THE RELATIONSHIP BETWEEN OPTIONS DERIVATIVES AND FINANCIAL PERFORMANCE OF SELECTED LISTED COMMERCIAL BANKS IN KENYA

The Relationship between Options Derivatives and Financial Performance of Selected Listed Commercial Banks in Kenya

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ABSTRACT

Purpose: The purpose of the study was to ascertain the relationship between options derivatives and financial performance of selected listed commercial banks in Kenya.

Methodology: Descriptive research design was used when collecting data using closed ended questionnaires from the selected 11 listed commercial banks in Kenya. The target population included 156 respondents who were 25 risk managers, 53 operations managers, 33 credit managers and 45 marketing managers to participate in the study. The study selected all of the 156 respondents through census sampling technique. Pre-test questionnaires was sent to six respondents who were junior officers in risk, credit, operations and marketing departments of non-listed commercial banks in Meru Kenya. The collected data was then coded and analyzed quantitatively using the descriptive statistics such as mean, percentage and standard deviation while inferential statistics such as person correlation analysis were used. Linear regression models were also used. Further on, the tables, graphs were used when indicating the analysis results.

Results: Options had a statistically significant relationship with financial performance. Most respondents agreed that there were clear procedures used to solve options price discrepancies. It had a mean of 4.79 and standard deviation of 0.62. However, most respondents disagreed that options derivatives market activities were improving in the banks. It had a mean of 3.85 and standard deviation of 1.05. The results further indicated that options had an R value of .793[a] and Durbin Watson value of 1.292 showing there was a strong correlation between the two variables, while the R-square was 0.629. This implied that options as a paradigm predicted 62.9% of financial performance variable in this study. Options also had a significant p-value of 0.018.

Unique contribution to theory, policy and practice: The results indicated that commercial banks were really incurring more costs as compared to profits generated due to errors made by the employees when engaging in various options derivatives markets. In addition, when financial derivatives owners were given the rights and not forced to purchase or vend an underlying asset

at a strike price or exercise price, at or earlier than the expiry date of the options, there was an above average purchase. The study recommends that the bank staff should explain full information on the options derivatives so that when a client is making the purchase, they are well knowledgeable. This knowledge should begin from the procedures followed when making a purchase, sale or transfer of option derivatives in the securities exchange market. In addition, any costs associated with the options derivatives should be fully communicated to clients priorly to avoid premature termination of options derivatives contracts. Further on, there should be more training on banks staffs by the bank management so that they are equipped with knowledge on the specifics of options derivatives trading. By doing so, the chances of errors would be minimized.

Keywords: *Options Derivatives, Financial Performance, Selected Listed Commercial Banks, Kenya*

1.0 INTRODUCTION

Financial performance is defined by Greenwood and Boyan (1990) as any income generated by an organization after it has utilized the available resources. Organizations in different industries quantify financial performance contrarily. For instance, agricultural organizations use Return on Assets (ROA) to measure performance (Singh et al., 2019). Construction industries use Gross Profit Ratio (GPO), general and administrative, expense as a percentage of revenue,pre-tax income as a percentage of revenue and Debt to Equity Ratio (DEO) (CLA, 2018).Financial performance will be measured by Return on Asset (ROA), Return on Equity (ROE), Net Interest Margin (NIM) This is because ROA, ROE and NIM are acknowledged by Central bank of Kenya (CBK) as financial performance quota in Kenya (Central bank of Kenya [CBK], 2018).

Commercial banks in developed nations have had numerous challenges which have greatly affected their financial performances. For example, American bank's tariff wars, block-chain, quantum computing, presence of shadow banks, market risks, liquidity risks, credit risks such corporate debt risk and unregulated non-bank lenders risk have greatly threatened the future financial performance of banks in America. (Federal Deposit Insurance Corporation [FDIC], 2019; Deloitte, 2020). European banks have had an experience of retrenchment from international markets as banks become smaller, impaired policy making processes, debt sustainability concerns, decreased customer margins, low rate of cross-border financing, alarming increase in risk premiums, low market liquidity and unpredictable investor behavior (Deutsche Bank, 2019).

