hal pemahaman publik dan prosedur yang lebih kompleks. Implikasi bagi klien sangat bergantung pada kebutuhan, pemahaman, dan nilai-nilai mereka, dengan pilihan yang harus mempertimbangkan aspek keuangan dan kepatuhan terhadap prinsip syariah. Riset ini memberikan wawasan mendalam bagi pelanggan dalam memilih jenis pegadaian yang sesuai dengan kebutuhan dan nilainya.

Kata Kunci: Pegadaian Konvensional, Pegadaian Syariah, Kelebihan, Tantangan, Implikasinya

Introduction

In the modern era, the needs of the community are increasing. The increasing needs that go hand in hand with inflation have made people experience many economic difficulties. In order to find a solution to survive in today's economic situation, people choose to pawn. According to Wiryo Prodjodikoro, a pawn is a right given to creditors or other persons on

their behalf to guarantee debt payment and give the creditor the right to receive payment in advance compared to other creditors from the sale of the goods ¹.

One of the financial institutions in Indonesia that focuses on pawn services is PT. The main purpose of this company is to provide loans with a pawn scheme to prevent loan shark practices that harm the community. The operational principles of PT. Pegadaian Tbk. is in line with banking principles, which emphasize trust, confidentiality, and prudence in every transaction². The company also applies capital rental fees for lending services provided to customers, ensuring transparency and fairness in every transaction.

Quoting from Wikipedia, until 2022, PT. Pegadaian Tbk. has 12 regional office units, 61 area office units, 642 branch office units, and 3,444 service units spread throughout Indonesia ³. This extensive network allows Pegadaian to reach people in various corners of the country, offering easily accessible and reliable financial solutions. The presence of Pegadaian in the community has become very vital, especially for those who need quick access to cash without complicated procedures.

Along with the development of the times and increasing awareness of the importance of sharia principles in financial transactions, Pegadaian has also begun to offer sharia-based products. Sharia pawn products are here to answer the needs of people who want to make pawn transactions without violating the principles of Islamic law. This product has characteristics such as not charging interest in any form due to usury, using money as a medium of exchange and not a traded item, and running a business with the aim of getting rewards or profit sharing ⁴.

On the other hand, conventional pawns remain an option for many people who need a quick and practical financing solution. Conventional pawn is a debt-receivable activity that is carried out voluntarily with the help of a third party, where the existence of interest is determined by the pawn agreement itself. The legal basis of conventional pawn is regulated in the Civil Code (KUHP) article 1150, which guarantees the rights of creditors and debtors in pawn transactions ⁵.

Conventional pawnshops, with their flexible approach and not tied to specific religious laws, offer ease and speed in obtaining loans. However, the main challenge faced is the high interest rates which are often burdensome for customers ⁶. On the other hand, sharia pawnshops that are free from interest provide a fairer alternative and in accordance with sharia principles, but sometimes they are still not familiar to the wider community. This difference requires more intensive education and socialization about sharia pawnshops, so that the public can understand and utilize them optimally. The success of sharia pawnshops also depends on close cooperation between sharia financial institutions and pawnshops in providing transparent and accountable services.

These two types of pawnshops, conventional and sharia, offer financing solutions by using valuables as collateral, but they operate with different principles and mechanisms. Conventional pawnshops follow general economic principles without attachment to specific

¹ Djafar, Achmad Abubakar, and Halimah Basri, "Conventional Pawn and Sharia Pawn in the Struggle for Economic Development," *Journal of Economic, Public, and Accou* Vol. 5 No., no. 1 (2022): 33–51.

² L. Budi Kagramanto, "The Existence of Deposit Insurance Institutions in the National Banking System L.," *Legal Pulpit* 19, no. 3 (2007): 335–485.

³ Wikipedia, "Pawnshop," Wikipedia, 2024, [https://id.wikipedia.org/wiki/Pegadaian_\(company\)](https://id.wikipedia.org/wiki/Pegadaian_(company)).

⁴ Muh. Ishak Agus, Syahrudin Yasen, and Syahrudin Yasen, "Operational Comparative Study of Sharia Pawnshop Products and Conventional Pawns," *Journal of Sharia Economic Law* 2, no. 1 (2018): 69–79, <https://doi.org/10.26618/j-hes.v2i1.1387>.

⁵ Sainul Febri Gunawan, Raha Bahari, "A Comparative Study Between Conventional Pawn and Sharia Pawn," *Mu'amalah Journal of Sharia Economic Law* 2, no. 1 (2022): 53–80.

