



The legality of legal AI: Indian perspectives on contract review automation

Swasthik BS Gowda

Department of Law, Christ Academy Institute of Law, Bengaluru, Karnataka, India

Abstract

Can it be possible to have a machine which comprehends the complexity of a legal contract? As Artificial Intelligence (AI) transforms the business environment across the globe, the legal practice in India is at the brink of technological revolution. Media Intelligence It is imagined that AI-based contract review systems will be faster, more accurate, and more efficient than ever before, but what will be the legal and ethical cost? This paper is a critical analysis of how such systems can be incorporated into the legal environment of India, both in terms of their feasibility with the legal environment and implications on professional ethics, as well as the issues of accountability, privacy of data, and regulation. Although these tools have enormous potential to improve the delivery of legal services and, in particular, in high transactional work, their application has acute issues concerning bias, confidentiality, and the loss of human legal judgment. This article provides a balanced view on the adoption of innovation without undermining the integrity of the law because it delves into Indian legal frameworks, parallels in the world, and ethical requirements.

Keywords: AI in legal industry, contract review, legal ethics, Indian laws, technology

Introduction

Artificial Intelligence (AI) is becoming an increasingly influential force in the technology of the legal realm (legal tech) on the international level. Machine learning, natural language processing (NLP), and large language models (LLM) have made it possible to have AI-based contract review systems that automatically analyse and identify important clauses, identify risks, suggest modifications, and compare contracts to precedents or templates. These tools are currently used in law firms and in-house law departments of numerous jurisdictions to hasten due diligence, standardize contracts, decrease human error, and enable lawyers to devote increased effort to more strategic work. [1]

In India, AI is slowly making its way into practice, in a country where the legal tradition has been traditionally advantaged to judicial precedent and human reason. Contract lifecycle management, including drafting, clause identification, risk flagging and renewal notifications are AI platforms being deployed by them like SpotDraft, MikeLegal and others. At the same time, legal research, document review, and case prediction are also done by such tools, which reflects the general tendencies in the world. [2]

Learning About Ai-Based Contract Review Systems

AI contract review software refers to a type of software platform that uses methods in machine learning, natural language processing (NLP), and, in some instances, large language models (LLM) to support or replace a part of contractual analysis. Their aim is to reduce the manual labor put in by the legal professionals in reading, comparing, and marking issues in contracts. [3]

Key Functionalities

The main functionality is clause extraction (locating and identifying both standard and custom clauses as standard, non-standard, or potentially hazardous) and risk flagging (highlighting non-standard, one-sided or risky language), compliance checking (checking whether contracts comply

with internal policies or regulatory norms), version or clause comparing (finding out whether there are non-template or non-benchmark differences in the contracts), and summarisation.

Examples

The examples of some of the most used tools worldwide can be Kira Systems that allows one to import a contract (including scanned documents), extract clauses of interest, build their own clause models, compare them to standard forms, and then to export the resulting data to be processed further. LawGeex provides automation of contract review, redlining according to legal playbook of a firm, analytics dashboards, and allegedly high accuracy and speed enhancement versus conventional review approaches. Another example is luminance: the AI reads concepts of contracts conceptually, detects exceptions, emphasises non-compliance, and assists the contract lifecycle management process in organisations. [4]

These tools offer significantly faster speeds of operation, often cutting days or hours down to minutes; they offer increased consistency and reduced error rates, due to the use of trained models and playbooks to make things and like uniformity; and are scalable, supporting large volumes of contracts or repositories, even in multiple jurisdictions or languages. In India, the common use cases include in-house legal teams using these solutions to facilitate common vendor or supplier contracts, start-ups to get contracts finalized quickly and law firms handling due-diligence or bulk contract projects.

legal framework in india: congruency and difficulties

The legal system of India that concerns the use of AI-powered contract review tools consists of the Information Technology Act of 2000, [5] the Indian Contract Act of 1872, [6] the Indian Evidence Act of 1872 [7] and the regulations of the Bar Council of India (BCI). [8] The IT Act addresses the matter of electronic records and cybercrime, and nothing is said about bringing AI to clarity and accountable to errors,

since it was authored before autonomous technology. The Contract Act is people-friendly, hence the question of whether a person would be liable in case an AI tool omits a crucial provision or misunderstands a word. ^[9]

There are professionals who believe that we should reform the legislation to establish what constitutes AI agent liability. Electronic records are permitted by the Evidence Act and the Bharatiya Sakshya Adhiniyam 2023, but there is no requirement that the outputs of AI be explainable and can be used as solid evidence. The BCI Rules impose competence and confidentiality of information on lawyers, and it does not provide guidance regarding AI. Succinctly, there is no legislative framework to regulate AI in India and thus they are confused on who is in the wrong and we require clear policies that will guide us to utilize AI in a just and responsible manner. ^[10]

Ethics in law practice

1. Professional responsibility: care of duty, confidentiality, competence

Attorneys need to remain competent, client data confidential, and take personal decisions when AI is utilized to review contracts. According to the American Bar Association, these obligations are relevant with AI. In India, attorneys are expected to understand the capabilities of AI, verify its output, and be willing to take accountability in the decision they provide. ^[11]

2. Prejudice, openness, and interpretability

AI is prone to carry or be ambiguous. There should be clear thinking when working with the law, and, therefore, lawyers should verify any warning signs of risk that are drawn by AI and ensure that their decisions are just and fair. ^[12]

3. Informed use and consent of the client

When AI tools are utilized, clients need to be informed of this fact. They need to understand the way their data is processed, what the tool can or cannot accomplish, and that the lawyer is not to be held accountable in any way.

