

# Islamic Banking Transaction and Social Based Crowdfunding During Pandemic: *Shariah* Analysis on Islamic Financial and Non-Financial Institutions Approaches

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## ABSTRACT

*This paper is based on an ongoing study titled "Social Based - Crowd Funding in Battling Covid - 19 and Maqasid Shariah: Some Legal and Shariah Observations in Malaysia and Indonesia." The COVID-19 pandemic has been one of the most serious health crises since the turn of the century. The corona pandemic has presented Islamic banks with significant challenges in dealing with this pandemic, taking into account, on the one hand, its impact on various economic sectors and regulatory authorities' decisions. However, it appears that Islamic financial institutions are at odds over how to handle Islamic banking transactions, particularly a moratorium between the bank and their clients during the pandemic, as well as the use of social-based crowdfunding activities. This investigation begins with a historical pandemic that afflicted the entire world. The purpose of this paper is to examine the position of Islamic banking transactions and social-based crowdfunding during the pandemic from a Shariah standpoint. This paper also highlights Malaysia's Islamic banking approach to social based financing and social based crowd funding by financial and non-financial institutions during the pandemic. The qualitative research method was used in this paper, which included a library-based research method. A descriptive content analysis method will be used to analyse the data. This paper is significant in that it will add to the body of knowledge and literature on the subject while also providing Shariah's perspective on the status of Shariah's commercial and socially based crowdfunding contracts. The principles of adl and Ihsan appear to have been*

*applied, affecting Islamic banking commercial transactions and social-based crowdfunding contracts. During a pandemic, however, there is a need to strike a balance between the financial stability of the financial institution and the needs of society as a whole. As a result, Shariah parameters must be developed in such a way that financial institutions understand how Islamic commercial transactions and socially based crowdfunding should be treated, particularly during a pandemic.*

**Keywords:** *Islamic Banking Transaction, Social Based Crowdfunding, Pandemic, Shariah Perspectives, Institutional Approach.*

## **INTRODUCTION**

Islamic finance has been developed in many jurisdictions [1] Recently, the world is constantly confronted with threats to human health that emerge – often without warning – from the natural environment or human behaviour. In previous decades, a group of viruses appeared that posed a real threat to humanity. Every country is now chronically vulnerable to infectious diseases. Despite advances in confronting and combating microbes in the 1970s. However, for nearly four decades, we have witnessed viral outbreaks such as the Ebola virus in 1976 and the human immunodeficiency virus (HIV) in 1983. If humans consume diseased cattle tissue, they may develop variant Creutzfeldt-Jakob disease (vCJD), a human form of Mad Cow disease. Bird flu, also known as avian flu, is an infectious type of influenza that spreads among birds. Humans have been affected in rare cases by H5N1 [2, 3] H7N9 (since 2013), During their development, these viruses went through several stages. [1, 4, 5]

## **RESEARCH OBJECTIVES**

As a result, the goals of this paper are to:

- (a) investigate the role of Islamic banking transactions and social-based crowdfunding during the pandemic from a Shariah standpoint.
- (b) During the pandemic, this paper also highlights Malaysia's Islamic banking approach to social based finance and social based crowd funding.

## **RESEARCH METHODOLOGY**

The qualitative research method was used in this paper, which included a library-based research method. A descriptive content analysis method was used to collect and analyse the data.

## **FINDINGS AND ANALYSIS**

### **Cascading the dimension of the pandemic in Islamic history**

The telltales were obvious, such as illness and viruses that wreak havoc on one's health. The coronavirus and the victims who became infected with it are not new or unusual in medical history. Many cases in Islamic history have been exemplified, either in the Holy Quran or through Prophetic sayings of the Prophet of Islam, or through the hologram of historical evidence. There is a narration in the Holy al-Quran of the Great Prophet of Allah, Ayyub, being tested with a severe and significant illness. He was the personification of perseverance and extreme patience in the face of adversity. He had lost

everything, including his beloved family, wealth, and health. According to some accounts, he was bedridden for 18 years and faced the mammoth test of the time with a significant illness. In this trying and tumultuous time, he did not give up hope and continued to rely on Allah and turn to Him for good news. According to some scholars, his tribulations and illness-related sufferings were so severe that his flesh fell from his mortal body and nothing remained on him except his bones and much else. In the Holy al-Quran, Allah tells us about his tribulations. The Prophet Ayyub's (PBUH) trials and tribulations are rife with lessons to be learned. The unfailing patience and his distinguishing virtues in the aftermath of Allah's test in the most perilous situations that one could encounter in life [6].

