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**ARTIFICIAL
INTELLIGENCE:
THE CLIENT
PERSPECTIVE**

Artificial intelligence: The client perspective

For law firms, investing in AI technologies seems an obvious strategy. But the technology is a means to an end. Clients won't pay for AI investments but they do want their legal providers to take a lead in offering progressive services and solutions to recast the value gleaned from their relationships.

AI technologies, especially machine learning and natural-language processing, are already impacting the legal sector. Whilst nobody claims that AI will replace the role of lawyers any time soon, a 2016 report¹ by The Boston Consulting Group predicts that technological solutions could perform up to 50% of the tasks currently carried out by junior lawyers. Just as other industries have been disrupted by digitalisation and smart technology, the business model of a law firm suggests that, combined with a fragmented industry and pressures on legal process management, AI will have a large effect on future legal practice.

However, the argument is not necessarily so straightforward. Law firms themselves need to ask why their clients would want them to begin offering legal services supported by a suite of AI tools. They need to take charge of creating the right mix of human and machine capabilities to re-cast future relationships that benefit both provider and client.

¹http://www.bucerus-education.de/fileadmin/content/pdf/studies_publications/Legal_Tech_Report_2016.pdf

What is the client perspective?

Our research suggests that clients have strong and varied views on why their private practice firms need to respond to new and potentially disruptive technologies. We have grouped these views into three distinct areas:

- 1. Recast the relationship dynamic:**
Clients believe that AI tools will lead to greater efficiency and challenge revenue models but also – and more importantly – drive an enhanced engagement. Clients want their law firms to move beyond traditional transactional lead delivery to a new, more collaborative relationship model.
- 2. Embrace new business models:**
Clients want to know that their legal provider is making the best decisions around innovation, combining new technologies with new ways of working, including collaborating with third parties and challenging existing processes.
- 3. Reshape the talent pool:**
Clients expect that their legal provider can still deliver top human talent as well as take advantage of technology.



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What do we mean by AI?

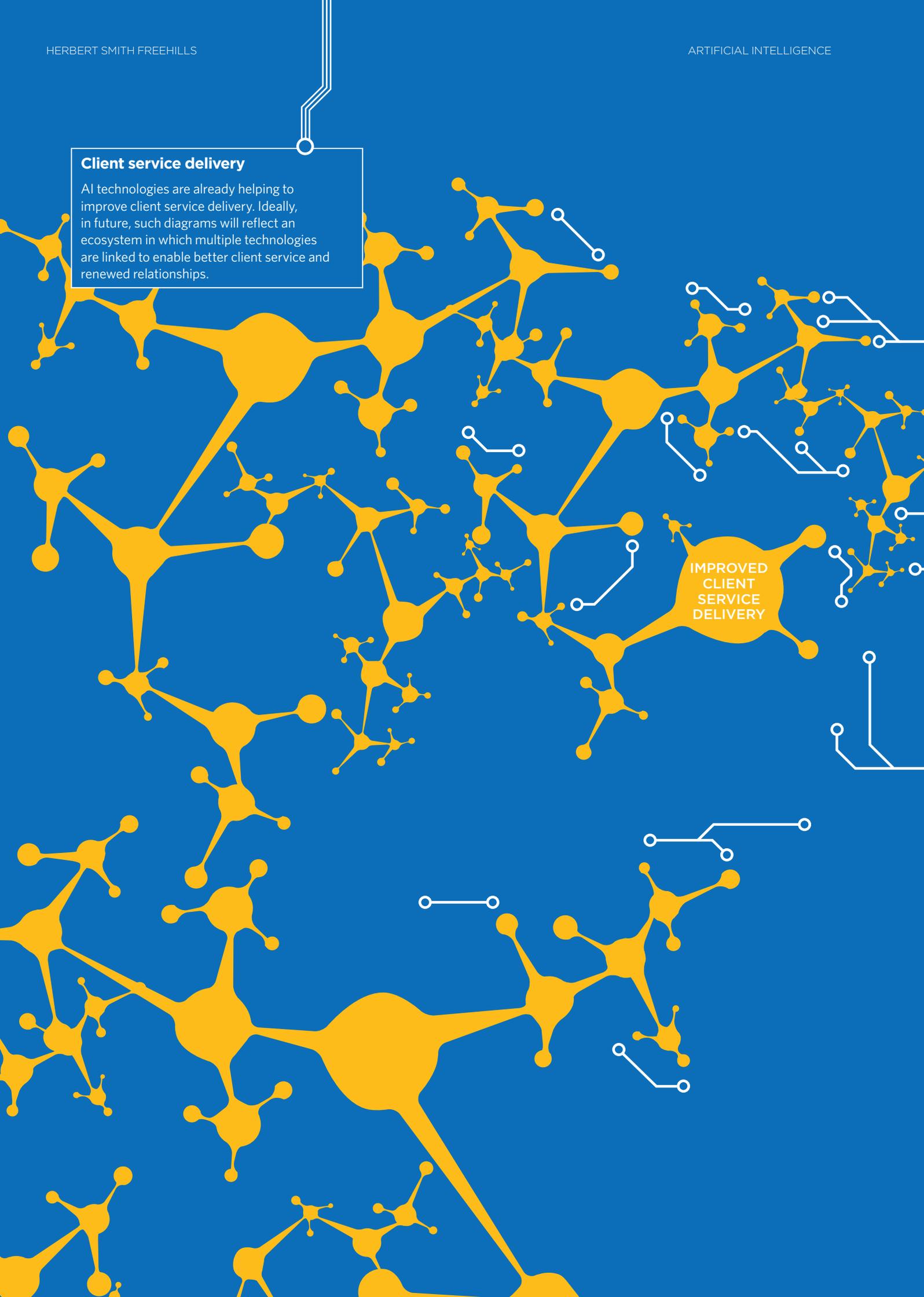
Expectations for the technologies collectively known as artificial intelligence are at new highs, and their mainstream adoption is only a few years away. These technologies can either replace human involvement in a limited way or supplement a human’s capacity to complete the process more effectively and accurately. “True AI” (a machine that could successfully perform any intellectual task that a human being can) remains hypothetical but some commentators expect to see it in our lifetimes.

