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Moratorium from Shariah Perspective: Its Impact on Islamic Banking in Malaysia

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As the COVID-19 pandemic intensifies worldwide, lockdowns-or partial lockdowns-to restrict movement have been the preferred mechanism to reduce the infection rate of the virus in most countries. Imposing a movement control necessitates the closure of economic and business activities, including restricting travel between borders. Malaysia, for instance, implemented the Movement Control Orders (MCO) beginning March 18, 2020. Nevertheless, this measure caused many businesses to shut down and impacted millions of individuals' cash flow, small and medium enterprises, and corporate sectors. In response, many governments introduced the repayment moratorium policy to ease the cash flow of SMEs and individuals affected by the COVID-19 pandemic. This article aims to examine the repayment moratorium from an Islamic perspective. It also sheds critical light on the impact of COVID-19 and moratorium policies on the Islamic banking industry in Malaysia and other jurisdictions. The study is qualitative, adopting library research, benefiting from various sources: the Qur'an, the Prophet's tradition, the opinions of Shari'ah scholars and other available secondary data. This study should serve as a reference point for academics, policymakers, and researchers interested in the moratorium issue in Islamic finance.

Keywords: COVID-19; Moratorium; Islam; MCO; Financing; Usury

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INTRODUCTION

The COVID-19 outbreak was first identified on December 31, 2019 in Wuhan, a city in China with around 11 million residents, before escalating into a worldwide pandemic. As of August 6, 2021, more than 201 million people worldwide have been infected by the virus, with a total death toll of 4.2 million people. Specifically in Malaysia, around 2 million people were infected with COVID-19 in early 2021, highlighting the widespread impact of the pandemic on society due to widespread job losses and reduced income levels and impact on the Malaysian economy (Jamaludin et al., 2021).

As the global health crisis peaked, movement lockdowns have been the preferred mechanism to reduce the infection rate of the virus. Imposing a lockdown necessitates the closure of economic and business activities, including restricting travel between borders.

In Malaysia, the implementation of Movement Control Orders (MCO) to curb the COVID-19 pandemic since March 18, 2020 mandated the closure of all government and private premises, except those involved in essential services. This measure impacted the cash flow of the general public, and both small and medium-sized enterprises (SMEs), affecting their ability to fulfill bank obligations.

In view of the above, the Malaysian government, on March 25, 2020, announced an automatic six-month moratorium on financing repayments starting April 1, 2020, which was further extended to another three months for targeted customers. According to Bank Negara Malaysia, this moratorium on all financing repayments is expected to ease the cash flow of SMEs and individuals who are likely the most affected by COVID-19. Given that Malaysia is ranked third globally in terms of Islamic finance assets, with a value of $620 billion in 2020, which accounts for approximately 18% of total Islamic finance assets worldwide. In addition, gross Islamic financing represents 42% of total lending in the banking sector, more than doubling its share over the past decade. This contribution has averaged around 75% of the system's loan growth over the past five years, making Islamic financing a key driver of lending activity (Md Zain & Ibrahim, 2022). Moreover, Islamic banks tend to be more resilient to systemic financial crises such as the one during the COVID-19 pandemic, compared to conventional banks. This is due to the prohibition of usury transactions, promotion of risk sharing, and emphasis on ethical investments (Khalid et al., 2022). (Khalid et al., 2022; Riani & Ikhwan, 2022).

This article discusses the moratorium concept from the Shariah perspective and its impact on the Islamic banking industry.

Following this brief introduction, the next section discusses the concept of debt and its moratorium in Islam. This section also highlights moratorium policies in selected countries. Part 3 sheds critical light on the impact of COVID-19 and the moratorium on the Islamic banking industry. The last section concludes the article with a set of policy recommendations.

Concept of Debt in Islam

In Arabic, debt refers to the word dayn, which shares a similar root word with din (religion). Thus, the word dayn denotes literal meanings of submissiveness, judicial power, and natural inclination. Technically, debt is defined as an obligation established as a liability (dhimmah). Dhimmah is an attribute that offers a person a right upon others and the rights of others upon him.

