

The Covid-19 Pandemic and its Influence on Murabahah Financing in Indonesian Islamic Banking

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Abstract

In 2019, people around the world, especially in Indonesia, were shocked by the disaster of a pandemic, where this pandemic is an epidemic that spreads, an example of a disease that has become a pandemic is coronavirus disease 2019 (Covid-19). This pandemic is a disease that everyone must be very aware of because this disease spreads unnoticed. The impact of this pandemic has great potential for the economic and financial sectors, especially in the banking world, where in a pandemic like this to seek additional capital, it is large companies that can provide loans or financing, such as Islamic banks with all the products provided in these banks. One of them is murabahah financing which is very suitable for those who want to open a business but do not yet have additional capital, this tendency is for murabahah financing, the risk of financing is smaller, the margins are lower, and the administrative costs are also low. This study uses the literature study method by obtaining and collecting data from various previous studies related to the effect of the pandemic on Murabaha financing in Islamic banks. The research method used is literature study, and data collection uses the library study method. For this reason, the authors recommend improving strategies for the risks faced by Islamic banks, especially during a pandemic like this, and making the best possible use of the products owned by the banks themselves and developing them to improve the quality of Islamic banks themselves.

Keywords: Covid-19 Pandemic, Impact, Financing, Murabahah

Introduction

In the era of the Covid-19 pandemic, it began to hit the world, especially in Indonesia. No one predicted the arrival of this pandemic, this pandemic was detected for the first time in China in early December 2019. What is known is that this pandemic continues to grow in Indonesia. A study published in February suggested that this pandemic may have originated in bats (Iswahyudi, 2021). The virus managed to mutate from the host's body. The research found that the coronavirus in bats is 96% genetically similar to the coronavirus currently infecting people around the world (Hasan & Syahira, 2022).

However, the coronavirus is not a direct infection from bats, but from other species that are infected from bats and eventually attack the human body. The first case found in Indonesia occurred in early March 2020, which caused people to panic because the impact of the Covid-19 pandemic was extraordinary on people's lives, especially in Indonesia, in terms of economic, social and political (Hasan, 2020). So that all Indonesian people are

forced to stop all activities that they usually do. The Covid-19 pandemic has had very dangerous effects, on both health and the economy, for example, people who have businesses to meet their basic needs, with this pandemic, have stopped all their activities to reduce and prevent the spread of the Covid-19 virus, even though on the other hand they have to stop their business activities until the covid-19 virus is no longer there (Anggraini & Wira, 2023).

This completes the challenge of occupation action even more complicated. Because the influence of Covid-19 on the economy eventually also involved workers, particularly in the four primary sectors of the Indonesian economy namely tourism, trade, manufacturing and agriculture (Rizvi et al., 2021). During the pandemic in Indonesia, it also stopped all activities, be it studying, entrepreneurship, or work, all of which were done at home, to break the chain of spreading the virus. For this reason, researchers will discuss one of the effects of the pandemic on business actors and Islamic bank *Murabaha* financing (Suzuki et al., 2019).

Conditions for financing were still functioning and financing facilities were available before the COVID-19 pandemic, but during the COVID-19 pandemic, initial financing, which normally functioned and ran smoothly, was subject to direct restrictions on business and became non-current or hampered, as well as having an impact on income and an increase in non-performing loans. The risk of problem financing is a concern of the Financial Services Authority in maintaining a healthy Islamic financial system. The management of Islamic banking or financial institutions needs to follow up on monitoring the risk of problematic financing by the OJK with corrective steps, increasing efficiency and good governance.

Some of the factors that trigger problematic financing are: the existence of internal factors such as bank management errors, the result of an analysis error that occurred in the provision of funds. The next factor external namely the condition of the customer, such as the result of incompetence customers pay because of economic conditions or intentions or character customer. The cause of external factors may arise, such as a disease outbreak that is currently sweeping the world.

Entrepreneurship is not only around innovation, but also regarding actions to design these innovations so that they are discovered, for example, somebody has skills in the field of typing and photocopying, so they want to open a photocopying company, of course, by assessing what is needed to discover their passions, particularly during a pandemic like this (Biancone et al., 2020). Apart from the facilities needed, additional capital is also really needed and is the most important thing in opening a business and increasing the business you want to run, during this pandemic it is certainly difficult to find additional capital, it is large companies that can provide loans or financing such as Islamic banks with all the products provided in these banks, one of which is *Murabahah* financing (Hasan, 2021).

This *murabahah* financing is very suitable for those who want to open a business but do not yet have additional capital. The tendency of *murabahah* financing is that the financing risk is smaller, the margins are lower, and the administrative costs are also low.

