

# AI-Driven Commercial Contract Review

## Speed time-to-service with Artificial Intelligence

For many in-house law departments, contract review ranks as one of the most time-consuming areas of in-house legal work. Commercial legal teams face ever-increasing business demands to review higher volumes of core agreements and RFPs at greater speed and reduced cost. The challenge is exacerbated for teams primarily engaged in sales-side contracting on bespoke third-party paper. While companies recognize the need for smarter, faster ways to execute contracts, new approaches are needed to achieve these goals. Forward-thinking companies are realizing the benefits of Artificial Intelligence (AI) in facilitating the contracting process.

Commercial contracts are the lifeblood of the business, and every new request is “strategic,” demanding the same level of effort to meticulously review terms and conditions, irrespective of size or risk profile. Delays are costly, driving customer dissatisfaction and forestalling revenue generation. Deal certainty is often unknown making it difficult to prioritize precious resource time. With all transactions having equal urgency, it can be difficult for legal departments to prioritize incoming requests.

### **The Third-Party Paper Crunch**

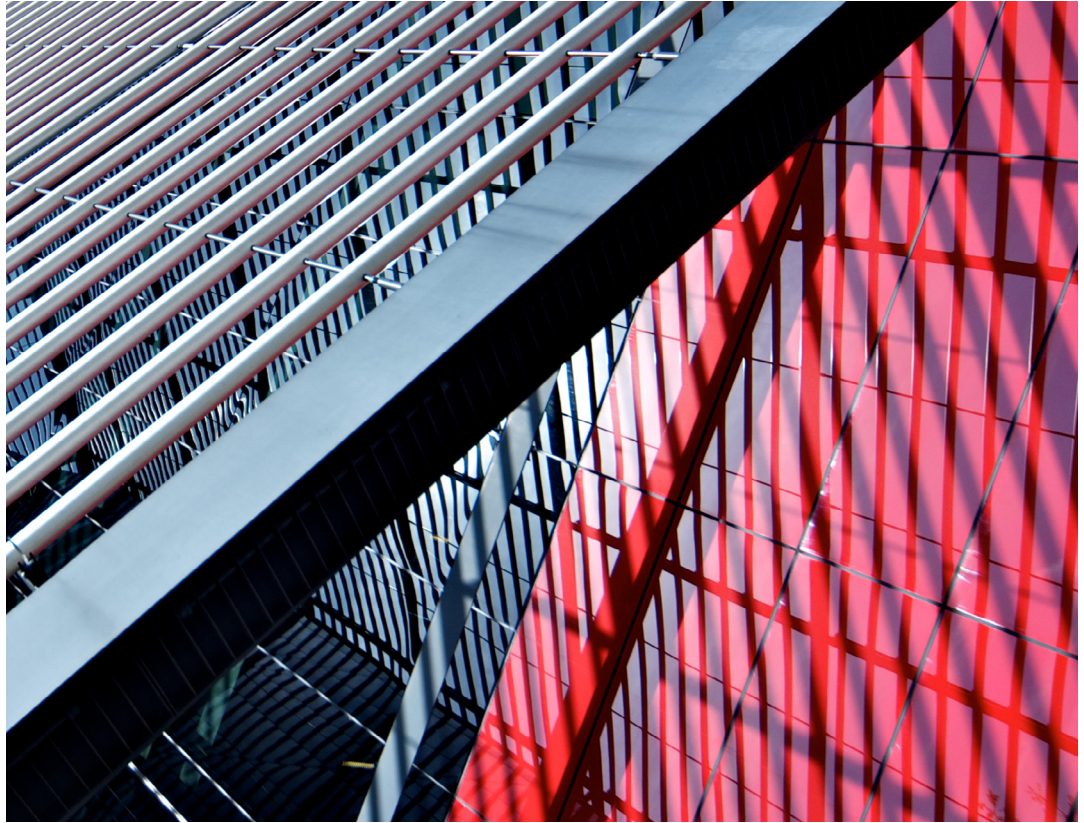
Negotiating and aligning contract provisions with internal policies is a time-consuming and labor-intensive aspect of the contracting process, particularly where third-party paper is involved. Negotiating power tends to reside with those who are buying or procuring services, meaning that sellers of products and services are rarely able to engage on their own agreement template or forms. In addition, with so many varied contract forms needing review, the lack of standardization increases the odds of inconsistent handling of commercial risk across individuals and teams.

