



AITAB Contract: Analysing Islamic Banking Institutions Issues and Challenges in Moratorium Practices During COVID-19

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Abstract. The purpose of this study is to explore the issues and challenges of moratorium practices faced by Islamic banking institutions in relation to AITAB contracts during COVID-19. This study used a qualitative method by conducting interviews with 2 respondents from the same local Islamic banking institution. Respondents were selected using a purposive sampling method. Formal and semi-structured interviews were conducted with two officials from the automotive finance division. In this study, there are four issues and challenges: i) the number of moratorium applications, ii) the customers' consents, iii) the internal operation, and iv) the calculation of restructuring AITAB contract. These issues provide a general overview of the constraints faced by Islamic banking institutions in Malaysia. Therefore, from the information, each banking institution can take proactive actions to ensure that the implementation of the moratorium in their products is managed well and perfectly because it can contribute to the socio-economic progress of the community.

Keywords: AITAB Contract · Banking · Finance · Moratorium · Qualitative

1 Introduction

At the end of 2019, the world experienced its most unprecedented health crisis. This health crisis began in December 2019 with a new virus known as the COVID-19 pandemic. The outbreak first appeared in Wuhan, China, and quickly spread worldwide [1]. The first case in Malaysia was reported on January 25, 2020, which involved 3 tourists from China [2]. After detecting 3 positive cases involving Chinese tourists, the number of cases steadily increased in Malaysia due to physical contact. It has been determined that physical contact between people is the primary method of transmission for this illness [3]. Therefore, the most effective method for reducing the incidence of COVID-19 is social isolation [4]. The Malaysian Government has declared the Movement Control

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Order (MCO), which has been in effect since March 18, 2020, as a preventative measure and reaction to the COVID-19 outbreak in the nation [5]. Ironically, the MCO and other restrictions have impacted the national economy by disrupting the functioning of most industries, such as aviation, tourism [6, 7], the small and medium business sector [8] the education sector [9] and the banking sector [10]. In 2020, Malaysia's Gross Domestic Product (GDP) was anticipated to shrink between 0.1% and 4.6% [5]. Besides Malaysia, this pandemic has exposed almost 170 nations to a negative per capita GDP [11].

On February 27, 2020, the Malaysian Government released an RM250 billion economic stimulus programme, the *Prihatin Rakyat Economic Stimulus Package (PRIHATIN)*, to revive and sustain the economy during that time [12]. Besides that, the Malaysian Government has announced the adoption of a six-month moratorium for all banking institution customers beginning on April 1, 2020, and ending by September 30, 2020 [13]. A moratorium is a temporary suspension of financial payments. The moratorium suspensions are often implemented by the government and the banking institution sector, especially during an economic crisis [14]. The moratorium is one of the financial instruments that might help the banking institution and financing customers to help balance cash flow and monetary circulation [15].

Before the world was horrified by the emergence of COVID-19, a moratorium was enforced differently. Previously, the moratorium was a payment holiday and was only offered to customers who had difficulties repaying the financing loan. Payment holiday is a crucial consumer protection measure since they give tangible assistance to borrowers who have problems making payments [16]. Payment holiday is one of the Islamic Debt Policies obtained from the Quran and Hadith. There are 3 banking institutions with excellent Islamic Debt Policy practices; Bank Islam Malaysia Berhad, Maybank Islam, and CIMB Islam [17]. However, after the emergence of COVID-19, the moratorium was practised blanketly to all banking customers in Malaysia. It began with the moratorium's implementation in March 2020 and was made accessible to all customers regardless of their ability to repay the financing [9]. The moratorium implementation included all financing products (excluding credit cards) for retail customers and small and medium enterprises (SMEs). The moratorium includes *Al-Ijarah Thumma Al-Bai (AITAB)* based vehicle financing products [13]. Nevertheless, implementing the moratorium during COVID-19 has raised issues and challenges to banking institutions, such as customer consent [18], restructuring and rescheduling AITAB contracts [13] and so on. Therefore, the purpose of this study is to explore the issues and challenges of moratorium practices faced by Islamic banking institutions in relation to AITAB contract.

