



# GENERATIVE ARTIFICIAL INTELLIGENCE AND REVOLUTION OF MARKET FOR LEGAL SERVICES

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# Generative Artificial Intelligence and revolution of market for legal services

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## **Abstract**

The implementation of generative artificial intelligence in legal services offers undeniable efficiency gains, but also raises fundamental issues for law firms. These challenges can be categorised along a broad continuum, ranging from changes in business lines to changes in the competitive environment and the internal organisation of law firms. This paper considers the risks that law firms face in terms of both the quality of the services they provide and perceived competition, both horizontally and vertically, considering possible relationships of dependency on suppliers of large language models and cloud infrastructures.

Keywords: generative artificial intelligence, legal services, accountability, competition, vertical relationships

JEL codes: L42, L86

Artificial intelligence, and in particular generative artificial intelligence, can be described as a general-purpose technology that is likely to disrupt not only business models but also the competitive structures of many economic sectors. In other words, it is a disruptive innovation, the control of which can transform value chains, generate the entry of new players into given markets and significantly affect the sharing of the economic surplus between the various stakeholders.

As with traditional AI, generative artificial intelligence models rely on learning based on massive data, the quality of which is crucial. However, generative artificial intelligence differs from conventional artificial intelligence in several respects.

Firstly, the aim here is not to predict or classify, but rather to generate original responses in the form of text, images or video based on inferences from a question (prompt) and the data on which the artificial intelligence model has been trained.

Secondly, while a generative artificial intelligence model must be trained on vast data sets and on the basis of a specific technical infrastructure, in this case graphics processors (GPUs) and significant cloud computing capabilities, this is only true for large language models (LLMs or foundation models). It is in fact possible to develop more specific (fine-tuned) models from specific data. What's more, this additional learning can be achieved using a lighter technical infrastructure. Finally, to a certain extent, a fine-tuned model could be developed from foundation models available in open-source.

These characteristics are of prime importance for legal services. Legal professionals may be in a position to use the data in their possession to develop particularly powerful generative artificial intelligence tools that could enable them to achieve major productivity gains.

However, these potential gains have several downsides. The first are internal, the second external.

From an internal point of view, that of the legal professions, several factors need to be considered.

Firstly, the quality of the answers that artificial intelligence can provide may entail risks for the legal professional. The quality of the data and their curation can be decisive. Not only can poor-quality data produce bad answers at the end of the chain, which is damaging to the reputation of the law firm implementing the algorithm, but such results can also give rise to liability. The risk is even more significant in that false cases and case law can be the product of hallucinations linked to artificial intelligence.

Secondly, the use of generative artificial intelligence is likely to significantly change the way law firms are organised, and will therefore have a major impact on human resources management. Even beyond the legal professions strictly defined, the development of generative AI raises the question of redefining the role of paralegal professions in law firms.

Thirdly, generative artificial intelligence will have consequences for the structure of law firms and the balance of power within the whole market of legal professions. Firstly, if the fine-tuned tools are developed by the law firms themselves using their own data, competition on the basis of quality (or productivity if the data is of good quality) may arise. However, it is moving in

the direction of concentration (even though we are witnessing a large number of entries from small players in this emerging phase of the technology). This tendency towards concentration will be all the stronger if the internal development of models is costly (particularly in terms of compliance costs). Secondly, if the models are not developed in-house, but by independent developers, several problems may arise. Firstly, if the developers are legal publishers, the firms may gradually find themselves in a situation of economic and technical dependence. On the other hand, entrusting at least part of the drafting of consultations to a third party can pose a problem if the latter develops its model on the basis of training data made up of databases contributed by all its clients.

This overall picture relates only to internal factors. It assumes that the generative artificial intelligence players relevant to the legal services market belong to the same sector. In other words, it is assumed that it is possible to independently develop fine-tuned models on the basis of foundation ones, possibly in open source. This scenario does not make it possible to account for the vertical links that may emerge given the existence of several upstream competitive barriers.

Firstly, fine-tuned models are based on fundamental models from which they are deployed. This can lead to links of economic and technological dependency, exposing firms active in the downstream market to the possible effects of self-preferencing strategies on the part of firms in the upstream market, or even their vertical integration strategies. Developers of large language models may be interested in extending their activities into more profitable market niches, and may use their architectural power to exclude their competitors in the downstream market or give an unfair advantage to one of them. These capabilities will be all the more significant if the software used are proprietary technologies developed by upstream firms.

Secondly, vertical dependency is not limited to the layer of large language model developers. It must also be considered with regard to players even further upstream, such as Big Techs and even the manufacturers of graphics processors, who are essential to the training of foundation models. First of all, generative artificial intelligence is different from other categories of artificial intelligence in that it requires the support of an infrastructure not only for its development (and its deployment in the context of fine-tuned models) but also for its implementation. Cloud services controlled by Big Techs are therefore critical for these players. Secondly, access to cloud infrastructures is not the only factor behind dependency. Programming languages and boundary resources (SDKs, APIs) create as many irreversible choices and lock-in effects in a given ecosystem. Finally, these same operators may have both

the incentives and the capacity to integrate vertically as their business model is based on the diversification of their activities and their intrinsic advantage in terms of scalability.

The impact of generative artificial intelligence on legal services must therefore be considered in the light of these factors, which are internal to the legal sector itself and to upstream firms.

With this in mind, our contribution will be structured as follows.

A first section will present the possibilities offered by generative AI, but also the issues it raises. It will be based in particular on case studies designed to show the concrete conditions of use of generative AI tools and the resulting benefits for firms.

A second section will focus on the internal impact of generative AI on firms' business models and on competition between law offices. A comparative perspective may be developed insofar as the impacts may be differentiated according to the structures of the legal professions, legal systems and the size of the various players in each domestic market.

A third section will look at the possible competition and dependency relationships that may result with regard to the developers of foundational models and firms that act as gatekeepers for digital ecosystems.

A fourth section will analyse the possible strategies of firms in this new competitive context, both in the short and long term, particularly from a risk control and mitigation perspective. This could lead to recommendations on data management practices, collaboration with technology providers and internal training programmes.

A fifth section will open up our questioning to the expectations of stakeholders, in particular the clients of the legal professions, and will thus allow us to extend our reflection on the dimensions related to transparency, the evaluation of the quality of services provided, the accountability of professionals and, ultimately, their responsibilities.

## Section 1. Opportunities and challenges of Generative AI in legal services

Generative Artificial Intelligence (AI) presents the potential to transform the legal professions, offering unprecedented opportunities for increased efficiency, cost savings, and enhanced client services. However, the deployment of these tools also raises significant ethical, operational, and practical concerns. This section explores how generative AI can benefit legal professionals

while outlining the challenges that must be addressed for responsible and effective integration. We consider successfully the potential use of Generative AI (1.1), some of its real-world applications and associated benefits (1.2), and the challenges and risks associated with its implementation for law offices (1.3).

## 1.1 Potential applications of Generative AI in legal services

Generative AI, which includes large language models like ChatGPT, can streamline and optimize various legal tasks, allowing lawyers to focus on higher-value activities. Key applications include document drafting and review, legal search and case analyses, client communication and preliminary consultation, and eventually predictive analysis for case outcomes.

### *A) Document drafting and review*

Generative AI enables automated drafting of documents such as contracts, legal memos, and briefs. For example, a mid-sized law firm might use an AI tool to draft contracts, reducing the time spent on this task by as much as 30-40%<sup>1</sup>. Lawyers can review and refine AI-generated drafts, ensuring quality while significantly accelerating the drafting process. In addition, some procedures, such as the Open Discovery one in the US, may be facilitated and accelerated using AI or General AI based tools<sup>2</sup>.

