

**THE PANDEMIC COVID-19 AND HOW IT IMPACT THE ISLAMIC FINANCE
 INDUSTRY IN BRUNEI DARUSSALAM: AN OVERVIEW¹**

Awg Zulkhairi bin Awg Hj Mohd Noor²
 Qaisar Ali³

Abstract

Brunei Darussalam is one of the countries affected by the Coronavirus Covid-19 which has also affected most countries around the world. The effect of the Pandemic has disrupted and affected the economy around the world and have infected and caused the death of millions of people. This paper aims to discuss the policies implemented by the Government of Brunei to curtail the spread of Covid-19 and measures to revive the economy including the Islamic finance Institutions which are comprised of the Islamic Bank, Takāful, Islamic Capital Market, Islamic Finance Companies and other licence Moneychanger and Money Remittances Companies. This paper will discuss on the current immediate impact of the pandemic and due to uncertainty suggest future actions for improvement.

Keywords: *Pandemic Covid-19; Government of Brunei; Islamic Finance institutions, Brunei Darussalam.*

Introduction

Currently, the global economy including the Islamic finance face uncertainty due to the effect of the Pandemic Covid-19 which were said to effect more than the global financial crisis happened decade ago, including the biggest downfall of shares in the stock exchange and the biggest drop of oil prices and huge number of businesses are affected and become not sustainable and many people lost their job or businesses. It has affected the economy of even the developed countries and as a result of less activity in the market due to restrictions in people

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² PHD student in Islamic Banking and Finance, Faculty of Islamic Economics and Finance (FEKIm), Universiti Islam Sultan Sharif Ali (UNISSA), Email: 18p902@siswa.unissa.edu.bn

³ PHD student in Islamic Banking and Finance, Faculty of Islamic Economics and Finance (FEKIm), Universiti Islam Sultan Sharif Ali (UNISSA), Email: aliqaisar21@gmail.com

going outside and social distancing the whole world economy including businesses, trade and companies suffer badly and this also affect the Islamic finance industry.

Indeed, the economic impact of this pandemic outweighs the impact of other events that were considered turning points in the course of human history like the Great Depression, World War II, and the global financial crisis which took place more than decade ago. It can be said that the effects will be long-term and likely to outlast the pandemic itself as the economic harm caused by the Covid-19 pandemic in a few weeks is greater than that caused by the global financial crisis in 2008 over the course of three years and the world will need years to recover.⁴ The purpose of the study is to find out how the Pandemic Covid-19 has affected the various types of Islamic Financial Institutions In Brunei on short term and how best these financial institutions can deal with these impacts and how to handle and avoid any similar future event. In this paper, it is important firstly to understand how the Pandemic Covid-19 came to Brunei Darussalam and what actions have the country been taken so far and in relation to understanding how it affect the overall Islamic Financial institutions in Brunei Darussalam.

The Background of Covid-19 in Brunei Darussalam

The reason the event and actions will be detailed here is because through the actions of the government of His Majesty the Sultan and yang Di-Pertuan of Brunei Darussalam in tackling the Pandemic Covid-19 and the country's ability to have the virus under control domestically, it will have a direct effect on the operations of the Islamic Financial Institutions in Brunei Darussalam. The successful handling of this Pandemic Covid-19 will have a heavy impact on

⁴ Hajjar, B.H. E. (2020). Covid-19 and Micro, Small and Medium Enterprises, Saving the Global Economy from the Pandemic. Retrieved April 16, 2020, from <https://www.isdb.org/news/president-of-the-islamic-development-bank-group-covid-19-and-micro-small-and-medium-enterprises-saving-the-global-economy-from-the-pandemic>

the Islamic Financial Institutions and thanks to the effort from everyone including the government the virus has been under control locally⁵, resulting the industry only suffer minimal impact and it could have been a lot worst.

Brunei Darussalam first positive Covid-19 was on the 9th March 2020, when the Ministry of Health confirmed that preliminary coronavirus tests had returned positive for a 53-year-old male who had returned from gathering in Kuala Lumpur, Malaysia on 3 March 2020.