High capital costs requirements, declining loan growth from small banks, deteriorating asset quality, non-performing loans, low retail deposit growth, credit risks, poor management of monitoring and screening of borrowers have affected Asian banks such in Bangladesh and China (Faisal et al., 2019).In Africa, banks in West African countries like Nigeria and Ghana have had issues on computer and internet frauds, slow adaptation of financial innovations, system breakdowns, insufficient skilled personnel and insolvency to a point of being closed down (Price Waterhouse Cooper [PWC], 2019). South African banks have suffered low financial performance due to shadow financial services (Sheunesu, & Tewari, 2019). In northern Africa, a

country like Egypt faces problems relating to non-banking competitors, high operational costs and high regulation on banking business models (African Business Magazine, 2019). Looking at East African banks' like in Tanzania, Uganda and Rwanda difficulties in low deposits, attenuation of loanable funds, competition from non-banking monetary structures, non-performing loans have been prevalent (Mbonigaba, 2019).

In Kenya, low financial performance has still been a menace to many commercial banks. The problems experienced include issues related to technological fraud, competition from unregulated mobile lenders, non-performing loans, credit risks, market risks, collapsing of banks, weakening of asset quality, deteriorating credit growth in private sectors and when financial innovations are not quickly adopted by clients(Kenya Bankers Association [KBA], 2019). These concerns amongst others are forcing banks in Kenya to substitute outdated banking approaches with other financial innovations like mobile banking, internet banking and m-Pesa facilities to increase their financial performances (Njoroge & Mugambi, 2018).

An option is a financial derivative instrument that give owners the rights and do not force them to purchase or vend an indicated amount of an underlying asset at a strike price or exercise price at or earlier than the expiry date of the options (European Central Bank [ECB], 2019). The types of options are; put options, call options, exchange traded options, over the counter options, option type by expiration, option type by underlying security, equity options, employee stock options, cash settled options and exotic options (Options Trading (OT), 2019).

Options financial derivatives contracts have advanced over time with a number of securities with different speculative and hedging purposes. On the one hand, when speculating, the owners of derivatives profit from stakes made on change of value of the underlying assets. Hedging on the other hand involves having insurance over the underlying assets. Options derivatives are commonly traded over the counter and through an exchange forum. Over the counteris highly unregulated hence carries more risk exposure and the parties involved are victims of price hiking while in exchange forum derivatives are standardized. Traders are always encouraged to understand the inherent risks associated with the principal assets, price and expiry dated of derivatives. This is because, derivatives such as optionshave had poor operational facilities including solitariness to trading daises, underprivileged trading structures, feeble trading guidelines and lack of dominant counterparty (Engaza, 2016).

1.2 Statement of the Problem

Ideally, developed nations have been cautiously trading through over-the-counter derivatives in Canada, Australia, Sweden and Belgium(Bank of international Settlement, 2018). In Africa, countries like Nigeria and Ghana have begun appreciating derivatives. The Central Bank of Nigeria permitted operation of derivatives such as options, forwards, swaps and TOC futures (Edu, 2019). In Ghana, Bank of Ghana has intervened in forex market through forwards funded contracts to reduce risks and regulate the prices (Aryee, 2019). Commercial banks in Kenya have been at the forefront in acclimating financial innovations such as derivatives over time. Through the Kenyan capital market, there has been establishment of the Nairobi Securities Exchange's NEXT derivatives market which trades in future derivatives such as equity index futures and

single stock futures(NSE, 2019a; 2019b). All these initiatives have boosted the financial performance of banks.

However, despite the vital role options financial derivatives contracts play in improving profitability of Kenyan commercial banks, low profitability concerns have still engulfed the financial performance of listed commercial banks in Kenya (CBK, 2018). Options derivatives expansion is still at its early stages with non-existent Exchange Traded Derivatives and under-developed OTC derivatives markets. When banks are limited to trade in terms of only few futures derivatives, the commission fees' income that could have been earned from options derivatives becomes an opportunity cost. Also, the risks that could have been mitigated by hedging through them, prevail causing low financial performance of listed commercial banks.

Studies done before have aggressively disputed on whether options financial derivatives contribute positively or negatively towards profitability of banks (Ruiz, 2018; Santhapalii, 2018).Locally, the available studies have dwelled mostly on challenges facing derivatives uptake in Nairobi Securities Exchange and not in commercial banks (Bowen et al., 2017; Eganza, 2016). This study will therefore concentrate on the relationship that exists between options derivatives and the financial performance of selected listed commercial banks in Kenya.