### *B) Legal research and case analysis*

With the ability to analyze vast legal databases, AI can rapidly identify relevant case law and statutory references. For instance, generative AI could assist in quickly identifying case precedents for a litigation case, saving hours of research time and allowing lawyers to focus on crafting more effective arguments.

### *C) Client communication and preliminary consultation*

Chatbots powered by generative AI can handle initial client inquiries, providing information on routine legal matters and enabling lawyers to focus on complex cases. A chatbot could answer

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<sup>1</sup> Padhye, R. (2024). "AI-Driven Statutory Reasoning via Software Engineering Methods." *MIT Computational Law Report*.

<sup>2</sup> For a general perspective on this topic, Susskind, R. (2020). *Online Courts and the Future of Justice*. Oxford University Press. See also, "Top 10 AI-Driven Legal Research Platforms." *Analytics Insight*, octobre 2024.

common questions about divorce proceedings, personal injury claims, or contract disputes, offering clients rapid assistance without requiring lawyer intervention at the early stages.

#### *D) Predictive analytics for case outcomes*

Generative AI, when fine-tuned with legal datasets, can assist in predicting case outcomes. For example, AI could analyze historical data from similar cases to provide insights into potential outcomes, helping lawyers develop strategies based on data-driven probabilities. This predictive capability allows for more informed decision-making and risk assessment, potentially aiding in settlement discussions.

### 1.2. Case studies: real-world applications and benefits

Law offices can profitably use AI or General AI based applications for different uses, enabling them to significantly increase their productivity. These use cases encompass automated document assembly, for instance in the case of contracts, predictions about risks associated with litigations, or assisting clients in their compliance duties.

#### *A) Automated document assembly in contract law*

The implementation of AI-based contract automation has significantly improved efficiency in multinational law firms. By leveraging generative AI and automation tools, firms have achieved considerable time savings in drafting standard agreements. For instance, AI solutions tailored for legal document generation have demonstrated the potential to reduce contract drafting time by up to 40% while maintaining accuracy and consistency in language across jurisdictions.

Recent studies and case examples highlight the transformative impact of these technologies. According to a report by Legal-Pilot, automation software can reduce the time spent on complex legal drafting tasks by as much as 80%, enabling legal professionals to focus on higher-value activities such as negotiation and strategic advisory<sup>3</sup>. Moreover, research by OpenAI and partners has shown that large language models (LLMs) deliver unmatched precision in

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<sup>3</sup> Legal-Pilot. "Tout savoir sur les logiciels d'automatisation de la rédaction juridique." *Legal Pilot Blog*, 2024. <https://legal-pilot.com/blog/tout-savoir-sur-les-logiciels-dautomatisation-de-la-redaction-juridique/>

reviewing and drafting legal documents, reducing costs by 99.97% compared to traditional methods<sup>4</sup>.

These findings underscore how AI tools, particularly those focused on contract automation, have become indispensable in the legal sector. They not only enhance operational efficiency but also position law firms to adapt to evolving client expectations for faster, cost-effective, and reliable legal services.

#### *B) Risk assessment in litigation*

For instance, a litigation-focused firm deployed AI to analyze case law relevant to tort claims, using machine learning to identify favorable precedents. The AI tool quickly highlighted prior cases with outcomes beneficial to the client's case, giving the firm a strategic advantage by focusing efforts on persuasive precedents early in the process. This allowed for more tailored arguments and potentially increased the probability of a favorable judgment.

#### *C) Assisting clients in compliance matters*

In response to increasing regulatory complexity, an AI tool was adopted by a compliance-oriented legal department to manage regulatory updates. The tool automatically monitored regulatory changes and flagged relevant updates for the team, reducing the need for manual tracking and improving the firm's responsiveness to changes in law. This capability allowed the firm to better support clients navigating new compliance requirements.

Generative AI offers significant advantages for law firms and corporate legal departments grappling with increasing regulatory complexity. By automating the monitoring, analysis, and interpretation of legal and regulatory changes, these tools enable firms to stay ahead of compliance requirements, minimizing risks and enhancing client trust.

One notable application is the automatic monitoring of legislative updates and court rulings. AI-powered systems can continuously scan legal databases, regulatory websites, and government portals, flagging changes relevant to a firm's practice areas. For instance, a law

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<sup>4</sup> OpenAI et al. "Generative Language Models for Legal Document Review: Cost, Accuracy, and Scalability." *arXiv Preprint*, 2024. <https://arxiv.org/abs/2401.16212>

firm specializing in environmental law could deploy generative AI to track updates in emissions standards or biodiversity regulations, ensuring that clients receive timely advice on compliance.

Generative AI can also streamline the creation of compliance documentation. Firms can use AI to generate initial drafts of reports, policies, and risk assessments, reducing the time and effort required for manual drafting. For example, a multinational corporation navigating cross-border compliance challenges might rely on AI to produce tailored compliance manuals that align with jurisdiction-specific requirements. This not only saves time but also ensures consistency and reduces the likelihood of omissions or errors.

Another key advantage lies in AI's ability to simulate regulatory scenarios and provide predictive insights. Generative AI models trained on historical regulatory actions can offer probabilistic analyses of future enforcement trends, helping firms and clients make proactive adjustments to their compliance strategies. For example, a financial services firm could use such tools to anticipate potential areas of scrutiny from financial regulators, enabling it to allocate resources effectively and mitigate risks.

Despite these benefits, the integration of generative AI into compliance workflows also raises challenges<sup>5</sup>. Issues of data privacy, confidentiality, and ethical use must be carefully managed, particularly when handling sensitive client information. Additionally, firms must ensure that AI-generated insights are validated by human experts to maintain the accuracy and reliability of compliance strategies.

Generative AI definitely represents a transformative tool for addressing the growing demands of regulatory compliance. By leveraging its capabilities, law firms can not only enhance their service offerings but also position themselves as trusted advisors in an increasingly complex legal environment. However, success depends on striking a balance between automation and human oversight, ensuring that compliance solutions remain both innovative and robust.

### 1.3. Challenges and risks in the deployment of Generative AI

Despite its benefits, the adoption of generative AI in legal services comes with significant challenges imposing law offices to carefully assess the risks associated with these technologies and taking preventive measures to monitor their potential materialization, and to remedy as

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<sup>5</sup> Vertical integration can be advantageous in sectors requiring high levels of investment and characterised by a high degree of technological and competitive uncertainty. The potential benefits of integration are all the greater here because of the important issues to be considered in terms of quality control and the impact of the results generated. This point is even more important that AI generated results might involve firms' liability.

soon as possible them. These risks may consist in uncertainties regarding the quality and the reliability of the AI generated contents or predictions, in issues related to data privacy and confidentiality, in conforming to ethical and professional standards in clients' relationships, and in managing risks related to potential losses of core skills, or in dealing with necessary changes in terms of workflows, internal organization, and even firm structure.

#### A) *Quality and reliability of AI outputs*

AI-generated content is not always accurate, and “hallucinations”—instances where AI provides plausible but incorrect information—pose a risk. For example, a legal brief generated with an AI tool cited several non-existent cases, leading to reputational damage and additional costs to rectify the error. Thus, human oversight remains essential to ensure AI outputs are legally sound.

The adoption of generative AI in legal services raises significant questions about the accountability of law firms, particularly concerning the trade-offs between *ex ante* precautionary measures and *ex post* liability frameworks. *Ex ante* approaches prioritize proactive compliance and risk mitigation strategies, aiming to prevent harm or disputes before they occur. For instance, law firms leveraging AI tools may implement stringent data governance practices and quality control protocols to ensure that AI-generated outputs meet professional standards and avoid inaccuracies or hallucinations.

