BANKING OUTLOOK IN THE COVID-19 SCENARIO: APPROACH AND READINESS OF ISLAMIC BANKS

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June, 2020

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Segment-1: Approach and Readiness for Resilience and Sustainability in Islamic Banking

The global banking industry is fighting Covid-19 and working for resilience in line with the recovery strategies evolved and prescribed by the policymakers. While the outcome of the global efforts and the potential timeline for handling the situation is unclear, there are clear indications that the resulting devastation might even bring greater havoc. The complex multi-crises situation[1] started causing huge challenges for the banking and financial industry, and Islamic banking and finance is no exception (AAOIFI, 2020a). More specifically, the current environment characterized by acute business and financial interruptions; uncertainties with future business conditions; fears and lack of confidence amongst entrepreneurs and clients; and skepticisms with legal liabilities have created an extremely risky atmosphere for all forms of banking activities including Islamic banking. Not different from the banking industry as a whole, the business continuity; shaping the right approach; formulation of the right kind of readiness framework are critical challenges to the Islamic banking industry in this Covid-19 situation.

Now the most critical question is- how the root cause of this corona crisis and the resultant economic and banking devastations can be handled in a sustainable manner? Who is/are responsible for this pandemic i.e. for this devastation? According to IPBES (2020), there is a single species that is responsible for the Covid-19 pandemic-'we', the human being. The overambitious intervention of human beings depleted the natural ability of the environment to balance itself and disrupted ecological cycles. In addition, some new technologies altered the way that the people interact with their natural environment, and some of the fundamentally unnatural interventions resulted in a huge debate. In spite of several benefits, there are opinions that these highly debated unnatural interventions like genetically modified crops and animal cloning have threatened the natural order.[2] Practically, all these over exploration efforts; hasty development attempts; rapid modernization endeavors; and over ambitious policy interventions without respecting the natural order appear to be the responsible factors for today's misery- the Covid-19 Crisis. The Islamic view of the natural order and the environment, like everything else that is Islamic, has its roots in The Holy Qur'an where the concept of environment is distinct enough with given values to unity, balance, order, and harmony (Shah, 2020). Environmental protection is an important aspect of Islam. Islamic finance, defined by the implementation of principles of Shariah and Islamic law derived from The Holy Qur'an, The Hadith and other founding elements of Islam (Usher and Daouda, 2020), must not resort to any action that is harmful to the environment and against the natural order.

[1] Published recently in the Harvard Business Review, an article placed the existing and upcoming situation as a combination of Real Recession; Policy Recession and Financial Crisis (Carlsson-Szlezak et. al, 2020).

[2] Sharia scholars prohibit certain activities that include transactions based on interests, production or certain food and beverage industries etc. and also unnatural interventions like cloning (Jamaldeen, Faleel, Dummies: https://www.dummies.com/personal-finance/islamic-finance/seven-prohibited-industries-in-islamic-financial-investments/).

Alongside quick responses for handling contamination risk, the government of Bangladesh has undertaken several recovery measures, and the banking industry of the country is engaged in adapting the unprecedented scenario. However, these policy interventions, recovery drives, adaptation, and readiness must integrate environmental concerns for a sustainable solution. The paper is an attempt to discuss an indicative approach and readiness framework for the Islamic banks of the country depicting the banking outlook in the Covid-19 scenario. The paper draws heavily on recently published resources on the related issues and information analyses. Initiating with the background in segment-1; the subsequent segments dealt with dynamics of the causes of the crisis and impacts of Covid-19 on Islamic banking in the global and Bangladesh context before putting forward the desired approach and preparedness framework for Islamic banks of Bangladesh in segment-6.

Segment-2: Causes and Dynamics of the Catastrophe as Part of the Resolution Drive

Logical connections between nature and human health are well recognized.[3] Nature is the life-support system, and healthy natural systems provide so many essentials like water, clean air, fertile soils and a stable climate; they also give people food, medicines and materials; and directly underpin livelihoods (UNEP, 2020c). Treating animals with respect is crucial to humanity's own safety. The Holy Qur'an contains many examples and directives about how Muslims should treat animals.[4] Islam strongly asks Muslims to treat animals with compassion and not to abuse them; all living beings – humans, birds, animals, insects, etc. - are worthy of consideration and respect (Suliman, 2020). Referring to The Holy Qur'an, GreenFItree (2013) notes, people have their social groups and animals have theirs; there are beauty and majesty in the innate construct of swimming shoals of fish or flocks of birds dancing in the skies. However, it is a sad reality that animal rights are grossly violated throughout the world, and violence like hunting for skins or tusks means that several animal species are extinct (GreenFItree, 2013). IPBES (2020) rightly notes, uncontrolled expansion of agriculture, intensive farming, mining, and infrastructure development, as well as the exploitation of wild species have created a 'perfect storm' for the spillover of diseases from wildlife to people.[5] Climate change is another key force which in the longer term is likely to be a growing driver of the emergence of zoonotic disease outbreaks (WWF, 2020a). The most fundamental way to protect ourselves from these zoonotic[6] diseases is to prevent the destruction of nature, where ecosystems are healthy and biodiverse, they are resilient, adaptable, and help to regulate diseases (UNEP, 2020c). The pandemic is a reminder of the intimate and delicate

[3] According to the WWF (2020b) 'everything on our planet is interconnected and we are part of the equation'.

[4] "There is not an animal that lives on the earth, nor a being that flies on its wings, but they form communities like you. Nothing have we omitted from the Book, and they all shall be gathered to their Lord in the end" (The Holy Quran 6:38).