Muslim jurists agree that taking and extending debt is permissible in Islam based on a number of verses in the Qur'an, the Prophet's traditions and the consensus of Shariah scholars (ijma'). It is permissible to assist other people who need liquidity. However, Islam discourages excessive debt, advocates responsible lending and prohibits a stipulation of extra payment in debt (riba). Jabir bin Abdullah narrated: "I went to the Prophet while he was in the Mosque. After the Prophet told me to pray two rak'ahs, he repaid me the debt he owed me and gave me an extra amount" This hadith explains that the Prophet also took debt and repaid the debt, including more than the principal amount.

Abu Hurairah also narrated that the Prophet borrowed a young camel from a man, and then the man came to retrieve it. The Prophet asked his companions to repay him. They looked for a camel of the same age but found nothing but a camel one year older. The Prophet told them to give it to him and said, "The best amongst you is he who pays his debts in the most handsome manner". This hadith indicates that the Prophet repaid his debt with more than the principal amount he owed to show gratitude. In addition, the following are some legal pieces of evidence that substantiate the permissibility of debt in Islam.

Qur'an:

The topic of debt is discussed 21 times in the Quran in 13 verses. Five times it used the Arabic word

دَيْنٍ in three verses. Consequently, twelve times used the term قَرْض in six verses, and four times employed the Arabic word وَالْغَارِمِينَ/ مَغْرَمٍ in four verses. The following are among the verses in the Quran which substantiate the legitimacy of taking debt:

1. "O you who have believed, when you contract a debt for a specified term, write it down. And let a scribe write (it) between you in justice...".
2. Who is it that would loan Allah a goodly loan so He will multiply it for him and he will have a noble reward.
3. Indeed, the men who practice charity and the women who practice charity and [those who] have loaned Allah a goodly loan - it will be multiplied for them, and they will have a noble reward.
4. If you lend Allah a goodly loan, He will multiply it for you and forgive you. And Allah is Most Appreciative and Forbearing.
5. Who is it that will grant Allah a goodly (sincere) loan so that He will repay him many times over? And (remember) it is Allah who decreases and increases (sustenance) and to Him you shall return.

Hadith:

There are also a number of hadiths signifying the permissibility of taking and granting debt as follows:

1. As a man entered paradise, he saw written on its gate, "The reward for charity is multiplied tenfold while the reward for qarḍ ḥasan is multiplied eighteen-fold."
2. On the day I ascended to heaven, I saw writing on the door of paradise that reads: "Every charity is rewarded 10-fold, and every loan is rewarded 18-times." I said: "O Gabriel, why is a loan rewarded more than charity?" He said: "Because a person may ask for charity when he does not need it, but the borrower only borrows in cases of dire need."
3. Ibn Mas'ud narrated that the Prophet (peace be upon him) said: "Every two loans extended by one Muslim to another count as one charitable payment.
4. Abu Hurairah narrated that the Prophet (peace be upon him) said: "Whoever takes people's wealth with the intention of repaying it, Allah will repay it on his behalf; and whoever takes it in order to use it up, Allah will destroy him.

Consensus of Shariah Scholars (Ijma')

Humans perpetually require debt; therefore, Shariah scholars are unanimous regarding the legitimacy of debt from the Shariah perspective.

In Islam, indebtedness may be created through a benevolent loan (qard) or an exchange of contracts (muawadhat). Jurists define qard as paying money to help someone who, after benefiting from it, will return the same amount. Some define qard as an ownership transfer of fungible wealth to someone required to pay back its equivalent. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines qard as "the transfer of ownership in fungible wealth to a person on whom it is binding to return wealth similar to it". Based on the definition of AAOIFI, there are three characteristics of qard (loan): (i) it involves a transfer of ownership from the lender to the borrower, (ii) the subject matter of the loan is in the form of fungible assets (mustahlakat), such as currencies and foods, and (iii) the borrower is obliged to return an amount similar to the loan amount.

The first type of indebtedness is qard, a type of charity contract (tabarru') whereby the creditor seeks the blessings of God from his deed. The debtor will benefit from the loan facility to fulfill his needs courtesy of the creditor. However, the creditor is not allowed to stipulate any extra payment over and above the loan principal that would lead to the issue of riba. This is evidenced from the Prophet's (PBUH) hadith: "Any loan that attracts benefit is riba." Alternatively, the debtor can extend extra benefits at the settlement date if stipulated in the contract and not part of the customary business practices.

The second type of indebtedness is derived from the exchange of contracts such as sale contracts (bay') and lease contracts (ijarah) in which the delivery of the subject matter is made on a deferred basis. In this respect, indebtedness may be created by deferred payment contracts or deferred asset delivery.