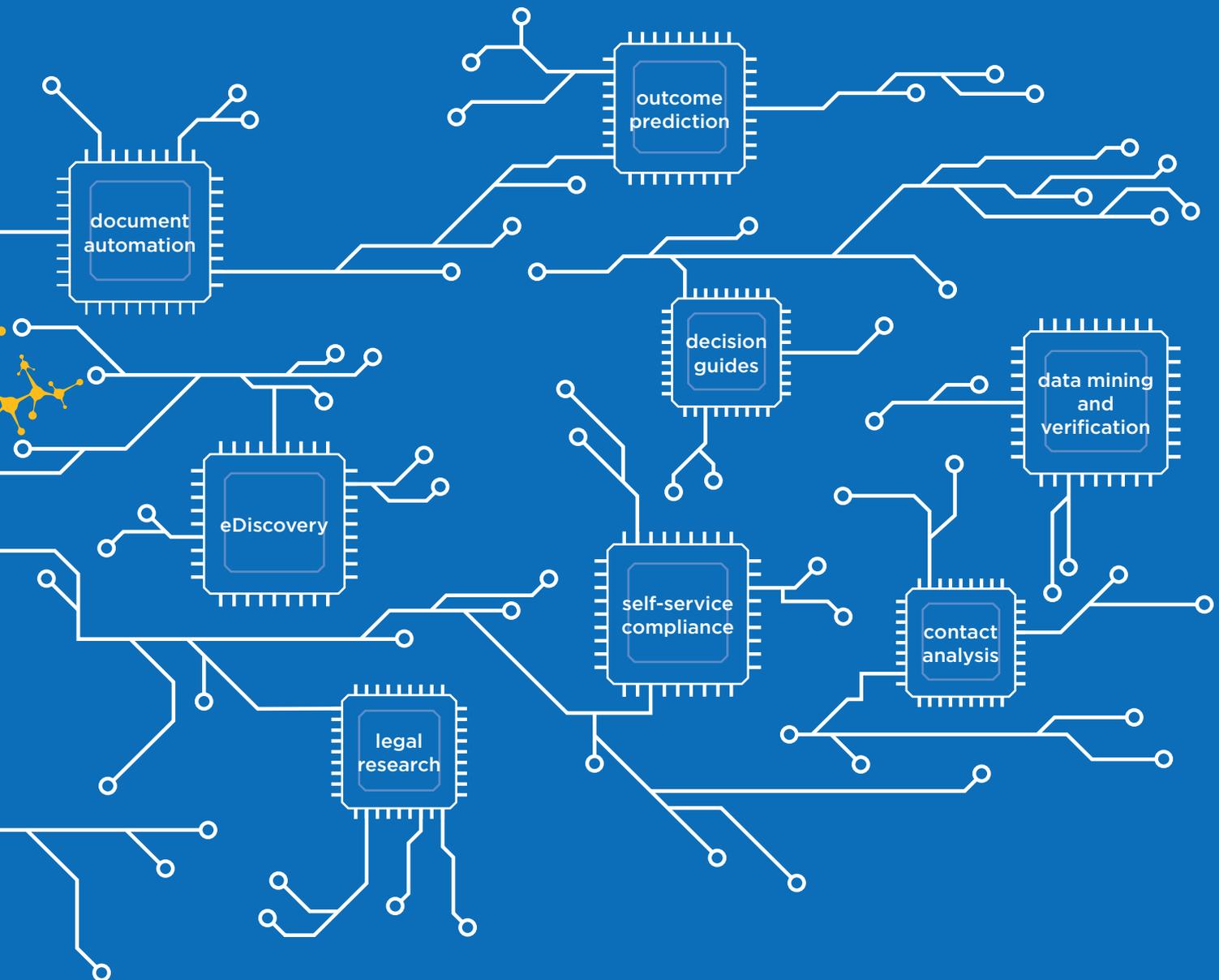
All industries are exploring ways in which they can harness the data they gather from their customers and systems and turn it to an advantage. Knowledge-intensive, data-rich service industries such as law are often seen as fresh fields for the implementation of such technologies.