2 Literature Review

2.1 Islamic Banking Institutions

The Islamic banking industry is rapidly growing in an increasingly complex and challenging environment. Like conventional banking, Islamic banking also acts as a financial intermediary, involving resource allocation, investment, and financing [19]. Islamic banking can be seen from a different perspective than conventional banking because the basic principle of traditional banking is money, which is to create money, or that money has a premium known as interest or *riba* [20]. At the same time, Islamic banking

is a banking system that complies with Islamic law, known as Shariah law [21] Shariah comes from two primary sources; the Quran and the Sunnah of the Prophet Muhammad (PBUH) [22].

The first step toward developing Islamic banking was the formation of Mit Gahmr Local Saving in Egypt in 1963, which was well-received [20]. In September 1963, the Prospective Hajj Savings Corporation (PWSBH) was founded in Malaysia, marking the commencement of Islamic banking in the country. The primary objective of establishing PWSBH was to provide a location for prospective pilgrims to hold funds to manage the pilgrims' finances, ease the Hajj journey, and safeguard the economy of Muslims in Malaysia [23]. The formation of PWSBH was the outcome of YM Prof. DiRaja Ungku Abdul Aziz bin Ungku Abdul Hamid's paper titled "Pilgrims Economy Improvement Plan" [24].

In 1983, the first Islamic banking in Malaysia, namely Bank Islam Malaysia Berhad (BIMB), was established and operated based on the Islamic Bank Act (IBA) 1983 which came into force on 7 April 1983. BIMB began operating on 1 July 1983 [25]. BIMB was introduced to offer financial products that are free from elements prohibited by Shariah [26]. In 1993, the Interest-Free Banking Scheme (SPTF) was introduced as a complete Islamic banking system which operated in parallel with the sophisticated conventional banking system [27]. Therefore, conventional banking was established which offers Islamic banking services through the Islamic window by using existing infrastructure, staff and branches [28]. On 12 November 1998, BNM changed the term SPTF to Islamic Banking Scheme (SPI) [29]. Until February 2023, there are 17 registered Islamic banking institutions in Malaysia which are comprised of 11 local institutions dan six foreign institutions [30].

2.2 AITAB Contract

AITAB is an abbreviation of *Al-Ijarah Thumma Al-Bai*, which is a rental contract in which legal ownership of the leased asset (with the purchase of the asset) will be transferred to the lessee upon the expiration of the rental period, or at the end [20]. It is a *muamalat* contract that combines *Al-Ijarah* (rental) and *Al-Bai* (sale) contracts [31]. AITAB uses a hybrid technique to replicate conventional contracts [19]. This contract is formed to satisfy present needs while minimising certain risks associated with financing durable items like automobiles [32]. AITAB is a contract that is very synonymous with vehicle financing products [33]. On April 1, 2020, a moratorium was implemented in the AITAB contract by Islamic banking institutions due to the spread of the COVID-19 pandemic. During the implementation of the moratorium, several issues arose. The issue is related to the customer's consent and instalment changes after the deferment period [18]. The customer's consent is required because the AITAB contract will change in terms of period and monthly instalments [13].

The first issue is related to the customer's consent to implement a moratorium on the AITAB contract. In the beginning, Bank Negara Malaysia (BNM) automatically announced the moratorium implementation [34]. However, when Islamic banks began to implement the moratorium, it was discovered that AITAB vehicle financing must comply with the procedural requirements of the Hire Purchase (HP) 1967 Act which requires banks to get customers' approval before making any changes to the payment or

