



Do Islamic Banks Act 'Islamic' During COVID-19 Pandemic?

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ABSTRACT – The world is currently experiencing the most unprecedented health crisis. As of June 2020, the Corona disease has infected more than 8 million people and caused 465,000 deaths worldwide. The world economy is also impacted by the Corona virus pandemic known as COVID-19. Malaysian government estimates that the economic losses since the enforcement of national lockdown amounts to RM63 billion. Subsequently, a huge stimulus package worth RM250 billion was distributed to sustain the domestic markets. In addition, individuals and businesses were offered moratorium which gives six months deferment of installment to cope with financial challenges during this difficult time. The implementation of moratorium however raises a polemic within the Islamic banking industry locally. Customers question the justification used by Islamic banks in imposing additional charges after the expiry of moratorium period. The criticism to certain extent has labelled Islamic banks similar with their conventional counterparts for prioritizing profit over social responsibility. Thus, the article analyzes the moratorium issue based on the framework of Shariah objectives (*maqasid*). The analysis will not only shed light on the current moratorium polemic but also provides a comprehensive view for the broader issue pertaining to the dichotomy between the theory and practice of Islamic banking industry.

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INTRODUCTION

Siddiqi (1983), a prominent Islamic economist viewed that the key objective of the establishment of Islamic banking institutions is to assist the Muslim community to achieve a better standard of living. The problem of poverty which is prevalent in many Muslim countries is hoped to be reduced by founding Islamic banks globally. Islamic economists such as Chapra (1995) and al-Sadr (2014) are of the view that conventional banks which operate based on interest (*riba*) are incapable to establish economic justice. Hence, Islamic banks are expected to be different from their conventional counterparts in terms of reasons of existence and operation (Siddiqi, 1983). They exist not merely to maximize profit but to give greater consideration towards social obligations. Financial product offered by Islamic banks should be developed not only to comply with legal technicalities i.e. rules of Islamic contract but more importantly able to offer genuine values proposition based on the *maqasid* (objectives) of Shariah (Ahmed, 2011).

The COVID-19 outbreak appears to be a significant case in appraising the above premises especially related with social impacts contributed by Islamic banks. As most countries impose necessary lockdown to contain the spread of virus, the world economy is embarking into the steepest recession since the Great Depression in the 1940's. The International Monetary Fund (IMF) predicts that the average global gross domestic product (GDP) will drop by 3

percent as a result of the implementation of national lockdown and social distancing worldwide (IMF, 2020). Since many sectors of economy have temporarily ceased operations, millions of people became unemployed. The Malaysian government declares that the country has lost RM63 billion since the lockdown was enforced in March 2020 (Yassin, 2020). Bank Negara Malaysia (BNM) anticipates that the country's economic growth will be in the range of -2.0 to 0.5 percent for the year 2020. Furthermore, 40 percent of small and medium sized enterprises (SMEs) are predicted to close down in the same year. Consequently, at least 951,000 employees will lose their jobs (Khalid, 2020).

In response to the unprecedented crisis, PRIHATIN economic stimulus package worth RM250 billion was unveiled on 27th March 2020 by the Prime Minister of Malaysia. The funds will be allocated to support the low and middle income groups who are likely to be the most affected by the Covid-19 pandemic. An additional RM10 billion was also granted to help SMEs to remain resilient in the face of economic pressure. A wage subsidy ranging from RM600 to RM1200 per employee, a grant worth RM3000 to almost 700,000 micro enterprises, and abolishment of interest charge for micro credit scheme are amongst the financial assistance given to Malaysian SMEs (PMO, 2020).

In addition, Bank Negara of Malaysia (BNM) announced a number of measures to assist individuals, SMEs and corporations to manage the impact of the COVID-19 outbreak. One of the significant measures is the moratorium whereby banks will offer their customers the deferment of loan or financing repayment for a period of six months. The main aim of the moratorium is to ease the cash flow of individuals and businesses. The moratorium will be granted to all performing loans or financing. The local banks were viewed of being in a strong condition to support the moratorium directive. BNM reduced its Statutory Reserve Requirement ratio by 100 basis points to supply approximately RM30 billion of liquidity into the banking system. In addition, the amount of excess liquidity in the system amounted to RM160 billion (BNM, 2020). The financial assistance and economic recovery measures demonstrate that the current Malaysian government is concerned with the difficulties faced by the people.