4. Excessive dependence and loss of discretion

Excessive dependence on AI will undermine legal reasoning. Human check-in is required in the context and negotiations.

5. Ethics in the world vs India

India needs to adapt global ethics of AI to the diverse population, law and order, and digital capabilities.

Data privacy and security issues

1. Confidential client information and effective security

Agreements often include personal information, trade secrets, intellectual property and confidential statement. When this information is worked with using AI applications, especially those that are located on cloud-hosting services or third-party solutions, there is a threat of data disclosure or abuse. To protect the confidentiality of clients, law firms should make sure that vendors have a strong encryption, high access control and segregation of data. ^[13]

2. Adherence to the digital personal data protection act of 2023 (dpdp act)

The DPDP Act requires that the processing of personal data must be lawful, that there must be express consent, a restriction in purpose and a fiduciary responsibility. Artificial intelligence systems that process contract information have to comply with such requirements as cross-border limitations, written consent records, and security liabilities. The consequences of non-compliance can be a regulatory penalty or liability against the client.

3. Risks with cross-border data transfer

Numerous AI systems have their operations in foreign jurisdictions, which have led to concerns of legal control, auditability, and data sovereignty. The vendors are to be audited independently, and the contracts must have the specifications about the use of data, localisation, and adherence to the relevant legislation. ^[14]

4. Privileged communication and cybersecurity

The use of AI systems to handle contracts can either undermine lawyer-client privileges or fall victim to cyber-attacks. To ensure confidentiality and compliance with the regulations, firms need to introduce vendor risk management, penetration testing, data flow mapping including incident-response plans. ^[15] In general, the use of AI in reviewing contracts requires the consideration of technology as an end-to-end data-risk management process.

Opportunities and Future Prospects of India

1. Improving Justice Access and Lowering Legal Expenses

Artificial intelligence has the capability to democratise the legal services in India, making them more accessible and more affordable too. Programs like Tele-Law have attempted to avail legal assistance using the Common Service Centres (CSCs) in rural areas where technology has been used to fill the gap between lawyers and the needy areas. Besides, AI-driven solutions such as ClauseMate can provide startups and small businesses with inexpensive contract-review, reducing the need to use costly legal advice on small-scale issues. ^[16]

2. Application of AI in Accelerating Due Diligence and Contract Lifecycle Management

The due diligence and contract lifecycle management are the processes that can be significantly expedited using AI tools. AI allows legal teams to handle more work more efficiently as it automates such functions as document review and compliance verification, leading to faster turnaround and reduced costs. ^[17]

3. Judiciary and Government Interest in Digitisation

The Indian state and the judicial system are gradually starting to appreciate the importance of digitisation in the legal system. Technology has been used to improve judicial efficiency through development of initiatives like eCourts project. However, the court of Kerala has unveiled and provided directions that bar the use of AI devices in the decision-making or the lawful reasoning

of its district courts, highlighting the need to be cautious and regulate the adoption of AI. ^[18]

4. Requirement of custom AI Policies in the Law Field

Despite the many benefits of AI, there is an imminent need of specific regulatory rules that can govern its use in legal services. The creation of standards regarding the use of AI, its liability and responsibility will guarantee ethical and responsible usage, hence safeguard the clients' interests, as well as maintain the integrity of the law profession.

5. The Innovation Hubs and Startups in India

There is an emergence of AI-focused startups in the legal-tech ecosystem of India. Some AI tools have been Indianised on platforms like LawPal and the NyayDarpan and are designed to enhance the process of accessing and making decisions by the legal domain. These inventions will soon revolutionize the law, present new opportunities to the law practitioners and clients. ^[19]

Recommendations & Way Forward

- a. India should develop specific regulations on legal technology that explicitly define the admissible use of AI, set liability, and create protective measures: currently, the regulatory frameworks are decentralized and oblique.
- b. Legal professionals and law firms should inform their clients about the use of AI tools in analyzing contracts, disclosing the restrictions, the potential to have a human reviewer, and the effects on processing data.
- c. The training can involve AI constraints, risk of bias, anticipation of transparency, and safe use of AI in the law.
- d. Vendors are encouraged to incorporate the practice of transparency, auditability, low bias, strong data-protection and human-in-the-loop design specifically to the Indian setting.
- e. A multi-stakeholder approach is needed to have best practices developed collectively, to keep track of the new risks, and to be responsive to targeted regulation.

Conclusion

The introduction of AI-based contract review systems into the rapidly changing legal environment of India is associated with both potential and warning signs. The technologies have the potential to be efficient and economical and expand access to legal services; however, they also raise some fundamental concerns about accountability, transparency, bias, and professional integrity. The need to use AI as a powerful aid, but not a replacement of human judgment, is absolute to Indian lawyers. The duty of a competent ethical counsel is not going to be prejudiced even when the algorithms are introduced into the professional practice.

Similarly, the clients should be provided with uncompromising disclosure related to AI implementation, data processing, and the guarantee that the role of human supervision is solid. The regulatory and ethical frameworks are forced to develop quickly to ensure that AI tools comply with the principles of justice, confidentiality, and fairness, which form the basis of the legal profession. After all, the key to success lies in moderation, in making sure that the

law is transformed in a way that allows the innovation to be developed, and that the level of trust, human control, and the rule of law is ensured. When done well, India can be able to capitalise on the potential of AI without undermining the quality of justice, integrity of the results or justice itself.

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