The Efficiency Tool That Became a Liability: AI Risk in Law Firms

Artificial intelligence has moved from novelty to infrastructure faster than many law firms anticipated. What began as limited experimentation with generative AI tools for drafting and research has, in many firms, become a routine part of how work gets done. In many cases, this shift has occurred without formal policy, defined supervision standards or a clear view of the implications for professional liability.

The efficiency case for AI in legal practice is well established. Research that once required hours can now be completed in minutes. Document review that required teams can often be handled by a single attorney using the right tools. Drafting, summarization and contract analysis all show measurable productivity gains. In a competitive market for legal services, those gains are increasingly difficult to ignore.

At the same time, productivity gains and liability exposure are increasing together. Firms that have accelerated adoption without developing governance frameworks are creating a risk profile that their professional liability programs were not designed to absorb.

According to our 2026 AI Adoption and Risk Survey, 63% of businesses have fully implemented AI in at least part of their operations, up from 45% a year earlier.

The same survey identifies AI errors, misinformation and hallucinations as the top perceived risk (57%), followed by legal and reputational exposure from misuse (56%) and data protection concerns (55%). These are not theoretical risks. They reflect the reality of deploying tools that are powerful, probabilistic and capable of producing confident but incorrect outputs without appropriate oversight.

For law firms, where the work product is the advice and the attorney stands behind its accuracy, these risks have direct professional implications.

Where AI Creates Professional Liability Exposure

AI-related risk in legal practice tends to concentrate in specific areas.

Hallucination and the duty of competence

Large language models generate responses by predicting text rather than retrieving verified facts. When those outputs include legal citations, case law or regulatory interpretation, the risk of inaccuracy is structural.

An attorney who relies on unverified AI-generated citations is not making a simple technical error. They may be failing to meet the duty of competence. Courts have already sanctioned attorneys for this type of failure, and expectations are evolving quickly.

Supervision gaps in AI-assisted work product

Professional responsibility does not distinguish between human-generated and AI-assisted work. The attorney remains accountable for the final output.

In firms where AI use is informal and unsupervised, attorneys may be using tools independently without consistent review protocols. This creates a supervision gap that affects every piece of AI-assisted work leaving the firm.

Client confidentiality and data exposure

Many AI tools rely on third-party infrastructure to process inputs. Entering client information, privileged communications or transaction details into unsecured tools may expose sensitive data in ways that conflict with confidentiality obligations.

This creates both professional responsibility concerns and potential grounds for client claims.

Disclosure obligations that are still being defined

Bar associations are actively developing guidance on when AI use must be disclosed to clients or courts. This guidance varies by jurisdiction and continues to evolve.

Firms that are not tracking these developments may not fully understand their disclosure obligations. Failure to disclose appropriately can create both disciplinary exposure and downstream liability risk.

Overreliance as a competence issue

A more subtle risk is the erosion of independent judgment. When AI becomes the default starting point for analysis, there is a risk that attorneys rely on outputs without sufficient evaluation.

At that point, AI is no longer a tool supporting legal work. It becomes a substitute for analysis. That distinction becomes critical when an error leads to client harm.

The Scrutiny Is Already Here

Courts, clients and insurers are actively evaluating AI use in legal practice.

Courts Are Taking Action

Federal courts have implemented standing orders requiring disclosure of AI use in filings. Sanctions related to AI-generated citation errors have already occurred. Judicial expectations are shifting toward active scrutiny.

Clients Are Asking Questions

Sophisticated clients are increasingly asking how law firms use AI and what controls are in place. These questions are appearing in RFPs, engagement discussions and ongoing client reviews.

Firms that cannot clearly articulate their approach are at a competitive disadvantage.

Insurers Are Paying Attention

Professional liability underwriters are beginning to assess AI governance as part of the risk profile. Renewal applications are starting to include questions about AI usage, controls and oversight.