1.3 Purpose of the Study

The purpose of the study was to ascertain the relationship between options derivatives and financial performance of selected listed commercial banks in Kenya.

1.4 Hypothesis

H_0:There is no relationship between options derivatives and financial performance of selected listed commercial banks in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

Financial intermediation theory guided options financial derivatives in this study. The theory was established by Diamond in 1984 andstated that any unmanageable risks could not be undertaken by a banking institution.When banks were allowed to participate in systematic risk hedging, itresulted to an extra attenuation of allocation charges to screen debtors of loans. Financial intermediation theory was used in this study because hedging certified banks to get exceptional proceeds from divergence by diminishing the allocation charges that motivated lending. Diamond (1984), specified that not only did allocation monitoring deduce economies of scale but also gave a motive on why shareholders could not worry about monitoring the bank. Diamond (1984) originated out that the bank's risk declined when the expands in size and when there was portfolio divergence, the risk vanishes completely. The theory was criticized by various studies such as Allen and Santomero (1997); Scholtens and Wensveen, (2000). They argued that financial intermediation theory did not appreciate the role played by lenders on risk management in the banking field.

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2.2 Empirical Review

According to Futures Industry Association (FIA) (2019), a global remarkable record of 7.3 billion options contracts in 2019 as compared to 6.4 billion options contracts in 2018 signified an improvement of 13% of options trading volumes. This was determined after FIA considered 80 global exchanges' monthly information on option contracts. Two thirds of the 884.6 million options trading contracts in 2019 were options.

Although there had been global improvements in options trading, accounting for financial derivatives such as options has remained a challenging area within General Accepted Accounting Principles [GAAP] (Ernst & Young 2019). Ernst & Young (EY) (2019) on a report of financial developments, gave a comprehensive guide on derivatives and hedging. The guide stated that though the Financial Accounting Standard Board [FASB] had made attempts to amended the original FASB statement No.133 which concerned itself with derivatives accounting, its complexity and scope as collated in topic 815 at Accounting Standards Codification remained challenging. For example, at commencement, if the option was in terms of monetary terms, its price had time worth and intrinsic worth. With adjustment in volatility of the underlying asset, time worth fluctuates and normally degenerated as the option reached its expiration date. If the option was exercised at expiration, the price was only its intrinsic price. Therefore, when exercised, an option had a different price due to its time worth constituent which had reduced from its original fair value to zero, but the hedged underlying asset did not have an offsetting variation in price related to the time worth degeneration.

Bank for International Settlement (2019) triennial survey of 1,300 banks in America on foreign exchange turnover in April 2019 established that OTC forex option's 16% growth was significantly small compared to its counter parts such as forward's growth which was 43% and swap's growth which was 91%. This report on low growth in America agreed with a survey conducted by Federal Reserve Bank of New York (FRBNY) in 2019 on the foreign exchange and interest rate derivatives market's turnover in the United States. FRBNY showed that foreign exchange option trading had declined by to 5% from 6% in 2016. This raised concerns of the stand of American banks' attitude towards adoption of options as a way to hedge foreign exchange risk.

In developing nations, Asuming et al. (2018) who did a comparative study on financial inclusion in Sub-Saharan Africa, they analyzed 31 sub-Saharan countries with information acquired from global findex database. The study found out that the cumulative level of financial inclusion has improved meaningfully in the 31 nations. This showed that even though there were challenges, developing nations in Africa's knowledge on various financial matters such as options derivativeswas improving but at a slow rate.

Onura (2019) gave comprehensive reasons on low derivatives market activities in west Africa. The study on effect of capital market on economic growth and development of Nigeria (2000 - 2017), brought into focus that among other reasons why capital market in Nigeria had not

developed was because of unavailability of internet services, poor capital market security and unfavorable governmental policies with political selfish interests.The presence of low concentration of foreign owned banks in Nigeria which was 6% according to Nachum and Ogbechie (2019), had greatly affected the derivatives market. The study which concentrated on understanding the negative aspects of having 94% locally owned banks in Nigeria, shed light that the country had greatly lost in terms of foreign direct investments making it lag behind especially in application of derivatives market in its stock exchange. The highly imbalanced market structure, weak competition strength and low proficiencies of Nigerian banks had been the norm, no wonder they could not compete effectively with countries like Kenya in the capacity of thederivatives. To curb this trend, there had been recent developments in Nigeria to ensure that there were high derivatives activities. The Nigeria stock Exchange which came second after South Africa had begun financial derivatives trading in 2020. Nigeria stock Exchange involvedderivatives like options in its market to hedge and manage risks. This was seen as a measure to deepen the derivatives market in West Africa region.

