November 2023

The Confluence of Law and AI: An Inevitability Waiting to Happen

Generative AI Tracker® Series

October 2023

Generative AI Can Elevate Health and Revolutionize Healthcare

Generative AI Tracker® Series

Startups Stand Poised to Transform the Care Continuum P. 10

Generative AI Boosts Medical Research and Drug Development P. 14

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What's Inside

PYMNTS INTELLIGENCE | AI-ID™ TRUTH, AT THE SOURCE

Background

The Legal Industry Is Ripe for the Adoption of AI

The complexity and volume of legal data

The scope of data that legal professionals must navigate is vast, necessitating a data management solution that not only organizes this information but also interprets it. This complexity has historically deterred the use of technology because tools to organize and interpret it were simply unavailable. However, the natural language capabilities of generative artificial intelligence (AI) offer unprecedented advantages for distilling information and synthesizing actionable insights.

Historical resistance to change

In multiple ways, the legal industry is inherently resistant to disruptive change: It is bound by long-established ethical considerations, the sensitive nature of its work and a sophisticated lattice of rules and regulations. These factors have collectively served as a barrier to rapid adoption of new technologies, unlike other industries that have embraced innovation more readily.

The nature of legal work

At its core, legal work demands meticulous attention to detail, extensive research and nuanced argumentation — tasks that are both intellectually rigorous and time-consuming. Generative AI has the potential to dramatically accelerate completion of these tasks without diluting quality.
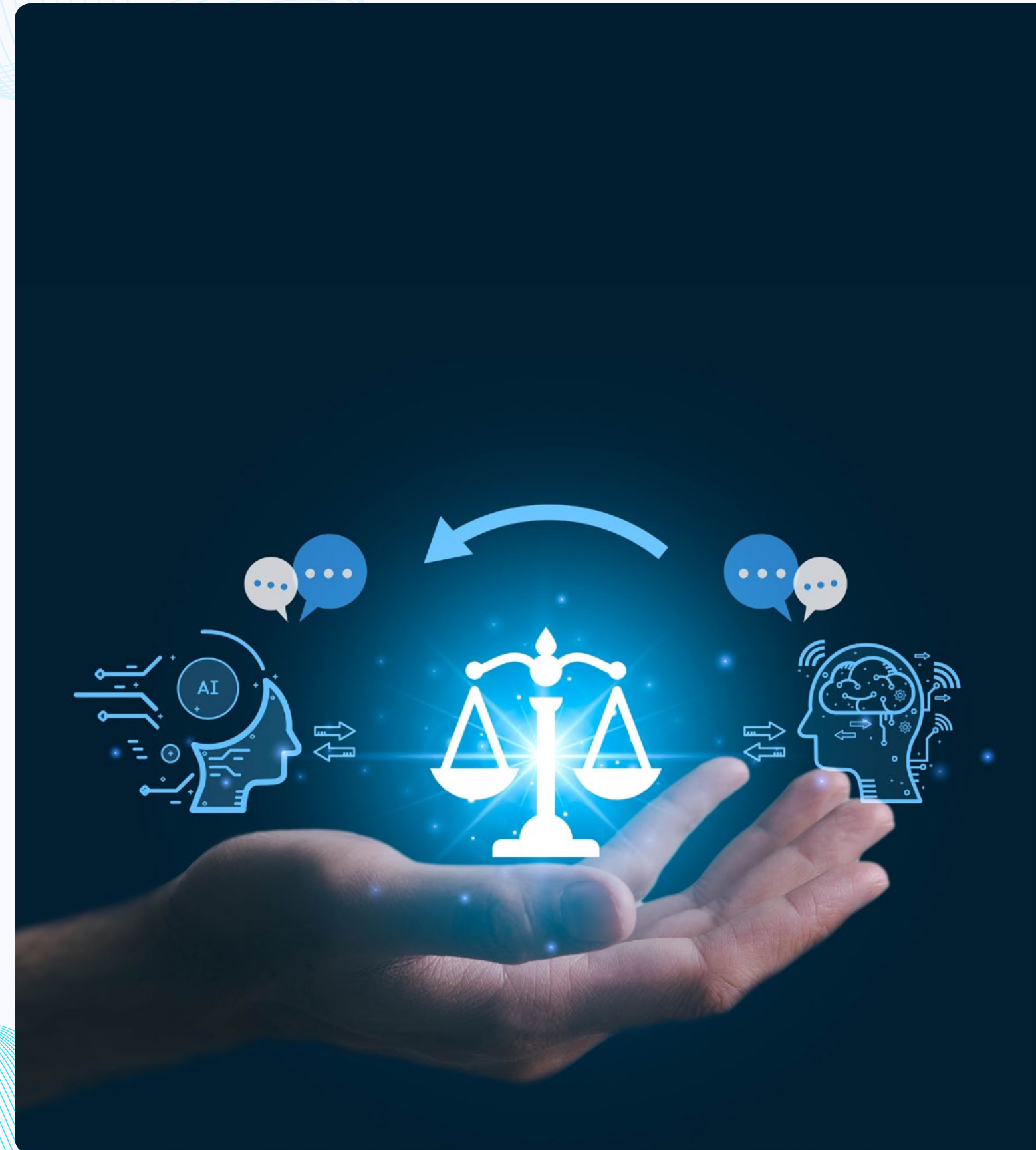
Background