⁶ Meti Zullyana et al., *Non-Bank Banks & Financial Institutions*, Eureka Media Aksara (Purbalingga: Eureka Media Aksara, 2022).

religious laws⁷. On the other hand, sharia pawnshops operate in accordance with the principles of Islamic law (sharia), which requires transactions to be free from the elements of riba (interest), gharar (uncertainty), and maysir (gambling).⁸

This difference requires more intensive education and socialization about sharia pawnshops, so that the public can understand and utilize them optimally. The success of sharia pawnshops also depends on close cooperation between sharia financial institutions and pawnshops in providing transparent and accountable services. In this context, more in-depth research on conventional and sharia pawnshops can make a significant contribution to the development of the financial sector in Indonesia. A comprehensive analysis of these two types of pawnshops will help identify the advantages and disadvantages of each, as well as how they can complement each other in meeting the financial needs of the community.

This comparative study aims to evaluate the benefits, challenges, and implications of the two types of pawnshops for customers. Through in-depth analysis, it is hoped that the public can understand the fundamental differences between conventional and sharia pawnshops, so that they are able to make the right decisions according to their needs and beliefs. A good understanding of these two types of pawnshops can also provide valuable insights for stakeholders in formulating policies that support the inclusive and sustainable growth of the financial sector in Indonesia.

By understanding the dynamics and characteristics of each type of pawnshop, regulators and stakeholders can formulate policies that support the growth of the financial sector that is inclusive, sustainable, and in accordance with the needs of the community. Thus, this study is not only important to provide a better understanding for the public, but also for policymakers and financial practitioners in developing effective strategies to strengthen the pawnshop sector in Indonesia. Through a holistic and inclusive approach, it is hoped that a more competitive and beneficial financial ecosystem can be created for all levels of society.

Research Methodology

This research takes a qualitative type, where this research method is based on philosophy, used to study scientific situations (experiments) in which the researcher plays the role of the main instrument. The data collection and analysis techniques in this method are qualitative, with a greater focus on understanding meaning⁹. Qualitative research is usually used for the exploration of current phenomena¹⁰. The phenomenon explored in this study is two types of pawnshops, namely conventional and sharia.

The phenomenon exploration technique is carried out by literature study. This study is a data collection technique carried out by researchers by examining theories, opinions, and ideas contained in print media, especially books that support and are relevant to the research topic being discussed¹¹. The data in this study was collected from various previous studies, books, journals and everything related to the research topic.

The data obtained through literature studies are then analyzed using a content analysis approach. Data analysis activities start from data organization, where various information from sources is classified according to the main points of thought or issues related to the research objectives. Data classification is carefully examined for emerging data patterns,

⁷ Zuliyana et al.

⁸ Azharyah Ibrahim et al., *Sharia Economics Lecturer, Bank Indonesia* (Jakarta: Bank Indonesia, 2021).

⁹ Sugiyono, *Business Research Methods: Quantitative, Qualitative, Combinatorial, and R&D Approaches* (Bandung: Alfabeta, 2018).

¹⁰ Wahyudin Darmalaksana, "Qualitative Research Methods of Literature Studies and Field Studies," *Pre-Print Digital Library UIN Sunan Gunung Djati Bandung*, 2020, 1–6.

¹¹ Jonathan Sarwono, *Smart Writing Scientific Essays: The Key to Success in Scientific Writing* (Yogyakarta: Andi Offset, 2010).

similarities, and conceptual differences. Information from various sources is integrated to analyze this, and this makes it possible to conduct more detailed investigations in a holistic investigation of the phenomenon being studied. In this way, this study is expected to reach a conclusion that describes the phenomenon by describing in detail the differences and similarities that exist between conventional and sharia pawnshops.

Research Results and Discussion

The issue of pawn is not a strange thing in the lives of the Indonesian people. Third-party financing is a viable option for those who want funds quickly but don't have the necessary cash or reserves. When it comes to banking services, some consumers face complicated administration and restrictions, so they turn to leeches despite the very high interest rates. Pawnshops are an option for certain people who have assets that can be used as collateral, because pawn transactions are the safest, legal, and most secure transactions ¹².

The pawnshop now has two types, namely conventional and sharia. Conventional pawnshops are regulated by the Criminal Code while sharia pawnshops are regulated by "Fatwa of the National Sharia Council number: 25/DSN-MUI/III/2002 dated June 26, 2002 concerning rahn, fatwa number: 26/DSN-MUI/III/2002 concerning rahn emas and: 68/DSN-MUI/III/2008 concerning rahn tasjily".

