

LEGAL ISSUES IN SHARIAH A PAWN GOLD PRACTICE IN INDONESIA*

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ABSTRACT

In Indonesia, the function of pawning as financing instrument has shifted into investment by continuously doing pawning and buying. Current regulation has allowed this practice for banks, pawnshop and financial institutions to offer pawn gold. It is not for financing activity but for investment activity and not comply with the Shariah principles. This study uses normative juridical approach by using secondary data from the legal resources, with specification of research methods using descriptive analysis. The conclusions from this study are that the practice of pawning gold is inconsistent with the pawning function as financing mechanism and it's kind of investment activity. Nowadays forming regulation is need to be addressed.

Keywords: *legal, pawn gold, pawning, Shariah, financing mechanism*

INTRODUCTION

Pawnshops in Indonesia show the increasing trend from time to time. It is characterized by the amount of funds that are distributed by PT. Pegadaian to

* This article is a selected of papers presentation at the Seminar on Research in Islamic Finance and Muslim Properties organized by the Department of Shariah and Law, Academy of Islamic Studies, University of Malaya on 27-28 November 2013 with amendments and additions.

the customers for the short-term financing for the micro and small and medium enterprises. Nevertheless, it still recognized that the current pawning is used for consumption. The percentage of consuming pawning is still high compared to productive pawning. For example, Bank Rakyat Indonesia Shariah (BRI-Sharia) just reported for 11 percent for the financing in productive enterprises. As additional problems in practice of pawn financing is not only that pawnshops are still not optimal as productive financing resources but also that they still use a dual system in line with the enforcement of legal dualism in the economic activity of conventional and Shariah systems (Lastuti Abubakar, 2010: 165) this is proved by a rise of Shariah pawning gold (*rahn*), that is recognized as a modification from the conventional pawning and this can be considered as deviated from the objectives and principles of the Shariah system.

The practice of Shariah system in Indonesia's pawning gold was introduced by Bank Jabar Banten Shariah (BJBS) in 2004. During its development, a Shariah gold pawn is demanding product for all small and large Islamic banking in Indonesia. Bank Rakyat Indonesia Shariah (BRI-Sharia), as one of the Islamic banks that favors Islamic pawn products, has increased 100 percent since Islamic pawning business was launched in 2009. Likewise, Bank Negara Indonesia Shariah (BNI-Sharia) within three months (July to September 2011) since its launch in 2010 rose from 5.12 percent to 12.86 percent. In June 2012, BNI Shariah recorded the outstanding pawn of gold at 250 billion rupiah meanwhile Bank Shariah Mandiri (BSM) per November 2012 recorded a gold-backed financing to reach the target of 800 billion rupiah. Data issued by Bank Indonesia as the banking authority showed a significant increase in pawn gold from 1136 accounts with the amount of around 20 billion rupiah in March 2004, which was up to 283,795 accounts with nominal amount approximately 4.1 trillion rupiah in December 2012.

One of the contracts that is commonly used in Indonesia is *qard* contract. In October 2012, data from Bank Indonesia (Indonesian Central Bank) showed the instrument financing for Islamic Banks and Islamic Business Units using *qard* contracts achieved nominal of Rp.11.195 billion, from total contracts including *mudārabah*, *mushārahah*, *murābahah*, *salam* and so forth with total value of Rp.135.581 billion. This amount is declining compared to that in the previous year with total value of Rp.12.937 billion. However when comparing with 2010 which total value is Rp.4.731 billion, contracts of *qard* for 2011 and 2012 shows better performance. On the other hand, the rapid development of Shariah pawning gold, caused concern among banking analysts, that the practice of pawning gold has potentially decreased the functions and roles of Islamic banking as an intermediary, in particular in financing productive enterprises in the real sector. Bank Indonesia as the regulator has given a pledge to pawnshop in order not to dominate finance in Islamic banking. This concern becomes a background issuance of Circular Letter of Bank Indonesia (Surat Edaran Bank Indonesia/

SEBI) No: 14/7/ DPbS, dated February 29, 2012, subject to *qard* products gold backed of Shariah bank and Shariah business unit.