[5] While the origin of the Covid-19 virus is yet to be established, 60% of infectious diseases originate from animals, and 70% of emerging infectious diseases originate from wildlife. The Globe have lost 60% of all wildlife in the last 50 years, while the number of new infectious diseases has quadrupled in the last 60 years. It is no coincidence that the destruction of ecosystems has coincided with a sharp increase in such diseases (World Economic Forum, 2020).

[6] Zoonotic diseases are infectious diseases that are naturally transmitted between animals and humans. General strategies for preventing zoonotic diseases include reducing deforestation, ending the illegal wildlife trade, and improving hygiene in settings where interactions with animals are commonplace (Conners, 2020).

relationship between people and the planet (WHO, 2020). To help prevent the next pandemic, it is essential to transform human's relationships with nature (WWF, 2020b).

Unfortunately, the Covid-19 scenario brought in even more environmental disruption in certain fronts. For example, poaching and deforestation have increased since Covid-19 restrictions went into effect; bush-meat and ivory poaching incidents have become more frequent in Africa; Amazonian deforestation in Brazil has reached a nine-year high since the pandemic began (Price, 2020b). Another unpleasant truth is that the corona crisis is interrupting the ongoing green and sustainable development agenda like the implementation efforts of the UN (United Nations) Sustainable Development Goals or SDGs.[7] Considering the threat of attaining UN SDGs and 2030 Agenda, the UN Secretary-General Antonio Guterres states that "the recovery from the Covid-19 crisis must lead to a different economy." Reconciliation of public policy and green growth or pursuing economic development in an environmentally sustainable manner - is crucial for that recovery process (Green Finance Platform, 2020). The Islamic attitude towards the environment and natural resource conservation is not only based on the prohibition of over-exploitation but also on sustainable development (Al-Banna, 2020).[8]

Looking ahead, it is crucial that humanity rebalance its relationship with nature to secure a sustainable future for people and the planet (WWF, 2020b). Future pandemics are likely to happen more frequently, spread more rapidly, have a greater economic impact, and kill more people if policymakers are not careful about the possible impacts of the choices they make today (IPBES, 2020). Being stewards of the Earth, it is the responsibility of Muslims to care for the environment in a proactive manner; Muslims are encouraged (in The Holy Qur'an[9]) to reflect on the relationship between living organisms and their environment and to maintain the ecological balance created by Allah (Al-Banna, 2020).

In the context of the Covid-19 situation, referring to the calls of health professionals[10], Health Policy Watch (2020) suggested for recovery packages to prioritize investments in public health such as in clean air, clean water, and low-carbon development. They also warn governments to learn from the failures exposed by the pandemic to tackle vulnerabilities in

[7] There are evidences that SDG-2: Zero Hunger; SDG-3: Good Health and Well Being; SDG-6: Clean water and Sanitation; SDG-7: Affordable and Clean Energy; SDG-13: Climate Action; SDG-17: Partnership for the goals are getting affected (UNIDESA, 2020).

[8] Environmental awareness and protection of natural resources is an integral part of Islamic beliefs; as humans, people are keepers of all creation, including soil, air, water, animals and trees; a major objective of Islamic teachings and traditions is to build and maintain a healthy and clean environment which is devoid of any source of pollution and misuse (Al-Banna, 2020).

[9] "Allah surely loves not those who transgress the bounds of what is right. Do not cause any disruption on earth after it has been so well ordered." (The Holy Qur'an 7:55-56).

[10] More than 40 million health professionals from 90 countries worldwide have issued an open letter to G20 leaders and their chief medical advisors, urging them to support climate smart development in their plans for economic recovery from Covid-19. The appeal to the Group of 20 of the world's most industrialized countries, supported by some 350 professional organizations, including the World Medication Association, says green growth is medically mandated – to save lives both from climate and air-pollution related threats which would also make societies more resilient to pandemics such as Covid-19 (Health Policy Watch, 2020).

the economy and safeguard frontline healthcare workers, pointing out that when human health is compromised, the economy suffers. Country or area specific surveys[11] and activities[12] also came up with strong opinions in favour of green and sustainable recovery measures.

Researchers and academicians are strongly coming forward in favour of green recovery initiatives in many instances. The 'COP26 Universities Network' has drawn on certain research activities and analyses to create a briefing for policymakers outlining a path to net-zero emissions economic recovery from Covid-19. They suggest for reshaping the national and global recovery from the coronavirus pandemic in a way that supports the response to climate change and other environmental threats and emphasized on: renewable energy; reducing industrial emissions through carbon capture and storage; investment in broadband internet to increase coverage; and electric vehicles and nature-based solutions (Allan et. al, 2020). Recently, an assessment by the University of Oxford prescribes for green policy initiatives for recovering from the Covid-19 crisis. Based on a survey[13] outcome and lessons of the 2008 crisis, the study concludes that green projects/fiscal policy types[14] create more jobs, higher short term return per currency unit spend[15] and lead to long term cost savings, by comparison with traditional fiscal stimulus. In this context, the desired policy interventions of the study include building efficiency retrofit spending; clean research and development spending; natural capital investment for ecosystem resilience and regeneration; and investment in education and training to address immediate unemployment from Covid-19 alongside unemployment from de-carbonization. For developing countries, rural support scheme spending, such as investment in sustainable agriculture, has been highly ranked (University of Oxford, 2020). If stimulus packages simply return countries to where they were before Covid-19, the world will face the same problems of high pollution, climate crisis, and more serious health emergencies (Miller, 2020). "Some will claim that, in times of crisis, developing and emerging economies would not be able to afford the 'luxury' of green or sustainable investments, but this is a very short-sighted view" (Oxford Business Group, 2020).