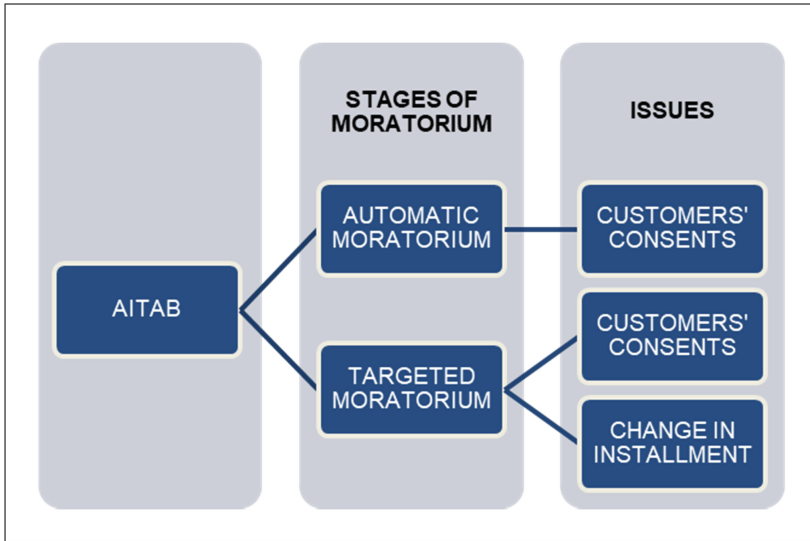


Fig. 1. The Issues of Moratorium Implementation in the AITAB Contract

deferral term [18]. The second issue is related to the instalment change after the end of the moratorium period. This issue occurs due to only implementing the targeted moratorium to the affected customers. They are allowed to extend the moratorium after the automatic moratorium ends. While the targeted moratorium is implemented, customers can choose a 6-month or 3-month moratorium implementation period. However, customers need to reschedule their AITAB contracts. Due to the rescheduling of the contract, there will be a change in instalments and payment periods on the original AITAB contract [13]. Figure 1 below shows the implementation of the moratorium in the AITAB contract.

2.3 Moratorium

A moratorium defines as a temporary suspension of certain activities [35]. A moratorium also defines as a temporary stoppage or postponement of action until the underlying problem is remedied [36]. The moratorium permits all banking institutions to grant repayment stops to their borrowers for instalment payments of loans to prevent the borrowers from unintentional default and debt traps [37]. The purpose of a moratorium is to assist debtors facing losses while preserving economic expansion [15]. Therefore, the moratorium was implemented during the Covid-19 pandemic to help the affected society due to the pandemic. During Covid-19, the unemployment rate in Malaysia reached a high of 5.1% in the second quarter of 2020, equivalent to 14.88 million unemployment, the highest in the country's ten-year history [38]. Furthermore, the payrolls of many customers have been cut by anywhere from 20% to 50%, and many have received orders requiring them to take multiple months off work without pay [8].

Malaysia implemented the moratorium in two phases. In the first phase, customers are automatically granted a six-month payment deferment on all financing products (except for credit cards) for retail customers and small to medium-sized businesses (SMEs) [34].

The moratorium package is available to both customers who are in financial hardship and those who are not in financial problems. Malaysia has become the first country to introduce a six-month moratorium automatically [39]. It was carried out automatically starting April 2020 until September 2020. After the 6-month automatic moratorium period has expired, the moratorium is extended to customers who are affected [40]. The moratorium in the second phase is known as Targeted Repayment Assistance (TRA) which gives two options for customers which are 3 months or 6 months of the moratorium period. However, customers are required to reschedule their contracts [13].

2.4 COVID-19

COVID-19 is an abbreviation for Coronavirus Disease. COVID-19 started spreading at the end of December 2019 in Wuhan, China [41]. The first patient was admitted to the hospital on December 12, 2019, marking the beginning of it all [1]. The pandemic quickly spread throughout the world. After the initial outbreak in Wuhan (China), the World Health Organization (WHO) classified the transmission of SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2) as an epidemic and then as a pandemic, indicating that the virus may remain in the population [42]. On January 25, 2020, Malaysia documented the first incidence of COVID-19, which began with three Chinese tourists who toured Malaysia [2].

