

# Implementation of Moratorium by Islamic Banks During the Covid-19 Pandemic: Maqasid Shariah Perspective

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**Shed Lights On The Application  
Of Moratorium From Both  
Accounting And Shariah Point  
Of Views**

**1**

**2**

**Provides the implications of  
moratorium  
for both customers and Islamic  
banks**

# Introduction

**Covid-19 and global lockdown period induced the closure of all economic activities**

**Severe financial impact on individuals and companies**

**Loan or financing will be categorized as non-performing**



Moratorium : 1st April 2020  
till 30th September 2020

Targeted Payment  
Assistance

# The Impact of Covid-19 on Malaysia's Economic Conditions

## Economic lost

The country has lost RM63 billion since the lockdown was enforced in March 2020.

Malaysia's economy is expected to contract by 3.1 percent in 2020 due to a significant slowdown in economic activity caused by Covid-19



## Gross Investment

In Q1 2020, gross investment contracted by 4.6 percent compared to a contraction of 0.7 percent in Q4 2019 for the fifth consecutive quarter

## Goods & services

Malaysia's goods and services exports activities sharply declined by 7.1 percent in Q1 2020 for the third consecutive quarter

# FINANCIAL MEASURES

## MORATORIUM

Financing deferment payments for a period of 6 months, with effect from 1 April 2020 to all performing loans or financing & conversion of the outstanding balances of credit card facilities, into a 3-years term loan or financing with reduction in interest or profit rates.

## TARGETED PAYMENT OR REPAYMENT ASSISTANCE SCHEME

**Extension Of The Loan Moratorium For Another 3 Months – Terminated From Job**

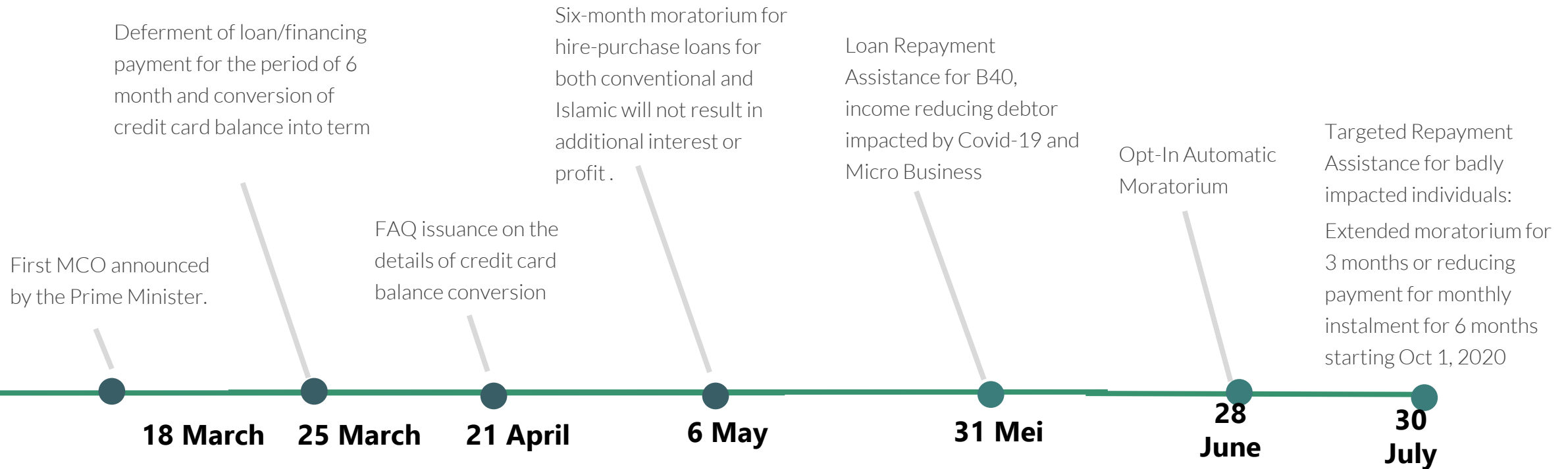
**Reducing of monthly instalment for at least 6 months from 1 October 2020 for employed individual but badly impacted income**

## ENHANCED TARGETED PAYMENT ASSISTANCE SCHEME

Additional financing facilities is to be offered by the banking institutions to provide relief and support recovery for SMEs

Specially designed for B40 customers especially those who are listed under *bantuan sara hidup* or *bantuan prihatin rakyat* and microenterprises which their original loan or financing amounting up to RM150,000

# The Chronicle of Moratorium and other Financial Measures



**PHASE ONE**

**PHASE TWO**

**PHASE THREE**



# ILLUSTRATION ON METHOD OF POST MORATORIUM INSTALMENT PAYMENT

Scenario 1	Scenario 2	Scenario 3
End of the 6 <sup>th</sup> month of moratorium	Pay mora instalment during the six months after the moratorium ended	Payment of moratorium accrued profit will be amortised throughout the remaining financing tenure
No extension of financing period	Maturity extended by 1 month	Financing period is extending to another 6 months
No deferred profit is charged	The profit will be charged on the balance of outstanding deferred principal amount accumulated during moratorium	The profit charge is higher. The current profit was charged on the total deferred instalment every month until it is fully settled.
Lump sum payment	Monthly instalment for six months after the moratorium end will be double	Customers only need to pay the same amount as existing monthly instalment except for the last instalment