### **The Existence of Contemporary *Fatwa* on Emergency and Pandemic**

There are a number of contemporary *fatwas* on emergency and pandemic preparedness, such as the Decision of the *Fiqh* Council of Muslim Nations at its Fifth Session in 1982 (1402 A.H.) on emergency conditions and their impact on contractual rights and obligations. The Council of the Islamic *Fiqh* Academy was confronted with the issue of what might occur following the conclusion of pledge contracts and other similar agreements, such as sudden changes in circumstances and conditions that have a significant impact on the balance of rights between contracting parties.

### **Force Majeure Theory and *Shariah* Principles and its Application During Pandemic**

A contract is defined as a promise or collection of promises to which the law attaches a legal obligation and provides a remedy for breach of duty. According to [1, 7] law assumes that it is difficult to enforce the contract during an emergency in order to deal with the consequences of such an outbreak in the principle of emergencies or force majeure theory. However, in the event of force majeure, it is impossible to carry out a contract. According to [8] El-Beltagy, 2020, regulatory authorities could make the following decisions to deal with the Corona pandemic:-

- 1- Delay payment of instalments owed by consumers for six months without fines or deferment payments.
- 2- The capitalization of postponed "principal plus return" payments.
- 3- Lowering cash withdrawal limits for individuals and businesses.
- 4- Lowering the limits on corporate cash transactions.
- 5- As a result, many economic ventures have failed to cover the costs of their operations and workers' wages.
- 6- Others have avoided paying their bank obligations.

There are *Shariah* principles that can be used to combat the financial consequences of the epidemic, such as

1. achieve justice.
2. lessen the damage.
3. Illegal money consumption is prohibited. [1]

### **Malaysian Islamic Banking Approach During Pandemic**

During a pandemic, a Malaysian Islamic bank imposes a moratorium [2, 3]. Malaysia's government announced a 6-month (automatic) moratorium on loans/repayments/payments beginning April 1, 2020. This is meant to help alleviate the monthly burden on individuals and businesses whose income has been impacted by the

pandemic. As a result, from April 1st to September 30th, 2020, banks will offer a moratorium on loan payments/payments. The Central Bank of Malaysia (BNM) allows the bank to continue earning a deferred profit under the moratorium. The deferment creates a six-month gap, which is why the tenure is extended. In other words, the deferment creates a six-month gap while also lengthening the duration. As a result, the cost of paying the returns to depositors at the same time is borne by the bank.

In this regard, floating-rate financing is unaffected, but fixed-rate financing (including hire purchases/Islamic hiring purchases of fixed-rate products) raises *Shariah* concerns. To address this issue, a new *aqad* for fixed-rate and hire purchase/Islamic hire purchase products is required, and additional profit is proposed.

In this case, the bank and the customer must execute a new *aqad*, and either the implicit (deemed) consent or the customer's explicit consent must be used. According to the Hire Purchase Act 1967, explicit consent is required for hire purchase products. However, in the case of the auto moratorium, the industry has mostly chosen not to charge any extra profits for fixed-rate Islamic products. As a result, the scenario requiring new *aqad* and deemed consent vs explicit consent has not occurred. Later, on May 1, 2020, BNM issued the BNM FAQs on hire-purchase and fixed-rate Islamic financing products, stating that profit compounding is not permitted for Islamic installations where new *aqad* is being carried out (BNM 2020). As a result, the proposed initial approach to calculating the additional moratorium profit amount based on the 6-month instalment during the moratorium period (which includes principal and profit) has been modified. This means that the profit calculation is solely based on the principal of the deferred instalments during the moratorium, rather than the total amount of the instalments (consists of Principal and Profit). On May 6, 2020, the Ministry of Finance issued a press release stating that there was no additional charge on Hire Purchase Loans (Conventional and *Shariah*). As a result, the status quo remains (no *aqad* for extra profit required).

