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DOES BANKS' MORATORIUM ALLEVIATE THE BURDEN OF BORROWERS? CASE OF THE PANDEMIC COVID-19

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ABSTRACT

The COVID-19 crisis has devastatingly affected the Small and Medium Enterprise (SMEs) cash flow. Subsequently, the employee was laid off as the SMEs could not sustain themselves. To address these issues, governments globally embrace moratoriums to alleviate the hardship. However, there is a clash between the borrowers' expectations, the government agenda, and the current banking system. Therefore, this study undertakes a study on why there is a need for Islamic financial institutions to undertake a similar approach to conventional banking in discharging their moratoriums. In addition, the study shall also suggest possible alternatives that would protect both the customers' and the Banks' interests while upholding Maqasid-Shariah. The study applies a case study approach. The primary data was collected through in-depth interviews. The applied thematic analysis (ATA) was then employed in analyzing the narrative provided by the participants. The findings conclude that the moratorium has met the borrowers' expectations regarding assisting during a difficult time. Meanwhile, practitioners concluded the positive impact of the moratorium on the borrowers only for the short term. Shariah executive has pointed out that providing a moratorium with entitlement for accumulated profit is justice for both borrowers and the Banks. The Islamic Financial Institutions have been discharging the moratorium according to Maqasid Shariah. The study reveals that the sustainability of the financial institutions depends on the accumulated profit collected as the

Malaysian banking system is debt-based. Thus, the act of taking accumulated profit is deemed within the Maqasid Shariah. Effective communication, government intervention, and reevaluating the interest rate system calculation are possible alternatives to protect both customers and the banks should the moratorium be implemented again for a similar situation like the COVID-19 pandemic and lockdown.

INTRODUCTION

The ongoing global Pandemic COVID-19 crisis coupled with sequences of lockdowns internationally have negatively affected business and people's livelihood. Small Medium Enterprises (SMEs) struggle to sustain their business due to liquidity constraints (Organisation for Economic Co-operation and Development (OECD), 2021). Many of them have been forced to close their businesses for the same reason. Consequently, companies had to lay off their employees, which inadvertently caused a rise in the unemployment rate. To address these issues, governments worldwide have been hard at work in introducing stimulus packages for SMEs and individuals to weather the adverse effects of the COVID-19 pandemic. These packages were meant to assist in alleviating the hardships. One of the financial assistances embraced globally is a moratorium or deferment of loan installments for a certain specified period. Many countries have developed and tailor-made their respective moratoriums or deferment methods that suit them best. The different definitions and concepts of the moratorium will be discussed further in the literature review chapter. At the heart of the issue is where the borrowers are obligated to serve the interest accumulated after the moratorium ends. Therefore, the moratorium framework would still be similar to the present banking system model which is debt-based. Similarly, freezing the installment of payments does not mean the interest will also be zero-rated. Borrowers are still bound to pay the interest for the entire deferment period, and in fact, an additional interest would be charged to extend their loan tenure. Malaysia has also introduced a moratorium to the effect of having a similar intention. Commencing from the announcement of the moratorium by the Malaysian government, a series of circulars and memorandums have been issued by Bank Negara Malaysia (BNM), which leads to confusion among many people. The confusion happened when the customers were misled by the government's agenda and Malaysia's banking system.

The moratorium was expected to freeze the installment for a specific period without additional charges. The borrowers expected the profit during the freeze period to be waived as part of the alleviation stimulus program. However, the moratorium given was not as to the expectations of the borrowers. The government on the news was rapidly assuring citizens of the positive impact of adopting this stimulus package. (Daim, 2020; Palansamy, 2020). While it is true that the moratorium is a gateway for removing the hardship yet is not permanent. The moratorium would lighten the people's burden by not having to pay the installment for a certain period. (Daim, 2020) (Palansamy, 2020). This general statement brought the borrowers or public to understand that the extension was provided without a need to pay more interest or profit to their existing loan outstanding balance. However, the present banking system does not have room to accommodate the borrowers' expectations and government agenda completely. Dual banking systems, namely conventional and Islamic, are being practiced in parallel. Both systems are linked with Malaysia's debt-based model (Aziz, 2016) whereby the concept of fractional reserve banking is adopted for their business dealings. The model is proven by the statement made by Bank Negara Malaysia Governor Datuk Nor Shamsiah Mohd Yunus stated that "Interest income accounts for 80 per cent of bank revenue" (Bank Negara Malaysia, 2021).

