

# IBA - SPPI AI WORKING GROUP:

Impact of artificial intelligence on law firms



# EXECUTIVE SUMMARY



Artificial intelligence (AI) is visibly transforming the legal profession at an unprecedented speed. Its sphere of impact readily covers a gamut of issues that can, on the one hand, be addressed (albeit in a limited scope) by regulatory frameworks and bar associations, but can also, on the other hand, include legal lacunae that is hard to fill given the impact's speedily disruptive force.

The IBA Section on Public and Professional Interest (SPPI) has been spearheading the 'AI Working Group Project' (Project) since mid-2023, comprised of various phases, in order to collect data on, evaluate and determine AI's impact on the legal profession as a whole.

The current report provides the results obtained from the first prong (or phase) of the Project: namely, AI's impact on law firms.

To that end, the IBA SPPI AI Working Group launched a questionnaire in April 2024, supplemented by interviews conducted in-person and online with law firms, across the IBA membership, in order to understand AI's direct and indirect impact on law firms.

Close to 300 law firm representatives from more than 75 countries across the world provided their input on the questionnaire, and the following presents an executive summary of the outcome of this questionnaire.

# EXECUTIVE SUMMARY



1. The results provide a number of interesting findings, among which include the divide in AI usage for firms with less than 100 lawyers and those with more than 100 lawyers: the scope of AI usage is increasing in direct proportion with the size of the law firm, covering both legal and non-legal processes.

2. Second, the results find that AI governance is more prevalent and material the larger the size of the law firm. In this instance, the divide in AI governance distinguishes between law firms with less than 1,000 lawyers and those with more than 1,000 lawyers.

3. Third, data shows that AI policies are a matter of priority for law firms, with strong policies put in place before any lawyer begins using AI at the law firm. This is to ensure that the outcome of and the use of AI-generated content rest solely within the law firm's sphere of responsibility.

4. While law firms may be employing AI in various modes and platforms, the questionnaire input derived from IBA members showed that only 39.1 per cent of responding law firms had their own AI tools, with a stark majority of 60.9 per cent not yet developing or designing their own AI tools and/or programs (ie, indicating greater use by law firms of outsourced AI programs).

5. In terms of AI trends, the results from the questionnaire showed that divergent approaches are being undertaken by law firms to enhance and popularise the use of AI tools in their client work, despite AI 'hallucination' remaining a major concern for many of the responding and interviewed law firms. Some firms are looking to build AI tools for their clients, whereas others are seeking to create their own large language models (LLMs) to use their own data.

# EXECUTIVE SUMMARY



6. All participating law firms are in alignment that AI will have substantial impact on their structure, organisation, operation and strategy. When and to which categories of lawyers this impact will be felt most (from trainee lawyers or partners) remains dependent on the size of the law firm and the prevalence of generative AI usage within the firm's culture.

7. A notable majority of responders indicated that law firms do not necessarily consider using AI for pricing purposes, yet confirm that pricing structures will eventually change, with a move towards fixed/fees based on added value in case AI's impact is significant. The results ultimately yield a foreseeable change in the financial business model as AI's natural impact on law firms.

8. Conversely, law firms consider training in relation to AI tools a top priority, which appears to be directly correlated with the size of the firm (ie, the bigger the firm the more professional training and adoption programs). For this reason, those law firms with a focus on training appear to have more positive feedback on AI development and potential use in the firm. Yet, the top three caveats for AI adoption remain as: (i) privacy and data related concerns; (ii) resistance to change; and (iii) a 'don't trust it yet' mentality among responding law firms.

9. Finally, the results show that larger law firms will have a competitive advantage over their smaller counterparts where use of AI is concerned. This is due to large law firms having more investment power and access to talent. On the other hand, law firms who employ a 'conservative' approach underline the need to 'wait and see' due to impending adoption issues related to AI-usage.

# EXECUTIVE SUMMARY



# INTRODUCTION



The IBA initiated a presidential project in 2023, entitled 'IBA & AI: Artificial Intelligence, the Law and the Legal Profession', to instigate research and publish a report in relation to three areas of interest:

1. the regulation of AI (headed by the Legal Practice Division (LPD));
2. the impact of AI on the legal profession (headed by the Section on Public and Professional Interest (SPPI)); and
3. best practices for bar associations/law societies (headed by the Bar Issues Commission (BIC)).

The SPPI AI Working Group project was constructed as a result of this IBA-wide initiative, so as to cover a number of phases, over a period of two years, including AI's impact on: law firms/private practice; in-house counsel; lawyers working for the government and/or judiciary; universities/academia; and the legal industry as a whole.

The following report provides the findings of the results obtained from the SPPI AI Working Group's questionnaire on AI's impact on law firms, which was disseminated to all IBA members in April 2024.

# INTRODUCTION



As a profession with already high barriers of entry, lawyers are no longer at the cusp, but instead at the crux of a transformative force that raises these barriers even further. The divide between large and small law firms across the globe becomes wider when AI is under discussion, with larger law firms having a number of advantages that facilitate AI development, adoption, training and use, while the small firms' conservative approach could benefit from a cautious predilection towards preserving the legal professions' traditional practices over AI-imbued work processes, the latter of which some commentators allude to as facilitating the demise of (if not replacing the role of) lawyers.\*

\* See R. Susskind, *The End of Lawyers: Rethinking the Nature of Legal Services*, 2010, Oxford University Press, at 270: "For many lawyers, therefore, it looks as if the party may soon be over."

Close to 300 law firm representatives from more than 75 countries across the world provided their input on the questionnaire that was launched by the IBA in April 2024, and the following report presents the outcome derived from the answers obtained from these responders.

The SPPI AI Working Group's project will continue to explore AI's ongoing impact over all other members of the legal profession, as listed above, with a hope to engage the wider legal community, both within the IBA and outside it, at all levels, in a collaborative effort to help fulfill and retain the grassroots principles shaping the legal community in a digitalised, AI-driven era.

# INTRODUCTION



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# KEY INSIGHTS



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296



~335



>75



March 2024

# Questionnaire

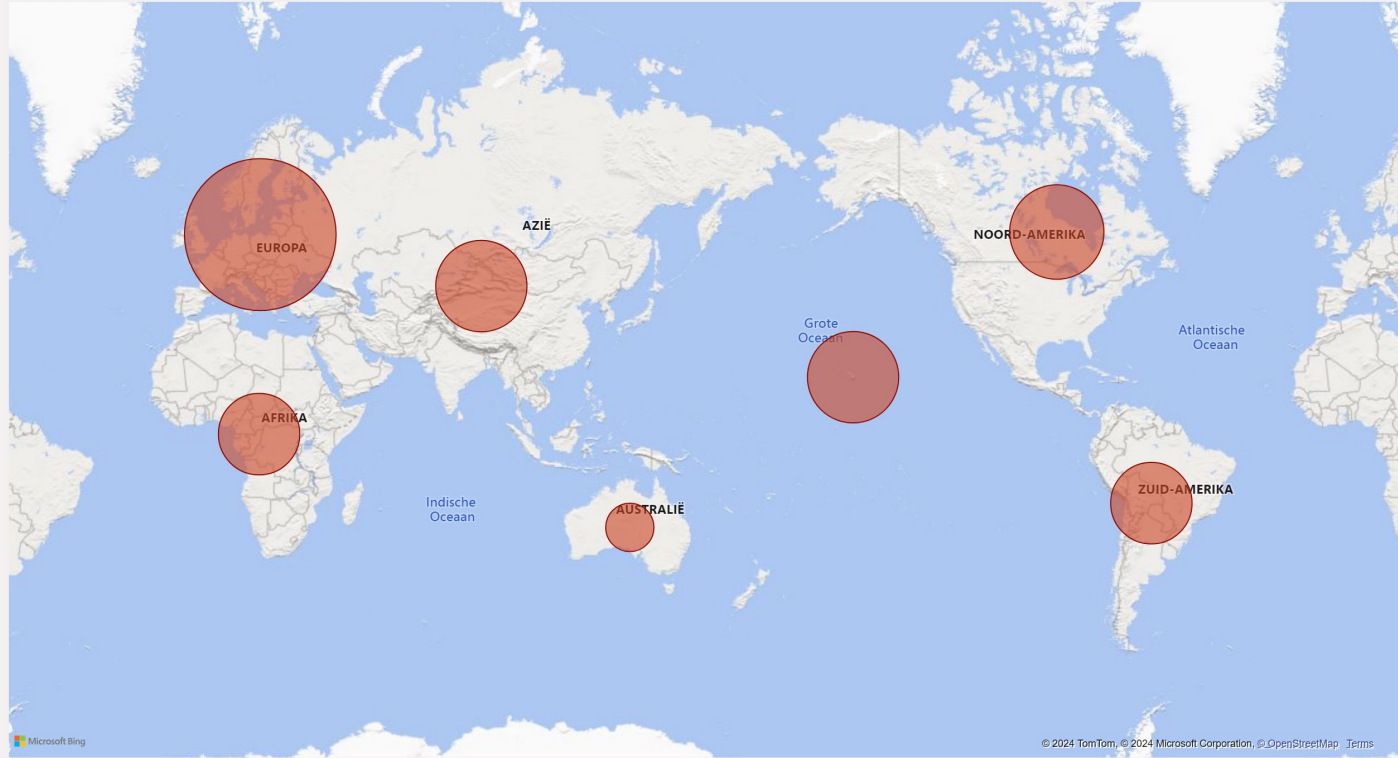


**[bit.ly/iba-aiwg](https://bit.ly/iba-aiwg)**



# JURISDICTIONS

Answer count by Continent and Types of law you practice.

