Editor's Notes

Product innovation and improvement are crucial for the continued growth of the Islamic finance industry.

Of course, future developments in Islamic finance must be understood within the framework of Shariah principles. The three main drivers of progress in Islamic finance are product development, financial engineering, and innovation. These factors draw international investors, multiply business opportunities, create competition, and expand the size of the market. We emphasize some important aspects of innovation and financial engineering.

Innovation, as defined here, is the use of creative thinking, investment, and marketing to bring beneficial and novel inventions into widespread use. Innovation is often the result of a revolution in thought. It is accompanied by change. In fact, the objective of innovation is positive change—in the case of financial innovation, the positive change should provide benefits to shareholders and stakeholders. Innovation in Islamic finance spurs wealth and prosperity for society. In the context of banking, innovation is the means by which new products can be designed or productivity in the banking sector can be increased.

Innovation and product development in Islamic financing are at the core of financial engineering, which is a multidisciplinary field incorporating financial theory, mathematics, computation, and programming to create sophisticated financial products. While product development and financial engineering are absolutely necessary for the continued productivity and growth of the Islamic finance market, all innovation and financial engineering must be consistent with the rules and principles of Shariah.

The first paper tests Beck et al.'s (2013) arguments by using Yorulmaz's (2016) multidimensional financial inclusion index to empirically investigate the relative performance of Islamic and conventional banks during the recent global financial crisis. Using financial inclusion indexes and the conventional bank proxy employed in previous studies, evidence is offered that Islamic banks outperformed conventional banks during the global financial crisis. Furthermore, the use of aggregated data on Islamic banking products helps determine that redistributive financial instruments such as Zakah and Mudarabah explain how Islamic banks were able to provide such superior performance.

The second paper examines bank pricing determinants used by the Islamic banking industry in Malaysia from both the quantitative and qualitative perspective. Regarding the quantitative approach, this paper looks at the effects of bank characteristics on

bank profit margin, which reflects the intermediary role of Islamic and conventional banks in Malaysia during the period of 2006 to 2014. For Islamic banks, bank size and liquidity ratio have a significant negative relationship with bank profit margin. Moreover, management efficiency (vis-à-vis cost to income) and default risk are positively related to bank income margin. As for conventional banks, management efficiency has a significant positive influence on bank profit margin, as does the non-interest to total asset ratio. While both Islamic and conventional banks are affected by managerial efficiency, conventional banks are affected by it to a greater degree than Islamic banks. Thus, the results show that there are similarities and differences in the determinants of Islamic and conventional banks. These empirical results have important implications on policy. For instance, Islamic and conventional banks will have to adjust to changes in the banking environment differently, as each has different qualities with regard to performance and comparative advantages. Regarding the qualitative approach, key determinants and pricing approaches are obtained using a verbal protocol. The verbal protocol is followed by further questioning of respondents. Interviews are conducted with Islamic banking experts from Bank Muamalat Malaysia Berhad, CIMB Islamic Bank Berhad, Maybank Islamic Berhad, and Bank Islam Malaysia Berhad. The analysis suggests some distinct directions for future research in identifying the determinants and practices of pricing and bank margins. For example, awareness of Islamic banking products and cost of fund strategy are important determinants of bank margin and profitability. This study offers valuable insights for Islamic banks to improve their bank profit margins by deliberating on the significant variables that impact their bank profit margins. Generally, the themes that emerge from the interviews are parallel with findings from the literature. However, this study does uncover some determinants of pricing that have not yet been discussed in the literature, such as discretionary power and marketing strategy, which includes product risk and financing terms and conditions. This research has the potential to enrich the concept, theory, and practice of bank margin determinants.

The third paper reviews the Shariah aspects of Islamic credit card models practiced and developed to date, with special focus given to the Khidmah card issued by Islami Bank Bangladesh Limited (IBBL). We assess the Khidmah credit card's Shariah status in light of the resolutions of the OIC Islamic Fiqh academy regarding credit cards, the recommendations of the Shariah Advisory Council of the Bank Negara Malaysia, and three conditions suggested by Kahf & Mohomed (2016). We argue that the Khidmah card is Shariah-compliant based on the Ujrah model. Its underlying theme is to charge service fees in exchange for providing payment mechanisms and loan-related services. The OIC Fiqh Academy permits the charging of fees for loan-related services. With the Khidmah card, the fundamental contract between IBBL and cardholders is Kafalah, or guarantee. While scholars differ as to whether a guarantor is permitted to charge fees for providing guarantee services, IBBL does not charge any commission directly for

providing guarantees.

The fourth paper explores waqf (endowment) as a means of community empowerment in the Daruut Tauhiid Islamic Boarding School. This study uses a qualitative method with a phenomenology approach for waqf management in Daruut Tauhiid. The findings show that waqf is a well-implemented, effective tool for community empowerment in the Islamic boarding school, especially in the sectors of education and economy. Both these sectors have been managed well and have also been bolstered by economic empowerment from the santri (students) and the community. Daarut Tauhiid has shown excellence in managing its asset of waqf by sustainably adhering to Shariah principles for its halal and blessing, giving freedom to wakif for determining the asset which he/she wants to give as waqf, and providing openness in waqf reporting and access.

