

# Regulatory & Legislative Journey of Indian Direct Selling Industry

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## Introduction

# Propelling Forward India's Direct Selling Industry

Through this Indian Direct Selling Industry Regulatory Infopedia, we have chronically presented the regulatory journey of the Indian Direct Selling Industry and the resilience showcased by it in the face of several ups and downs to emerge as a robust channel of distribution, tailor-made for India's economic system and a way of life.

The Indian Direct Selling Regulatory Infopedia provides a brief overview of the provisions of Consumer Protection Direct Selling Rules 2021 and the timelines of the initiatives undertaken by the industry representatives in building a foundation for robust regulations for the Indian Direct Selling Industry.

Efforts have been made to understand the phenomenon of the 'Roaring Twenties' which built the momentum for the Direct Selling Industry in Europe and North America. Also mentioned is the trail-blazing impact of the Japanese Miracle Economy, which enabled the emergence of a mature Direct Selling Industry in the country.

India is expected to become the third largest economy in the world with a GDP of \$ 5 trillion in the next three years and touch \$7 trillion by 2030 on the back of continued reforms.

The snap preview provided below offers a factual and kaleidoscopic overview of the Indian Economy. It mirrors the continued progress made by the Indian economy towards achieving the vision of Viksit Bharat in the coming years.

## Key Highlights of India



# Index

|    |  |    |
|----|--|----|
| 1. | Direct Selling Industry in India   | 1  |
| 2. | Unveiling the Global Direct Selling Industry's Growth                      | 6  |
| 3. | Defining Direct Selling: Insights from Leading Global Institutions         | 8  |
| 4. | Navigating Regulatory Changes: Direct Selling in India                     | 10 |
| 5. | The Consumer Protection Act, 2019  | 16 |
| 6. | Consumer Protection (Direct Selling) Rules, 2021                           | 18 |
| 7. | Amendment to Consumer Protection (Direct Selling) Rules, 2023              | 19 |
| 8. | Consumer Protection Act 2019: Impact on Direct Selling Regulation in India | 20 |
| 9. | Conclusion   | 22 |

# Regulatory & Legislative Journey of Indian Direct Selling Industry

## Direct Selling Industry in India

Direct Selling Distribution Channel is a by-product of the Free Market Economy, which encourages entrepreneurial culture in society. The Direct Selling Distribution Model has been embraced in more than 180 countries the world over.

The Direct-Selling business Model has flexibility and the spirit of entrepreneurship ingrained in it, and the field implementation of its operating principles has led to the emergence of iconic Direct Selling Entities that have created Super Consumer Brands that have strong Brand Equity and recall among the masses and the target audience's world over.

The business acquisition and sales network development DNA of the Direct Selling Entity is based on the self-reliance and financial empowerment of individual Direct Sellers and society at large, increasing the country's GDP.

The Direct Selling Industry had matured in North America and Europe by the 1920's. The 1920's in the Western world comprising of US and Western Europe was a decade of unprecedented prosperity. This decade has been termed as 'Roaring Twenties' as the rising incomes of middle-class Americans and Europeans generated more disposable income for the purchase of consumer goods.

The prosperity of the 1920's led to new patterns of consumption and created robust Brand Properties for the Direct Selling Entities which have a strong market position even to this day. In the mid-twenties, estimates of the volume of annual direct sales ranged from USD. 300-500 million.



The decade of the 1920's has been referred to as the era of the Roaring Twenties. A period of economic prosperity in United States and Europe. During this period, the Direct Selling Business Distribution channel in the US and Europe had matured and the business fundamentals were perfected.

## Direct Selling Industry in India (cont.)



Post-Second World War – Japan becomes a miracle economy. Noted American statistician, educator, and consultant Dr. Deming introduces Quality control methods in industrial production which facilitates Japan's economic recovery. By the 1960s, The Direct Selling Industry in Japan had matured to its full potential.

Being a low-cost sales distribution channel, and a people-centric business model, the Direct Selling Distribution Channel was successfully replicated in Asia Pacific (Japan and South Korea) and countries in the ASEAN after the Second World War.

The Japanese economic miracle refers to Japan's record period of economic growth between the post-World War II era and the end of the Cold War. During the economic boom, Japan became the world's second-largest economy.

ASEAN and countries in Asia Pacific such as Japan, South Korea, Taiwan, and Malaysia became synonymous with post-second World War miracle economies and had established a vibrant and well-entrenched Direct Selling Industry by the 1960s-70s.

Countries in ASEAN and the Asia Pacific have had a head start over the Indian Economy in creating an accommodative environment for Direct Selling Entities to flourish and become an integral part of their respective economies.

## Direct Selling Industry in India (cont.)

India introduced landmark economic reforms in 1991 following the Balance of Payment Crisis, experienced by the country. In the aftermath of the Economic Reforms of 1991, many Sunrise Industries such as Direct Selling Industry entered the country.

Before the breakthrough reforms, many archaic regulations, which restricted foreign capital and technology were enacted, and it restricted the growth of the Indian Economy.



The Indian Direct Selling Industry's forays into the Indian Economic Landscape started in the mid-nineties after the landmark economic reforms of 1991. Despite being a latecomer in the Direct Selling Industry arena, India through its policy-making for Direct Selling Entities set up distribution ventures in the country.

India in the 1960s and 1970s was more focused on becoming a self-reliant economy by developing a strong foundation for a mixed economy, in which domestic private enterprises and public sector entities co-existed. Many archaic legislations and trade and commerce policies such as license and inspector raj governed the day-to-day trade and commerce practices in the country which was discouraging the flow of foreign investment in the country.

India's coming-of-age economic ascendancy started soon after the landmark economic reforms of 1991 which opened the doors for many sunrise industries such as the Direct Selling Industry in the Indian Economy.

The period from the mid-1990s to the mid-2000s was a period of excitement for Direct Selling Entities in Indian Economy. Many home-grown domestic Direct Selling Companies emerged during that period which showcased the entrepreneurial talent and ambition of Indian businesses to compete with International Direct Selling Companies in the Indian Marketplace.

## Direct Selling Industry in India (cont.)

The regulatory strides of the Indian Direct Selling Industry have garnered extensive coverage across various media platforms, including front pages and business sections of national dailies, as well as online and electronic media outlets.

Aligned with shifting consumer preferences and rising household income, the Indian Direct Selling Industry has flourished, becoming a distinct distribution channel tailored to the nuances of the local market.

Despite regulatory hurdles, the industry has adeptly navigated the intricacies of the Indian business landscape, solidifying its position and demonstrating resilience in the face of challenges.

Today, the industry has extended its reach far beyond metropolitan hubs, penetrating into tier II, tier III cities, and rural areas, presenting promising opportunities for livelihood. Its adaptable distribution approach has garnered significant traction, embodying the economic ambitions within India's villages and rural towns.

### Direct Selling Knowledge Cyclostyle

Understanding the key facets of the Indian Direct Selling Industry will support in instilling conceptual clarity on the regulatory and legislative journey undertaken by the Indian Direct Selling Industry.