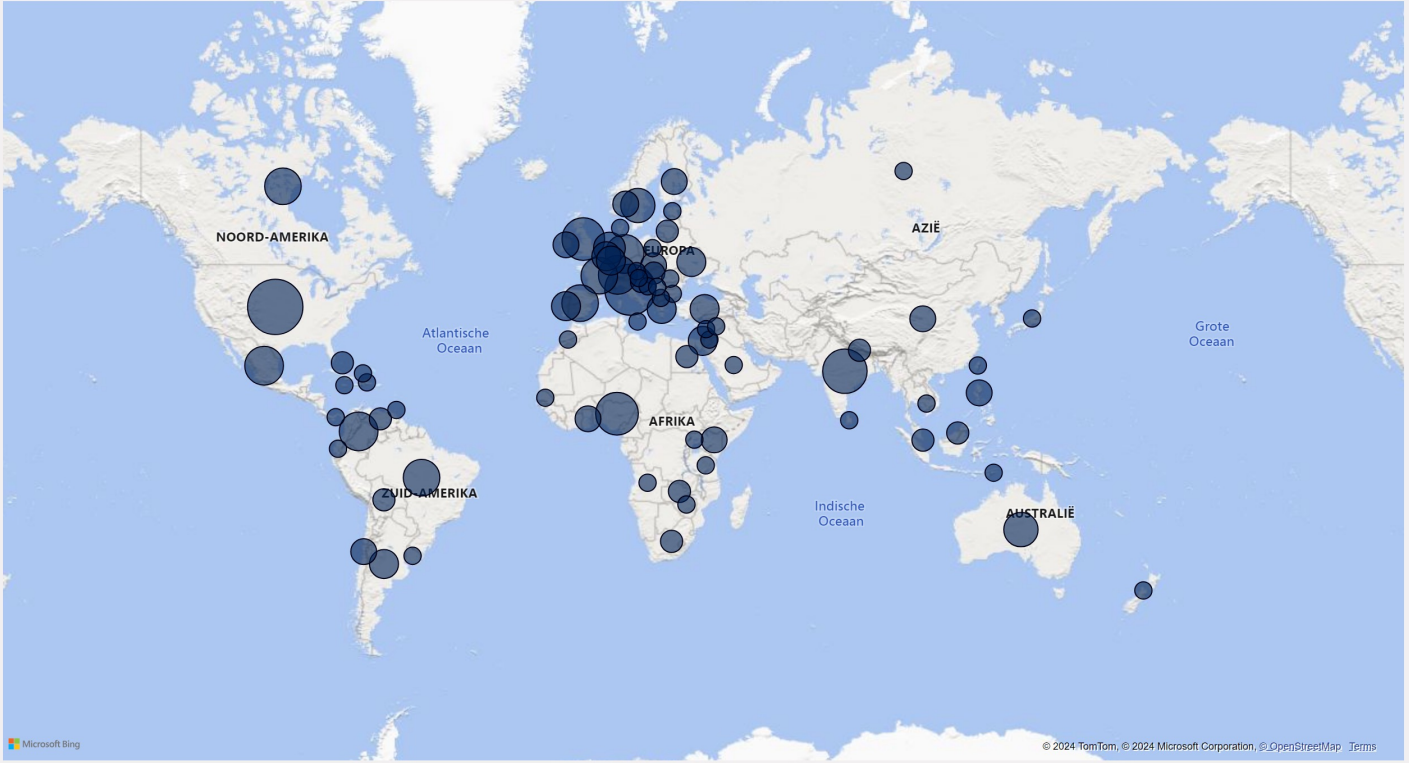


Source: IBRANS Research 2024



# JURISDICTIONS

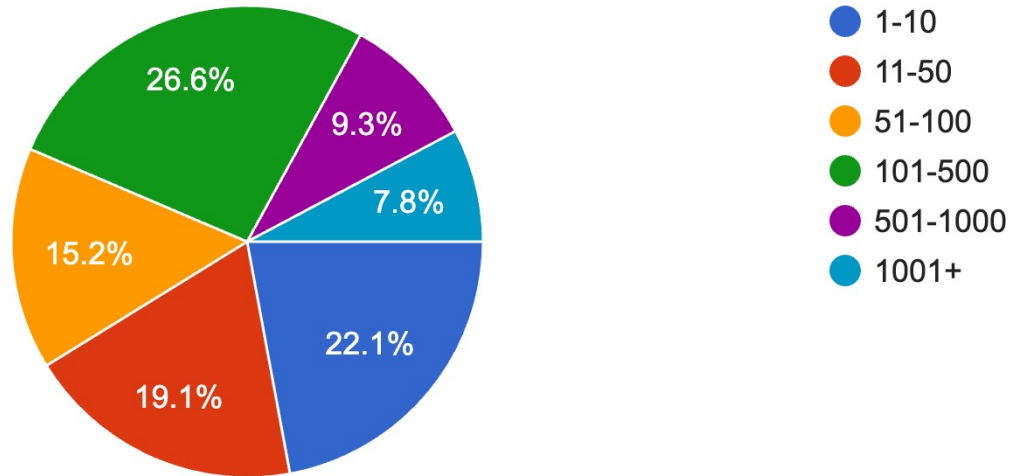
Answer count per 1.4 The jurisdiction(s) your firm/organization currently provides legal services in.



Source: IBA AIWG research 2024



# LAW FIRMS SIZE



Source: IBA AIWG research 2024





**INITIAL**

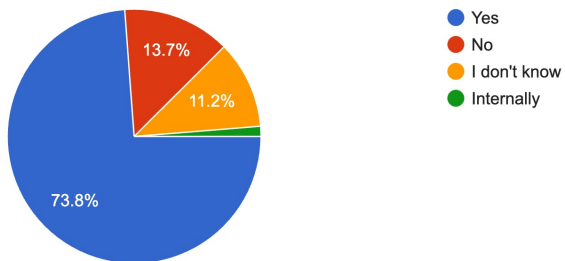
**INSIGHTS**

# FIRM DATA STORED IN THE CLOUD



7. Is your firm data stored in the cloud?

233 responses



*'Some clients impose restrictions that prevent us from using cloud services'*

Quote from AI-leader of large global law firm

*'No cloud means no AI'*

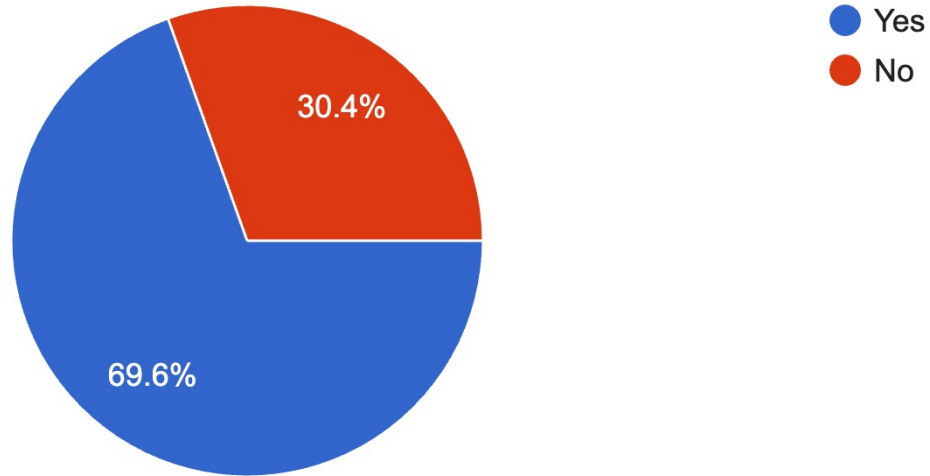
Quote from AI-leader of top regional law firm

**1**

# **LAW FIRMS' USE OF AI**



# THE USE OF AI

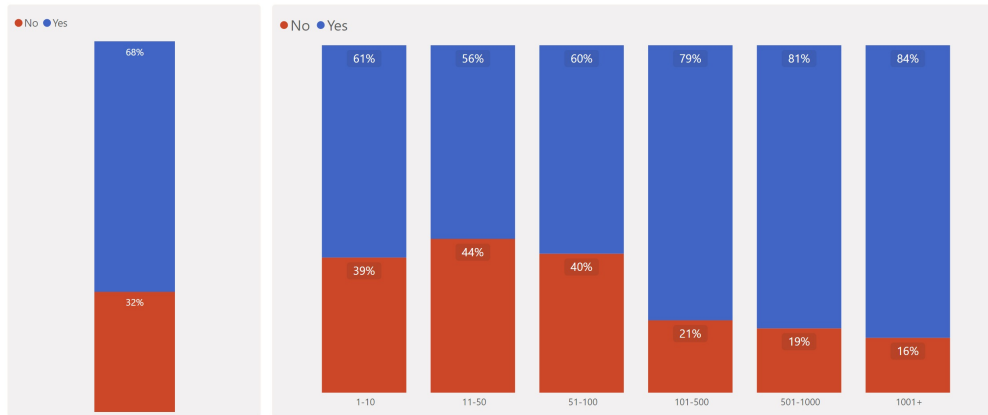


Source: IBA AIWG research 2024



# THE USE OF AI

## 2.1 Is your firm/organization currently using AI?



Most participating law firms are currently using AI, but there is a clear difference in use between firms with less than 100 lawyers and firms with more than 100 lawyers.