There are 70 people from Brunei Darussalam who also attended the same gathering and four are still unknown. Among those people, only 66 people came forward for testing and by using the recently amended Infection Disease Act Order, the Police have been allowed and successful in tracing the remaining people where they could be charge if not tested following the Directives of Director-General of Ministry of Health. The contact tracing begun for the newly-confirmed COVID-19 cases with close contacts such as family members, co-workers, or anyone who has been in the company of an infected person will be contacted by the authorities where Ministry of Health (MoH) will collect samples for COVID-19 testing and a quarantine order will be issued.⁶

Brunei was among the first nations to introduce travel restrictions on affected countries and temperature screenings for inbound travellers. By early February, authorities began readying quarantine shelters capable of accommodating more than a thousand potential patients. Brunei's handling of the pandemic has been robust and transparent, despite the adoption of the necessary drastic but necessary measures during the time of crisis such as freedom of movement which also affect privacy right. Once the first cases were reported,

⁵ At the time of writing, last patient infected domestically was since 6 May 2020.

⁶ Biz Brunei. (2020). COVID-19 business updates: Fourth round of de-escalation starts July 27. Retrieved August 13, 2020, from <https://www.bizbrunei.com/2020/04/covid-19-brunei-business-updates/>

Brunei quite impressively and professionally handled the situation and have been putting into action best practices.⁷

Great Leadership by His Majesty the Sultan as a Ruler of the country

His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam, in a televised speech addressing the Covid-19 situation on March 22 has called on the public to remain calm and exercise responsibility to prevent wider spread of the pneumonia-like illness. As believers, said His Majesty, Bruneians are required to undertake prayer and devotional acts while at home rather than at mosques to curb the contagion's spread. "This is where our culture is different, we know this pandemic does not exist by itself but comes from our creator. Nobody among us knows why it came". Brunei Darussalam has also expedited the opening of a new national virology laboratory to conduct molecular tests for Covid-19, which His Majesty has said will increase testing capacity tenfold.

All Bruneians returning to the country are required to take a coronavirus swab test and undergo mandatory isolation at a quarantine facility as soon it become apparent later that there were also confirm positive cases for people coming from overseas. To ensure compliance with virus-curbing rules, penalties for violators have been ratcheted up. Offenders face fines of B\$10,000 or six months in prison (amendment of the order).⁸ This swab and quarantine requirement have led to Brunei only have imported cases since May 2020 and since then there are no community spread.

⁷ Bowie, N. (2010). *Devout at a distance in contagion-hit Brunei*. Retrieved April 19, 2020, from <https://asiatimes.com/2020/04/devout-at-a-distance-in-contagion-hit-brunei/>

⁸ Bowie, N. (2010). *Devout at a distance in contagion-hit Brunei*. Retrieved April 19, 2020, from <https://asiatimes.com/2020/04/devout-at-a-distance-in-contagion-hit-brunei/>

Since the pandemic, life has definitely changed in many aspects, especially in terms of freedom of movement. There is a need for social distancing which has acted as a catalyst for Brunei to start using online services and the government has advised the public to use its online services portal for tasks like applying for business licenses and paying road taxes rather than visiting service counters. All public and private school are closed and in accordance with social distancing students are currently only taking classes online.⁹

Brunei's Response to Covid-19

Below are the important actions and initiatives taken by the government for tackling the Covid-19:

Legal action against those not complying with coronavirus directives

The government has amended the Infection Disease Act to increase the penalty for those who do not comply with official directives issued on the Covid-19 outbreak such as the requirement to carry out medical examinations or medical treatment, self-isolation and quarantine. The maximum penalty for a first offence is \$10,000 or six months in jail, up from \$200. The swift actions in amending this Order is crucial to the stopping of spread of the Covid-19 through community spread as previously the Director-General has no such power of enforcement.¹⁰

⁹ Ibid.

¹⁰ Bowie, N. (2010). *Devout at a distance in contagion-hit Brunei*. Retrieved April 19, 2020, from <https://asiatimes.com/2020/04/devout-at-a-distance-in-contagion-hit-brunei/>

Travel restrictions

All residents in Brunei, including foreigners, are barred from leaving the country starting from March 16 to help curb the spread of Covid-19 and tourists will be allowed to leave, but all other residents will require approval from the Prime Minister's Office. This ban has also led to the opening of Temburong Bridge for public use starting from March 17.¹¹

Closure of public places

In order to ensure social distancing measures cinemas, gyms, bowling centres and golf clubs was ordered to close and dining in at all food premises in Brunei were banned starting on March 19 and only takeout and food deliveries were allowed.