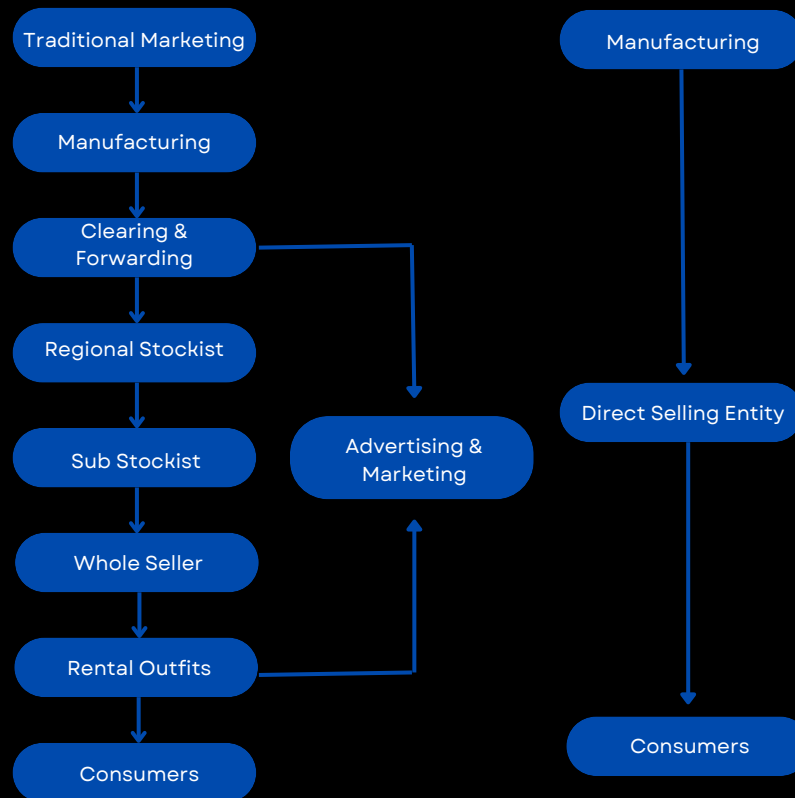
Being a more than 150-year-old Distribution Channel, the Direct Selling Industry has developed features that are distinct from traditional businesses.

Direct Selling, also known as person-to-person retail, is a model where people sell directly to end consumers and offers accessible entrepreneurship to anyone. In Direct Selling, Direct Sellers earn income by selling exclusive products to end consumers, either in-person or online. Direct Selling entrepreneurs can also enlist others to join their sales team, and sell products to increase their income potential.

Direct Selling a WIN-WIN Business Distribution Channel, trusted – tested, and proven among millions of Direct Sellers globally. The benefits of it are listed as under:

- Mentorship
- Development of Business Skills
- Personal Growth
- Flexible Schedule and Work from Home
- Incentive and recognition
- Friendship and relationship

## Direct Selling Industry in India (cont.)



Direct Selling is selling products directly in a non-retail environment. Instead, sales occur at home, work, online, or other non-store locations.

Direct Selling isn't only about getting great products and services into consumers' hands. It's also an avenue where entrepreneurial-minded individuals can work independently to build a business with low start-up and overhead costs.

Let us navigate the Indian Direct Selling Industry's regulatory journey and you will fall in awe with the role played by determined professionals in preparing a regulatory foundational base for the industry.

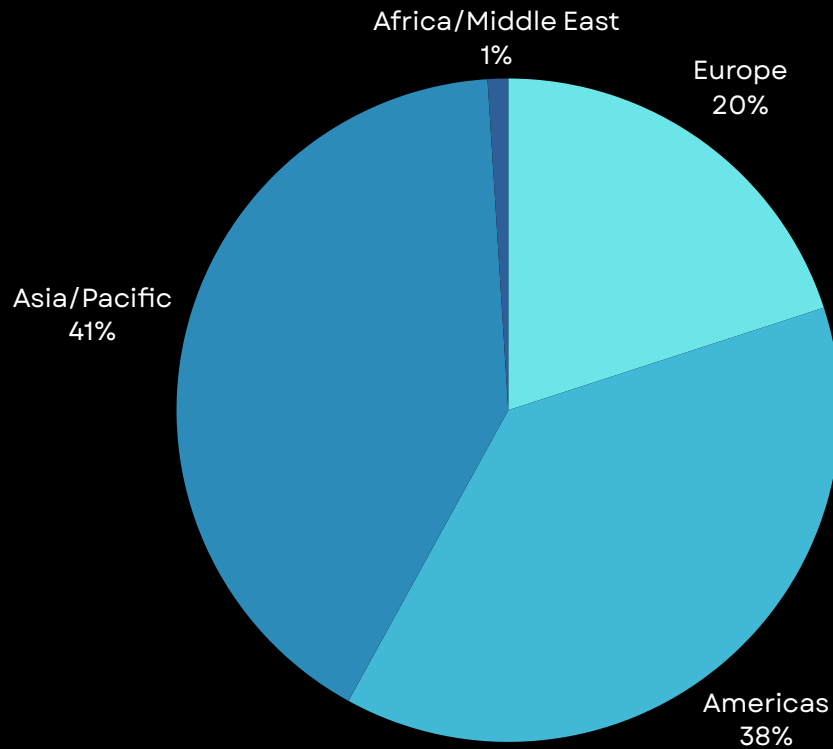
The statistics/data in the subsequent sections showcase the reach and size of the Global Direct Selling Industry. These figures are also indicative of the fact that the global direct-selling industry is a mega-industry with a strong presence in almost all countries.

India in 2023 has emerged as the world's most populous country overtaking China. On account of its demographic dividends, the Indian Economy and all its sectors including the Direct Selling Industry are expected to witness a surge in its growth.

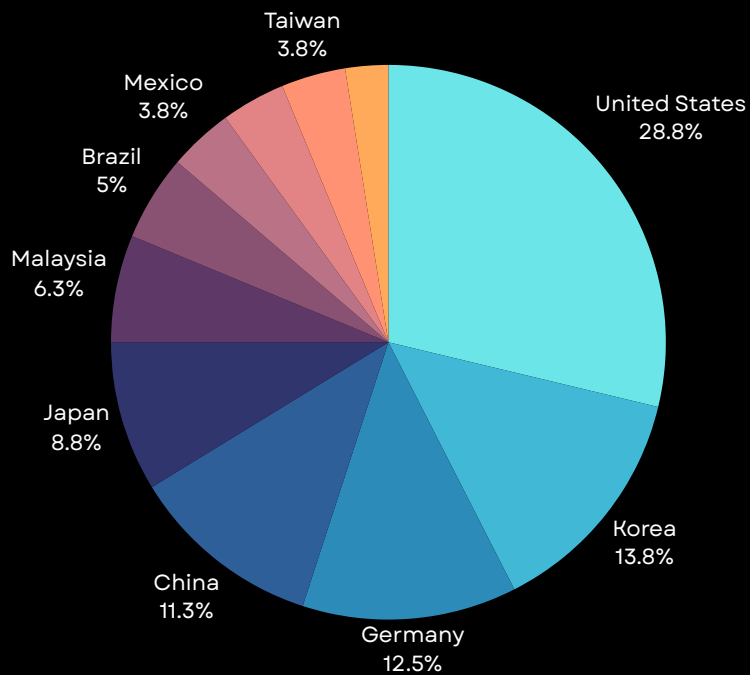
Though the Global Direct Selling Industry is a 170+ billion dollars global Direct Selling Industry, major Direct Selling Markets globally are reporting a decline. In contrast the India's Direct Selling Industry is growing at a steady pace.