Client service delivery

AI technologies are already helping to improve client service delivery. Ideally, in future, such diagrams will reflect an ecosystem in which multiple technologies are linked to enable better client service and renewed relationships.

IMPROVED
CLIENT
SERVICE
DELIVERY





Where will AI impact the legal sector?

AI technologies have the potential to improve the ways in which law firms conduct their business.

Reducing total costs

- Automation/self-service options for lower-risk legal work
- Refocusing in-house resources on higher-value activities, and reducing external spend on mid-level work
- Disaggregation and cost reduction for high-volume or repetitive legal work (document review and discovery, NDAs, standard contracts)

- Reducing the need for large teams on some matters, leading to greater competition for higher-value work between global elite and boutique law firms.

Improving legal risk management

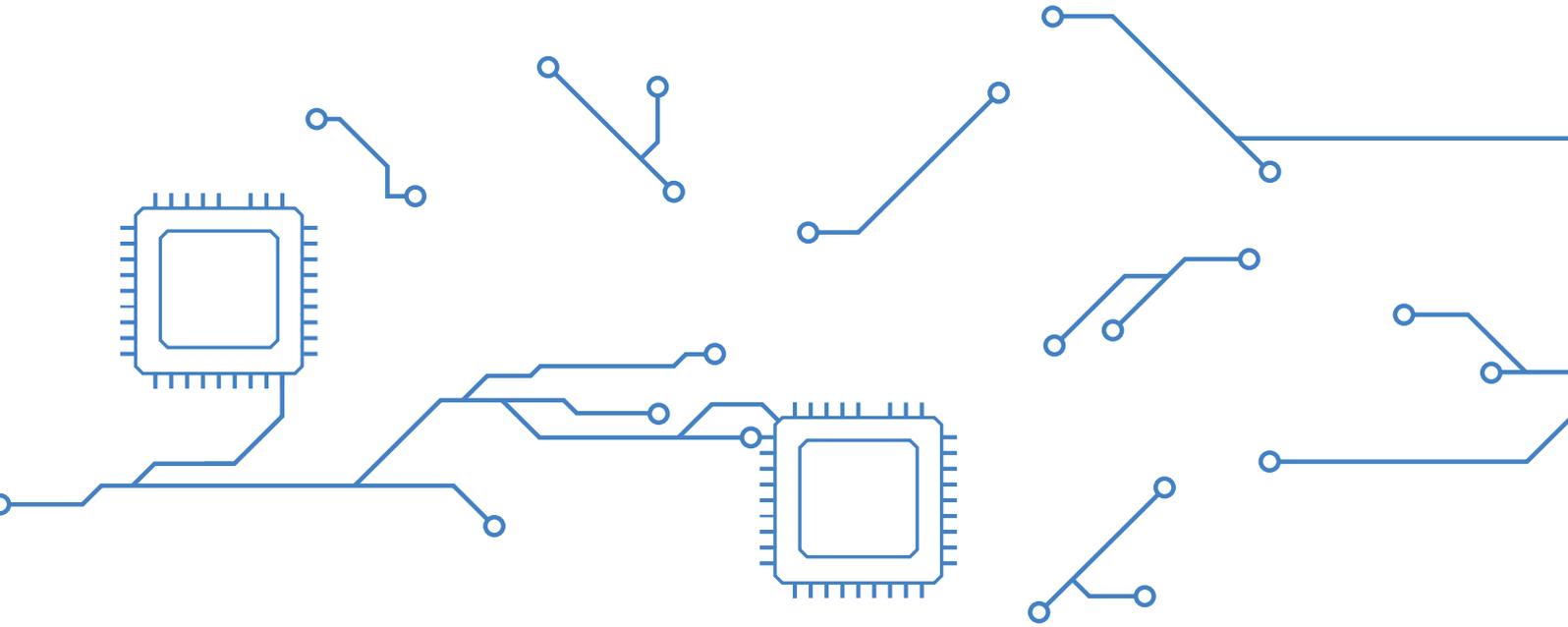
- Early warning of emerging discrimination risks through analysis of complaints and EAP requests
- Analysis of standard contract terms to identify negotiation "over-investment" and terms which are never disputed
- Combining current business activity with risk profiles, to predict the legal function's future resource needs

Improving legal team performance

- Raised performance expectations for in-house teams as legal AI becomes more prevalent
- Change in benchmarking of team performance from time/cost measures to speed/value-delivered measures
- Shift in the roles and types of people required in-house, as teams hire legal technologists, knowledge managers and process engineers

Alignment and influence

- Better delivery on two critical business priorities, innovation and efficiency, while improving service standards



Recast the relationship dynamic

Implemented properly, a law firm's adoption of AI technology should significantly strengthen its relationships with clients to deliver an agile and modern outlook. Achieving greater efficiencies will enable a broader, more valuable service that helps not only the general counsel to implement legal and risk requirements, but that has wider appeal in supporting all stakeholders such as the board and business unit leaders.