Deferred payment contracts include bay' bi thaman ajil (a sale and purchase transaction of an asset to be paid on a later date, BBA) or bay bi al-taqsith where the payment will be made in the future, be it a lump sum or on an instalment basis. Murabahah and tawliyah contracts may also assume the feature of indebtedness if the payment is made on a deferred basis. Hence, the indebtedness in the form of the sale price is determined and agreed upon upfront when executing the contract.

The indebtedness created by the deferred delivery of the asset can be seen in the contract of salam. The contract is designed to provide quick cash from the full advance payment of the selling price, whereby the asset will be delivered in the future based on an agreed specification. The legitimacy of the salam contract is based on the concept of istihsan (discretion) due to the needs of people, especially farmers, to finance their agriculture. Under the istihsan concept, Shariah scholars departed from the original ruling of a valid sale contract which requires the asset to be in existence, available, deliverable and owned by the seller at the time of contract inception. In particular, the legality of the salam contract is substantiated based on the concept of isthsan bi-nash because it is supported by the Prophetic tradition saying that:

"Whoever wishes to enter into a contract of salam, he must effect the salam according to the specified measure and the specified weight and the specified date of delivery."

Therefore, for the validity of the salam contract, all specifications such as quantity and time of delivery must take place to minimize the issue of uncertainty, which may lead to a potential dispute in the future. It is also important that the commodity is already available in the market. On this basis, the salam asset should not be in the form of currency or the same ribawi items, such as foods with other foods, to avoid the shariah prohibition of riba' al-nasa' or riba al-fadhl (Marlina et al., 2023).

Most Shariah scholars (jumhur) consider istisna' as part of the salam contract, which shares similar conditions and requirements, such as the full advance payment and agreed specifications. The only difference between the two is the nature of the underlying commodities. The salam asset typically involves readily available assets in the market. In contrast, the istisna' asset would require construction, manufacturing and building processes to be delivered in the future.

The second form of indebtedness might also originate from the leasing contract (ijarah), be it in the form of the usufruct of the asset (ijarah al-a'yan) or the hiring of the services of a person (ijarah al-ashkhas). Under ijarah al-a'yan, indebtedness occurs if the rental payment is made through an instalment or lump sum in the future. In this respect, the lessee is indebted to the lessor for rental payments.

Similar to the salam contract, the indebtedness in ijarah can also be created under the forward lease (al-ijarah al-mawsufah fi al-dzimmah). In this contract, the lessor agrees to transfer the usufruct of an identified asset for a specified period at an agreed date. Consequently, the lessor is indebted to the lesser to deliver the usufruct of the ijarah asset based on the agreed specifications. In a similar vein, the indebtedness in ijarah may also originate from ijarah al-ashkhash (hiring services), where the service provider may provide a service for a remuneration paid in the future. Therefore, the hirer is indebted to the hired service provider. There is also an instance where the service fee is made upfront for future service. In this case, the service provider is indebted to the hirer to deliver the intended service in the future.

Muslim jurists agree that the two counter-values in a sale contract cannot be deferred as they would trigger the issue of bay' al-kali bil kali' (sale of debt with another debt) prohibited by the Shariah. The juristic consensus on the prohibition of deferring both counter-values is ultimately based on a consideration of the nature and implications (muqtaḍā al-ʿaqd) of exchange contracts and the extensive Shariah evidence prohibiting excessive ambiguity (gharar) in them. The nature of exchange contracts is that each contracting party seeks his advantage from the exchange. The buyer wants to get the best product at the lowest price, while the seller wants to get the maximum price for his product. That is why mutual consent is an important requisite for the validity of exchange contracts. Without it, the probability of injustice becomes a major concern; gharar impairs meaningful consent. The Shariah tolerates the likelihood of a party taking on a debt liability not being able to fulfill the obligation in salam or a deferred-payment sale due to the needs of people. However, when both parties defer delivery, the likelihood that the contract will end up with a delivery failure increases beyond the limits of tolerability. A delivery failure, which the Shariah seeks to minimize, is likely to give rise to a dispute.

