EFFECT OF MARKET MAKER LIQUIDITY RESILIENCY ON THE USE OF FINANCIAL DERIVATIVES IN INTEREST RATE RISK MANAGEMENT AMONG COMMERCIAL BANKS IN KENYA

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ABSTRACT

The prime objective of this research was to establish the effect of market resiliency on the use of financial derivatives parameters in interest rate risk management among commercial banks in Kenya. In order to request information, this research incorporated a descriptive research design. The study gathered data from 108 market makers from 39 commercial banks using email or drop - and - pick method questionnaires. Employing the use of statistical package (SPSS version 21), the analysis of data was undertaken using descriptive (percentages, frequencies and means) as well as inferential statistics for instance Pearson correlation and also regression analysis towards the determination of the relationship connecting the variables (that is the independent and dependent variables). Based on the study's findings, it is clear that in managing interest rate risk using financial derivatives and market resilience were more important. The findings of the study revealed that market resiliency has a positive and significant effect on interest rate risk management using financial derivatives (Beta = 0.376, t = 2.659, p = 0.003).

The study recommends that Kenya's commercial banks should increase their active participation in the market for interest rate derivatives as the results of the study have shown a huge presence of market makers. The government should consider strengthening the market makers system in the country. The study also recommends that market manufacturers in commercial banks need to increase the use electronic trading platforms such as Bloomberg and Citivelocity to provide core services to support the real economy.

Key Words***: Market Resiliency, Electronic Trading Platforms, Interest Rate Risk Management and Financial Derivatives***

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