# Unveiling the Global Direct Selling Industry's Growth

## Size of Direct Selling Industry Across Geographies



## Top 10 Global Markets



## Unveiling the Global Direct Selling Industry's Growth (Cont.)

"Direct Selling Industry's Impact: \$172,891 Billion in Global Retail Sales

| Regions                 | USD    |
|-------------------------|--------|
| Asia/Pacific            | 71,509 |
| Africa                  | 1,266  |
| Middle East             | 199    |
| North America           | 43,113 |
| South & Central America | 22,104 |
| European Union          | 34,700 |
| Rest of Europe          | 4,619  |

### Global Direct Sellers/Independent Representatives

| Regions                 | Direct Sellers/Independent Representatives |
|-------------------------|--|
| Global                  | 114,878,041                                |
| Asia/Pacific            | 67,606,442                                 |
| Africa                  | 3,560,015                                  |
| Middle East             | 1,214,292                                  |
| North America           | 15,708,000                                 |
| South & Central America | 14,179,872                                 |
| European Union          | 6,045,006                                  |
| Rest of Europe          | 6,564,413                                  |

### Indian Direct Selling Industry at a Glance

| Regions   | Direct Sellers/Independent Representatives |
|---|--|
| Global Ranking  | 11th                                       |
| Growth in Retail Sales                                  | \$3.23 billion (around Rs 26,852 crore)    |
| Compounded Annual Growth Rate over the last three years | 13.3%                                      |
| Direct Sellers  | 12,320,500                                 |

Source: <https://wfdsa.org/wp-content/uploads/2023/08/Sales-Seller-Report-2022.pdf>

## Defining Direct Selling: Insights from Leading Global Institutions

### **World Federation of Direct Selling Associations (WFDSA)**

Direct selling is a dynamic retail avenue embraced by leading global brands and innovative entrepreneurial ventures to connect directly with consumers. This approach spans a wide array of offerings, from jewelry, cookware, and cosmetics to nutrition, housewares, energy solutions, and insurance services, among others.

The direct selling channel differs from broader retail importantly. It isn't only about getting great products and services into the consumers' hands, it's also an avenue where entrepreneurial-minded people can work independently to build a business with less start-up and overhead costs as compared to other distributor channels.

Direct selling consultants work on their own, but affiliate with a company that uses the channel, retaining the freedom to run a business on their terms. Consultants forge strong personal relationships with prospective customers, primarily through face-to-face discussions and demonstrations. In this age of social networking, direct selling is a go-to-market strategy that, for many companies and product lines, may be more effective than traditional advertising or securing premium shelf space.

### **Seldia – European Direct Selling Association**

Founded in 1968, Seldia represents the European Direct Selling sector, including twenty five National Associations, fourteen Companies, sixteen service providers, and Independent Entrepreneurs within the European Union. According to Seldia, Direct selling involves marketing goods and services directly to consumers, whether at their homes or other non-permanent retail locations.

### **Indian Direct Selling Association (IDSA)**

Direct selling is a retail channel used by top global brands and smaller entrepreneurial companies to market products and services to consumers.

### **Federation of Indian Chambers of Commerce and Industry (FICCI)**

Direct selling refers to the selling of goods and services to consumers away from a fixed retail outlet, generally in their homes, workplace, etc. through explanation and demonstration of the product by direct sellers.

### **United Nations Central Product Classification**

UNCPC 2.01, updated in 2015, classifies Direct Selling under other non-store retail trade services code 624, states “Retail trade services of door-to-door sales or direct sales, defined as a method of consumer product and services distribution via sales in a person-to-person manner/way from a fixed retail location primarily through independent salespeople and distributors who are compensated for their sales and for their marketing and promotional services, based on the actual use or consumption of such products or services”

## Defining Direct Selling (Cont.)

### National Industrial Classification

The Indian Statistical counterpart of United Nations Central Product Classification is the 2008 version of the National Industrial Classification.

**Division 47: Retail Trade, Except of Motor Vehicles and Motorcycles** defines Direct Selling under group 479 as, “retail trade, not in stores, stalls or markets”, which has a mention of retail sale by (non-store) commission agents. (For further details please refer NIC\_Sector.pdf ncs.gov.in)



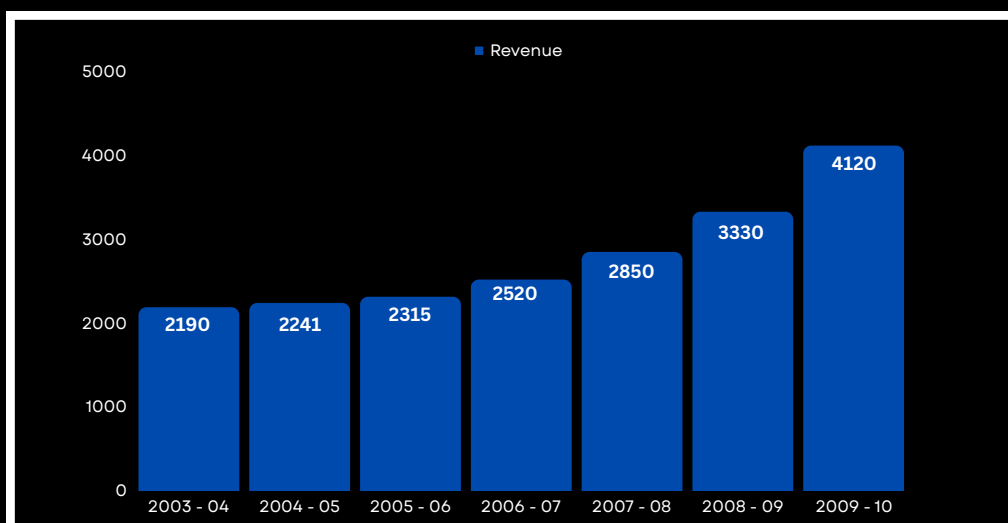
The definitions of Direct Selling and the regulatory reforms initiated by Direct Selling Association USA (DSA USA), Direct Selling Korea (DSA Korea), and Direct Selling Association of Hong Kong (DSA Hong Kong) were extensively referred by lawmakers in India to understand the fundamental Direct Selling Business Model.