This model allows the Banks to use the depositors' money and lend the portion with additional interest or profit to the deficit unit. The Banks are responsible for ensuring the availability of the physical or actual cash and their profit to sustain. They are responsible for serving their depositors and preventing a "bank run" event. Therefore, technically the Banks are in no position to let go of the interest or profit in any situation. (Aziz, 2016) It was finally revealed that the suspension is just an extension or postponement with charges or interest being imposed for the extension of the period. Thus, it is a clash between the borrowers' expectations, the government's agenda, and the current banking system. With that being said, the question arises whether the Islamic banks are discharging the moratoriums in line with the establishment of Islamic Banking Institutions is justice and fairness. Then a question would be aptly asked whether the Islamic financial institutions uphold Shariah standards or principles and its objective, namely Maqasid Shariah. Arguably, based on the current practices and treatments of moratoriums by Islamic Banks in Malaysia are the exact opposite of the principles of the Maqasid Shariah. Some have marked them as alike to their counterparts for prioritizing profit over social responsibility. (Shaharuddin, 2020). Given the above dichotomy of differences stated above, it is the earnest effort of this study to undertake a study on why there is a need for Islamic financial institutions to undertake a similar approach to conventional banking in discharging their moratoriums. In addition, the study shall also suggest possible alternatives that would protect both the customers' and the Banks' interests while upholding Maqasid Shariah. Based on the above arguments, the present study intends to examine the expectation of Islamic bank borrowers regarding moratorium service, the treatment moratoriums between Islamic banks and conventional banks, and the relevance of moratorium services in the context of Maqasid Shariah.

LITERATURE REVIEW

Treatment of Moratorium

The never-ending COVID crisis negatively affected the global economy. It is worse than the Global Financial Crisis in 2008-2009. (Islamic Development Bank, 2020). The situation significantly impacts Small and Medium Enterprises (SMEs), particularly liquidity. SMEs suffer cash flow constraints from the lockdown as businesses cannot operate normally (Organisation for Economic Co-operation and Development (OECD), 2020). Consequently, people are being laid off as the SMEs cannot sustain the business. Data in Malaysia reveals that the unemployment rate plummeted to 4.3 per cent in October 2021 since April 2020. (Department of Statistics Malaysia , 2021). Governments internationally have introduced various assistance to its citizen in tackling these problems. (Organisation for Economic Co-operation and Development (OECD), 2020) (Parker, 2021). The moratorium is one of the financial assistances unanimously adopted by the government around the globe to alleviate borrowers' hardships. Somasundaram, (2020) defines a moratorium as a short-term relaxation in servicing monthly obligations for a certain period. Despite having a similar method of alleviating the financial burden, the implementation in each country stretched based on their respective regulations and guidelines.

The moratorium applications from selected nations are tabulated in Table 1 below.

Table 1 Moratorium Treatment Based on Country

Country	Interest / Profit Treatment During / After the Moratorium
Bangladesh	The Bangladesh government has subsidized the accrued interest between April 2020 and May 2020. The profit has been transferred to an interest-free frozen account (Bangladesh Bank, 2021) After that period borrowers will have to pay Equated Monthly Instalment (EMI) suspended interest on the outstanding amount at the contracted rate. Such interest will be charged by extending the loan's original term accordingly. Further, interest will also apply to cost-free EMI consumer durables loans during this suspension period. (Bajaj Finance Ltd (BFL), 2020) (New Age, 2020)However, there will be no additional fees or penalties on the borrowers. (The Daily Star, 2020).
Pakistan	According to the terms and conditions, the customers must serve the markup during the principal deferment period. However, the Bank may offer lower interest based on the customers' circumstances. Further, the customers do not have to pay a lump sum profit right after the moratorium ends; they are given another twelve months of extension for the accrued interest payment. (State Bank of Pakistan, 2020)
Brunei	The moratorium involves the deferment of principal payments only. The borrowers, however, would still be serving the interest during the deferment period. Besides, other banks' charges are exempted during six months moratorium. There are two ways to pay the deferred principals. The borrowers can extend the tenure or increase the installment without extending the loan tenure. (Ministry of Finance and Economy Brunei Darussalam, 2020) (Standard Charted Bank Brunei Darussalam, 2022)
India	The borrowers who opt for deferment would not be charged a late payment. However, the interest will continue to accrue on the principal outstanding. (Standard Charted India, 2020)
New Zealand	The loan interest will continue to accrue during the moratorium, where the borrowers were given an extension period for the interest payment. (Reserve Bank of New Zealand, 2020)
Australia	The interest will continue to accumulate during three months of deferment. Meanwhile, other fees were waived during the period. (Wood, 2021) (Butler, 2020)