Fiscal financial support packages

On March 19, as initiated by Brunei's central bank Autoriti Monetari Brunei Darussalam (AMBD) with the support of the Ministry of Finance and Economy (MOFE) and the Brunei Association of Banks have agreed to defer financing and loan repayments for up to six months for four sectors to help mitigate the financial impact of the Covid-19 outbreak. The deferment on principal repayments applies to businesses within the sectors of tourism, hospitality/event management, food and beverage (restaurant/cafes) and air transport as well as importers of food and medical supplies. Interest or profit rates still apply and the minister added that all bank fees and charges related to trade and payment transactions for companies in these sectors

¹¹ Ibid.

would be waived for six months. Local interbank transfer fees will also be waived for six months for all customers.¹²

Support structure for businesses

On March 21, a second set of interim measures was introduced by MoFE and centered around tax, utility and social security deductions and deferments to help Brunei's private sector amidst the Covid-19 outbreak.¹³

The new measures effective April 1, 2020 for six months include:

1. A six-month deferment on Employees Trust Fund (TAP) and Supplementary Contributory Pension (SCP) for micro, small and medium enterprises (MSMEs) with employees earning less than \$1,500. The government will continue monthly contributions to ensure that the annual dividend payments to employees are not affected. MSMEs need to apply for the deferment and are to repay the contributions within a year after the final month of deferment.
2. The government will provide the full SCP contribution for the self-employed. The self-employed SCP scheme carries a survivorship benefit which includes a \$400 monthly pay-out to dependents for up to 15 years in addition to receiving the SCP already paid up if the participant passes away before 60-years-old.
3. For the sectors of tourism, hospitality (including hotels and registered lodging houses), food and beverage as well as air and water transport there will be a 30% discount on

¹² The full measures are further detailed in the effect on Islamic bank below with press release statement from AMBD

¹³ Biz Brunei. (2020). *COVID-19 business updates: Fourth round of de-escalation starts July 27*. Retrieved August 13, 2020, from <https://www.bizbrunei.com/2020/04/covid-19-brunei-business-updates/>

rental rates for government buildings for MSMEs, 50% discount on corporate tax for companies for 2020 and 15% discount on water and electric bills.

4. Up to six months extension for i-Ready apprentices for trainees whose contracts are ending before September 2020.¹⁴

Prohibition of foreigners entering Brunei

As of March 24, Brunei will not allow foreigners to enter the country to reduce the risk of importing Covid-19 cases. The ban applies to all entry points and includes foreign transit passengers. All foreign workers were banned from entry to Brunei starting March 21 and will only give exemptions for foreigners who are required for essential services in Brunei.¹⁵

Financial relief for businesses and MSMEs

On March 28, MoFE has unveiled a third set of economic measures to help the private sector mitigate the impact of Covid-19 outbreak, including paying 25% of MSME employees' salary for three months. The latest measures focus on upskilling and supporting graduates, employees and local businesses with subsidies, training, grants and paid apprenticeships. Micro, small and medium enterprises (MSMEs) is defined as businesses with less than 100 employees, can claim 25% in salary subsidies for three months for their Bruneian employees with salaries less than \$1,500.¹⁶

¹⁴ Ibid.

¹⁵ Biz Brunei. (2020). *COVID-19 business updates: Fourth round of de-escalation starts July 27*. Retrieved August 13, 2020, from <https://www.bizbrunei.com/2020/04/covid-19-brunei-business-updates/>

¹⁶ Ibid.

Assessing Brunei's Response to Covid-19

The way the handling of the Pandemic Coronavirus Covid-19 in Brunei is commendable, where due to it being a national agenda and the whole of nation approach being implemented in which through the leadership of His Majesty the Sultan and the whole government and ministries are working together to tackle the Covid-19. The initiative was spearheaded by the Ministry of Health but also involve other Ministries such as Ministry of Finance and Economy, Ministry of Home Affairs, Ministry of Religious Affairs, Ministry of Education, Ministry of Foreign Affairs, Ministry of Primary Resources and Tourisms and Ministry Transport and Info-Communications and other relevant department and government agencies.

The initiative also involved statutory bodies as well as the private sectors. Due to the issues being regarded as a national agenda and use of the whole of nation approach and the swift actions by His Majesty's Government, Brunei is one of the first in the ASEAN region with a number of positives of more than one hundred who manage to contain successfully the Covid-19 virus and it must be commended that the actions and implementation are world class and can be considered as a success story for Brunei Darussalam. However currently, Brunei Darussalam is not 100% free from the pandemic at the time of writing but without the co-operation and collaboration of the whole of Brunei including from His Majesty's Government and private sector, this achievement will not be possible.