ANALYSIS

Moratorium Policy from Shariah Perspective

As highlighted in the previous section, the creation of indebtedness within the capability to repay it, whether from a benevolent loan or deferred sale contracts, is permissible in Islam. However, a debtor is responsible for paying his obligation timely or as demanded by the creditor. The Qur'anic command to "fulfill (all) obligations" clearly urges the practice of honoring commitments, including debt. Failure to fulfill a timely payment by a solvent debtor is deemed a breach of other rights and may be subject to punishments. According to the hadith, "delay in payment on the part of one who possesses means makes it lawful to dishonor and punish him", Ibn al-Mubarak explains, "dishonor" represents being subject to harsh words and "punish" connotes imprisonment. There is also this famous hadith censuring debtors who avoid paying their dues despite being capable: "Procrastination by a solvent debtor is oppression". The Prophet also approved the statement of Salman al-Farisi to Abu al-Darda' saying: "Give everyone his right." Muslim scholars agree on the permissibility of a debtor being punished in such circumstances.

AAOIFI Shariah Standard No. 3 clearly states that a default in payment by a debtor who is capable of paying the debt is haram (prohibited). However, according to AAOIFI, "it is not permitted to stipulate any financial compensation, whether in cash or in other consideration, as a penalty clause in respect of a delay by a debtor in settling his debt, whether or not the amount of such compensation is pre-determined; or not the amount of such compensation is pre-determined; this applies both to compensation in respect of loss of income this applies both to compensation in respect of loss of income (opportunity loss) and in respect of a loss due to a change in (opportunity loss) and in respect of a loss due to a change in the value of the currency of the debt." Nevertheless, a debtor is liable to compensate a creditor against the actual costs, such as legal expenses and other director expenses incurred by the creditor to recover his debt.

Notwithstanding the above, if a debtor faces difficulty paying his obligation in due time, the creditor is advised to grant the debtor a time extension. This is based on the verse in the Qur'an: "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 (Quran 2:280)."

This verse was initially revealed to Banu Tsaqif asking for the payment of their receivables from Banu Mughirah, who was insolvent. The latter then requested an extension of payment to the former until the next harvest.

Muslim jurists are unanimous that a creditor is obliged to provide postponement of payment to an insolvent debtor. Ibn Rushd argued that demanding payment is only warranted if the debtor is solvent. Otherwise, the debtor is given the repayment moratorium until he is financially capable of doing so.

The verse also implies the prohibition of any increase over and above the outstanding amount of the obligation as a result of the given postponement, for this will trigger the issue of riba jahiliyyah or nasi'ah. HOWEVER, the BNM's subsequent release on May 1, 2020 allowed the recognition of accrued profit over the deferment period for hire purchase and fixed-rate Islamic financing. This has invoked various contentions and criticisms on how BNM communicates its policy. This is despite the fact that the Minister of Finance later reversed the BNM position on May 6, 2020, which affirms that the moratorium will not invoke any extra charges, including modification loss.

A debtor in Islam is classified into two types: solvent (musir) and insolvent (mu'sir). A solvent debtor is compelled to fulfill his obligation timely, thus not entitled to an extension of payment. The debtor's refusal to make a timely payment might be subjected to punishment while being able to pay it. On the other hand, an insolvent debtor shall be given a sufficient extension of time to settle his obligation until he is financially capable of paying. In some incidents, force-selling of the collateral and court procedure is necessary to recover the creditor's outstanding debt.

In discussing the issue of the moratorium, its payment concept has been clearly discussed in the Qur'an under verse 2: 280. The verse uses the term "nadzirah" to reflect the moratorium concept, which should be granted to an insolvent debtor (mu'sir). Technically, a moratorium is a temporary suspension of an activity or law until future consideration warrants lifting the suspension, such as if and when the issues that led to the moratorium have been resolved. A moratorium may be imposed by a government, regulators, or businesses. Moratoriums are often imposed in response to temporary financial hardships. For example, a business that has exceeded its budget might place a moratorium on new hiring until the start of its next fiscal year. In legal proceedings, a moratorium can be imposed on an activity such as a debt collection process during bankruptcy proceedings. Because, in bankruptcy proceedings, a moratorium legally prohibits creditors from taking action against the debtor for a certain period of time. This pause allows debtors to reorganize their finances and develop a recovery plan without the immediate threat of debt collection. (Laws, 2023).

