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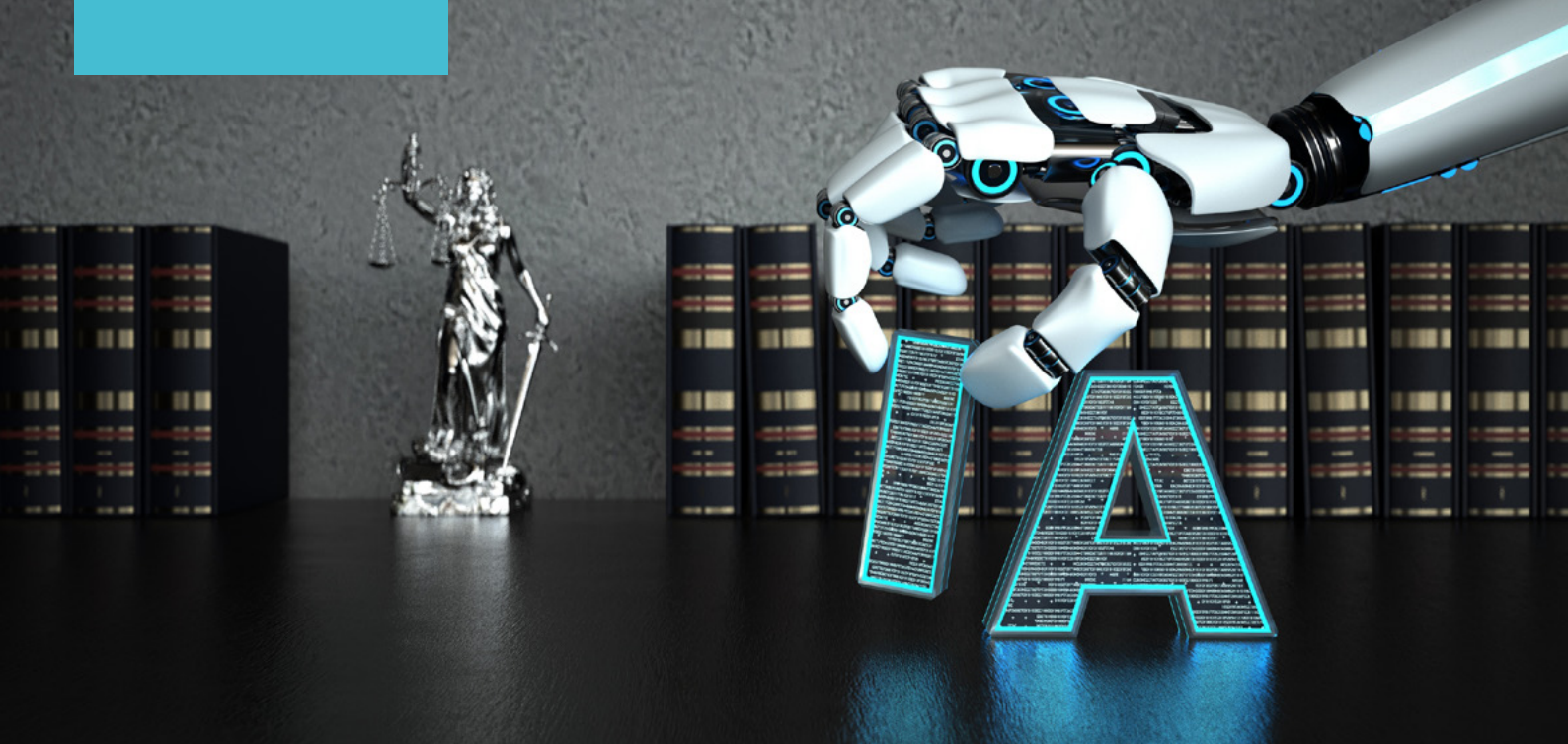
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AI IS DRAMATICALLY REDUCING LITIGATION FIRM'S OVERHEAD AND INCREASING EFFICIENCIES

BY VIVEK RAO

Law firms' technology adoption is accelerating to remain competitive and increase profitability in a rapidly changing market.



We've all heard about the high-profile applications of AI in the legal industry – from the more mature applications like legal research and due diligence review to those gaining wider acceptance like eDiscovery and contract analytics. These solutions all promise to reduce the amount of time it takes to

perform what many law firms consider to be “legal work.”