Interviewed law firms leading on AI warn about the time it takes to learn how to use AI in legal and firm processes, and therefore advise to start using AI now:

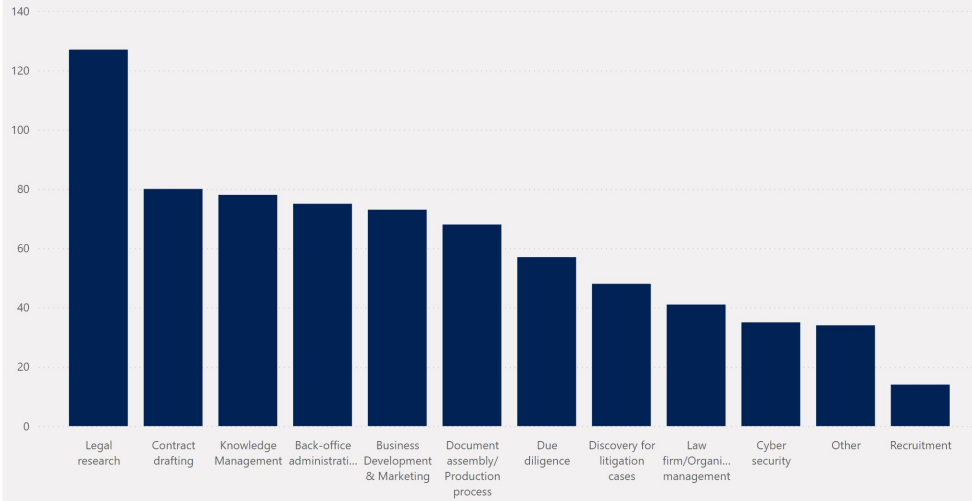
*'It's a mistake for law firms to have a wait-and-see-approach when it comes to AI, because it takes a lot of time to be able to work with it.'*

*'Firms that don't start, are going to have problems later.'*

Quotes from AI-leaders of two large global law firms

# AREAS OF USE OF AI

## 2.2 If your firm is currently using AI, in which areas?



Average areas per firm size



Over 40 per cent of participating law firms already use AI for legal research. Almost 30 per cent use AI for contract drafting; knowledge management; back-office and business development and marketing (BD&M) activities; and document assembly.

The number of areas in which AI is used increases with the size of the firm. Large international law firms have started to test and integrate AI throughout most of their legal and non-legal processes.

**2**

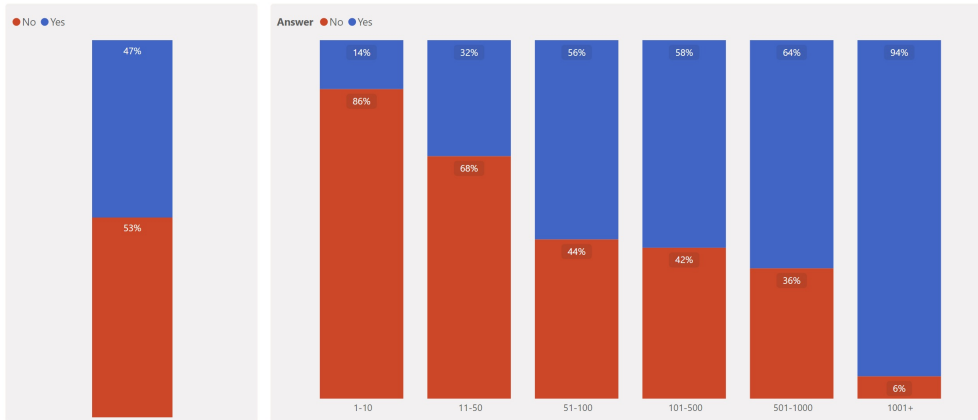
# **LAW FIRMS' AI GOVERNANCE**



# LAW FIRMS' DEDICATED AI TEAMS



## 4. Does your firm/organization have an internal dedicated AI team?



Just over half of participating firms have a dedicated AI team, in various different forms. The larger the firm, the more often it has a dedicated AI team. There is a clear distinction between law firms with less or more than 1,000 lawyers.

Many of the interviewed law firms leading on AI have a similar structure when it comes to organisational governance:

- All firms have a senior committee (including managing partner, senior partner, chief information officer, chief operating officer, etc) in place to oversee AI development and determine strategy, policies and the acceptance of AI use cases.
- Also, these firms have a cross-functional AI core team, developing and coordinating AI use cases.
- Finally, a wider group of lawyers and non-lawyers is involved in use cases.

**3**

# **LAW FIRMS' AI POLICIES**

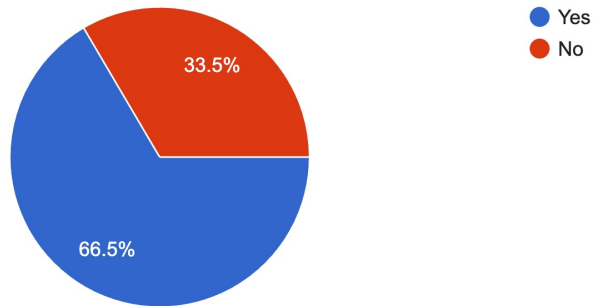


# AI POLICIES



## 3. Does your firm/organization have policies for using AI solutions?

233 responses



Most firms have AI policies in place. Within the interviewed law firms leading on AI, determining AI policies often has been one of the first things they looked at. Various firms require their lawyers to sign an AI policy statement.

All interviewed law firms leading on AI state that a lawyer in their firm using AI is always responsible for the outcome and use of AI generated content. Often, this is also a requirement from clients.

Various firms require their employees to sign AI policy statements.

*'Important for use of AI is that in our policies we have a lawyer-view-first principle; lawyers are always responsible for anything created with AI.'*

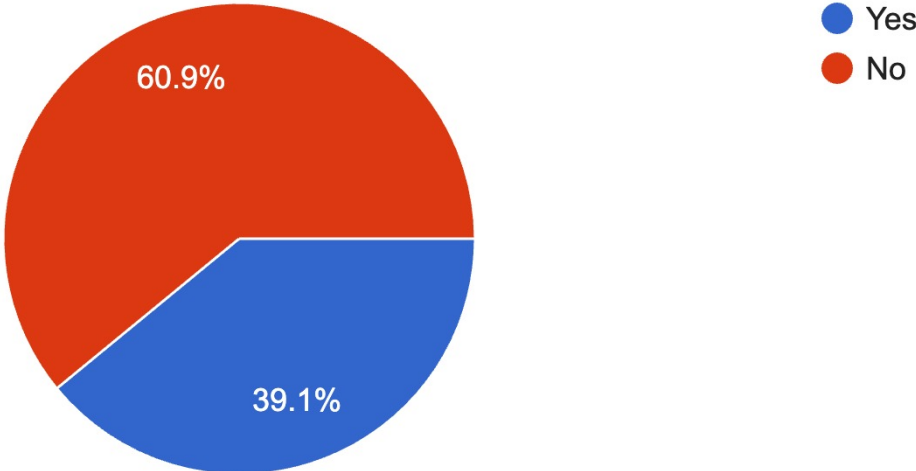
Quote from AI-leader of large global law firm

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# LAW FIRMS' AI PLATFORMS



# LAW FIRMS' OWN AI TOOLS



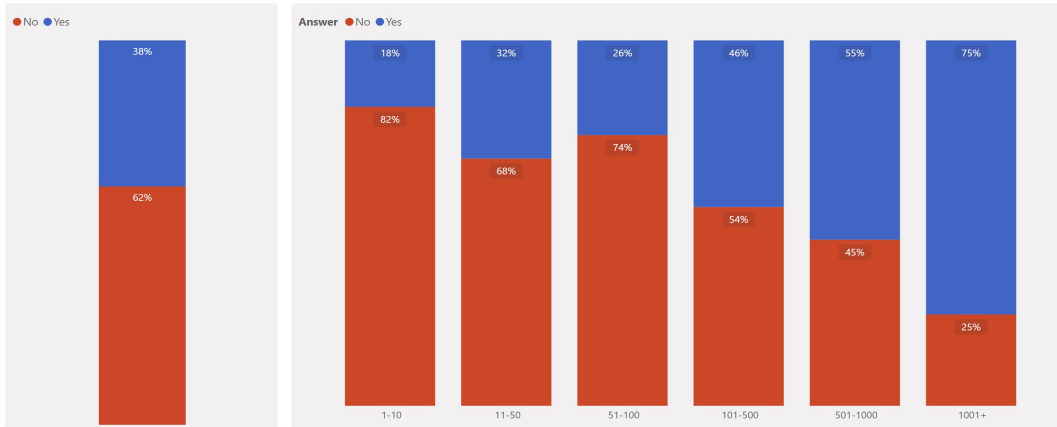
Source: IBA AIWG research 2024



# LAW FIRMS' OWN AI TOOLS



## 5. Is your firm/organization developing and/or designing its own AI-tools or programs internally?



Most global law firms have already been using AI platforms for case management, reviewing contracts and streamlining the due diligence process.

All firms use AI platforms such as Microsoft Copilot and Harvey.

All firms use a LLM, mostly ChatGPT. Some firms also test other models like Mistral AI and Claude 3.

Various firms mention that they want to use a mix of models (portfolio approach).

It is likely law firms will begin to use AI platforms beyond due diligence and case management.