Since June, 2020, there have been a number of de-escalation initiatives by the Government as advised by the Ministry of Finance with the approval of His Majesty such as the opening on a stage by stage basis of restaurant, mosque, amusement park, cinema and other sport facilities. The success of the Pandemic Covid-19 handling in Brunei has a direct effect on its impact to the Islamic financial institutions in Brunei as their operations are not directly affected

especially in local market sector and as one of the country which have no community spread of Covid-19 since 6 May 2020 and it would be anticipated generally Brunei Islamic Financial Institutions are not affected greatly with this pandemic compare to with most other countries around the region.

Impact of Covid-19 on Islamic Financial Institutions in Brunei

The immediate effect on the Islamic Financial Institutions are further discussed below-

Islamic Bank

Bank Islam Brunei Darussalam (BIBD) is the only Islamic Bank in Brunei and licensed under the Islamic Banking Order 2008. As Brunei's flagship Islamic bank and largest financial services provider, with around 900 employees and more than ten billion worth of assets under management and serve more than 200,000 customers. Its valued customers include retail, corporate as well as international clients and offer to customers convenience through solutions such as internet and mobile banking. BIBD due to its strong position has not been affected greatly with this Covid-19 and due to this online banking will benefit from a lot of purchases as social distancing restrictions are in place and BIBD even manage to provide stimulus relief package.¹⁷

As has been explained above there have been a relief package which affect BIBD with the full detail as follows:¹⁸

¹⁷ Bank Islam Brunei Darussalam (BIBD). (2020). *Corporate profile*. Retrieved April 19, 2020, from <http://www.bibd.com.bn>

¹⁸ Autoriti Monetari Brunei Darussalam (AMBD). (2020). Ministry of Finance and Economy press statement on Additional Interim Measures by the Banking sector. Retrieved April 19, 2020, from <https://ambd.gov.bn>

Banking sector interim measures

1. In view of the ongoing COVID-19 pandemic, AMBD, working closely together with MoFE, has been in close consultation with the financial industry and stakeholders to address the current impact of Covid-19 on the local businesses. Together with the Brunei Association of Banks, interim measures to alleviate the financial burden on specific sectors have been agreed.

2. In supporting the impacted sectors and minimizing disruption to economic activity, under the guidance of MoFE, AMBD and Brunei Association of Banks recognise the important role of the banking industry and agreed on the following measures effective from 1st April 2020 for a period of six months:
 - i. To support the business sectors in the form of six months deferment on principal repayments of financing/ loan for the following sectors:
 - a) Tourism
 - b) Hospitality/ event management
 - c) Restaurant/ cafes (food and beverages)
 - d) Air transport

 - ii. In addition, this deferment will also be extended to Food and Medical Supplies importers to support the higher cash flow requirements to meet the surge in demand.

 - iii. All bank fees and charges, except third party charges, related to trade and payment transactions for companies in these sectors will be waived for a period of six

months. This will help businesses to self-sustain and we encourage these savings be transferred to the public.

3. In an effort to encourage social distancing and minimize visits to banks, online local interbank transfer fees and charges will also be waived for 6 months for all customers.¹⁹ The general public is encouraged to utilize existing digital payment platforms offered by the banks and other payment system providers.
4. Banks have also been encouraged to review their lending rates in the prevailing environment.
5. Every bank has its existing Corporate Social Responsibility (CSR) initiatives, and the banks are currently expanding these activities further.
6. With all the various stakeholders coming together, taking the whole of nation approach, it is expected that the private sector, with all these relief measures, to also play their part by retaining their existing workforce.
7. AMBD would like to assure the general public that the banking sector remains resilient, strong and well-capitalized. AMBD will continue to monitor the development and work

¹⁹ The waiver is extended for another 6 months and will end on 31st March 2021.

together with the financial institutions, and implement additional measures as and when necessary.²⁰

BIBD commitment

BIBD has given huge commitment to support different sectors of the community in Brunei Darussalam. BIBD has a strong balance sheet and strong liquidity and in its effort for a sustainable future BIBD has step up digitalisation efforts, such as use of NEXTGEN Services GO campaign and recently introduced the Virtual Market Place (Micro-Small Biz).