Unsurprisingly, this hasn't been a strong selling point to law firm partners, who still oversee procurement decisions in 90% of firms¹. So long as law firms could continue to bill their clients by the hour, why would they want to adopt technology that

would cannibalize profitable business? But as legal services have changed so dramatically post-pandemic, forward-thinking law firms are now embracing AI technology to increase their bottom line by enabling remote operations, decreasing overhead costs, and allowing hours for more high-value work.

Rather than target law firms directly, most legal AI vendors have found a steady stream of buyers in corporate legal departments, mandated to reduce legal expenses,² and a new industry of alternative legal service providers (ALSPs) that entered the market to help fill this need. ALSPs, including the Big Four accounting firms, were quick to offer alternative fee arrangements and leverage AI technology to perform systematic, repetitive legal work more efficiently and cost-effectively than law firms logging vast numbers of billable hours.³ As these ALSPs have siphoned off “legal work,” many law firms have been forced to change their business models and adopt AI technologies at the insistence of their clients.⁴

Many Lawyers Understandably Weary of AI

It's no wonder that many law firm partners are distrustful of AI; they blame it for taking money directly from their pockets.⁵ In fact, one of the fastest-growing legal AI use cases is AI software that reviews and cuts law firm bills. Brightflag, a leader in legal bill review software, tripled in size year-on-year leading into 2020, much to the chagrin of the law firms on the other side of its AI algorithms.⁶ Bill review software is intended to be a shield to protect enterprises from paying legal rates for “clerical or administrative” work. Still, some believe that these algorithms are more like a sword, cutting out legitimate time spent by attorneys to get work done. Forward-thinking firms realized that they needed to adopt new technology to be more efficient, and as a result, legal tech spending had been increasing year-over-year, leading into the global pandemic⁷.



Law Firms Must Use Technology Strategically to Remain Competitive

Though some law firms managed to hold out as techno Luddites, COVID-19 changed everything— it hit the legal world like a freight train, intensifying the pressure on law firms to adopt new business models to remain competitive, new workflows to enable remote work, and new technology to stay in business.

In a recent Thompson Reuters survey, 64% of law firm leaders cited “insufficient leverage of technology” as a medium-to-high risk factor for profitability, and

91% expect to use technology to cut costs.⁸ According to a recent 2021 survey by Cushman Wakefield, 78% of law firms expect attorneys to work remotely at least two days a week when the pandemic is over. Nearly two-thirds of firms anticipate increasing technology spend to support remote working.

Many firms have realized that attorneys prefer a hybrid-working arrangement, which has the added benefit of enabling law firms to reduce their real estate footprints (firms' second largest overhead expense).⁹ As a result, legal practice management and document management systems (DMS) have seen explosive post-pandemic growth amongst small and mid-sized firms moving to paperless operations.¹⁰

According to Jack Newton, CEO of legal practice management software CLIO (which was propelled to Unicorn status this year), “Lawyers and legal professionals who had hesitated to adopt technology in the past were suddenly forced to adapt to this new reality rapidly. While this technological change is in

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¹ <https://pro.bloomberglaw.com/reports/legal-operations-survey-executive-summary/>

² 2021 Legal Planning & Budgeting Report, Gartner, 2021

³ Thomson Reuters 2019 Alternative Legal Services Provider (ALSP) Report

⁴ 2020 Legal Market Report: How Innovative Technology is Reshaping the Business and Practice of Law, Opentext, (https://www.opentext.com/file_source/OpenText/en_US/PDF/opentext-legal-mkt-report-technology-en.pdf)

⁵ https://www.cohengresser.com/pdfs/publications/Back_to_the_Future_-_The_Effect_of_AI_on_the_Law_Firm_Model.pdf

⁶ <https://www.legalitprofessionals.com/global-news/11270-brightflag-raises-8-5-million-in-series-a-funding-for-expansion-in-legal-technology-market>

⁷ 2020 Legal Market Report: How Innovative Technology is Reshaping the Business and Practice of Law, Opentext, (https://www.opentext.com/file_source/OpenText/en_US/PDF/opentext-legal-mkt-report-technology-en.pdf)