Kenya being the pacesetter of capital markets in East Africa, Capital Market Authority Kenya (2019) stated that the capital market authority had developed strong guidelines to back capital market in Kenya. It had developed enticements to encourage capital markets implements, authorized intermediaries, started new capital markets instruments such as options and executing a widespread investor training and communal awareness. Despite these strategies and guidelines, the uptake of capital market instruments in Kenya such as option's derivatives had been low (Capital Market Authority Kenya, 2018). The main reasons for this low uptake were issues pertaining discouragement of latent issuers by unfavorable laws that inhibited them from raising resources for being considered to be listed at Nairobi Securities Exchange; price instability in the capital markets; disinclination to recognize and instrument daring, inventive processes to have latent issuers both public and private to list at Nairobi Securities Exchange; and tough opposition from other quick return vehicles that had short term returns as conflicting to long-term nature of derivatives investments returns for example gambling.

3.0 RESEARCH METHODOLOGY

Descriptive research design was used when collecting data using closed ended questionnaires from the selected 11 listed commercial banks in Kenya. The target population included 156 respondents who were 25 risk managers, 53 operations managers, 33 credit managers and 45 marketing managers to participate in the study. The study selected all of the 156 respondents through census sampling technique. To ensure validity and reliability, pre-test questionnaires was sent to six respondents who wereselected by simple random method of sampling from the non-listed banking sector. The six respondents were junior officers in risk, credit, operations and marketing departments of non-listed commercial banks in Meru Kenya.The collected data was then coded using the SPSS 24.0 software. The coded data was analyzed quantitatively using the descriptive statistics such as mean, percentage and standard deviation while inferential statistics such as person correlation analysiswere used. Linear regression models were also used. Further on, the tables, graphs were used when indicating the analysis results.

4.0 RESULTS

4.1 Reliability Statistics

The study pre-tested the questionnaires on 6 respondents from non-listed commercial banks in Meruwere nominated by simple random method. These non-listed commercial banks located at Meruwere not comprised in the key study. The six nominated respondents were 6 junior officers in risk, credit, operations and marketing departments of the banks. The results are indicated on Table 1.

Table 1:Reliability Statistics

Instrument	Cronbach's Alpha	N of Items
Questionnaire	.726	6

The results indicate the Cronbach Alpha was 0.726 for the 6 tested questionnaires. According to Cooper and Schindler (2012), the ranges of reliable Cronbach's alpha values should be between 0.7 to 1. This means that the pre-tested questionnaires were reliable and could be used in the main study.

4.2 Response Rate

This study issued 156 questionnaires to various study's respondents who were risk managers, operations managers, credit managers and marketing managers. The returned questionnaires were 137 (87.8%) while 19(12.2%) were not returned.

4.3 General Information

The study inquired on how long the banks had been in operations from the respondents. Various respondents indicated the following information as shown on Table 2.

Table 2: General Information

Years of operations of the Bank	Frequency	Percent	Cumulative Percent
Less than 20 years	0	0	0
Between 21-40 years	37	27	27
Between 41-60 years	91	66	93
Above 61 years	9	7	100
Total	**137**	**100**	

According to Table 2, 91(66%) banks had been in operations between 41-60 years while 37(27%) banks had been in operations between 21-40 years. Interestingly no listed banks in Kenya had operated in less than 20 years. These results indicated that non-listed Kenyan banks

had enough experience in terms of operating years. These years boosted their capacities to generate establishment income, enact financial structures to support financial derivatives and other requirements as directed by Capital Markets Authority [CMA]. The findings also are in concurrent with Deloitte (2020) report which indicated that Kenyan banks had accumulated immense wealth of years in operations with most of them having over 15 years experience in operations.

4.4 Descriptive Statistics of Options Derivatives

The purpose of the study was to establish influence of options derivatives on financial performance. Options derivatives had indicators such put options, call options and equity options. To achieve this objective, the study developed a questionnaire that had statements. In the questionnaires, the respondents were either supposed to 1-Strongly disagree, 2-disagree, 3-Neither agree nor disagree, 4- Agree and 5- Strongly agree. Table 3 gives the results derived.

