



DIRECT SELLING AND CONSUMER RIGHTS IN INDIA: A LEGAL AND REGULATORY PERSPECTIVE

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Abstract

Direct selling in India has developed from a loosely guided business practice into a regulated commercial activity shaped by consumer protection concerns, the rise of network marketing, and the need to distinguish legitimate direct selling from pyramid and money circulation schemes. This paper examines the legal transition from the Direct Selling Guidelines, 2016 to the Consumer Protection Direct Selling Rules, 2021 and the 2023 Amendment. The study highlights how the 2016 Guidelines introduced basic obligations for direct selling entities and sellers, while the 2021 Rules gave statutory force to compliance requirements, grievance redressal, disclosure norms, refund provisions, and anti-pyramid safeguards. The 2023 Amendment further clarified the scope of direct selling through a “network of sellers” and strengthened the legal distinction between sales-based business models and recruitment-based schemes. The paper concludes that consumer protection in direct selling depends not only on legal rules but also on effective enforcement, regulatory awareness, ethical marketing, and transparent business practices.

Keywords

Direct Selling, Consumer Rights, Network Marketing, Consumer Protection Act, Pyramid Scheme, Direct Selling Rules 2021, Regulatory Framework, India

Introduction

Direct selling has become an important business model in India, especially with the growth of network marketing and multi-level marketing structures. However, the sector has also faced criticism because some fraudulent schemes have operated under the appearance of direct selling. To address these concerns, India first introduced the Direct Selling Guidelines in 2016, which provided definitions, seller obligations, buy-back provisions, and safeguards against recruitment-based earnings. Later, the Consumer Protection Direct Selling Rules, 2021 transformed these principles into legally enforceable obligations under the Consumer Protection Act, 2019. The 2023 Amendment further clarified the meaning of direct selling through a network of sellers and strengthened protection against pyramid and money circulation schemes. Therefore, the legal regulation of direct selling in India is closely linked with consumer rights, business transparency, seller accountability, and ethical market conduct.

Objectives

1. To study the evolution of direct selling regulation in India from the 2016 Guidelines to the 2023 Amendment.
2. To examine the legal safeguards provided to consumers and direct sellers under the Consumer Protection Direct Selling Rules, 2021.
3. To analyze the distinction between legitimate direct selling models and pyramid or money circulation schemes.
4. To assess the role of regulatory compliance, disclosure, refund policies, and grievance redressal in protecting consumer rights.

Regulatory Framework: 2016 Guidelines → 2021 Rules → 2023 Amendment

The guidelines that initially regulated direct selling in India eventually led to the enactment of the rules / law on a statutory basis.

The 2016 Guidelines (Notification, 26 October 2016)

The Ministry of Consumer Affairs issued a G.S.R. 1013(E) on 26 October 2016 under the earlier Consumer



Protection Act, 1986 with the guidelines for direct selling and multi-level marketing (MLM) / Network Marketing. To address the problems in direct selling, Government formed an Inter-Ministerial Committee consisting of representatives from the ministry of Finance, DIPP, Legal Affairs, IT, Corporate Affairs and the State Governments of Delhi, Andhra Pradesh and Kerala.

These model rules would be adopted by the States and the Union Territories, to protect the interest of consumers in the direct selling industry.

Key features / clauses in the 2016 guidelines:

- Definitions of terms such as "Direct Seller", "Direct Selling", "Direct Selling Entity", "Network of Direct Selling", "Pyramid Scheme", etc.
- **Conditions / obligations for Direct Selling Entities:**
 - Must register as a legal entity,
 - Must provide orientation / training to potential direct sellers,
 - Must maintain buy-back / refund policies,
 - Must not incentivize recruitment (no commission for enrolling new people),
 - Must maintain a grievance redressal mechanism,
 - Must issue identity documents to the sellers, keep proper records and provide fair payment.
- **Conditions / obligations for Direct Sellers.**
 - Must carry identification when visiting consumers,
 - Must disclose nature of business to prospects,
 - Must provide accurate product information, etc.
- In 2016 guidelines, monitoring / supervisory mechanisms were to be set up by state governments / UTs for direct selling enterprises and direct sellers.
- Direct selling companies were required to file a declaration / undertaking with the Department of Consumer Affairs that they complied with these model guidelines, and state of incorporation of the company.
- The guidelines further clarified that the term "written contracts" extends to e-contracts (i.e. digital contracts).
- It also allowed a cooling-off period and buy-back / repurchase of "currently marketable goods" by participants on reasonable terms.
- The Pyramid Scheme was carefully defined. Multi-level networks are allowed as long as they do not pay out based on recruiting, only on the sale of a good or service, do not mandate purchases above consumption thresholds, and do not charge any entry fees and so forth.

These 2016 guidelines were neither mandatory (generally enforceable under law) nor binding for the states, but intended to harmonize best practices among direct selling / MLM companies.

The penalties were only guidelines, nor were they consistently met, with many states either not adopting them or modifying them considerably.

The 2021 Rules - Consumer Protection (Direct Selling) Rules, 2021

With time, due to the rise of direct selling and scamming operations like fraudulent MLMs / pyramid-schemes, the government transitioned from non-binding self-governance to statutory rules, under the Consumer Protection Act, 2019.

The Ministry of Consumer Affairs provided the G.S.R. 889(E) notification for the Consumer Protection (Direct Selling) Rules, 2021 on 28 December 2021.

These rules were issued under the authority of Section 101(2)(zg) and Section 94 of the Consumer Protection Act, 2019.

These new rules are statutory (i.e. legally enforceable) and apply to all direct selling entities and business models, including those outside India directly selling to Indian consumers.

Salient features and obligations under the 2021 Rules

A summary of the main obligations / provisions is set out.

Scope (Rule 2)



The Rules apply to goods and services sold (including through direct selling) to Indian consumers, all direct selling business models, direct sellers, and entities in direct selling systems, including persons and entities located outside India.

Definitions (Rule 3)

It defines Direct Seller, Direct Selling Entity, Direct Selling, Money Circulation Scheme, Pyramid Scheme, Cooling-off period, Mis-selling, etc. The Act defines Direct Selling Entity as a person who sells or offers to sell goods/services through direct sellers, but does not include a pyramid scheme or a money circulation scheme. Direct Selling means the marketing, distribution, or sale of goods or services as part of a network of direct selling, other than through a permanent retail location, by demonstration or personal contact.

Obligations of Direct Selling Entities (Rule 5)

Key duties and responsibilities include (but are not limited to):

- Must be a company, limited liability partnership, or other registered firm.
- Has to have at least one physical presence in India.
- Self-declaration of compliance and non-engagement in pyramid / money circulation schemes.
- Maintain an up-to-date website on the fundamental business details and requirements (documents, management and nodal / grievance officers, product features and specifications, refund policy, etc.).
- A company must own or license the trademark of the goods or services, and should not pay commissions to sellers for selling goods of which they are not the owner or licensee.
- Issue written contract to direct sellers before enrolment.
- Register all direct sellers and verify their identity, including issuing an identity card with a physical address.
- Grievance redressal: appoint grievance officers, and respond to complaints within specified timeframe.
- Keep a database of direct sellers (address, proofs of identity, income/commission earned, and status) and maintain the website/register.
- Monitor compliance of all direct sellers, including indirect sellers, through contractual obligations and enforceable contracts.
- Disclosures: the direct selling entity discloses various information (descriptions of the good, returns, warranty, terms, etc.) in the offer(s).
- Prohibited acts: Uses of deception or unfair methods or representations, including false promises, intimidation, and deceptions; seller commission or renewal fees; unauthorized uses of representations.

Obligations of Direct Sellers (Rule 6)

- Must have a prior written contract with the DSE (the entity).
- At beginning of sales visit state identity, purpose of visit, nature of business, etc.
- Provide accurate and complete information (pricing, refunds, warranties, after-sales service, etc.).
- Must not visit premises without appointment and identification, mis-sell, require purchase of unnecessary materials, obtain business under false pretenses.