Conversely, *ex post* approaches focus on addressing harms or errors after they arise, relying on remediation mechanisms and liability frameworks to resolve disputes. This approach is particularly relevant in scenarios where AI-generated outputs lead to unintended consequences, such as the misinterpretation of legal provisions or reliance on fabricated case law. In such cases, the liability of law firms becomes a focal point, with potential impacts on its reputation, client trust, and financial stability.

Balancing these two logics is critical in the context of generative AI. Overemphasis on *ex ante* measures may impose excessive compliance costs, particularly for smaller firms, potentially stifling innovation. On the other hand, an overreliance on *ex post* mechanisms risks undermining client trust and increasing exposure to litigation. Law firms must therefore adopt a hybrid approach, integrating robust *ex ante* safeguards—such as AI audit trails, regular model evaluations, and comprehensive staff training—with clear *ex post* accountability policies, including transparent liability clauses and rapid response mechanisms for addressing errors.

This dual framework not only enhances the reliability of AI-assisted legal services but also aligns with evolving regulatory expectations, particularly in jurisdictions with stringent compliance requirements, such as the European Union. By striking a balance between precautionary measures and post-event remediation, law firms can mitigate risks while maintaining the flexibility needed to leverage the transformative potential of generative AI.

#### *B) Data privacy and confidentiality*

Legal professionals handle sensitive client information, and AI systems must be designed to ensure data protection. Confidentiality becomes a concern when using third-party AI vendors or when integrating AI systems that require cloud-based processing. Law firms must navigate these privacy challenges and, in some cases, may opt for in-house AI development to mitigate risks.

#### *C) Ethical implications and client transparency*

As AI takes on a greater role in delivering legal services, there is a need for transparency about its use. Legal professionals must disclose AI involvement in client work and ensure that AI-generated outputs adhere to professional and ethical standards. For example, clients should be informed when AI has been used in drafting a contract or assessing a legal strategy.

#### *D) Dependency on AI and potential loss of core skills*

Relying heavily on AI for routine tasks may impact skill development for junior associates, as traditional tasks like research and drafting are increasingly automated. This could lead to a gap in fundamental skills among new lawyers, potentially impacting the quality of service. Training programs must address this challenge by combining AI literacy with traditional legal training.

#### *E) Operational and Structural Changes*

Implementing AI requires significant changes in workflows, management structures, and training. Firms must invest in both technology and human resources to manage the transition effectively. For example, firms adopting AI for document review may need to retrain paralegals

and junior associates, while adjusting billing models to reflect efficiencies gained through automation.

Therefore, Generative AI presents transformative potential for the legal profession, offering pathways to greater efficiency, improved service, and new capabilities in legal analysis and client management. However, the successful deployment of AI tools in law requires careful consideration of ethical standards, data privacy, and the preservation of core legal skills. Legal professionals must remain vigilant, ensuring that AI serves as a tool for enhancement rather than a replacement for the nuanced expertise that defines the legal field. By balancing these opportunities with a responsible approach, the legal sector can harness the power of generative AI while upholding its commitment to justice and client service excellence.

## Section 2. Internal impact of Generative AI on firms' business models and competitive dynamics

The adoption of generative AI is reshaping the business models of law firms and altering competitive dynamics within the legal sector. As firms integrate AI to enhance efficiency and reduce costs, their internal structures and approaches to client service are undergoing significant transformations. However, the effects of AI adoption vary considerably across jurisdictions, influenced by differences in legal systems, firm size, and market structures. This section examines how generative AI impacts business models (2.1) and competition (2.2) within the legal industry, highlighting variations across different types of firms and legal environments (2.3).

### 2.1. Transformation of business models in law firms

Generative AI is driving shifts in traditional law firm business models, affecting among other features service delivery, pricing structures, and operational efficiency.

#### *A) Efficiency and cost reduction*

The primary appeal of generative AI is its ability to perform tasks like document drafting, legal research, and case analysis with increased speed and accuracy. By automating these labor-intensive activities, law firms can reduce operational costs and improve their profitability. For

example, large firms have integrated AI tools for document review and contract analysis, allowing them to process cases faster while reducing human error. This efficiency gain is especially advantageous in high-volume areas like litigation support and contract law, where repetitive tasks are common.

#### *B) Shift to alternative fee arrangements (AFAs)*

The cost savings from AI-driven efficiency are prompting some firms to reconsider traditional billing models, moving away from the billable hour towards alternative fee arrangements (AFAs) like fixed fees and value-based billing. For instance, a firm using AI for contract management may offer clients a fixed fee for contract review services, as the technology reduces the time required for each review. This shift enhances transparency and predictability for clients, while also allowing firms to remain competitive in pricing.

#### *C) Expansion of Service Offerings*

Generative AI enables law firms to expand their service offerings by developing new tools and services. Some firms have created AI-driven client portals for on-demand legal advice or document generation, providing clients with quick access to resources without direct lawyer involvement. For instance, a mid-sized firm might offer an AI-powered chatbot for frequently asked legal questions, appealing to small businesses seeking affordable legal assistance. This approach not only diversifies the firm's offerings but also attracts clients who might otherwise seek alternatives outside traditional legal services.

#### *D) Data-Driven decision making*

AI tools provide firms with insights derived from data analytics, supporting more informed decision-making. By analyzing client data and case outcomes, firms can better understand trends, refine their strategies, and improve client satisfaction. For example, litigation firms may leverage predictive analytics to assess the likelihood of case success, informing whether to settle or proceed to trial. This data-driven approach adds value for clients and reinforces the firm's reputation for strategic development.

## 2.2. Impact on competitive dynamics among law firms

The adoption of generative AI is also reshaping competition within the legal sector. However, the extent and nature of these changes vary depending on firm size, market positioning, and regional legal frameworks.

### *A) Larger firms and market consolidation*

Large law firms are often better positioned to leverage AI due to their resources for technology investment and specialized personnel. This advantage enables them to scale AI deployment across various functions, giving them a competitive edge in efficiency and client service. Consequently, there is a risk of market consolidation as smaller firms struggle to keep pace with AI advancements. In some cases, smaller firms may face pressure to merge with larger entities or form alliances to access AI technology affordably, thus reshaping market structures and reducing competition.

### *B) Divergent impact based on firm size*

While large firms benefit from AI's economies of scale, smaller firms often find the cost of AI implementation prohibitive. Smaller firms may lack the resources to invest in proprietary AI tools or customize existing models for specialized tasks. This creates a competitive divide, where larger firms can offer faster and more affordable services due to AI, while smaller firms rely on traditional methods. In some jurisdictions, this divide has prompted bar associations and legal societies to advocate for resources that support smaller firms in accessing AI technologies, aiming to level the playing field.

### *C) Legal system and regulatory influences*

The impact of generative AI on competition also varies by legal system and regulatory framework. Common law jurisdictions, where case precedent plays a central role, may experience more substantial disruption as AI tools specialize in case law analysis. In civil law systems, where codified statutes are more prominent, the integration of AI may focus on legislative analysis and compliance support. Additionally, regulatory bodies and professional

associations in some regions have implemented guidelines for AI use in legal services<sup>6</sup>, influencing how firms incorporate AI while safeguarding ethical standards and client confidentiality.

#### *D) Impact of AI on market entry and new players*

The reduced cost and increased accessibility of AI tools have lowered barriers to entry in some markets, enabling tech-driven startups and legal service providers to compete with traditional firms. These new entrants often specialize in niche services, such as automated contract drafting or virtual legal consultations, leveraging AI to attract cost-sensitive clients. For traditional law firms, this trend underscores the need to innovate continuously, as AI-driven competitors can undercut fees and provide rapid, accessible services.