Malaysia also has joined hands in introducing a moratorium having a similar intention. Particularly in Malaysia, the first phase of the postponement was effective from 1 April 2020 until 30 September 2020. BNM announced that all borrowers with financing that meet the conditions do not need to make any repayment. No late payment charges or penalties are imposed for six months. Then, the moratorium period was extended for another three months, starting from October 2020 to December 2020 for targeted borrowers. (KPMG International Limited, 2020). Subsequently, another six-month moratorium for all individuals, microenterprises, and SMEs was initiated on 07 July 2021. The later moratorium allows affected borrowers to apply under Pakej Perlindungan Rakyat dan Pemulihan Ekonomi (PEMULIH). (Bank Negara Malaysia, 2021).

Despite its best efforts, the interpretation and implementation of these various moratoriums have been very, very confusing or, at worst, are not impacting any positive outcome. Continuous series of circulars and announcements made by the respective body, i.e., Malaysia's government and BNM, had led to much confusion on the practice of the moratorium. (Isamail, Ya'acob, Sulaiman, Aziz, Daud, & Zakaria, 2021) It is wise to explore the moratorium practice in Malaysia by financial institutions, i.e., banks. The approach from selected banks is tabulated in Table 2 below.

Table 2 Moratorium Treatment by Islamic Bank in Malaysia

Bank	Interest or profit treatment during or after the moratorium
Bank Islam Malaysia Berhad (BIMB)	The customers enjoy six months of deferment of interest and principal. The profit will continue to accrue on the principal amount during the moratorium. The installment amount after the suspension will be the same with the extension of tenure for another six months. (Bank Islam Malaysia Berhad, 2020)
CIMB Bank	The interest or profit would not be exempted during the moratorium and charged. However, the customers do not have to pay the interest yet during the deferment. Instead, the interest or profit payment is compulsory to be paid in the future. During the moratorium period, interest on conventional loans will not compound. For Islamic financing, profits will continue to be generated during the moratorium. Earnings are not compounded following Shariah's principles. (CIMB Bank, 2020)
Maybank Islamic	The moratorium allows clients to postpone the loan/ financing premium for six months. Clients do not need to pay for their loan/financing during the period. No late payment fees or penalties are imposed. However, the profit or interest will be charged but not compounded. (Maybank Islamic, 2021)

Maqasid (Objective) Shariah

The local and international information summarized that the moratorium allows borrowers to delay their monthly installment for a specific period. However, the financial institutions will still collect the interest accrued during the suspension. In other words, the Islamic Banks also are adopting a similar approach. Arguably the practice of taking the accumulated profit during the moratorium has tainted the Islamic Bank's reputation of having similar goals as its counterparts. The aim is to rank profit first instead of the well-being or welfare of the unfortunate (Shahruddin, 2020; Ali, Arshad, & Ibrahim, 2021)

As a start, it would be appropriate to explore the moratorium from Islamic Perspective. Surah Al-Baqarah, verse 280:

وَإِن كَانَ ذُو عُسْرَةٍ فَنَظِرَةٌ إِلَىٰ مَيْسَرَةٍ ۚ وَأَن تَصَدَّقُوا خَيْرٌ لَّكُمْ ۖ إِن كُنتُمْ تَعْلَمُونَ

> Translation:
> *And if the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease; and that ye remit the debt as almsgiving would be better for you if ye did but know.*