The concept of a payment moratorium does not apply to a solvent debtor. From the Shariah perspective, he is required to settle his obligations on time. Because for borrowers, moratoriums can provide important relief by giving them time to recover financially without facing immediate repercussions such as late fees or negative credit reporting. (Permatasari & Mellynda, 2021). However, it is important for borrowers to understand that while they may not be required to make payments during this period, they will eventually need to resume payments on potentially modified terms. For creditors, moratoriums can complicate cash flow management and may lead to increased risk if borrowers are unable to resume payments post-moratorium.

Creditors should assess the implications of granting such relief and consider their own financial stability when facing this situation. (Sapozhnikova, 2020) Therefore, in the context of Islamic banks, the moratorium policy should consider the status of bank clients and only apply to targeted insolvent customers. The banks are granted the authority to identify their customers' eligibility for a moratorium. This ensures that Islamic banks maintain their financial liquidity and business sustainability amid this extraordinarily challenging time.

Repayment moratorium for insolvent customers is also in line with the ultimate objectives of the shariah (maqasid as-shariah). The objectives of the protection of life and the protection of legally-owned property -people and SMEs (small and medium-sized enterprises)- affected by COVID-19 are stipulated under the maqasid. This is because Islamic law encourages the protection of individuals from undue hardship. Moratoriums serve this purpose by giving debtors time to recover financially without facing direct repercussions from creditors. This is in accordance with the principle of rahmah (mercy) in Islam, which seeks to alleviate suffering and hardship. (Thomas, 2021) while ensuring that financial institutions remain viable (Rosli et al., 2023).

Moratorium Policy in Selected Countries

The COVID-19 outbreak has forced various jurisdictions to offer policy measures partly on relief mechanisms such as the payment moratorium implemented in Malaysia. This section highlights some of the policy reliefs offered by the government in different jurisdictions to address the adverse impact of COVID-19.

Malaysia:

Malaysia is one of the few countries to implement an automatic moratorium for six months from April 2020. Where, this Moratorium applies to loans that are current and not in arrears for more than 90 days from April 1, 2020, to ensure that those most in need can benefit from this relief measure. (Md Zain & Ibrahim, 2022; Shaharuddin, 2020). This effort benefits individuals and SMEs during the enforcement of the MCO to combat the spread of COVID-19. For Malaysia, all loan financing of individuals and SMEs that meet the stipulated criteria will automatically qualify for the deferment. According to Moody's Investors Service, Malaysia offered the most extensive loan moratorium in South-East Asia, covering about 80 percent of total loans. Under the 20th report by the Economic Stimulus Implementation & Coordination Unit Between National Agencies (LAKSANA), the Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz said that a total of 732,000 borrowers who took the automatic moratorium had resumed their monthly loan repayment instalments. Under the 24th LAKSANA report, he said that the value of the moratorium as of September 25, 2020 is estimated at RM97.26 billion. Out of this figure, a total of RM34.04 billion was utilized by the business sector while the people utilized RM63.22 billion. Overall, the moratorium benefited more than 7.7 million Malaysians, comprising 93 per cent of individual borrowers as well as 243,000 businesses or 95 per cent SMEs.

The blanket automatic loan moratorium expired on September 30, 2020, and banks in Malaysia moved into the next phase by offering targeted repayment assistance. Banks in Malaysia continued to encourage affected borrowers to contact them to discuss available financial assistance measures. In addition, banks in Malaysia actively reached out to potentially affected borrowers on the financial assistance that could be offered post September 30, 2020.

Bahrain:

The government of Bahrain is supporting individuals and companies through a comprehensive US$11.4bn economic stimulus package to address the potential adverse effects of COVID-19. Based on the report released by the Islamic Financial Services Board (IFSB), the kingdom of Bahrain offered deferment of instalments at no fees, no increase in interest and no increase in the rate unless the customer agreed for a shorter period. This relaxation is offered to targeted customers affected by the COVID-19 pandemic.