Virtual Market Place

BIBD has just launched its latest corporate social responsibility (CSR) initiative, Community for Brunei, a virtual market place designed to help small local businesses while highlighting social and charitable causes at the same time where through the platform www.CommunityForBrunei.com it leverages technology to bring the community together by providing an online ecosystem with an integrated digital payment gateway. It is in part with the financial institution's efforts to nurture a digitalised society in Brunei powered by a cashless economy.²¹

Through this Virtual Market Place, Community for Ramadhan, the project is aimed to be a virtual '*Gerai Ramadhan*' that enables members of the public to purchase food and drinks from

²⁰ Autoriti Monetari Brunei Darussalam (AMBD). (2020). Ministry of Finance and Economy press statement on Additional Interim Measures by the Banking sector. Retrieved April 19, 2020, from <https://ambd.gov.bn>

²¹ Wasil, W. (2020). *BIBD's Virtual Market Place Community for Brunei Is Now Live*. The Bruneian- April 18, 2020. Retrieved April 19, 2020, from <https://www.thebruneian.news?bibds-virtual-market-place-community-for-brunei-is-now-live/>

vendors who normally participate in the yearly Ramadhan stalls as *Bazaar Ramadhan* only by online.²²

Covid-19 relief

For this Covid-19 relief, BIBD has agreed to provide the following:

a) Corporates-

For Corporates, the relief are-²³

1. Deferment of financing principal payment up till 31 March 2021.
2. Restructuring (case to case).
3. Local transfer fee waivers up till 1 October 2020.
4. Trade and payment transaction fee waivers except for 3rd party charges for businesses in the 6 sectors.
5. BIZNET onboarding & monthly subscription fee waivers up till 1 October 2020.

The relief are focus on the 6 sectors, namely, Tourism/Hospitality/Restaurants & Cafes/ Aviation & Transport/ Importers of food/ Importers of Medical items. For Business sectors is applicable for Companies Partnerships, Sole Proprietors & Micro Small and Medium Enterprises.²⁴

b) Individual

The relief for individual are which include financing and credit card-

²² Ibid.

²³ Khokhar, M. (2020). *Economic Relief Package*. Retrieved April 14, 2020, from <http://www.bibd.com.bn/media-centre/economic-relief-package/>

²⁴ Ibid.

1. Applicable to all individuals affected by Covid-19 including self-employed.
2. Deferment of financing principal payment.
3. Option to restructure.
4. Credit card balance conversion to term financing.
5. Local transfer fee waivers up till 1 October 2020.
6. Processing fee waivers up till 30 December 2020.²⁵

c) Financing relieves

1. Personal and car financing:
 - Deferment of financing principal payment up till 31 March 2021; or
 - Restructuring up to 10 years
2. Mortgage Financing
 - Deferment of financing principal up till 31 March 2021
3. Credit Card
 - Conversion of credit card outstanding balance to term financing up to 3 years.²⁶

d) Nation-

1. Overall stimulus

For the overall package, through MoFE and AMBD, BIBD and Bank Association of Brunei has given stimulus relief package for a total of \$250 Million for a period of one year.

²⁵ Khokhar, M. (2020). *Economic Relief Package*. Retrieved April 14, 2020, from <http://www.bibd.com.bn/media-centre/economic-relief-package/>

²⁶ Ibid.

2. Caring & Inclusive society

- Practising precautionary measures
- Encourage volunteerism
- Upskilling students (e.g. Hospitality & Tourism IBTE)
- BIBD also provide for public donation for Covid-19 Relief Fund (latest figure \$6.2 million on 5pm 16th April 2020).²⁷

Tabung Amanah Islam Brunei (TAIB)

TAIB have also provided relief packages similar to the banking sector interim measures. However, since TAIB is not an Islamic Bank and have very limited Islamic banking products and facilities such as not having mastercard or credit card where during the early stages of Covid-19 there are high increase in number of usages with online purchases such as when all the restaurant were closed and customer can only bought food through delivery. TAIB also affected during the early period of the Covid-19 in Brunei where due to social distancing requirements, there were only limited number of customers at their branches and they do not provide services for online payment for purchase of products such as food and other things which have been greatly increase during Covid-19.

Takāful

The *Takāful* Companies are licensed under the Takaful Order, 2008, namely Takaful Brunei Sdn Bhd and Insurans Islam TAIB with both *Takāful* have a separate General and Family

²⁷ Ibid.

Takāful. As the treatment in Brunei for Covid-19 patient including for tests are free so there is no relief package for *Takāful* /insurance for the cost of medical treatment.

