

AI IN LAW FIRMS: AN UPDATE

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Executive Summary

This report provides a strategic overview of the impact of Artificial Intelligence (AI) on the legal profession in the UK, focusing on developments since May 2025 and the publication of our report: *“Artificial Intelligence in UK Law Firms: Adoption and Anticipating The Future”*.

Beyond doubt, AI is no longer a peripheral technology but a central force reshaping both the broader business landscape and the legal profession itself, creating a new set of strategic imperatives for law firms.

Key findings in this update include:

- **The Client Context Has Changed:** AI is now a mainstream business tool, fundamentally altering client expectations. Businesses are leveraging AI for efficiency and are increasingly looking to their law firms to provide the same value. This has also created new, complex risk areas such as the unsanctioned use of AI by employees, presenting a critical advisory opportunity for firms. In-house legal teams are accelerating their own technology adoption, increasing their tech budgets and bringing more work in-house.
- **A Legal Market in Transition:** The legal technology market has seen significant investment and the emergence of new, AI-native business models. However, a notable gap persists between the hype surrounding AI and its tangible, firm-wide impact. While individual lawyer adoption is high and delivering clear productivity gains, systemic change is being hampered by deep-seated cultural barriers and the economic disincentives of the billable hour. Adoption is also uneven, with smaller firms facing distinct challenges related to cost and scale.
- **New Strategic Imperatives:** The current environment demands that firms move beyond simply acquiring new tools. They must proactively manage a new class of AI-related risks, from data security to factual inaccuracy. Critically, AI's efficiency gains present a direct challenge to the billable hour, forcing a necessary shift towards value-based pricing models. As clients become more technologically self-sufficient, the role of external counsel is evolving from a service provider to a high-level strategic partner, focused on delivering complex advice that technology alone cannot replicate.

Part I: The Client Context: AI in the Wider Business World

Artificial intelligence is no longer a niche technology but a fundamental force reshaping the business world. This shift has profound implications for law firms, as it is actively altering the expectations, pressures, and technological understanding that clients place on their advisors. To serve clients effectively, firms must first grasp the scale and nature of AI's integration into their clients' own operations.

AI has become a mainstream business tool. As of 2025, an estimated 78% of companies globally use AI in their daily operations, with over 90% either using or actively exploring the technology.¹ This is not a passing trend; it is a core component of modern corporate strategy, driven by a global AI market projected to exceed \$1.85 trillion by 2030.¹ This rapid adoption means that clients are now accustomed to the efficiency gains AI delivers. They are seeing it streamline their own core functions, from customer service and cybersecurity to inventory management, and they are beginning to expect similar levels of efficiency from their external legal counsel.¹

This widespread adoption has also created a significant new area of risk for businesses, and a corresponding advisory opportunity for law firms. A recent report, which likely would be echoed in the UK, highlighted a growing "shadow productivity economy," revealing that nearly half of all US employees use AI tools at work without their manager's knowledge, often paying for these tools themselves.² This unsanctioned use of public AI models creates a major, unmanaged risk. Sensitive corporate data, trade secrets, and even legally privileged information may be entered into unsecured, third-party systems.³ On both sides of the Atlantic, law firms are uniquely positioned to help clients navigate this challenge by developing robust AI governance policies, auditing unauthorised use, and mitigating the significant legal and financial exposure that results.

This acceleration is also evident at the leadership level within corporate legal departments. A crucial insight comes from the GC Pulse 2025 report from August, which found that frequent use of legal technology by in-house teams has surged from 34% in 2024 to 44% in 2025. This is backed by significant financial commitment, with 80% of General Counsel expecting to allocate up to 20% of their legal budgets to technology this year, a notable increase from 68% in 2024. This growing investment reflects a rapid increase in confidence; trust in AI as a reliable legal resource has nearly doubled among GCs in a single year, from 21% in 2024 to 40% in 2025. While deep integration is still a 'work in progress' - with only 11% of GCs having fully integrated GenAI tools - the direction of travel is clear, as 86% plan to maintain or increase their AI spending.

Part II: The Legal Sector: A Summer of Acceleration and Adaptation

The legal technology market has seen a period of intense activity since May, marked by significant investment, new business models, and a growing debate about the future of legal work. The summer's developments show a sector moving beyond initial hype and grappling with the practical realities of integrating AI into the profession.