Ensuring consistency in aligning third-party paper with corporate policy is both technically challenging and expensive. Agreements are often repurposed from prior engagements, are missing key terms, and have elements of risk that are difficult to identify in bespoke drafts. To allay negative outcomes, legal departments engage senior-level attorneys to attend to the systematic review process, effectively preventing them from focusing efforts on higher-value tasks. This places significant staffing limitations on the law department’s ability to scale in response to ever-changing demand. Since sacrificing quality in the interest of time is unacceptable, legal departments are under further pressure to meet the needs—and speed—of the business. Committed to delivery, law departments must manually process contracts as quickly as possible. This allows little time for strategic planning, process optimization, or measuring the law department’s impact on the business in mitigating commercial risk or accelerating deal closings.

### **Driving Speed-to-Service Delivery**

To overcome increasing workloads and better service the business, legal departments must optimize the contract review process using Artificial Intelligence (AI)-enabled automation technology. By leveraging the power of AI, integrated tools can reduce human review time during negotiation of third-party paper and ensure consistency of response while mitigating risk.

In a recent survey of legal departments, Gartner states, “[I]legal workflows characterized by standardization and repeatability have the greatest potential for automation. These routine workflows—such as...commercial contract management—are the core workflows that in-house legal teams are most often tasked with handling.”<sup>1</sup> Gartner highlights that “under extreme pressure to improve efficiency and provide responsive service to the business, legal departments are looking toward automation, AI, ML (Machine Learning), and Natural Language Processing (NLP) technologies.”



Time-to-market and cost-effective gains based on these technologies can be made in three key areas:

- **Identification:** AI automation and concept searching identify key contract language quickly, thereby reducing human review hours typically spent searching a contract during preliminary review.
- **Prioritization:** AI applications can have pre-set scorecards aligned to the company's acceptable risk profile that immediately prioritize attorney review of a new contract and assist in quickly navigating to the most impactful provisions.
- **Standardization:** AI increases consistency in legal review by learning from experienced lawyers, and then using that knowledge to assist junior lawyers (e.g., implementation of a standard clause library to provide attorneys with side-by-side comparisons to their company's preferred language).

The following section will focus on the quantitative impact of implementing advanced technology, cumulatively accrued through an AI-assisted review adoption model.

## AI-Assisted Review Adoption Phases

Figure 1 quantifies the cost for a law department to review 5,000 MSA's/Core Agreements on bespoke third-party paper at an average of eight hours of attorney review time per agreement. Utilizing traditional manual review at this rate would result in costs of US \$6M for a purely manual commercial contract review. This model will serve as a baseline for the purposes of this white paper.

Figure 1: Cost of Manual Review



### Standard AI-Assisted Review

The first phase of implementing an AI-assisted review solution consists of training and applying AI tools and data models to standard provisions (see Figure 2). Most Tier 1 AI software providers will have completed the necessary front-end development work, so initial deployment need only focus on: 1) integration with existing enterprise software, 2) quality checking the application's initial output, and 3) training commercial legal teams on how to use the tool in their existing contract review workflows.

This out-of-the-box function focusing on standardized contract provisions can be deployed quickly to realize immediate value. Legal departments can achieve a 12.5-15% reduction in manual review time by deploying an AI tool to automate the identification and prioritization for standard clauses. This first-level AI-powered enhancement is a proven commodity and already in use by forward-thinking legal departments.

### Customized AI-Assisted Review

Customizing the AI-assisted review platform to the specifications of the business allows for even further reductions in time, cost, and risk—up to a 25-30% reduction in first-pass manual contract review time. Sophisticated AI-assisted platforms allow enterprises to customize the tool to specific commercial risk profiles and compliance needs. AI-assisted tools can be customized with the inclusion of a template clause library with company-approved primary and fallback language, and with the addition of uniquely nuanced risk considerations. The ability to customize out-of-the-box performance with such functionality is essential for deriving long-term value from an AI platform. As no two industries or businesses are exactly alike in their risk positioning, AI customization is a critical component in achieving a delivery model that can reliably deliver incremental return on investment year over year. Through ongoing training and customization of the tool, an AI application will become smarter and faster. This allows a commercial law department to rely on AI for the identification and assessment of an increasingly nuanced area of risk. This continuous improvement will drive increased savings and reduction of manual review.

