



# Legal Tech

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## Summary

- › Legal Tech mainly refers to technologies that can assume genuinely legal activities and – in certain areas – can carry out these activities faster and more reliably than a human being.
- › The essential range of applications of Legal Tech includes technical solutions and business models aiming at private clients as well as business consultancies and corporate lawyers.
- › Current fields of activity for Legal Tech mainly can be found in the areas of competence development, adaptation of regulatory framework conditions and consumer protection.
- › Future Legal Tech applications will probably also support jurisdiction in court.
- › Legal Tech solutions based on artificial intelligence (AI) and distributed ledger or rather blockchain technologies are still at an early stage of development.

## What is involved

In a broader sense, Legal Tech refers to the use of modern **information and communication technologies in the context of legal consulting**, whereas in a narrower sense, the term covers technologies that can assume genuinely legal activities and – in certain areas – can carry out these activities faster and more reliably than a human being. Thus, Legal Tech solutions automate activities that have been previously performed by lawyers and employees of other legal professions directly affect the provision of legal services.

Legal Tech can be understood as **specific software applications** used by lawyers in the context of their service provision or it can represent completely new **business models** with which Legal Tech companies position themselves in the legal services market as an alternative to conventional law firms.

## Fields of application

Legal Tech offers a wide range of applications (fig. 1). Basically, there are two fields of application that can be distinguished

according to their primary target group of customers: solutions and business models for private legal services (business-to-consumer [B2C]) as well as applications for business consultancies and corporate lawyers (business-to-business [B2B]). In addition, areas of jurisdiction and dispute resolution constitute another context of application.

In the field of **private legal services**, Legal Tech provides consumers with a new and more effective access to justice, i. e. better ways of enforcing their legal claims against third parties. Automated legal consulting products are services provided by companies that specialise in the enforcement of claims, e. g. claims for compensation in connection with delays or cancellations of various means of transport, for example for rail or air travels. Moreover, there are services e. g. for legal support with regard to tenancy law, for the avoidance of fines in traffic offences or for the cancellation of subscriptions.

For **business consultancies and corporate lawyers**, Legal Tech applications are particularly relevant in the form of specific technical aids which support specific activities of lawyers such as document research and analysis or the drafting and adjustment of contracts by means of (partially) automated solutions and thus increase the efficiency of service provision.

Although **jurisdiction and dispute resolution** have not yet been key applications of Legal Tech, solutions based on these aspects can – as a matter of principle – also support work in court. The spectrum of possible applications is broad and ranges from electronic file management to the automated processing of uniform disputes. With Online Dispute Resolution (ODR), it is already possible to assert rights from online transactions via private arbitration bodies without involving the judiciary. This approach could be exemplary for (partially) automated court proceedings.

## Client

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## Market potentials and competition

With regard to **start-up and investment dynamics**, it can be seen that not only the number of start-ups and rounds of investment in the B2B sector is significantly higher than in the B2C sector, but also the average investment volume.

Legal Tech companies in the field of automated legal consulting products aim at the enforcement of legal claims with small amounts in dispute, which are usually uneconomical for lawyers. Accordingly, such Legal Tech services offered to consumers have not necessarily been in direct competition with services offered by small and medium-sized law firms so far. In this context, competitive pressure arises only for individual lawyers who have specialised in handling legal cases that are easy to standardise.

In the long term, Legal Tech companies will increasingly try to serve the market for higher amounts in dispute within the framework of technological and legal possibilities and thus enter into predatory competition with specialised small and medium-sized law firms.

At the same time, competition between individual companies is also to be expected. Since Legal Tech services in the B2C sector share the characteristics of e-commerce, the usability of websites as well as marketing play a crucial role in

Legal Tech rather tends to affect the competitiveness of large law firms in competition with each other.

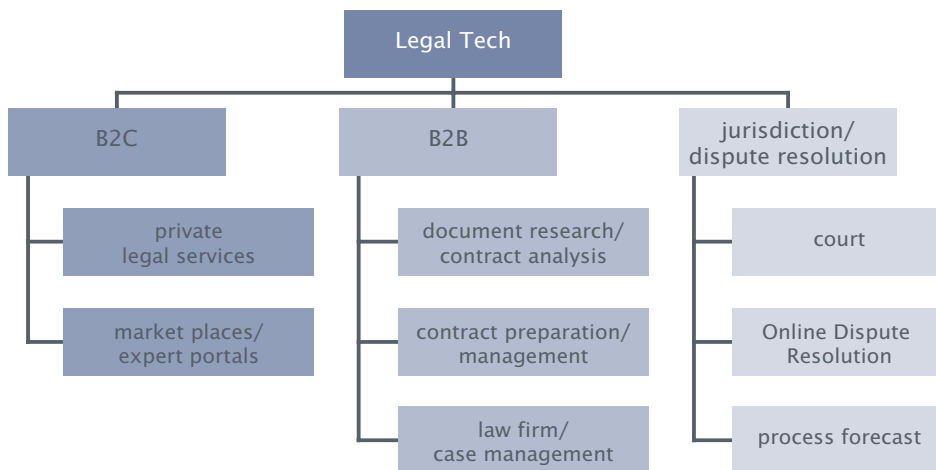
Figure 2 illustrates that the focus of international start-up dynamics can be found in North America.