Investment and New Models

The flow of capital into legal AI has continued unabated, fuelling innovation and competition. Since 2024, approximately 80% of the \$2.2 billion invested in legal startups has been directed at companies with an AI focus.⁵ This summer saw several notable funding rounds, including a \$30 million Series B for London-based Definely⁶, which uses AI to improve legal workflows, and a \$5.3 million seed round for Bench IQ, a judicial intelligence platform.⁷

This investment is not just funding traditional software vendors. New, tech-centric business models are emerging that directly challenge incumbent law firms. In a significant move, Eudia launched an "AI-Augmented Law Firm" focused on M&A, built on its acquisition of alternative legal service provider Johnson Hana.⁸ This represents a fundamental shift from a tech company selling software to law firms, to a new type of firm built around an AI core from the ground up. At the same time, major law firms are evolving from being passive customers to active investors in the technology ecosystem. Firms like A&O Shearman, Mishcon de Reya and Orrick are making direct strategic investments in legal tech startups, blurring the lines between buyer and builder and signalling a sophisticated understanding of technology as a core competitive asset.⁹

The Market on the Ground: Hype vs. Reality

Despite the surge in AI usage - one report from late 2024 showed adoption among legal professionals jumping from 19% to 79% in a single year - the tangible impact on the day-to-day practice of law has been slower than predicted.¹⁰ A Bloomberg Law survey revealed a significant gap between the expectations of 2024 and the reality of 2025.¹¹ For example, while 75% of lawyers in 2024 predicted AI would increase automation, only 37% reported seeing such an increase a year later. The gap was even wider for alternative fee arrangements (AFAs), with only 9% of lawyers seeing an increase in their use, compared to 39% who had expected it.¹¹ The overwhelming sentiment was that for most lawyers, AI has so far resulted in "no change" to their work.¹¹

This disconnect is not a failure of the technology itself, but a reflection of the legal profession's structural

and cultural barriers. A recent LexisNexis report found that while over 60% of UK lawyers now use generative AI, two-thirds believe that the inertia of law firm culture is the primary reason for the slow progress in realising its benefits.¹² This is supported by a Stanford Law School paper which identifies the billable hour model, the profession's inherent risk aversion, and difficulties in accessing high-quality training data as fundamental obstacles to transformative change.¹³ This points to a market in a state of transition. Individual lawyers are widely experimenting with AI for specific tasks, but firms have not yet achieved the systemic, firm-wide integration needed to fundamentally alter how legal services are delivered and priced.

The data on adoption is nuanced and reveals a segmented market. An April 2025 Thomson Reuters survey shows that generative AI usage among legal professionals has nearly doubled in a year, from 14% in 2024 to 26% in 2025, with 45% of legal professionals now using or planning to make it central to their workflows.¹¹ However, adoption varies significantly by firm size. A June 2025 SRA report highlighted that while small firms are keen to innovate, their current AI adoption rate is a more moderate 14%. The key barriers for smaller practices include the cost of implementation, the difficulty in finding suitable products, and the fear that expensive technology will quickly become outdated.

For the individual lawyers who are using these tools, the productivity gains are tangible and immediate. A 2025 survey found that 65% of users saved between one and five hours per week. A further 19% saved six or more hours weekly, freeing up significant time that can be redirected to higher-value work.¹⁵

The Platform Battle: Specialist vs. Generalist AI

A central strategic challenge playing out in the market is the competition between specialised legal AI tools and powerful, generalist models like ChatGPT.⁵ This is an existential question for legal tech vendors, most of whom build their products on top of the same foundational models developed by giants like OpenAI and Anthropic.⁵ As one MIT report noted, a corporate lawyer defaulted to using ChatGPT for drafting, even though his firm had spent \$50,000 on a specialised contract-analysis tool.⁵

To compete, dedicated legal platforms must differentiate themselves. Their value lies not in raw AI power, but in other areas. First is the use of proprietary legal data to train their models, allowing for more accurate and contextually relevant results than a generalist tool can provide.⁵ Second is a focus on deep integration into a lawyer's existing workflow, for example within a document management system. The recent partnership between Mitratach and iManage to create a unified case and document management platform is a clear example of this trend.¹² Finally, these platforms can offer the enterprise-grade security and privacy required for handling sensitive client data - a key vulnerability of public-facing models.⁵

Part III: Strategic Imperatives for Law Firms

The convergence of widespread AI adoption in the business world and the rapid evolution of legal technology creates a new and challenging environment. Firms that succeed will be those that move beyond simply adopting new tools and instead address the fundamental ways AI is reshaping risk, value, and the client-firm relationship.