The verses explained or advised the creditor to extend the borrower/debtor in paying the debt for the circumstances where the debtor is facing hardship and is unable to fulfill their debt obligation. The extension is given until the difficulty is uplifted. Thus, moratorium practices are in line with Islamic teachings. However, the moratorium issued shall not abuse and cause harm to the customer in the long run/ term. The Shariah Advisory Council of Bank Negara Malaysia (SAC) emphasized the prohibition of compounding interest in their 30th Special meeting and 214th meeting to support this assertion. The compounding interest is profit capitalization with the principal outstanding for the new financing contract. The basis of the ruling is to protect the public interest, justice, and Ihsan to the customer. (The Shariah Advisory Council of Bank Negara Malaysia (SAC), 2020) (The Shariah Advisory Council of Bank Negara Malaysia (SAC) , 2021) Yet, the rulings also mentioned that the accrued profit is allowed to be charged if it is not capitalized. A study unveiled that the basis for allowing Islamic Banks to take the accrued profit is that they are part of business entities. The banks play their role as intermediaries in ensuring their profitability to serve the returns for their shareholders and depositors. Islamic banks said in their defense that they might impose additional rates, especially for the unaffected customer during the COVID-19 pandemic (Shaharuddin, 2020). The question is, how do the banks identify the unaffected borrowers? Arguably, the current approach requires all borrowers to pay the accrued profit. A question then arises whether the Islamic Banks sincerely embrace the Shariah objectives, namely Maqasid Shariah. Maqasid Shariah empowers spiritual health, justice, and fairness to be an equal standing with profit maximization. Chapra (2000a) in other words, the goal of Maqasid Shariah is preserving the public interest. Dusuki and Abozaid (2007) Given a unique situation like the COVID-19 crisis, are banks willing to sacrifice part of their profits for public goods and interests or, to some extent, incur losses? (Shaharuddin, 2020).

Therefore, it is wise to explore in depth definition of Maqasid Shariah for a clearer picture. Maqasid Shariah illustrates the reasoning behind judgments and the practical purposes laws seek to attain by closing or opening specific paths; a different way of expressing public interest. (Auda, 2008). A goal (maqasid) is not genuine unless it results in the accomplishment of some good (maslahah) or the avoidance of some evil (mafsadah) (Afridi, 2016). Maqasid is traditionally categorized into three "levels of necessity": necessities (darurat), requirements (hajiyat), and luxuries (tahsiniyat). Additional categories of necessities include those that "preserve one's faith, life, wealth, mind, and offspring" (Al-Ghazali, 12 century) (al-Arabi, 1999). However contemporary jurists (Ashur, 2013) (Ishak & Asni, 2020) have significantly broadened the application of Maqasid Shariah under the concept of compassion and good deed that aims to uphold justice, eradicate prejudice, and ease suffering.

Alwi et al., (2021) understood that the intentions of Islamic Banks in implementing Maqasid Shariah play vital roles in constructing the society's overall prosperity. For instance, the establishment of Islamic Banks is considered part of Maqasid Shariah (protection of faith) to give opportunities for Muslims to practice Islamic values (Mohammed, Tarique, & Islam, 2015). The prohibition of financing prohibited activities in Islam (pork, intoxicants, clubs, and casinos) by the Islamic Banks is an example of life and intellect protection (Shehu, Ahmad, & Al-Aidaros, 2015). Meanwhile, the protection of offspring can be seen through the discouragement of Islamic Banks from financing the projects/activities that will cause harm to the environment to allow future generations to utilize the sources. (Alwi, Halim, Mazli, Kadir, Hassan, & Fikri, 2021). In terms of wealth protection, Islamic Banks need to offer products and services which include equal profit sharing and loss for the sake of fair circulation of wealth among the poor and the rich (Ashour, 2006). However, (Mohamad, Lehner, & Khorshid, 2015) argued that Islamic Banks are limiting their participation in ensuring the welfare of the poor people in need by only focusing on or financing big market players as the profit is more secured from financing with corporate entities. To support the statement, the study (Shaharuddin, 2020) reveals that despite the hardship faced by the borrowers during the pandemic COVID_19, the banks are still entitled to the accrued profit on the moratorium extended.

