



Gallagher

Law Firms Market Update





Navigating Growth, Technology and Emerging Risk in 2026

The legal industry entered 2026 with strong momentum. Demand for legal services remained healthy throughout 2025, profitability continued to improve across many firms, and investment in both talent and technology accelerated as organizations adapted to evolving client expectations and rapidly changing market conditions.¹

At the same time, law firms are operating in a more complex environment shaped by artificial intelligence, cybersecurity threats, workforce challenges and heightened scrutiny from clients, regulators and insurers.

As firms pursue growth and invest in new capabilities, risk management is becoming a more strategic part of business planning. Many of the same forces driving profitability and innovation are also reshaping professional liability, cyber, employment practices and management liability exposures. Firms that balance innovation with effective governance may be better positioned to improve resilience, strengthen client trust and support long-term growth.



Artificial Intelligence Continues To Transform Legal Operations

Few developments have generated as much discussion within the legal profession as artificial intelligence. What began as limited experimentation has evolved into broader adoption, with firms increasingly using AI-powered tools to support legal research, drafting, document review, contract analysis and knowledge management initiatives.

Recent industry research indicates that nearly 70% of legal professionals now use some form of AI in their work, while adoption of legal-specific AI platforms continues to accelerate.² Firms are leveraging these technologies to improve productivity, reduce administrative burden and enhance client service. At the same time, industry-wide investment in technology has increased significantly as firms compete to capitalize on emerging capabilities and maintain a competitive advantage.

As adoption grows, attention is shifting toward governance and accountability. Questions surrounding confidentiality, data security, professional responsibility, supervision, disclosure obligations and the accuracy of AI-generated content are continuing to evolve. Courts have already scrutinized AI-generated filings, while sophisticated clients increasingly expect firms to articulate how AI is being implemented and monitored.³

For many organizations, the conversation is about how AI can be deployed responsibly. As artificial intelligence becomes further embedded into legal workflows, governance frameworks, training, approved-use policies and oversight processes are increasingly important components of risk management.

Technology Investment Accelerates Across the Industry

Technology spending continues to outpace historical trends as law firms invest in tools designed to improve efficiency, service delivery and operational performance. According to industry reports, technology and knowledge management investments increased significantly throughout 2025 as firms pursued AI initiatives and broader digital transformation efforts.^{1,2}

This investment reflects both growing client expectations, competitive pressures and the need to operate more efficiently. Clients continue to seek greater transparency, responsiveness and value from outside counsel, prompting firms to evaluate how technology can support both client service and business objectives. While technology investments create significant opportunities, they also introduce new considerations related to governance, cybersecurity, vendor management and operational resilience. As firms continue to modernize, leadership teams are focusing on how technology can deliver measurable business value while supporting broader risk management goals.

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Cybersecurity Remains a Strategic Risk

Law firms continue to be attractive targets for cybercriminals because of the sensitive information they manage and the trusted role they play in high-value business transactions. Confidential client information, intellectual property, litigation materials, financial records and privileged communications remain highly valuable targets.

In response, firms continue to strengthen cybersecurity programs through multifactor authentication, employee training, vendor risk assessments, incident response planning and enhanced monitoring capabilities. Increasingly, these measures are viewed as business priorities rather than solely technology initiatives.

Cyber incidents can also create consequences that extend beyond data security. Service interruptions, unauthorized disclosure of confidential information and related client impacts may increase professional liability concerns. As a result, many firms are taking a more integrated approach to cybersecurity, risk management and insurance planning.

Insurance carriers continue to place significant emphasis on cybersecurity maturity during underwriting and renewal discussions. Firms demonstrating strong controls, formal response plans and ongoing employee education may be better positioned as insurers are evaluating increasingly sophisticated cyber exposures.

Wire Fraud and Social Engineering Continue To Challenge Firms

While ransomware often receives the most attention, business email compromise and social engineering attacks remain among the most significant financial risks facing law firms. Organizations involved in real estate transactions, mergers and acquisitions, trust account administration and other financial activities often face heightened exposure to fraudulent wire transfer schemes.

These attacks often rely on human behavior rather than technical compromise. Fraudsters use convincing emails, spoofed identities and fraudulent payment instructions to persuade employees to authorize transactions. As attack methods continue to evolve, firms are increasing their focus on payment verification procedures, employee training and transaction approval protocols.