### 2.3 Comparative Perspective: variation by jurisdiction and firm type

However, the impact of generative AI on law firms would not be uniform; it may differ based on regional market structures, legal traditions, and the scale of firms.

#### *A) Differences in civil law vs. common law jurisdictions*

In common law countries, where case law plays a crucial role, AI's ability to analyze precedent has a transformative effect. Firms in these jurisdictions can leverage AI for case prediction and strategy optimization, gaining a competitive advantage. In contrast, civil law countries, where legal processes are heavily codified, see AI primarily used for compliance, document review, and regulatory monitoring. These differences in usage highlight how the nature of the legal system shapes AI's impact.

#### *B) Regional variations in AI adoption and regulation*

Regulatory frameworks also vary by region, influencing AI adoption rates. The European Union, with its stringent data protection and AI regulatory standards, has encouraged firms to implement robust governance measures around AI. Meanwhile, in jurisdictions with less

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<sup>6</sup> See for instance International Bar Association, (2024), *Guidelines and Regulations to Provide Insights on Public Policies to Ensure AI's Beneficial Use as a Professional Tool*, Artificial Intelligence Working Group of the IBA Alternative and New Law Business Structures (ANLBS), September.

regulatory oversight, firms may adopt AI more rapidly but potentially face higher ethical risks. This regulatory diversity impacts how law firms operate internationally, as those in more regulated regions must balance compliance with innovation.

### *C) Size-Based adoption disparities*

Large multinational firms and small law firms differ in their approach to AI. Multinationals are generally early adopters, integrating AI across various functions to enhance global competitiveness. In contrast, “niche” firms may adopt AI selectively, focusing on specialized tools that add value within their specific practice areas. For instance, a small firm specializing in intellectual property might use AI for patent analysis, while larger firms deploy AI across litigation, compliance, and client management.

Generative AI is reshaping business models within the legal sector, driving efficiency gains and prompting shifts toward alternative billing models. However, it also intensifies competition, favoring larger firms with the resources to fully leverage AI’s potential, while creating barriers for smaller practices.

To remain competitive, law firms of all sizes must strategically integrate AI, balancing innovation with adherence to ethical standards and regulatory compliance. Smaller firms may benefit from collaborative networks or shared technology resources, while larger firms continue to lead in AI-driven transformation. By embracing these changes responsibly, law firms can navigate the evolving landscape of legal services while ensuring that AI adoption enhances, rather than undermines, their core values and client trust.

The capacity of law firms to adopt and develop generative AI tools varies significantly depending on their size and the legal frameworks under which they operate. Larger firms, equipped with substantial financial and technological resources, are often better positioned to integrate sophisticated AI solutions, including the customization of large language models to meet specific needs. By contrast, smaller firms may lack the necessary capital, technical expertise, or access to high-quality data, leading to disparities in adoption and operational efficiency.

In common law jurisdictions, where case precedent plays a dominant role, larger firms are more likely to leverage AI tools for advanced case law analysis, predictive analytics, and client advisory services. Their ability to fine-tune generative AI models with vast datasets of case precedents provides them with a competitive edge, particularly in high-stakes litigation. In

contrast, smaller firms in these jurisdictions may face challenges in accessing comparable tools, potentially limiting their competitiveness.

Civil law jurisdictions present a different dynamic. The codified nature of these legal systems places greater emphasis on compliance, regulatory monitoring, and legislative analysis. While this reduces the need for extensive case law databases, the cost of implementing AI for compliance tasks—such as monitoring evolving regulations or automating document review—remains a significant barrier for smaller firms. As a result, the gap between large and small firms persists, albeit in a different form.

Furthermore, the legal framework itself influences the scalability of AI solutions. For example, the EU's stringent data protection standards, such as GDPR, may disproportionately affect smaller firms by increasing compliance costs associated with AI deployment<sup>7</sup>. In less regulated jurisdictions, firms may adopt AI more freely, but at the risk of ethical lapses or reduced client trust.

These disparities highlight the need for collaborative solutions to bridge the gap. Initiatives such as shared AI resources, subsidized training programs, or regional legal-tech partnerships could help smaller firms access advanced technologies. For example, bar associations could facilitate pooled investments in AI tools tailored to specific jurisdictions, reducing the economic burden on individual firms.

Ultimately, the ability of law firms to adopt generative AI tools reflects broader structural inequalities within the legal sector. Addressing these disparities requires a combination of regulatory support, market-driven innovation, and collaborative approaches to ensure that firms of all sizes can harness the transformative potential of AI, irrespective of jurisdiction.

### Section 3. Competitive landscape: Independence or dependence vis-à-vis developers of Large Foundation Models

The Generative AI development may disrupt law firms' competitive landscape by inducing new entries and creating new vertical relationships with LLMs providers. Thus, it necessitates to

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<sup>7</sup> In this context, the necessary protection of personal data may run counter to the protection of the competition process in that it favours the companies that benefit most from the data and reinforces the incentives for vertical integration.

look at the possible competition and dependency relationships that may result regarding the developers of foundational models and firms that act as gatekeepers for digital ecosystems.

### 3.1 Independent development of large language models or fine-tuned ones

Can generative AI systems be developed in-house or should they rely on external resources? Is it possible for firms to develop their own LLMs or should they opt for open source models or models developed by leading players in the sector (A)? If the second solution prevails, can they develop their own fine-tuned models (B)?

#### *A – The strategic choices open to law offices in terms of LLMs development or adoption*

A favourable scenario in the dynamic of adoption but also of development of generative AI could be expected for law offices. The development of generative AI could enable them to achieve considerable productivity gains, in particular by enabling an exploitation of their data resources and enhancing them through algorithms using their technical expertise, thus permitting them to complete their training, check the quality of the results and improve them effectively.

This favourable scenario would also presuppose that law offices could escape unbalanced vertical relationships with developers of large foundation models. Two factors could bolster this hope. Firstly, LLM developers are not necessarily the current Big Tech companies that dominate digital markets. Secondly, it would be possible to develop, if not one's own LLMs, at least fine-tuned models based on LLMs available in open source<sup>8</sup>.

The development of large-scale language models is an activity with high fixed costs, high barriers to entry and, in many respects, similar characteristics to large-scale digital infrastructures, i.e. increasing returns to scale, a high capacity for scalability and high potential economies of scope<sup>9</sup>. The barriers to entry for the development of large-scale language models relate to the financial resources required, access to specific processors (which is a bottleneck for market entry and expansion of incumbents), access to massive, reliable and diversified data, and the availability of cloud resources.

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<sup>8</sup> See for instance Bommasani R. et al., (2023), “Considerations for Governing Open Foundation Models”, *Issue Brief*, HAI Policy and Society, Stanford University, December.

<sup>9</sup> Foundation models have characteristics conducive to so-called tipping phenomena in digital ecosystems, notably because of the importance of economies of scale (particularly for pre-training). They also involve significant economies of scope insofar as they can find numerous sectoral applications via fine-tuning.

The development of large language models is not the prerogative of Big Tech<sup>10</sup>, but in the competition between LLM developers it is a great advantage to be part of a Big Tech or to be able to rely on one, as the partnership between OpenAI and Microsoft shows<sup>11</sup>.

Even if new players have emerged, it should be noted that they have benefited from investments by Big Techs and processor suppliers, and that these investments are sometimes backed up by exclusivity clauses, not only in terms of equity stakes but also in terms of the use of complementary services such as cloud resources<sup>12</sup>.

Similarly, the support of a Big Tech is also crucial from a downstream perspective, i.e. the distribution of generative AI solutions or their integration into massively used applications. This support includes not only applications but also cloud capabilities.