However, a polemic arose recently when the moratorium was implemented. The public were anxious when they noticed that the additional payment to be charged by Islamic banks after the moratorium period ends. The additional payment was required to cover banks' modification losses that was incurred due to the six months deferment. Many customers expect that the deferment of payment is granted without any extra costs. This is because the moratorium was announced by the government to ease the public in coping with challenges during the COVID19 pandemic. Since, it was a government's directive the public was expecting that the banks will bear any financial implications. Hence, when the extra repayment is informed, banks' clients criticize the practice, especially in the social media. The critics of Islamic banking re-emerged and debated on the dichotomy between theory and practice continue. It is important to discuss the criticism especially after the BNM launched a new initiative called value-based intermediation (VBI). The VBI is supposed to encourage Islamic banks to become the leading institutions which create values and make impactful contributions to the community. However, because of the extra charges during the moratorium, the critics argue that the VBI initiative is just a rhetoric. It is claimed that the additional charges prove that Islamic banking institutions are largely motivated to accumulate profit rather than to improve the wellbeing of the society.

Based on this backdrop, the present article has two main objectives. The first objective is to explain how the moratorium is implemented in Islamic banks particularly for the *Ijarah* vehicle financing facility. The second objective is to provide a comprehensive assessment on the moratorium polemic. Justifications from all stakeholders in the Islamic banking industry will be analyzed before reaching a conclusion. This includes analyzing the view from customers, Islamic bankers, regulators and the Shariah committees. Because of the restriction of movement and social distancing order during the COVID-19, information gathered in preparing this article is

limited to resources from published documents, articles and discussions held with industry practitioners.

LITERATURE REVIEW

Previous studies related to the issue discussed can be categorized into two broad themes; (1) social responsibility in the banking sector and (2) Maqasid al-Shariah framework and its application in Islamic banking industry. The moratorium is one of examples of banking policy that integrates social dimension in banks' operations. Hence, it will be important to examine previous works related to CSR in the banking sector in order to establish a clear understanding how banks perceive and practice CSR concept within the banking regulatory framework. Secondly, the moratorium during the COVID-19 outbreak is closely related to the fulfillment of objectives (*maqasid*) of Shariah. Thus, comprehension of the *Maqasid* debates in Islamic banking industry provides an appropriate underlying framework in analyzing the polemic.

Banking institutions function as the financial intermediaries that mobilize funds from those who have surplus money to the ones who are in deficit. Banks make huge profit by becoming the engine which support real economic activities in the modern financial system. Watkins (2011) views that the conventional banking system is a typical capitalist activity that aims to maximize profit. Conventional banks are the heart of capitalism which provide substantial capital to corporations and multinational companies. When the concept of corporate social responsibility (CSR) is widely adopted by corporate institutions, banking institutions embark into CSR activities and start to incorporate social agenda into their strategic decision making. Researchers have given considerable attention to examine the practice of CSR in the banking sector. They found positive correlation between CSR and banks' financial performance (Soana, 2009). Since CSR reporting brings positive impact to bank's profit, conventional banks make significant effort to participate and contribute towards CSR activities. Similar trend was found in relation to banks' contribution towards Environment, Social and Governance (ESG) initiatives. Miralles Quiros et al. (2019) examined 166 banks from 31 countries over 2010-2015 period and found that there exists positive and significant relationship of bank's environment and corporate governance performance.