Brunei:

On March 19, 2020, the Autoriti Monetari Brunei Darussalam (AMBD) announced interim measures (for six months starting on April 1, 2020) to alleviate the financial burden on sectors badly affected by the COVID-19 pandemic. For example, the tourism, hospitality/event management, restaurants/cafes, and airport transport sectors were granted a six-month principal repayment moratorium of financing/loans. The moratorium was also given to importers of food and medical supplies. The government's additional economic relief package was announced by the Ministry of Finance and Economy (MOFE) on March 30, 2020, consisting of the following:

1. Extends the deferment on principal payments of financing or loans to all sectors,
2. Provides the restructuring or deferment on principal repayment of personal loans and hire purchase such as car financing, for a period not exceeding ten years,
3. Provides for the deferment of principal repayments of property financing,
4. Provides for the conversion of any outstanding credit card balances into term loans not exceeding three years for affected individuals in the private sector only (including the self-employed), and
5. Waiver of all bank fees/charges related to these facilities (except third party charges), coupled with the earlier fiscal assistance, these measures will increase the value of Brunei's Economic Stimulus Package to a total of BND450 million (or 3.2 per cent of GDP).

Saudi Arabia

The Kingdom of Saudi Arabia offered a number of policies to ease the burden of those affected by the COVID-19 pandemic. Among the policies include the following:

1. The deferred payments program. The program aims to reduce the potential impact of the decrease in cash flows that SMEs may face by delaying the payment of the obligations of the beneficiaries for six months, and the amount allocated to the financing entities will be used to cover the cost of financing to those actors.
2. Postponement period. All outstanding instalments (including accrued profits) were postponed from March 14, 2020 to September 14, 2020 (6 months period).
3. The financing parties should communicate with the beneficiaries (by a certified means of communication) and notify them of the rescheduling of the financing and the postponement of the due instalments according to the above-mentioned delay period. The efforts are offered without any additional cost. The option not to reschedule is also offered.
4. Funding parties should communicate with the beneficiaries (by a certified means of communication) and notify them of rescheduling the financing and postponing the due instalments according to the postponement period referred to above, without any additional cost, while providing the option that the beneficiary does not want to reschedule.

Jordan:

In Jordan, the government introduced the payment postponement for credit facilities granted to clients of sectors affected by the COVID-19, together with the possibility for a rescheduling mechanism without any late payment charges. As for retail customers, the government also offered a repayment moratorium, including credit card payments, mortgage financing, and personal loans/financing without any late payment charges.

Kuwait:

Kuwait Banking Association announced a moratorium period of up to 6 months on bank loans, including waiver of interest and charges (if any for postponement) for retail clients (citizens and expatriates) and SMEs.

Pakistan:

In Pakistan, the government allowed banks to defer clients' payment of principal on loan obligations by one year.

Impact on Islamic Banking Industry

The World Economic Outlook released by the International Monetary Fund in January 2021 projected that the global growth contraction for 2020 is estimated at -3.5 per cent, 0.9 per cent point higher than projected in the previous forecast.

As the global economy braces for an economic downturn and a prolonged recession, Islamic banks are not exempt from the adverse negative impacts on their profitability, asset quality, and liquidity, partly as a result of moratorium policies.

The S&P Global Ratings forecast that Islamic banking sectors would suffer from a drastic drop in revenue in 2020, recording only a low-single-digit growth due to government measures to contain the COVID-19 pandemic. In Malaysia, for example, Islamic banks are now experiencing lower financing margins resulting from the slashing of BNM's base rate to 1.75% p.a., lower fee-based income due to lesser demand for certain banking services, slower financing growth, and a drop in investment returns due to a capital market slump. The government's six-month moratorium policy on financing repayment, extended for targeted customers, would further deepen the profit decline of the Malaysian Islamic banking industry for the year 2020.

Many customers worldwide were placed under quarantine, movement controls, and even total lockdown as part of the government's containment measure. As a result, many face cash flow deteriorations and lose the ability to pay their bank instalments. The pandemic has also exposed Islamic banks to increased non-performing financing (NPF) and gross impaired financing (GIF) due to a high number of business closures and rising unemployment rates. In Malaysia, the S&P Global Rating estimated that the NPF would elevate up to 1.7-1.8% of the outstanding financing in 2020, compared to 1.5% on December 31, 2019. In support, Moodys' Investors, the US-based credit rating agency, has raised concerns on asset deterioration of the banking industry in Malaysia due to the six-month moratorium policy. The moratorium would only soften the negative impact on banks' asset quality in the short run. If the pandemic is prolonged, the bank's impaired loans/financing is expected to increase by the end of the moratorium.