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[11] In a survey conducted by Ipsos across 14 countries in April 2020, 65% of respondents said it was important for their government to prioritize climate change mitigation actions in their post-Covid-19 recovery strategies. The figure was as high as 81% in India and 80% in China and Mexico, and fell as low as 57% in the US, Germany and Australia (Oxford Business Group, 2020).

[12] An informal alliance has been launched in the European Parliament to propagate for green recovery from the Covid-19 pandemic. The 'green recovery alliance', has been launched in mid-April at the initiative of a French lawmaker (who chairs the European Parliament's committee on environment and public health) with 79 parliament members from across the political spectrum. The alliance also brings together civil society groups, including 37 CEOs, 28 business associations, the European trade union confederation, 7 NGOs and 6 think tanks with the appeal for the European Green Deal to be placed at the heart of the EU's post-pandemic recovery plan (Simon, 2020).

[13] They catalogued 700 stimulus packages into 25 groups and survey 232 senior officials of 53 countries that include finance ministers and top officials of the central banks.

[14] Results of April 2020 survey of leading global economists, testing 25 fiscal policy types.

[15] When designing stimulus packages, governments often look to two key metrics. First, how long it takes for policies to have an economic impact, and second, the effect of the investments on longer-term national income, measured by the 'economic multiplier'. Investments with a higher multiplier have greater economic impact per dollar spent (Calleghan and Hepburn, 2020).

Segment-3: Global Banking Market Heavily Impacted by the Covid-19 with No Exception for the Islamic Banking

The Covid-19 pandemic led to a major change in terms of growth, pricing, and products in the global financial and banking sectors (FSB, 2020). Liquidity challenge and cash crunch became strongly visible throughout the globe immediately after the spread of the Covid-19 as market liquidity deteriorated considerably including in markets traditionally seen as very deep (IMF, 2020a). As the pandemic continues, non-financial corporates face increasing funding shortfalls as cash flows from operations diminish or dry up (FSB, 2020). A reasonable explanation for the market reaction is that although theoretically, banks should be willing to lend to profitable firms that practically do not happen in such a scenario, and all the previous crises show that if policymakers do not intervene swiftly, even temporary shocks could lead to a liquidity crisis with long-lasting damage (De and Horen, 2013).

The coronavirus pandemic presents a historic challenge in credit markets, especially in risky segments, and a number of factors amplified asset prices,[16] contributing to a sharp tightening of financial conditions at unprecedented speed (IMF, 2020a). The crisis situation is affecting the equilibrium cost of funds to a downward push, as perceived. A tendency for holding cash increased and the tendency is causing pressure on deposit growth of banking institutions. In the global context, the economic slowdown led to a rise in nonperforming loans (NPL), especially NPL arose from loans issued to SMEs, airlines, hotels, tour operators, restaurants, retail, construction and real estate businesses (Ozili and Thankom, 2020). According to Goodell (2020), Covid-19 may permanently change firm financing, as there is a huge likelihood that the event will have tremendous negative impacts on global domestic demand and firms' cost of capital. Though, demand for certain online-banking increases, contraction of banking services, and lower fee collections causing further fall in banks' income. As a consequence, the demands on the financial systems' capital and liquidity have risen (FSB, 2020). There is no doubt that today banks are better positioned with higher capital and liquidity than in the past in response to the stringent compliance requirements of the central banks. However, the resilience of banks may be tested in some countries in the face of large market and credit losses, and this may cause them to cut back their lending to the economy, amplifying the slowdown in an activity which necessitates a forceful policy response (IMF, 2020a). In regard to certain policy interventions to address this emergency situation, changes and flexibility on capital treatment have duly been recognized recently by the Basel Committee on Banking Supervision (BCBS).[17]

The outbreak of Covid-19 is expected to have a major impact on Islamic institutions, just as it has on conventional banks. Lower financing demand, reduced fee income, and additional subsidized financing will hit revenues; nonperforming facilities are forecast to rise, although they may not be booked this financial year; and impairments will rise as well (Global

[16] In April, it took just 15 days for the USA and some other big stock markets to drop into bear territory that squeezed up credit markets significantly (World Economic Forum, 2020).

[17] In April 2020, BCBS agrees on certain flexibility in regard to capital treatment of loans subject to payment moratoriums; guidance on non-performing loans and expected credit loss accounting (BIS, 2020).

Finance, 2020). Over USD 2.4 trillion Islamic finance industry[18] with some 1,400 institutions spread across 80 countries, faces unprecedented challenges driven by the global Covid-19 pandemic (Domat, 2020). Given the downturn posed by the Covid-19 pandemic, the volatility in oil prices, and the uncertain macroeconomic environment, the Islamic finance industry faces an unprecedented challenge to its development (Brown, 2020). According to Al-Natoor (2020), other than the contamination risk which is common, Islamic banks' risk factors and mitigations vary from country to country. In Indonesia, while Islamic banks are likely to be affected to a similar degree as conventional banks, those with significant exposure to the tourism sector are likely to be more affected. If the outbreak prolongs, there is a potential downside risk to the sector's growth and asset quality. In Malaysia, Islamic banks' credit profiles are expected to remain broadly steady, with adequate loss-absorption buffers, though asset quality and profitability might be affected should the Covid-19 outbreak be prolonged. In Turkey, asset quality pressures faced by Islamic banks are significant, as for conventional banks, due to seasoning risks following rapid financing growth, exposure to risky segments, and above-average foreign-currency financing, given potential lira depreciation (Al-Natoor, 2020). In the Gulf Cooperation Council (GCC) countries[19], Islamic banking is an integral part of the banking system, and unlike their Asian or African counterparts, Islamic banks in the Arab world depend largely on government spending [20] which means the unprecedented drop in energy prices has serious implications for them (Domat, 2020).