In the case of Islamic banks, the integration of social impact into banks' operation is expected to be more holistic. This is because helping the community is supposed to be embodied in Islamic banks establishment as discussed earlier. In order to measure CSR activities among Islamic financial institutions, Haniffa and Hudaib (2007) had developed a specific framework for researchers which is called Ethical Identity Index (EII). The EII was formulated based on the understanding of underlying philosophy and values which become the basic operations of Islamic banking institutions. Based on the framework, a few researches have been carried out to examine the CSR practices conducted by Islamic banks. Generally, previous researchers including Platonova et al. (2016) found that CSR activities are performed significantly by Islamic banks in the Gulf Cooperation Council (GCC) region and other parts of Muslim countries. Most of Islamic banks pay *zakat* deducted from their net profit to assist poor and needy people in Muslim community. According to Kamla and Rammal (2013), 18 Islamic banks in the Middle East region including Dubai Islamic Bank, Bahrain Islamic Bank and Faisal Islamic Bank have mobilized their *zakat* funds to help orphanage, single mothers, students in public and private higher learning institutions.

However, it should be noted that the CSR activities are performed during prosperous economic times. CSR activities are funded from funds that are deducted from profit generated by banks. Previous empirical studies show that banks have shown strong support to uplift standard of living through various education and health projects during profitable period. However, the COVID-19 pandemic demonstrates a different scenario. In the brink of financial crisis, are banks willing to sacrifice some of their profit or to certain extent bear losses for the sake of public goods and benefits? Since research on this particular scenario is limited, the

present article will be a valuable addition to fill up the gap about the existing CSR studies within Islamic banking industry. It enriches the discussion on how Islamic banks contributed to the society during a challenging economic circumstance.

As for *maqasid of Shariah*, Islamic economists have begun to question the issue openly after four decades of Islamic banking operation. They argue that Islamic banking institutions have deviated from their objectives as envisioned by the Islamic economists such as Siddiqi (1983), Chapra (1995) and al-Sadr (2014). The huge Islamic financial institutions' assets which amounted to USD2 trillion worldwide do not seem directly impact the Muslim community. Zubair Hasan, an Islamic economist viewed that the role played by Islamic banks in assisting start-up business, young entrepreneur and poor people are insignificant. Large business owners who own collaterals have more chances to obtain financing from Islamic banks compared to unsecured businesses (Hasan, 2005). Islamic micro finance, *zakat* and *waqf* institutions had played a supporting role to support the groups but their capacity is limited. This contributes to public perception that Islamic banks are indifferent from conventional banks in terms of motivation and conduct.

Islamic economists view the lack of fulfillment of *maqasid of Shariah* in Islamic banking industry is due to two main reasons. The first is because of highly concentration on debt-based rather than equity-based contracts in creating Islamic financial products. The debate has led to unresolved discussion over Shariah compliance versus Shariah based products in which the latter is perceived to be closer to *maqasid of Shariah*. Secondly, the method employed by Shariah advisors in assessing the compliance to Shariah principles primarily lies on the fulfillment of legal technicalities requirements. In other words, Islamic banking product is deemed to be 'Islamic' and endorsed by the Shariah advisors' fraternity when it meets legal and contract requirements from the Shariah perspective. The macro and micro economic issues such as the impacts towards household debt are said to be beyond the Shariah advisors' fraternity's scope of review (Bakar, 2016). As we will see in the following discussion, similar method was employed by Shariah committees in Malaysia when they made judgment on the treatment of deferred instalment during the moratorium period.

Moratorium: A Case of Ijarah Financing Facility

As mentioned earlier, the data and information in this study was gathered from interviews with industry practitioners who are involved directly with moratorium in an Islamic bank. The research method adopted was a case study approach. This means an investigation was made to find out the real case how Islamic bankers respond and deal with moratorium issues faced during the COVID-19 pandemic. However, due to confidentiality reason, the researcher cannot reveal those who have contributed in the data collection and analysis.

Bank Negara Malaysia (BNM) announced the implementation of moratorium for financing and loans effective on 1st April 2020. It gives customers six-month deferment of installment for hire purchase and fixed rate Islamic financing automatically. The moratorium package is offered to both customers in financial difficulty (*mu'sir*) and customers who do not face financial difficulties (*musir*). In Malaysia, hire and purchase financing is widely used to finance vehicle purchasing. As the moratorium is automatically granted, customers who refuse to accept the repayment deferment need to opt out by informing their respective banks. In other words, customers are required to contact their banks to decline the moratorium offer and will continue paying the installment as scheduled.