This concern arises because Shariah pawn gold should stick on the essence of Shariah principle which is to help people to get funds quickly for venture capital. Types of financing such as pawn gold is needed by most business people in Indonesia whereby around 99.9 percent or around 51.3 millions business people in Indonesia are within the range of micro and small medium enterprises level (Ministry of Cooperatives and Small and Medium Enterprises, 2012). The existence of Shariah pawning gold will be the top choice for micro business, since they are categorized as non-bankable business to get financing and loans from the bank. Barriers for micro business cannot fulfill the requirement of financial analysis or bank loans as stipulated in the Banking Act No. 7/1992 as amended by Banking Act. No.10/1998 about banking and Law No.21/2008 about Shariah Banking.

In practice, Shariah pawning gold begins to leave the essence of Shariah principles, and gets more used to take advantage as much as possible through the practice of speculative repeating pawning. Another concern comes from banking practices, which also see the potential for Shariah pawning gold as a promising product. But in practice, banks have not run Shariah pawning gold in accordance with Islamic principles (Shariah complied). Practice of repeating pawning (top-up) and *murābahah* (sale and purchase) of gold in installment are believed to alter the function and purpose of pawning gold. If Shariah pawning gold is not regulated properly, it is not possible to weaken the banking intermediary function. This could potentially slow down economic growth and movement in Indonesia. Bank Indonesia sees a very rapid progress in pawning gold as a result of the issuance of *fatwā* No. DSN: 79/DSN-MUI/III/2011 dated March 8, 2011 regarding *qard* using customer funds, which could potentially increase the risk for Islamic banking

OBJECTIVES OF RESEARCH

This study aims to examine and analyze the regulation of pawning gold in Indonesia and offers pawning gold to reform regulations to fit the function and purpose of pawning gold as an alternative Islamic term financing for productive enterprises, especially for individuals and micro business.

RESEARCH METHODOLOGY

This study uses normative juridical approach which focuses on secondary data in the form of primary legal materials laws and regulations and material

objects literature relating to the research, while the specification is descriptive analytical study in which the results of the analysis are described in the description. Analysis of the data used in this study is qualitative juridical using the power of abstraction and interpretation of the law, for further manifested in the descriptions.

LITERATURE REVIEWS

Shariah Gold Pawn Regulation in Indonesian Legal System

One of Islamic products that is currently offered by many financial institutions and banks in Indonesia is pawning gold Shariah. Not only PT. Pegadaian but Islamic banks also offer this product. Shariah pawning gold has become one of the top products of Islamic banking in Indonesia as a differentiator from products of conventional banks. As part of the activities of Islamic economics, the main principles of Islamic economics should certainly be considered in regulating pawn gold. Compilation of Islamic economic laws does not explicitly define Shariah principles, therefore the formulation in article 1 paragraph 12 of Law No.12/2008 on Islamic Banking can be used as a reference; it is stated: "The Shariah principles is the principle of Shariah Islamic law in banking activities based on *fatwā* issued by agency that has the authority in issuing Shariah *fatwā*.". Asutay (Mehmet Asutay, 2012) in his paper mentioned that the regulation of Shariah pawning gold should pay attention to three aspects as follows: First, the principle of Shariah Islamic law, which rests on three pillars namely '*aqīdah*, *sharī'ah* and *akhlāq*. This is what distinguishes Islamic economy with conventional one. Islamic economics emphasizes into the element of belief ('*aqīdah*), to maintain a certain character (not to be deceptive or speculate) and comply with Shariah.

Second, the principle of Islamic law is then transformed into a *fatwā* that issued by competent authorities. In formulating a *fatwā*, clerics refer to all sources of Islamic law such as al-Quran, al-Hadith, *ijmā'*, *qiyās*, *istihsān*, *istiṣhāb*, and so forth. Third, the *fatwā* issued by the Indonesia's Cleric Council (Majelis Ulama Indonesia) through the National Shariah Board. In addition to Islamic principles, the practice of pawning gold in Indonesia is set out in Second Book of Civil Law (Civil Code/KUHPperdata) chapter 1150 to 1160, known as interest-based conventional pawning. According to the regulations in Indonesia, there is dualism in legal system in Indonesia namely conventional and Shariah pawning.