The fifth paper argues that without an Islamic capital market (ICM), Islamic finance would have had a much more arduous path in delivering its promises of profit and loss sharing, circulation of wealth, promotion of business partnerships, and encouragement of real economic activity. In Oman, there are many serious Shariah concerns that need to be resolved before the capital market, particularly the ICM, can fully realize its growth potential. One such concern is the incidence of speculative activities in the capital market. Speculation occurs when shares are bought at a given price with the intent to sell them in the future at a higher price. However, the buyers/investors do not have complete information from which they can project future profits with complete accuracy. This uncertainty has led some Shariah scholars to deem such speculative activity as gharar and maysir. Thus, in the view of Islamic law, these activities are considered impermissible in the capital market. This paper, on the contrary, asserts that this perspective is mistaken and that such activity should in fact be permitted under Shariah.

The sixth paper deals with Shariah audits, which play a vital role in supporting the foundational integrity of Islamic financial institutions. The objectives of this study are to call attention to the concerns faced by Shariah audits and to determine how these problems can be resolved. This paper also examines the level of awareness of the Shariah auditing process, looking at ways to improve auditing practices, standards, skills, knowledge, and experience. The study is carried out via 250 questionnaires of 30 questions which are randomly distributed to selected Islamic banking branches and conventional banks that engage in Islamic financial operations. The study finds that most people who work in Islamic banking are abundantly aware of Shariah auditing. Crucially, the State Bank of Pakistan (SBP) bears much of the responsibility for promoting Shariah auditing in its country, though Shariah auditors must be independent in making policy decisions. The SBP encourages the spread of Shariah

auditing by conducting training sessions, seminars, and workshops in the banking sector.

The seventh paper asserts that Islamic investment and financing activities must be monitored continuously to ensure they meticulously follow Shariah rules. As Muslims are forbidden to invest in companies that are Shariah non-compliant, Shariah screening is the foundation upon which all Islamic investment and financing rests. This study uses methods from six globally renowned index providers to determine the quantitative Shariah compliance of the Dhaka Stock Exchange. It finds that 35%, 79%, and 88% of the firms analyzed are Shariah compliant based on debt, liquidity, and interest screens, respectively. Moreover, the study can be broadened to create an Islamic index to monitor Islamic investment in the financial market. Looking at the future, this study and others like it will be pivotal in achieving the goals of Islamic finance, such as issuing Sukuk to replace debt, forming Islamic portfolios, and fostering economic development by building a Shariah compliant economy.

The eighth paper tackles some of the challenges and opportunities regarding product development in Islamic banking. Six challenges in particular are identified: (i) attaining maximum utilization of Shariah principles; (ii) bridging the gap between the ideal and reality; (iii) ensuring realization of Maqasid Al-Shari'ah; (iv) reconciling different interpretations of Shariah; (v) countering the reluctance of market players; and (vi) overcoming weak planning and lack of budgetary support for product development. Despite these challenges, there are many opportunities to shape a flourishing future for Islamic banking. Therefore, three policy recommendations are made here. First, there must be a reduction in the external and internal constraints that hinder the development of Shariah-based products. This can be achieved by creating an encouraging institutional environment conducive to product development. Second, a fresh approach should be cultivated with regard to Islamic banking product innovation and research and development. Third, a system must be put in place that provides incentives for creating suitable Shariah-based products in Islamic banking. This is especially important because the types of Islamic banking products available influence the perceptions of customers and the community and establish the amount of trust and credibility that stakeholders have for the Islamic finance sector in the long run.

The ninth paper examines Islamic banking with a focus on environmental issues. Globally, Islamic banking is experiencing rapid growth in financial markets, mirroring the increasing growth rates of the Muslim population. Islamic laws and regulations emphasize the necessity of ethics in banking. Thus, Islamic banks in low carbon emitting countries such as Bangladesh are increasingly moving towards green banking, which targets socially-responsive businesses. In seeking to promote environmentally sound practices, green banking is often accompanied by changes in

work setting and in the method of providing banking services. Thus, this paper identifies factors that influence Islamic bank employees' use of green banking. This paper finds that environmental concerns, central bank regulations, facilitating conditions, and effort expectancy are some of the factors that shape bankers' perceptions. Overall, bankers in Islamic banks act in a rational, pragmatic way while incorporating green banking into their work environment.

The final paper develops a model of waqf accountability, inspired by the growing interest in the topic. The study initially focuses on Islamic accountability theory, then expands its model towards establishing the stimulus of wapf accountability disclosure. The paper takes its cues from existing literature on conventional and Islamic charity, using the facts and arguments contained therein to develop its own accountability model. This model is influenced by stewardship theory. The proposed waqf accountability model captures relationships involving stakeholders at two different levels. It expands the existing Islamic accountability framework by separating upward and downward accountability and introducing a new set of accountability, i.e. the primary and secondary. The new model should improve accountability and transparency in Awqaf institutions.

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