### Effects in the field of private legal consulting products (B2C)

In the consumer sector, Legal Tech companies help consumers enforce low-value claims effectively and without any risk of loss. Altogether, this will lead to a better protection of consumers by enabling them to enforce their rights more effectively than before, as many consumers still refrain from asserting their claims due to the large amount of time involved, the lack of information or the low likelihood of success.

There is, however, a certain limitation, as consumers cannot assert their claims satisfactorily due to the fees payable to Legal Tech service providers, e.g. in the form of commissions.

Fig. 1 Fields of application of Legal Tech



attracting and retaining potential customers. Already, companies are facing international competition in the area of enforcement of air passenger rights, so that lower commissions are most likely to be expected in this field of application.

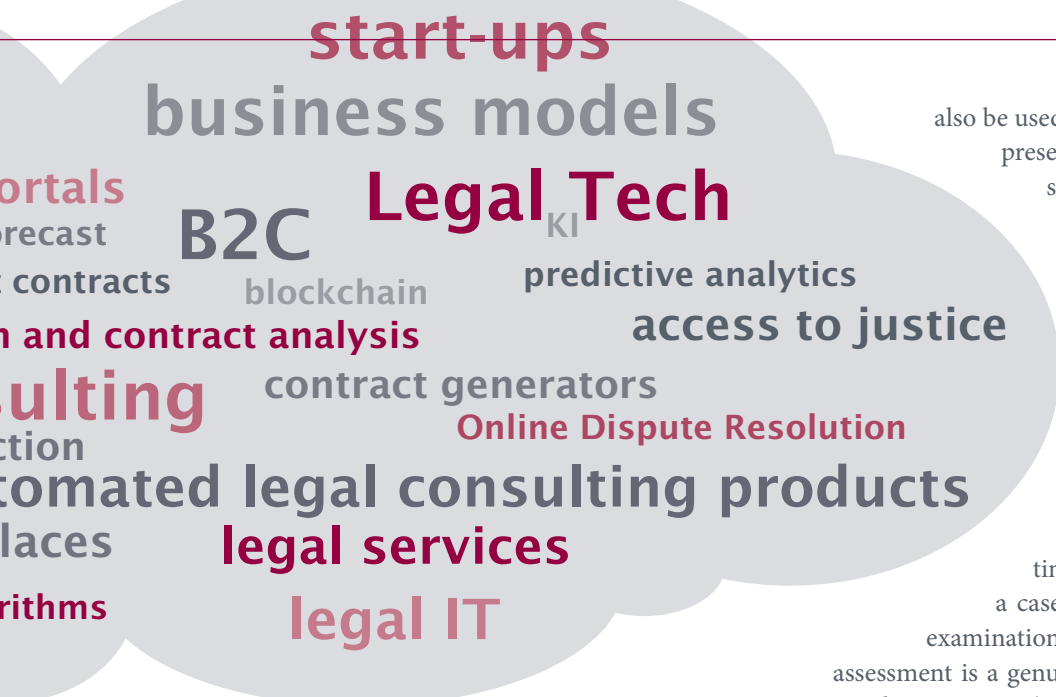
In contrast, large business consultancies or in-house legal departments use the potential of Legal Tech to make internal processes more efficient or to expand their service portfolios by means of (partially) automated services. In this context,

### Effects in the field of business consultancies and legal departments (B2B)

The use of Legal Tech in large law firms and legal departments shows typical patterns of the digital transformation. Here, as in many other markets for digital solutions, technological change is taking place rather gradually than disruptively.

Compared to other sectors and disciplines, the legal profession – especially in small and medium-sized law firms – does not yet seem to be optimally prepared for technological change and its implications for the market for professional legal services. In contrast, leading large or international law firms meanwhile have their own IT or Legal Tech departments where the potential of Legal Tech is already being fully exploited. The need for skills at the intersection of law and computer science is correspondingly high, but lawyers with IT know-how are rare due to their rather traditionally organised professional training.





also be used in courts to increase efficiency and represent an opportunity to relieve the expensive and scarce judicial resources. However, it remains to be clarified in which tangible contexts the legally compliant use of Legal Tech can create added value in practice.

Moreover, Legal Tech developments affect comprehensive regulatory framework conditions for the provision of legal services. Legal Tech services for consumers are sometimes in legal limbo, as they may involve a case-by-case assessment, such as e.g. the examination of legal issues. However, case-by-case assessment is a genuinely legal service under the German Legal Services Act (Act on Out-of-Court Legal Services), the provision of which is prohibited for non-lawyers.