Apart from that, the pandemic might also increase the liquidity risk for Islamic banks due to massive withdrawals from depositors. Research also shows that while the moratorium provides short-term relief to borrowers, it also raises concerns about long-term liquidity risk for banks (Khalid et al., 2022; Rosli et al., 2023). This is especially true since depositors might now have to start withdrawing their savings to sustain their livelihood. Concomitantly, new depositors would prefer to place their funds in safe-haven assets such as gold. On the other hand, the credit default risk might rise significantly due to increased business shutdowns and unemployment. Additionally, the delay in cash inflow attributable to the moratorium will also increase the liquidity risk of Islamic banks. This is because after the moratorium ends, there is a possibility of an increase in non-performing loans (NPLs) as borrowers may find it difficult to continue repaying their loans. (Ariffin et al., 2024; Khalid et al., 2022). Against this backdrop, Bank Negara Malaysia (BNM) has taken a pre-emptive measure to enhance banks' liquidity capacity by reducing the statutory reserve requirement ratio by 100 basis points.

CONCLUSION

The paper discussed the concept of payment moratorium from an Islamic perspective. The discussion found that the concept of moratorium has a firm root in Islam, founded upon the concept of "*nadzirah*" in verse 2:280 of the Qur'an. However, the concept of *nadzirah* in Islam should only be granted to an insolvent debtor (*mu'sir*). A sufficient extension of time is given to an insolvent debtor to settle his obligation until he can financially pay.

Therefore, the concept of payment moratorium does not apply to a solvent debtor (*musir*). He is compelled to fulfill his obligation timely, thus does not entitle for an extension of payment. The debtor's refusal to make a timely payment might be subject to punishment while being able to pay it. In some incidents, force-selling of the collateral and court procedures are necessary to recover the creditor's outstanding debt.

In the context of Islamic banks, the moratorium policy should take into consideration the status of bank clients and only apply to targeted insolvent customers. The banks are granted the authority to identify their customers' eligibility for a moratorium. This is to ensure that Islamic banks maintain their financial liquidity and business sustainability amid this extraordinarily challenging time.

Repayment moratorium for insolvent customers is also in line with the Shariah's ultimate objectives, particularly the protection of life and legally-owned property, which in this case, the people and SMEs affected by COVID-19. Nevertheless, the present study argues that the moratorium policy adversely impacts Islamic banking's profitability, asset quality, and liquidity.

Overall, despite the various impacts of the moratorium and the COVID-19 pandemic on the Islamic banking industry, the coronavirus crisis does offer new opportunities to Islamic banks. As the world reacts to the COVID-19 pandemic and adjusts to a new normal, social distancing and reduced physical interaction have become a priority. The banking industry is now forced to explore new avenues and alternatives to in-person banking and physical exchanges in conducting their daily operations. This is particularly true since the World Health Organization (WHO) has recommended contactless payment without the physical handling of banknotes. Accordingly, COVID-19 also marked an emerging digital money trend to mitigate the coronavirus transmission via paper money. Therefore, the adoption of digital finance and financial technology (fintech) is becoming indispensable for the industry to move forward post-COVID-19. Ayman Sejiny, CEO of ICD (Islamic Corporation for the Development of the Private Sector) IDB, said "COVID-19 has led us to accelerate the digital transformation that was already underway prior to the pandemic".

For Islamic banks, the adoption of fintech can lower transaction costs, expedite the execution of Shariah contracts, streamline the process, minimize operational and Shariah non-compliance risks due to human factors, strengthen transparency, and facilitate standardization. Nevertheless, the new shift towards fintech and digitalization in Islamic finance business and operations will challenge the traditional fiqh requirements of financial transactions. For example, fintech will challenge how the Islamic jurisprudence recognizes an offer and its acceptance, as well as an automatic possession via smart contracts; and how the Shariah scholars deal with news asset classes and new forms of currencies, such as crypto assets, digital assets, digital currency and e-money.

Apart from the emerging digitalization trend, the COVID-19 pandemic and its adverse impacts have sparked greater attention towards Islamic social finance instruments and socially responsible investments (SRI). For instance, on June 19, 2020, the Islamic Development Bank (IDB) raised USD 1.5 billion with its Sustainability Sukuk to assist its 57-member countries in funding COVID-19-related measures and expenditures.

The shift towards Islamic social finance would reinforce Islamic banking's value proposition as a 'responsible finance' industry - pursuing goals beyond profit, striving for a just and fair system, promoting brotherhood and cooperation, and developing a community-oriented and entrepreneur-friendly environment.

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