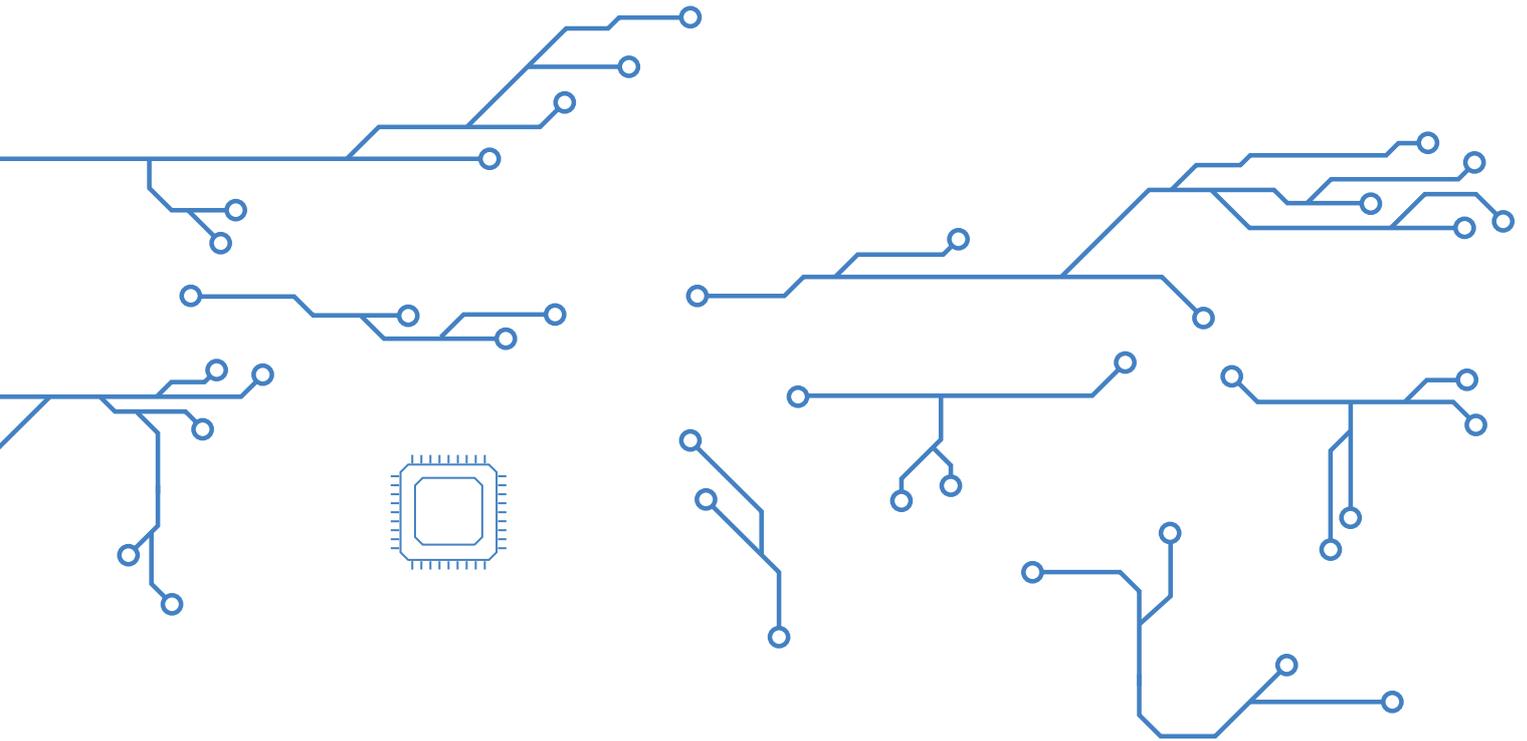
Today, clients have access to new information sources, people and platform technology that could undermine the relationship they currently have with their primary legal service providers. Lawyer substitutes, such as AI or online dispute resolution, may not be perfect solutions, but they can dramatically reduce the legal hours required on a project. Law firms need to be able to compete with substitutes such as legal process outsourcing (LPO), flex-time lawyers and the Big Four accounting firms. But, in the demand for cheaper, better, faster legal services, "cheaper" is only one part of the equation.