In India, the regulatory landscape for the Direct Selling Industry saw significant advancement thanks to the proactive leadership of the Indian Direct Selling Association (IDSA), led by Ms. Chavi Hemanth as Secretary General. Their diligent efforts in regulatory brand-building, starting in 2008, established a strong and reliable framework for the growth of the Direct Selling Industry in India.



## Growth Surge of the Indian Direct Selling Industry

1st Phase - Size of Indian Direct Selling Industry between 2003 and 2010



## Navigating Regulatory Changes: Direct Selling in India

The Indian Direct Selling Industry, in its nearly three decades of journey, when it entered the Indian Economy in the mid-1990s, has created an avenue for Self-employment and Micro Entrepreneurship among the masses and classes in the country.

Regulatory developments shaping the Indian Direct Selling Industry are a reflection of the changes that are taking place in the Indian Economy which will be the third largest global economy by 2029.

Regulatory Timeline and Development in the Indian Direct Selling Industry is a living document prepared to provide an understanding of the developments that have shaped Indian Direct Selling Business practices to all the stakeholders, including Direct Selling Entities, Policymakers, Media, Consumers, and the public.

The Direct Selling Industry in India is a distribution model that has been refined and defined by the diversified, multi-lingual marketplace with different tastes, preferences, income groups, backgrounds ethnicities, languages, and geographical regions. This has led to the creation of distinct characteristics and India-Specific regulations for the Direct Selling Industry in India.

Below is the timeline of the sequence of milestones/development and regulatory meetings that have shaped the Indian Direct Selling Industry.

## Navigating Regulatory Changes (Cont.)

| Timeline  | Description  |
|---|--|
| <p><b>2008 – 2010</b><br/>*DIPP<br/>(Department of Industrial Policy and Promotion) has now become the Department for Promotion of Industry and Internal Trade (DPIIT).</p> | <p>Ice Breaker Year – Setting the Ball Rolling:</p> <p>August 2008:<br/>The inaugural meeting occurred with then-Secretary of DIPP, Mr. Ajay Shankar, alongside the Secretariat. Efforts focused on raising awareness about the Direct Selling Business in India and establishing proactive communication channels with the Government, Media, and the public through Knowledge Forums nationwide.</p> <p>Late 2009:<br/>Positive meetings continued with the DIPP, led by Secretary Ajay Shankar, culminating in a significant industry gathering, spearheaded by IDSA and WFDSA, to chart a path forward for the Indian Direct Selling sector, with Dr. Ajay Shankar's guidance.</p> <p>2010:<br/>Following Dr. Ajay Shankar's retirement, the file transitioned to the Ministry of Consumer Affairs, Food and Public Distribution. Representatives from the Indian Direct Selling Industry were advised to engage with this Ministry to expedite regulatory reforms and obtain legislative recognition.</p> <p>Throughout:<br/>The industry faced formidable challenges in advocating for itself and securing a parent Ministry. Nonetheless, it maintained an open line of communication and submitted representations to clarify the business model and seek clear definitions for Direct Selling. Despite the hurdles, the industry persisted in engaging with relevant Ministries, conducting face-to-face meetings with policymakers at both the central and state levels.</p> |
| <p><b>2011</b></p>  | <p>Key Developments:</p> <ul style="list-style-type: none"> <li>• Face to Face Physical Meetings in the Chief Minister's Office (CMO), State Secretariat and the Top Brass of the Police Department</li> <li>• Specific guidelines for Direct Selling in the state of Kerala introduced as per GO (MS) No. 190/2011/ICD dated 12.09.2011 with efforts and representation from IDSA and local trade unions</li> </ul> <p>Pre-Advocacy Efforts:<br/>The Indian Direct Selling Industry persistently advocated with Central Government Ministries, especially the Ministry of Consumer Affairs, Food and Public Distribution, seeking clear definition for the industry.</p> <p>Mid-Advocacy Efforts:<br/>As progress was made at the national level, Kerala faced a surge in fraudulent schemes falsely associated with the Direct Selling Industry. Despite these challenges, Direct Selling Companies and their representatives remained focused on safeguarding their legitimacy. Trade Unions representing Direct Selling Entities in Kerala took proactive steps to engage state authorities and media in addressing the issue.</p>   |

## Navigating Regulatory Changes (Cont.)

| Timeline         | Description  |
|------------------|--|
| <b>2011</b>      | <p><b>Late P.A. Joseph's Role:</b><br/>Late P.A. Joseph, a veteran trade unionist, played a pivotal role in representing the Direct Selling Industry's interests in Kerala, fostering dialogue among diverse stakeholders.</p> <p><b>Regulatory Breakthrough:</b><br/>Through persistent efforts and engagement with various stakeholders in Kerala, including the legislature, legal fraternity, and state leadership across political affiliations, the Direct Selling Industry achieved its first regulatory breakthrough.</p> <p><b>Enactment of Kerala State Direct Selling Guidelines:</b><br/>As a result of these efforts, the Government of Kerala, under its Consumer Affairs Department, enacted the "Kerala State Direct Selling Guidelines."</p> <p><b>Interaction with P.A. Joseph:</b><br/>Mr. P.A. Joseph facilitated dialogue between the Direct Selling Industry and P.A. Joseph, a seasoned leader from Kerala who had joined the Central Ministry as the Union Minister for Consumer Affairs, Food and Public Distribution.</p>  |
| <b>2012 - 13</b> | <p><b>2012 Advocacy Efforts:</b><br/>The Indian Direct Selling Industry achieved significant progress in advocacy efforts by engaging with the highest executive decision-making bodies of the Government of India. The Prime Minister's Office, Ministry of Finance, Consumer Affairs, and Corporate Affairs were approached to establish a growth-enabling framework.</p> <p><b>Regulatory Diversion:</b><br/>However, in 2012, the industry's regulatory efforts faced a setback due to the emergence of fly-by-night operators engaging in fraudulent schemes under the guise of legitimate Direct Selling Businesses. This diverted the focus of regulatory efforts.</p> <p><b>State-Level Focus - Rajasthan:</b><br/>The industry redirected its efforts towards the state of Rajasthan, where groundwork was led by IDSA, supported by Law Enforcement Agencies and the State executive/legislature. The aim was to develop a framework document to protect consumers, producers, and Direct Sellers from fraudulent entities.</p> <p><b>Regulatory Achievement - Rajasthan Government Directive:</b><br/>In 2012, the Rajasthan Government issued a directive titled "Direct Selling (Multi-Level Marketing)" through a notification dated 05.10.2012, with representation from IDSA. This was a significant milestone in regulatory progress for the Direct Selling Industry in India.</p> <p><b>Engagement with FICCI:</b><br/>From 2012 onward, the industry sought assistance from FICCI to facilitate policy formulation initiatives and expedite regulatory efforts with the Government of India</p> |