Workload distribution

The traditional law firm hierarchy often results in a bottleneck in which senior partners oversee junior associates performing labor-intensive research and document drafting. Generative AI offers the potential to redistribute workloads in ways that can liberate junior associates to conduct more complex, value-added work.

Evolving client expectations

The market's increasing demand for transparency and efficiency puts law firms under pressure to adapt. Generative AI, with its ability to simplify complex legal concepts and automate routine client-facing services, aligns with these new market demands and thereby makes possible greater accessibility and consumer engagement.

Companies of Note

Pioneers of AI LawTech

Generative AI's commercialization has spurred an innovation spree focused on building solutions to improve the efficient performance of legal tasks of which AI has proven dependably capable.

Broadly speaking, PYMNTS Intelligence places the companies driving this innovation into three categories: AI pure players, managed AI players and networked AI players.

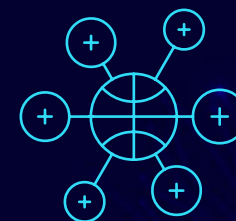# Types of LawTech AI innovators:

AI pure players
Companies that harness advanced ML algorithms such as generative AI without human oversight

Managed AI players
Companies that deploy a hybridized model that incorporates both ML and human oversight
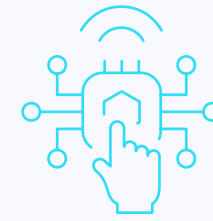
Networked AI players
Companies that rely on AI to facilitate dynamic collaboration among all stakeholders involved
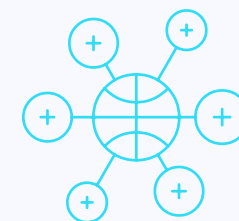
Companies of Note

AI pure players

Companies such as Latch and Paxton are what we refer to as AI pure players in the LawTech space. Harnessing advanced machine learning (ML) algorithms such as generative AI, these types of companies provide real-time solutions devoid of human interaction. While Latch specializes in contract management processes and Paxton in providing consistent citations and a vast legal library, both companies' solutions function to heighten the efficiency of otherwise tedious work.

Managed AI players

We categorize companies such as Lex Machina and Lawgeex as managed AI players. These types of companies marry ML as a first step with human oversight of the results as a second. Lex Machina, for example, provides clients with analytics specific to the legal industry that are derived from AI-processed data but then validated by human legal experts. This approach offers efficiency gains while still maintaining room for human involvement, particularly for analysis requiring greater nuance — a solution that resonates with many in an industry fielding unresolved questions about its use of AI.