### Implications for the administration of justice

In the long term, future Legal Tech applications will also influence jurisdiction in court. Online Dispute Resolution as another facet of Legal Tech seems to be a first step towards online courts. As a matter of principle, Legal Tech aids can

In this respect, there is still a need for clarifying and fine-tuning the Legal Services Act with regard to the areas of legal consulting in which Legal Tech companies may be active – also in terms of effective consumer protection.

### Further development of Legal Tech applications

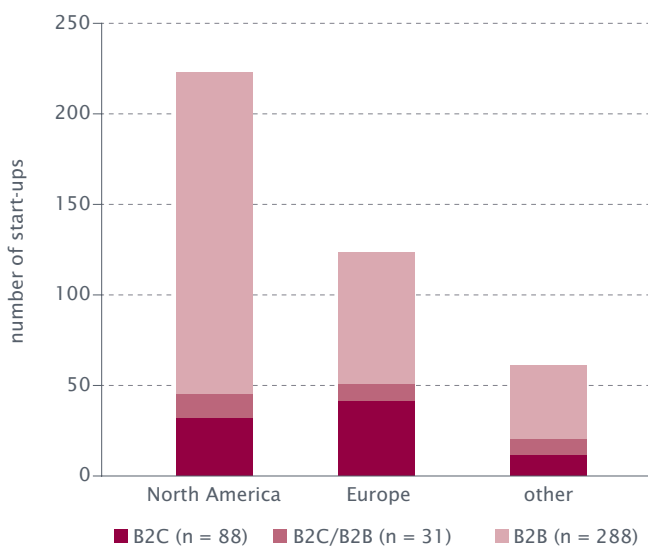
It is expected that Legal Tech applications will be substantially further developed by means of AI and distributed ledger or rather blockchain technologies. In the long term, both technologies could contribute to the automation of single legal activities or entire processes and to the realisation of novel procedures, e.g. in the implementation of contracts (smart contracts). AI is already being used to some extent in individual applications such as document and contract analysis. AI-based Legal Tech applications are likely to unfold their primary significance in the B2B sector. However, there are still numerous technological challenges to be tackled in order to actually benefit from the desired development potential.

Legal Tech companies are frequently associated with a disruptive potential in the public (self-)portrayal, yet in most cases, this image must be put into perspective. Looking at current examples of Legal Tech applications, algorithms cannot yet master the individuality and complexity of legal activities. This may change in the future against the background of the expected further developments of relevant technologies.

### Options for action

Fields of action derived from the potentials and impacts arise primarily in the following areas:

**Fig. 2** Legal Tech start-ups in various regions of the world (founded between 2008 and 2017)



North America: USA and Canada

Europe: Belgium, Denmark, Germany, Estonia, Finland, France, Great Britain, Ireland, the Netherlands, Norway, Austria, Portugal, Russia, Spain, Sweden, Switzerland and Spain

Other: Australia, Brazil, Chile, China, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Singapore and Taiwan

Quelle: AtomLeap GmbH

- > competence development,
- > adaptation of regulatory framework conditions and
- > consumer protection.

In addition, further research is needed to fully assess the disruptive potential of new technologies with regard to the provision of legal services.

Experts suggest that the curriculum of legal training should be modernised in parts in order to better prepare graduates for the practical significance of digital transformation in everyday work of the legal profession. The development of such courses requires a disciplinary opening with **interfaces to computer science and economics** in particular. Since the demand for IT skills among lawyers and legal practitioners will increase in the short to medium term, it is essential to ensure that training is up-to-date in order to keep up with relevant technological developments (also in an international context) and to be able to take advantage of efficiency benefits.

With regard to regulatory framework conditions, the development of Legal Tech is facing some groundbreaking decisions: Some experts support the idea that the legislature ensures a proactive regulation that encourages innovation, while others want to protect the traditional profile of the legal profession as a social institution. This is why an open discussion process should be encouraged in which various voices from the legal profession, jurisdiction, commercial providers, consumer protection and arbitration bodies will be heard. In order to **enable innovation and protect consumers** at the same time, a legally watertight framework is needed that is open to new technologies and business models, but sets clear limits for untrustworthy providers.

In principle, consumer advice centres welcome the improved **access to justice** through the offer of automated legal consulting products as well as the resulting improved consumer protection. From the point of view of consumer protection, however, the question is why there is a need for such services at all and whether the aim should not rather be to eliminate existing shortcomings and obstacles with regard to the enforcement of consumer rights against companies, so that consumers can assert their rights without the assistance of third parties.

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**Legal Tech – Potenziale und Wirkungen**

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**Website of the project**

[www.tab-beim-bundestag.de/en/research/uV007.html](http://www.tab-beim-bundestag.de/en/research/uV007.html)

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From a research perspective, there is also a **need for clarification regarding the impact of new technologies** on the legal system. This particularly concerns legal applications of Legal Tech solutions based on distributed ledger technologies such as smart contracts, which could fundamentally change the field of contracts. Moreover, there are research issues as to which legal applications of the technology are possible and which aspects, e. g., are affected in terms of data privacy and consumer protection.

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