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## Fully Optimized AI-Assisted Review

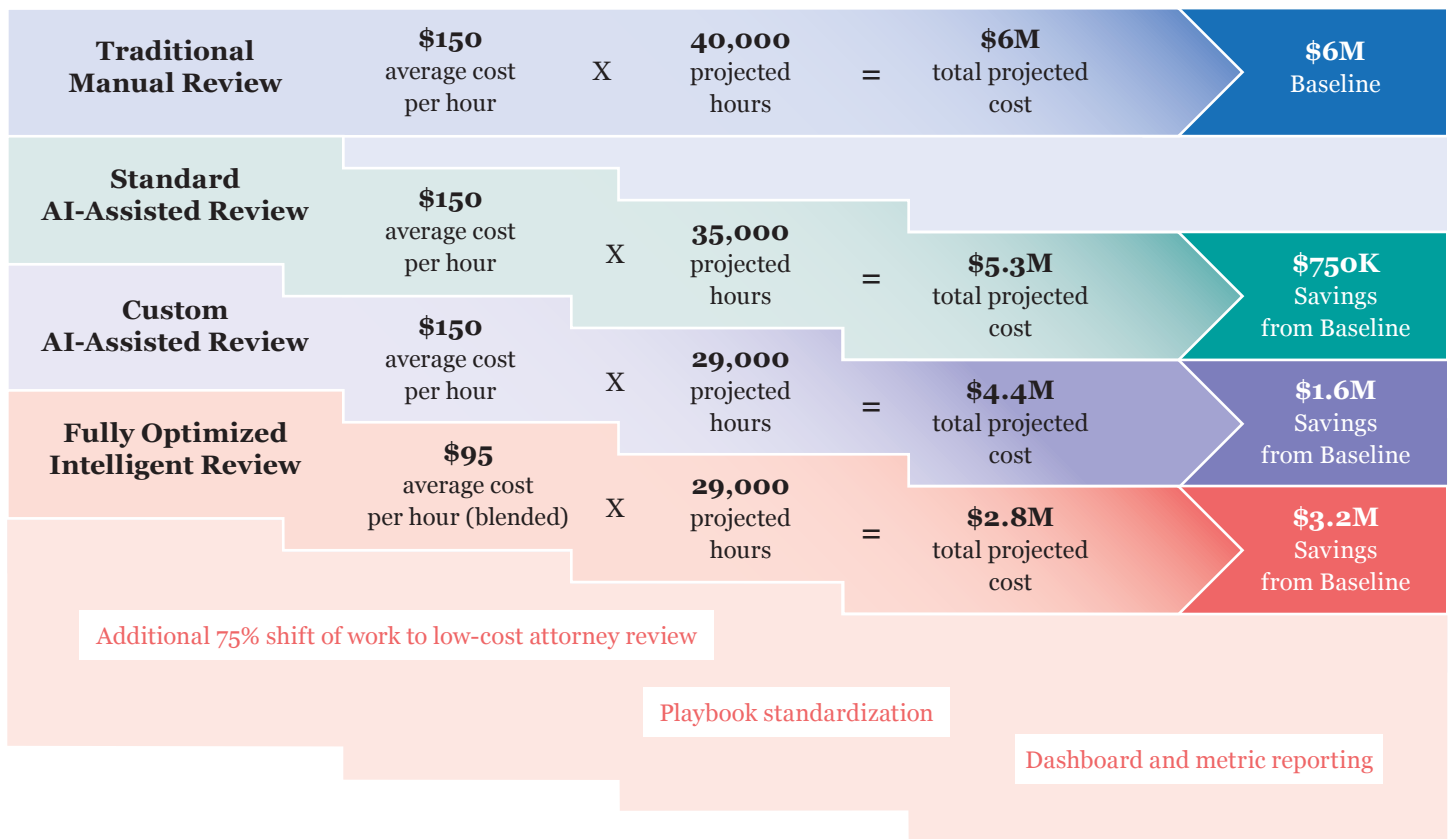
*Fully optimized AI-assisted review delivers up to 55% in cost savings.*

While an AI-based functional tool can significantly reduce costs, time, and risks involved in contracting, a fully optimized commercial function requires that law departments also ensure the right resources are using the technology on the right activities. This means allocating senior, high-cost attorney resources to the highest risk/highest impact areas of the commercial function, and driving as much first-level low risk review to junior attorney resources. These reallocation efforts can extend to the use of a legal service provider who can provide resource flexibility through scalable, global, low-cost attorney review support.