Rules on Duties / Conduct (Rule 7)

DSE/Direct Sellers cannot misrepresent any product, and must guarantee warranty or after-sales service for the product. The delivery time must be stated. Any return/refund of a product must be honored. The price including delivery charges/taxes must be declared. Misleading advertisement of the products is prohibited. Fraud, coercive, unfair means of persuading people are prohibited. Mis-selling/wrong promises of income are prohibited.

Other rules / clauses

1. Rule 4: DSE to maintain records such as incorporation certificate, MoA/AoA, PAN, GST, audit report, register of direct sellers, etc.

- Rule 8: Persons not eligible: those convicted / insolvent / of unsound mind in preceding five years cannot undertake direct selling business.
- Rule 9: The DSE or sellers are engaged in e-commerce, the Consumer Protection (E-Commerce) Rules, 2020 will apply to the e-commerce transactions.
- Rule 11: Monitoring by States: Each State should set up mechanisms to monitor compliance with these rules.



- Rule 13: Contravention / enforcement: Contravention will be dealt with under the Consumer Protection Act.

To address these issues, the 2021 Rules: (i) transitioned from guidance to mandatory requirements; (ii) expanded coverage; (iii) enforced consumer protection; and (iv) provided for enforcement actions.

The 2023 Amendment Rules (June 2023)

Afterward, on 21 June 2023, the government issued the Consumer Protection (Direct Selling) (Amendment) Rules, 2023 (G.S.R. 454(E)) to clarify some ambiguities that existed even after the 2021 amendment.

Key changes introduced by the 2023 Amendment

- Definition / scope of "Direct Selling Entity" and "Network of sellers" (in Rule 3) In Rule 3(1)(d), for "through direct sellers", the words "directly through a network of sellers" are substituted. After clause (g) of Rule 3(1), the following clause (ga) shall be inserted, namely, "Network of sellers" means a network of direct sellers formed by a direct selling entity to sell goods or services for the purpose of receiving consideration solely from such sale. This clarifies that direct selling must take place through a network of sellers (i.e. not necessarily just via direct 1-to-1 sellers) and that such network must be remunerated solely on sales (not recruitment).
- Clarification to strengthen anti-pyramid / money circulation safeguards By revising the definition of "directly through a network of sellers", the scope of regulated entities has been clarified and broadened. With this amendment, the definition now includes more modern forms of network marketing, and closes potential loopholes of companies claiming that they were not "through direct sellers" but using other methods instead.

Effective date

The amendment rules came into force immediately, meaning that they were effective from the publication date in the Official Gazette (21 June 2023)

The 2023 amendment is less sweeping; it simply updates the definitions and scope in light of business model changes to close loopholes and avoid misuse.

Table 1.1 Detailed Explanation of Key Rules / Clauses (from 2021 & 2023) + Link with 2016 Guidelines

Theme / Clause	What Rule / Definition says (2021 / 2023)	Purpose / Practical Implication	Relation to 2016 Guidelines / Differences
Direct Selling / Network of Sellers	2021: Direct Selling involves marketing/distribution via network of direct sellers (not via permanent retail). 2023: "through direct sellers" → "directly through network of sellers" and define "network of sellers" (clause ga).	To legally encompass multi-level / network marketing structures and ensure that remuneration derives from sales within that network, not recruitment.	2016 guidelines also defined "Network of Direct Selling" and forbade recruitment-based earnings. The 2021+2023 formalize it in statutory definitions rather than voluntary guidelines.
Legal Entity / Registration	2021: Must be registered company/firm/LLP under relevant law and have registered office in India (Rule 5)	To ensure accountability, traceability, and legal enforceability for the entity responsible for direct selling operations	2016: Model guidelines required entity incorporation, but were not mandatory under law.
Contracts with Direct Sellers	2021: Must be in writing before enrolment, describe material terms, allow termination etc.	Prevent harsh / hidden terms, protect the rights of sellers, ensure clarity of obligations and remuneration	2016: Required legally enforceable written contract (digital allowed) too. The 2021