Social isolation is the most efficient way to reduce the prevalence of COVID-19 [4]. The closure, which is one of the constraints of social isolation as a preventative strategy of the COVID-19 pandemic, has proven that these preventive restrictions may greatly decrease the virus's transmission [43]. Ironically, the restrictions harm the national economy since they interfere with the normal operations of many different businesses. Because of this pandemic, approximately 170 countries are now at risk of negative per capita GDP [11].

3 Methodology

3.1 Data Collection Tools

This study applied an exploratory qualitative research approach with the case study by choosing one full-fledged *Islamic* banking institution. The institution is known as Institution X. The name of the institution cannot be revealed due to the institution's secrecy policy. This study chose a case study because it wanted to focus on one specific institution only in implementing the moratorium in the AITAB contract carried out by that institution. Formal and in-depth semi-structured interviews and document reviews are the most suitable method for collecting data. This strategy enables researchers to deliver identical questions in all interviews and to ask additional questions as required. This method promotes extensive data collection and is particularly suitable for exploratory research. This study focused on a local full-service financial institution, and in-depth interviews was performed to obtain data.

3.2 Sample Size

This qualitative exploratory study used purposive sampling on two respondents from the same full-fledged Islamic banking institution. The criteria for selecting the sample of respondents are experiencing, involvement in the institution, influence, and positions related to AITAB contract funding. Respondents are recognised in their respective institutions as experts in AITAB contract management and were willing to share their insights and adequately expressed their tacit knowledge and experience. Both respondents have 10–20 years of experience in AITAB contract operations. In addition, both respondents are directly involved with the operation of the AITAB contract. One of the respondents is the head of the department and is responsible for every decision made. The number of respondents is appropriate even if there is only one respondent because we must start with an experienced person and try to know his subjective view [44].

3.3 Interview Setting

The semi-structured interviews were taped. Everyone received an identical set of instructions and was asked the same questions. During data collection, open-ended questions were used. During the interview, the conversation was in Malay. Online interviews were carried out using the Google Meet platform. The interviews were done concurrently with both informants and lasted between 60 and 90 min. To maintain the confidentiality and privacy of the people involved, the names of participants and institutions are not disclosed.

3.4 Data Analysis

The data was analysed using the Atlas.ti 9 software to identify and classify the categories and themes that arose from the interviews. To verify that the information from the interviews was appropriately recorded, the participants verified their interviews' transcribed dialogues. In reality, the two responses also corroborated the review.

4 Findings and Discussion

This section deliberates the findings and discussion of this study. The issues and challenges of the moratorium implementation in relation to the AITAB contract were adapted from the two (2) respondents from the chosen local Islamic banking institutions. Based on the interviews, from the aspects of issues and challenges of the moratorium implementation, the findings show that Respondent 1 identified three (3) issues and challenges. Meanwhile, Respondent 2 identified four (4) issues and challenges. Based on the interviews and analysis, the researchers divided the elements of issues and challenges into four categories which are; i) the number of moratorium applications, ii) the customers' consents, iii) the internal operation, and iv) the calculation of restructuring AITAB contract. Table 1 shows the findings on the issues and challenges of the moratorium implementation in relation to the AITAB contract according to the interviews from each respondent.

Table 1. Issues and Challenges of Moratorium in Relation to the AITAB Contract

Elements	Respondent 1	Respondent 2
Issues and challenges of the moratorium implementation	i) The number of moratorium applications ii) The customers' consent. iii) The internal operation	i) The number of moratorium applications ii) The customers' consent. iii) The internal operation iv) The calculation of rescheduling the AITAB contract

4.1 The Number of Moratorium Applications

Findings show that both respondents agreed that the number of moratorium requests is the greatest challenge to Islamic banking institutions. This happened because the number of applications for the moratorium rose steeply when the COVID-19 pandemic struck the world. This situation resulted from the first phase of the moratorium implementation, whereby the Government imposed a blanket moratorium on all AITAB contract customers. Malaysia's central bank gave banks the order to enact an automatic six-month blanket moratorium on all bank loans, except for credit card debt [39].