**5**

# **LAW FIRMS' AI TRENDS**



# LAW FIRMS' OWN AI TOOLS



We identified a number of trends, amongst them:

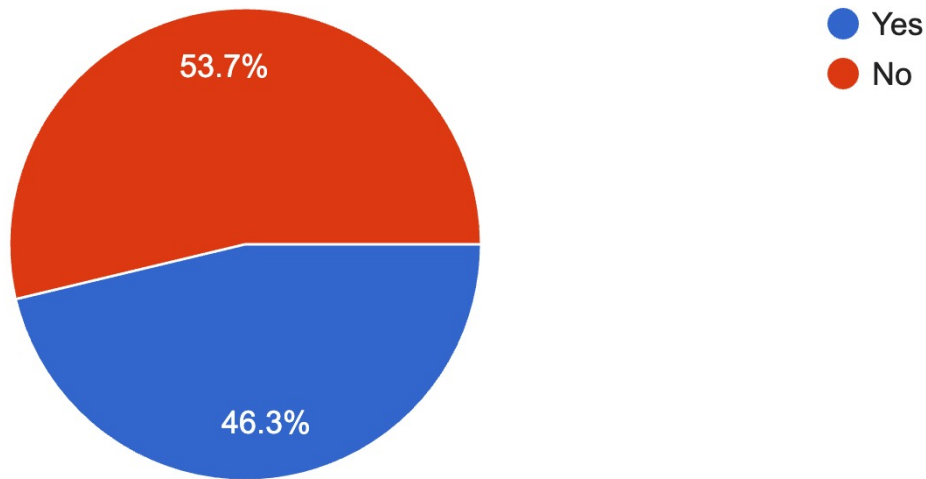
- generative AI is still very much in testing and development phase, especially when it comes to legal client work;
- as to AI in legal processes: vendor tools like Harvey and other point solutions are not trained with firm data;
- some firms are looking into or are creating proprietary LLM models in which they can use their own data;
- some firms are looking into building AI legal products for clients;
- there are many discussions with clients about use of AI. Clients don't allow use of their data for training purposes (at least initially); and
- firms mention different results when using different models for the same question. Also, hallucination is still mentioned as an issue.

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# AI IMPACT ON LAW FIRMS



# AI IMPACT ON LAW FIRMS



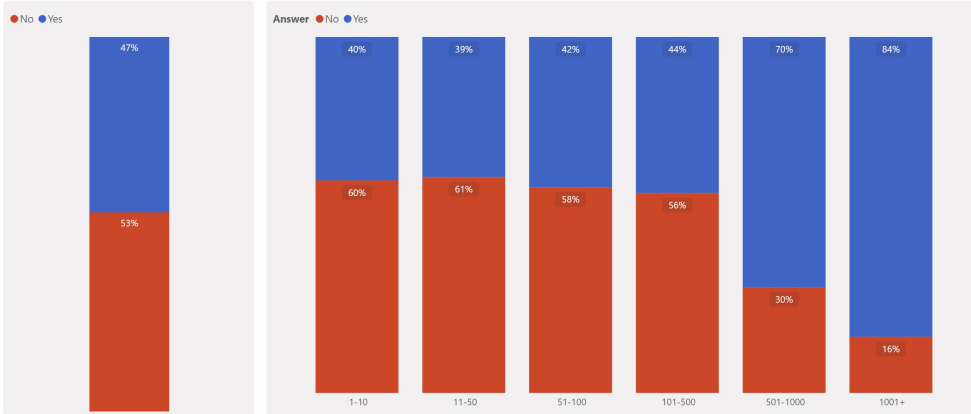
Source: IBA AIWG research 2024



# AI IMPACT ON LAW FIRMS



11. In your opinion, does the adoption of generative AI require significant changes in the structure, operation, organisation and strategy of your firm/organisation (including, for example, hiring strategies)?

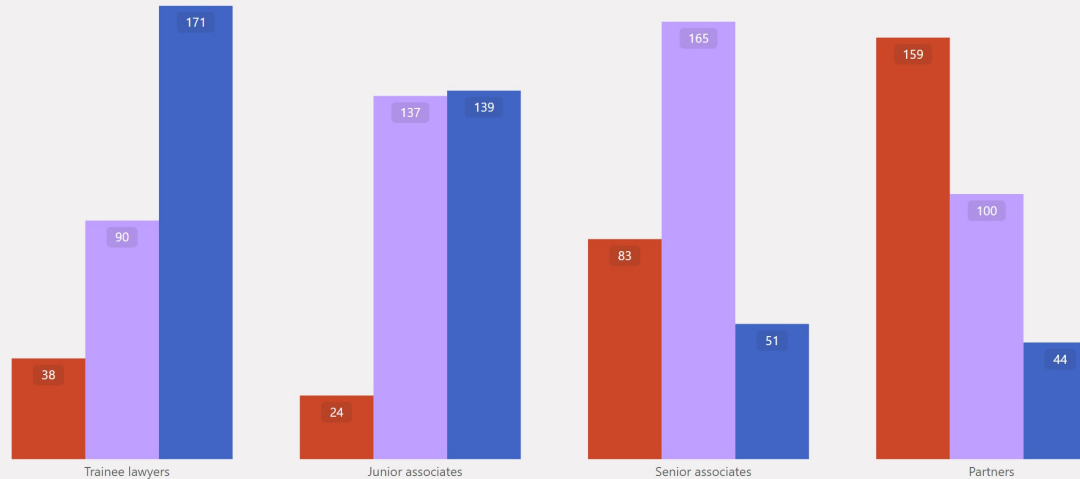


All firms confirm that AI will have substantial impact. The question is more about the timeline.

# AI IMPACT ON UTILISATION OF LAWYERS

12. What impact do you think generative AI has on the utilization of different categories of lawyers in your firm/organization?

Answer ● 1 = Limited ● 2 = Moderate ● 3 = Significant

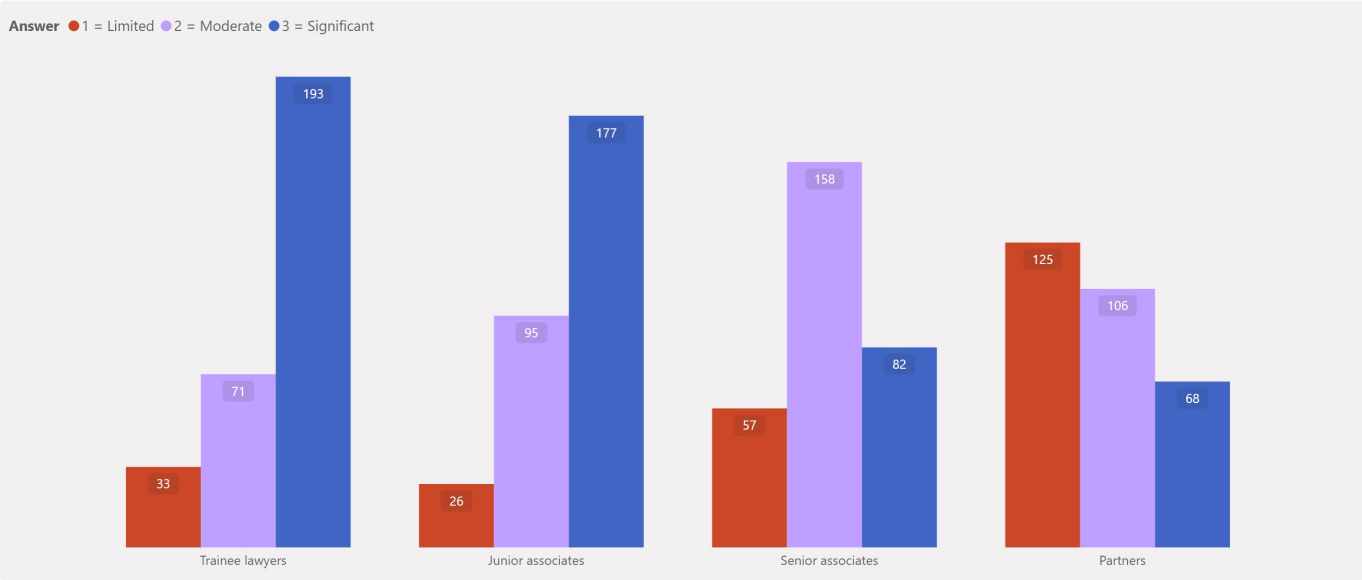


Source: IBA AIWG research 2024



# AI IMPACT ON DEVELOPMENT OF LAWYERS

13. What do you think will the impact of generative AI be on the development of different categories of lawyers in your firm/organization?



Source: IBA AIWG research 2024

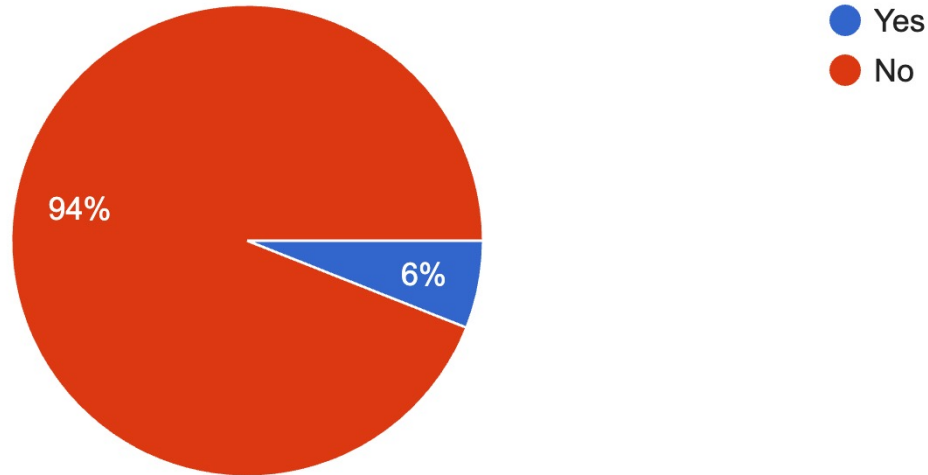




# THE USE OF AI FOR PRICING



# THE USE OF AI PRICING



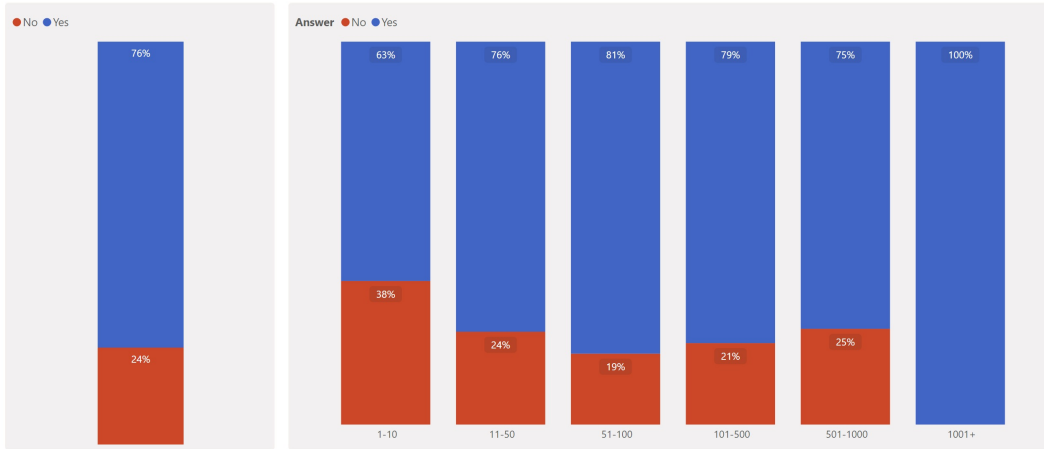
Source: IBA AIWG research 2024



# THE USE OF AI PRICING



Do you think you will be using AI tools for pricing services to clients in the future?