The use of AI is already moving up the legal vertical, from back-office administration and legal research to client-facing services and business development. The anticipation of AI technologies is that, properly implemented, they will reduce the total cost of the legal function through increased efficiencies, better risk management and

better legal team performance. But it would be a mistake for firms to factor their investment in AI technology into the fee for their services. Clients will push back on charges based on a legal provider's AI tools, unless they come with better integrated services.

Experimenting with alternative pricing models using AI-based discovery software will allow additional human intelligent services as part of a broader, more valuable proposal that diagnoses and provides innovative, bespoke solutions, rather than a commoditised product.

General counsel say that when it comes to investment in AI, they expect law firms to be able to lead the discussion: to go to their clients with holistic answers to risk issues, such as predictive coding and regulatory investigation. Law firms have a responsibility to lead the debate, and help their clients establish fact from fiction -



which means that they need to be ahead of the game themselves. Others expect their panel firms to offer personalised, searchable websites which demonstrate their partners' technological strengths, market insights and know-how. However, if law firms are not prepared to wear the risk of these endeavours, they may meet scepticism from their clients. One general counsel warns that unless a legal provider is prepared to put its professional indemnity cover on the line to back its claims to technological ability, there is a risk of not being taken seriously.

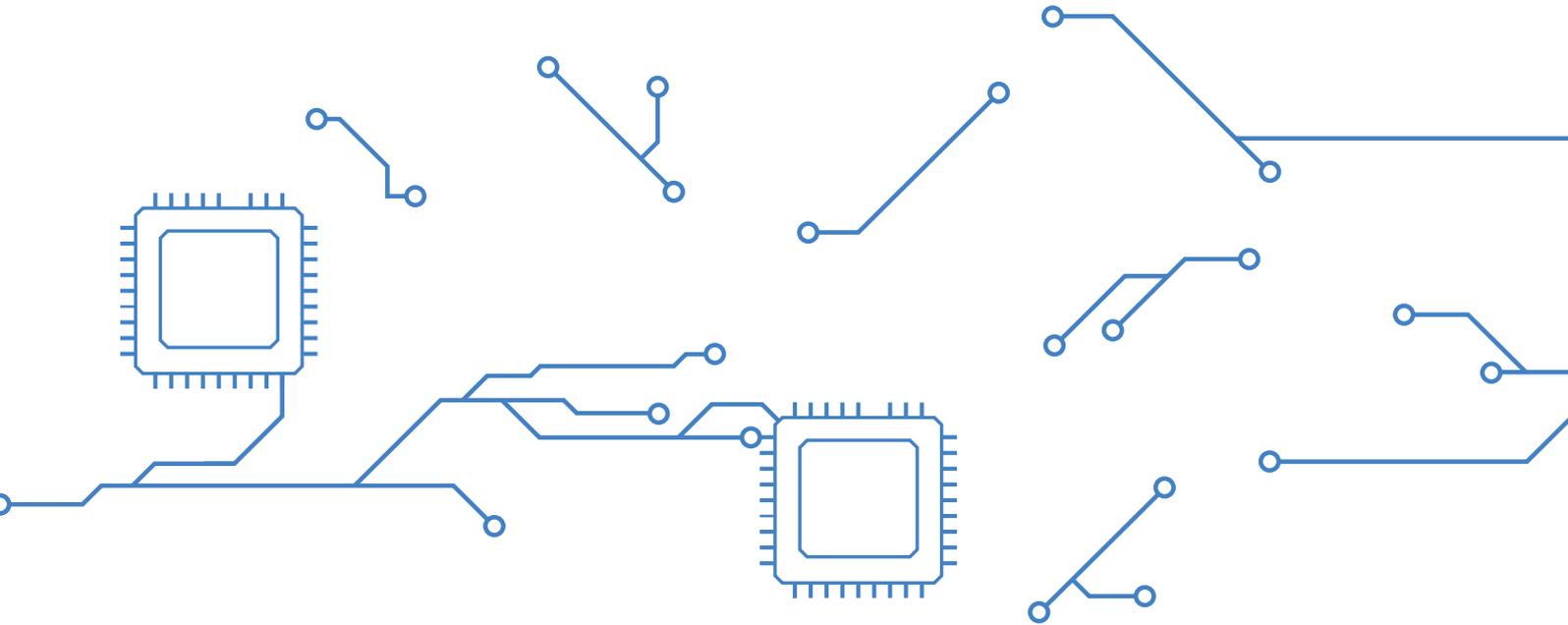
It may be early days for these kinds of initiatives, but they are an essential step if law firms hope to recast the dynamic of their relationships with clients in a technology-driven future.