#### *B – Developing autonomously fine-tuned models*

On the basis of these general models, specialised Generative AI models can be developed using additional training on specific data (fine-tuning). The generative AI tools in the legal field belong to this category.

They cannot be developed by developers of fundamental upstream languages alone, as they require access to highly specialised data and human expertise, which is just as important for training. Law offices can provide these specific assets, but because they cannot really develop their own LLMs, they are in the position of complementing them. The large law firms do not appear to be able to develop their own trust models because of the very high barriers to entry. Sufficient computing power is required. Processors are scarce and very expensive, and any

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<sup>10</sup> It should be noted that Microsoft's position in the generative AI market is not limited to its partnership with OpenAI. It is also developing and offering its own solutions.

<sup>11</sup> An analysis of the generative AI market in November 2024 demonstrates the vitality of competition in the upstream LLM sector. While Chat GPT 4 still dominates the market, a number of competitors are performing fairly similarly. For example, on the basis of the LMSYS ranking (<https://lmarena.ai/?leaderboard>) dated 16 December 2024, the 20 November 2024 version of Chat GPT 4 was outperformed by the Exp-1206 version of Gemini (Google) with a score of 1374 compared with 1365. For the record, on 4 November 2024, it was Chat GPT that dominated, with a score of 1340 against 1303. But there is competition beyond this duopoly, with Grok (X-AI) in seventh place (1288), Claude 3.5 Sonnet (Anthropic) in eighth (1283) and LLAMA 3.1 in eleventh (1269).

<sup>12</sup> Korinek and Vipra (2024) point out that OpenAI has received investment from Microsoft and Nvidia, Anthropic from Alphabet, Amazon, Salesforce and Zoom, Hugging Face from Alphabet, AMD, Amazon, IBM, Intel, Nvidia, Qualcomm and Salesforce, and Mistral from Microsoft, Nvidia, Salesforce, Samsung and IBM.

Integration effects can also be enhanced by technical features: Alphabet develops its own processors for training AI (TPUs-Tensor Processing Units), Nvidia offers dedicated platforms for fine-tuning LLMs, as above mentioned and some investments are conditional on exclusive use of a given cloud service (see the OpenAI - Microsoft or Anthropic - Alphabet cases, for example).

Korinek A. and Vipra J., (2024), "Concentrating Intelligence: Scaling and Market Structure in Artificial Intelligence", *NBER Working Paper*, n°3319, November.

investment would be impossible to redeploy. Cloud capacity is also an inescapable factor, and once again it is impossible to escape the upstream operators. The final three bottlenecks to the development of basic languages by downstream players (in our case, law firms) are access to data, financial capacity and talent.

However, not all law offices are in the same position vis-à-vis upstream developers. Firstly, from a vertical partnership perspective, they are not all equally attractive. This is due to the data and expertise they can provide. Secondly, tool development can lead, as has been observed in the field of digital ecosystems in the broad sense, to asymmetrical relationships and to incentives to opt for mono-homing or multi-homing strategies, the consequences of which are different, to say the least, when viewed from a dynamic rather than a static perspective.

The most promising approach would be to fine tune in-house models on the basis of open source LLMs on standard processors. Several factors can make this route practicable although there are a number of drawbacks.

Firstly, some LLM developers are opting for this open architecture strategy. There are, of course, several degrees of openness. Full openness models (code, learning data, etc.) may contrast with open-weight models, in which only the weights of the model are open to third parties.

Various strategies have been implemented by LLM developers to open them up. There is a continuum between closed and open models. Google's Flamingo model belongs to the most closed category. In 2023, Open AI adopted an intermediate strategy between AI access to the model for Chat GPT 4 and API access for fine-tuning in the case of Chat GPT 3.5. The 'open' models also have different degrees of openness. Only the weights are available for the models developed and proposed by Meta (Llama 2), but Bloom (Big Science) and GPT-NeoX (Eleuther AI) made the weights, data and codes themselves available to developers (with or without restrictions on use) <sup>13</sup>.

While this openness is a source of potentially faster and less asymmetric dissemination of productivity gains in the economy (by avoiding developing one's own foundation model or depending directly on an existing model) and might limit the risk to favour the rise of 'intellectual monopolism' concentrating economic power, capacity to innovate, and social

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<sup>13</sup> Openness strategies vary according to each company's business model. Meta's decision to make its platform open in 2023 was motivated by a desire to encourage content creators and to speed up the process of catching up. Google's decision to open up its Android mobile operating system in the second half of the first decade of this century was part of the same strategy.

knowledge<sup>14</sup>, it is not without risks from a collective point of view in that an open model can be more easily manipulated<sup>15</sup>.

Indeed, openness has two distinct advantages in terms of innovation dynamics. On the one hand, it secures investment by downstream firms by limiting any imbalances in the sharing of the surplus created by the fine-tuned model. On the other hand, it reduces the ability of upstream players to direct and channel downstream innovation to their advantage. It should also be noted that the use of open foundation models creates a risk not only for their downstream users (if the model has been corrupted in some way) but also for upstream developers if fine-tuning by a third party causes damage. Holding LLM developers liable could reduce their incentives to opt for open architectures<sup>16</sup>.

While open-source models are available, it is still possible to develop fine-tuned ones based on lighter infrastructures (mixture of experts - MoE or low rank adaptation - LoRa), which gives the opportunity to bypass the bottleneck due to the cost and availability of the GPUs on which the models have to be developed<sup>17</sup>.

Data would also be another barrier that could be overcome. If a law firm did not have enough general data to adapt a fundamental model, it could either acquire datasets from data brokers or rely on synthetic data, i.e. data generated by AI.

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<sup>14</sup> See Rikap C., (2024), “Intellectual monopolies as a new pattern of innovation and technological regime”, *Industrial and Corporate Change*, Volume 33, Issue 5, October 2024, Pages 1037–1062, <https://doi.org/10.1093/icc/dtad077>

<sup>15</sup> See Bommasani R. et al, (2023), op. cit. for an in-depth analysis of these issues.

<sup>16</sup> On this subject, see the bipartisan Senate bill proposed in September 2023 in the United States for legislation on AI.

<https://www.blumenthal.senate.gov/newsroom/press/release/blumenthal-and-hawley-announce-bipartisan-framework-on-artificial-intelligence-legislation>

<sup>17</sup> Nvidia controls a very large share of the market for these processors and is tending to increase its downstream control not only by acquiring stakes in LLM developers but also in firms offering software services to optimise the use of GPUs. This point can be illustrated by the acquisition announced in August 2024 of Run:AI, which is currently being analysed by the US DoJ and to which the European Commission issued a favourable decision on 20 December 2024 following a referral by the Italian competition authority to the European Commission on 15 November 2024 on the basis of Article 22 of Regulation 139/2024 (press release IP/24/6548 relating to case M.11766). The competition concerns in this case related to a risk of vertical foreclosure to the detriment of processors competing with Nvidia's through a strategic reduction in interoperability between the services provided by Run:ai and the latter.

See on this case: Mattolio P., (2024), “The Italian Competition Authority refers to the Commission the Nvidia-Run:ai acquisition. Some considerations in the aftermath of Illumina/Grail and the US elections”, *Kluwer Competition Law Blog*, November, <https://competitionlawblog.kluwercompetitionlaw.com/2024/11/28/the-italian-competition-authority-refers-to-the-commission-the-nvidia-runai-acquisition-some-considerations-in-the-aftermath-of-illumina-grail-and-the-us-elections/>

The solution of autonomous development could also appear all the more reasonable as several cloud infrastructures were available. Dependence on a single supplier could be limited, at least in principle.