## Navigating Regulatory Changes (Cont.)

| Timeline           | Description  |
|--------------------|--|
| <b>2012 - 13</b>   | <p>Government Initiatives:<br/>The industry, represented by FICCI, issued a "Background Note on Frauds by Companies Running Pyramidal Schemes" and "Model Rules under 'The PCMC Schemes (Banning) Act 1978' for disguised Money Circulation Schemes, approved by the Ministry of Finance, Government of India.</p>   |
| <b>2014</b>        | <p>The regulatory progress of the Indian Direct Selling Industry was hindered, experiencing setbacks in its initiatives with the Government of India.</p> <p>Mr. Shashank Saxena, Director of the Department of Economic Affairs, Ministry of Finance, initiated communication with embassies and diplomatic missions of the Government of India to gather opinions on the Direct Selling Business Model prevalent in their respective countries.</p> <p>Following feedback collection and review of representations and academic literature, the Ministry organized a high-level meeting involving the Inter-Ministerial Group, including representatives from SFIO, Department of Economic Affairs, Ministry of Consumer Affairs, Food and Public Distribution, Ministry of Corporate Affairs, and Ministry of Law and Justice, alongside industry representations led by IDSA, FICCI, PHDCCI, ASSOCHAM, FDSA, and CII.</p>  |
| <b>2015 - 2016</b> | <p>2015:<br/>At the meeting, a decision was made to adopt a consumer-centric approach in regulations for the Indian Direct Selling Industry. The Ministry of Consumer Affairs, Food &amp; Public Distribution was tasked with preparing a consumer-focused regulatory road map.</p> <p>This meeting facilitated direct dialogue between the industry and SFIO under the Ministry of Corporate Affairs, enabling clarification on the Direct Selling Business Model and joint representation by IDSA &amp; FICCI to key Ministries.</p> <p>The Indian Institute of Corporate Affairs (IICA), Ministry of Corporate Affairs, Government of India, presented a "Whitepaper on Regulation of Direct Selling in India."</p> <p>2016:<br/>An Inter-Ministerial Group meeting, chaired by the Secretary of Ministry of Consumer Affairs, Food and Public Distribution, focused on the legislation of Direct Selling.</p> <p>Direct Selling Guidelines were formulated with the appointment of Secretary, Consumer Affairs, Shri Hem Pandey, serving as a reference document for the industry.</p> <p>Secretary, Consumer Affairs, Shri Hem Pandey, actively organized Direct Selling Industry-Government deliberations, contributing to clarity for policymakers during his tenure.</p> |

## Navigating Regulatory Changes (Cont.)

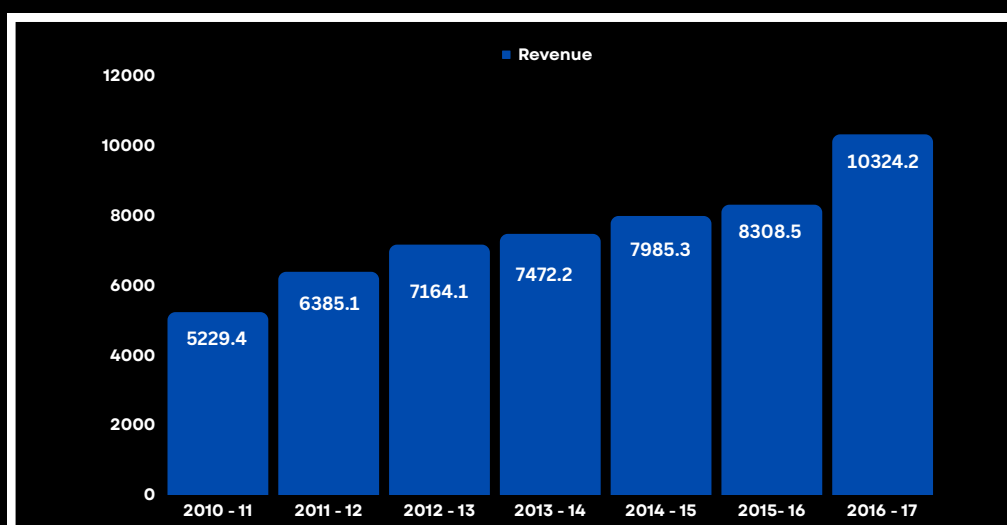
| Timeline  | Description  |
|---|--|
| <p><b>2015 - 16</b></p>   | <p><b>Advocacy Efforts in 2015:</b><br/>The Indian direct-selling industry and its stakeholders launched a concentrated effort in 2015, urging the Ministry of Consumer Affairs, Food, and Public Distribution to enact separate legislation for regulating and monitoring Direct Selling Businesses in the country.</p> <p>Representations emphasized various parameters, including minimum capital/equity investment, establishment of manufacturing plants, provision of physical infrastructure for sales, training, grievance-related support, mandatory legally enforceable contracts with distributors, and transparent disclosures by Direct Selling Companies.</p>  |
| <p><b>2016 – 2018</b></p> <p><b>Direct Selling Guidelines, 2016 – enables the Indian Direct Selling Industry to look at the larger picture of growth and consolidation.</b></p> | <p><b>Drafting of Direct Selling Guidelines:</b><br/>After extensive consultations with IDSA, led by its then-Secretary General Ms. Chavi Hemanth, the Director of the Department of Consumer Affairs, Food, and Public Distribution, Mr. Zakir Hussein, and his team prepared the Draft of the Direct Selling Guidelines, 2016.</p> <p><b>Release and Amendments:</b><br/>The Direct Selling Guidelines, issued on September 9, 2016, were the first advisory paper released by the Government of India in its statutory books. Under the leadership of the Secretary - Ministry of Consumer Affairs, Food and Public Distribution, Mr. Hem Pandey, amendments were made to make the guidelines more consumer-focused, including the removal of Starter Kit fees.</p> <p><b>Industry Consultations and Secretary's Role:</b><br/>Before the release of the Direct Selling Guidelines, Secretary of the Department of Consumer Affairs, Mr. Hem Pandey, conducted several rounds of meetings with industry representatives to gather their opinions and feedback. His efforts were instrumental in building consensus for the guidelines and expediting their issuance.</p> <p><b>Impact and Conclusion:</b><br/>The Direct Selling Guidelines of 2016 offered concise advisory insights for India's Direct Selling industry, serving as a model for both legislators and industry stakeholders.</p> <p>Approximately 15 states and union territories in India issued their own Direct Selling Guidelines, offering much-needed clarity for Direct Selling Entities to strengthen and expand their business operations.</p> <p>These guidelines, issued by the Ministry of Consumer Affairs, Food, and Public Distribution, were advisory in nature and not legally binding. They were exempted from liability under Section 79 of the Information Technology Act, 2000, and lacked legal status in the absence of notification in the Gazette, as per Article 13.</p> |