The polemic of moratorium arises due to two key issues. The first issue is regarding customers' consent to participate in the moratorium and the second issue is the installment change after the deferment period. When the announcement about the moratorium was made to the public, customers expect that they are automatically granted the deferment of installments. However, when Islamic banks start to operationalize the moratorium, it is noticed that the Hire Purchase (HP) 1967 Act requires banks to obtain customers consent before any change of

installment or deferment period can be made. The requirement in HP Act 1967 is in line with Shariah rules on *ijarah* contract too. Since *ijarah* contract is a binding contract (*aqad' lazim*), according to *fuqaha*" any changes on *ijarah* contract should be made based on mutual agreement between the two contracting parties. Hence, in the case of *ijarah* financing, customers who are the hirer must express their agreement clearly on changes either in the tenure or rate of installment if they would like to accept the moratorium offer from Islamic banks. Shariah Advisory Council (SAC) of BNM states the requirement in its 203rd meeting as followed:

The Islamic financial institutions shall obtain an explicit consent from customer on the additional amount to be imposed. In the event where the customer disagrees with additional amount, the customer can decide not to accept the moratorium package and shall resume the payment financing in accordance with the original payment schedule (SAC, 2020).

The SAC decision is in conformity with *ijarah* policy document of BNM:

"S 14.5 The lessor shall not increase the rental unilaterally.

G 14.6 The contracting parties may, from time to time, mutually agree to revise the rental of the leased asset."

Hence, Islamic banks responded by contacting each of individual customers to obtain the consent. Methods employed to obtain the customers' consent varies from banks to another either through web page, telephone or email. The consent is a compulsory procedure to comply with both Shariah and legal requirements. Thus, it is not a reversal of the earlier announcement by BNM as claimed by some critics. The moratorium package was still automatically offered to all customers but subject to their consent. However, this highlights that the moratorium package was offered to the public based on impromptu measure. It means that the moratorium was announced to the public before details of the implementation were studied and prepared. The polemic can be avoided if the customers were informed clearly that the moratorium package for *ijarah* financing is subjected to their own consent and approval.

The second issue is about the additional amount charged to cover part of the modification losses incurred by Islamic banks. The increase in monthly installment sparked public criticism over the moratorium package in specific and Islamic banking industry in general. From customers' point of view, many were excited to enjoy a release from monthly repayment commitment to their respective banks for six-month period. The moratorium was regarded as a delightful news and generous offer to all citizens who were affected by the COVID-19 pandemic. Since, many businesses are losing their incomes and cannot afford to pay their employees' salaries during the enforcement of national lockdown, the moratorium is seen as a significant support to ease the burden of the public. Based on this backdrop, majority of people understood that the moratorium as deferment of installment without any extra charges.

However, the issue arises when banks start to communicate with customers. According to the banks, customers are granted deferment of installment from 1st April to 30th September, but profit will continue to be accrued on the outstanding principal amount. Customers were given two options after the end of the six months moratorium period. They can either:

- i. increase slightly the instalment sum and extend the financing tenure by 6 months; or
- ii. retain the last instalment sum financing tenure, but the last payment will include a balloon sum of the profit accrued during the moratorium period

Table 1 below provides the illustration of the two options mentioned above:

Table 1: Illustration of Moratorium Options for Customers

Option A	Option B
Remaining tenure (@ 1 Apr): 24 months	Remaining tenure (@ 1 Apr): 24 months
Existing Monthly Instalment: 1,000	Existing Monthly Instalment: 1,000
Deferred Instalments (DI): $1,000 \times 6 = 6,000$	Deferred Instalments (DI): $1,000 \times 6 = 6,000$
Principal portion of DI = 4,000	Payment of DI in Oct : 6,000
Profit portion of DI = 2,000	Installment shall remain RM1000. No late payment charges shall be imposed.
Extended tenure = 6 months extension	
Additional profit to be charged:	
$4000 \times 4\% \text{ pa} \times 6 \text{ months} = \text{RM}960$	
Revised instalment*: RM1040	
$(960 \div 24) + 1000 = 1020$	