### 3.2 Lock-in effects and vertical dependence

Rather than downstream integration, i.e. the development of foundation models by firms, the more realistic scenario is upstream integration<sup>18</sup>. Even the possibility of independently developing one's own fine-tuned models based on fundamental languages is open to discussion.

#### *A – The limits of open-source models*

It is hard to really do without the major LLMs developed by the big groups or by companies affiliated with them, simply because they represent the leading edge, and the open-source model has a number of limitations.

Firstly, the degrees of openness are very different and can be incomplete, as we have already noticed, and might hinder the developments.

Secondly, the large digital ecosystem operators remain inescapable on the basis of their material assets (cloud capacities, access to processors, some of which are proprietary). They also have an undeniable advantage in terms of data volume, diversity, speed of renewal, and so on. The advantage of data also lies in its veracity. This can be guaranteed through curation and cross-referencing capabilities, but also perhaps through less dependence on synthetic data which, while it may compensate for a data handicap<sup>19</sup>, is by its very nature more prone to bias. These companies benefit from all the advantages specific to digital ecosystems (network effects, economies of scale and scope, and a tendency to move towards ultra-dominance). Similarly, the structuring nature of these ecosystems is not simply linked to physical assets or data. It is also linked to standards and programming languages that are specific to a given digital ecosystem.

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<sup>18</sup> See for instance Marty F., (2024), « L'Intelligence Artificielle générative et actifs concurrentiels critiques : discussion de l'essentialité des données », *GREDEG Working Paper*, n° 2024-12, avril.

<sup>19</sup> The proportion of such data in the pre-training of Chat GPT 5 is estimated at 70%. See Korinek A. and Vipra J., (2024), *op. cit.* p.16.

Thirdly, the indispensability of these operators is not limited to these upstream factors. It also stems from downstream characteristics that are structuring the digital domain, such as the integration of AI solutions into commonly used applications or the control of application shops.

#### *B- Upstream locking capacities*

These structural characteristics are conducive to upstream and downstream vertical foreclosure effects. They can also be reinforced by the implementation of behaviour aimed at extending market power downstream. Through their strategies, the major ecosystems can lock users in by giving them every short-term incentive to adopt their technical solutions, even if this results in the long-term in the creation and reinforcement of a situation of economic and technical dependence.

This dynamic has already been highlighted by the French competition authority in its sector inquiry on cloud computing in 2023 (Opinion No. 23-A-08) and will be highlighted in its sector inquiry on generative AI in 2024 (Opinion No. 24-A-05). Entry into an ecosystem can be encouraged in the short term by granting cloud credits. An opportunistic purpose might consist in reinforcing the specific characteristics of digital ecosystems by subsidising their use in the short term. But it also encourages single-homing strategies. Dependence on programming languages or even on complementary assets or services can play a role in encouraging user firms to abandon multi-homing strategies. However, this 'spontaneous' dynamic can be accelerated and exacerbated by the active strategies of upstream firms. In the cloud sector, these strategies took the form of egress fees, which ultimately acted as a means of sanctioning multi-cloud strategies (the only ones capable of reducing the risks of technical or economic dependency) and locking users into a given environment. Not only is the exit option (to move from one cloud to another) technically hazardous, it would also be particularly costly.

Ultimately, the scenario of developing fine-tuned models on the basis of open-source models using standard processors and without the need for particularly massive data comes up against several difficulties. Some stem from structural factors, others from the behaviour of upstream firms. Both contribute to a situation of technical dependence that is problematic for law offices, both in terms of competitive positioning and internal control. They need to retain control over their downstream strategy and provide compliance guarantees to service users, whether in terms of security, data integrity, etc.

One approach to address vertical dependency concerns is the concept of contractual quasi-integration, wherein law firms establish robust contractual relationships with upstream developers or service providers without forfeiting their operational independence. This strategy allows firms to secure critical resources, such as access to high-quality large language models or cloud infrastructure, while mitigating the risks associated with exclusivity and lock-in.

Contractual quasi-integration can take various forms, including long-term supply agreements with defined service quality benchmarks, co-development contracts for fine-tuned models tailored to the firm's specific needs, or clauses ensuring the portability of trained models and datasets. For example, a law firm might negotiate a clause mandating that any proprietary improvements developed using its data remain accessible even if the partnership is terminated. Such terms protect against exploitative practices while fostering collaborative innovation.

Moreover, quasi-integration enables firms to retain strategic flexibility by avoiding full dependence on a single upstream provider. This is particularly crucial in competitive markets where upstream players may exercise gatekeeping power. By diversifying contractual relationships, firms can better manage risks associated with unilateral changes in pricing, service availability, or technical compatibility imposed by dominant players.

However, implementing quasi-integration contracts requires a nuanced understanding of the legal and economic implications. Firms must carefully balance their need for stability and resource access with the potential for reduced bargaining power over time. Additionally, the enforcement of contractual protections, particularly in cross-jurisdictional partnerships, may be challenging and necessitates robust dispute resolution mechanisms.

## Section 4. Vertical competitive risks and mitigation strategies

Such changes in the competition landscape imposes to analyse the possible strategies of firms in this new competitive context, both in the short and long term, particularly from a risk control and mitigation perspective. This could lead to recommendations on data management practices, collaboration with technology providers and internal training programmes.

### 4.1 Potential anticompetitive strategies

Several competitive dynamics could be considered: collision (A), vertical exclusivity contracts (B) and envelopment and annexation strategies (C).

#### *A – The collision scenario*

The first dynamic is that of competitive collision, as highlighted by Iansiti and Lakhani<sup>20</sup> (2020). This model describes the decisive advantage that data companies can have when they enter a market previously controlled by specialised and traditional operators. In this context, data companies offer increasing returns to scale, scale effects, advantages in terms of installed infrastructures, financial resources and technical capabilities (linked to staff but also to the existence of technical standards). These advantages are in no way replicable by the companies that have set up shop. They are in no way capable of competing as effectively. If there is vertical integration, it will be upstream to downstream and not downstream to upstream. If in this scenario Big Tech enters the downstream market and acquires the specific data it needs to develop a specific product, it could be more efficient than all its competitors<sup>21</sup>.

#### *B- The scenario of an anticompetitive lock-in resulting from exclusivity requirements*

The second dynamic would be the implementation of an exclusivity strategy, which could have structuring effects (or at least destructuring effects on the downstream market<sup>22</sup>). Companies with the richest and most relevant data and the expertise to interpret the results as accurately as possible could be the most attractive to upstream companies and therefore benefit from preferential treatment. This could raise both vertical and horizontal competition concerns. Vertically, there would be a risk of silo structuring. Horizontally, it could exacerbate the differences between the big players and the smaller ones, thus contributing to greater market concentration and the marginalisation of firms at the competitive fringe. This dynamic could also have a negative impact on quality. There is a risk that firms with specialised expertise will be marginalised in favour of larger, more generalist firms.

#### *C- Envelopment and annexation strategies*

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<sup>20</sup> Iansiti, M., & Lakhani, K. R., (2020), *Competing in the Age of AI: Strategy and Leadership When Algorithms and Networks Run the World*, Harvard Business Review Press.

<sup>21</sup> See Croxson et al. for an economic analysis of competitive dynamics that could be equivalent in the banking and insurance markets.

Croxson K., Frost J., Gambarcorta L., and Valletti T., (2023), “Platform-Based Business Models and Financial Inclusion: Policy Trade-Offs and Approaches”, *Journal of Competition Law and Economics*, 19(1), pp.75-102.

<sup>22</sup> Developers of fine-tuned models could also find themselves faced with contractual or technical constraints that hamper their ability to multi-home by dragging their models onto competing foundation models.