Furthermore, the gold pawn mechanism refers to the National Shariah Council (DSN) No.25/DSN-MUI/III/2002 about *rahn* and *fatwā* DSN MUI

No. 26/DSN-MUI/III/2002 about gold *rahn*. *Rahn* is defined as “holding the goods as collateral for debt”. Referring to the *fatwā*, Shariah pawns and Islamic bank get profit from the administrative fee from redemption certificates of pawning. In the implementation, there is no standardization fee for gold *rahn* between Islamic banks due to/no detail explanation in *fatwā*.

This is the main reason why gold Shariah pawn is not complying to Shariah anymore. As a part of the economic activities of Shariah, the Islamic gold pawn has some prohibited activities such as: *ribā* as the illegal additional revenues, *bāṭil*, in exchange transactions that is not similar in quality, quantity and delivery time *faḍl*, or in a transaction that requires customers to repay their loan more than their principal due to passage of time, and *nasi'ah*, gambling transaction is banned due to its uncertainty and speculation. *Gharār* is a transaction that unclear about the physic, the ownership and the existence of the object, or the object is not available during transaction unless it is regulated in Shariah principles. *Harām* is a transaction that the object is forbidden based on Shariah. *Zālim* is transaction that is injustice for other party. However, besides those prohibitions, Shariah gold pawn should be interpreted as wealth transfer and wealth creation (Mills Paul & Presley John, 1999).

Based on the restrictions above the practice of Shariah gold pawn should be free from *ribā*. Based on empirical facts in Indonesia, along with arise of gold price, public demand for gold pawn is increasing. Pawn that is originally as financing instrument is shifting into investment instrument. Based on survey from pawnshops and Islamic customers, there is shifting in paradigm that makes the gold pawn a way to earn another gold. This is known as gardening gold and this is considered not complying with Shariah and turns the gold pawn into a speculation activities. Pawning gold on Islamic banking has essentially to help people who are in short-term financial difficulties, so they need a loan (*al-qard*) with gold as collateral (gold *rahn*) as well as pay for the gold deposit in the bank with *ijārah* contract, but in the practices of pawning gold is not in line with original purposes of the activity of pawning gold and does not comply with *fatwā* from National Shariah Council.

Based on the understanding of Shariah pawning gold, it should be recognized that the purpose of Shariah pawning is to move the real economy. On the other hand, gold investment resulting the gold accumulation that will potentially freeze the economy due to retention of funds flow to the community. Therefore, it is necessary to have understanding and precise mechanism that makes Shariah gold pawn is not shifted to gold investment practice. Pawning gold is an alternative Islamic financing based on Shariah principles, while gold investment aims to generate profit. There are some weaknesses of pawning gold regulation in Indonesia which led to the practices of pawning gold into

investment activities, as follows: first, there are no limit time for doing pawning, thus the pawning can always be extended continuously. Second, *fatwā* from DSN-MUI No.77/DSN-MUI/2010 that allows to purchase (*murābahah*) gold in installments. Based on the *fatwā* above, some banks have done innovation in Islamic products by allowing customers to buy the gold in installment and then repeatedly pawn their gold without limitation. In this case, the gold loses its role as financing function, and shifts into speculative investment function. This is contrast with the original function of pawning, which is to obtain financing using moving goods as collateral, and when it reaches its maturity, it should be redeemed. Economically, the pawnshop has functions as the economy mover on small scale.

In early 2012, Bank Indonesia issued a Circular Letter of Bank Indonesia (SEBI) about *qard* backed gold products, which nature is an appeal to all Islamic Banks, Islamic business units and rural Shariah banks in Indonesia that *qard* backed gold products (gold pawn) must have the following characteristics. There are the fund is intended to be uses for the purposes of short-term funds to finance additional working capital or short term for micro and small groups; the contract that has to be used are *qard* contract (to increase loan provided by Shariah banks or Islamic business units), *rahn* contract (for the binding of gold as collateral for the loan fund) *ijārah* contract (for the binding of storage utilization and maintenance services of gold as collateral for loans); fees that can be charged to customers are administrative costs, insurance costs and maintenance of the gold as collateral for loans; sources of funding may come from the capital, retained earnings, and/or third party funds; the customer must clearly state the purposes of fund on the application form; and gold that will be submitted as collateral *qard* backed gold should be already owned by the customer at the time of apply for financing.