In many Asian and African countries, Islamic finance has a large market share in microfinance, small and medium enterprises (SME), and retail lending (Domat, 2020). The pandemic would have a more severe and deeper impact on Islamic finance markets, as the current crisis is affecting SMEs as well as low income and minimum wage individuals particularly hard; and compared to conventional banking, Islamic finance has a larger exposure to SMEs, microfinance, and retail lending, especially in Asia (Brown, 2020). With the most government imposing social distancing rules and shop closures, "we see a big impact on SMEs, low income and minimum wage individuals while corporates have large cushions of capital and government support" according to the CEO of the Islamic Corporation for the Development (ICD).[21] And he adds, "We have to think out of the box". As commercial banks across the world find themselves on the brink of crisis, the Islamic banking system faces unconventional challenges; and Covid-19 establishes a new platform for evaluating how Islamic banking responds to economic chaos (Royt, 2020).

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[18] "Since the inception of the Islamic finance industry in the 1970s, there has been a steady growth in demand for sharia-compliant products and services and the industry's total assets reached USD2.5 trillion globally in 2019" (Brown, 2020).

[19] "For example, in Saudi Arabia about 80% of financing is Sharia-compliant (Islamic banking plus Islamic windows of conventional banks) and in Kuwait the share of Islamic banking is around 40% of total banking sector assets. Each bank's expected performance is subject to their standing in terms of asset quality and liquidity and their exposure to different sectors" (Al-Natoor, 2020).

[20] "In the Gulf Cooperation Council, the asset mix is different, much of the economy is driven by government spending on infrastructure and there is more exposure to real estate; a decline in oil revenue means a cut back on these projects that affects all financial institutions," remarked Hassan Amin Jarrar, CEO,Bahrain Islamic Bank, the oldest bank in the country (Domat, 2020);

[21] A branch of the Saudi-based Islamic Development Bank Group dedicated to the private sector which covers 55 countries.

Nevertheless, Covid -19 is also shifting the dynamics in the industry and the outbreak may create new opportunities for Islamic finance markets by accelerating trends such as socially responsible investing, sustainability, and digitalization (Brown, 2020) The aftermath of Covid-19 may also create new opportunities for Islamic banking, particularly with the rise of socially responsible investing and the growing popularity of ESG.[22] Not only will improving ESG risk management benefit the bottom line, but the strategic shift towards responsible finance will also unlock new opportunities for Islamic banks to differentiate itself from peers and unlock new business opportunities in the post-Covid environment (Brown, 2020). According to Usher and Daouda (2020), Islam's promotion of social trust, cooperation and solidarity mean that Islamic banking products are well suited to SDG impact (box -3.1).

Box 3.1: Aligning Islamic Banking and Finance with SDGs
Policymakers and Islamic banks should come together to ensure SDG impact metrics and reporting are agreed upon that are both sharia compliant and in line with international standards which will open up global investment opportunities
To better support the SDGs, leaders must develop a range of Shariah-compliant impact investing tools and instruments that are attractive to large investors.[23]
Make SDG-compliant Zakat investments the norm to channel funds to the local SDG projects. These include renewable energy projects in underserved communities.[24]
Create pro-poor and environmentally sustainable initiatives to attract investment from the public and private sector stakeholders with success indicators that can be and measured
Islamic finance institutions could not only provide a range of products to vulnerable communities but might also ensure these communities are adequately empowered by strengthening technical and managerial capacities, addressing climate risks, accessing markets, and building partnerships.[25]
Note: Authors' compilation based on Usher and Daouda, 2020.

One of the many issues this pandemic has shown to the Globe is that survival depends heavily on investment in science, technology and innovation, and to promote this, innovations on advanced technology, innovative health supply chain management, low-cost rapid tests and capacity building innovations are particularly encouraged at all economic, development and financial arena (Bicer, 2020). Beyond its immediate economic implications, Covid-19 is also forcing the Islamic finance industry to adapt to the rapidly evolving market conditions and speeding up the pace of emerging trends such as digitalization to mitigate the impact of the outbreak (Brown, 2020) The global Islamic banking software market size is expected to grow by USD 460 million during 2020-2024, and the report[26] noted that as a whole the new opportunities created due to the Covid-19 pandemic (Technavio, 2020).

[22] Environmental, Social, and Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business

[23] Under the Youth Employment Support (YES) program, IsDB pioneered venture capital financing (Restricted Mudaraba) for micro and small businesses operated by youth. Through risk-sharing, the Restricted Mudaraba financing facilitated financing to youth micro and small businesses.

[24] In Palestine, Zakat funds support SMEs through Islamic microfinance structures.

[25] In Tunisia, IsDB has invested in Zitouna Tamkeen, a unique microfinance institution with an innovative approach to achieve socio-economic impact objectives by funding economic empowerment projects with high potential value chains and supporting greatest number of beneficiaries.

[26] According to Technavio (2020) the Middle East (MEA) region led the Islamic banking software market share with application in different segments (retail, corporate and others) in 2019, followed by APAC, Europe, North America, and South America respectively. During the forecast period, the MEA region is expected to register

Segment-4: Services and Businesses of the Banking Industry of Bangladesh Including the Islamic Banking are Visibly Affected

The banking industry, the core component of the financial sector of Bangladesh, is in a difficult business environment and uncertainty like in other developed and developing economies. Disruption in the domestic economic sector[27] and external businesses[28] started affecting the banking sector of the country. Though opportunities are being created for certain businesses[29], practically, at this moment the industry has an adverse environment with all the elements that may result in significant risks of different types in banking operation. All associated parties of the banking operations and services are also not certain about their future legal liabilities in the post Covid-19 environment. The Islamic banking industry, a very important segment[30] of the banking industry of Bangladesh, has also been facing turbulent situations in most business areas and operations.