## Navigating Regulatory Changes (Cont.)

| Timeline           | Description  |
|--------------------|--|
| <p><b>2019</b></p> | <p>The Consumer Protection Act, 2019</p> <p>The Consumer Protection Act, 2019 was notified on August 9th, 2019. However, it came into effect from July 20th 2020.</p> <p>Retains certain old provisions of the Consumer Protection Act, 1986, the New Act has certain provisions that tighten the existing rules to further safeguard consumer rights and create exhaustive consumer protection law.</p> <p>New provisions under the Consumer Protection Act 2019</p> <ul style="list-style-type: none"> <li>• Inclusion of E-Commerce, Direct Selling</li> <li>• Establishment of Central Consumer Protection Authority (CCPA)</li> <li>• Strict Norms for Misleading Advertisement</li> <li>• Strict Norms for Product Liability</li> <li>• Changes in the Pecuniary Jurisdiction</li> <li>• Greater ease to dispute resolution</li> <li>• Addition in the clause of “Unfair Trade Practice”</li> <li>• Unfair Contract</li> <li>• Alternate Dispute Resolution through mediation</li> </ul>   |
| <p><b>2021</b></p> | <p>Consumer Protection (Direct Selling) Rules 2021</p> <p>The Central Government in exercise of the powers conferred by clause (zg) of sub-section (2) of section 101 read with section 94 of the Consumer Protection Act, 2019 has notified the Consumer Protection (Direct Selling) Rules, 2021</p> <ul style="list-style-type: none"> <li>• Mandated Direct Selling Entities to comply these rules within 90 days.</li> <li>• Both Direct Sellers and Direct Selling Entities using e-commerce platforms for sale to comply with the requirements of the Consumer Protection (e-Commerce) Rules, 2020.</li> <li>• Both Direct Selling Entity and Direct Sellers prohibited from promoting Pyramid Scheme or Money Circulation Scheme.</li> <li>• State Government to set up a mechanism to monitor or supervise the activities of Direct Sellers and Direct Selling Entity.</li> <li>• Well laid down duties and obligations for both Direct Selling Entities and Direct Sellers to safeguard the interests of consumers</li> </ul> |
| <p><b>2023</b></p> | <p>The Ministry of Consumer Affairs, Food, and Public Distribution issued a notification on June 21, 2023, announcing the amendment to the Consumer Protection (Direct Selling) Rules, 2023. This amendment, focusing on rule 3, brings changes to the selling process and the definition of a “Network of Sellers” in Direct Selling activities.</p>  |

## Growth Surge of the Indian Direct Selling Industry

2nd Phase – Size of the Indian Direct Selling Industry between 2010 and 2016



## The Consumer Protection Act, 2019

The Gazette of India received the assent of the President of India on the 9th August 2019 and was issued by the Ministry of Law and Justice with Notification No. 54.

*The Consumer Protection Act, 2019 has been a path defining piece of Act for the Indian Direct Selling Industry in its regulatory journey. Consumer Protection Act, 2019 is an Act of the Parliament of India. It repeals and replaces the Consumer Protection 1986.*

The Consumer Protection Act, 2019 was introduced in the Lok Sabha as a replacement of COPRA, 1986 on 8 July 2019 by the Minister of Consumer Affairs, Food and Public Distribution, Ram Vilas Paswan. It was passed by Lok Sabha on 30 July 2019 and was later passed in Rajya Sabha on 6 August 2019. The bill received assent from President Ram Nath Kovind on 9th August, and was notified in The Gazette of India on the same date.

**The Consumer Protection Act, 2019 is a reflection of the changes that have taken place in the Indian Economy and gives primacy to the concerns of Indian consumers in the ever-changing marketplace.**

The Consumer Protection Act, 2019, is a crucial legislation for both Indian society and industry, shaping the development of a progressive Bharat. Tailored to the era of rapid digitalization, it comprehensively addresses the evolving needs of consumers in today's information-driven industries. In contrast, the Consumer Protection Act of 1986 emerged during a time marked by stringent economic regulations, lacking the foresight of impending economic reforms. The landmark reforms introduced in 1991 ushered in a new era, lifting millions out of poverty and necessitating a legislative framework that reflects the changing dynamics of the Indian marketplace.

## The Consumer Protection Act, 2019 (Cont.)

Despite the tectonic shift in the Indian Economy, the Consumer Protection Act, 1986 played a very important role in protecting the core rights and interests of the consumers in a rapidly changing Indian Market Eco- System. However, with the digitalization of the economy in full steam in the 21st century, there was a need to introduce a successor to the Consumer Protection Act, 1986. The Consumer Protection Act, 2019 is an Act prepared to meet and provide new meaning to the consumer rights movement in years to come.

Dedicated to India's national aim of becoming Viksit Bharat, 2047 will be a year when India celebrates its centenary year and is expected to emerge among the premier top 3 global economy.

The Indian Consumer in the age of economic landscape which gives primacy to entrepreneurship and Free Market Reforms is donning a multi-dimensional hat, she/he is a producer managing businesses of varied sizes and a concerned consumer whose needs of consumption has undergone rapid changes in recent years.

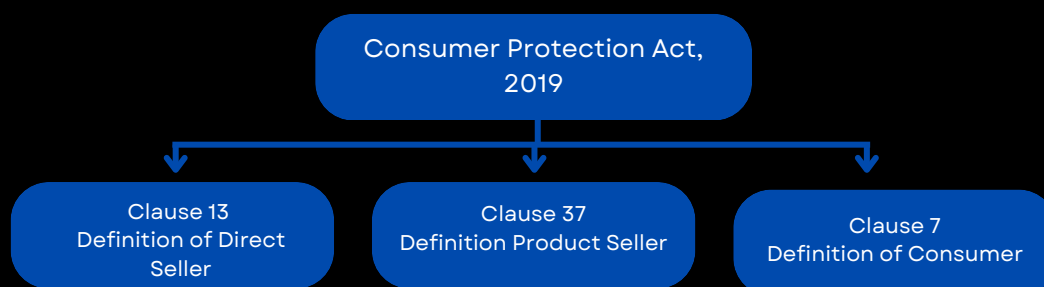
Immutable Rights: The Foundation of Consumer Protection:

- Right to information
- Protection from hazards
- Protection from unfair practices
- Access to variety at competitive prices
- Right to redressal

This Infopedia is dedicated to the 9 million Direct Sellers in India, whose efforts have helped the industry surpass \$2 billion, aiming to rank among the top 10 Global Direct Selling Marketplaces.

Indian Direct Selling Industry is expected to be among the top 10 Direct Selling Market globally in coming years. For the last two years, it has been displaying stellar growth, and at present, the size of Indian Direct Selling is 11th, considering the diversity and potential of the Indian Marketplace, it is expected that the Indian Direct Selling Industry will surge ahead to new heights in coming years.

The Consumer Protection Act, 2019 has been pivotal for the Indian Direct Selling Industry, providing comprehensive regulatory guidance and clear definition.



## Consumer Protection (Direct Selling) Rules, 2021

Issued by the Ministry of Consumer Affairs, Food and Public Distribution (Department of Consumer Affairs) on June 28, 2021, the Consumer Protection (Direct Selling) Rules, 2021, under the authority of the Consumer Protection Act, 2019, delineate responsibilities for Direct Selling Entities and Direct Sellers to safeguard consumer interests.