Table 3: Descriptive Statistics on Options Derivatives

Statements N=137	1	2	3	4	5	Mean	Std Dev
Clear procedure used to solve options price discrepancies	2(2%)	1(1%)	0(0%)	18(13%)	116(84%)	**4.79**	**0.62**
Options derivatives market activities are improving in this bank	0(0%)	29(21%)	0(0%)	70(51%)	38(28%)	**3.85**	**1.05**
Strong guidelines established to cushion investors due to low information of underlying assets	0(0%)	19(14%)	0(0%)	69(50%)	49(36%)	**4.08**	**0.96**
Frequent training to customers and staff	0(0%)	9(7%)	0(0%)	69(50%)	59(43%)	**4.30**	**0.78**

The results from Table 3 indicate that most respondents agreed that there were clear procedures used to solve options price discrepancies. It had a mean of 4.79 and standard deviation of 0.62. However, most respondents disagreed that options derivatives market activities were improving in the banks. It had a mean of 3.85 and standard deviation of 1.05. These results indicated that commercial banks were really incurring more costs as compared to profits generated. This is because there could be errors made by the employees when engaged in various options derivatives markets. However, trainings were being continuously done as indicated by a mean of 4.30 and standard deviation of 0.78. European Central Bank (2019) confirms that various errors made during derivatives transactions significantly affected the overall profit generations of the banks.

The study also inquired through an open-ended questionnaire format on the challenges of investors not having full knowledge on various financial matters such as options derivatives in improving financial performance of banks. The respondents indicated that when clients did not know a lot about on financial products they tend to avoid purchasing or telling their close associates on the products; in case of losses from options products made through blind purchases of the products, the bank may lose the clients and probably face legal issues when sued by the clients. In agreement, Hasbrouck (1993) indicates that when assessing the security market's quality, one of the assessments ranges on how much clients know in terms of the purchased securities such as derivatives.

The study inquired the various procedures used by investors to purchase options products in your bank. Most banks respondents indicated that there are brochures issuance given to clients to educate them on the various types of options. Thereafter, they fill-in options purchase forms that are accompanied with various copies of documents such as Identification cards, KRA pin certificates, and banking account details. Once verified, the bank opens a CDC account which would be used in making purchase or sales of options derivatives. They are given the current options prices and quantity available. They then order and pay the options derivatives purchased. The bank then issues them with certificates to validate the purchase.Federal Reserve Bank of New York (2019) gives also a more detailed procedure for buying options in a bank.

These results indicate that indeed bank staff needed to up their game on explaining full information on the options derivatives so that when a client is making the purchase, they are well knowledgeable. This knowledge should begin from the procedures followed when making a purchase, sale or transfer of option derivatives in the securities exchange market.

4.6 Financial Performance of Listed Commercial Banks

The researcher assessed the financial performance of listed banks. The financial performance indicators such as ROE, ROA and NIM for a period between 2016-2018. The rates were analyzed and their means derived as indicated on Table 4.

Table 4: Financial Performance Indicators

Variable	N	Mean	Std Dev
ROE	11	3.0	1.73
ROA	11	4.5	0.12
NIM	11	3.6	1.89

According to Table 4, the performance indicators such as ROA had the highest mean of 4.5 and standard deviation of 0.12, while ROE had the lowest mean of 3.0 and a standard deviation of 1.73. It is therefore indicating that owners of the banks had not benefitted maximally from the financial derivatives venture. This could be as a result of high costs associated with derivatives operations requirements hence leaving very low dividends for the equity holders to enjoy. Capital Market Authority Kenya (2019) indicates that forderivatives exchange market NSE approval, there are specific requirements that banks are supposed to adhere to and in which are very expensive.

4.6 Model Summary

The study examined further the level of linear relationship between options and financial performance. This was done through the using a model summary. Table 5 gives the results derived.

