



Artificial Intelligence:

ADVANTAGES FOR ENTERPRISE CONTRACT REVIEW & ANALYSIS

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For most companies, the process of reviewing contracts and other legal documents is manual, tedious, and error-prone, exposing organizations to legal risks if not well managed. The financial consequences can also be severe. Inefficient contracting has been estimated to cause firms to lose between 17 to 40 percent of the value on a given deal, according to research by KPMG¹.

Contracts are integral to many corporate processes. For example, leasing has a massive impact on businesses. Nearly 400 S&P 500 companies reported a collective \$503 billion in operating lease liabilities and \$69 billion in finance lease liabilities on their balance sheets in 2019. Any solution that can help automate continuous review and improvement of lease contracts can result in economies of scale and improve organizations' bottom lines.² Other areas where companies need improvement in legal document review and analysis are insurance and sales contracts, credit agreements as well as rationalizing reports versus contracts to pinpoint opportunities and avoid risks.

HERCULEAN HUMAN EFFORT



Despite its importance in terms of business impact, contract review and analysis remain arduous. Companies may have a repository of contracts but don't have a structured process for extracting the relevant data or storing that data so that it can be analyzed to make ongoing improvements. As a result, there's no orderly and fast way to, for example, view complex leasing agreements to see how they can be improved.

Consider a common scenario. A large financial services enterprise has a huge volume of credit agreements that all have varying terms. Reviewing and tracking this information way to reduce the cost and effort of this review, it will have a competitive advantage on the market.

¹ <https://home.kpmg/au/en/home/insights/2017/03/supply-chain-capacity-management.html>

² <https://www.gartner.com/en/documents/3899173/innovation-insight-for-advanced-contract-analytics>

PUTTING AI TO WORK



Recent technological advances in AI and machine learning (ML) have the potential to help companies overcome many of the challenges of dealing with large collections of legal documents. AI software can easily extract data and clarify the content of contracts. It can quickly organize and analyze terms and clauses from any number of contracts. It can let companies review contracts more rapidly, organize and locate large amounts of information contained in contracts and other legal documents more easily, decrease the potential for contract disputes, reduce risks, and increase the volume of contracts companies can negotiate and execute.

AI automates contract analysis and management functions, allowing subject matter experts (people in facilities departments who sift through large numbers of leases, insurance professionals who review other carrier contracts, groups within financial organizations that analyze credit agreements, and so on) to perform work that has higher strategic value. The result is reduced legal risk and improved efficiency.

THE EMERGENCY OF ADVANCED CONTRACT REVIEW AND ANALYSIS

Although the application of AI to the problem has broadened the appeal of contract review and analysis, these solutions are still emerging, and their functionality varies widely. Some solutions based on standard AI techniques are often limited to specific types of contracts and may also fall short in identifying and processing complex clauses.

Also, standard AI and ML approaches involve building large-scale statistical models that are trained using massive amounts of training data. Oftentimes, sufficient amounts of training data are not readily available, nor have the subject matter experts the time to annotate such large quantities of documents.

The key is to find a solution that can extract, review, and analyze the vital information from any type of legal document

using as little training data as possible. Advanced contract review and analysis solutions should enable the exploration of granular details such as agreement terms or clauses, expiration dates, and more. Depending on the part of the organization, these details can be related to leases, royalties, mortgages, procurement, or any other part of the organization entering into a legal agreement.

Contract review and analysis solutions based on advanced AI techniques should help organizations extract key information from thousands of complex contracts containing disparate and diverse terminology, even if the contracts are in multiple languages. They should be able to extract terms and clauses that are semantically similar, even if they do not use the same wording. Such solutions should empower companies to quickly generate consistent and comparable summary abstracts and spreadsheets and populate a company's contract management software with automatically extracted data. Also, solutions should be able search through associated documents such as amendments, certificates, approval notes, and letters. By using one such solution based on advanced AI techniques, a Big Four accounting firm reduced processing time of lease agreements by 80 percent.

THE COST OF NOT ADOPTING AI-BASED CONTRACT ANALYTICS

AI-based contract review and analysis solutions offer organizations other undeniable benefits. They can increase visibility into contract terms and details across the enterprise. They reduce contract review time, improve contractual and regulatory compliance, and identify and help mitigate risk. Despite the potential, Gartner estimates³ that contract analytics solutions have penetrated less than five percent of their target audience. Adoption has been strongest in legal organizations; however, the appeal is starting to broaden to use in multiple industries.

The cost of not adopting AI-based contract analytics solutions is high. Most industries have a large majority of their spending locked in contracts: companies in utilities, aerospace and defense,

³ <https://www.gartner.com/en/documents/3899173/innovation-insight-for-advanced-contract-analytics>

and food manufacturing can have 90 percent or more of their annual revenues represented in contracts with suppliers and vendors.⁴ Despite this enormous percentage, operating expenses, which might include AI-based contract analytics software, are typically less than 1 percent of total spending across industries.⁵ By underinvesting, companies are overlooking a significant source of value: suboptimal contract terms and conditions combined with a lack of effective contract management can cause loss of value in sourcing equal to 9 percent of annual revenues. For *Fortune's* 2016 Global 500 companies, this 9 percent would have equaled \$2.5 trillion in value.⁶

THE FUTURE OF CONTRACT REVIEW AND ANALYSIS IS NOW

Some companies have however recognized the importance of embracing automated contract review and analysis solutions. Early adopters are reaping benefits, and the need for greater contract visibility and risk assessment is becoming a growing strategic priority for large enterprise organizations. To maximize the numerous benefits of these new AI-based solutions, one needs however to select carefully. Solutions delivering high precision results while needing little training data will not only free up subject matter experts from manual contract review tasks, they will also add real strategic value to the organization.

⁴ <https://www.mckinsey.com/business-functions/operations/our-insights/contracting-for-performance-unlocking-additional-value>

⁵ "5 common references for procurement benchmarking," Purchasing & Procurement Center, accessed January 5, 2018, purchasing-procurement-center.com

⁶ Global 500, *Fortune*, accessed January 5, 2018, fortune.com