### Key Highlights:

The rules delineate obligations for both Direct Selling Entities and their representatives to protect consumer interests. Existing direct-selling companies must comply within 90 days.

### Applicability:

These rules pertain to all goods and services transacted through Direct Selling and apply to all models and entities operating within India.

### Main Provisions

#### State Oversight:

State Governments are tasked with establishing monitoring mechanisms for Direct Sellers and Entities.

#### Grievance Redressal:

Direct Selling Companies must establish robust grievance redressal mechanisms. Entities bear liability for goods and services authenticity. Each Entity must appoint a nodal officer for compliance oversight.

#### Consumer Protection:

Direct Selling Companies or their representatives cannot induce purchases by suggesting price reductions through referrals.

#### Incorporation Laws:

Direct Selling Entities register under the Partnership Act, 1932, for partnership firms, and the Limited Partnership Act, 2008, for Limited Liability Partnership firms.

#### Physical Presence:

Entities must have at least one registered office within India.

#### Compliance Declaration:

Entities must make self-declarations confirming compliance with the rules and absence from Pyramid or Money Circulation Schemes.

## Amendment to Consumer Protection (Direct Selling) Rules, 2023

After the enactment of the Consumer Protection (Direct Selling) Rules, 2021, there was intense deliberation among Indian Direct Selling Industry peers on the elaboration of the term “network of sellers”.

The Consumer Affairs Ministry, Food and Public Distribution through its notification dated June 21, 2023, made modifications in Consumer Protection (Direct Selling) Rules, 2021, Rule 3, in sub-rule (1).

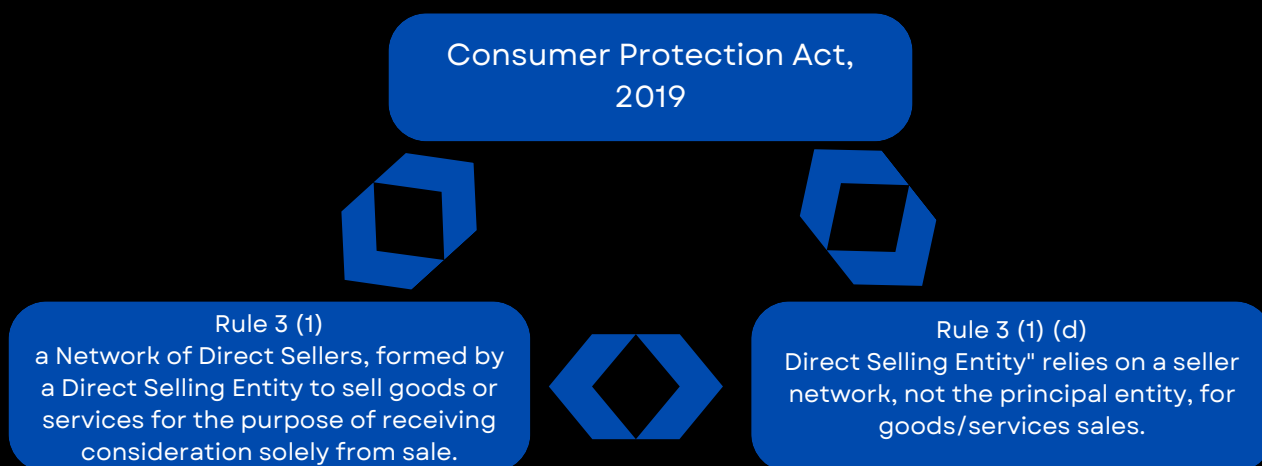
The notification states that in clause (d), for the words “through Direct Sellers” the words “directly selling a network of sellers” shall be substituted.

The notification elaborated that a “network of sellers” means a network of Direct Sellers formed by a Direct Selling Entity to sell goods or services to receive consideration solely from such sale.

However, the enactment of Consumer Protection (Direct Selling) Rules, 2021 divided the Indian Direct Selling Industry to its core. There was intense debate in Industry circles on the clear definition of the Network of Sellers as it had a direct bearing on the Business Model of the Direct Selling Industry which was prevalent in India.

With the incorporation of Rule 3 (1) and Rule 3 (1) (d), the Indian Direct Selling Industry has heaved a sigh of relief and is back on the drawing board to chart growth and conquer new frontiers in the market place.

### Igniting Growth: The Indian Direct Selling Industry



## Consumer Protection Act 2019: Impact on Direct Selling Regulation in India

It is essential to comprehend the three frames associated with the Consumer Protection Act, 2019, as they are poised to significantly impact the Indian Direct Selling Industry.

| Consumer Protection Act, 2019   | Consumer Protection (Direct Selling) Rules, 2021 (the "Rules")   | Consumer Protection (Direct Selling) (Amendment) Rules 2023   |
|---|--|---|
| <p>In the Consumer Protection Act of 2019 (No. 35 of 2019), a "consumer" refers to any individual who:</p> <p>The term "commercial purpose" specifically excludes usage solely for the purpose of earning a livelihood through self-employment.</p> <p>The phrases "buy any goods" and "hires or avails any services" encompass transactions conducted both offline and online, including those facilitated through electronic means, tele-shopping, direct selling, or multi-level marketing.</p> <p>"Direct selling" denotes the marketing, distribution, and sale of goods or services through a network of sellers, excluding permanent retail locations.</p> | <p>In exercise of the powers vested by clause (zg) of subsection 101, in conjunction with section 94 of the Consumer Protection Act, 2019, the Central Government hereby establishes the following rules:</p> <ol style="list-style-type: none"> <li>1. Title and Commencement</li> <li>2. Application Procedures</li> <li>3. Definitions: <ul style="list-style-type: none"> <li>- Cooling-off period</li> <li>- Direct Seller</li> <li>- Direct Selling Entity</li> <li>- Money Circulation Scheme</li> <li>- Misselling</li> <li>- Prospect</li> <li>- Pyramid Scheme</li> </ul> </li> <li>4. Mandatory Recordkeeping</li> <li>5. Obligations of Direct Selling Entities</li> <li>6. Obligations of Direct Sellers</li> <li>7. Duties of Direct Selling Entities and Direct Sellers</li> <li>8. Prohibition of Engagement in Direct Selling Business by Certain Individuals</li> <li>9. Application of E-commerce Regulations</li> <li>10. Prohibition of Pyramid Schemes and Money Circulation Schemes</li> <li>11. State Government Monitoring</li> <li>12. Resolution of Legal Inconsistencies</li> <li>13. Enforcement and Penalties</li> </ol> | <p>In exercise of the powers conferred by clause (zg) of subsection (2) of section 101, read in conjunction with section 94 of the Consumer Protection Act, 2019 (35 of 2019), the Central Government hereby introduces the following amendments to the Consumer Protection (Direct Selling) Rules, 2021:</p> <ol style="list-style-type: none"> <li>1. Title: These rules shall be known as the Consumer Protection (Direct Selling) (Amendment) Rules, 2023.</li> <li>2. Commencement: They shall come into effect on the date of their publication in the Official Gazette.</li> </ol> <p>In the Consumer Protection (Direct Selling) Rules, 2021, Rule 3, Sub-rule (1):</p> <p>(i) In clause (d), replace "through direct sellers" with "directly through a network of sellers".</p> <p>(ii) Insert the following clause after clause (g):</p> <p style="padding-left: 20px;">(ga) "Network of sellers" refers to a network of direct sellers established by a direct selling entity to sell goods or services and receive compensation solely from such sales.</p> |