The question then arise does the act of collecting the profit reflect the gist of Maqasid Shariah? Most borrowers who lost their jobs during the COVID-19 pandemic are inclined towards opting for the moratorium as they lost their source of income. From the banks' perspective, providing a moratorium is equivalent to an increase in the total financing amount that the borrowers must pay by the end of the entire tenure. In other words, the poor need to pay more while facing hardship. Thus, does that consider helping the poor or robbing the unfortunate? Does that consider the act of fairness and justice in terms of Maqasid Shariah Conflicts of realizing Maqasid Shariah in total capacity happened due to two dominant reasons, namely debt-based structure, and Shariah-compliant vs. Shariah-based products (Dusuki & Abozaid, 2007;

Shaharuddin, 2020). A reputable organization, Islamic Development Bank, (2020) affirms that the moratorium will only ease difficulties in the short term. It does not help with the distribution of income and wealth since a large part of the support includes debt. (Haron & Ibrahim, 2016) Disclosed Islamic debt financings are widely used in Islamic Banks in Malaysia. It eventually transferred wealth from the poor to the rich. Thus, it does not justify the Shariah objectives. Therefore, this study's earnest effort is to discover the possible alternatives to filling the gaps between the reality and theory of the Maqasid Shariah in the Islamic Banking system. Despite limited studies on this scenario, few suggested the most suitable alternatives: shifting the debt-based system to the equity-based and risk-sharing concept. (Dusuki & Abozaid, 2007) (Shaharuddin, 2020) (Islamic Development Bank, 2020) (Rabbani, Mohd.Ali, Rahiman, Mohd.Atif, Zulfikar, & Naseem, 2021)

METHODOLOGY

The data collection technique applied for this study was an in-depth interview with the focus group to achieve the research objectives. (Polkinghorne, 1989) recommended that the number of respondents for social study is between five to twenty-five individuals with expertise in the field of study. Therefore, this study interviewed eight individuals based on purposive sampling. The relevance of adopting purposive sampling is that there are limited numbers of primary data that can benefit the study. The focus group of the sampling was categorized into three different backgrounds as follows:

i. The group of Small and Medium Enterprises (SMEs) borrowers in Malaysia who took or applied for a moratorium during the COVID-19 pandemic outbreak.
ii. The practitioners from three different financial institutions in Malaysia. The financial institutions are full-fledged Islamic Banks, Conventional banks, and Windows banks. They were directly involved in the moratorium processes.
iii. The Shariah executive in one of the Islamic financial institutions.

The applied thematic analysis (ATA) was then employed in analyzing the narrative provided by the participants. There are four steps required in the ATA process based on (Guest, MacQueen, & E.Namey, 2012)

a. Read the transcripts verbatim.
b. Identify potential topics.
c. Compare and contrast themes, recognizing structural similarities and differences.
d. The output may or may not be the theoretical model, but it is primarily concerned with the interpretations validated by facts.

The themes and research questions for the study are summarized in Table 3 below:

Table 3 Themes & Research Questions

EXPLICIT THEMES	RESEARCH QUESTIONS
1. To determine whether there is/ are differences in customers' expectations for a moratorium 2. 3. 4. 5.	1. How do you feel about getting a moratorium?
	2. What do you think about the moratorium?
	3. Do you think the moratorium benefits you? If yes, why? If not, why?
	4. Do you think the moratorium fulfills its purpose? If yes, why? If not, why?
	5. Do you think you can pay back the financing after the moratorium ended?
6. To reveal the need for Islamic financial institutions to undertake a similar approach to conventional banking in discharging their moratoriums. 7. 8. 9.	1. Do you think the moratorium brings benefits to the customer and the Bank? If yes, why? If not, why?
	2. What will happen to the banks if they are not taking accumulated profit during the moratorium?
	3. What are the best solutions to protect both customers and Bank without foregoing Maqasid Shariah?
	4. Was the Banks making a loss during the moratorium implementation?
10. To discover whether the Islamic financial institutions uphold Maqasid Shariah and possible alternatives that they can provide to protect both customers and their interests.	1. Do the Islamic financial institutions uphold Shariah standards or principles and its objective, namely Maqasid Shariah?
	2. Do you think accumulated profit after the moratorium brings justice? If yes, why? If not, why?
	3. What are the best solutions to protect both customers and Bank without foregoing Maqasid Shariah?
	4. Do you think the moratorium fulfills its purpose? If yes, why? If not, why?

FINDINGS

This section discussed the results and discussion of the study. The results and discussion information are organized according to the themes.

THEME 1: To determine whether there is/ are differences in customers' expectations for a moratorium.

The study asked five questions of the respondent on their understanding and expectation for a moratorium. The breakdown of the question and answers from the respondents are as follow:

Q1: How do you feel about getting a moratorium?