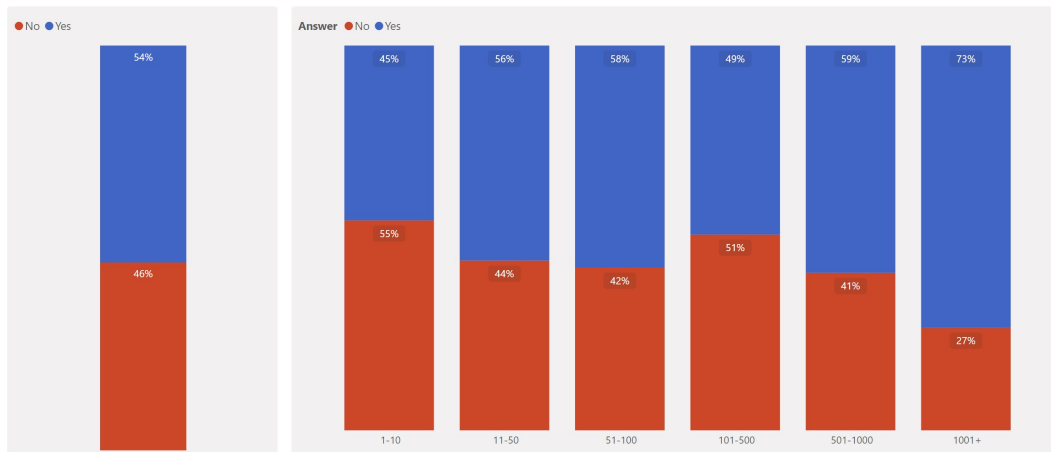
Some firms have used AI for pricing purposes, but often more for creating pitch documents.

Pricing itself is early stage, but all firms expect to use AI for this in the future.

# THE CHANGE OF PRICING



## 10. Shall your firm/organization review how to invoice for its services as a result of AI?



All firms confirm that pricing structures will change:

- more towards fixed/added value fees where impact of AI is big;
- additional tech and development surcharges;
- firms want avoid race to the bottom; and
- discussions with clients how to share the financial gains.

Various firms mention that the financial business model change will be one of the fundamental issues for the future.

*'AI is going to drive wider adoption of fixed fees. We have seen that AI has reduced time by up to 80 per cent, this needs different pricing models.'*

*'Gen AI could be the straw that breaks the camel's back, when it comes to the billable hour.'*

Source: IBA AIWG research 2024

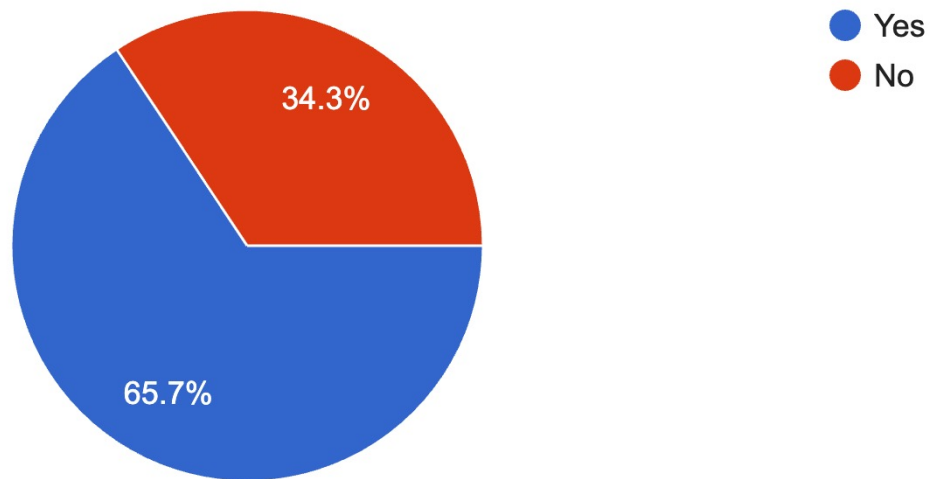
Quotes from AI-leaders of large global law firms

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# AI TRAINING AND ADOPTION



# LAW FIRM AI TRAINING



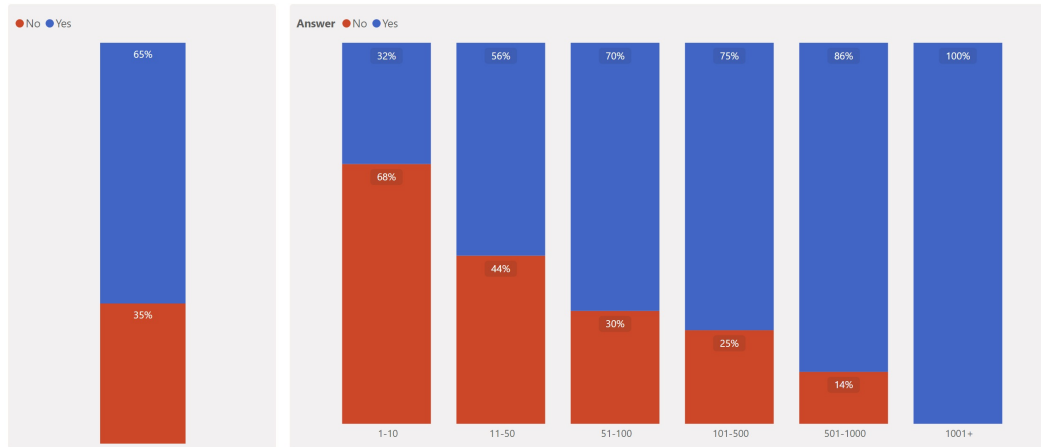
Source: IBA AIWG research 2024



# LAW FIRM AI TRAINING



## 6. Is training in relation to AI tools provided for your employees and partners?



The bigger the firm, the more professional training and adoption programmes seem available.

Most firms require their employees to go through training before being permitted to use AI or pilots/use cases.

Firms that focus on training seem to have fewer concerns about adoption and see more positive feedback on AI development and potential use in the firm.

*'Adoption of AI is a real issue. If you want to change your way of working with technology, you need an adoption and change programme.'*

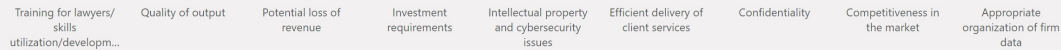
*'No client wants their data to be used to train the model, but it's a drop in the ocean.'*

*'Don't trust it yet!'*

# AI PRIORITIES

20. What are your firm/organization's priorities when it comes to implementing generative AI?

Answer ● 1 = Lowest ● 2 ● 3 ● 4 ● 5 = Highest



Quality of output

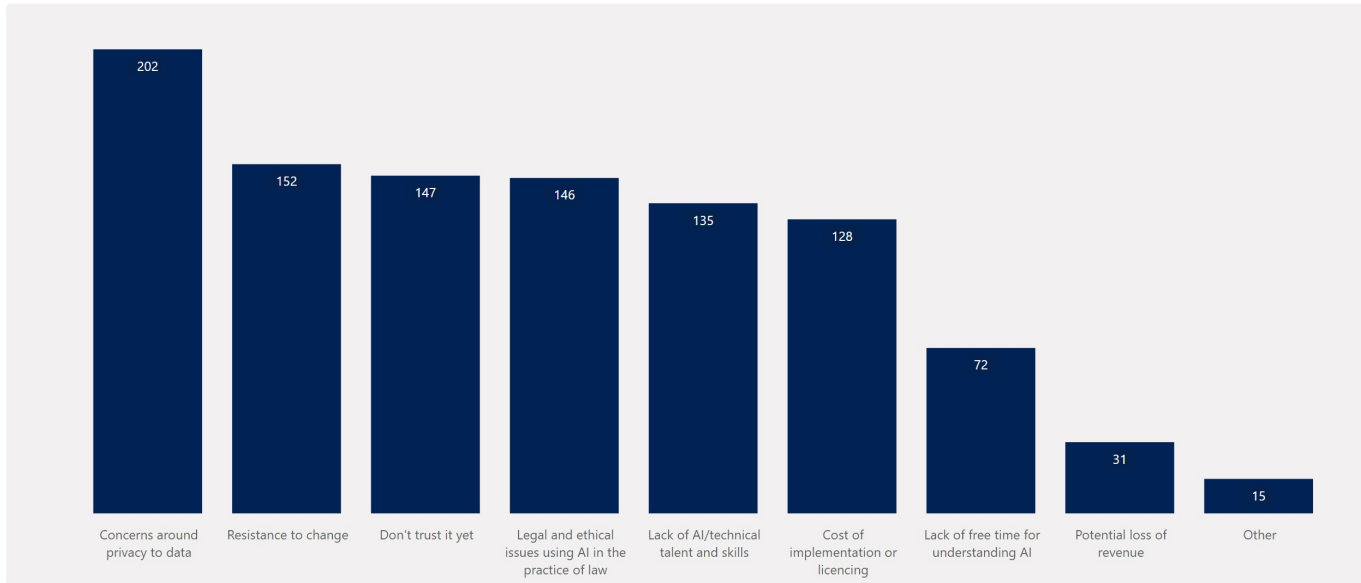
IP

Confidentiality

Efficient delivery of client services

# GENERATIVE AI ADOPTION BARRIERS

21. What do you consider are the main barriers to adoption of Generative AI:



Source: IBA AIWG research 2024



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# COMPETITIVE ADVANTAGE



# COMPETITIVE ADVANTAGE



Various firms believe that scale matters at this stage of AI development.