⁸ 2020 Legal Market Report: How Innovative Technology is Reshaping the Business and Practice of Law, Opentext, (https://www.opentext.com/file_source/OpenText/en_US/PDF/opentext-legal-mkt-report-technology-en.pdf)

⁹ <https://www.cushmanwakefield.com/en/united-states/insights/bright-insight>

¹⁰ <https://www.legalitprofessionals.com/global-news/12619-netdocuments-records-unprecedented-q2-2021-growth>

response to the crisis, it's an enduring change."¹¹

AI Solutions Address Digital Case File Management Costs and Inefficiency

But the move to digital case files brings with it a barrage of labor-intensive, time-consuming activities—separating, sorting, naming, and properly filing inbound documents into the (document management system) DMS. Document intake is not billable legal work or even paralegal work—it is usually performed by armies of file clerks and administrative staff. If AI can reduce this overhead expense while increasing the efficiency of the lawyers who need the documents, why wouldn't a law firm want to adopt it?

A mid-sized insurance defense firm receiving over 10,000 pages/day of inbound correspondence could easily spend over \$700,000/year on document intake. Additionally, many report that, even after this expensive labor, documents are often incorrectly filed, inconsistently named, and inexcusably delayed in getting to the people who need them. Historically, technology has been of little help. Because most inbound documents are unstructured—like emails, correspondence, pleadings, notices, and medical records—traditional OCR and template-based extraction approaches fail. So, even with modern legal document management systems, matching documents to the correct cases and sub-folders, naming them, and tasking attorneys must be done manually.

However, a modern AI-powered legal document intake solution, like Extract Filer, applies computer vision, natural language processing, and machine learning techniques to automatically split documents according to a firm's internal file organization procedures, match each document to the correct matter, name each document using descriptive information extracted directly from its text, and file it directly into virtually any downstream legal document management system. It can even alert the responsible attorney based on document type in accordance with a firm's policies.

Legal practice- and document management systems have seen explosive post-pandemic growth

By leveraging AI to manage document intake, mid-sized insurance defense firms have reported an over 350% increase in document intake efficiency and hundreds of thousands of dollars in annual savings. Amy Haverlah, staff administrator at Floyd Skeren Manukian Langevin, LLP, a mid-sized workers' compensation defense firm explained, "Extract Filer has allowed us to create a highly efficient centralized mail system where one or two people can accurately handle duties that before required multiple staff and legal assistants across our California offices."

Increasing efficiency and reducing overhead costs aren't the only benefits of an AI-powered legal document intake solution. Extract Filer enables operations staff to process inbound documents remotely through one secure web-based user interface. It also provides management with the tools to effectively monitor remote staff to know when and how productively they are working.

When documents are named and filed properly, attorneys can quickly locate necessary documents in their DMS, and because each file has been OCR'd to be searchable, attorneys can quickly search document contents to find what they are looking for.

AI-Driven Solutions Will Enable Responsible, Profitable Firms

The global pandemic pushed the legal sector ahead a decade¹²—and the most innovative firms are adopting AI technology that aligns with their strategic imperatives. For today's high-volume litigation practices, like insurance defense and civil litigation firms, AI-powered document intake and other AI-driven solutions offer solutions to enable remote operations, decrease overhead costs, and allow hours for more high-value work. These solutions are modernizing litigation firms' operations without compromising the legal work that clients are willing to pay for and that lawyers enjoy doing.

Vivek Rao is co-founder and CEO of Foundation AI, the makers of Extract Filer, an AI-powered document intake solution for law firms and insurance companies. Previously, Vivek was GC of Enlightiks, an AI and predictive analytics company acquired in 2016, and, in a past life, he spent several years working in insurance defense. He holds a B.S. from the University of Southern California and JD and MBA degrees from UCLA.



¹¹ <https://techcrunch.com/2021/04/27/canadas-newest-unicorn-clio-raises-110m-at-a-1-6b-valuation-for-legal-tech/>

¹² <https://www.law.com/americanlawyer/2021/06/25/covid-19-revved-up-office-downsizing-tech-spending-other-legalindustrytrends/#:~:text=%E2%80%99COVID%2D19%20has%20pushed%20the,Bright%20Insight%20National%20Legal%20Sector>