The pawnshop profit calculation model is based on the capital rental rate at conventional pawnshops and the burden of administrative costs on sharia pawnshops which both have groups depending on the amount of loans. In conventional pawnshops, there are 4 groups where the group with capital rent (interest) per 15 days is 0.15% on loans of IDR 5,000 - IDR 150,000, interest of 1.2% on loans of IDR 151,000 - IDR 500,000, interest of 1.3% on loans of IDR 510,000 - IDR 20,000,000, and capital rental rates of 1% on loans greater than / equal to IDR 20,500,000. Sharia pawnshops do not have interest (capital rental rates), but have administrative fees which are divided into 8 groups where the lowest administrative fee is Rp 1,000 on a loan of Rp 20,000 - Rp 150,000 and the highest cost of Rp 60,000 on a loan of Rp 50,100,000 - 200 million ¹³.

The following is a comparison of the calculation of conventional and sharia pawnshop profits based on the highest group.

Table 1. Calculation of Conventional and Sharia Pawnshop Profits

Conventional Pawnshop		Sharia Pawnshop	
Estimate of Goods	IDR 25,506,500	Marhum Estimate	IDR 25,506,500
Loan Money Received	90% x IDR 25,506,500	Loan Money Received	90% x IDR 25,506,500
	: IDR 22,955,850		: IDR 22,955,850
Adm. Goal Fee. D (1% X up)	IDR 255,065	Adm. Goal Fee. G	IDR 50,000
Interest (2% per month)	IDR 459,177	Ijarah per 10 days x 3 (1 month)	IDR 22,200
Total	IDR 23,670,092	Total	IDR 23,028,050

From the comparative calculation in table 1, it can be seen that the amount of loans provided by sharia pawnshops is Rp 642,042 lower than conventional pawnshops. Automatically, the amount of profit obtained is lower between sharia pawnshops compared to conventional pawnshops. These two types of pawnshops have their own strengths and weaknesses which are explained in the following points.

¹² Rokhmat Subagiyo, "SYARIAH (RAHN) Rokhmat Subagiyo: A Review of Sharia Financing in banking. Pawnshops are used as a focus for," *An-Ratio* 01, no. 01 (2016): 18 pages.

¹³ Indonesia, "Government Regulation (PP) Number 103 of 2000 concerning Public Companies (Perum) Pegadaian" (2000), <https://peraturan.bpk.go.id/Details/53682/pp-no-103-tahun-2000>.

Advantages of Conventional Pawnshops

Pegadaian was established to improve the welfare of the community. This is based on the duties and functions of Pegadaian which are recorded in the "Decree of the Minister of Finance Number 39 of 1971" has several important points as follows ¹⁴:

- a. Providing credit through a pawn system to support the economy of the lower middle class.
- b. Ensuring that the credit pattern remains regular and beneficial to the community and expanding the scope of operations.
- c. Distributing credit to businesses that provide benefits for the community and the government.
- d. Prevent people from taking loans from unofficial sources such as illegal pawnshops.
- e. Manage the organization, work, and procedures of the pawnshop properly and correctly.

For the lower middle economic community, the presence of the Pegadaian Public Company (Perum) is a very accepted alternative to obtain cash or credit known as "loan money". Furthermore, the Pegadaian Public Company (Perum) has a significant impact in reducing illicit banks, ijon, usury activities, and other loan shark practices that only add to the burden and problems of the weak economic community ¹⁵.

One of its main advantages is easy and wide access. Pegadaian branch offices are widely spread across various regions, including in big cities and rural areas, making it easy for customers to access their services without having to travel far. Quoted from the official Pegadaian old age, currently there are thousands of outlets spread throughout Indonesia ¹⁶.

Conventional pawnshops also have a variety of products that are able to be a solution for the community when they need quick funds. The products offered are gold pawn, gold savings pawn, non-gold pawn, securities pawn, vehicle mace, and how to pawn from home. All of these products are able to exchange the assets or goods we have into funds quickly and easily. The products we exchange will be assessed and the loan money will be paid based on the estimated percentage of collateral ¹⁷.