Larger international firms have more investment power and access to talent; this gives them an edge over smaller firms at the moment.

Unclear whether advantage will melt away when AI development in legal becomes more advanced.

Some firms question a conservative 'wait and see approach' because it is not only about technology, but also about adoption.

There is a learning curve of up to 12 months, the advice is that firms should start now.

'Firms that will not use AI, cannot compete in the future.'

Quote from AI-leader of large law firm

# CONCLUSIONS & KEY TAKEAWAYS





Artificial intelligence  
and generative AI may  
be the **most important  
technology of any  
lifetime.**”

~ Marc Benioff



# CONCLUSIONS & KEY TAKEAWAYS



- It's early days still, but use of gen AI is already widespread. Leading law firms are already ahead with generative AI.
- AI-related talent needs a shift, and AI's workforce effects are expected to be substantial.
- With all eyes on generative AI, AI adoption and impact remain steady.
- AI could transform law firm beyond recognition.
- AI is poised to revolutionise law firm billing, making the time spent on tasks almost irrelevant(?).
- As AI reduces the time for legal work, clients will expect lower fees, challenging firms' profitability.
- Law firms might need to decouple hours from billing, linking instead to the value provided; this shift could allow firms to charge premiums for in-demand skills or adapt rates to reflect AI's impact, balancing competitive pricing with profitability.
- Lawyer technologists are becoming indispensable, potentially more valuable than some associates (?).
- Leveraging AI effectively may shift the recruitment focus and alter the traditional law firm hierarchy.
- The integration of technology specialists alongside lawyers could significantly change law firm culture.
- Law firms face the challenge of maintaining a common identity when a growing number of staff aren't lawyers.
- Law firms Leaders are considering more formal training for associates to introduce new skills, including technology and relationship building. However, this approach comes with high costs and the loss of billable time, presenting a financial conundrum for firms.

# CONCLUSIONS & KEY TAKEAWAYS



- 'It's early days still, but use of gen AI is already widespread. Leading law firms are already ahead with gen AI.' Quote from AI-leader of large global law firm.
- 'Let's not talk about a doomsday vision like in Terminator, but about enablement like Tony Stark in Marvel's Iron Man.' Quote from AI-leader of large global law firm.
- 'When it comes to AI, there is a lot of heat, but not yet a lot of light.' Quote from regional law firm.
- 'AI will take over routine and mundane tasks. Lawyers will move up to strategic thinking and advising.' Quote from AI-leader of large global law firm.

# ANNEX 1

Horizon scan summary of law firms' artificial intelligence activity and current trends



## Horizon scan summary of law firms' artificial intelligence activity and current trends

This summary provides a brief overview of the evolving landscape of artificial intelligence (AI) in the legal industry, with a focus on law firm activity and usage. It features a limited range of law firms' AI uptake and references external research and information about trends and projection for the profession. All the information below has been taken from open-source research. Additional 'firm specific' information was gathered via interviews with a small number of global law firms and is featured in the main report<sup>1</sup>.

Outline:

1. Main findings from the horizon scan of law firms' AI activity
2. Law firm AI trends identified by reports
3. Useful survey results from Law.com and Bloomberg Law
4. Challenges from Big Four accounting – focus on KPMG

### 1. Main findings from the horizon scan of law firms' AI activity

The development of numerous legal AI programs, designed by teams within law firms as well as external technology companies, has been underway for several years. Few law firms have publicly available information as to the framework or governing principles on the use of AI among their lawyers.

Specific examples of law firm usage and internal development include:

- [Allen & Overy](#) began integrating **Harvey** (based on OpenAI's GPT-4) into its global practice in early 2023. The software enables lawyers across 43 offices working in multiple languages the ability to generate and access legal data with greater efficiency. During the testing phase in late 2022 they reported that approximately 3,500 lawyers had asked around 40,000 queries for their day-to-day client work.
- [Dechert](#) rolled out a suite of internally built generative AI offerings branded **DechertMind** in 2023. This started as a chatbot, essentially a bespoke ChatGPT(which cannot receive client data), and has expanded to include more specific tools which can be practice linked. Some clients have forbidden the use of AI, so a lawyer using these tools can be prohibited from doing so if the case number denies access. Some of the specific AI use tools include; summarising; extracting data from a large number of documents; building chronologies; and re-drafting.

1: This summary is based on desk-based research conducted as of May 2024.

## Annex 1

- [Dentons](#) launched a proprietary version of ChatGPT, '**fleetAI**', in 2023 to empower its lawyers to apply generative AI on active client matters. This software includes a chatbot based on OpenAI's GPT-4 large language model that will enable the firm's lawyers to conduct legal research, generate legal content and identify relevant legal arguments. Dentons worked with Microsoft to ensure that all data uploaded into fleetAI is not used to train the model, cannot be accessed by anyone outside of Dentons and is erased after 30 days.
- [Clifford Chance](#) lists five principles regarding use and governance of its AI policy: (1) act with integrity; (2) design for confidentiality and privacy; (3) use AI responsibly; (4) build securely; (5) engage openly. In 2016, Clifford Chance entered a partnership with the AI software provider **Kira Systems**, which uses AI to search and analyse text in contracts, delivering improved levels of speed, efficiency and quality to processes. In 2023 it announced the use of **LUCY** – its first legal tech tool tailored to the requirements of their clients automating parts of corporate law transactions, processing it and providing clients with key aspects of a prospective transaction.
- [Baker McKenzie](#) began a three-year exclusive collaboration with **SparkBeyond** in 2021, applying SparkBeyond's AI-powered problem-solving technology to predict what kind of services clients will require from law firms. SparkBeyond's platform uses AI to bypass human bias and cognitive bottlenecks in problem-solving, generating millions of hypotheses per minute to brainstorm solutions. The aim is to deliver machine learning enabled judgment.
- [Freshfields Bruckhaus Deringer](#) uses AI to work in different languages and review contracts to identify potentially risky provisions in the relevant language. In one recent example, Freshfields, working with **Kira Systems**, trained its machine-learning algorithms to distinguish between 20 types of agreement and to extract data such as the parties to each contract, its duration and start date. This has created a contract management system to reduce the client's future risk.
- [Bowmans](#) announced it had invested in **Kira** in 2018, to improve efficiencies in certain key legal processes, primarily in the mergers and acquisitions, private equity and compliance areas. The software automatically identifies and extracts information from contracts, using machine-learning models. The software helps make the due diligence process faster and more accurate. The firm was among the first in Africa to use an AI solution and train it in an African context.

## Annex 1

- [Cleary Gottlieb Steen & Hamilton LLP](#) launched '**ClearyX**' in 2022. This platform is designed to act as an 'incubator' for new products to improve efficiency and client experience. During the pre-launch pilot and development period, ClearyX focused on mergers and acquisitions transactions, initially supporting and streamlining the due diligence process.
- [DLA Piper](#) has paired data scientists with lawyers to use AI to test large language models for bias or legal problems. In 2023, it launched an AI-driven compliance tool, **Aiscension**, with eDiscovery experts Reveal Brainspace. It can scan millions of communications in minutes using neural net technology to speed up risk monitoring for clients. It works in over 100 languages and can be used across a supply chain to ensure compliance. This is particularly useful in high-risk sectors like financial services, manufacturing or insurance.
- [Kirkland & Ellis](#) has tested an AI tool created by Casetext called **CoCounsel** – a program launched in 2023 and developed in partnership with OpenAI, using Chat GPT-4. This helps with the review of documents and assists with legal research and contracting. In January 2024, the head of the firm's e-discovery practice described them as a 'late adopter' of generative AI and, while testing new tools with clients, confirmed that they are taking time to sure it operates in a way that justifies the risks.
- [White & Case](#) has been using a range of AI tools in both corporate and litigation practices. Using **Continuous Active Learning (CAL)** and **Technology Assisted Review (TAR)** AI tools saves significant time. From 2020, White & Case has adapted the AI-powered platform of Contract Review Automation company **LawGeex** to streamline law firm's contract review process. On the corporate side, White & Case uses an AI-enabled due diligence and contract review platform, **Luminance**, to help lawyers summarise key contractual provisions quickly. On the litigation side, the firm uses the industry-leading AI tools such as **Brain-space** and **Relativity** to 'learn' from the lawyers' decisions/coding and identify potential risks, to better inform the legal strategy.
- [Travers Smith LLP](#) launched **YCNBot**, ('Your Company Name Bot') in collaboration with 274 Ventures in 2023. YCNBot allows organisations to deploy ChatGPT, and its underlying capability, in a safer way to their people. TSBot has been rolled out across Travers Smith for learning and experimentation but is not yet used for direct client work. In 2022 they launched **Etatonna**, the first legal industry data labelling AI platform, which labels concepts in contracts for the purpose of automated document review.