Legal problem arises since Circular Letter of bank Indonesia is not a legal product in the hierarchy of legislation, itis only considered as a guideline. On the other hand, *fatwā* by DSN No. 77/DSN/2010 that allows the purchase of pawning gold in installment based on hierarchy of legislation is in the higher position than Circular Letter of Bank Indonesia. Legal power of Circular Letter of Bank Indonesia is weak; hence it is necessary to make regulations equivalent with *fatwā* DSN or PBI which are the products of legislation. Under the Circular Letter of Bank Indonesia which regulates the *qard* backed gold products, Islamic Banking and Islamic Business units that will offer *qard* products must meet the requirements. That requirements are Apply for a license to Bank Indonesia; Have Standard Operating Procedures written adequately, including the implementation of risk management; Total portfolio of *qard* backed gold for Islamic bank must have minimum requirements of 20 percent

of the total financing provided or 150 percent of bank capital (capital adequacy); meanwhile for Islamic business units, must not exceed 20 percent of the total financing given; Total maximum amount of financing is Rp.250.000.000,- for each customer, with a maximum period of four months and can be renewed maximum two times. Customers of small medium enterprises (SME) can be given the maximum amount of financing for Rp.50.000.000,- with a maximum period of one year in installments every month and cannot be extended; Total financing should be compared with value of collateral (financing to value) which should be maximum 80 percent of 100 grams of gold average market selling price and buyback price by PT. ANTAM (Persero) Tbk; and Islamic banks or Islamic business units must declare transparently in both written and orally to the customer about characteristics of products (such as features, risks, benefits, costs, requirements and if there is a dispute resolution) and the rights and obligations of customer including event collateral execution gold. Circular Letter of Bank Indonesia is a guideline for the authority to regulate the return of Shariah pawning gold to match the objectives and purposes.

SOME LEGAL ISSUES IN PRACTICING SHARIAH PAWNING GOLD IN INDONESIA

Re-Pawning (Top Up)

Regulation of pawning gold is not comprehensive giving a possibility to do re-pawning in practice and getting worst by allowing the purchase of gold using installment based on *fatwā* by DSN No.77/DSN/2002. The first Islamic bank that practices gold pawn is BRI Shariah and it was the widespread. Within a year, BRI Shariah was able to reach 12 percent of the total financing or approximately worth 600 billion rupiahs. Re-pawning, mechanism of redemption that should be one of the essential elements of the pawning, however, does not occur. Pawning period is typically within four months, and at maturity date, the customer should return the loan and pay the *ujrah*, so that the gold can be collected. But with the possibility of re-pawning (top up), customers do not collect the gold, but their pawn is back, and so on. Thus, what happens in practices is it is no longer pawn but continuously loan. Furthermore, the *fatwā* that allows buying gold in installments is exacerbating the practice of pawning gold. Practically, the gold will be purchased by installment, then the gold will be pawned back. As a result, pawning gold transaction in Islamic banking grows rapidly. Adiwarmar Karim, worries a loose regulation in pawning gold system based on this *fatwā*. He concerns about the use of public funds in the practice of *murābahah* gold, considering the case of default in financing, will

result in the deposit guarantee agency (Lembaga Penjamin Simpanan – LPS) suffering the consequences.

Regulation should not accommodate Shariah gold pawn practices that lead to investment. Besides that it is contrary to Shariah principle, it is necessary to avoid that those funds from pawnshops or Islamic banks will flow to those who do not need financing. Here, the pawnshop loses its role as economy-productive activity, but shifted to meet the excessive consumption for a particular community. This is feared to have impact on the stability of Indonesian economy.