Next, the number of moratorium applications soared because many people were affected by this pandemic. After all, some of them lost their jobs or had their wages reduced. Many workers were required to take several months of unpaid leave and had their wages reduced by 20% to 50% [8]. In the second quarter of 2020, the unemployment rate in Malaysia reached an all-time high of 5.1%, which equals 14.88 million people being unemployed, the highest level in the country's ten-year history [38]. Before the emergence of this pandemic, a moratorium was offered to affected loan customers, such as the loan customers affected by the floods in Kelantan, which was relatively modest compared to the number of victims affected by the COVID-19 outbreak.

4.2 The Customers' Consent

The second finding identified an issue related to customers' consent. Customers' consent is the customer's agreement to make changes to the signed contract [45]. It shows that both respondents had a problem with obtaining financing customers' permission. This issue was driven by the Government's implementation of movement restrictions to prevent the spread of the virus during the pandemic. Therefore, the Islamic banking institution was unable to directly negotiate with the financing customer to execute the AITAB contract for moratorium purposes.

When the COVID-19 outbreak swept the world, Malaysia implemented a phased moratorium. The first phase was an automatic blanket moratorium for six months on all bank loans except credit card balances. The implementation period started from April 2020 to September 2020. During this first phase of the moratorium, all customers could get the moratorium regardless of their income level. While in the second phase, the moratorium was carried out in a targeted manner known as Targeted Repayment Assistance

(TRA). The implementation began after the first phase's moratorium period, which was on September 31, 2020. This second phase was only offered to affected customers. Each customer was given the option to take a 6-month or 3-month moratorium. At the same time, there was a rescheduling of customer financing contacts.

During the first phase of the moratorium, the issue of customers' consent created confusion among AITAB contract customers. At the beginning of the moratorium, it was announced that it would be executed automatically. Still, Bank Negara Malaysia issued a revised statement requiring the bank to seek the consent of the customers first. There are issues related to customers' consent during the automatic moratorium; this is due to the Hire Purchase Act 1967, which requires both conventional and Islamic banking institutions to obtain customers' approval before making any changes in financing instalments or deferred payments [13]. Therefore, according to both respondents, the bank had acquired a market response, which shows that it was difficult for the banks to obtain customers' approval. Alternatively, the banking institutions sent a Short Message Service (SMS) to all customers to inform them of the moratorium implementation in the first phase. Funding customers were required to respond to messages and provide consent. The period for the customers to give consent was within 7 days. If the customer did not respond within 7 days, then the implementation of the moratorium would be enforced automatically.

Similarly, in the second phase of the targeted moratorium, this issue had become a major constraint for a banking institution. According to the respondents, the targeted moratorium was only given to the affected AITAB contract customers. In fact, at the same time, the banking institutions also implemented the rescheduling of AITAB contract financing to their customers. Consequently, customers must initially apply for the moratorium. Moreover, both respondents mentioned that most applicants did not visit the banking institutions to sign a new agreement for the AITAB contract. This situation caused the banking institutions to have difficulties in finding customers' consent to complete a new deal for the AITAB contract. When the AITAB contract was not concluded, the banking institutions would not comply with the guideline as provided by the Shariah resolution issued by Bank Negara Malaysia, where any changes related to the AITAB contract require the consent of both parties. Therefore, the bank needed to obtain permission from the customers to enable the contract to be executed in accordance with Shariah guidelines. Every change must be approved by the customers in advance [18].

4.3 The Internal Operations

The third finding related to internal operations was the employees' productivity and banking institutions' systems. In relation to the banking institutions' employee productivity, both respondents mentioned that during the COVID-19 pandemic, all employees must work remotely and take turns coming into the office. Once working from home, employees needed to use their laptops. However, a personal laptop could not access important corporate information and systems while they were working from home. This resulted in delayed work and decreased productivity because many applications could not be processed. Almost 77% decline in employees' productivity in Malaysia due to many issues, such as access to corporate resources and restricted information access [46].