Conventional pawnshops also provide competitive interest rates to attract more customers. Conventional pawnshops set interest rates by considering various factors, including the estimated value of the pawned goods and the class of the goods. Based on the policy set by Perum Pegadaian, the amount of loan money that can be given ranges from 80-92% of the estimated value. The capital rental rate is then applied, calculated based on the amount of loan money and a certain period of time, for example per 15 days. Generally, the credit term offered is around 120 days or 4 months, with the option to extend or re-mortgage if the customer has not been able to repay the loan or redeem it. The administrative fee charged for a credit extension or renewal request is 1% of the loan amount ¹⁸.

Conventional pawnshops remain relevant and popular because of their many benefits. The ease and speed of getting a loan is one of the main benefits. This service is very practical due to its short application process and low requirements, especially for individuals who need cash funds quickly. In addition, conventional pawnshops are easily accessible to individuals in various regions due to their extensive network of branches and service units.

Challenges of Conventional Pawnshops

¹⁴ Grandson of Rina Asmarani, *Economics* (Jakarta: Directorate General of Early Childhood Education, Higher Education and Higher Education, 2020).

¹⁵ Haqiqi Rafsanjani, "The Difference Between Conventional Pawn Practices and Sharia: A Case Study on Perum Pegadaian Kebomas Gresik Branch," *Journal of Islamic Law Studies* 10, no. 1 (2021): 1–13.

¹⁶ Wikipedia, "Pawnshop."

¹⁷ Ibrahim et al., *Sharia Economics Lecturer*.

¹⁸ Rafsanjani, "The Difference Between Conventional Pawn Practices and Sharia: A Case Study on Perum Pawnshop Kebomas Gresik Branch."

Although there are many advantages offered from transactions at conventional pawnshops, certain risks cannot be avoided. In pawnshop practice, interest rates are sometimes not explained transparently. People who do not understand the interest rate regulations in conventional pawnshops may be trapped in a bigger problem.

Not only that, conventional pawnshops also have administrative costs that are borne by their customers. The existence of additional costs such as administrative fees, insurance, or other costs can significantly increase the total costs that must be paid by customers. In addition, the risk of usury is also a major concern in conventional pawnshops. Although conventional interest rates are legally allowed, in some cases, high interest rates can cause customers to be trapped in debt traps that are difficult to overcome, which can ultimately lead to the risk of usury or excessive interest ¹⁹.

Conventional pawnshops in Indonesia face various challenges that hinder their growth and affect customer satisfaction. One of the main challenges is the high interest on loans charged to customers. High interest rates can be a heavy burden, especially for low-income people who need quick access to cash funds the most ²⁰. This often leads to a cycle of debt that is difficult to overcome, where customers are trapped in continuous debt without being able to pay off the principal of the loan.

Although conventional pawnshops have an extensive network, there are challenges in reaching remote areas that may still be poorly served. The lack of public understanding of the pawnshop mechanism is also an obstacle, where many are still hesitant or do not fully understand the benefits and risks associated with using pawnshop services. Another challenge is competition with the growing number of alternative financial services, such as *fintech* and *peer-to-peer* lending *platforms*, which offer faster and often lower interest rates.

High interest rates are one of the main problems faced by traditional pawnshops. Customers can suffer greatly from high interest rates, especially if they are unable to make loan payments on schedule. This can result in a vicious cycle of debt that is difficult to release, thus posing financial risks for users of conventional pawnshop services.

Advantages of Sharia Pawnshops

Indonesian people, who mostly adhere to Islamic teachings, are worried about the practice of conventional pawnshops which can be usury. The practice of *riba* has existed since ancient times. Historical evidence shows that by the golden age of Sumeria around 3000-1900 BC, an organized credit system was already in operation ²¹. Therefore, sharia pawnshops that are in accordance with Islamic teachings have emerged. These Islamic financial organizations must avoid *riba*, *gharar*, *maisir*, and deceptive contracts ²².

In the practice of sharia pawnshops, pawnshop managers are required to meet the requirements of the sharia pawn pillars that have been set ²³. This pillar includes several key aspects that must be fulfilled, including *Ar-Rabin*, who is the party who makes the mortgage, which must be an individual who has grown up, has reason, is trusted, and has the goods to be pawned. In addition, there is also *Al-Murtahin*, who is the party who receives the pawn, which can be an individual, financial institution, or bank trusted by *Ar-Rabin* to obtain capital by using goods as collateral.

¹⁹ Muhammad Syamsudin, "Credit Administration Fees at Pawnshops, Are They Riba?," NU Online, 2019, <https://nu.or.id/syariah/biaya-administrasi-kredit-di-pegadaian-apakah-riba-uVoJf>.