Firms that can describe structured governance practices present a more favorable risk profile than those with informal adoption.

Where Leadership Exposure Sits

AI risk is not primarily a technology issue. It is a leadership issue that happens to involve technology.

The delegation gap

AI governance is often assigned to IT or innovation teams. However, the underlying issue is professional responsibility. When an AI-related error leads to a claim, the adequacy of firm supervision becomes a leadership question.

Uneven adoption creates uneven risk

Without formal governance, individual attorneys and practice groups define their own standards. This creates inconsistency across the firm and makes risk difficult to monitor or defend in the event of a claim.

Reputational risk compounds liability risk

AI-related errors can quickly become reputational events. A high-profile mistake involving inaccurate filings or confidentiality breaches can create long-term consequences that extend beyond the immediate financial impact.

Insurance Considerations

The professional liability implications of AI adoption are still developing in the insurance market, but the contours of the issue are becoming clear enough to warrant specific attention.

AI Errors and Professional Liability Coverage

Professional liability policies are designed to respond to errors and omissions in legal services. AI-related errors may fall within coverage if appropriate supervision standards are met.

Where supervision is inadequate, coverage questions become more complex, particularly around whether the standard of care was satisfied.

Intersection of Cyber and Professional Liability Coverage

Data exposure related to AI tool usage may trigger both professional liability and cyber policies. Understanding how these coverages interact is important, particularly if unsecured tools are involved.

Underwriting Expectations

Insurance applications are beginning to address AI governance directly. Firms with defined policies, training and controls are presenting a more stable and insurable profile.

Strategic Implications for Law Firm Risk and AI Governance

The adoption of artificial intelligence in legal practice introduces a set of interrelated risks that extend beyond technology and into professional responsibility, client relationships and insurance strategy. For firm leadership, several themes warrant focused attention.

AI adoption without governance changes the firm's risk posture

While the efficiency benefits of AI are material, they do not exist independently of risk. Firms that have implemented AI tools without establishing clear policies, supervision protocols and acceptable use standards are not simply innovating. They are expanding their exposure in ways that are not always visible within existing risk management frameworks.

Professional standards apply fully to AI-assisted work

The use of AI does not alter an attorney's duty of competence, supervision, or independent judgment. Work product that incorporates AI-generated content must be reviewed, verified and validated to the same standard as traditionally developed legal work. Any assumption that AI reduces these obligations introduces both professional and liability risk.

External scrutiny is already shaping expectations

Courts, clients and insurers are actively evaluating how law firms are deploying AI. Disclosure requirements are emerging in court systems, clients are incorporating AI governance into selection and oversight processes and insurers are beginning to consider governance maturity in underwriting. Firms should expect increasing expectations for transparency and accountability.

Confidentiality and data handling present immediate exposure

The use of AI tools, particularly those supported by third-party infrastructure, raises important questions about how client data is processed, stored and protected. Without clear guidance on approved tools and data handling practices, firms may be exposing sensitive information in ways that conflict with professional obligations.

AI governance is becoming part of the insurability discussion

As insurers refine their understanding of AI-related risk, governance practices are emerging as a meaningful differentiator. Firms that can demonstrate structured oversight, training and defined usage standards are better positioned in renewal discussions than those operating with informal or decentralized adoption.

The Moment of Accountability

Firms that manage AI risk effectively are not necessarily those that delayed adoption. They are the ones that recognized early that deploying powerful tools without governance introduces meaningful exposure.

The efficiency benefits of AI are compelling and, in many cases, necessary. However, efficiency and accountability must advance together.

Firms that establish clear supervision standards, governance frameworks and disclosure practices will be better positioned to benefit from AI while managing its risks.

This work does not begin with technology teams alone. It begins with leadership recognizing that AI governance is a professional responsibility issue and treating it accordingly.

For a deeper examination of governance frameworks and leadership accountability, see the companion article in this series, "AI Governance Is Not an Attorney Decision."