			Rules embed it as a legal obligation.
Cooling-off Period / Refund / Buy-back	2021: Entities must allow cancellation and refund; return / repurchase of currently marketable goods at fair terms.	Protect seller or consumer who may regret purchase, to minimize risk of being trapped by forced purchases	2016: Introduced “cooling-off period” and buy-back / repurchase provisions. 2021 gives statutory force.
Grievance Redressal / Complaint Handling	2021: Must appoint grievance redressal officers, respond to complaints within defined period (48 hours acknowledgment, 30 days resolution) (Rules 5, 7)	To ensure consumer and seller complaints are addressed timely and transparently	2016 guidelines also recommended grievance committees and timelines, but without legal teeth.
Record-keeping & Disclosure	2021: Must maintain docs (MoA, incorporation, financials, register of sellers, etc.), and must display full price, terms, product info, etc., on website / offers.	For transparency, auditability, prevent hidden charges or misleading promises	2016: Suggested record-keeping and disclosure, but not legally mandated.
Prohibition of Pyramid / Money Circulation Schemes	2021: Entities / sellers must not promote pyramid / money schemes; remuneration must derive from sale of goods, not recruitment (Rules 7, 5) 2023: Clarifies deeper, redefinition of “direct selling entity” and “network of sellers” to ensure non-recruitment earnings.	To prevent abuse of MLM structures and fraudulent schemes disguised as direct selling	2016: Already prohibited recruitment-based earning, entry fees, etc. 2021/2023 enforce those prohibitions by law and narrow down loopholes.
Disclosures & Marketing Ethics	2021: Entities and sellers must ensure all claims are verifiable, not misleading, properly disclose guarantee, refund, terms, etc. (Rule 7)	To curb exaggerated income claims, false promises, deceptive marketing	2016: Also discouraged misleading / false claims. 2021/2023 put legal obligations and penalties.
Eligibility / Disqualifications	2021: A person convicted / insolvent / unsound mind within last 5 years cannot engage in direct selling (Rule 8)	To avoid fraudsters or unreliable persons as sellers	2016 guidelines had clause about promoter conviction; 2021 makes it enforceable.
State Monitoring / Supervision	2021: States / UTs must set up monitoring / supervisory mechanism for DSEs / direct sellers (Rule 11)	To ensure local enforcement, inspections, complaints handling at state level	2016: Model guidelines asked states / UTs to adopt monitoring — similar role, but now mandated.
E-commerce Applicability	2021: If DSE uses e-commerce, then Consumer Protection (E-commerce) Rules, 2020 apply. (Rule 9)	To cover modern direct selling via online platforms / digital sales	2016 guidelines did not foresee online / e-commerce scale as much; 2021 addresses that gap.
Contravention / Enforcement	2021: Violations attract penalties under Consumer Protection Act, 2019 (i.e. legal consequences). (Rule 13)	To make non-compliance actionable, not just advisory	2016: Guidelines were non-binding, depended on state adoption; 2021



			gives central legal enforcement.
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Conclusion

The regulation of direct selling in India shows a clear movement from voluntary guidelines to a legally enforceable consumer protection framework. The 2016 Guidelines provided the foundation by defining direct selling, direct sellers, direct selling entities, pyramid schemes, refund policies, and seller obligations. The 2021 Rules strengthened this framework by making compliance mandatory and by requiring registration, written contracts, identity verification, grievance redressal, transparent disclosures, product return mechanisms, and prohibition of misleading income claims. The 2023 Amendment further refined the legal scope by recognizing the “network of sellers” and ensuring that earnings must arise from the sale of goods or services rather than recruitment. Overall, the Indian regulatory framework has improved consumer protection and business accountability in the direct selling sector. However, its success depends on effective enforcement, public awareness, ethical company practices, and continuous monitoring by state and central authorities.

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