

Two-Thirds of Senior Legal Managers Find Their Contract Review Workloads Increased: How AI/Automation Solutions Can Help

With 44% of senior legal managers concerned over noncompliance within the contract renewal process, and another 38% worried about lack of standardization, organizations need AI solutions that uncover risk, ensure compliance and streamline the workflow within the contract review process, a new study finds.



Introduction

A typical Fortune 1000 company manages between 20,000 to 40,000 active contracts at any given time, according to the Institute for Supply Management¹. This increasing number of contracts means that the day-to-day management and review of these documents is both burdensome and expensive. Recent events that have forced organizations into large-scale contract reviews have only added to that burden and expense.

In April and May of 2022, Corporate Counsel Custom Solutions conducted, on behalf of EdgeVerve Systems Limited, an Infosys Company², a survey of in-house professionals within Fortune 1000 companies on current trends and challenges associated with contract review and leveraging Artificial Intelligence or automation technology to address those challenges. The questions posed to respondents to gather information included:

- Whether contract review workloads increased in recent years?
- What issues require the most time during contract review?
- What are the biggest challenges in managing contracts today?
- What percentage of companies use, have purchased or have considered using an AI or automation solution to facilitate contract analysis and review?
- What are the reasons for not purchasing an AI/automation solution?

Executive summary

There were 83 respondents in the survey. The results were heavily senior management influenced, with almost six in ten (59%) of respondents either C-Level Executives, Upper Management, or General Counsel/Associate GC. Here are some of the most notable findings from the survey:

- **Contract review happens at every stage:** Every contract stage (Execution, Initiation, Authoring, Process and Workflow, Ongoing Management and Compliance and Renewal) involves contract review for more than half of respondents.

- **Workloads have increased:** More than two-thirds (**69%**) of respondents report that their workload for contract reviews has increased in the past two years.
- **Spending is expected to increase:** More than half (**56%**) of respondents expect spending for contract reviewers to increase over the next year.
- **Contract review is the majority of management time:** Almost six in ten (**59%**) of the respondents spend at least half their contract management time on contract review.
- **Yet, review throughput is minimal:** Almost half of respondents (**48%**) review five contracts or less each day.
- **Satisfaction, speed and standardization:** Respondents identified noncompliance (**44%**), slow contract turnaround time (**42%**), and lack of contract standardization (**38%**) as the biggest challenges.
- **Most respondents don't actively use AI/automation:** Only a third (**33%**) of respondents actively use an AI/automation solution for contracts. Another **17%** have purchased a solution but haven't implemented it yet. Almost a quarter of respondents (**24%**) haven't even considered a solution.
- **ROI and privacy/ethical concerns:** Inability to quantify the ROI (**26%**) and AI privacy/ethical concerns (**25%**) are among the top reasons for not purchasing an AI/automation solution for contracts.
- **Most would save at Least \$2,100 per month:** An overwhelming majority (**84%**) of those using (or having purchased) an AI/automation solution for contracts anticipate saving at least 21 hours per month using one, which would result in a savings of at least \$2,100 per month (and as much as \$15,750 per month) on contract review.

The survey results show that most respondents find that workloads and expenses for contract review are increasing, yet most respondents are also not actively using an AI/automation solution for contract review, even though most who do use an AI/automation solution tend to save at least 21 hours per month in contract review time.

A deep dive into key survey results

The survey uncovered results that showed most respondents have seen increased contract review workloads and most of those in the survey expect increased contract review spending. Currently, most respondents do not actively use an AI/automation solution for contracts, even though most respondents who do use a solution are saving significant time and cost and increasing contract review throughput using one. Here is a deep dive into the five key survey results:

More than two-thirds of respondents say their workload for contract reviews has increased in the past two years

It's not surprising that the workload for contract reviews has increased in recent years. When the COVID-19 pandemic disrupted businesses in March 2020, many organizations had to conduct a large-scale review of their contracts to determine how the Force Majeure clause in their contracts addressed the disruption. Then, in 2021, the Financial Conduct Authority replaced the London Interbank Offered Rate (LIBOR) rate with the Secured Overnight Financing Rate (SOFR). Both events forced large-scale contract review efforts.

The survey results illustrate a significant increase in the workload for contract reviews in the past two years:

What percentage has your workload or your department's workload for contract reviews increased in the past two years?

