UNIVERSITI TEKNOLOGI MARA

THE PERFORMANCE OF ISLAMIC BANKS DURING COVID-19 PANDEMIC IN MALAYSIA

MUHAMMAD AKRAM BIN RAMLI

Bachelor of Business Administration
(Investment Management)

Faculty of Business and Management

JULY 2021

ABSTRACT

The purpose of this study is to identify which period that Islamic banks have better performance which from period of pandemic or no pandemic. The study also wanted to know is there any effect of government regulations like lower interest rate and moratorium which may effect to the banks performances. The dependent variable used to conduct this study is return on assets (ROA) while the independent variables used are size which is the log of company total assets, leverage which means total liabilities to total equity, profit margin where net profit to revenue and liquidity status which total liabilities to total assets.

The panel data were used for the comparative between period that have pandemic and no pandemic based on 8 Islamic banks in Malaysia for second and third quarters 2019 and 2020 in determine the relationship between the dependent and independent variables in this study. The financial data were taken from banks annual report. Based on findings, all variables are shows significant results. Thus, it shows that these variables will represent the performance.

CHAPTER ONE: INTRODUCTION

1.1 Introduction

COVID-19 pandemic has created a global crisis which has a deep impact in our everyday lives. Majority of the countries in this world are facing the same problem on how to stop the spread of the virus and how to end the pandemic. Most of the countries take action by lockdown or ban to travel inside or outside the countries within some period.

The virus which origin from Wuhan, China has spread widely to other countries including Japan, Malaysia, Singapore, United Kingdom, Italy and most of the countries in the world time by time since end of 2019 until now. From the period, many businesses and companies are effected due to laws by government including lockdown and regulations did to prevent the virus from spread.

The first case of SARS-CoV-2 or COVID-19 in Malaysia that are recorded on 25th January 2020 which traced back of 3 Chinese nationals who previously had close contact with an infected person in Singapore. However, the 1st Malaysian cases was recorded on 4th February 2020 where the 41-year old man which had recently returned from Singapore when he started to shows symptom of fever and a cough (Elengoe, 2020).

As for 5th April 2021, the total cases in Malaysia was recorded of 352,029 which 336,456 from it are recovered. The Movement Control Order (MCO) has restrict people go travel between states to avoid the virus from spread. The most industry effected are from tourism industry where people cannot use it as government not allowed to travel domestic or international.

Not just tourism, banking sector also are one of sector are effected from the pandemic. Several studies have investigate COVID-19 have impact to the banking sectors(Jara-Bertin, Arias Moya, & Rodríguez Perales, 2014), (Aldasoro, Fender, Hardy, & Tarashev, 2020) and also impact of COVID-19 to the private banking system (Boru, 2020).

There's difference between Islamic bank and the conventional bank where it based on the conventional principle, they follow a principle of interest free financing

and profit and loss sharing (PLS) in performing their business as intermediaries. (Ariff, 1988).

The Asian Banker has placed Maybank Islamic in the top four Islamic bank rankings for 2020, followed by CIMB Islamic Bank at number ten and Bank Rakyat at number eleven. Part of assets, net loans, deposits, shareholder's equity, net interest income, total operational revenue, and operating expenses are all factors in the ranking.

The financial ratio which used in this study is quantitative tool that gather valuable observation into the company size, profitability, leverage, return and debt based on equity. The financial statements are prepared yearly, quarterly and semi-annually by the audit firm of the bank. In analysing the bank's performance by using financial ratio.

1.2 Background of the study

COVID-19 has big impact to all individual and also corporate where there's restrictions which can effect the banks performances itself. In Malaysia, banks are provides moratorium to their depositors, debtors and clients who affected from the pandemic. This also led the decreasing amount of credit collect by the banks in the period.

There's growth of Islamic banks in Malaysia and over the world nowadays. The total of 16 Islamic banks in Malaysia which registered as Licensed Financial Institutions by Bank Negara Malaysia (BNM) in 2020.

Furthermore, in terms of generating funds and delivering other financial services, the Islamic bank concept is comparable to the conventional bank model. Islamic banks, on the other hand, follow Shariah standards, which prohibit riba, gharar, and maysir, as well as funding such as alcohol sales (Hardianto & Wulandari, 2016).

Previous studies show that COVID-19 effected to the banks and also influenced by environment factors like economics and political in a country (Cecchetti & Schoenholtz, 2020). Other study (Hasan, Politsidis, & Sharma, 2020) also conclude that when there is increase in the cost of syndicated loans will effected by an increase in the lending banks and borrowing firms exposure to COVID-19.