Borrower A: Is good for those needs, especially during a difficult situation as able to solve their cash flow for the time being.
Borrower B: It was normal.
Borrower C: It was good.
Borrower D: It was a relief.

Based on the first question, three out of four respondents were pleased to receive a moratorium.

Q2: What do you think about the moratorium?

Borrower A: This is an authorization or approval to postpone certain repayment with some term in place.
Borrower B: Allow the ease of cash flow.
Borrower C: Help a lot of people to survive during a tough time.
Borrower D: Good for me.

The feedback on the second question reflects the understanding of moratorium as assistance during a dire situation.

Q3: Do you think moratorium benefits you? If yes, why? If not, why?

Borrower A: This is good for those needed in order able to continue business or daily survival to break through difficult times.
Borrower B: The moratorium allows borrowers to restructure their finances.
Borrower C: Yes, a lot of people lost their jobs during pandemic.

Borrower D: Yes, it's good to restructure my financial

The respondents unanimously agree that borrowers benefit from the moratorium.

Q4: Do you think the moratorium fulfills its purpose? If yes, why? If not, why?

Borrower A: Yes, generally it helps the whole market transaction with healthy dealings.

Borrower B: Yes

Borrower C: Yes

Borrower D: Yes

The respondents also unanimously agreed that the moratorium fulfills its purposes.

Q5: Do you think you can pay back the financing after the moratorium ended?

Borrower A: Yes, if break through the worse scenario and re-strategies both internal & external by strengthening the supply chain link with the effective cost if we can provide strong cash flow.

Borrower B: Yes

Borrower C: Yes

Borrower D: Yes

Similarly, all respondents believed that **they are capable of paying back** the financing after the moratorium ended.

The findings depicted the unanimous understanding and expectation of borrowers on the moratorium. The borrowers were pleased to receive a moratorium, which assisted during a difficult time. Further, they understood that the moratorium had fulfilled its purposes and benefited from it. The response is like the recent study by (Muhammud & Zahri, Moratorium and impact on borrowers and banking instituitons: A Study in Seberang Perai, Penang, 2022) stated that 61% of the respondent the study acknowledged the benefit of the moratorium. They also believed that they had the ability and capacity to pay back the loan/financing when the moratorium ended. However, the study failed to understand the moratorium's application (how the moratorium works with the additional profit imposed during the moratorium) from the borrower's point of view.

THEME 2: To reveal the need for Islamic financial institutions to undertake a similar approach to conventional banking in discharging their moratoriums.

The study has engaged with the practitioners to answer the four questions relates to the need for the Islamic Financial institution to take the accumulated profit. The detailed discussion is as follows:

Q1: Do you think the moratorium brings benefits to the customer and the Bank? If yes, why? If not, why?

Practitioner A: Yes. it will bring benefits to the customer and bring benefits to the bank… If the customer has long-term financing and they take a moratorium, actually brings a disadvantage to the customer…, for a short-term benefit to the customer, but in the long run, it will bring loss to the customer because of the accumulated profit to the extension of that original financing tenure, and then for the bank's it will bring benefit to the bank because it will bring more profit to the Bank... As you can see the accumulated profit will increase…

Practitioner B: Yes for the short term but it is a No for the long term…The customers do not need to pay the installment amount for six months… but in the long run, they have to understand that the Bank will collect the profit when the moratorium ended…the Banks is similar to companies that require profit to survive… no profit will bring negative effect to the Banks… The Banks need profit/income to cover their operational cost during the moratorium… the Banks' profits were reduced during the moratorium as they cannot collect the profit.

Practitioner C: Benefits to customer -yes- good for deferment- for Islamic loan only. - as long it's just deferred (no extra charges) … Benefits for bank -yes and somehow no- reason for yes-non repayment risk lower…reason for No- the customer doesn't understand deferment blaming bank/ bank spend more on collection Department… bank need to spend on IT dept. Enhance the system to adapt to deferment glitches…

The practitioners confirmed that the moratorium benefited borrowers in the short term but not in the long term. The Banks suffer higher operation costs during the moratorium as they cannot collect the profit. The operation cost stressed by two of the respondents is the collection cost. On the bright side, the Banks will gain more profit (accumulated profit) in the long run.