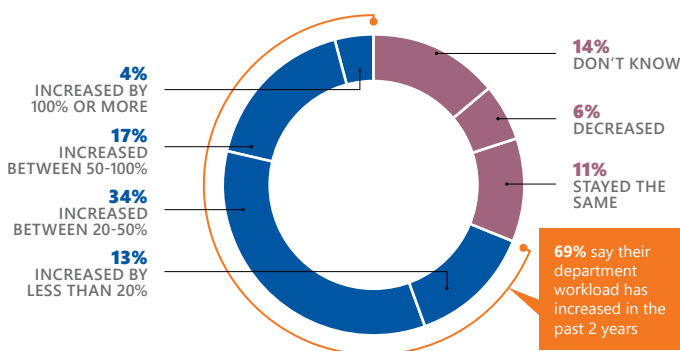


Figure 1: Increase in Contract Review Workload

Not only does the survey show that 69% of respondents have experienced an increase in their contract review workload, but 55% of respondents have experienced at least a 20% increase in their contract review workload. And 21% have experienced at least a 50% increase.

More than half of respondents expect spending for contract reviewers to increase over the next year

Not surprisingly, when there's an increase in the contract review workload, there's also an increase in spending for contract review services. More notably, most respondents expect spending on contract review services to continue to increase.

Not only does the survey show that 56% of respondents expect spending for contract review services to continue to increase, but

Do you expect your spending on the contract reviewers to change over the next year?

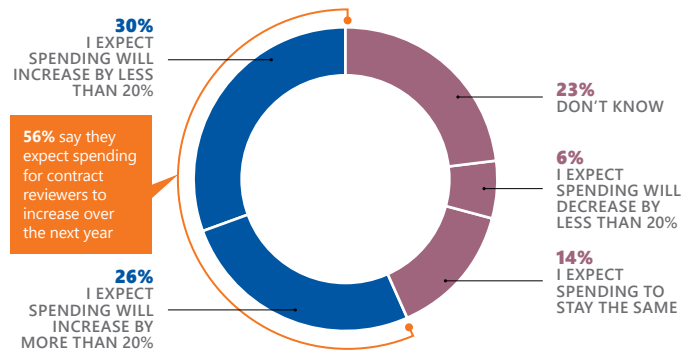


Figure 2: Expected Increase in Spending for Contract Review Services

nearly one-third (30%) expect spending for contract review services to increase more than 20%.

So, what are the biggest reasons why contract review workloads are increasing and spending for contract review services rising? The pandemic and supply-chain issues account for some of the increase, but regulations have also played a role.

"There are several reasons, including Covid and supply chain disruptions that are forcing changes to the way contracts and contractual obligations are documented," says Swaminathan Natarajan, Global Product Head for XtractEdge at EdgeVerve "New regulations, like the move from LIBOR to SOFR, and complexities in enforcing contracts because of macroeconomic and supply chain disruptions have resulted in a significant increase in contract reviews"

Only a third of respondents actively use an AI/automation solution for contracts; almost a quarter of respondents haven't even considered a solution

Given the increased workload and increased expenses for contract review, organizations are implementing AI/automation technology solutions, right? Not so far – in fact, most are not currently using a solution.

Have you considered/purchased an AI or automation solution to facilitate contract analysis and review?

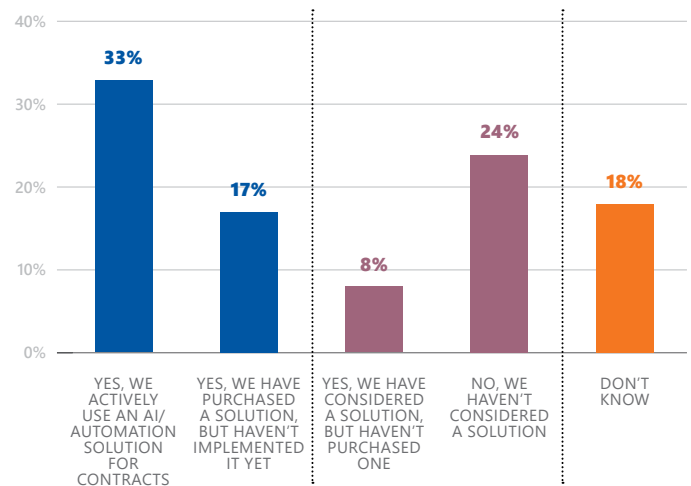


Figure 3: Percent of Respondents Using an AI/Automation Solution for Contract Review

Only a third of respondents (33%) are currently using an AI/automation solution to facilitate contract analysis and review, which means that two-thirds are not currently benefiting from AI and automation in contract analysis and review. Also, nearly a quarter (24%) haven't even considered the purchase and use of an AI/automation solution for contract review.

That leaves a significant percentage who don't fall into either category. One notable result is that about one in six respondents (17%) have purchased a solution but haven't implemented it yet.

So, what are the challenges with implementing an AI/automation solution that would cause so many respondents to have bought a solution, but not implemented it yet?