Next, IT-related banking system issues. Both respondents mentioned that this issue stemmed from the many moratorium requests sent during COVID-19. According to the information provided by the two respondents, although the banking institutions had previously run a payment holiday, it only involved a small number of applicants. However, during the COVID-19 outbreak, the number of applications involved increased significantly. Therefore, the banking IT system was unable to support the increasing AITAB contract applications. IT systems are important in facing unexpected difficulties such as the COVID-19 outbreak [47].

4.4 The Calculation of Rescheduling the AITAB Contract

The fourth finding is related to calculating the rescheduled AITAB contract, where only Respondent 2 had to face this issue. This issue arose during the Targeted Repayment Assistance (TRA) which took place in the Phase 2 moratorium, where an AITAB contract customer intended to extend the automatic six-month moratorium (during Phase 1) when it exceeded the expiring date. During the TRA, the banking institutions allowed the customers to choose the extension period of suspension between 3 and 6 months. After selecting the period of moratorium, a rescheduling for AITAB contract financing would be implemented. The rescheduling had caused difficulties in the calculation of bank profit. According to Respondent 2, the bank could not compute the profit through compounding for the customer's new contract. This conforms to the rules given by the Shariah Advisory Council of Bank Negara Malaysia, as shown in the excerpt below:

“Islamic Financial Institutions are not allowed to enter and take into account the accrued profit for the original financing as the new principal amount for the restructuring and rescheduling of the AITAB contract.”

[48]

In addition, the prohibition on obtaining compounded profits is a method for assisting AITAB contract customers who had constraints during the pandemic. During the COVID-19 crisis, Islamic Financial Institutions implemented non-profit compounds not just to comply with shariah requirements from a *fiqh* standpoint but also to consider the *Ihsan* principles as a method advocated by Islam for assisting distressed consumers without adding to their load [13].

5 Conclusion

As stated before, this study aims to explore the issues and challenges of Islamic banking institutions' moratorium practice in relation to AITAB contracts during COVID-19. The first issue is the number of moratorium applications. As a result of the first issue findings, it was found that the number of applications increases with the number of customers affected who are unable to afford to make monthly payments. This will increase the graph of non-performing loans in banking institutions. A high level of non-performing loans (NPLs) is problematic because it weakens bank balance sheets, inhibits credit expansion, and slows economic recovery [49]. Therefore, applying for a moratorium can flatten the

graph for growing NPLs. The second issue is the customers' consent. According to the findings concerning the second issue, customers' consent is the main restriction for an Islamic banking institution to complete a new AITAB agreement. Islamic banking institutions need to think of the best method to make it easy for both parties, the bank, and the customer. Islamic banking can use WhatsApp as a platform to contact AITAB contract customers. WhatsApp is a smartphone-based instant messaging service that consumes minimal Internet data while ensuring user privacy [50].

The third issue is internal operation. Based on the results concerning the third issue, the IT systems at banking institutions must be enhanced so that all transactions, notably those involving substantial sums of the fund, can be carried out correctly. During the COVID-19 pandemic, IT technologies are crucial for problem resolution. IT systems are widely utilised in various fields [51]. The fourth issue is the calculation of rescheduling the AITAB contract. As a consequence of the fourth issue findings, the rescheduling has led to an extension of the period during which the customer is required to make payments on the loan, in addition to a reduction in the total amount of the customer's required monthly instalments. This may lower the monthly payment burden for customers who are impacted [52].

Lastly, implementing the moratorium is very helpful for the affected customers. But on the other hand, it is challenging for Islamic banking institutions to manage the whole moratorium process. This study will serve as a reference for other Islamic banking institutions as they continue to address the issues and challenges posed by the moratorium. Thus, the findings from this study are expected to provide general knowledge on how Islamic banking institutions operate a moratorium on AITAB contracts and the challenges during the COVID-19 phase. Therefore, customers can take appropriate action if they face a situation such as an economic recession and so forth. As for Islamic banking institutions, they can be more concerned about meeting customers' needs and be transparent to provide a clear understanding to their customers.

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