Networked AI players

We also include networked AI players — companies that rely on AI to facilitate dynamic collaboration among all stakeholders involved in a legal matter. For instance, The Contract Network offers an AI-moderated platform for real-time negotiations and communication among all parties to a legal contracting process. The collaborative model offers an early glimpse of an alternative framework that promotes transparency and collective governance in a legal process while harnessing the benefits of AI.

Innovation and Use Cases

The New Horizon: Generative AI for the Legal Industry

Traditionally cautious about the adoption of disruptive technologies, the legal industry is experiencing a watershed moment as it confronts the commercial accessibility of generative AI. A sizable share of legal professionals are either using or contemplating the use of AI tools, and the overwhelming majority — 89% — are cognizant of generative AI. Many law firms have already begun to rethink recruitment priorities and service delivery methodologies — a surprisingly technology-forward perspective.

Although it is still early days for generative AI, the technology is on the cusp of revolutionizing multiple facets of legal work, from legal research and document drafting to real-time contract negotiating. By automating menial and repetitive tasks, AI can free legal professionals to concentrate on complex, high-value assignments, thereby also catalyzing a reevaluation of work distribution within legal departments and firms.

Historically, the specialized nature of law and the high costs associated with legal expertise have deterred consumer engagement. Generative AI is altering this dynamic too, empowering consumers to explore alternative ways of addressing their legal needs without the requirement for legal representation — and their optimism is already relatively high.
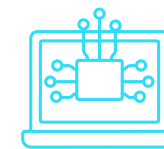
Innovation and Use Cases

The legal industry and generative AI: Strategic foresight or imminent necessity?

In the brief period since developers of large language models (LLMs) made their generative AI models available for consumer and commercial use, the legal industry has progressively shown a willingness to embrace generative AI technologies. For their part, the law firms investing in AI-powered solutions are displaying strategic foresight: A recent survey reveals that 62% of legal professionals believe that the effective use of generative AI will differentiate successful firms from unsuccessful ones in as little as five years. An even higher share, 80%, agree that generative AI will introduce "transformative efficiencies" — a sentiment thus far echoed by both law firms and corporate legal departments.

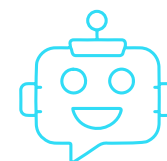## Potential applications of generative AI in the legal industry: A quick guide

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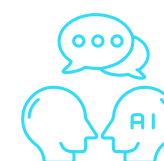**Legal research**

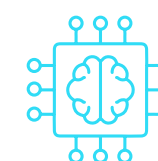**Document drafting and analysis**

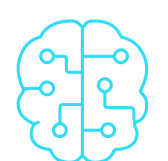**Smart classification**

Quick summaries

Language simplification

Automated legal consultation services

Data extraction

Advanced reasoning

Innovation and Use Cases

Potential applications of generative AI in the legal industry

Legal practitioners hold these views because the following potential applications of generative AI promise to significantly impact multiple key areas of legal work:

1. **Improve the efficiency and reliability of legal research-related tasks**

2. **Streamline the creation of contracts, memos and other legal documents, significantly accelerating the time to completion while reducing errors**

3. **Tag and categorize contracts or documents to enhance knowledge management and to aid in due diligence processes**

4. **Autogenerate concise summaries for lengthy legal texts, whether due diligence reports or changes in legislation**

5. **Convert dense legal jargon into simpler language to make documents more accessible**

6. **Enable the adoption of self-service legal consultation systems to handle common legal inquiries requiring some level of legal expertise**

7. **For tasks such as legal due diligence or complex contract revision, extract specific clauses or information to compare content across documents efficiently**

8. **Perform advanced reasoning-based tasks such as comparative cost-benefit analyses to assess potential impacts of differences in two distinct proposals, pieces of legislation or contracts**

These use cases illustrate the breadth and depth to which generative AI can disrupt the legal profession and help explain why Goldman Sachs estimates that generative AI will automate up to 44% of legal tasks and why 40% of legal professionals are either already using or planning to use generative AI tools in the near future.