"AI systems are complex to manage, especially when you attempt to drive the solution using raw toolsets. The complexities include managing and validating training data, and investing efforts to improve accuracy and outcomes," Natarajan says. "It takes time and effort from the legal team to train the algorithm. Once the AI model is trained, the efforts invested by legal teams will pay significant dividends."

One of the top reasons for not purchasing an AI/automation solution for contracts are privacy/ethical concerns. So, how do you address the privacy/ethical concerns associated with using AI?

"It's important to control the data used to train the model and avoid including any personal or private information in any of the model parameters," Natarajan says. "Then, you monitor and manage the model for its performance, and, finally, augment the AI decisions with human verification for a percentage of requests to confirm the accuracy of the model without introducing bias."

An overwhelming majority of those using (or having purchased) an AI/automation solution for contracts either are or anticipate saving at least 21 hours per month using one

While a majority of respondents are not currently using an AI/automation solution for contract analysis and review, half of the respondents have at least purchased a solution. So, how many of them are either currently saving on contract review hours or expect to save on them (once they complete their system implementation)? Almost all of them.

What percentage has your workload or your department's workload for contract reviews increased in the past two years?

Among those that answered the following question: Have you considered/purchased an AI or automation solution to facilitate contract analysis and review?

"Yes, we actively used an AI/automation solution for contracts," and "Yes, we have purchased a solution, but haven't implemented it yet."

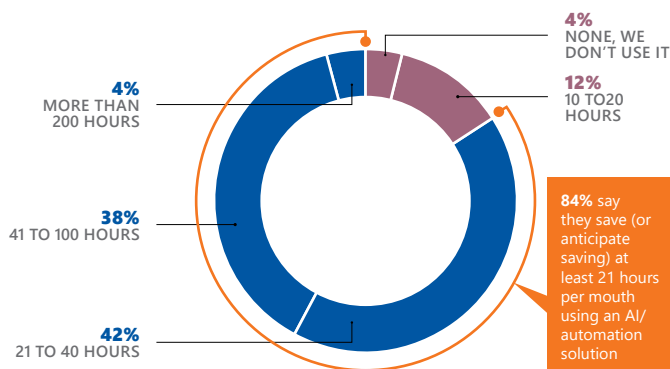


Figure 4: Number of Hours Saved (or Anticipated Saving) on Contract Review Using AI/Automation Solution

Not only are an overwhelming majority (84%) of respondents using (or having purchased) an AI/automation solution currently (or anticipate) saving at least 21 hours per month using one, but almost all of them (96%) are currently (or anticipate) saving at least ten hours per month using one. And 42% of those respondents are currently (or anticipate) saving at least 41 hours per month using one. Given the increasing contract review workloads and rising costs, an AI/automation solution is clearly paying dividends for those that are – or expect to be – using them.

Sixty-eight percent of AI/automation solution users review six or more contracts per day vs. only 24% of non-solution users

The final stat in the deep dive statistics is the comparison of throughput in terms of contracts reviewed per day for respondents not currently using an AI/automation solution vs. those who are currently using a solution. Here are the percentages for those not currently using an AI/automation solution:

Average Number of Contracts Reviewed Per Day For Respondents without AI/Automation Solutions

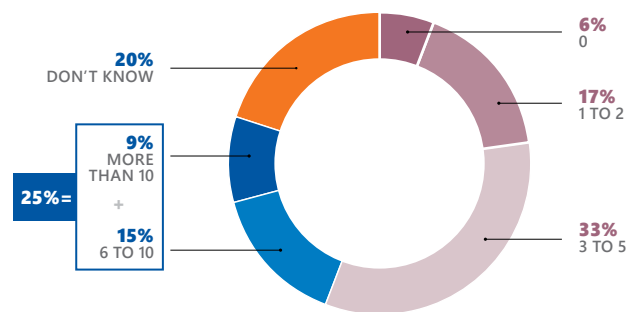


Figure 5: Average Number of Contracts Reviewed Per Day for Respondents without an AI/Automation Solution

Less than one-quarter (24%) of respondents not currently using an AI/automation solution reported a throughput of six contracts or more reviewed per day. Only 9% of those respondents currently review more than ten contracts per day.

Average Number of Contracts Reviewed Per Day For Respondents Without AI/Automation Solutions

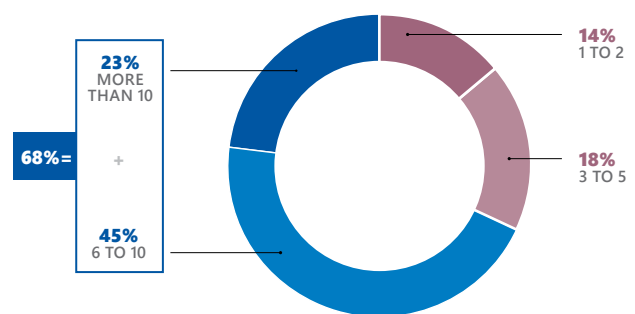


Figure 6: Average Number of Contracts Reviewed Per Day for Respondents without an AI/Automation Solution

Conversely, more than two-thirds (68%) of respondents who are currently using an AI/automation solution reported a throughput of six contracts or more reviewed per day. And nearly a quarter (23%) of those respondents currently review more than ten contracts per day. That's a considerable difference in throughput between those who currently use an AI/automation solution and those who don't.