Literature Review

A pandemic is an epidemic that has spread to several countries or continents and has affected a large number of people. The term pandemic itself is known in the world of epidemiology and the science that studies patterns of disease spread. In Epidemiology, an epidemic is a small component of disease transmission. The agency said epidemic outbreaks show a wider range of disease spread accompanied by rapid transmission. Epidemics can change or change into endemics that usually affect one country, place, or land. Epidemics occur in a limited zone or country. And finally turned into a pandemic that spread rapidly throughout the world and on several continents (Regus, 2021).

There were at least 8 items in the Islamic banking industry that were affected during the pandemic, namely financing growth, Financing to Deposit Ratio (FDR), Capital Adequacy Ratio (CAR), liquidity, Net Interest Margin (NIM), asset quality, operations and customer relationships (Akbar, 2019). The main challenge faced is from the financing side because the Bank cannot expand in line with the decrease in demand, so the bank focuses on strategies simultaneously with the implementation of financing restructuring policies and the majority of distribution is channelled to sectors that are not business fields (Ismal & Haryati, 2013).

Murabahah is derived from the word Ribh which means increase. In terms of terminology, it is defined as a sale of goods for the price of the goods plus the agreed profit (Kalsum, 2014). For example, someone buys goods and then resells them with a certain profit. In another expression, Ibn Rushd explains *Murabaha* as purchasing and selling goods at the initial cost with an extra approved profit. From the idea that there is an approved profit, *Murabaha* has the feeling that the seller must notify the customer regarding the acquisition cost of the goods and also display the part of the profit added to the expense. The measure of earnings can be based on the amount of the price or the level of a specific rate (Sutedi, Adrian, 2004). *Murabahah* can be done in cash, it can also be delayed or delivered in instalments (Orhan, 2018).

Research Methodology

This research method mainly uses literature study in complete research. And data collection, using the literature study method, especially in gathering information about the effect of the pandemic on *Murabaha* financing in Islamic banks. Then a step-by-step process is carried out which is used to obtain and analyze information from various types of documents and previous research, journals, articles, public information on individual banks, and regulations (Setiawardani et al., 2021).

Result And Discussion

From the results of research from previous journals and previous articles, the effect of the pandemic shows a significant value, so it can be said that the *Murabaha* samples before and during the pandemic had normal data. The value of the average sample comparison during the pandemic was greater or an increase in the amount of *Murabaha* financing provided to customers. Thus the situation during the Covid-19 pandemic showed an increase in the average amount of *Murabaha* financing and the hypothesis which stated that *Murabaha* financing during the Covid-19 event experienced a decrease was accepted.

A pandemic is an epidemic that has spread to several countries or continents and has affected a large number of people. The term pandemic itself is known in the world of epidemiology and the science that studies patterns of disease spread. In Epidemiology, an epidemic is a small component of disease transmission. The agency said epidemic outbreaks show a wider range of disease spread accompanied by rapid transmission. Epidemics can change or change into endemics that usually affect one country, place, or land. Epidemics occur in a limited zone or country. And finally turned into a pandemic that spread rapidly throughout the world and on several continents.

A pandemic is an epidemic that spreads simultaneously everywhere, covering a wide geographical area, an example of a disease that has become a pandemic is coronavirus disease 2019 (covid-19). A pandemic is also a disease that everyone must be very aware of because this disease spreads unnoticed. To anticipate the impact of this pandemic is to maintain personal hygiene and the environment around us, not only that but we also have to keep our distance from someone we meet or better if there is a need for someone outside to postpone it first and can do it. Does it use telephone media only. This pandemic does not come suddenly but this pandemic will occur in a certain area and spread to several other areas quickly if we don't prevent it.

Coronavirus is a virus that is commonly encountered and can cause disease in animals or humans, people who have been infected with this virus will easily transmit it to other people. This condition is a disease that occurs in the respiratory system. Restricting distance or keeping a distance is an action taken to prevent the spread of infectious diseases by maintaining physical distance between one person and another and avoiding large-scale gathering places. This restriction is carried out to reduce the spread of the Covid-19 disease that is currently happening around us.

Physical Distancing is maintaining a physical distance that must be maintained when interacting with other people, not eliminating the social space that develops in society. Physical Distancing when carrying out communication interactions must maintain a safe distance, namely one meter.

The spread of the coronavirus or covid-19 has brought new challenges and risks. This pandemic has also disrupted economic activity in many countries, especially Indonesia and has driven significant movements in several financial sectors including banking.

Lending is one of the core banking businesses which has been held back more or less due to uncertainty and a downturn in economic activity which has impacted the circulation of money. Of course, this event will be very worrying, considering that Indonesia experienced a severe economic crisis in 1997-1998. The impact of Covid-19 is now also impacting the Islamic banking sector. As a result of this pandemic, there has been an increase in risks in Islamic financial institutions. With this increased risk, the ability of Islamic financial institutions to carry out their economic activities is under pressure.