Innovation and Use Cases

Consumer perspectives on the use of generative AI in law

Consumer interest in utilizing generative AI for legal needs is growing, particularly among younger, wealthier and more educated demographics. These early adopters are turning to generative AI tools primarily to research legal topics, understand legal processes and even draft legal documents. From the consumer standpoint, however, the potential applications are vast, ranging from general legal advice to more complex processes like setting up businesses or even preparing legal proceedings.

Perhaps not surprisingly, clients and prospective clients of legal services are more bullish — at least publicly — than legal professionals about the integration of generative AI into legal services. Thirty-two percent see the benefits of improving efficiency and reducing costs as outweighing potential drawbacks, compared to just 19% of legal professionals who say the same.

32%

Share of clients and prospective clients who believe the benefits of generative AI for legal services outweigh potential drawbacks

19%

Share of legal professionals who say the same

Issues and Challenges

Use of AI in the Legal Industry Faces Challenges

The legal industry's widespread adoption of generative AI will necessarily involve recalibrating workforce roles and skills and reckoning with varying degrees of readiness and trust among professionals within and across industries. Coupled with the challenges of this reboot are the thorny issues surrounding security, privacy and ethics.

Additionally, the belief that generative AI will revolutionize efficiency for so much legal work is tempered somewhat by the majority of legal professionals who have reservations about the industry's current preparedness for this AI-driven future.

Compounding the challenges of actionably preparing the industry is the current lack of industry-wide consensus about the merits of generative AI. While the evangelists are deeply optimistic that generative AI will have positive impacts on the profession, they currently represent only about half of professionals.
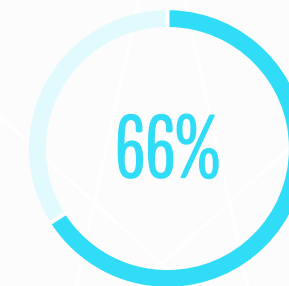
As the industry wrestles with these as-yet unresolved issues, the road to widespread adoption of AI in the legal industry remains neither straightforward nor universally agreed upon.
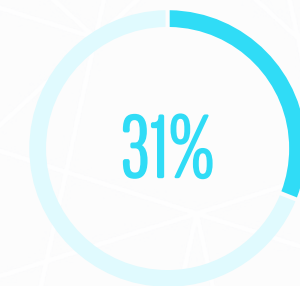
Issues and Challenges

Shifting gears: Changes in the legal industry's workforce for an AI-enabled future

Many legal players nonetheless are restructuring their practices to accommodate the use of generative AI and, in doing so, are changing work dynamics and skill requirements. This has led to concerns that roles traditionally performed by humans are at risk. More than two-thirds of law professionals recently mused that roles responsible for much of the life cycle of knowledge management and research in the industry could be replaced by generative AI. However, these same respondents also voiced skepticism about the technology's ability to perform high-level legal work such as facilitating corporate restructuring or navigating international trade disputes.

The potential challenges to traditional roles, however, simultaneously present counterbalancing opportunities: the rising demand for both specialized AI skills and industry-specific technologies. Law firms are increasingly seeking AI experts, and the competition for LawTech talent has intensified. For instance, some firms are planning to expand their teams of lawyers and developers who work with AI. In fact, Allen & Overy recently introduced a chatbot to assist attorneys in drafting contracts and client memos — and its rivals are following suit.