## 2. Law Firm AI trends identified by external reports

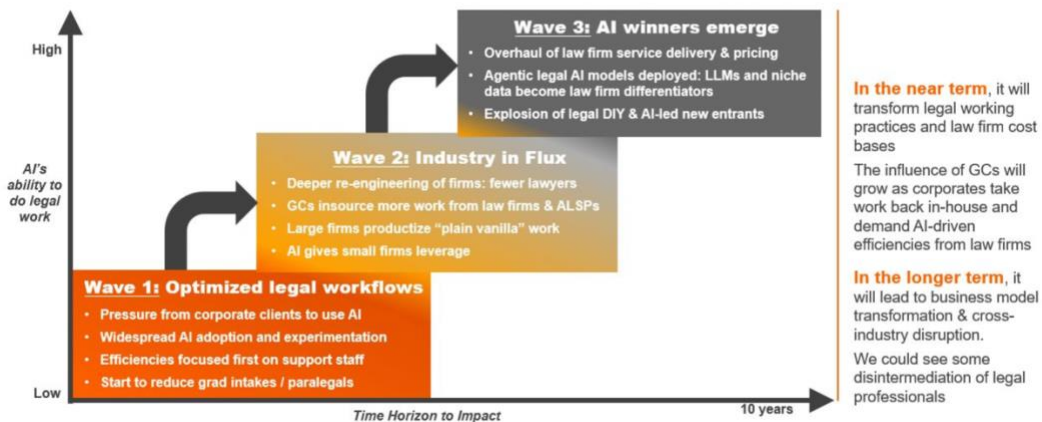
### (i) [Thomson Reuters predicts Legal Industry AI Trend](#)

This 2024 Thomson Reuters article on ‘The 3 Emerging Waves of Generative AI in the Legal Industry’, refers to the legal profession standing on the ‘brink of a paradigm shift’ as a consequence of generative AI. It references 70 per cent of legal professionals (from 1200 respondents to their 2023 survey) who believe that AI and generative AI will be the most relevant influence on the profession over the next five years, beyond other initiatives or activity in the market.

Based on research and interviews with tech, academia and legal market experts, they have made predictions on how the market will evolve over the next ten years.

Summarised below are key findings, including their graphic on the evolution of AI use and transformation over the next decade.

### **We predict 3 overlapping waves of transformation**



- Wave 1 is underway – with experimentation and adoption underway. This will continue for the next one to three years.
- Wave 2 will last three to five years and will lead to reviews of billing strategies, more work retained in-house and fewer lawyers. Adaptation will be crucial to survival.
- Wave 3 spans five to ten years in the future and there will be a complete change in how legal services are delivered. Access to justice could be enhanced by some AI solutions removing the need for certain types of law firms/legal services.

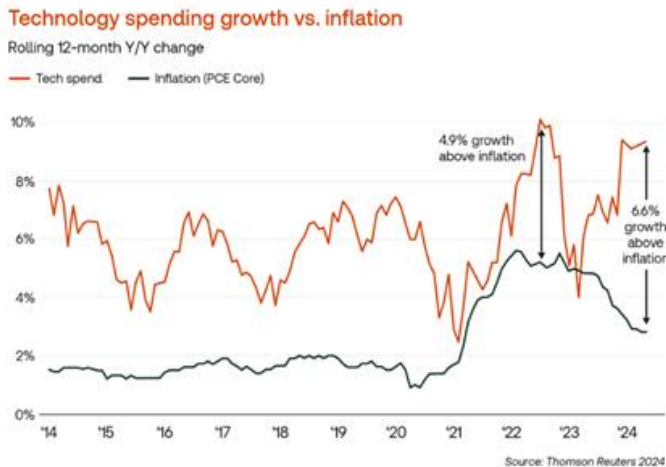
The report also outlines different challenges and opportunities for law firms based on their size and resources.

(ii) **Thomson Reuters Institute’s Q1 2024 [Law Firm Financial Index](#)** (6 May 2024)

In terms of real technology investment, law firms are investing at the most rapid pace since at least 2014. The generative AI evolution in legal seems to be having an impact on firms’ expenses, firms’ successes in controlling their costs in other areas are keeping those investments from breaking the bank. The report asserts that firms are prioritizing technological enhancements as essential to future success.

The Law Firm Financial Index [includes](#) financial data from 103 firms in the Am Law 100 or 200 as well as 83 firms outside the Am Law 200.

### “Tech spending remains especially hot:” Reactions to the Thomson Reuters Q1 2024 Law Firm Financial Index



“While overhead expenses continued to cool during the first part of 2024, tech spending remains especially hot,” [Andrew Maloney](#) noted in [Law.com’s](#) coverage of the [Q1 2024 Thomson Reuters Law Firm Financial Index](#). “Taking inflation into account, law firms are investing in technology at their most rapid pace since at least 2014, the report noted. Some of that, of course, is most likely related to artificial intelligence.”

Beyond how AI is shaping the legal space, journalists’ and bloggers’ coverage of the report, [released Monday](#), emphasized firms’ revenue and profit gains in Q1 as well as the increase in demand for legal services.

They also highlighted the continued rise in billing rates and litigation as the practice area driving growth in demand for law firm services.

### 3. Useful survey results from Bloomberg Law and Law.com

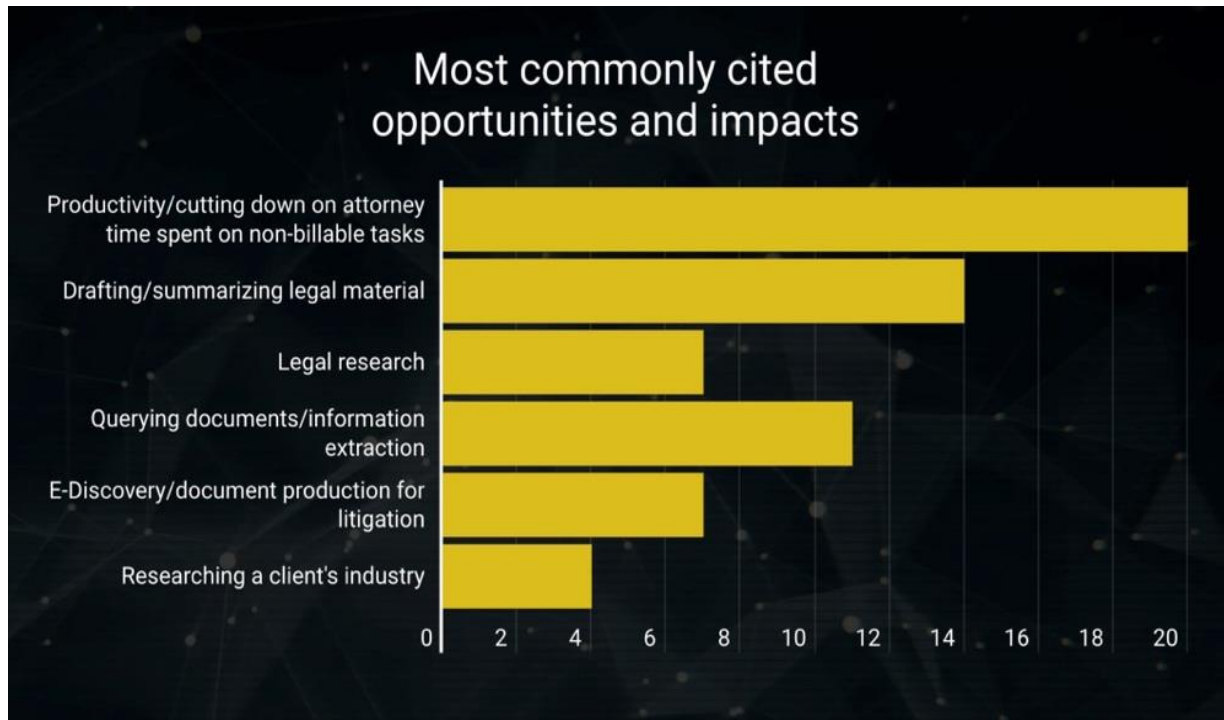
(i) **[Bloomberg Law 2023 survey on Law Firms and In-House use of AI](#)**