In option A, the customer’s existing monthly instalment is assumed at RM1000 and has remaining 24 months of *ijarah* tenure from the 1st April 2020. Due to the moratorium, the customer will defer his monthly repayment which totaled RM6000 for the period of six months. From banks perspective, the RM6000 installment consist of two parts namely RM4000 from the principal and another RM2000 from the profit. The principal of RM4000 will be charged 4 percent profit during the 6 months period. The total accrued profit of RM960 then will be distributed to 24 months which makes the revised installment to RM1040. Now, customer’s new expiry of *ijarah* tenure will be extended another six months from 1st Oct. Figure 1 below illustrates the change of installment and the new schedule of *ijarah* repayment for the customer.

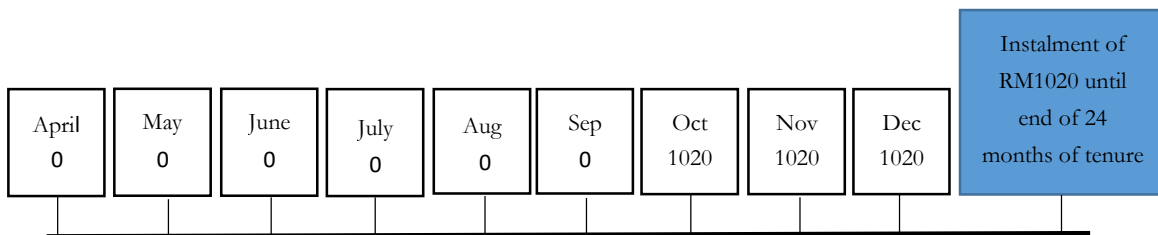


Figure 1: Change of Instalment in the *Ijarah* Facility

In the option B, customer is given six-month deferment of instalment but he or she is required to pay a lump sum of RM6000 of deferred instalments when the moratorium period ends on 30th September 2020. There is no additional instalment to be imposed as the bank will not charge any late payment charges. Besides, the tenure of *ijarah* will remain 18 months from the 1st October because no additional extension is needed to settle the outstanding instalment. Figure 2 further illustrates the described scenario.

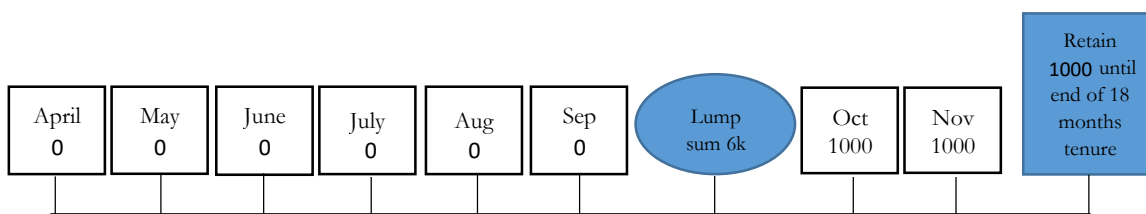


Figure 2: Lump Sum Payment at the End of Moratorium

It is obvious that both options bring impacts to customers who decide to take the moratorium offer. For option A, customers will pay an additional RM40 each month for the remaining

tenure. Meanwhile, for option B, customers must prepare to pay the outstanding instalments in lump sum. Otherwise, they will not be entitled to retain the original amount of instalment. Based on the treatment of the deferred instalment, customers begin to question the purpose of moratorium. If the objective of moratorium is to ease the burden of those who are affected with COVID-19 pandemic, then what is the rationale in increasing customers' monthly instalment? Shinaj et al. (2020) challenges the justifications used by Islamic banks in imposing additional rental payment after the expiry of moratorium period. They view that Islamic banks should not act similar to conventional banks by charging extra after the COVID-19 outbreak. In fact, it is the time for Islamic banks to demonstrate its own 'Islamic' values and characteristics by extending the instalment without changing the original instalment to customers.