"Your fee models will change, but if you charge me for your AI tools, I won't pay unless you deliver better integrated services with a more trusted advisor approach"

**General counsel,
International
Insurance company**

"To gain credibility you need to lead from the top. If your leaders aren't talking about AI, then you're not in the game"

**Chief operating officer,
Large international bank**



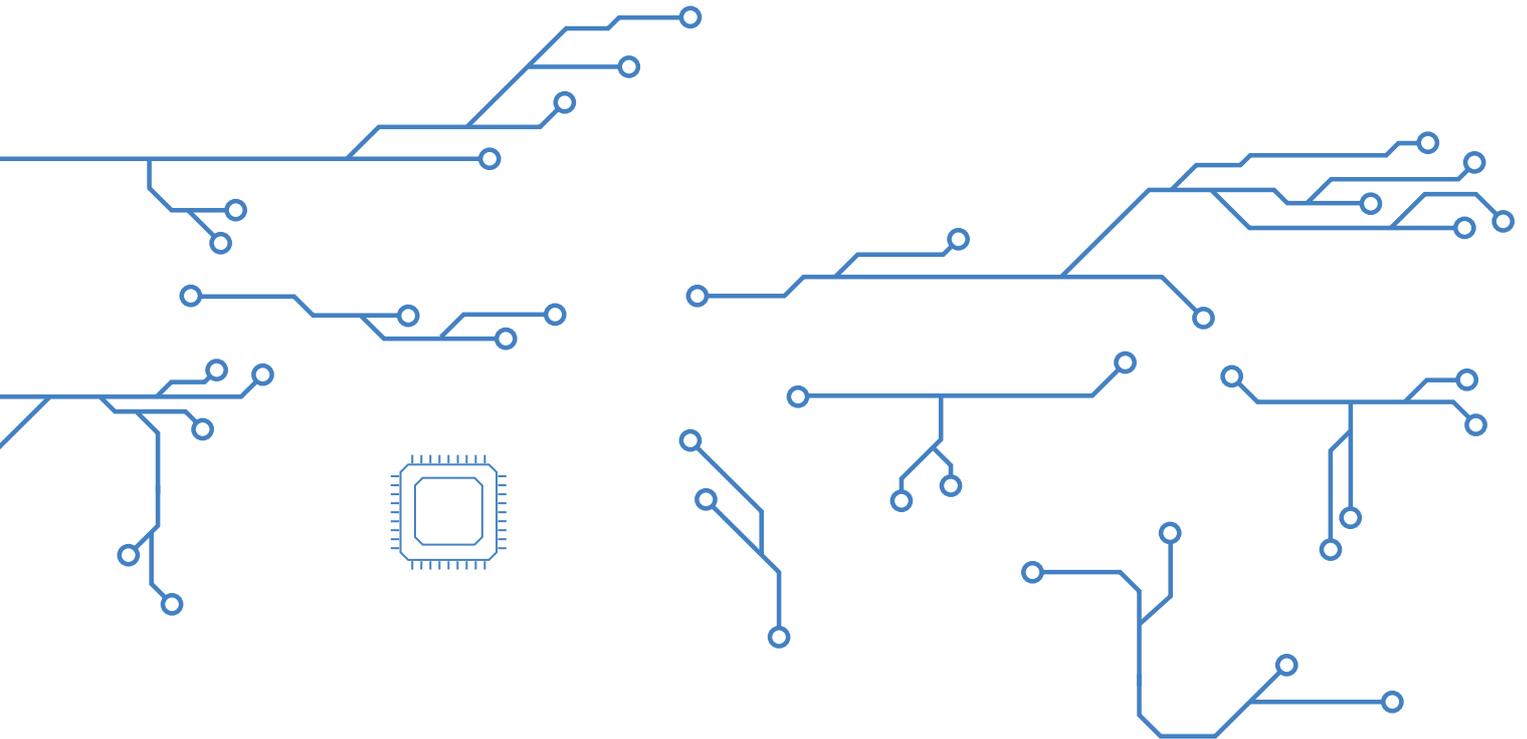
Embrace new business models

Clients themselves are being disrupted by the digital revolution. To be at the cutting edge of legal developments, they need their legal providers to help them be innovative and progressive by investing in both new technologies and new ways of working.

General counsel have expressed an expectation that their law firms will need to be several steps ahead in their ability to grasp the opportunities available through AI. In providing technology-based solutions to legal issues, firms will need to accept that they may not be able to do everything in-house. Investment in technology might lead to considerable convergence and consolidation among law firms, as happened with the Big Four accounting firms. But another scenario could see smaller, niche players backed by market leading technology, competing or collaborating with panel firms.

What might a new, more efficient provider-client relationship look like?

Client demand is for the legal industry to adopt a professional services approach - and they want law firms to take the initiative. To begin with, from the provider's point of view, a more efficient relationship might look like a more complicated one. General counsel are excited about the possibility that firms with a solid investment in AI can increase their knowledge in industry sectors, and bolster their credentials and expertise through collaborations with academics, think-tanks and suppliers. At Herbert Smith Freehills, we are responding to client requests by sharing insights gathered in one industry and looking at their implications and use cases for other client sectors, such as highly regulated industry sharing.