Contraction of banking activities and underperformance are clearly visible. Banks are on the war-front to support certain essential payment and financing services, however in many cases, they can only serve a few customers to enforce social distancing rules. Currently, banks are not in a position to maintain their regular deposit growth, rather withdrawal of deposits and the tendency of holding cash might cause additional liquidity pressures in the upcoming months. In-person banking is severally affected, the traditional habit of the banking industry in most developing countries including Bangladesh. Banks are underperforming in their customer services, and there are fears of the erosion of customers' confidence.

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the highest incremental growth due to factors such as the high concentration of Muslim population, and a high penetration of vendors offering Islamic banking software solutions in the region.

[27] A number of domestic economic sectors are getting punch and might be severely affected if the outbreak goes long. In line with the global trends, tourism sector, airlines, retail sector, and some of the manufacturing might be hard hit. Size matters in the short run, and MSMEs are facing cash crunch. Especially, micro and small businesses of the non-essential items are in trouble. However, comprehensive impact on these enterprises obviously would depends upon the duration and the severity of the outbreak in the coming weeks/months. Agriculture and farm sector, the food suppliers, have some temporary challenges that necessitates fund injection and reconstructing the supply chain (Habib, 2020).

[28] In the context of the vulnerability of external sector, domestic production of certain export destinations of the country are concerning. According to the IMF's recent projection (May 2020), USA, the largest destination for Bangladesh's export products, will face 5.9% negative growth this year, while Germany, the second largest destination of Bangladesh's garment products, will face 7% decline in GDP. An estimation by Lu (March 2020) shows that the demand for apparel consumption in the EU and USA, the world's top two apparel consumption markets, is expected to drop sharply; and China could be hit the hardest followed by Bangladesh. With the 5-10% decline in GDP in USA and EU, Bangladesh's exports could decline by 6-17% to USA and 4-12% to EU; and the resultant job cut might be by 4-9% in the RMG factories. According to a recent technical note by UNCTAD (April, 2020), a 2% reduction of Chinese exports in intermediary inputs may cause USD 17 million trade loss to Bangladesh. This is concerning when leather, RMG, wood products and furniture have considerable dependence on Chinese intermediary goods (Habib, 2020).

[29] Automotive production might be affected, however, e-commerce may boost. In spite of supply chain challenges, telecom, technology and pharmaceuticals are likely to get lift (Habib, 2020).

[30] As of February 2020, the market share of assets of the Islamic banking industry is around 25 per cent of the country's total banking assets; among the top 35 jurisdictions in terms of domestic market share of Islamic banking, Bangladesh is ranked 10th", according to the latest country report of Islamic Finance News (IFN), world's leading Islamic finance news provider (https://thefinancialexpress.com.bd/stock/bangladesh/islamic-transactions-snare-25pc-of-countrys-total-banking-assets-1581828990)

There are claims that with the reduction of cash flows, business firms are struggling to pay their suppliers, their employees, and ultimately their bankers. A large number of these firms have got capabilities to come back as the situations get normal in the coming months. But, at this moment, smaller firms are already facing solvency challenges, and bigger corporates may also face the challenge of insolvency once their inventories and cash reserves are depleted. If the situation lasts longer, this could pose a challenge for the banks of the country.

In the context of international trade services, payment-related risks became a matter of concern. In Bangladesh, banks have significant involvement in trade transactions and may even face greater liabilities as a result of international trade disruptions. There are claims that some banks in different countries are identifying spurious discrepancies in the LCs to escape payment liabilities which might be the source of fraud and reputational risks for banks. If not handled properly, back-to-back LC might be a source of challenge for the country's banks in the coming months. Exporters have uncertainties about making shipment and receiving payments against exportable, and importers are also facing challenges of receiving and selling importable and thus are confronting cash crunch to pay back repayment liabilities to the creditor banks.

Banking industry have been engaged in a wide range of policy driven sustainable banking activities covering no-frill accounts for low income classes; agricultural and small and micro enterprise financing; and green financing. The industry as a whole achieved some notable marks in automation and online banking. In spite of several barriers on in-person banking, online and technology driven banking might be the future areas of opportunities for banks.

As a whole, the situation points toward notable contraction of both financing/investment and fee income of banks and financial institutions. If the unfavorable business environments and the longer corona war result in a rise in non-performing loans to a reasonably high extent, banks may confront the capital adequacy and solvency challenges- very critical indicators of financial stability.

Traditionally, the deposit growth of the Islamic banks in Bangladesh has been higher as compared to that of the conventional banks. Due to operational and lockdown related challenges, the deposit trend and growth are confronting halts. During the last few months, the overall deposits of banks increased notably (irrespective of Islamic and conventional) as Bangladeshi expatriates working abroad sent a significant amount of remittances to the country in the wake of the crisis, however, deposits of Islamic banks might be affected as a good number of NRBs are said to be jobless for the last couple of months. During Covid-19, business activities of the investment customers are facing a downturn at large and thus their cash flows are impacted abruptly. Thus the investment deals[31] that are becoming overdue due to customer's inability to pay in time are causing concern to the Islamic banks of the country. Islamic banks may lose profit as under the Bai mode there is no scope to draw profit for the overdue period. Though Islamic banks are charging compensation for the overdue period,

[31] Islamic Banks in Bangladesh are mostly engaged in investment activities using Bai mechanism.

these compensations, if realized, cannot be added in their incomes due to Shariah restriction. ‘Weaving of these compensations due to Covid-19 situation’ is said to be in consideration. Regarding other modes of investments, trends of non-payment have also been problems in the Covid-19 situation. Islamic banks are trying to give more thrust on digital services, however, customers’ engagement and awareness remained a key challenge in this context. Islamic banks have always been very active in their CSR activities, and there are several instances of showing good gestures during this Covid-19 situation.