So far there have not been any relief measures for *Takāful* participants and in my view there should have been a relief for general and family *Takāful* as has been practised in BNM in particular relief measures for affected policyholders and *Takāful* participants among others-

1. Deferment of payment of family *Takāful* contributions;
2. Extension of flexibilities to reinstate or preserve family *Takāful* protection;
3. Flexibility to meet general *Takāful* contributions.²⁸

The coronavirus outbreak is unlikely to have a big negative impact on the *Takāful* industry in Brunei Darussalam. In fact, it might even spur the uptake of health insurance/ family *Takāful*. While health insurance/family *Takāful* may see increased demand due to the outbreak, one line of business that may see dampened business is travel insurance/*Takāful*, due to various countries' imposition of travel bans. In addition, there could be less demand for General *Takāful* for Motor Vehicle due to the restriction of number of vehicles registered daily and less demand for family *Takāful* due to less income from the public especially from the private sector. However, the restrictions on the number of vehicles registered have been lifted since early June and this will not affected the supply of registered vehicles daily.

²⁸ Bank Negara Malaysia (BNM). (2020). *Additional Measures to Further Support SMEs and Individuals Affected by the COVID-19 Outbreak*. Retrieved April 20, 2020, from https://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=5022&lang=en

Takāful products during Covid-19

Takaful Brunei Keluarga (TBK) Sdn Bhd also announced it has now included coverage for Covid-19 in its medical products, *Takāful As-Syifa'* and *Takāful Group Hospital & Surgical*. TBK is providing Covid-19 coverage for its *Takāful Aman*, *Takāful Aman Plus* and *Takāful Student Care*, where Brunei student who currently still abroad that in the event that they are diagnosed with Covid-19, they will have 50 per cent coverage for their medical inpatient treatment.²⁹

An existing income protection plan available with a monthly payment programme to provide financial protection, *Takāful Aman* lessens the financial burden of the participant, in the event of an accident or illness that prevents them from earning income with its basic coverage for death and total permanent disablement due to accidents. As for the *Takāful Aman Plus*, customers are also given the convenience in the form of monthly payments, which are also payable through the TBK Call Centre and online payment which allows customers to pay for their protection plans without having to go to any counters.³⁰

Capital market

YB Dato Dr Hj Mohd Amin, the Minister of Finance and Economy II cum the Minister at the Prime Minister's Office said the establishment of the exchange would act as a catalyst for economic growth and business development by making alternative financing available for businesses in the country. He added that an active securities market would open up more business opportunities with other bourses in the ASEAN region. The development of a

²⁹ Mohamad, L. (2020). COVID-19 Brunei: Insurance protection for COVID-19. Retrieved April 19, 2020, from <https://3g.modasys.net/index.php/news-events/around-brunei/local-news/38852-covid-19-brunei-insurance-protection-for-covid-19-2020.html>

³⁰ Ibid.

securities market will not only facilitate regional integration but also expand national capital markets and create more foreign investment opportunities.³¹ Brunei Darussalam has yet to launch the stock exchange and it might be beneficial to launch only if the market has been stable due to the uncertainty due to Covid-19 especially during its initial stage.

For *sukūk*, the effect of the Covid-19 should not be greatly affected as most of the *sukūk* issuance are open only to Corporate entities such as banks and since it is more a type of investment it is only paid during the issuance of *sukūk* and the only possible effect is the freeze of any issuance of new *sukūk* due to the uncertainty due to Covid-19. Therefore, there is no need for a relief in Brunei for Islamic Capital Market Industry as there is no immediate effect of the Covid-19.

Finance companies

The Ministry of Health has advised the public with regard to the social distancing, during the early period of Covid-19, the Land Transport department only allowed the registration of car road tax and vehicle licence via drive through or online. Furthermore, temporary new measure only allowed every car dealer to register 3 cars every day and certainly this will affect the Islamic finance companies where this will certainly affect the number of car financing which has taken the most of the bulk of financing in finance companies in Brunei Darussalam. However, since June this restriction has been lifted and therefore the effect is only temporary. There are only 2 finance companies in Brunei and the only Islamic Finance company in Brunei Darussalam is BIBD At-Tamwil which is also the subsidiary of BIBD which also offer some

³¹ Haris, N. (2020). Brunei Stock Exchange a work in progress. *The Scoop- March 14, 2020*. Retrieved April 19, 2020, from <https://thescoop.co/2020/03/14/brunei-stock-exchange-a-work-in-progress/>

relief for individual affected by the Covid-19 in car financing which is a deferment of financing principal payment up till 31 March 2021 and restructuring up to 10 years.

Money changer and money remittances companies

The reason these two industries are included is because they are included in the definition of “financial institution’ in section 2 of the AMBD Order 2010 and that their operation are not contrary to *Hukum Shara* ‘ as having no involvement with any interest (*ribā*).