Chairman of the Board of Commissioners of the Deposit Insurance Corporation (LPS) Halim Alamsyah said that there are three risks faced by Islamic banking due to the spread of the Covid-19 pandemic. This condition makes banks face three major risks, namely bad credit, market risk, and liquidity risk. This pandemic condition can also

reduce the competitiveness of Islamic banks and the public so that they can transfer their funds to conventional banks. In general, the challenges faced by Islamic banks during the Covid-19 pandemic were liquidity and the ratio of non-performing financing (NPF). However, the risk of an increase in NPF can be overcome with POJK policy No. 11/POJK.03/2020 concerning National Economic Stimulus as a Countercyclical Policy on the Impact of the Spread of Coronavirus Disease 2019. Banks can carry out restructuring so that NPF can be reduced.

There were at least 8 items in the Islamic banking industry that were affected during the pandemic, namely financing growth, Financing to Deposit Ratio (FDR), Capital Adequacy Ratio (CAR), liquidity, Net Interest Margin (NIM), asset quality, operations and customer relationships. The main challenge faced is from the financing side because the Bank is unable to expand in line with declining demand, so the bank focuses on strategies simultaneously with the implementation of financing restructuring policies and the distribution of which the majority is channelled to sectors that are not business fields.

Another challenge is the variable liquidity in the industry. Several banks can want extra liquidity and others have a deficiency. Adiwarman indicated that there should be a regulatory procedure for the even diffusion of liquidity in the industry. In addition, he mentioned two potential explanations guiding to the emergency conditions of 1998 and 2008. At that time, Islamic banks altered financing from Murabahah agreements to financing using Musyarakah and Mudharabah agreements.

With this financing conversion, it is believed that the regulator will be responsive to industry demand during a famine like this. The Financial Services Authority has also issued POJK Number 18/POJK.03/2020 concerning Written Orders for Handling Bank Problems. This POJK allows OJK to carry out mergers, consolidations, acquisitions and/or banking integration. Adiwarman said he was handling five banks that were preparing to be regulated by POJK number 18.

By thinking creatively, being smart and not giving up, taking advantage of all the gaps in existing policies and working together to support each other when facing a pandemic. For example, by utilizing various channels for marketing the same banking products, utilizing technology, buying new entities or looking for investors, at this time many investors are looking for banks to be acquired.

There are 6 things the impact of the Covid-19 pandemic has harmed the financing industry. First, the restructuring of financing to debtors causes a decrease in financing company income. The impact of restructuring is quite large, but indeed this is the time when we work together to help each other. It is not only the duty of the financing industry but all the parts that have ties and are related to lending and borrowing, of course, must do this.

Second, billing. Difficulties in collecting instalments from debtors due to the impact of Covid-19 and the local government's ban on financing companies and other industries. Third, regarding loans. Finance companies still have to make instalment payments to banks for their debts, however, a large number of customers are restructuring. The fourth impact is that banking funding sources stop disbursing funds to Financing Companies which results in liquidity problems. Fifth, new financing is reduced because people's purchasing power and tight financing liquidity are the most important

rights. Finally, regarding the increase in non-performing financing (NPF) due to the reduced ability to pay debtors and reduced new financing.

The Covid-19 pandemic for almost a year has caused the world's economic conditions to weaken and triggered a global economic recession. Unlike the Asian and global crises that have occurred before, the impact of the Covid-19 pandemic has been felt in all sectors, including the financial sector. Therefore, banking institutions play an important role in ensuring economic conditions are stable during the Covid-19 pandemic. In the newly released weekly report by Bank DBS Indonesia, it is stated that the role of banks is very significant in supporting post-pandemic economic recovery.

In Asia, most banks are doing well so far. The overall capital adequacy ratio has increased or remained flat in most countries in the last decade," said the statement in a report published on October 12, 2020. The overall capital adequacy ratio is relatively increasing or stagnant in most countries, except for India and the Philippines. Meanwhile, tier 1 capital buffers showed an increasing trend thanks to strong regulations from the Bank for International Settlements (BIS) and national financial authorities. Unfortunately, the pandemic has worsened the economy, so it is predicted that banks will face the problem of increasing bad loans. Nevertheless, lower interest speeds and more relaxed restrictions are likely to mitigate this hazard. Thus, since the start of 2020 when the Covid-19 pandemic could generate a global economic problem, Agustin Carstens, General Manager at BIS, called for the important function of banks to overwhelm the looming threat of recession. According to Carstens, banks must be part of the explanation, not part of the problem. "Now is the time to take benefit of the collected credit sheet buffers that were enhanced during the last golden age," Carstens said as quoted by the Financial Times.