Segment-5: Recovery Drives in Covid-19 and Role of Banks: Desired Approach of the Banking Industry of Bangladesh with Special Reference to the Islamic Banks

In response to the widespread virus contamination and economic, monetary and financial sector implications, the policymakers are providing unprecedented support to households, firms, and financial markets around the globe. These measures introduced by the policymakers may be categorized into public health measures; human control measures; fiscal measures, and monetary measures (Ozili and Thnakom, 2020). UNDP’s integrated response to Covid-19 offers support and guidance to counties to prepare, respond, and recover; where Islamic finance can be part of the Covid-19 response through a range of financing instruments well-suited for various stages: emergency and short term, medium term and long term. Zakat[32] can be an important component of national emergency support programs.[33] The financing of equipment, vehicles, and other sources of livelihood and trade finance are key mechanisms by which Islamic banks and financial institutions can support recovery in the medium term. Aligning their financing activities with the SDGs is a significant opportunity for Islamic banks.[34] Sukuk especially that are SDG linked[35] can be an important source of long-term capital for governments and companies engaged in the Covid-19 response and recovery; Waqf endowments can, in many contexts, be important contributors to long-term resilience which can be an important way for stakeholders to contribute to social infrastructure that serves the SDGs and, in the words of the UN Secretary-General, help countries ‘recover better’ over the long term (Rehman, 2020).

Many of these policy interventions, undertaken over the globe, are directly and indirectly associated with financial sector stability- more specifically, the soundness of the banking industry. Financial institutions and banks are also engaged in a supportive approach from their own perspectives. FSB (2020) perceives the arrangement into three levels: System-

[32] Zakat, which is effectively a Muslim ‘wealth tax’, is a sacrifice of wealth; this is not just charity - it is a core duty and one that ‘purifies’ the rest of our wealth (Iqbal, 2020).
[33] UNDP’s partnership BAZNAS, Indonesia’s national Zakat collection agency, has been in place since 2017. This collaboration is an example of how Zakat stakeholders can systematically link their projects with the Sustainable Development Goals, including in response to crises. UNDP’s recently-announced partnership with the Dubai Islamic Economy Development Center is a reflection of how UNDP can support private-sector companies on social impact.
[34] In 2018, the Al Baraka Banking Group launched a collaboration with UNDP that seeks to align over USD600 million of its financing portfolio with the SDGs in the Middle East, Asia, Africa, and Europe. The coronavirus pandemic makes such initiatives all the more urgent.
[35] Government of Indonesia’s Green Sukuk of 2018, is a prime example of how the venture may have great SDG impact (Rehman, 2020).

Level; Supervisory-Level; and Firm-Level. At the system-wide level, central banks are engaged in maintaining stability in the financial and banking system by using policy tools and by ensuring due support from the fiscal policy authority. The central bank and the relevant authorities are monitoring and reviewing banks' pandemic plans, delaying certain activities; scrutinizing existing services and observing weaknesses and threats, etc. At the individual firm or bank-level, the measures target to strengthen operational readiness and contingency planning; protecting the health and safety of staff and customers; and maintaining the continuity of financial services and critical financial market infrastructures (FSB, 2020).

The government of Bangladesh initiated preventive measures actively from early February 2020 i.e. even before identifying any conformed Covid-19 case. Responding quickly, the government of the country closed education institutions (from March 17), discontinued public and private offices from March 26 (other than offices engaged in offering essential services), and encouraged all non-essential businesses to shift their activities online. In remarkable ventures, the Honorable Prime Minister of the People's Republic of Bangladesh came up with economic stimulus packages initially in two declarations on March 25 and April 05, 2020; and by mid-May, a total number of 18 stimulus packages worth BDT 101117 (3.6% of the country's GDP) crore have been announced.[36] Bangladesh Bank (BB) initiated several market intervention measures and refinancing schemes to complement the government's initiatives.

BB has been actively working to respond to the increasingly challenging circumstances. Promotion of payment, especially online, has been rightly encouraged from the initial stages of response by the BB by raising monthly and daily transaction limits, and also by waiving of charges in certain online payments. [37] As the monetary policy authority of the country, BB responded to the market needs with several efforts of liquidity injection that includes buying-back of government securities; reduction in repo interest rate; and very importantly, reduction of Cash Reserve Requirement (CRR) and increasing Advance-Deposit Ratio (ADR)/Investment-Deposit Ratio (IDR) of banks.[38]

The economic stimulus packages declared by the government are being primarily channeled and enforced by the banking industry to support the core economic sectors affected by Covid-19. To that end, BB is engaged in facilitating the process by issuing complementary guidelines, directives, and incentives. As an initial response to support affected businesses,

[36] https://tbsnews.net/economy/pm-announces-total-18-stimulus-packages-worth-tk-101117cr-81433

[37] Monthly transition limit in mobile payment services increased from approximately USD 900 to 2,300 and charges waived on cashing out (withdrawal) of up to USD 12 per day; daily transaction limit increased from approximately USD 35 to USD 60 contactless debit and credit cards; waiver of charges to merchants when accepting debit and credit card payments for medicine and other essentials, subject to approximately limit of USD 180 per day and USD 1,200 per month on March 20 (KPMG Web: https://home.kpmg/xx/en).

