

Fraud scheme shadow over direct selling

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Washington, July 26: Direct selling companies are worried of get-rich-quick pyramid schemes mushrooming during recession to threaten their legitimate business.

Washington-based World Federation of Direct Selling Association (WFDSA) has asked various authorities to be on guard against such illegal schemes.

"We apprehend such scams may increase now. We have intensified our campaign to alert everyone about the danger," Joseph N. Mariano, executive vice-president and the chief operating officer of the WFDSA, said.

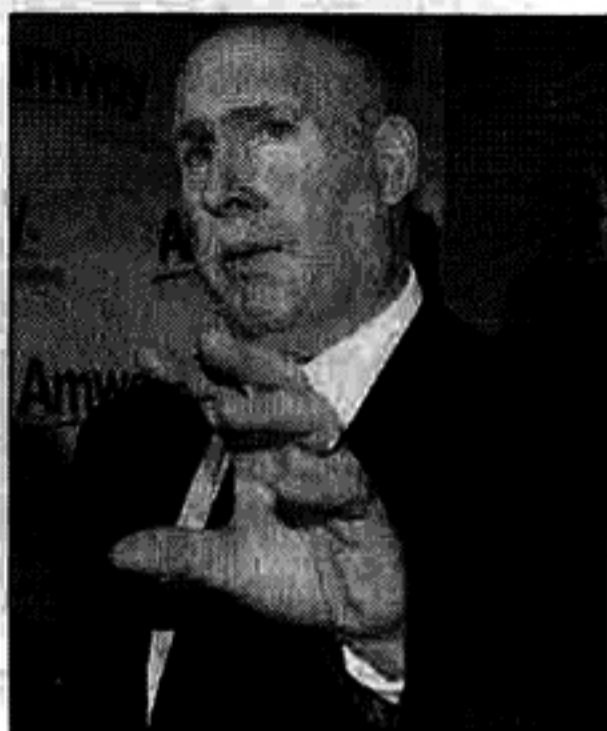
India does not have a law that regulates direct selling. The federation has asked the Indian government to introduce a law that distinguishes between a legitimate multi-level direct sales network and a fraudulent pyramid scheme.

William S. Pinckney, managing director of Amway India, said his company and the Indian Direct Selling Association had been in talks with the government for years. "We will plead our case with the new government again," he said. The ministry of consumer affairs handles such issues.

Countries such as Thailand and Malaysia have laws to protect the direct sales business. In India, the Prize Cheats & Money Circulation Schemes (Banning) Act, 1978, does not include provisions to protect multi-level direct sales.

Easy prey

Pyramid schemes, popularly known as Ponzi schemes — named after the infamous American swindler Charles Ponzi — have repeatedly surfaced in many countries despite awareness. People have been lured by the initial success stories of high returns while ignoring the risks involved. Faced with job losses and wage cuts, people may once again start taking fancy



Pinckney: Seeking help to such get-rich-quick stories, WFDSA officials said.

Ponzi schemes generally denote any scam that pays early investors returns from the investments made by the participants who are brought in later.

Adolfo A. Franco, vice-president for global regulatory affairs at the WFDSA, said in the absence of strict regulations, legitimate direct sales companies got dragged into controversy which affected their credibility.

Amway, for instance, was charged of running a pyramid scheme in 2006 and booked under the Prize Cheats & Money Circulation Schemes (Banning) Act, 1978 in Andhra Pradesh. The company had refuted the allegation saying it runs a legitimate business.

Direct selling companies reported a \$105-billion turnover in 2006, according to the WFDSA. Mariano said it was possible to distinguish between a legitimate multi-level direct sales network and a Ponzi scheme. In direct selling, the entry fee to become a distributor is small. Moreover, if the distributor wants to exit, legal companies buy back the unsold inventories, unlike in the pyramid schemes.

"Most importantly, if the product is not sold to consumers, stay away. Multilevel marketing companies depend on selling to consumers. Profits are made from the sale of a product and not by recruiting more people," Franco said.