Editor's Notes

Basic financial engineering is needed to spur original activity and make things better for shareholders. Such engineering and innovation is one of the primary drivers of Islamic finance and its global economic expansion. It plays a crucial role in attracting new investors (both internationally and domestically) and new business opportunities which enhance the overall finance industry by offering multiple options to the market space.It also reflects an advancement and maturity of the marketplace and a march towards sustainability. Moreover, it leads to an increase in productivity and value which is the fundamental source of wealth and prosperity in the economy.

Product innovation in the finance field is a necessary and important step for the development and enhancement of the Islamic finance industry. However, such product expansion should be understood within the bounds of Shariah rules and principles. In order to ensure the proper processes of financial engineering, the following principles should be considered:

- Consistency in product innovation through all of Islamic finance, which includes: banking, takaful, and capital markets.
- Careful design of product innovations which avoid substantial risk exposure for financial institutions and investors.
- Maintaining Shariah compliance,which includes all stages of the financial engineering process and avoiding compromising the Shariah rules and principles at all costs.
- Avoiding duplicates of conventional products and promoting innovation based on Islamic finance principles.
- Linking financial engineering to the research and development at Islamic financial institutions.

In spite of the advances in product development in Islamic finance, there are many practical problems which have resulted in the failure of adequately maintaining such innovations, such as high cost constraints, lack of product development, poor fit with Shariah objectives, or elevated risk exposure. In order to avoid such failures in innovation the parties involved should have open lines of communication, skillful team work, and background experts to ensure the success of the financially engineered products.Islamic finance should closely look at these reasons for failure in innovation to ensure consistent productivity and efficiency of the Islamic financial market.

The first paper, in this issue, by Jani and Hassan review the dispute resolution mechanisms in Singapore and its suitability for the Islamic finance industry. Dispute resolution mechanisms are widely available in Singapore per the nation's strong position in legal, financial, and economic infrastructure. However, in spite of Singapore's efficient system, the authors note severallimitations of the country to deal with the peculiarities of Islamic finance, such as the absence of a proper framework for Islamic finance and a shortage of expertise to deal with Islamic finance disputes.

The second paper, by Marwan, looks at the concept of Social Impact Bonds (SIBs) and their underlying principles in regards to Islamic values embodied within components of maqasid al-Shari'ah and maslahah. The article illuminates that SIBs are a model which characterize the ethical and moral framework of Islamic law, as the elements of SIBs are consistent with the concepts within maqasid al-Shari'ah and maslahah—thus, the concept of SIBs as an adequate alternative financing tool is very useful.

The third paper, by Al Arif, analyzes the impact of spin-off policy on asset growth of Islamic banking in Indonesia. Examining internal factors, such as third party funds and efficiency ratios, in conjunction with external factors, such as inflation rates, economic growth, and net interest margin, it is found that only third party funds impact asset growth of Islamic banks from spin-offs. The spin-off policy itself is found to have no impact on asset growth. Two explanations as to why spin-off policy doesnot have an impact on asset growth include: Islamic banks, as a result of spin-off's, still use the parent bank's facilities, and Islamic banks needlarge capital infusions to initially expand facilities.

The fourth paper, by Shuib and Ezahar, provides a conceptual overview of the Islamic pawn broker system, Ar-Rahnu, and its operational modes. Given the increasing number of Muslim communities that have put their utmost trust into the institutional system this paper attempts to fulfill a void in the current literature on the topic.

In the fifth paper, Ogunbado and Ahmed examine the financial instrument Bay' salam or bay' salaf (advanced payment contract) to see if it can be used to boast agricultural sustainability in Nigeria. Additionally, the paper explores the origin of Bay' salam, its legality per Shariah law, and its justification as a useful tool to enhance the agricultural production in the African nation. The paper aims to help the development of Islamic finance, and in particular banking, which is relatively new to the country.

The sixth paper, by Sabree and Soualhi, addresses the technology used behind credit card transactions and explores thevarious aspects in which the technology can be interpreted in an Islamic context. To this point, little work has addressed the ethical nature of the structure of the commonly used technologies in banking. The paper shows that the principles behind the use of credit card technology already exist in the Quran.

In the seventh paper,Baharum, Maamor, and Othman analyzeAr-Rahnu, orIslamic pawn broking, which is used for short-term collateralized borrowing in Malaysia. In 2013, Pos Malaysia Berhad—one of the famous premier postal service providers in Malaysia—offered Ar-Rahnu, which it called Ar-Rahnu @ POS. Given that Ar-Rahnu is a relatively new product and that it is offered by an organization not customarily familiar with Islamic financial products, the study examinescustomers' intentions to use Ar-Rahnu @ POS. Results indicate that customer service is the most influential variable as to whether customers intend to use Ar-Rahnu @ POS, while syariah viewboth attitude and pricing asmoderately impactful factors.

The eighth paper, by Mokhtar, Sidin, and Razak discusses the factors that hinder the operation of the cash waqf fund in Malaysia, and in particular its collection and usage. The findings show there are several limitations in the daily operation of the cash waqf. The main limitations include multi-level decisionmaking processes and a lack of adequately trained personnel; secondary issues includethe need to comply with the demand of stakeholders and the underdevelopment of subordinate projects.

In the ninth paper, Abushareah and Naim analyze Islamic financial institutions and their benefits to the Muslim nation of Jordan, which has a dual banking system. However, the famous finance model of Musharakah Mutanaqisah (MM) and its application to Islamic banks is seemingly asymmetric; therefore, the paper looks in depth at the trend of MM in Islamic banks and its regulatory framework. Results indicate that Islamic banks less favor MM for its home financing.

In the tenth, and last paper, by Abji and Maamor the authors explorethe foundation of the mudarabah contract and its relation to trust-based decisions in Islamic literature. The two primary characteristicsof the decision process consist of the cognitive and dogmatic aspects. The paper explains how both the cognitive and dogmatic features of trust participate together in shaping the behavioral aspects when a bank becomes a capital provider on a mudarabah basis. The authors argue that exerting dutiful effort

is the primary way to mitigate any uncertainty inherent in the mudarabah agreement, and producing a state of cognitive confidence is sufficient to place bank management in a trusting situation. Additionally, they argue that trust and accepting exposure to a potential manifestation of an undesirable outcome of engagement is needed to enable the process regarding the mudarabah financing agreement.

I hope the readers will enjoy reading this issue of the journal.

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Reference:

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