From a client's point of view of the post-AI world, efficiency supercedes cost. Their expectation is that panel firms will provide solutions that go well beyond technology - the right resources, in the right place, at the right time, delivered by multi-disciplinary teams. For law firms, productivity is traditionally measured in terms of hours billed. In the new legal landscape, productivity should be measured in terms of output per hour, or value contributed. This is certainly how our clients view things.

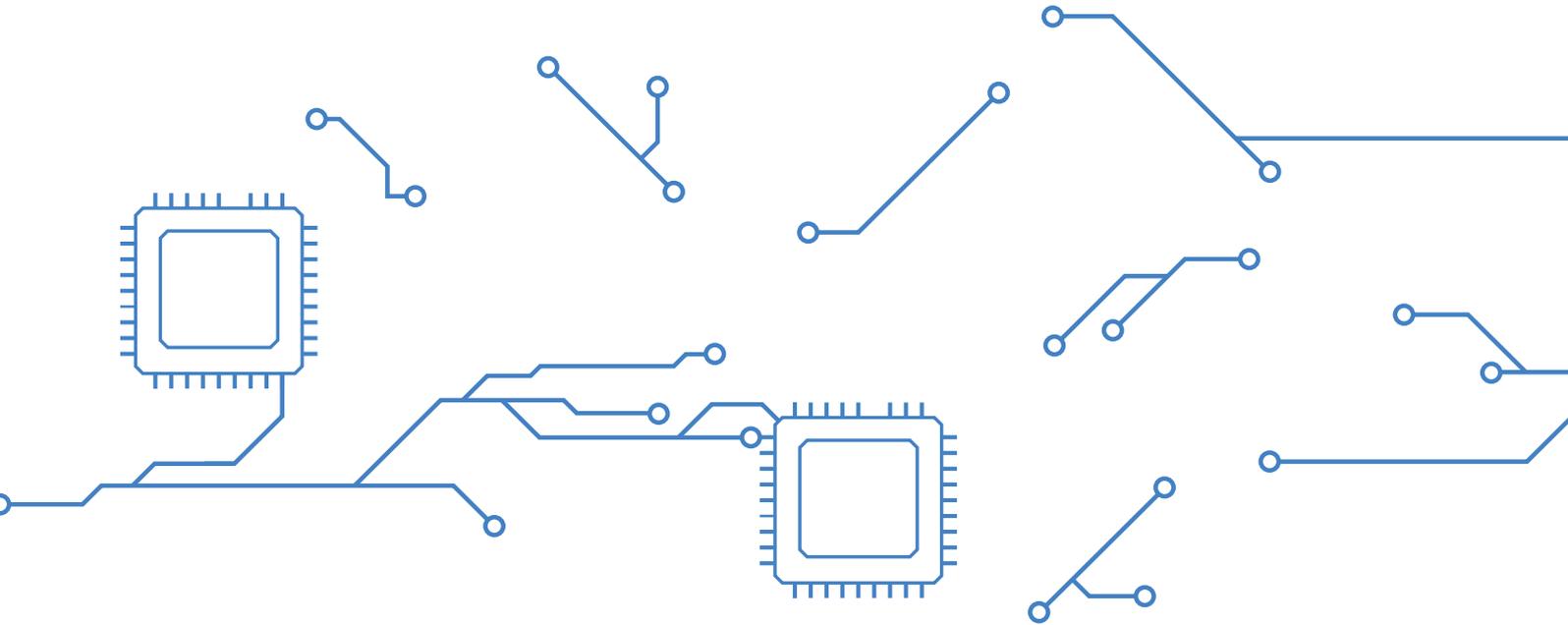
Technology is crucial for underpinning this solution-provision model - rather than technology replacing lawyers, it can make them more productive. Leadership is also crucial. For the sake of credibility, our clients expect legal providers to be not simply familiar with their firms' investments in technology, but actively promoting their benefits.

"There's an expectation that panel firms will make connections externally and approach us with a collaborative approach and true expertise"

**Strategy director,
International real estate/
infrastructure firm**

"Private practice must have a longer view of digital strategy within their client firms. We need them to speed up and move quickly from ideation to solution"

**Strategy director,
International asset
manager**



Reshape the talent pool

If a law firm begins to automate many of its basic practices, what will its commitment be to the trainee lawyers who cut their teeth in the discovery process?

This has an important, and possibly overlooked, implication. For example, clients might ask themselves, if law firms are investing more in technology at the expense of human talent, will our general counsel find talented trainees to help on specific deals? And in the longer term, where will the next generation of rainmakers come from? Clients' demand for reassurance that an experienced senior lawyer is ultimately behind every major project is still strong. But at the same time, they are pushing back on the idea of continuing to pay for less sophisticated, manual tasks when technological solutions are available.