The third potentially problematic dynamic in competitive terms could result from the behaviour of the dominant firm upstream. The implementation of a self-preferencing strategy could not only distort downstream competition but also result in undue welfare extractions to the detriment of law offices. Self-preferencing illustrates the ambiguity of vertical relationships in digital ecosystems<sup>23</sup>.

A law firm can be integrated into an ecosystem as a complementor. Such an integration is essential for the LLM provider to offer a value-added service in a very specific field. Indeed, fine-tuned models are essential in fields such as medicine or law. However, the complementor is exposed to the risk of being enveloped in the event of a transition from cooperation to coopetition and finally to competition with the complementor.

Envelopment can be a way to extend the dominant position downwards and also to consolidate the dominant position upstream by preventing entry into the two segments (in such circumstances entry should be simultaneous in both segments). Envelopment, however, can be seen not only as an exclusionary strategy, but also as an exploitative logic aimed at extracting rents. We should also consider a very close strategy, that of platform annexation<sup>24</sup> (Athey and Scott Morton, 2022). Here, the aim is to force a complementor to abandon its multi-homing strategy. The benefit for the upstream dominant is to lock this complementor into its ecosystem, depriving competing ecosystems of it and thereby increasing its attractiveness (if not its indispensability to end users). This may take the form of a consolidating acquisition, or it may take the form of locking the complementor into a dependent position.

Once the complementor is locked into an ecosystem<sup>25</sup>, the keystone can abuse its position of economic (and technological) dependence. It can impose excessive fees, unfair contractual terms (e.g. on data access), sub-optimal technological choices (which reinforce dependency).

Such a situation can undermine the development of downstream firms, thereby limiting the capacity of law firms to invest and guarantee the quality of their services.

#### 4.2 Possible countermeasures aimed at reducing vertical dependence associated risks

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<sup>23</sup> Korinek A. and Vipra J., (2024), *op. cit.* provides the example of OpenAI that offered an early access to Chat GPT 4 to some complementors as Morgan Stanley or Duolingo within a global partnership.

<sup>24</sup> Athey S. and Scott-Morton F., (2022), “Platform Annexation”, *Antitrust Law Journal*, 84, pp.677-703

<sup>25</sup> This ecosystem lock-in is made all the easier by the fact that the development of AI, and in particular generative AI, is increasingly based on platformisation, both upstream (development and deployment via the infrastructures of the major digital ecosystems) and downstream (distribution via application shops controlled by these same ecosystems or by integration into their end services).

Three solutions can be envisaged to avoid these lock-in phenomena and placement in a situation of economic and technological dependence: the first corresponds to the defence of multi-homing (A), the second to contractual data protection mechanisms (B), and the third to technical mechanisms such as decentralised learning (C).

#### *A- Preserving multi-homing*

Preventing such issues may lead to recommend maintaining multi-homing strategies despite possible incentives to opt for a single-homing one. By maintaining an exit option, companies can protect themselves from a situation in which their bargaining power would be very limited or in which their expertise would be completely absorbed by the upstream company. The exclusivity and length of the partnership would expose the downstream firm not necessarily to a contractual hold-up but at least to a situation of economic dependence leading to the imposition of unbalanced contractual conditions<sup>26</sup>. Developing open technical standards for APIs would reduce these lock-in effects.

#### *B- Law firms data protection*

These issues do not exclusively concern competition law. They may come under the Data Act, the European Data Regulation (the Data Act) or, in the case of France, Law no. 2024-449 of 21 May 2024 aimed at securing and regulating the digital space. Procedures allowing training on pooled data without the risk of access to protected data (via privacy-preserving AI techniques, for example) would make it possible to reconcile these objectives.

#### *C- Decentralised training*

Technical solutions as decentralised training for algorithms (especially for the fine tuning of models) should also be considered.

The question of access to law office data by developers of foundational models may be a symmetrical issue to that of discriminatory access to foundational language models. From an upstream to downstream perspective, the issue is one of access distortions that may compromise equal competition in the fine-tuned models' segment. From a downstream to upstream perspective, the question is to what extent can a law office prevent the specific data it uses for its models from being sucked up (and reused for the benefit of third parties or itself) by the

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<sup>26</sup> See for instance Marty F. and Warin T., (2023), "Multi-sided platforms and innovation: a competition law perspective", *Competition and Change*, 27(1), pp.184-204

fundamental language developer. This may depend on the contractual clauses and therefore the respective negotiating powers, but it may also depend on the technical conditions of secondary learning. In this respect, decentralised training techniques would make it possible to limit these risks. The same applies to potential breakthrough innovations in computing, with developments in neuromorphic computing, quantum computing and solutions to optimise the use of GPUs<sup>27</sup>.

## Section 5. Stakeholder expectations and new dimensions of accountability in AI-enhanced legal services

As generative AI continues to influence the legal profession, stakeholders, including clients, regulatory bodies, and professional associations, are expressing evolving expectations regarding transparency, service quality, and accountability. Clients increasingly demand clarity in how AI is integrated into legal services, expecting assurances about data security, confidentiality, and ethical standards. This section explores the expectations of stakeholders, with a focus on clients, and discusses how generative AI requires law firms to rethink traditional metrics of service quality, transparency, and responsibility.

### 5.1. Client expectations in the age of AI-Driven legal services

Clients of legal services are becoming more informed and selective, especially as technology reshapes traditional workflows. The integration of generative AI has shifted client expectations in several key areas such as the transparency in AI use (A), the guarantees provided for data privacy and confidentiality (B), the checks implemented in terms of consistency and quality in AI-generated outputs (C), and the fulfilment of expectations in terms of treatments speed and cost-effectiveness (D).

#### *A) Demand for Transparency in AI Use*

Clients are increasingly interested in understanding how AI is used in managing their cases. They expect law firms to be transparent about which tasks are handled by AI versus human attorneys, particularly for tasks like legal research, document drafting, and due diligence. For example, a corporate client seeking contract management services may wish to know if AI tools

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<sup>27</sup> See Korinek A. and Vipra J., (2024), *op. cit.*

are being used to streamline review processes and if such automation impacts accuracy or compliance. Transparency fosters trust, allowing clients to assess the value AI brings to their cases.

#### *B) Assurances on data privacy and confidentiality*

With the integration of AI, clients are concerned about the handling of sensitive data. They expect law firms to provide assurances that AI systems comply with privacy regulations and do not compromise confidentiality. For example, clients may question whether their data is stored or processed by third-party AI vendors, particularly if these vendors operate across borders. Addressing these concerns is essential for firms to maintain client trust, especially in jurisdictions with stringent data protection laws, such as the EU's GDPR.

#### *C) Consistency and quality in AI-generated outputs*

Clients rely on the legal profession's expertise and accuracy, and they expect AI to enhance, rather than compromise, the quality of services. Law firms using AI tools must ensure that AI-generated outputs meet professional standards and do not introduce errors or biases. For instance, a client receiving a draft contract generated by AI expects the document to be thoroughly reviewed to prevent potential legal issues. The integration of quality control processes for AI-generated work is therefore essential to meet client expectations and uphold the firm's reputation.

#### *D) Expectations for faster and cost-effective solutions*

One of AI's primary benefits is the potential for cost reduction and faster turnaround times, and clients increasingly expect these advantages to be reflected in service delivery. For example, clients might seek faster resolutions in routine tasks, such as document reviews or compliance checks, at a reduced cost. Firms leveraging AI to achieve these efficiencies can meet client demands more effectively, though this requires balancing automation with rigorous oversight to maintain quality.

## 5.2. Enhancing transparency and evaluating service quality

To align with stakeholder expectations, law firms are rethinking transparency (A), building assurance mechanism in terms of quality (B), and adopting new metrics for evaluating service quality in the context of AI (C).