Q2: What will happen to the banks if they are not taking accumulated profit during the moratorium?

Practitioner A:it will bring loss to the bank… all the banks are eligible for the extra profit… if they do not take the accumulated profit, they did not collect any payment from the customer for the six months. So, they did not gain any income from the customer on which the customer has borrowed from the Bank for the six months…

Practitioner B: this will affect the future profit of the Bank… No profit collected is not fair from the Banks side…

Practitioner C: Bank will lose… not charging deferred amount means giving loans for free for 6 months.

The practitioners responded that the Banks would make a loss by not collecting accumulated profit during the moratorium.

Q3: What are the best solutions to protect both customers and Bank without foregoing Maqasid Shariah?

Practitioner A: I think the best solution is communication between the banks, and the customer… one of the advantages is that everything's online… bank will send out a message to the customer's email, to the customer that the apps… that will make the customer know what happened to their financing and they will not blame banks… But if the bank provides a letter offered to the customer, and called, the customer to come to, the bank is also a good way…

Practitioner B: government intervention via providing the fund to pay the accumulated profit to the Banks… the Banks have excuses to not take the accumulated profit from the customers and the customers do not have to pay the accumulated profit when taking moratorium…

Practitioner C: allow deferred six months without charging single cent…The amount accumulated during the moratorium should not be shown in the system for customer view - to avoid panic…but Loan must be extended extra six months with the number of days the same as during deferments…

Appealingly, all practitioners have independent viewpoints on the best solutions. The first practitioner stressed the importance of effective communication between the Banks and the borrowers. Meanwhile, the second respondent suggested the significance of government intervention in providing alternatives to avoid loss from both parties. Lastly, the practitioner recommended that the moratorium take place without any additional charge while extending the period with the exact number of days as the rate is on daily rest. In other words, the **Banks are only entitled to the accumulated profit based on exact extension days** instead of monthly or annually.

Q4: Were the Banks making a loss during the moratorium implementation?

Practitioner A: Yes, they are making a loss because of the collection…they are unable to collect from the financing, they are only able to gain the deposit that the customer invested inside…I don't think the bank has been making a loss, I don't. And commercial banks especially don't make a loss, just that the income is decreased.

Practitioner B: The Banks suffer a loss during the six months of the moratorium period…during the pandemic, many depositors withdrew their deposits which will give the effect to the Banks…

Practitioner C: In terms of profitability yes- non-payment means no profits. Plus, bank must pay extra costs for the ad-hoc department … Collection department & IT…

The research reveals the need for Islamic Financial Institutions to undertake a similar approach to conventional banking in discharging their moratorium. From practitioners' perspective, the moratorium benefits the borrowers only in the short term but is a disadvantage in the long run. Conversely, the **Banks suffered a loss due to the increase in operating costs in the short term (during the moratorium) and will gain more profit in the long term**. The high collection cost is a distinct factor contributing to the increased operations costs during the moratorium.

The unpopular opinion from practitioner B also mentioned that the cost is directly related to depositors. The Banks heavily rely on the deposit from the depositors. However, more depositors pull out their deposits to survive during the COVID-19 pandemic and the implementation of the moratorium. Thus, less liquidity will affect the Bank's overall operation.

THEME 3: To discover whether the Islamic financial institutions uphold Maqasid Shariah and possible alternatives that they can provide to protect both customers and their interests.

The study has communicated with the Shariah executive to answer four questions relates to the Maqasid Shariah in Islamic Financial Institutions and alternatives to protect both customers and the Banks. The detailed discussion is as follows:

Q1: Do the Islamic financial institutions uphold Shariah standards or principles and its objective, namely Maqasid Shariah?

Shariah executive: Yes, all Islamic Banks uphold Maqasid Shariah.

The respondent view that all Islamic Financial Institutions uphold Maqasid Shariah.

Q2: Do you think accumulated profit after the moratorium brings justice? If yes, why? If not, why?

Shariah executive: moratorium brings justice… the Banks need to pay the profit to depositor during moratorium despite not receiving the profit payment form the borrowers, liability side… in other words, Banks required accumulated profit to cover back the expenses of paying the depositors' profit during the moratorium.