Due to the travel restrictions imposed by the Government of Brunei which apply to Bruneian travel outside as well people coming to Brunei, clearly these will affect these two industries as the number of money remittance transactions will be less and the affect will be more felt by the money changer as there will be hardly any transactions for money changer due to the travel restrictions which resulted in some money changer having to close temporarily for business. Only businesses using online transactions will be less affected.

Summary of impact to Islamic Financial Institutions

The effect of the Covid-19 in Brunei Darussalam to the Islamic Finance institutions can be summarised as follows:

1. Islamic Banks are less affected due to the sound position in terms of assets and capital and have even give relief package. Benefit also with digital banking, more online banking business and payment through bank transfer.
2. *Takāful* with less car financing means less *Takāful* for vehicle, less travel package and offer other Covid-19 Package.
3. Islamic Capital Market with stock exchange not yet launched and *sukūk* not affected greatly.

4. Islamic Finance companies suffer initially with the restrictions on the number of new cars registered (only 3 per motor company) less income and even offer relief to individual and only affected temporarily.
5. Money Remittances have less income as there is less foreigners in Brunei due to shut-down of borders to foreigners.
6. Money Changer are worst affected since there is lack of demand and some business are temporarily closed and their income greatly reduced similar to the tourism sector.

Future Recommendations

Below are some of the recommendation to alleviate or ease the impact of Covid-19:

Consider digital transformation

As the coronavirus continues to spread around the world, more and more enterprises will miss their financial targets because of supply chain disruptions and dampened customer demand. What is clear is that Covid-19 will drastically impact most businesses for months, probably years. With this mindset, it's imperative for enterprises to build in the necessary operational resiliency to survive this new reality. The Covid-19 pandemic has showcased the value of IT and digital transformation and organisations should use this time to accelerate the transition.³² Businesses that can shift technology capacity and investments to digital platforms will mitigate

³² Nicolls, D. (2020). *COVID-19: a call for digital transformation*. Retrieved April 16, 2020, from <https://www.fintechfutures.com/2020/04/coronavirus-exposes-gaps-in-innovation/>

the impact of the outbreak and keep their companies running smoothly now, and over the long term.”³³

In Brunei Darussalam, there have seen a surge in e-learning, streaming and online shopping and payment never seen before. Volumes have greatly increased with significant upticks in banking and financial services and over the last few weeks further proof that the pandemic events can be a boon to businesses that are prepared to seize the opportunity. For companies which still require users to visit a store or branch office to create a new account or to perform routine transactions and increasingly, this is going to be a difficult due to social distancing.³⁴ At the same time with many people paying by online transactions, the move towards becoming a cashless society could be further improved where some people also fear of using the normal currency due to it possibly becoming contaminated with the virus Covid-19 although this has not been scientifically proven that it can be transmitted by cash handling.

Digital banking

Organisations that have web enabled their businesses are in much better position to weather this pandemic, both in the short and long term. Digital transformation covers a lot of territory, but starting with identity verification makes practical sense as it enables modern companies to streamline the customer onboarding journey. This enables their users to create new accounts and transact from their smartphones and computers without ever having to set foot within a branch office. For the past few years, digital account opening has been at the top of the list of

³³ Nicolls, D. (2020). *COVID-19: a call for digital transformation*. Retrieved April 16, 2020, from <https://www.fintechfutures.com/2020/04/coronavirus-exposes-gaps-in-innovation/>

³⁴ Ibid.

technologies organisations intend to add or replace, but Covid-19 is pushing digital transformation to the front of the line.³⁵

The importance of supporting MSMEs

The damage caused by Covid-19 incurred by MSMEs is mainly due to the great economic downturn, the drop of global and local demand due to travel and movement restrictions, as well as the large scale confinement imposed by law in most countries. This has led a to total or partial halt of many MSMEs' activities and was exacerbated by the violent waves that hit global supply chains that are essential to any production, manufacturing, or transformation process. Therefore, MSMEs are fighting for survival.³⁶

Despite shrinking economic activities, they are required to find resources to cover their constant and changing operating expenses, such as salaries, rent, and other expenses. They are obligated to fulfil their undertakings toward financing facility to the financial institutions and without any sort of relief such as deferment of monthly payment there would certainly an increase in non-performing payment for financing facility for the Islamic finance institutions. Without this relief package, reconstruction may take a long and difficult period of time in order to overcome the ensuing impacts of large-scale bankruptcy and unemployment and in this regard the relief package given by BIBD and BIBD At-Tamwil is very welcome by the MSMEs.