## Consumer Protection Act 2019 (Cont.)

### Consumer Protection (Direct Selling) Rules Notified by States/UTs

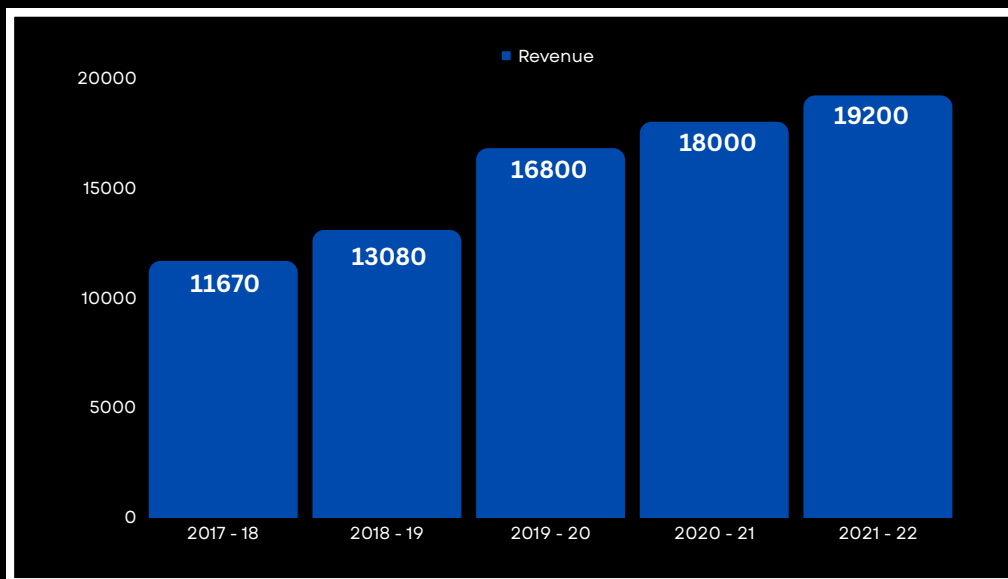
Seven states have notified Consumer Protection (Direct Selling) Rules to monitor the Direct Selling Entities.

The states that have notified Consumer Protection (Direct Selling) Rules have set up a mechanism to monitor or supervise the activities of Direct Sellers and Direct Selling Entities.

Through the Consumer Protection (Direct Selling) Rules, the government seeks to protect consumers and promote transparency in the Direct Selling Industry. The monitoring mechanism envisioned in the Consumer Protection (Direct Selling) Rules aims to ensure the continued growth and legitimacy of the industry while safeguarding consumer interests.

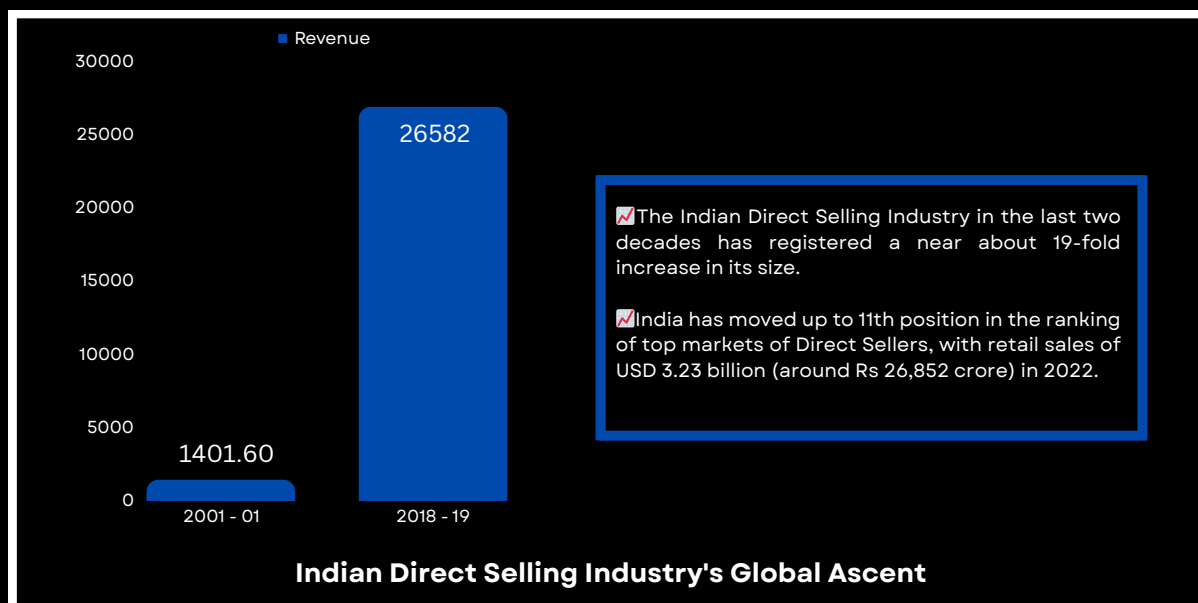
More states have initiated the process to notify the Consumer Protection (Direct Selling) Rules in their states.

### Ascending Trajectory: The Indian Direct Selling Industry Surpasses INR 10,000 Crore Milestone



## Conclusion

FY 2000-01 INR (1401.60 Crore)  FY 2022-23 INR (26,582 Crore)



The Indian Direct Selling Industry is swiftly earning international acclaim, driven by its significant market size and influential financial reforms. Surpassing \$2 billion in revenue in FY 2022-23, it stands as a proving ground for entrepreneurship, providing an equal platform for both local and global participants to thrive.

This industry's unique blend of domestic and international companies has shaped a market with distinctive Indian characteristics and a strong sales network-building DNA. Over the past three decades, consumer preferences in India have evolved significantly, driven in part by the introduction of world-class products by Direct Selling Entities.

These entities have not only introduced international-quality goods but have also revitalized traditional Indian consumer products, presenting them in modern packaging and branding them for mass appeal. As a result, traditional Indian products now boast a distinct brand identity and have secured a prominent place in the market.

Moreover, the Indian Direct Selling Industry has been instrumental in supporting the MSME sector, fostering partnerships that facilitate knowledge sharing and the production of high-quality consumer goods. Home-grown Direct Selling Entities have emerged as key players in the industry, not only competing with international giants but also expanding their presence into new markets in the Middle East and Southeast Asia.

We extend our gratitude to industry associations and leading chambers of commerce for their tireless efforts in advocating regulatory reforms for the Indian Direct Selling Industry since 2008. Their initiatives have paved the way for industry growth and development.