Addressing today's contract review challenges

As illustrated by the survey results, the challenges of keeping up with the demands for contract review have never been greater. The use of an AI/automation solution can address those challenges. Here are five of today's contract review challenges and how they can be addressed with the help of an AI/automation solution:

Increase throughput to handle large-scale reviews

As evidenced by the need to determine how the Force Majeure clause in their contracts addressed the disruption resulting from the pandemic in 2020 and the replacement of the LIBOR rate with the SOFR rate in 2021, large-scale contract review efforts are becoming more commonplace. The use of an AI/automation solution can increase the throughput for contract review significantly.

Reduce instances of contract noncompliance

Contract noncompliance was identified by survey respondents as the biggest challenge they experience today in managing contracts and it can be hugely expensive for your organization in the form of penalties for failing to timely execute contract terms. AI-powered analysis using an AI/automation solution can help your organization proactively track contract dates and terms to stay compliant and avoid those penalties.

Facilitate identification and extraction of key clauses and terms

Respondents were asked: "What key issue do you or your team spend the most time looking for in contract review?" The top four answers all involved identification and extraction of key clauses and terms within contracts: 1) Identifying Key Clauses & Terms, 63%; 2) Risky Clause Identification, 57%; 3) Identifying Termination & Renewal Terms, 52%; and 4) Identifying Default Clauses, 45%. An AI/automation solution can help reduce the time spent looking for these key issues in contract review.

Standardize contract language

One of the biggest issues that organizations face is the inconsistency of the language within contracts, which can lead to potential revenue lost or penalties when contracts are generated that fail to take advantage of best practices for contract language in

previous contracts. Contracts also often tend to be siloed within an organization, further complicating the effort to standardize. An AI/automation solution enables you to leverage a repository of existing contracts to facilitate preparing new contracts and take advantage of those language best practices utilized in previous contracts.

Streamline contract turnaround time

Based on survey responses, contract review happens in every phase of the contract lifecycle for more than half the respondents: 1) Execution, 64%; 2) Initiation, 64%; 3) Authoring, 63%; 4) Process and Workflow, 60%; 5) Ongoing Management and Compliance, 58% and 6) Renewal, 53%. An AI/automation solution enables your organization to expedite review at every phase of the contract lifecycle by enhancing contract review and analysis – streamlining contract turnaround time.

Conclusion

Most respondents in the survey indicated that workloads and expenses for contract review are increasing, yet most respondents are also not actively using an AI/automation solution for contract review.

However, most survey respondents who do use a solution save at least 21 hours per month in contract review time, and more than 40% of those respondents save at least 41 hours per month.

So, how do organizations address maximizing the benefits of an AI/automation solution? The answer is to ensure that the legal team reviewing contracts has the tools they need to understand the scope of the problem, and then harness the technology to achieve greater efficiency.

"In order to maximize the ROI from the tool, companies should initially utilize the AI contract analysis solutions to uncover the risks associated with their contracts," Natarajan says. "In the initial phase, AI/automation must be seen as a tool to augment the legal user to better their decision-making rather than to substitute those decisions. Once the tool has reached the desired maturity level established within the organization, the product should be leveraged to uncover the various conditions set out in the contract and model operations around those conditions."

About xtractedge

EdgeVerve Systems Limited, a wholly owned subsidiary of Infosys, is a global leader in AI and Automation, assisting clients thrive in their digital transformation journey. Our mission is to create a world where our technology augments human intelligence and creates possibilities for enterprises to thrive. Our comprehensive product portfolio across AI (XtractEdge), Automation (AssistEdge) and Supply Chain (TradeEdge) helps businesses develop deeper connections with stakeholders, power continuous innovation and accelerate growth in the digital world. Today EdgeVerve's products are used by global corporations across financial services, insurance, retail, consumer & packaged goods, life sciences, manufacturing telecom and utilities. Visit us to know how enterprises across the world are thriving with the help of our technology.

¹ "Contract Analytics: The New Frontier for Gaining and Sustaining Competitive Advantage", American Bar Association, Nov. 14, 2019. <https://businesslawtoday.org/2019/11/contract-analytics-new-frontier-gaining-sustaining-competitive-advantage/>

² EdgeVerve Systems Limited, An Infosys Company <https://www.edgeverve.com/>