Interestingly, the scholar shares a similar view with practitioner B that relates to the depositors. The finding reflects that depositors play a vital role in banking operations. The finding is supported by the previous study (Iyer & Puri, 2008) on the importance of depositors in preventing the bank's run. There is a need for the Banks to pay profit to the depositors as the deposit is on the liability side of the Bank's balance sheet. Bank runs happen when the depositors no longer trust the banks, particularly during a dire economic situation, and choose to withdraw the cash simultaneously. The panic withdrawal has affected the Banks to an extent leading to the collapse of the financial institutions.

Q3: What are the best solutions to protect both customers and Bank without foregoing Maqasid Shariah?

Shariah executive: … to look Maqasid Shariah in wider perspective… impact on the country… at that time to protect the mal we need Bank Negara Malaysia to suggest the implementation of the moratorium to stimulate the economy… during that time more people were unemployed, moratorium assists the unfortunate. Even though, if we look at Maqasid Shariah from a small perspective, maybe it seems unfair for the borrowers as they must pay an additional charge for the extension. However, it is wise to look from a bigger perspective…The Bank is one of the institutions that will give a major impact on the country's economy if they collapse due to not taking accumulated profit, for instance.

The respondent suggested that it is vital to look at Maqasid Shariah from a wider perspective. For instance, a moratorium granted could stimulate the country's economy. Banks play a vital role in economic growth. The absence of accumulated profit will directly affect the banks' performance. The underperformance of the Banks will affect economic growth.

Q4: Do you think the moratorium fulfills its purpose? If yes, why? If not, why?

Shariah executive: …the moratorium has stimulated Malaysia's economy.

The respondent in view that the **moratorium has fulfilled its purpose the fact that it has stimulated Malaysia's economy.**

CONCLUSION

There are minimal studies on this scenario. Therefore, the research potentially makes a remarkable contribution to the advancement of knowledge for practitioners and stakeholders in filling the gap between theory and practice regarding moratorium and Maqasid Shariah. Further, this study suggests possible alternatives for Islamic Banks to practice while protecting the interest of borrowers and financers. The study only centralized on the Islamic Banks or Islamic Financial Institutions in Malaysia due to the time constraint. The research is mainly to complete the Research Project paper in semester three.

The findings conclude that the moratorium has met the borrowers' expectations regarding assisting during a difficult time. However, the study could not discover the borrowers' understanding of the moratorium's application (how the moratorium works with the additional profit imposed during the moratorium). Despite that, the borrowers unanimously agreed they could pay back the financing amount when the moratorium ended. The finding is supported by the study (Muhammud & Zahri, 2022) stating that the moratorium benefits the borrowers in alleviating their hardships. The study also reveals a high level of understanding of the general concept of the moratorium from borrowers' perspectives. The level of understanding is directly affecting the repayment capability of the borrower.

Meanwhile, practitioners concluded the positive impact of the moratorium on the borrowers only for the short term. The Banks are entitled to the accumulated profit in the long run. The justification for entitlement was due to the sufferings faced by the Banks during the moratorium. The moratorium period has increased Bank's collection cost as more borrowers cannot pay the loan. Further, the Banks faced short-term liquidity risk as more depositors chose to withdraw their deposits. In other words, the financing cost/ operation cost has increased. It is anticipated that some banks' capital will be depleted if credit risk screening methods are loosened in the short term, resulting in insolvency during the recovery period (Bitar & Tarazi, 2022). Shariah executive has pointed out that providing a moratorium with entitlement for accumulated profit is justice for both borrowers and the Banks. The Islamic Financial Institutions have been discharging the moratorium according to Maqasid Shariah. In addition, the respondent encouraged the study to look at the broader perspective of Maqasid Shariah, that is, to protect the banks from collapsing, which directly hinders Malaysia's economic growth. The statement is supported by (International Monetary Fund (IMF) ; The World Bank, 2020) indicated that the banks play a vital role in sustaining lending for economic growth during the pandemic COVID -19. In conclusion, the way how the customers and the Banks responded/reacted to the moratorium during the COVID-19 pandemic is closely related to Malaysia's current banking system, which is debt-based. The Banks' income revolved around financing in the form of debt-based transactions. While the accumulated profit taken by the Banks is considered part of Maqasid Shariah from a broader perspective, the study suggests the treatment or application of the moratorium. could be enhanced in the future through effective communication, government intervention, and the system enhancement on the interest rate charging calculation during the moratorium.

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