66%

Share of legal professionals who believe that generative AI could replace those in the legal industry who oversee knowledge management and research

31%

Share of legal professionals who believe that generative AI will significantly impact higher-level legal tasks

Issues and Challenges

The shakeup that generative AI is bringing to the legal industry is affecting not only the workplace but also its precursor — legal education. Universities across multiple continents have established initiatives or courses to equip students and professionals with the skills to interact with AI in their practices.
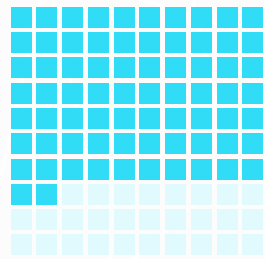
For example, the University of Liverpool offers a module that provides "hands-on experience" with legal tech tools, while the University of Technology, Sydney, has introduced specialized courses that cover topics ranging from governance and regulatory risks of AI use in legal matters to possible failure points of AI. In the United States, the University of Arizona Law School is spearheading a multi-institution initiative to prepare law libraries across the country for the strategic implementation of AI into their operations.

As generative AI marches more deeply into legal territory, the discrepancy between roles at risk and those that require more nuanced human judgment will likely widen. This will necessitate a more systemic shift in legal education and clerking that focuses much less on rote skills and much more on strategy, ethics and other human-centric capabilities. Consequently, the legal firms most likely to pull ahead in this transition may not necessarily be the ones that adopt AI the fastest but those that adapt most holistically to this emerging ecosystem.

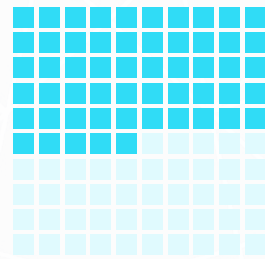# The trust gap: A legal industry polarized about its AI readiness

Thus far, the use of generative AI in the legal industry has been characterized by a patchwork of readiness and trust, as evidenced by a range of conflicting opinions among legal professionals and firms. On the one hand, the legal industry exhibits cautious optimism about generative AI: More than six in 10 law firms and corporate legal departments believe the technology will deliver significant business advantages. On the other, 72% of legal professionals are doubtful that the industry is adequately prepared for the looming AI revolution, and, as noted earlier, only one in five believe the advantages of using AI surpass the disadvantages.

Issues and Challenges

72%

Share of legal professionals who doubt the industry's preparedness for generative AI

55%

Share of legal industry clients and prospective clients concerned over the use of AI in the legal industry

Partly shaping this cautious outlook are concerns about the trustworthiness and reliability of generative AI in a legal context. More than half of legal professionals are uncertain about the technology's reliability, and nearly two in five do not trust it. Consumers of legal services are not entirely won over either, with 55% of clients and potential clients expressing serious concerns about the use of AI within the legal profession.

In the near term, disparities in perceptions about trust and readiness may create a segmented legal services market in which AI adoption varies significantly depending on the size of the firm and the specific legal tasks involved. As the industry becomes more accustomed to what AI can and cannot do, these disparities are likely to converge toward a more uniform framework of AI adoption.

Issues and Challenges

Ethical roadblocks: Security and privacy concerns surround AI usage in the practice law

Although generative AI promises to unleash unprecedented efficiency gains for the legal sector, it also raises complex questions about security, privacy and ethics that cannot be ignored. The industry's initial outlook toward these aspects has been one of both caution and concern.

Many in the legal industry are wary of using generative AI, particularly consumer-facing AI technologies such as ChatGPT. More than 60% of legal professionals do not currently use the technology in their practice, citing security and privacy concerns. Their reluctance stems primarily from unresolved questions of how AI technologies handle privacy and ensure client confidentiality — a view disproportionately held by firms' partners and managing partners. In response to these concerns, some law firms have already adopted internal measures, including warnings and outright bans against unauthorized use of generative AI in their legal work.

The industry's cautious stance toward the adoption of generative AI technologies is in large measure a manifestation of ethical and operational concerns pertaining to the use of the current iterations of this tech. If generative AI technologies become more robust and sophisticated, will the legal industry's caution evolve into acceptance? Or will ethical and security concerns be amplified, creating even stronger barriers to adoption? Regulation and guidelines will be instrumental in answering these questions.

Policy and Regulation

Taming the AI Beast for Use in the Legal Industry

The arrival of generative AI in the legal industry has led to both opportunity and ethical complexity. The lack of regulation specific to this technology is introducing immediate challenges to practicing law and prompting critical questions about governance.