### **Social Based Crowdfunding Approach During Pandemic**

*Waqf*, *sodoqah*, and *zakat* are three crucial components of social crowdfunding. Islam-related laws are subject to the authority of the states. According to Article 74 of the Federal Constitution, the items in the Second Schedule are the State List, which includes *waqf* and *zakat*. As a result, the reference for the legal framework in both of these cases is to the act for the Federal Territories and the enactment for the states. Donations can come from both Muslims and non-Muslims. It all depends on the circumstances. If it involves Muslims, the provisions of Islamic law on the subject will be considered in the context. In the absence of such legal provisions, the situation is the same as it is for non-Muslim donations.

Donations are monetary contributions made to a cause or organisation, as well as charitable contributions made in good faith [6]. Donation-based crowdfunding is a way to raise funds by asking people to donate. There was no promise of a refund of the money donated. Donation-based fundraising is typically used to raise funds for charitable purposes. Donors will not be given ownership or a stake in the project. In addition, the donor will not be a creditor to both the recipient of the donation and the project.

Individuals, organisations, and even associations are common applicants for donations. Charities are one example of a party requesting donations. Non-governmental organisations such as Mercy Malaysia, Serantau Muslim, Muslim Care, Yayasan Malaysia, and others are common. These charities will use crowdfunding to raise funds for charitable activities such as disaster relief, rehabilitation and treatment for the community, and assistance for basic needs such as food and clothing for those in need. Donation applications can now be submitted via the internet as well. The preceding

situation pertains more to the application of social donations. The donation app is not for profit. For example, Mercy Malaysia launched a donation application for Coronavirus disease (Covid-19) through its website, where an e-form is provided for the public to donate by stating, among other things, the donation amount, donor name, and other donor details. Donors are also asked to fill out the mandatory details for tax purposes, which are also displayed on the website [7]

There are also donation application situations for businesses. Among the examples that sparked debate in early 2021 was the University of Malaya Medical Center's (UMMC) request for Covid-19 donations from the general public to fund hospital equipment. The requested donation is for the use of hospital personal protective clothing (PPE). The donation application process begins with traditional methods such as advertisements and posters, and then moves on to internet channels such as Facebook, Twitter, and the UMMC website. Later, it was published on e-commerce, Lazada Malaysia, which is well-known for its business activities involving a wide range of products and services [8]. The situation sparked debate because UMMC is a for-profit hospital that relies on public donations. However, as explained by the UMMC, it is not profit-driven, but rather socially motivated, given that our country is dealing with the Covid-19 pandemic. In a nutshell, it is the responsibility of executive governmental functionaries to improve the Islamic economic system[5]

### Conclusions

The corona virus is a significant reminder to all of us that we are infallible beings and that we must rely on Allah's mercy because everything is under His command. We are helpless because of the nature of our construction and servitude to Allah the Almighty. Regardless of our social status or financial standing, we must seek Allah's mercy and forbearance. Allah will issue the following command: "Mankind is created weak."

The Creator, Allah, as the One who predicts and predestines our journey through life, and the One and Only Savior, in whom we seek refuge and protection, is the lesson learned. The pandemic would persist if many people did not adapt to the so-called new everyday lifestyles, and it could have devastating lethal consequences if nothing else was done. With strict adherence to standard operating procedures such as social distancing, the behavioural shift must be present in the uphill battle to improve the damaging and deadly pandemic. Nowadays, we can turn adversity into an opportunity by embracing contemporary commonplace and repetitive jargon. Everything is done for the sake of Allah's refusal and grace. The corona pandemic that shook the world in 2020 met all of the stringent emergency conditions stipulated by *Shariah*. The emergency push button was activated and in use. The wall had been built, and the free flow of more specific and pro-active activities had been restricted. It also had an impact on normal *lex merchantoria*, particularly the negative consequences of contractual performance. Managing the risk of a pandemic is already clearly stated in the Holy Al Quran. There were recent fatwas on dealing with emergency situations and financial contracts. The moratorium will be granted by a financial institution based on the *adl* and *ehsan* principles. *Sodaqah*, *waqf*, and *zakat* are being used as social crowdfunding activities, but the governing law is still unclear. As a result, in the aftermath of the pandemic, there is an urgent need to develop *Shariah* parameters for Islamic financial and non-financial institutions to carry out their day-to-day operations.



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