²⁰ Inarotul A'yun, "The Role of Digital Pawnshop Applications as a Means of Gold Investment in Facing the Economic Challenges of the 2030 Sustainable Development Goals (SDGs)," *Ar-Ribhu: Journal of Sharia Management and Finance* 5, no. 1 (2024): 131–39.

²¹ S H Rachmadi Usman, "Legal Aspects of Sharia Banking in Indonesia," 2022.

²² Ahmad Taufiq Harahap, "Challenges and Opportunities of Islamic Financial Institutions," *Journal of Corporate Business* 2, no. 2 (2017): 1–15.

²³ Ibn Rushd, *Bidayatul Mujtahid : Fiqh Analysis of the Mujtahid*, 3rd ed. (Jakarta: Pustaka Amani, 2007).

There is also *Al-Marhun* or pawned goods, which are goods that are used as collateral by *Ar-Rahin* to get a loan. Furthermore, *Al-Marhun bib* is a debt given by *Al-Murtabin* to *Ar-Rahin* based on the valuation of the value of collateral. Finally, there is *Sighat*, *Ijab*, and *Qabul*, which is an agreement between *Ar-Rahin* and *Al-Murtabin* in carrying out pawn transactions, which must be done legally in accordance with Islamic law.

Sharia Pawn Service Unit, the first sharia pawnshop in Indonesia, opened in Jakarta in January 2003. From January to September 2003, a number of other sharia pawnshops were opened in Surabaya, Semarang, Makassar, Surakarta, and Yogyakarta, while four pawnshops in Aceh were transformed into sharia pawnshops. Sharia Pawnshops operate in accordance with sharia principles²⁴.

This sharia pawnshop also has a legal and religious basis that regulates its operations. Here are some of the legal bases of sharia pawnshops explained by the Quran in QS. Al-Baqarah 282-283 as follows²⁵:

يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَيْتُمْ بِدَيْنٍ إِلَىٰ آجَلٍ مَّسْمُومٍ فَاكْتُبُوهُ لِيُكْتَبَ بَيْنَكُم بِالْعَدْلِ وَلَا يَأْب كَاتِبٌ أَنْ يَكْتُبَ كَمَا عَلَّمَهُ اللَّهُ فَلْيَكْتُبْ وَلْيَمْلِكِ الَّذِي عَلَيْهِ الْحَقُّ وَلْيَتَّقِ اللَّهَ رَبَّهُ وَلَا يَبْخَسْ مِنْهُ شَيْئًا فَإِنْ كَانَ الَّذِي عَلَيْهِ الْحَقُّ سَفِيهًا أَوْ ضَعِيفًا أَوْ لَا يَسْتَطِيعُ أَنْ يُمِلَّ هُوَ فَلْيُمْلِكْ وَلِيُّهُ بِالْعَدْلِ وَاسْتَشْهِدُوا شَهِيدَيْنِ مِنْ رَجَالِكُمْ فَإِنْ لَمْ يَكُنَا رَجُلَيْنِ فَرَجُلٌ وَامْرَأَتٌ مِمَّنْ تَرْضَوْنَ مِنَ الشَّهَدَاءِ أَنْ تَضِلَّ إِحْدَاهُمَا فَتُذَكَّرَ إِحْدَاهُمَا الْأُخْرَىٰ وَلَا يَأْبُ الشَّهَدَاءُ إِذَا مَا دُعُوا وَلَا تَسْمُوا أَنْ تَكْتُبُوهُ صَغِيرًا أَوْ كَبِيرًا إِلَىٰ أَجَلِهِ ذَلِكُمْ أَفْسَطُ عِنْدَ اللَّهِ وَأَقْوَمٌ لِلشَّهَادَةِ وَأَدْنَىٰ أَلَّا تَرْتَابُوا إِلَّا أَنْ تَكُونَ تِجَارَةً حَاضِرَةً تُدِيرُونَهَا بَيْنَكُمْ فَلَيْسَ عَلَيْكُمْ جُنَاحٌ أَلَّا تَكْتُبُوهَا وَأَشْهِدُوا إِذَا تَبَايَعْتُمْ وَلَا يُضَارَّ كَاتِبٌ وَلَا شَهِيدٌ وَإِنْ تَفَعَّلُوا فَإِنَّهُ فَسُوقٌ بِكُمْ وَانْتَقُوا اللَّهَ وَيُعَلِّمُكُمُ اللَّهُ وَاللَّهُ بِكُلِّ شَيْءٍ عَلِيمٌ ﴿٢٨٢﴾

Means:

"O you who believe, if you owe a debt for a certain time, write it down. Let a scribe among you write it down correctly. Let the recorder not refuse to write it down as Allah has taught him. Let him record and the debtor dictates. Let him fear Allah his Lord, and do not diminish it in the slightest. If the debtor is a person who lacks intelligence, is weak (his condition), or is unable to dictate by himself, his guardian should dictate it correctly. Ask for the testimony of two male witnesses among you. If there are no two men, one man and two women among the people you like from the witnesses so that if one of them forgets, the other reminds him. Let the witnesses not refuse when called. Do not get tired of writing it down until the deadline, whether it is small or large. That is more just in the sight of God, more able to strengthen the testimony, and closer to your doubts, unless it is a cash business that you are running among you. So, there is no sin for you if you do not record it. Take witnesses if you are buying and selling and do not let the recorder complicate (or complicate it), and neither do witnesses. If you do that, it is indeed an unrighteousness for you. Fear Allah, Allah gives you a lesson and Allah is All-Knowing."

وَإِنْ كُنْتُمْ عَلَىٰ سَفَرٍ وَلَمْ تَجِدُوا كَاتِبًا فَرِهْنَ مَقْبُوضَةً فَإِنْ آمِنَ بَعْضُكُمْ بِبَعْضٍ فَلْيُؤَدِّ الَّذِي أُؤْتِمِنَ أَمَانَتَهُ وَلْيَتَّقِ اللَّهَ رَبَّهُ وَلَا تَكْتُمُوا الشَّهَادَةَ وَمَنْ يَكْتُمْهَا فَإِنَّهُ آثَمٌ قَلْبُهُ وَاللَّهُ بِمَا تَعْمَلُونَ عَلِيمٌ ﴿٢٨٣﴾

Means:

"If you are on your way, and you do not get a recorder, there should be a security item in your possession. However, if some of you believe in others, let the one who believes fulfill his mandate (his debt) and let him fear Allah his Lord. Do not hide your testimony, for whoever conceals it is indeed sinful in his heart. Allah knows what you are doing."

²⁴ Nia Ruhaniah, Hendri Tanjung, and Hilman Hakiem, "The Influence of Promotion, Service Quality, and Sharia Implementation on Public Interest in Using Sharia Pawnshop Services," *El-Mal: Journal of Islamic Economics & Business Studies* 5, no. 1 (2021): 60–69, <https://doi.org/10.47467/elmal.v5i1.633>.

²⁵ Yuyun Juwita Lestari and Iza Hanifuddin, "The Legal Basis of Sharia Pawnshops in DSN-MUI Fatwa," *Journal of Islamic Economic Law (JHEI)* 5, no. 2 (2021): 159.

The advantage of sharia pawnshops is also in the clarity of the *contract* carried out so that customers are not confused and ultimately disadvantaged due to other costs that are not clearly stated. In practice, the goods accepted as collateral (*marhun*) at Sharia Pawnshops include movable goods such as jewelry, electronics, vehicles, household goods, machinery, and other valuables, including securities in various forms. In the *rahn* contract, collateral should not be used for too long because it can cause damage or loss. Therefore, *Pegadaian Syariah* sets the loan term for 4 months or 120 days, with the possibility of extension if needed ²⁶.

Sharia Pawnshops offer various advantages that are in accordance with Islamic sharia principles. One of its main advantages is the provision of interest-free loans (*al-qardhul hassan*), which is very helpful to the community considering the high interest rates on conventional loans. In addition, the *mudharabah* loan system implemented allows for a fair distribution of risks and profits between banks and customers, without burdening customers with fixed costs that are beyond their reach. This encourages togetherness and transparency in dealing with business risks and dividing profits or losses according to the initial agreement, making it very suitable for supporting the development and economic needs of the community.

Sharia pawnshops have different advantages compared to conventional pawnshops, mainly because of their adherence to the principles of Islamic law. The main advantage is the absence of interest (*riba*) in transactions, so that the service is fairer and in accordance with sharia values. The profit-sharing or reward system used by sharia pawnshops is seen as more transparent and ethical, making it attractive to those who prefer to avoid interest-based transactions. In addition, sharia pawnshops eliminate elements of uncertainty (*gharar*) and gambling (*maysir*), thus making transactions safer and more reliable.