#### *A) Transparency in AI-driven processes*

Transparency is key to client trust in AI-driven services. Law firms must establish clear policies on AI usage and communicate them to clients. This includes specifying which parts of the service are AI-assisted and detailing the safeguards in place to mitigate risks. Some firms have adopted disclosure statements, ensuring clients are informed about AI's role in the legal services they receive. Such transparency not only meets client demands but also serves as a differentiator for firms that prioritize ethical AI usage.

#### *B) Developing standards for AI quality assurance*

As AI-generated outputs become part of service delivery, firms need standardized quality assurance processes. Quality control mechanisms, such as human oversight and validation of AI outputs, are critical in preventing errors. For instance, a litigation firm might implement a process where AI-generated research is always cross-checked by a human attorney before being presented to clients. Establishing these standards is essential for maintaining the quality clients expect from traditional legal services, even when AI is involved.

#### *C) Client Feedback and Satisfaction Metrics*

Evaluating AI-driven services requires new metrics that capture client satisfaction and the perceived quality of AI-assisted legal work. Law firms are beginning to incorporate client feedback mechanisms specific to AI-integrated services, allowing them to gauge client confidence in AI tools. For example, post-service surveys may include questions on whether AI's role was clearly communicated and if the client felt it enhanced the service. This feedback informs ongoing improvements in AI integration and helps firms align with client expectations.

### 5.3. Professional accountability and ethical considerations

Generative AI may induce for law firms complexities around accountability (A), particularly in ensuring that AI tools align with ethical and professional standards (B) raising concerns in terms of professional liability (C).

*A) Accountability for AI-Generated outputs*

Even as AI takes on more substantial roles, law firms remain responsible for the accuracy and integrity of the services provided. Lawyers must review AI-generated outputs, taking responsibility for any errors or misrepresentations. For example, if an AI tool generates a legal memorandum, the firm is accountable for verifying the information's accuracy and relevance. This approach not only safeguards the firm's reputation but also reinforces professional responsibility in an AI-assisted environment.

*B) Ethical use of AI in legal practice*

The ethical implications of AI use are significant concern for stakeholders, including clients and regulators. Law firms are expected to adhere to principles that prioritize client welfare, confidentiality, and informed consent. In practice, this means establishing ethical guidelines for AI usage, such as prohibiting the use of client data in AI training without explicit consent. Additionally, firms must consider biases in AI algorithms that could influence case outcomes or perpetuate inequalities, taking steps to ensure AI tools are fair and unbiased.

*C) Liability in case of AI-related errors*

With AI playing a role in legal services, questions of liability arise if AI-generated work leads to adverse outcomes. Clients expect firms to assume liability for mistakes, regardless of whether they result from human or AI errors. Law firms are thus implementing comprehensive review processes to mitigate risk and are increasingly required to establish policies defining liability in AI-driven services. This approach protects both the client and the firm while clarifying the firm's commitment to accountability.

#### 5.4. Long-Term responsibilities: building client trust in AI

In the long term, law firms must take proactive steps to maintain client trust in AI-assisted services by addressing concerns and setting expectations around AI usage. It encompasses educational initiatives for clients (A), commitments to improve continuously standards in terms ethics (B), and investments to propose dedicated tools (C).

#### *A) Educational initiatives for clients*

Law firms can enhance trust by educating clients about the benefits and limitations of AI in legal services. By offering informational sessions or resources on how AI contributes to their cases, firms empower clients to make informed decisions about the use of AI in their legal matters. Such initiatives demystify AI for clients, aligning their expectations with the reality of AI's capabilities and limitations.

#### *B) Commitment to continuous improvement in AI ethics and standards*

As AI technologies evolve, so too must the ethical standards guide their use. Law firms are committing to regular updates of their AI policies, ensuring they reflect the latest developments in AI ethics and regulatory requirements. For instance, firms might review and refine their AI governance frameworks annually, incorporating lessons learned from client feedback and advancements in AI technology. This commitment demonstrates a long-term dedication to responsible AI use in legal practice.

#### *C) Client-driven customization of AI tools*

Some firms are exploring the customization of AI tools to meet specific client preferences and needs, further aligning services with client expectations. For example, a corporate client may prefer an AI tool that emphasizes data privacy over predictive analytics, prompting the firm to adjust its AI use accordingly. This client-centered approach to AI adoption highlights the importance of flexibility and adaptability in meeting diverse client demands.

As generative AI becomes more embedded in legal services, stakeholders' expectations around transparency, quality, and accountability will only grow. Law firms are tasked with balancing the efficiency gains from AI with rigorous standards of professional responsibility, ensuring that client interests are safeguarded. Meeting these expectations involves a commitment to transparency, robust quality assurance processes, and ethical AI governance. By aligning AI integration with client-centric practices and ethical accountability, law firms can build a

sustainable model for AI-driven services that respects both innovation and the enduring principles of the legal profession.

## Conclusion

The application of generative AI solutions by law offices holds real promise in that it is undoubtedly a transformative technology. This does not mean, however, that it will not bring about profound changes in business activities, internal organisational structures and the competitive landscape. In addition to the changes in the skills required and in client relationships, the quality of the service provided is a particularly acute issue. The legal professions, whether in litigation or advisory services, do not provide a service that has standard economic characteristics that would make it a good whose quality can be measured *ex ante* or an experienced good whose quality can be measured *ex post*. On the contrary, it is a good based on trust. It is not possible to assess its quality, even *ex post*. What's more, the service rendered is by definition specific to a given situation and highly interpersonal. Generative AI could alter these different dimensions. The internal organisation of firms must therefore aim to preserve the quality of this service by preserving the characteristics of tailor-made solutions and explicit choices, as well as guaranteeing against any bias or algorithmic affabulation.

This competition on the basis of quality can have an impact on horizontal competition between firms, but it is not the only factor influencing change. Several factors need to be considered in terms of both horizontal and vertical competition.

Horizontally, as in all markets affected by digital competition, is there a risk of a winner-takes-all dynamic? Are we heading for the overwhelming dominance of a few firms with an advantage in terms of data and technical and financial capabilities? What impact could this have on the price of services, but also on their differentiation?

Vertically, then, is there not a risk of lock-in mechanisms in digital ecosystems, both through upstream resources and downstream AI resource integration channels? The risks would then be those known from traditional digital markets: economic dependence and the threat of competitive envelopment through vertical integration. These phenomena must be integrated into the conditions of horizontal competition downstream. Is there not a risk of distortion in

favour of one or other player in the downstream legal services market, with the risk of reinforcing market concentration and damaging the diversity of supply?

There is one final question that could be asked, and it has to do with firms' strategies when it comes to investing in generative artificial intelligence. Is it necessary and effective to invest in their own fundamental language model, or to opt for fine-tuning based on an open model or a proprietary model? These are the questions that arise when making a massive investment decision in a highly uncertain environment. Can we bear the costs of investing too early, which could lead to the development of a technology that is rapidly dominated by the sector leaders? Is it viable to wait, and if so, how might customers react?

Finally, the very turbulence of technologies and the unpredictability of developments pose a final problem for companies. Are the investments required sustainable, and are the potential gains high enough to recoup them? Daron Acemoglu has estimated that productivity gains from AI could be limited to 0.71% over a decade<sup>28</sup>. However, the disruptive nature of this innovation means that companies cannot afford to delay or risk losing their competitive edge. This pressure may lead them to accept a growing reliance on upstream players who are better able to manage this uncertainty.

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<sup>28</sup> Acemoglu D., (2024), “The Simple Macroeconomics of AI”, *Economic Policy*, <https://doi.org/10.1093/epolic/eiae042>

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