According to Islamic banks, the increase in customer's instalment is necessary to cover the modification loss required in the new IFRS 9 guidelines. Banks under the IFRS 9 are obliged to classify and measure their financial assets and liabilities. The measurement is based on Net Present Value (NPV) formula. Since, banks will not receive cash flow of instalment for the sixmonth period, they need to re-value their *ijarah* financing assets. As illustrated in Table 2 below, a bank gives RM50,000 *ijarah* financing to customer. The customer will re-pay the bank a total sum of RM75,000 over five years. Based on the NPV formula, the value of the financing asset is measured as RM50,000. However, when the tenure is extended for six month the value of NPV will reduce to RM45,000. The difference of RM5000 will be recorded as modification loss in bank's balance sheet.

Table 2: Illustration on Modification Loss Under IFRS 9

	Before Moratorium	After Moratorium
Contractual Cash Flow of Ijarah Financing	RM75,000	RM75,000
Tenure	5 years	5.5 years
Effective Profit Rate (EPR)	3.5 percent	3.5 percent
Present Value	50,000	45,000
Modification Loss		(5,000)

(Adopted from Mokhtar, 2020)

The moratorium will surely impact banks which have high proportion of *ijarah* financing such as Am Islamic Bank, Public Islamic Bank and Hong Leong Islamic Bank (Syarifah, 2020). It is anticipated that Islamic banks need to provide hundreds million RM in total as provision to cover the impact of the moratorium. Hence, the additional instalment is imposed by Islamic banks to cover the losses incurred. It is not meant to take advantage on customers during the COVID-19 rather its purpose is to maintain the expected cash flow which is supposed to be received by the Islamic banks.

However, due to the increase pressure from majority of public, the newly appointed Minister of Finance interjected and declared that banks shall not impose any additional instalment of profit for both hire and purchase (HP) loans and *ijarah* financing. The announcement and directive from the government once again made the public pleased and satisfied. Nevertheless, questions remain how the Islamic banks cope with the modification losses? Is it right to view that Islamic banks are less compassionate in assisting the affected people during COVID-19?

Discussion and Analysis

It is obvious that the moratorium is a directive from the government. From the government point of view, the moratorium is vital to assist the public in dealing the impact of COVID-19 on their life. Lockdown was imposed throughout the country for nearly three months which affected businesses and industries nationwide. Hence, Islamic banks have no other choice but to

support the government initiative to ease the burden of majority of public during the COVID-19 pandemic. Since the moratorium is a government initiative, Islamic banks are guided by BNM in executing the moratorium package. According to BNM, the deferment of instalment is offered to all customers regardless whether they are in financial difficulty circumstance or otherwise.

From customers' perspective, the moratorium is seen as a savior by those who have lost jobs or have to take no pay leave or reduced pay due to the lockdown enforcement during the pandemic. The six months of deferment from banks obligation would help them in managing their cash flow to cope with the unprecedented economic challenges. In Islam, it is highly encouraged for all parties to help the affected group of people in the society. The Qur'an recommends a creditor to consider giving extension of time for a borrower who is having problem to settle his or her debts. Allah says in al-Baqarah (2:280).

'And if someone in hardship, then let there be postponement until a time of ease'

Undoubtedly, Islamic banks have taken the right move by participating in the offering of the moratorium package to the public. However, there is another group of customers who are also benefiting the moratorium although they are not affected financially by the Covid-19 pandemic. The moratorium will give such financially sound customers the opportunity to leverage from the deferred instalments. They could invest the saved deferred instalments into profitable business ventures. Obviously, this circumstance requires a different evaluation from the bank's perspective. This is because the customers will be benefiting from the moratorium at the expense of banks' profit. Islam views that a well-off debtor who purposely delayed his debt repayment as unacceptable and injustice act to creditor. Narrated from Abu Hurairah, the Prophet says, *'delay in payment (of debt) by a rich man is injustice'* (Sunan Abi Dawud, Book 23 hadith 20).