Challenges of Sharia Pawnshops

Sharia pawnshops face several challenges that need to be overcome to increase their effectiveness and attractiveness. One of the main challenges is limited access, because the number of sharia pawnshop branch offices is not as large as conventional pawnshops, making it difficult to reach customers in various regions. Quoted from *Kompasiana* ²⁷, this type of pawnshop only has 22 branch offices in 9 regional offices. This is very proportional to the number of conventional pawnshop offices.

Sharia pawnshops offer a variety of products based on sharia principles. *Rahn* products or sharia pawns allow lending based on the delivery of collateral by customers. *ARRUM* products are intended for financing micro and small businesses with *BPKB* and gold guarantees. The *MPO (Multi Payment Online)* service facilitates the payment of various bills such as electricity, cable TV, credit, internet, telephone, and train tickets. In addition, sharia pawnshops provide goods value assessment services for people who want to know the price or value of their property. *Pegadaian* also offers goods storage services (*ijarah*), providing a place to store movable goods similar to a save deposit box in banks. *Gold Counter* or *Precious Products*, is a safe and quality precious metal sales service, available in a wide range of options ranging from 5 grams to 1 kilogram, for perpetual investment ²⁸. Even so, sharia pawnshop products are quite limited compared to conventional pawnshop products.

Public awareness of sharia pawnshops is still relatively low, which causes a lack of understanding and interest in using this service. In addition, there is a shortage of skilled and

²⁶ Luluk Wahyu Roficoh and Mohammad Ghazali, "Application of Akad Rahn on Sharia Pawnshops," *Journal of Masharif Al-Syariah: Journal of Sharia Economics and Banking* 3, no. 2 (2018), <https://doi.org/10.30651/jms.v3i2.1736>.

²⁷ Reysya Rahmi Putri, "The Background of the Development of Sharia Pawnshops in Indonesia," *Kompasiana*, 2021.

²⁸ Saputra Randi and Kasyful Mahali, "Analysis of the Potential and Obstacles to the Development of Sharia Pawnshops in Medan City," *Journal of Economics and Finance* 2 (2014): 221–35.

knowledgeable human resources in sharia principles and operations, which is a significant obstacle. The management of sharia pawnshops requires special expertise that is different from the conventional system. To overcome these challenges, efforts to educate the public, expand the service network, and intensive training for human resources are needed so that the potential of sharia pawnshops can be maximized.

Sharia pawnshops face significant challenges, especially the lack of public understanding and familiarity with Islamic financial products. One of the main challenges is the lack of public understanding and awareness of sharia principles and how these services differ from conventional pawnshops. Many people are still not familiar with concepts such as the prohibition of *riba*, *gharar*, and *maysir*, so they are more likely to choose conventional services that are already more known²⁹. In addition, the infrastructure and network of sharia pawnshops, which may not be as extensive as conventional pawnshops, are an obstacle to reaching a wider community.

Implications for Customers

In order to respond to the existence of two types of pawnshops, namely conventional and sharia, the public needs to know the difference between the two. Most people still do not understand the difference between conventional and sharia financial services, which can make them confused in choosing the service that suits their needs³⁰. Therefore, education about these two types of pawnshops is very important so that people can make the right decisions based on their needs and beliefs.

Education about sharia principles is very important if you want to develop the sharia economic system. Principles such as the prohibition of *riba*, *gharar*, and *maysir* must be well understood by the public so that they can benefit from Islamic financial services³¹. This education can be done through various media, such as seminars, workshops, and public campaigns, which can reach various levels of society.

The development of the sharia economic system not only requires education to the public, but also requires experts who understand the operational mechanism of sharia. These experts are needed to ensure that the financial services offered are completely in accordance with sharia principles. Training and certification for professionals in the field of Islamic finance must be improved to support the growth of this sector.

Sharia pawnshops have a number of significant implications for customers who use them. First of all, the use of sharia pawnshops provides a sense of justice and trust for customers because of the underlying sharia principles, such as the prohibition of usury and unclear elements (*gharar*).³² This makes transactions more transparent and in accordance with religious values. Additionally, since no interest is charged in the transaction, customers do not have to worry about additional charges that may arise from interest or hidden fees.

In this context, sharia pawnshops can provide more sustainable and fair financing solutions for customers, especially for those who want to avoid interest-based transactions. However, customers also need to understand that the use of sharia pawnshops requires a fairly deep understanding of sharia principles and the consequences of not complying with these rules. Thus, while it provides an attractive alternative for customers who want to avoid

²⁹ Febrianur Ibnu Fitroh Putra et al., "Dynamics of the Development of Sharia Pawnshops in Indonesia," *Univesity Research Coloquium*, 2016, 25–26.

