

## RBI alters 'relative' definition to check outward remittances

Concerned over funds sent abroad under the 'maintenance of close relative' category of the Liberalised Remittance Scheme (LRS), the Reserve Bank of India (RBI) has narrowed the definition of relatives to check the flow of funds.

Hence, funds under the 'maintenance of close relative' category can be sent only to immediate relatives such as parents, spouses, children and their spouses. This has brought about by defining 'relatives' under the Companies Act, 2013 instead of the same act of 1956.

"In the context of remittances allowed under LRS for maintenance of close relatives, it has been decided to align the definition of 'relative' with the definition given in Companies Act, 2013 instead of Companies Act, 1956," the central bank had said in its June policy statement.

Outward remittances under maintenance of close relatives shot up to almost \$3 billion in 2017-18 from a mere \$174 million in 2013-14. In fact, funds sent under this category have more than doubled since 2015-16.

Overall outward remittances under LRS went up to \$11 billion from \$1 billion in the same period.

"It may not be the case that the central bank is suspecting money laundering," said Madan Sabnavis, chief economist, Care Ratings, when asked on the possible reason for the change.

### **'Commercial purpose'**

"It is possible that the facility [maintenance of relatives] under the Liberalised Remittances Scheme is used for commercial purposes which is not its objective. That may have prompted the regulator to narrow the definition of relatives."

RBI has introduced a system for daily reporting of individual transactions under the LRS by banks.

This enables banks to view remittances already made by an individual during the fiscal, thus improving monitoring and ensuring compliance.

Since the system uses the Permanent Account Number of the remitter to aggregate remitter-wise data, the central bank has made furnishing of PAN mandatory for such transactions.

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