Combination of Several Covenants in the Pawning that is not Considered Shariah-Compliance

One important distinction between Shariah gold pawn and conventional gold pawn lies in the agreement that underlies them. In a conventional pawn, pawnshops or financial institutions such as banks take advantage of the rate established at the beginning of the agreement, while the Islamic Shariah pawning gold forbids charging interest in economic activity. Therefore, the use of covenants in practice Shariah gold pawn becomes important. To date, there is still a view in the community that Shariah gold pawn is an adaption of the conventional products that are labeled Shariah. It cannot be avoided due to several things: the dualism legal system in economic activity in Indonesia, demand for conventional product is high and human resources in the banking and financial institutions that dominate Islamic relatively are not numerous and evenly, as well as there is still lacking of people understanding of Islamic product. Shariah gold pawn practice in Indonesian banking, pawning mechanism based on combination of several contracts. Annas in his research finds that there are some joint agreements made under the document signed by the client such as: the first combination consisting of two versions: first combination is loan agreement with pawn (*rahn*) or, in the framework of *qard rahn* contracts and *ijārah* contracts. Second combination is *qard* contracts, *rahn* contracts and *ijārah* contracts. Third combination is gold pawn financing, whereby in the document it does not mention the three names of original contract such as *qard*, *rahn* and *ijārah*.

According to Islamic principles, basic legal questions related to the merger agreement concern about the meaning of *qard* in mechanism of gold pawn. Referring to the *fatwā* by DSN No: 19/DSN-MUI/IV/2010 about *al-qard* sets that *qard* is a loan contract to the customer who is obligated to return the funds he receives to the worksheet at a time agreed upon by the Islamic Financial

Institutions (Lembaga Keuangan Sharia) and customer or loans given to customer (*muqtariḍ*) in need. Furthermore, *fatwā* by DSN No: 19/DSN-MUI/IV/2010 set that “*al-qarḍ* gives customers extra (donation) as long as it is voluntary and not defined in the contract. The merger agreements have the potential to violate prohibitions that avoid the contract *qarḍ*: first, to get benefit from *qarḍ* contract, second is to combined *qarḍ* contract with another contract. The essence of *qarḍ* contract will be lost if there is implied benefits arising from other contract. This is contrary to the purpose of clarity of purpose of the contract. Therefore, it is necessary to find the concept of usage-contract agreement that is not prohibited.

Other legal issues are about charging fees to clients in the practice of Shariah pawning. According to combination of three joint agreements used in Shariah practice pawn, it can be concluded that the benefits of Islamic banking or pawnshop come from fees charged to customer in the form of administrative cost gold pawn, gold pawn objects insurance costs, and the cost of maintenance pawn objects. In practice, the imposition of administrative costs can be done in several ways, namely: first, establishing a nominal administration fee per weight in gold and is charged at the time of realization of Shariah gold pawn; second, setting with a certain nominal administration fee for all the gold pawn financing imposed upon realization of financing, and the letters are not allowed to charge administration because it is included in the cost of care and maintenance.

Furthermore, the cost of insurance (premium) is typically charged to bank on customers as with attempts to shift risk in the event of something beyond the control of the bank or the customer (force majeure). In practice, insurance claims will be included in a clause of the agreement. Other expense is the cost of maintenance of pawn object, namely a number of fees charged to customers for objects stored in bank or pawnshop. The mechanism used in a bank based on a particular term is 10 to 15 days, while every 10 to 15 days, the bank will make the cost of maintenance as bank receivables, which will be calculated at the time of payment as the cost of maintenance.