³⁰ Hida Hiyanti et al., "Opportunities and Challenges of Sharia Fintech (Financial Technology) in Indonesia," *Scientific Journal of Islamic Economics* 5, no. 3 (2020): 326–33, <https://doi.org/10.29040/jiei.v5i3.578>.

³¹ Suryati Suryati, Nurlily Sukesti Ariani Nasution, and Wiwin Muchtar Wiyono, "Comparison of Sharia Pawnshops with Conventional Pawnshops Based on Indonesian Law," *Legal Horizons: Scientific Magazine of the Faculty of Law, Wijayakusuma University* 23, no. 2 (2021): 9–15, <https://doi.org/10.51921/chk.v23i2.168>.

³² Abdul Muttalib, "The Implications of Sharia Pawn on the Welfare of the People of Praya City (Case Study at the Praya Branch of Sharia Pawnshops)," *Mandala Education Scientific Journal* 2, no. 2 (2016): 291–96.

interest, the use of sharia pawnshops also requires a high level of awareness and commitment to the underlying religious principles.

However, to maximize the potential of sharia pawnshops, there are challenges that need to be overcome, such as a lack of public understanding and inadequate infrastructure. The strategy for the development of sharia pawnshops must include increasing public education and developing a wider network and infrastructure. Collaboration between governments, financial institutions, and communities must be enhanced to ensure these services are accessible to more people.

Although there are fundamental differences between conventional and sharia pawnshops, these two types of pawnshops offer advantages that make it easier for a person to get funds in a secure and safe manner. Conventional pawnshops provide quick and easy access to cash, while sharia pawnshops offer financing solutions that are interest-free and in accordance with Islamic principles. These two types of services have an important role in supporting the financial needs of the community.

The implications of using conventional pawnshops for customers in Indonesia can have a significant impact on the financial condition of individuals and groups. One of the main implications is the ease and speed of obtaining cash, which can be a quick solution in addressing urgent financial needs. However, customers need to be aware that high loan interest rates in conventional pawnshops can be a heavy financial burden, especially if they are unable to repay the loan on time. This can cause customers to get entangled in a debt cycle that is difficult to break, thereby increasing the risk of long-term financial problems.

The potential loss of valuables pawned if the customer is unable to repay the loan in accordance with the agreement, which can result in greater losses for the customer. Therefore, it is important for customers to understand the terms and conditions that apply in conventional pawnshops before making a decision to use the service, as well as consider other alternatives that may be more suitable for their financial condition.

With proper education and support from various parties, the future of pawnshops in Indonesia, both conventional and sharia, can develop better. A more educated community will be able to choose the service that best suits their needs and values, while trained experts will ensure operations that meet standards. Ultimately, the development of these two types of pawnshops can support financial inclusion and overall community welfare.

Cover

A comparative study between conventional pawnshops and sharia pawnshops shows that both have their own advantages and challenges that can influence customers' decisions in choosing pawn services. Conventional pawnshops offer easy access, fast processes, diverse products and services, and competitive interest rates. However, challenges such as interest rates that are not always transparent, hidden additional costs, and the risk of usury remain the main concern for some customers. On the other hand, sharia pawnshops provide financing solutions that are in accordance with sharia principles, free from usury, with clear and transparent contracts. However, challenges in the form of limited access, longer processes, less diverse products and services, low public awareness, and lack of competent human resources still need to be overcome.

It is important for stakeholders to continue to develop and promote education about these two types of pawnshops so that the public can make the right decisions based on their needs and beliefs. Efforts to improve access and quality of services, as well as training human resources who are skilled in sharia principles and operations, are also needed to optimize the benefits of these two pawnshop systems. Thus, it is hoped that the pawnshop sector, both conventional and sharia, can make a significant contribution to improving the economic welfare of the Indonesian people in an inclusive and sustainable manner.

The suggestion and hope for further research that can be drawn from this conclusion is to delve deeper into the factors that affect the level of public understanding and awareness of conventional and sharia pawnshops. Research can also delve into people's preferences for services based on the cost, location, and quality of services provided, as well as their trust issues in designing services that suit their needs. Research can also be carried out in the development of digital technology, such as applications for pawnshop services, to increase efficiency and reach. In supporting disadvantaged areas, research on community-based service models to reach remote areas is urgently needed. In addition, special human resource training for sharia pawnshops needs to be formed and improved to improve the understanding and proper implementation of sharia in operations. This will make the pawnshop sector more relevant and provide maximum benefits for the community.

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