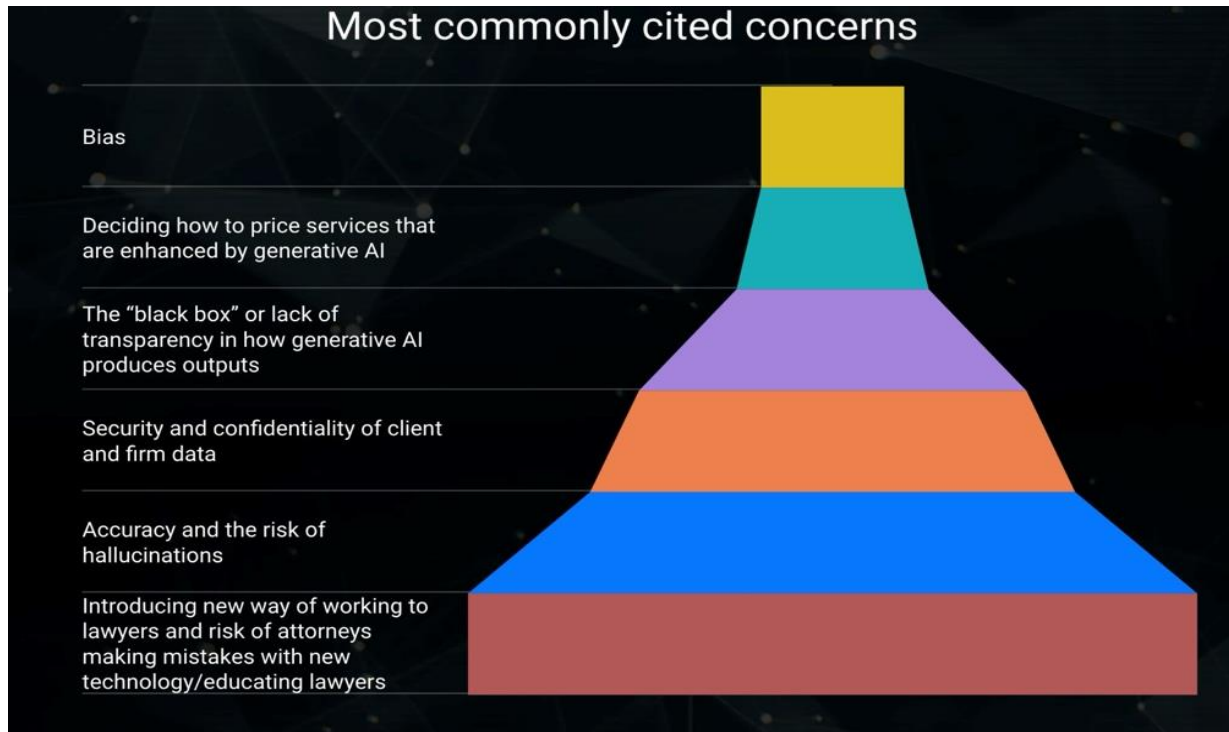
This 2024 article references how in-house teams will deploy AI tools to enable them to retain more work and be more selective on their use of external law firms. The survey results taken from Bloomberg’s [Legal Ops and Tech survey](#) in 2023 of 558 legal professionals, showed that in-house lawyers who used generative AI were more than twice as likely as those who had not, to consider that it would decrease the amount of work sent to outside counsel.

Annex 1

(ii) [Law.Com January 2024 survey of American law firms \(41 of Am Top 100 firms responded\)](#)

Opportunities, impacts and concerns about the use of AI in law firms





#### 4. Challenges from Big Four accounting

*Challenges from Big Four accounting: KPMG Looks to beat Big Law at AI by leveraging size and capital*

In this 2024 Bloomberg article, KPMG seeks to outline its focus and highlight how it will grow its legal business by outspending major law firms on AI tools. One core impact is likely to be on the traditional billable hour model as clients will force law firms to use generative AI for tasks which can be done more cheaply efficiently than junior lawyers.

KPMG plans to invest 'tens of millions of dollars' to help corporate legal departments streamline operations, including implementing generative AI. With a focus on educating the workforce on the technology and rolling out a global training programme in collaboration with Microsoft (as announced in 2023) it claims it will be the market leader with a higher capital leverage than any of the major law firms.

KPMG [reported](#) more than \$36bn in gross revenue in 2023, more than five times that of the world's largest law firms.

## Annex 1

In 2023, KPMG announced a collaboration with [Microsoft](#) to use and develop the **Azure and Azure OpenAI service**.

### Sources:

We Asked Every Am Law 100 Law Firm How They're Using Gen AI. Here's What We Learned (<https://www.law.com/americanlawyer/2024/01/29/we-asked-every-am-law-100-firm-how-theyre-using-gen-ai-heres-what-we-learned/>)

AI and the Legal Profession in 2024 (<https://pro.bloomberglaw.com/insights/business-of-law/ai-and-the-legal-profession-in-2024/>)

The Power of the Prompt: A Special Report on AI for In-House Counsel (<https://news.bloomberglaw.com/artificial-intelligence/the-power-of-the-prompt-a-special-report-on-ai-for-in-house-counsel/>)

World's Most Extensive AI Rules Approved in EU Despite Criticism (<https://www.bloomberg.com/news/articles/2024-03-13/eu-embraces-new-ai-rules-despite-doubts-it-got-the-right-balance?embedded-checkout=true>)

KPMG Looks to Beat Big Law at AI by Leveraging Size and Capital (<https://news.bloomberglaw.com/business-and-practice/kpmg-looks-to-beat-big-law-at-ai-by-leveraging-size-and-capital>)

Thomson Reuters Predicts: The 3 Emerging Waves of Generative AI in the Legal Industry (<https://insight.thomsonreuters.com/sea/legal/posts/thomson-reuters-predicts-the-3-emerging-waves-of-generative-ai-in-the-legal-industry>)

“Tech spending remains especially hot:” Reactions to the Thomson Reuters Q1 2024 Law Firm Financial Index (<https://www.legalcurrent.com/tech-spending-remains-especially-hot-reactions-to-the-thomson-reuters-q1-2024-law-firm-financial-index/>)

2024 Generative AI in Professional Services - Thomson Reuters Institute Special Report (<https://www.thomsonreuters.com/en/reports/2024-generative-ai-in-professional-services.html>)

Lawyers With AI Skills Can Get ‘Up to 49% Higher Pay’ – PwC Report (May 2024) <https://www.artificiallawyer.com/2024/05/21/lawyers-with-ai-skills-can-get-up-to-49-higher-pay-pwc/>

# ANNEX 2

Summary conclusions of interviews with large national and international law firms on status of AI



## **Summary conclusions of interviews with large national and international law firms on status of AI**

Please note, when reference is made to 'firms', this means firms of which representatives have been interviewed.

### *Governance*

- All firms have a senior committee in place to oversee AI development
  - Senior committee (MP/CEO/SP/COO/CIO)
  - Overall decision making, strategy, use cases, AI governance
- In addition, the organisation structure varies, but often there is a form of a cross-functional AI core team developing and coordinating AI use cases
- Wider group of people within the firms are involved in use cases
  - Depending on the firm, this is structured in the practice or a wide group of AI enthusiasts

### *Policies*

- All firms have policies in place
- Setting AI policies has often been one of the first things firms looked at before beginning to use AI
- An important requirement in AI-policies of all firms: the lawyer is always responsible for the outcome and use of AI, this is also often a requirement from clients
- Usually training on AI is mandatory before being able to use it, both in general and when joining in pilots/use cases
- Various firms require their people to sign AI policy statements
- AI governance development is a work-in-progress within many firms and is challenging on many fronts (firms mention data governance and distribution, AI tool requirements, security, intellectual property issues and privacy). Cloud and private environment are also the most chosen barriers to the use of AI in the survey..

### *Cloud and private environment*

- Almost all firms are in the cloud or in the process of moving, with some applications still on premise
- Various firms use on premise internal large language models (LLMs) to test with their own/client data for security and confidentiality reasons

### *Use of technology and in which areas*

- All firms use AI platforms such as Microsoft Copilot or Harvey
- All firms use an LLM, mostly ChatGPT, within a closed firm environment (often Azure)
- Some firms also test other models like Mistral and Claude. Various firms mention that they want to use a mix of models (portfolio approach)
- The larger the firm, the more areas in which AI is likely to be applied

### *Status of use of AI*

- Generative AI is still very much in testing and development phase, especially when it comes to legal client work
- Internal chat functions are being developed
- As to AI in legal processes: vendor tools like Harvey and other point solutions are not trained with firm data, so very much used for creating first drafts (standalone tool). In the meantime firms are building experience, prompt libraries and are working on their knowledge management structure for AI use
- Various firms design tools around LLMs

## Annex 2

- Various firms are looking into or are creating proprietary LLMs in which they can use their own data
- Some firms are looking into building AI legal products for clients
- Interviewed firms have many discussions with clients about the use of AI. Clients, for example, do not allow the use of their data for training purposes (at least initially). This is an ongoing discussion
- Firms mention different results when using different models for the same question, hallucination is still mentioned as an issue

### *Substantial impact on law firm structure, organisation and business models*

- All firms confirm that AI will have a substantial impact. The question is more about the timeline

### *Pricing*

- Some firms have used AI for pricing purposes, but often more for creating pitch documents. Pricing itself is at an early stage, but all firms expect to use AI for this in the future
- All firms confirm that pricing structures will change
  - More towards fixed/added value fees where impact of AI is substantial
  - Additional tech and development surcharges
- Most firms state that generative AI will impact the traditional billable hour model
- Firms want to avoid race to bottom; there have been discussions with clients about how to share the financial gains and come to a new equilibrium
- Firms also note that, in addition to law firms, their clients need to change their view to billing as well, with a shift of focus to the value of the service
- Various firms mention that the financial business model change will be one of the fundamental issues for the future. Internal Finance function is often involved in use cases
- 'Gen AI could be the straw that breaks the camel's back, when it comes to the billable hour'

### *Expected impact on utilisation and development of lawyers*

- All firms agree: in both cases substantial for trainees and juniors, moderate for seniors and partners (the latter sometimes limited)

### *Training and adoption*

- The bigger the firm, the more professional training and adoption programmes seem available and are being pushed into the firm, with focus on data and AI literacy
- Most firms require their people to go through training before being admitted to use of AI or pilots/use cases
- Larger firms are also able to communicate more about internal development
- Firms that focus on training seem to have less concerns about adoption and see more positive feedback on AI development and potential use in the firm
- 'Don't trust it yet' seems in general an important reason for reluctance to adopt AI

### *Competitive advantage of scale*

- Various firms believe that scale matters at this stage of AI development. Larger international firms have more investment power and access to talent; this gives them an edge over smaller firms. It is unclear whether advantage will melt away when AI development in legal becomes more advanced
- Various firms question a conservative 'wait and see' approach, because it is not only about technology, but also about adoption. There is a learning curve of up to 12 months, they advise that firms should start now

## Annex 2

- Some firms question a conservative 'wait and see approach', because it is not only about technology, but also about adoption. There is a learning curve of up to 12 months, they advise that firms should start now