Managing a New Class of Risk

The use of generative AI introduces significant new risks that firms must manage proactively. The most well-publicised is the danger of factual inaccuracy, or "hallucination," with several high-profile cases of lawyers being sanctioned by courts for citing non-existent cases in legal briefs.¹¹ This underscores the absolute necessity of maintaining rigorous human oversight and verification for all AI-assisted work.

A more subtle but equally critical risk involves data security and confidentiality. With many employees using public AI tools without authorisation, there is an acute danger of confidential client information being leaked into public models.³ This requires an urgent response from firms, including the development of clear AI usage policies and investment in secure, enterprise-grade platforms. These operational risks are compounded by a rapidly developing regulatory landscape, including the EU AI Act and new rules from data protection authorities.¹⁶ This creates a dual responsibility for firms: they must ensure their own compliance while also developing the expertise to advise clients navigating the same uncertain territory.

Redefining Value Beyond the Billable Hour

AI presents a direct challenge to the billable hour, the business model that has underpinned the legal profession for many decades.¹⁷ The core issue is the "AI efficiency paradox": if a task that once took a junior lawyer hours can now be completed in minutes with an AI tool, billing for time spent becomes difficult to justify.¹⁸ This technological pressure is amplified by client demand. Surveys show that 80% of corporate legal executives expect their bills to be reduced due to AI, and 71% of clients would prefer to pay a flat fee for a case.¹⁰

Despite this, the legal profession has been slow to adapt, with data showing minimal growth in the adoption of AFAs.¹¹ This growing gap between client expectations and firm practices is a significant strategic vulnerability. This reluctance to change pricing models is reflected in firms' own financial expectations. The assumption that AI-driven efficiency will automatically lead to lower client fees is being challenged by the reality of firm strategy. An April 2025 Thomson Reuters report found that 53% of law firms expect their charge-out rates to remain the same despite using AI, with a further 20% expecting an

increase and only 7% anticipating a decrease. This suggests that many firms are currently aiming to translate efficiency gains into improved profitability or reinvestment, rather than passing the savings directly to clients. To navigate this shift, firms must move from a model that sells time to one that sells value and outcomes. This will require developing new skills in data analytics to price matters accurately on a fixed-fee basis, and realigning internal incentives to reward efficiency and results, not just hours billed.²⁰

The New Client-Firm Relationship

Finally, AI is changing the capabilities of clients themselves. In-house legal departments are also adopting these tools, allowing them to handle more work internally.²² A LexisNexis survey found that 72% of corporate legal professionals expect to bring more work in-house as a result of AI.¹⁹ This means the work that is outsourced to external firms will increasingly be of the highest complexity and strategic importance.

In this environment, law firms must evolve from being service providers to indispensable strategic partners. By using AI to automate routine work, firms can free up their lawyers' time to focus on higher-value activities: providing proactive advice, offering data-driven insights to anticipate risks, and becoming true business advisors.²⁴ The firms that thrive will be those that leverage technology not just for efficiency, but to deepen their client relationships and deliver a level of strategic value that AI alone cannot replicate.

Conclusion

The legal profession is at a decisive inflection point. The integration of AI is no longer a question of 'if' but 'how', and the developments of the past year show a clear divergence between rapid technological progress and the slower pace of institutional adaptation. While individual lawyers and their clients are embracing AI, many law firms remain constrained by traditional structures, most notably the billable hour and a culture of risk aversion.

This creates both a significant challenge and a clear opportunity. The challenge lies in overcoming the inertia that prevents firms from realising the full potential of these transformative tools. The opportunity is for forward-thinking firms to redefine their role and their value. The path forward is not simply about implementing new software; it is about a holistic business transformation.

This requires a three-fold commitment: first, to master a new and complex risk environment; second, to rethink fundamentally the firm's economic model to align with the value AI creates; and third, to elevate the client relationship from a transactional service to a strategic partnership. The firms that will lead the next era of the legal profession will be those that understand that AI is not just a tool for doing the old work faster, but a catalyst for creating a new, more valuable way of working.

Appendix 1: Research methodology and works cited

This report was compiled in September 2025 based on research and other materials made available online and in the public domain. All sources are referenced below and remain the copyright of the authors.

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