Table 5: Model Summary of Options

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.793[a]	.629	.712	2.61439	1.292

a. Predictors: (Constant), Options

b. Dependent Variable: Financial Performance

The results on Table 5 indicate that swaps had an R value of .793[a] and Durbin Watson value of 1.292 showing there is a strong correlation between the two variables, while the R-square is 0.629. This implies that swaps as a paradigm predicted 62.9% of financial performance variable in this study. The remaining 37.1% is due to other factors not examined in this specific single paradigm. These results mean that when financial derivatives owners were given the rights and

not forced to purchase or vend an indicated amount of an underlying asset at a strike price or exercise price at or earlier than the expiry date of the options, there was an above average purchase. Ogbonna (2018) confirm that financial derivatives owners in Nigeria were given the rights and not forced to purchase or vend options hence improvement in options' transactions.

4.11.4.2 Analysis of Variance on Procurement Practices

The study had the second hypothesis that there was no relationship between options and financial performance of selected listed commercial banks in Kenya. To ascertain whether indeed the hypothesis was true or not, the study evaluated the analysis of variance (ANOVA) of the options variable. Table 6 gives the results.

Table 6: Analysis of Variance of Options

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	27.302	1	27.302	3.994	.018[b]
1	Residual	922.727	135	6.835		
	Total	950.029	136			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Options

Table 6indicated the significant p-value was 0.018. This being below than 0.05 enabled the study to reject the null hypothesis that there was no relationship between options and financial performance of selected listed commercial banks in Kenya. That is, options had a statistically significant relationship with financial performance. This meant that options had a noted relevance as far as financial performance of banks is concerned. Onura (2019) also found out that when Nigerian capital markets introduced various derivatives such as option, it led to profitability not only at capital markets but also originating financial institutions such as banks.

4.6.3 Regression Coefficient

The study also analyzed regression coefficients of financial derivatives and financial performance. It was discovered that options had a β=.0.203, P=0.075.The results are indicated in Table 7.

Table 7: Regression Coefficients of Financial Derivatives

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	4.041	2.219		1.821	.071
	Options	.203	.087	.149	1.793	.075

a. Dependent Variable: Financial Performance

The general model of the study was: $Z= \beta B+ \beta 1 A1+ \beta 2 A2+ \beta 3 A3+ \beta 4 A4$. Where: Z was financial performance; B was constant; A1 was swaps; A2 was options; A3 was forwards; and A4 was futures. When the coefficients were put into the model the model was: financial performance $=4.041(B)+0.156(A1) + 0.203(A2) + 0.206(A3) + 0.128(A4)$. That was to say by adding a unit of AI, A2, A3, A4, financial performance increased or decreased by 4.041+ 0.156 + 0.203 + 0.206 + 0.128. These results indicate that the combined results show that the model is valid and is statistically significant, but each construct becomes insignificant in a combined model as indicated by sig. values in the regression weight table. These results were also found by Chepkorir (2018) when the study established that portfolio diversification were insignificant when combined together.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of the findings

The purpose of the study was to establish influence of options on financial performance. Options had indicators such put options, call options and equity options. Most respondents agreed that there were clear procedures used to solve options price discrepancies. It had a mean of 4.79 and standard deviation of 0.62. However, most respondents disagreed that options derivatives market activities were improving in the banks. It had a mean of 3.85 and standard deviation of 1.05. The results further indicated that swaps had an R value of .793[a] and Durbin Watson value of 1.292 showing there was a strong correlation between the two variables, while the R-square was 0.629. This implied that swaps as a paradigm predicted 62.9% of financial performance variable in this study.Options also had a significant p-value of 0.018.

5.2 Conclusion

Options had a statistically significant relationship with financial performance. The results indicated that commercial banks were really incurring more costs as compared to profits generated. This is because there could be errors made by the employees when engaged in various options derivatives markets. In addition, when financial derivatives owners were given the rights and not forced to purchase or vend an indicated amount of an underlying asset at a strike price or exercise price at or earlier than the expiry date of the options, there was an above average purchase.

5.3 Recommendations and Contributions of the Study

The study recommends that the bank staff need to up their game on explaining full information on the options derivatives so that when a client is making the purchase, they are well knowledgeable. This knowledge should begin from the procedures followed when making a purchase, sale or transfer of option derivatives in the securities exchange market. In addition, any costs associated with the options derivatives should be fully communicated to clients priorly to

avoid premature termination of options derivatives contracts. Further on, there should be more training on banks staffs by the bank management so that they are equipped with knowledge on the specifics of options derivatives trading. By doing so, the chances of errors would be minimized.

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