The combination of current AI capabilities for first-pass review, working in concert with fully optimized resource allocation, moves the needle further in cost savings potential, sparing legal departments up to 55% in total contract review costs.

The value added at each stage of adoption in the AI-assisted review process is summarized below in Figure 2.

**Figure 2: The Impact of AI-Assisted Review**



## Preparing for AI-Assisted Review Transformation

In the foreseeable future, AI-enabled capabilities will be able to conduct a contract review consistent with a company's risk profile, mark up the document, and have a quality control process in place to allow a negotiating lawyer to begin work with a client-ready response in hand. Current AI capabilities to identify key clauses and prioritize risk, coupled with process standardization, will enable commercial legal departments to improve the efficiency and begin to demonstrate additional value to their business partners.

Given the myriad legal technologies entering and leaving the market, it can be difficult to know which application is worth the investment. Technical terms such as "machine learning," "latent semantic indexing," and "natural language processing" used to describe technology-based solutions are inconsistent in their definitions and applications.

To overcome the challenges posed by the shifting technology landscape, in-house commercial law departments should focus on the following three areas:

- 1. Provide AI-Specific Internal Training:** In today's legal landscape, attorneys must not only maintain subject matter expertise in their respective fields, but also understand the technical applications available to facilitate productivity and efficiency. To ensure teams are up-to-date on the latest technology impacting the practice of law, in-house leaders should provide a list of company-approved AI training classes or develop a curriculum to encourage ongoing education and training.
- 2. Establish Technology Selection Criteria:** It is important for in-house legal teams to establish a set of criteria to vet emerging technologies. While each company will have specific business and legal requirements, companies should learn as much as possible about how the vendor defines the software's AI capabilities, how willing the vendor is to add functionality specific to the company's needs, and what legal-specific use cases the platform can support. For a detailed list of vendor selection criteria, [read our post](#).
- 3. Select a Technology and Legal Services Provider:** Legal departments may also choose to bring in legal expertise from firms servicing multiple industries, allowing for a valuable outside perspective on specific in-house needs. Those with technology core competencies can offer legal teams an objective assessment of the current software landscape.

## **A Case Study**

### **Fortune 500 Global Technology Company**

#### **Client Challenge**

- Internal commercial legal teams were over-burdened and unable to keep up with growing volumes of Master Service Agreements (MSAs) requiring review (approximately 1,200 annual agreements).
- The majority of these agreements were on bespoke third-party customer paper, further complicating efforts to standardize or automate review.
- The legal department was tasked with reducing costs and implementing a solution in line with the company's larger goals of achieving digital transformation.

#### **United Lex Solution**

- We first coordinated with the client's commercial legal subject matter experts to identify 60 core contract topics, prioritize the level of risk associated with each topic, and establish a template clause library of preferred language.
- Our dedicated development team then built and validated custom data models designed to identify the core contract topics (e.g. Indemnification, Intellectual Property (IP), Limitation of Liability, etc.). UnitedLex oversaw the deployment of a team of 35 transactional attorneys who utilized the tool to perform a low-cost, AI-assisted, first-pass review of third-party MSAs.

#### **Business Impact**

- 25% reduction in the time and cost associated with manual review through AI automation.
- Increased the speed of delivery, allowing the client to meet or beat delivery time expectations from the business and all SLAs related to quality through the application of a standardized clause library; 35% cost reduction driven by utilization of UnitedLex's global transactional attorneys, who performed a cost-effective, first-pass review of each agreement.

## **The Future Is Digital**

Investing in AI-assisted services allows in-house legal teams to maximize productivity while contributing directly to the profitability of a business.

UnitedLex is a pioneer in the field of legal service optimization, with \$20B in total contract value under management, having partnered with several Fortune 500 companies to transform their legal and contracting functions. UnitedLex offers a suite of solutions and capabilities that enable companies to maximize value from their contracts and contracting processes, complemented by expert advisory services and project-based solutions.



With more than 3,000 legal, engineering, and technology professionals globally, UnitedLex enables legal organizations to thrive in the Digital Age.

Contact [info@unitedlex.com](mailto:info@unitedlex.com) to learn more about transforming your Corporate and Commercial Review function, and about our broader programs for Digital Legal Transformation.

## References

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1) Gartner, *Predict 2020: Corporate Legal and Compliance Technology*, p.6.