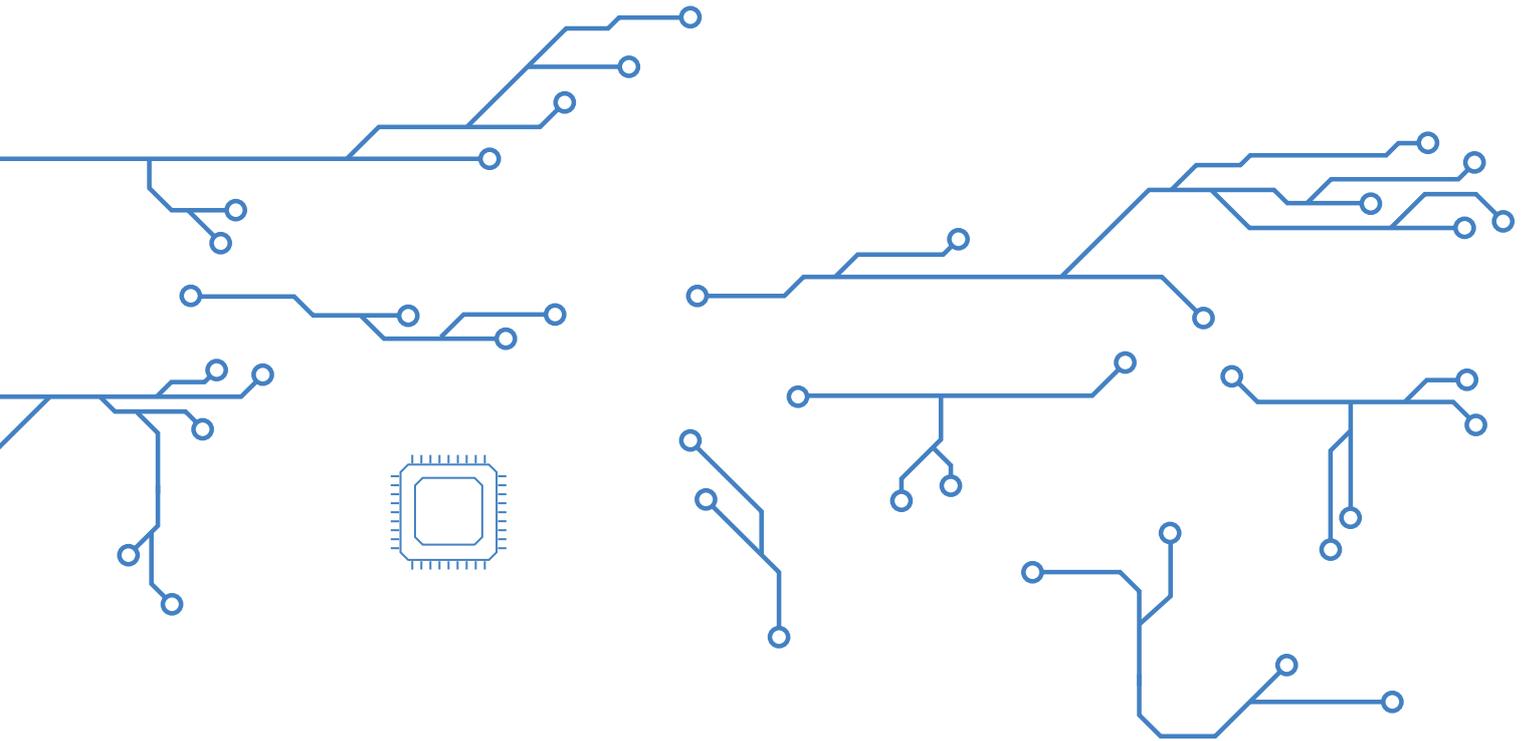
The longer-term result, according to one general counsel, is that as in-house legal teams become more sophisticated, panel firms must also broaden their expertise. Trainees at some firms are already being taught the basics of coding language. Expectations are that going forward junior lawyers will have more time with senior

lawyers to enhance their development and do more of the intellectual brain-work on a matter.

AI-equipped legal providers will look differently to traditional firms, with their pyramid-shaped hierarchies. With fewer trainees performing the repetitive work now done by machine, firms may take on more of a diamond shape, with specialist employees – legal and non-legal – bulking up the middle. This talent pool will contribute enormously to a firm's ability to develop alternative service offerings: legal project management, secondments and consultancy-style support to clients. Law firms might also be structured as intersecting circles, with lawyers collaborating internally within sector-specific groups that can offer a wide range of services.

One thing is clear:

Future legal talent must have business-aligned EQ, as well as legally-trained IQ.



“Our view is that many legal suppliers are just too set in their ways to deal with technological and cultural change, but our expectation is that they should have a more agile, modern outlook”

**General counsel,
Large global bank**

“When technology enhances what a lawyer does, it will give trainees back their time and allow them to do more of the intellectual brain-work on a deal”

**General counsel,
Large insurance company**

“We aren’t sure the technology is in place yet for our purposes, but even if it’s just a matter of time, the key issue for us is trust. We need you to provide quality assurance. You must prove the technology delivers to your existing high standards”

**General counsel,
Global FMCG firm**

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