DISCUSSIONS

Legal issues arising in the practice of gold pawn in Indonesia can be solved with a comprehensive set back about Shariah gold pawn by National Shariah Council (DSN), so the gold pawn will be back in line with Shariah’s objective. Regulation established should be able to provide solutions to the problems that arise in the practice of Shariah gold pawn, as follows:

Re-Pawning Restrictions

Re-pawning (top up) no longer meets the purpose and function of Shariah gold pawn: it can even be said that pawning without time limitation can potentially endanger the banking system. In the event of arise in gold price, then the customer will likely continue tore-pawning to get a margin, so it is not clear whether the margin is Shariah compliant or not? Banks cannot control the use of public funds due to customer's pawning gold again, so the purpose of gold pawn as an alternative financing is not valid; it has turned into an investment. This condition is further away from the principles of Shariah as the mechanism of investment funds should come from customers, not from public funds managed by the bank. On the other hand, *fatwā* by DSN No:77/DSN-MUI/2002 allowing *murābahah* in buying gold in installments needs to be reviewed. This particular *fatwā* becomes a trigger for the increasing of Shariah gold pawn because gold pawn customers will pay the installment, and then re-pawn it.

Guidelines for the Use of Multiple Covenants in Shariah Gold Pawn

Prohibition for combined agreement in the contract can be circumvented by pawning gold adhering to the principles of clarity of intent agreement. Practice in combining agreement under Shariah gold pawn (*rahn*) is the form of merger agreement between *qard* and *ijārah* contracts that obscure the purpose of *rahn* contract; therefore, it necessary to make a guideline to all banks and pawnshops on how to use a multiple covenants but still complying with Shariah. The concept of multi-contract (*murakkab* contract) can be a solution for the merger of agreement that is not Shariah compliance. *Murakkab* contract is an agreement between two parties to carry out a contract that contains two or more such contracts with lease purchase, grant, power of attorney, *qard*, *shirkah*, etc. so all the legal consequences of the contract are collected as well as all rights and obligations arising seen as a whole that cannot be separated, as the legal (Irham Fachreza Anas, 2012).

Administration Fee Transparency in Gold Pawn Mechanism

The imposition of administrative charges on customers in the Islamic pawn mechanism is regulated by specifying the Shariah compliance rate calculation, in order to avoid the practice of pawning gold usury practices or improper advantage. Imposition of maintenance and care are considered excessive if the customer is also burdened with insurance premiums. The first reason is that the

insurance is carried by the bank for the benefit of the bank, because the object of pawn is in the control of the bank. Second, the definition of maintenance and deposit is interpreted keeping the security and safety of goods. Therefore, the imposition of premiums and cost of maintenance would be unjust for the customers. This is contrary to *maqāṣid al-sharī'ah* (Mehmet Asutay, 2012).

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the results, legal issues in the practice of Shariah gold pawn in Indonesia can be summarized as follows: First, gold pawn is one of the alternative Islamic financing systems for small-scale productive companies that have potential to be developed in order to support the economy of Indonesia, in fact that 99.9 percent or 51.3 millions of businesses in Indonesia are in a small micro level that requires easy financing; Second, regulation of gold pawn in the form of Islamic *fatwā*, is not yet comprehensive in the sense that it is not guaranteed in gold pawn practices will be Shariah compliance. The weakness of this regulation provides an opportunity for practitioners and the pawn institutions to innovate in Shariah gold pawn products that are increasingly outpacing the purpose and function of the Shariah. The form of the innovation that has potential to be out of Shariah principle is the practice of top-up (re-pawning), gold purchase in installment, the combined agreement and the imposition of administrative costs, maintenance cost as well as premiums insurance that are not transparent. Third, the authorities of the financial service and DSN-MUI have not formulated a comprehensive regulation; thus the practice of gold pawn has not get a solid legal foundation. In addition, supervision of Shariah gold pawn practices has not been followed by strict punishment for Islamic banks and financial institutions. Based on these reasons, it is necessary to make new comprehensive regulations of Shariah gold pawn that captures all the rules.

Suggestions

To overcome some of the weaknesses in the practice of gold pawn, it is recommended that: First, it is necessary to realign comprehensive Shariah gold pawn and accommodate the aims and objectives of Shariah gold pawn as an alternative financing. Second, the DSN-MUI with financial services authority immediately issue a *fatwā* on re-pawning restrictions, guidelines

about combination of agreement and *fatwā* about a charge cost that is Shariah compliance. Third, strong political will from the government continuously improves a reliable resource in order to fruitful of proficient Islamic economist as well as socialize to the community about Shariah gold pawn.

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