³⁵ Ibid.

³⁶ Hajjar, B.H. E. (2020). *Covid-19 and Micro, Small and Medium Enterprises, Saving the Global Economy from the Pandemic*. Retrieved April 16, 2020, from <https://www.isdb.org/news/president-of-the-islamic-development-bank-group-covid-19-and-micro-small-and-medium-enterprises-saving-the-global-economy-from-the-pandemic>

Findings

As can be shown above different types of Islamic Financial Institutions have been affected differently from the Covid-19 and all Islamic financial institutions must be well prepared for these type of pandemic in any future event so they will not be severely affected by these pandemics. The most notable importance of digital banking and online transactions have been increased greatly.

Therefore, in summary the future recommendations in general for every Islamic financial institutions so that it will not be greatly affected by the Pandemic is to have in place if possible all of the following:

1. To be digital and be ready as there are more online business.
2. Prepare for any contingency and more adaptable to any crisis.
3. Opening up different type of sector not just one dimensional.
4. Regulatory compliant such as capital adequacy and assets ratio of Islamic Bank/*Takāful* must be strong and sound and not greatly affected by this crisis.
5. Help and support from the Government and AMBD in terms of regulatory requirement and others.
6. Need to support the whole economy especially the private sector including MSME which will increase the demand and purchasing power of Islamic finance product and for future development.

Conclusion

There is nothing assured of what the future will happen to Brunei Darussalam in terms of what happen to its economy including the Islamic Finance industry however it can be certain that the success of the Islamic Finance Institutions will also related and depended on how well the

economy perform as there will be less demand for Islamic finance product if the economy is not doing well. It seems that for large size Islamic Financial Institutions such as Islamic Bank, *Takāful* Companies and Islamic Finance companies such as having been able to invest in digital transaction, innovation and others will not severely affected as compare to the small size institution such as money changer even though all their profits will be greatly reduced during this Covid-19.

Without doing anything or without greater effort we will not change for the better in the future. Brunei Darussalam need to improve the overall economy especially affected due to the effect of the Covid-19 and the huge drop in the oil prices as well as there is very high number of unemployment especially among the youth and even graduates and hence the development of Islamic finance and make Brunei Darussalam as international hub has been earmarked as one of the area which could contribute to the development of the whole economy through various financial activities and can create a lot of employment opportunities.

At the moment the Global economy including the Islamic finance face uncertainty due to the effect of the Pandemic Covid-19 which were said to effect more than the global financial crisis in 2008 and the Asian crisis in 1997, including the biggest downfall of shares in the stock exchange and if the whole nation work together towards this vision of becoming an international hub for Islamic finance and using the whole of nation approach with the ways how the Pandemic Covid-19 was handled in the country then everything is possible.

The effect on the Pandemic Covid-19 discussed here are only the immediate and current effect and the overall and long-term effect is still unknown and need to be further assessed. Beyond the operational actions already taken, Islamic financial institutions must remain hypervigilant and they need to also actively consider the short-and medium-term financial, risk,

and regulatory compliance implications that are resulting from the continuing uncertainty around Covid-19.

At the time of writing, this pandemic has not been totally eliminated and thanks to the great effort by His Majesty's Government and other sectors as have been highlighted before, Brunei Darussalam can be said not to suffer greatly not only in terms of the number of people infected and the number of deaths³⁷ but also insofar there has not been any lockdown in the country where all the operations of the Islamic financial institutions able to continue as normal. However, the whole country must be vigilant to keep it this way until there is a vaccine for this Covid-19.

Moreover, most of the operations and Islamic Finance products segment in Brunei Darussalam are traded and comprised in the local market sector, as having still continue operation and this will not have a significant impact on the Islamic finance industry and the most affected will be in the international market sector. The lesson learned from this to increase the building capacity around the 4th generation of industrialization that uses science and technology to prevent global value chains disruption under such pandemics which has shown us that our survival on this planet depends also on who much we keep investing in science, technology and innovation.³⁸

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³⁷ At the time of writing, 148 positive and 3 death from Covid-19

³⁸ Hajjar, B.H. E. (2020). *Covid-19 and Micro, Small and Medium Enterprises, Saving the Global Economy from the Pandemic*. Retrieved April 16, 2020, from <https://www.isdb.org/news/president-of-the-islamic-development-bank-group-covid-19-and-micro-small-and-medium-enterprises-saving-the-global-economy-from-the-pandemic>

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