# The Impact of Moratorium on Cash Flows of Customers

1<sup>st</sup> Option : Payback the financing in lump sum after moratorium ends. No extra profit will be charged on the accumulated deferred instalment. Customers need to have extra cash in hand to pay the huge lump sum amount

2<sup>nd</sup> option : need to maintain in paying higher instalment amount for 6 consecutive months after moratorium ends.



3<sup>rd</sup> Option : the imposition of profit is quite high compared to the other two options, customers may continue to pay the same monthly instalment as previous. The tenure of the financing may need to be lengthened to compensate the same instalment amount paid until the end of the financing tenure.



# MORATORIUM FROM ACCOUNTING PERSPECTIVES



Fulfillment the requirement of



Changing in monthly instalment of the customers is due to the changing in the net present value (NPV) of the future cash flow

Fixed vs Floating –  
akad based on  
ceiling



Additional profit can be imposed up to the ceiling rate

# SHARIAH PERSPECTIVES ON MORATORIUM

Sale-based contract are among the most preferred contract choose by the Islamic Banks to structure their financing

Different treatment between solvent & insolvent debtor . The banks must provide certain leniency to ease their financial burdens for insolvent debtors

If the financing contract is structured based on Musharakah contract, it is obligatory for the customers to be together with the banks to consume all risk associated to the ventures

Indebtedness created whenever the banks sell the commodity or any other Shariah compliant assets to the customers on deferred basis

## IMPOSITION OF ACCRUED PROFIT??

The current pandemic really tested the decision of Islamic banks whether they are ready to sacrifice their profit for the interest of the customers?



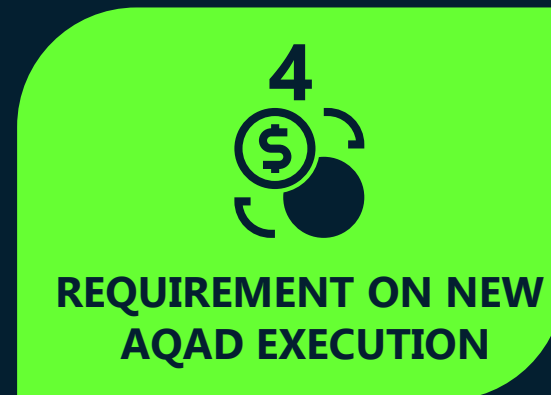
# SHARIAH ISSUES ON MORATORIUM

The profit accrued from moratorium exercised cannot be compounded or capitalized into the new rescheduling or restructuring financing amount



Due to imposition of accrued profit, the indebtedness amount of the customers increased.

For fixed rate financing, any changes on the existing sale price, new akad must be executed – new charge to the customer or bank to absorb the charges?



Restructuring: new akad need to be executed for any changes on the selling price. No compounded profit is allowed.

Rescheduling: lengthen the tenure of financing without the need to execute new akad as long as the akad price does not change

# RELEVANT LEGAL MAXIM

1

Not To Harm And Not To Be Harm

2

Removing Hardship (raf' al-haraj )

3

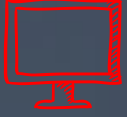
Hardship Begets Facility

4

The actions of an Imam (leader) is driven by the interest of the community

5

If a problem grows acute, then it shall be relieved



# SOMETHING TO PONDER.....

For the insolvent debtors, more financial assistance should be offered to ease their burden in managing their cash flows.

“And if someone is in hardship, then (let there be) postponement until (a time of) ease. But if you give (from your right as) charity, then it is better for you, if you only knew.” [Al-Baqarah 2: 280]

Verse by Verse Qur'an Study Circle  
Come Let's Study the Qur'an

وَإِنْ كَانَ ذُو عُسْرَةٍ فَنَظِرَةٌ إِلَىٰ  
مَيْسَرَةٍ وَأَنْ تَصَدَّقُوا خَيْرٌ لَكُمْ إِنْ  
كُنْتُمْ تَعْلَمُونَ (البقرة ٢٨٠)

Not charging the accrued profit is an act of *ihsan* from the bank to the customers especially for the insolvent debtors, they should be given sufficient extension of time to pay their indebtedness

# SOMETHING TO PONDER.....



The bank is entitled to the accrued profit



To forgo the accrued profit especially to the insolvent debtors is an act of Ihsan



At the same time it may not cause harm to the bank as Islamic Financial Institutions – balance between ihsan and control harm



It can be argued that a uniform policy could damage some banks hence there are variegated scenario of the borrowers and every individual is affected differently



عن أبي يعلى شداد بن أوس رضي الله عنه عن رسول الله صلى الله عليه وسلم قال : إن الله كتب الإحسان على كل شيء<sup>7</sup>

Daripada Abu Ya'la Syaddad bin Aus RA berkata bahawa Rasulullah SAW bersabda: "Sesungguhnya Allah menetapkan ihsan pada tiap sesuatu".