[38] BB announces to buy back government securities from secondary market on March 22; BB's Repo interest rate reduced from 6% to 5.75% on March 23; the repo rate is further reduced to 5.25% effective from 12 April; CRR of the banks reduced from 5.5% to 5% on bi-weekly average basis and 5% to 4% on a daily basis on April 01; CRR is further reduced to 4% on bi-weekly average basis and 3.5% on daily basis effective from 15 April; ADR rate increased to maximum 87% from 85% and IDR for Islamic banking increased to 92% from existing 90% on April 12 (BB BRPD Circulars: https://www.bb.org.bd/mediaroom/circulars/circulars.php).

BB announced on March 19 moratorium on loan payments until 30 June 2020 (later extended upto September 2020), which is also benefiting bankers by relieving them in meeting loan classification and provisioning requirements at least temporarily. In another circular, the central bank relaxed several provisions related to international trade transactions and unveiled a number of policy support for the country's exporters and importers amid a slowdown in external trade in the wake of the coronavirus pandemic. In a notable initiative, the EDF facilities were allowed to meet back-to-back obligations. The central bank offered extended time for realizing export proceeds, submission of import bills of entry, back-to-back letter of credits and payment of export development fund loans, and repatriation of export bills. Several complementary circulars were issued to support banks and their clients for easy availing of economic stimulus packages targeted to MSME and agricultural sectors.[39] The central bank might be coming up with more responses with the evolving circumstances.

Economic stimulus packages are basically working capital support to the affected industries, traders, enterprises, and individuals. Banks including Islamic banks are to disburse or facilitate the investment based on bank-customer relationship, which means banks are to bear the associated credit or investment risk. From banks perspectives, alongside contributing to economic turnaround, the packages are expected to contribute to regain the economic and financial strength of the banks' customers. It is important that the stimulus packages have due provisions so that Islamic banks of the country and their clients may avail the benefits of the economic stimulus and recovery packages.

As crucial economic agents of an economy, banks have great roles to play in this unprecedented situation. It is not only about supporting banks' clients and employees, it also about supporting policymakers and the society. A bank has also to work to save itself. Wyman (2020) perceives three key areas of focus to serve on the part of banks: *one*, serving customers i.e. ensuring access to critical services in affordable and comfortable terms; *two*, helping society i.e. supporting affected customers and communities; and *three*, responding to financial difficulty i.e. scenario planning, launching a special credit strategy, and operationalizing restructuring capabilities. A recently published editorial, The Banker (2020) considered the situation as a real opportunity to support customers, employees, and societies and suggested banks to respond positively. According to the editorial, banks must start by ending all bonuses and canceling dividends so that the resources of the bank can be focused on helping both retail and business customers with mortgage and loan holidays; banking associations should also step up by coordinating measures where they do not fall foul of competition rules and by putting out an industry message about what is being done (Banker, 2020). There are different opinions as well. For example, Vater et.al. (2020) are in favour of focusing more on banks' resilience and opine that banks should first protect their employees and service providers through safety measures in branches and essential offices; and for their affected customers and small businesses they should offer payment extensions or other programs but only so far as their balance sheets allow. Policymakers in different countries

[39] The paragraph is based on a number of BRPD, DFIM, MPD, FE, SMESPD, ACD, DMD, FID and DOS circulars of BB issued during March, April and May, 2020 in response to handle the Covid-19 situation (https://www.bb.org.bd/mediaroom/circulars/circulars.php)

attempted to help financial institutions address these challenges by issuing some forms of business continuity guidelines and operational resilience expectations. However, to ensure the effective contribution of the banking institutions, and for handing the upcoming challenges, banks' governance level or directors have a great role to play in the areas of business operation; risk management; social responsibility; financial support; and development strategy (Ernst & Young, 2020). Since the corona outbreak, a number of banks have assumed social responsibility and are engaged in supporting the fight against the outbreak and have resumed normal operation, such as providing preferential credit or investment support and reducing business fees for affected customers, opening green channels, enhancing online financial services, and donating funds and supplies. By the time, globally many banks have also triggered their business continuity plans and are tackling the immediate impact of the pandemic and innovative ways of working and preparedness for handling post Covid-19 business situations (Wyman, 2020).

Segment-6: Approach and Readiness of Islamic Banks of Bangladesh Integrating Welfare and Sustainability Concerns

Islamic bank managements need to install organized strategy to offer optimum support to the policymakers and to be ready to face the upcoming banking challenges. It is the right time for the Islamic banks to reflect due patience and sacrifice.[40] The crisis management process must be an integrated approach in line with the 'Enterprise Risk Management'[41] fundamentals and within Shariah laws and principles. Top management, departments, branches, and regions need to be integrated with the ongoing risk management process of the banks. This is time for survival during the crisis and revival for future businesses.

The macro approach of green economic recovery and showing due respect to the environment must also be reflected in the financing activities of the Islamic banks. There are opinions that the focus on sharing profits and taking communities into consideration means that the Islamic way of banking[42] is better for the planet; and building on this, it could be argued that investing in ecological harmful projects is prohibited since Muslims have the faith that Allah has appointed humans as protectors of nature and thus free exploitation is not permissible.[43]

[40] Patience and sacrifice are in the DNA of Islam. The most obvious symbol of Muslim faith practice - the five daily prayers - is a sacrifice of time that reminds us of life's fleeting nature and "purifies" the rest of our daily activities (Iqbal, 2020).

[41] …..is a structured approach that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the uncertainties the enterprise faces; it is a forward looking approach to manage all key business risks and opportunities (Deloach, 2000); boards have leadership roles to play.

[42] Islamic finance is clearly in a position to have a positive impact on the environment (Aburawa, 2011).

[43] Aburawa (2011) notes, Islamic finance is seen as a 'greener' alternative of the economic systems that put the human need for consumption above everything and nature is seen as a free good for free exploitation.

