# Law firms urged to implement AI policies amid rising risks and regulatory scrutiny



The integration of artificial intelligence (AI) within the legal sector promises to reshape legal practices fundamentally, offering tools that can enhance efficiency and improve client service. However, as the adoption of such technologies accelerates, significant challenges and risks accompany their benefits. An AI policy has become essential for law firms, serving as a robust framework designed to mitigate these risks while harnessing AI’s potential effectively.

One of the most pressing concerns surrounding AI in legal practice is the risk of inaccuracies and so-called ‘hallucinations’. AI tools, such as ChatGPT, can produce information that appears factual but is entirely fabricated. This has led to alarming incidents in which lawyers have submitted erroneous legal citations in court, as in the notorious 2023 case involving two New York attorneys who relied on ChatGPT for legal research. The court deemed their reliance on AI without proper verification as acting in bad faith, thus underscoring the perils of uncritical use of such technologies. A similar event occurred in the UK when a litigant submitted fictitious legal references derived from AI, which the court quickly identified as false.

The reliance on AI by legal professionals is only expected to rise. According to a recent LexisNexis UK survey, 26% of legal practitioners have started using generative AI tools regularly, up significantly from 11% the previous year. In-house lawyers are at the forefront of this trend, with a notable 42% expressing intentions to adopt AI soon. This increasing reliance highlights the need for a structured approach to ensure that AI outputs are verified and supervised, reinforcing the idea that human oversight is irreplaceable.

Confidentiality and data protection remain pivotal concerns as well, particularly given that AI systems often handle sensitive data. The Information Commissioner's Office has reiterated that legal firms are accountable for data protection, even when utilising third-party AI services. Incidents where client information has been inadvertently processed through public AI tools illustrate the vulnerabilities inherent in these technologies. Mismanagement of data can lead to breaches of confidentiality, which are not merely theoretical; they pose real risks that can have significant legal and reputational consequences.

Another area of concern is the ever-evolving landscape of intellectual property (IP) rights. While the UK Supreme Court has clarified that AI cannot hold patent rights, questions surrounding who owns AI-generated content remain unresolved. With AI systems blending existing materials to create new outputs, law firms must navigate the complexities of potential infringement and plagiarism. Thus, an AI policy that clearly outlines usage protocols and respects IP boundaries is essential for any firm using these technologies.

AI's capacity for creating deepfakes further complicates the landscape. These hyper-realistic digital fakes can mislead clients and fraudulently manipulate communications, posing substantial risks in matters of evidence and client management. The potential for people to impersonate senior partners or clients via sophisticated deepfake technology could allow malicious actors to extract sensitive information or even funds from the firm. A strong AI policy should not only encompass guidelines for the secure use of AI but also incorporate stringent identity verification measures to combat such threats.

Given these evolving risks, the legal sector cannot afford to ignore the implications of AI. The Solicitors Regulation Authority (SRA) has issued updated guidance to assist law firms in recognising and mitigating the unique challenges presented by AI technologies. The establishment of a comprehensive AI policy is no longer a mere formality; it is vital for protecting client trust, ensuring compliance with legal obligations, and safeguarding data integrity.

Legal Eye offers resources designed specifically to assist firms in crafting tailored AI policies, providing templates, training, and implementation support. Their approach aligns with the SRA’s principles and data protection laws, enabling firms to manage the risks associated with AI while capitalising on its advantages.

As AI continues to weave itself into the fabric of legal practice, the imperative for law firms is clear: the question is no longer whether to adopt AI, but how to do so safely, ethically, and effectively.

### Reference Map

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## Bibliography

1. <https://todaysconveyancer.co.uk/understanding-risks-using-ai-ai-policy-can-help-protect-law-firms/> - Please view link - unable to able to access data
2. <https://pro.bloomberglaw.com/insights/technology/what-are-the-risks-of-ai-in-law-firms/> - This article discusses the transformative impact of AI on law firms, highlighting both opportunities and challenges. It emphasizes the need for human oversight to mitigate risks such as inaccuracies, biases, and data privacy concerns. The piece also addresses potential changes in billing structures due to AI's efficiency and the importance of balancing technological advancements with traditional legal practices.
3. <https://guidance.sra.org.uk/sra/news/press/2023-press-releases/risk-outlook-ai/> - The Solicitors Regulation Authority (SRA) released a report examining the pros and cons of AI in law firms. The report outlines current and potential future developments, emphasizing the need for firms to understand and mitigate risks associated with AI, such as accuracy and bias issues, client confidentiality, and accountability.
4. <https://www.bigelaw.co.uk/news-blogs/regulatory-risks-in-using-ai-in-legal-practice-what-law-firms-need-to-know> - This article explores the regulatory risks law firms face when integrating AI tools, including confidentiality concerns, over-reliance on AI, and the necessity for clear internal policies. It emphasizes the importance of human oversight and compliance with professional obligations to prevent potential compliance headaches.
5. <https://www.qmul.ac.uk/law/undergraduate/student-life/blog/items/the-impact-of-ai-on-the-legal-industry.html> - Queen Mary University of London's blog post examines the challenges AI presents to the legal industry, focusing on confidentiality and data privacy issues. It highlights concerns about AI models storing and handling data, raising key issues around data protection and the ambiguity of how AI models store and handle data.
6. <https://global.lockton.com/gb/en/resources/law-firm-ai-insurance-considerations> - Lockton discusses the risks and liabilities associated with AI use in the legal sector, including errors and inaccuracies, breach of confidentiality, and intellectual property concerns. The article emphasizes the need for law firms to implement proper training, monitoring, and internal policies to govern AI tool usage.
7. <https://ethicalailawinstitute.org/blog/small-practices-big-risks-the-ethical-quagmire-of-ai-in-law/> - The Ethical AI Law Institute's blog post delves into the ethical challenges small law practices face when adopting AI, such as bias in AI algorithms and the lack of transparency in AI decision-making processes. It underscores the importance of understanding and mitigating these risks to prevent potential injustices.