Thus, the moratorium issues need to be assessed from various perspectives before one can reach to a sensible viewpoint. From banks' perspective, they should be allowed to impose additional instalment particularly to the non-affected customers during the COVID-19 pandemic. The banks view that the additional instalment is fair and bring justice to the stakeholders of the banks i.e depositors and shareholders. It is important for Islamic banks to maintain their current profitability and efficiency in order to generate competitive rate of returns to the depositors and shareholders. Research conducted by Mat Nor et al. (2018) confirmed that Islamic banks are facing stiff competition in the context of dual banking system implemented in Malaysia. This is because there is huge amount of Shariah compliance funds such as EPF-I and PNB which are invested in Malaysian Islamic banks. If the local Islamic banks produce lower profit, consequently the depositors and shareholders will earn below the market returns. This eventually will bring negative impact to the Islamic finance industry as a whole.

Having analyzed all the arguments, it is found that the criticism that labelled Islamic banks as 'un-Islamic' when they impose additional instalment after the expiry of moratorium period is considered as an unjustified opinion. Islamic banks have shown their full commitment to assist those who are affected by the COVID-19 pandemic. This group of customers will not be imposed any additional instalment as directed by the government. In fact, it is part and parcel of Islamic banks' social obligation to extend their 'hands' and bring people out from financial difficulties. However, this should not be done at the expense of depositors and shareholders' interest (*maslahah*). Therefore, we believe that Islamic banks have the right to impose additional instalment to those customers who are not affected by the COVID-19 pandemic. These customers should either continue to pay the *ijarah* instalments or accept the moratorium offer with revised amount of instalment.

It is important to highlight here that since the moratorium is a directive from the government, banks are left with limited options. As announced by the Minister of Finance, all

banks cannot charge additional instalment for hire purchase and *ijarah* financing to both affected and not-affected customers. This means Islamic banks inevitably will bear the modification losses resulted from the moratorium. Hence, the government of Malaysia is expected to introduce fresh initiatives to minimize the impacts of moratorium to banks' balance sheet. However, the initiatives are yet to be finalized at the time of this article being written.

In a broader context, the moratorium issue rejuvenates the discussion pertaining to social enhancement contribution within the Islamic banking industry. In Malaysia, the value-based intermediation (VBI) initiative is carried out to deliver value propositions not only to all Islamic banking customers but to the wider stakeholders within the society and economy at large (BNM, 2018). The VBI initiative is supposed to drive the Islamic banks towards fulfilling their social obligation in a more aggressive and comprehensive manner. However, the moratorium issue proves that the social obligation agenda can only be successful if it is not jeopardizing the banks' profits. This is logical since Islamic banks are business entities which will not embrace losses and sacrifice their own business even though to help the community.

CONCLUSION

The COVID-19 pandemic have impacted many aspects of human life including the economy. Governments around the globe are implementing measures to assist their citizens in dealing with the economic challenges during this difficult time. In Malaysia, the moratorium is given to all banking customers for a period of six months. As the moratorium was implemented in a rush, it raised two main issues among the public. First, the moratorium was earlier announced as automatically given to all customers. Those who refused to accept the moratorium offer need to opt out by informing their respective banks. However, the first issue rose when banks contacted each of individual customers to obtain their approval before the moratorium can be offered. The change in the implementation of moratorium package is due to the requirements of Shariah pertaining to *ijarah* contract and HP Act 1967. The second issue was regarding the public concerns about the additional instalment imposed by banks after the expiry of the moratorium. Islamic banks justified that the additional instalment was necessary to cover the modification losses which they needed to bear in complying the IFRS 9 reporting guideline. However, critics argue that the practice contradicted with the philosophy behind the establishment of Islamic banks. According to the critics, Islamic banks were supposed to assist the majority of public who were affected by the Covid-19 pandemic without charging any extra instalment. The Malaysian Minister of Finance resolved the issue by asking banks to maintain the instalments to all customers. Thus, it is anticipated that Islamic banks' profit will be impacted due to this circumstance. Accordingly, BNM is formulating new initiatives to minimize the moratorium impacts to the banking sector.

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