To support economic development, the government furnishes stimulation so that the economy can move likewise. With the assignment of Government Regulation instead of Law (Perppu) No. 1/2020 concerning State Financial Policy and Financial System Stability for Handling the Covid-19 Pandemic and or in the Context of Dealing with Threats that Harm the National Economy and or Financial System Stability. The Perppu contains a statement that there is an opportunity for Bank Indonesia to purchase SUN (*government bonds*) on the primary market. Granting this policy is certainly encouraging news because it has widened the fiscal deficit. In addition, the government issued a policy by providing interest rate relief to provide monetary stimulus so that the value of the rupiah did not fall. Another stimulus from the government is through monetary easing by trimming the fulfilment of GWM or Minimum Statutory Reserves. This stimulus aims to increase the availability of bank liquidity.

This policy is like a cool breeze for credit banks or conventional banks that carry out credit activities to the public. Because this credit relaxation means giving concessions both in terms of time and regulations regarding the payment of interest on credit debt. This provision is contained in Article 2 of the PJOK which states that banks, credit banks or financing institutions can implement this policy to support economic growth stimulus for people (debtors) affected by Covid-19. Debtors here are MSME debtors, housing debtors, and others who experience credit arrears. This method, of course, will provide

benefits to the banking sector because the relaxation and restructuring will allow banks to maintain the quality of their credit activities.

There are two methods for solving bad credit. The first is through deliberation again between the bank (the creditor) and the debtor. Second, by completing it through legal institutions, such as the State Receivables and Auction Management Office (KPKNL). Meanwhile, rescuing bad credit can be done in five ways, namely rescheduling, such as extending the credit period or extending the instalment period. The second is reconditioning, by changing credit terms including interest capitalization, delaying interest payments until a certain time, reducing interest rates or waiving interest. The third is restructuring, namely by increasing the amount of credit/business capital to generate cash flows in the future or by adding equity. The fourth is a combination, namely combining the 3 methods above, and finally, if the credit is not possible to continue with the payment, the collateral will be confiscated.

This restructuring policy can create new problems for the bank (debtor) or other credit banks. Based on a survey of the implementation of this method, banks usually still require monthly instalment payments. Even though they knew about the extension of the time for instalment payments as well as lowering interest as conveyed by the President. There are two different statements made by the President and POJK 11 of 2020 in addressing this credit relaxation.

Preferably, POJK 11 of 2020 conditions that debtors get instalment respite comfort with 6 portions including, lowering interest rates, extending time, decreasing central arrears, declining interest arrears, counting credit facilities, and restoring credit to temporary equity participation. So from the 6 pieces outside, there is no hesitation in instalments and interest markdown. Secondly, in CHAPTER 1 Article 1 POJK 11 of 2020 only notes banking establishments, excluding credit banks and non-bank financing institutions. Such as the Leasing and Sharia Business Units.

Whereas in reality, the President's policy was made because it was focused on helping MSME business actors as well as motorcycle taxi drivers or taxi drivers as well as other debtors who currently have credit instalments. It can be concluded that POJK 11 of 2020 has not coordinated what was conveyed by the President with the statements contained therein. So that this is an obstacle for MSME business actors because as a result of the Covid-19 pandemic, conditions are increasingly apprehensive which has led to unstable national economic growth and even some conditions have gotten worse.

Conclusion

A pandemic is a disease that everyone must be very aware of because this disease spreads unnoticed. To anticipate the impact of this pandemic is to maintain personal hygiene and the environment around us, not only that but we also have to keep our distance from someone we meet or better if there is a need for someone outside to postpone it first and can do it. do it using telephone media only. This pandemic does not come suddenly but this pandemic will occur in a certain area and spread to several other areas quickly if we don't prevent it.

This pandemic has also disrupted economic activity in many countries, especially Indonesia and has driven significant movements in several financial sectors. As a result of

this pandemic, there has been an increase in risks in Islamic financial institutions. Likewise, on the supply side, the cessation of business activities, disruption to the supply chain and losses due to decreased sales make As an intermediary institution, the pulse of a bank's business is very dependent on the rotation of the economic wheel, which is driven by community activities.

This pandemic condition can also reduce the competitiveness of Islamic banks and the public so that they can transfer their funds to conventional banks. At that time, Islamic banks converted financing using Murabahah contracts to financing using Musyarakah and Mudharabah contracts during a pandemic like this.

Nevertheless, the Financial Services Authority has also allocated POJK Number 18/POJK.03/2020 regarding Written Orders for Handling Bank Problems. This POJK allows OJK to carry out consolidations, mergers, acquisitions and/or banking integration. By thinking creatively, being smart and not giving up, taking benefit of all the openings in living policies and operating jointly to support each other when facing a pandemic. For example, by employing different channelers for dealing the identical banking developments, employing technology, purchasing new commodities or looking for investors, at this time many investors are scrutinising for banks to be developed.

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