- Melihat kepada konteks semasa IKI sewajarnya bersikap *ihsan* dan membantu individu dan perniagaan yang terkesan dan terdesak akibat pandemik COVID-19 yang merupakan di luar kawalan mereka dengan meringankan kesulitan kewangan yang ditanggung. Oleh itu, keuntungan berkompauun tidak wajar dikenakan terutamanya ke atas pelanggan yang sedang mengalami kesusahan dan kesulitan. Ini sejajar dengan hadis dan kaedah *fiqh* berikut:

عن أبي هريرة، قال: قال رسول الله صلى الله عليه وسلم : من نفس عن مؤمن كربة من كرب الدنيا، نفس الله عنه كربة من كرب يوم القيامة، ومن يسر على معسر، يسر الله عليه في الدنيا والآخرة<sup>8</sup>.

Daripada Abu Hurairah RA berkata, bahawa Rasulullah SAW bersabda: "Siapa yang meringankan kesulitan seorang mukmin daripada kesulitan dunia, nescaya Allah akan memudahkan kesulitannya di hari kiamat kelak. Barang siapa yang menolong orang yang berada dalam kesusahan, nescaya Allah akan menolongnya dalam menghadapi kesusahan di dunia dan akhirat".

- Larangan keuntungan berkompauun turut mengambil kira pertimbangan *siyasaḥ syar'iyah* dan konsep *al-jawa'ih* (situasi bencana) yang mana pihak pengawal selia boleh menetapkan apa-apa polisi yang difikirkan sesuai bagi menjaga kemaslahatan pihak-pihak berkontrak khususnya dalam situasi bencana yang tidak dapat dielakkan. Ini juga selari dengan kaedah *fiqh* berikut:

تصرف الإمام على الرعية منوط بالمصلحة<sup>9</sup>  
 "Urusan pemimpin ke atas rakyat berpaksikan masalahah."

Resolution Shariah  
 Advisory Council of  
 BNM revised on 16  
 October 2020

### Larangan keuntungan berkompauun berdasarkan kepada pertimbangan *ihsan*<sup>5</sup>

- Islam menggalakkan prinsip *ihsan* dalam semua perkara termasuklah aktiviti muamalah. Ini sebagaimana yang dinyatakan dalam al-Quran:

إِنَّ اللَّهَ يُأْمُرُ بِالْعَدْلِ وَالْإِحْسَانِ

"Sesungguhnya Allah menyuruh berlaku adil, dan berbuat kebaikan (*ihsan*).."<sup>10</sup>

- Aplikasi prinsip *ihsan* adalah bersesuaian dalam memberi bantuan dan kelonggaran kepada mereka yang mengalami kesulitan dengan meringankan beban yang dihadapi. Rasulullah SAW turut menyarankan untuk berlaku *ihsan* dalam semua perkara, sebagaimana hadith berikut:

# CHALLENGES FOR ISLAMIC BANKS

**1** Uplifting the ultimate objective of Shariah  
At the same time bank wants to protect interest of the customers

**2** Not to imposed additional profit  
The modification loss is huge especially for the banks who carry large portfolio of fixed rate financing

**3** The effects and aftermath of the Covid-19 pandemic to the banks are expected to be felt far beyond the end of the MCO period  
In the case of conflicting interest, the rule applied is the lesser of the two evil is preferred.



# CHALLENGES FOR ISLAMIC BANKS

4

## Credit default risk

Customers unable to meet their payment obligation

5

## Displaced commercial risk

Depositors are free to withdraw their money from the Islamic Banks to be placed at the conventional banks that manage to provide higher returns

6

## Higher fixed rate portfolio will trigger higher modification loss

The floating rate financing portfolio may be affected as the rate of OPR is getting lower while they need to pay higher returns to the depositors.



# PROPOSAL

Introducing  
Digital  
Platform



Must Take Into  
Consideration  
The New  
Normal And  
The  
Customers'  
Behavioural



Leverage  
On The  
Extensive  
Roles Of  
Zakat And  
Waqf





# PROPOSAL

**Moratorium policy should be established by the banks to give priority to B40 or selected M40 that financially affected by the current outbreak.**



**The ultimate Maqasid of Shariah is to protect everybody's interest (maslahah)**

**VBI - The banks may need to sacrifice a portion of their profit to assist the insolvent debtor or the B40 group**





# Conclusion

**Maqasid Shariah of the Islamic banks as well as the customers are both need to be protected**

**Imposition of additional profit does not mean the banks are being cruel but it is the banks' right towards the amount of the selling price**

**Moratorium shall not be offered open ended to all types of debtors as some people may take advantage on the deferment as they have access to extra cash by investing in other profitable business ventures to get more cash**





Bank Pilihan Anda



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