In the face of this regulatory vacuum, some courts are issuing their own directives. These initial judicial responses have aimed to strike a balance between embracing generative AI's potential benefits and mitigating its risks — a cautious yet forward-thinking approach.

Meanwhile, the legal industry itself is on uncertain ethical footing. The recent appearance of self-governance initiatives by key legal organizations signals an industry beginning to deal with the ethical implications of using generative AI and to provide ethical guidance accordingly. These efforts notwithstanding, questions persist on whether industry-led actions can create a cohesive framework for AI's ethical use in legal practice.

The courts step in: Judiciary responses to the use of AI in legal proceedings

The current lack of regulation for use of generative AI in the legal field has led to a climate of uncertainty. At least one law firm has already dabbled with its use in a high-stakes legal case, only to discover that the technology can fabricate case law. Other firms, as previously discussed, have simply enforced outright bans on its unauthorized use for legal work. To fill this regulatory gap, multiple courts have intervened with judicial guidelines to steer generative AI's application in legal proceedings.

For example, a Texas judge mandated that AI-generated legal briefs undergo human review to filter out artificial "creativity" before submission. Following suit, the Chief Justice of the Court of King's Bench in Manitoba, Canada, now requires disclosure of AI's role in the preparation of court documents.

Policy and Regulation

Multiple courts
have intervened with judicial guidelines to steer generative AI's application in legal proceedings.

Taking this a step further, a judge on the U.S. Court of International Trade has prescribed additional disclosure measures. Legal professionals are now obligated not only to reveal any involvement of AI in producing documents but also to specify which AI tool was used and affirm its compliance with laws protecting client confidentiality and proprietary business information.

While these judicial interventions are preliminary, they represent a nuanced balance between recognizing generative AI's potential and simultaneously curbing its unrestricted use in legal matters. Consequently, they also offer the industry and regulators breathing room to develop a more comprehensive regulatory framework. However, if this regulatory limbo persists, a pressing question is whether the judiciary can, or even should, keep pace with the rapid advancements and multifaceted legal use cases of generative AI.

Steering from within: The legal industry's self-guidance on use of generative AI

The legal industry too has begun to unpack the practical and ethical implications of incorporating generative AI into the practice of law. Some of the industry's most influential professional bodies have stepped forward to foster intra-industry dialogue and to identify appropriate updates to governance frameworks, including professional codes of conduct.

The American Bar Association (ABA), for instance, has convened a task force specifically focused on AI. The ABA Task Force on Law and Artificial Intelligence is mandated to issue guidelines that distinguish ethical from nonethical uses of AI in legal practice.

Policy and Regulation

The industry's most influential professional bodies

have stepped in to identify appropriate governance frameworks.

State bar associations are also taking on the mantle of oversight by forming working groups or special committees with similar objectives. Indeed, in 2023 alone, more than half a dozen such committees have already been established. Bar associations in Florida, California and Texas are front-runners for setting ambitious yet stringent timelines on these studies and the adoption of updated actionable guidelines.

Given generative AI's potential influence over so many areas of legal practice, evaluating the efficacy of non-binding guidelines and soft governance takes on critical importance. The central issue is whether these would suffice to preserve the ethical integrity of the legal profession and safeguard client interests — a pressing question facing the industry.

About

AI-ID™ is a leading-edge provider of AI and Generative AI Platform Management, Regulation, Governance and Output control capabilities and solutions. With purpose-built solutions including the AIGX File, AI-ID™ Platform and AI Registry™ components, the patented AI-ID technology suite and services give Generative AI platforms, providers, their customers and all regulators and stakeholders the trust and data provenance needed in a rapidly advancing AI world. We are a company with a primary mission: solving the key challenges facing the AI marketplace today — while providing strong integrated foundational capabilities for its long-term future success. Learn more at www.ai-id.io.

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts, and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multilingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

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