All Islamic banks must handle contamination risks at their workplaces and branches as a priority. Hygiene and cleanliness must get top priority.[44] One aspect of coronavirus prevention that comes very naturally to the followers of Shariah principles is personal hygiene.[45] The clients visiting bank branches in person may face a similar risk or may be the carrier. Islamic banks must have adequate arrangements or installed systems to handle that risk. Islamic banks need to estimate additional resources needed to address the scenario if the crisis goes longer.

Human Resource Department must do enough to use technology to facilitate work-from-home in certain areas when relevant. Employees might be confronting the fear of job-cut, and thus banks need a strategy to address their fear to ensure due productivity and efficiency. Training and capacity development should be emphasized in renewed shape. Banks might resort to online-based education and training platforms to continue with the capacity development programs.

Islamic banks must work to ensure that depositors have a similar level of confidence and trust that they were having before the crisis. In spite of several challenges, people may have savings capabilities and may have interests to transact with banks. There might be attempts to reach the doorstep of the people who are generally out of the financial access of the banks by redesigning access tools.

The potential impact of business disruption on investment portfolios is expected to be a key concern to the Islamic banks and thus should be addressed. All economic sectors are not equally affected due to the corona situation, and investment exposures of banks vary. In the case of international trade services, payment obligation might be a cause of concern. These review and assessment exercises would offer indications and hints for future trends and inclinations- important information for business strategy.

Economically and environmentally desirable activities should be particularly addressed and supported by Islamic banks. Sustainable banking ventures related to financial inclusion, small and micro enterprise financing, agricultural financing, and green financing would be required special attention and support. Certain innovative Islamic financing modes to invest in projects aligned with SDGs might help the economy and community the most.

[44] Not only has Allah informed us that we will face circumstances that we will regard as hardships, but the Almighty, has shown us how to face them. “You who have believed, seek help through patience and prayer. Indeed, Allah is with the patient.”(The Holy Qur’an 2: 153); Hygiene and cleanliness (tahara) is so integral to Islam that it is actually a major sub-branch of Muslim faith; without physical hygiene, prayers are broken (Iqbal, 2017).

[45] Health organizations and experts promote personal hygiene to limit the spread of coronavirus, especially washing hands frequently for at least 20 seconds. Islam has been encouraging personal hygiene for centuries. The Quran instructs followers to keep their clothes clean in one of the earliest revelations (74:4), remarking “God loves those who are clean” (2:222) (noted in the Conservation, 2020).

Islamic banks must work on strategizing investment to support the policymakers in this critical moment and minimize their risks at the same time. As a crisis response strategy, policymakers around the globe are following almost a common approach of injecting money in the economy by ensuring greater liquidity with the banks. However, if banks do not respond with proactive approaches and invest, national policy goals cannot be attained.

IT and Fin-tech service platforms and processes must be under extensive monitoring to handle any cyber risk and related operational challenges. Banks may find scope to adopt newer technology shortly to strengthen the necessary online service facilitation. It is also time to work on future business strategy in the area of IT and Fin-tech business adaptation. Digitization might be an immediate strategy, however, digitalization should be the ultimate target.

ICC and the Office of CAMELCO should be given special and redefined responsibility to detect mistakes and non-compliance. Crimes and fraudulent activities may pop-up in a crisis situation in banks especially when the internal control system is not in full swing. Money laundering associated with the health and essential trade transactions; and technology-driven illegal fund transfer might be challenging. The office of the CAMELCO must have a special focus on the evolving crime areas.

An Islamic bank must have an internal strategy for approaching stimulus packages so that its clients and the bank itself might optimally benefit from these. These packages are targeted mainly for the affected clients of banks. Clients having financial strength and who are unaffected should not be facilitated with these scarce packages for the sake of the quick economic recovery of the country.

Regulators must be well informed about the challenges that a bank is or banks are confronting. Banks must be very transparent with the regulator in this critical situation. In this current scenario, these banking challenges may not get priority over 'contamination risk' and 'economic recovery' concerns, however, it would help to get recovery support from the regulator in due time.

Covid-19 is offering an opportunity to support clients and affected communities, thus improving the reputation and image of Islamic Banks. Meeting commitment and liabilities by banks is crucial for reputation. Especially, international payment liabilities must be met for long term benefits and reputation. Trade service providers must not resort to unethical acts for the short-term gain of the bank. It is important to take care of the reputational risk and country risk for sustainable operation by banks in the post Covid-19 situation.

Strategic communications are critical for addressing moral hazard problems that would help to handle the investment quality of Islamic banks. Supporting and knocking might work as fruitful incentive tools for exiting investors to handle moral hazard. This is also critical for the retention of clients as well. Since people are forced to be isolated under social distancing rules, they are consuming more digital marketing and are also observing

how businesses are reacting to the current environment. Thus it might be a great time to continue with digital marketing by a bank.

A crucial area for the banking institutions in any crisis situation like the ongoing Covid-19 is to respond adequately for avoiding a surging loss of trust and confidence with their customers. At this moment, banks are required to act in accordance with the fact that clients are more inclined to stay with a bank they trust when changes in the market occur, and trust of clients is constructed through effective and regular communication to make them well-informed. Business recovery would really be difficult for banking institutions in the presence of the erosion of trust and confidence.

Finally, this is the time when honesty and strong moral principles amongst the boards, bank management, and the key stakeholders would play the strongest roles to handle the banking challenges with the ultimate targets of recovery and consolidation of Islamic banking practices. This reflection is particularly desirable from the banking practices that founded on the Shariah laws mainly derived from the Holy Qur'an and the Hadith.

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