Wire fraud also presents unique insurance considerations. Losses may fall under crime insurance, funds transfer fraud provisions or social engineering endorsements rather than traditional cyber insurance policies. As a result, many firms are evaluating operational controls and insurance structures to help ensure coverage aligns with their exposures.



Attorney Mobility Continues To Influence Growth Strategies

Competition for legal talent remains strong, and lateral hiring continues to play an important role in growth strategies across the legal sector.⁴ Strategic recruitment can help firms expand capabilities, strengthen client relationships, enter new markets and accelerate growth objectives.

However, attorney mobility introduces risks that extend beyond talent acquisition. Professional liability exposure, conflict management, prior acts considerations, claims history and insurance implications can follow attorneys long after they join a new organization. Increasingly, firms are incorporating broader risk assessments into the lateral hiring process to better understand these exposures before onboarding occurs.

Partner departures create a different but equally important set of challenges. Client transitions, file transfers, reporting obligations, active matters and continuity planning all require careful management to minimize disruption and reduce potential liability concerns. Firms that implement structured onboarding and offboarding procedures are often better positioned to support successful transitions and preserve client relationships.



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Workforce Risks Continue To Evolve

Employment practices liability remains an important focus area for law firms. Like organizations across other professional service sectors, firms continue to address issues related to compensation equity, workplace culture, employee retention, succession planning, performance management and leadership development.

Many of these issues are particularly nuanced within law firms, where partnership decisions, origination credit allocation, advancement opportunities and compensation structures often involve subjective factors. As expectations related to transparency, workplace conduct and organizational culture continue to evolve, firms are reviewing governance practices and internal policies to address emerging risks.

Organizations are also investing in leadership development, formalizing reporting procedures, strengthening employment-related policies and evaluating insurance programs to support evolving workforce strategies. These efforts reflect a broader understanding that workforce-related risks can influence not only legal exposure but also recruitment, retention, organizational culture and overall business performance.

Insurance Programs Face New Expectations

The insurance marketplace for law firms remains generally stable, with available capacity and continued competition across many segments of the Lawyers Professional Liability market. However, underwriting discussions are becoming increasingly sophisticated as carriers evaluate emerging risks related to artificial intelligence, cybersecurity, workforce management, governance and growth strategies.

Many firms are also reassessing whether their insurance programs accurately reflect current operations. Growth through mergers, lateral hiring, geographic expansion, technology investments and evolving client demands can significantly change an organization's risk profile over time. As a result, organizations are increasingly reviewing professional liability, cyber liability, crime, management liability and employment practices liability coverage from a more strategic perspective.

Firms are looking for ways to ensure insurance programs support resilience, governance and long-term business objectives. Insurance is increasingly viewed as one component of an integrated risk management framework rather than a standalone solution.

From Emerging Risks to Strategic Decisions

The legal industry is entering a period where growth, innovation and risk management are becoming increasingly interconnected. Artificial intelligence, evolving client expectations, cybersecurity threats and ongoing workforce pressures are creating both opportunities and new operational challenges for firms.

As firms evaluate investments in technology, pursue strategic growth initiatives and compete for talent, leadership teams are being asked to make more complex decisions about governance, data security, organizational culture and business resilience. The firms that are best positioned for long-term success may be those that take a proactive and coordinated approach to these issues rather than addressing them independently.

Increasingly, clients, insurers and other stakeholders are looking beyond financial performance alone. They want to understand how firms manage risk, protect sensitive information, govern emerging technologies and maintain operational continuity in a rapidly changing environment.

As a result, risk management is becoming more closely aligned with broader business strategy. Organizations that regularly assess emerging risks, strengthen governance practices and align their insurance programs with evolving exposures may be better positioned to adapt to change, strengthen client trust and support sustainable growth in the years ahead.



SOURCES

¹Thomson Reuters, “2026 Report on the State of the US Legal Market,” Jan 2026.

²North Carolina Bar Association, “By the Numbers: What Surveys Show About Law Firm AI Adoption,” May 2026.

³Axios, “Courts aren’t ready for AI-generated evidence,” July 2025.

⁴NALP, “U.S. Law Firm Lateral Hiring Shows Broad Growth in 2025,” May 2026.

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