The Ultimate Guide to Contract Automation and Intelligence for Asset Management Firms

Contract management has evolved

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Routine contracts are ripe for improvement

Asset management firms' in-house lawyers, business associates, and outside counsel wrangle various contracts, like nondisclosure agreements (NDAs), for every deal. But instead of gliding through a smooth and efficient process for routine contracts, many teams encounter inefficiencies that slow down dealmaking.

It turns out that a cumbersome contract creation process is a universal experience. Many organizations struggle to build an efficient contract management program, which impacts team morale and profitability. EY Law and the Harvard Law School Center on the Legal Profession found 92% of organizations planned to change how they handled contracting because of cost and other negative consequences[1].

The bottom line is there's significant room for improvement within contract lifecycle management (CLM), from contract negotiations to contract data analysis. Instead of sticking to the status quo with regard to routine contracts, firms can take advantage of significant developments in legal technology, including digitization, contract automation, and contract intelligence.

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Defining contract automation and contract intelligence

The legal and financial industries are tackling a new problem: Defining the ever-growing field of contract automation and intelligence. Broadly speaking, contract automation encompasses technology that reduces manual tasks associated with legal agreements, which could entail automating contract drafts, contract negotiations, or numerous aspects of CLM.

Contract intelligence integrates artificial intelligence (AI) within contract management. CLM solutions with natural language processing (NLP) and other machine learning (ML) models are moving beyond simple automated tasks or suggestions. Most importantly, contract intelligence solutions give firms the ability to gather and analyze contract data. The result is the ability to drive better business results through contracts.

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The technology behind contract automation and intelligence

AI within contracting relies on ML, which is the creation of computer systems that can learn and adapt by using algorithms. NLP — a subset of ML — understands, interprets, and generates human language in text or voice. NLP solutions include machine translation, automatic summarization, information extraction, and text and voice processing.

Most contract-related solutions on the market aren't true AI — they can't replace a person's experience and intellect. Instead, using NLP and relying on rule-based pattern matching, these solutions extract and alert lawyers to ambiguous or risky text. Solutions moving closer to AI use more advanced NLP models to understand contract language and make suggestions or take action based on the text's true meaning.

Current contract solutions also need continuous input and refinement. Therefore, the data fed into these platforms is critical, and, though it's a simplification, the more data, the better. For example, the more NDAs a contract review platform processes, the more the model learns about NDAs and the more accurate its suggestions are.

Static data isn't enough, though. Contract automation solutions aren't advanced enough to improve without human input. As a result, many vendors are developing human-in-the-loop (HITL) technology. HITL models require human intervention in some way. For instance, an experienced professional validates or corrects the model's suggestions, feeding the model additional information and improving its future results. Gartner, Inc. predicts HITL solutions will make up 30% of new legal tech offerings by 2025[2].

Contract automation capabilities

Contract automation and intelligence span a wide range of technological capabilities, which is why it helps to place these solutions into two broad categories. The first category is automation related to contract creation, including drafting, redlining, negotiations, and final execution. The second category is automation spanning the entire contract lifecycle, including tracking obligations, enforcement, renewals, and expirations.

Many contract creation solutions are point solutions. They focus on performing one or a few tasks extremely well instead of attempting to tackle CLM in its entirety.

Traditional contract execution vs. contract automation

Traditionally, lawyers (or, in some cases, business associates) negotiate contracts through redlining in a Word document. The parties take the contract through several versions, during which they may have a hard time tracking suggestions and versions.

Finally, the parties settle on the contract language and sign, either through an e-signature platform or on paper. A lawyer or associate then saves a digital copy of the contract somewhere, often on a local hard drive, and the parties move forward.

The manual contracting process is time-consuming and prone to errors and inconsistencies. That's often because lawyers and associates don't have a consistent starting point or guidelines. EY Law and Harvard found:

69% of contracts don't follow a playbook or guidance document.

71% of contracts aren't monitored for deviation from standard terms.

75% of organizations don't have pre-approved fallback terms.

Fortunately, contract automation drastically improves and speeds up the contract execution process. For example, some solutions help lawyers draft the initial agreement by pulling data from a form, spreadsheet, or chatbot into a contract template. Other solutions evaluate the language within the contract draft and notify the parties of ambiguous language or provisions outside their preferred terms.

Contract automation requires organizations to designate contract templates, preferred terms, and fallback terms. These efforts not only save time, but also improve consistency and mitigates risk.

Many contract automation solutions improve the collaboration environment and create an audit trail of suggestions and revisions. Parties can make comments, redline, and accept or reject changes within a centralized, real-time environment. Some of these platforms tackle the entire negotiation process, offering approval workflows, notifications, reminders, alerts, and e-signature capabilities. No more Word documents going back and forth through emails, which eventually feel lost to time.

Overall, automation makes the process more efficient and reduces the time firms' in-house lawyers and business associates spend on routine contracts. These agreements are necessary but not the meat of the deal. By freeing up employees' time, they can focus on more strategic tasks.

Traditional contract lifecycle management vs. contract automation
CLM encompasses contract execution, storage, obligation tracking, enforcement, and renewal or expiration. It is a massive undertaking for organizations that deal with hundreds of contracts annually.

Unfortunately, many organizations lack comprehensive contract management programs. EY Law and Harvard found storage and retrieval were persistent issues:

> 49% of contracting professionals said they lacked a defined process for storing contracts after execution.
>
> 90% of contracting professionals said they faced challenges when trying to locate contracts.
>
> 78% of organizations said they don't systematically track contractual obligations.

Employees often save contracts on local machines or networks because their firm lacks centralized document storage. Or, firms use an ad hoc cloud storage platform while still lacking a comprehensive storage system defining how to organize folders and name files. Storage issues make it exceedingly difficult to track ongoing obligations, enforce contracts, and even find contracts — not to mention the challenges firms face if an important employee leaves the organization.

End-to-end CLM solutions resolve many issues associated with unstructured contract creation and management. In terms of storage, CLM solutions offer centralized, cloud-based repositories that firms can organize with their preferred structure and naming conventions. For contract creation, CLM solutions provide collaboration environments, Word integration, and email integration, enabling associates to view contract statuses, comments, and revisions in one place.

Automation also plays a key role through approval workflows, alerts, notifications, and e-signature integrations. These solutions don't typically offer the same level of automation available for contract drafting and negotiations as firms would find in point solutions. However, the technology available in CLM solutions is extremely beneficial to ongoing contract management and obligation tracking.

Contract intelligence capabilities

Contract intelligence arises when firms use more advanced ML models during contract drafting and negotiations. More sophisticated ML can provide suggestions for contract language instead of merely highlighting problematic language based on pattern matching. Currently, this use case is significant and valuable for routine contracts that, in theory, require minimal negotiations. In the future, legal tech providers will better equip AI to help lawyers tackle more complex and bespoke agreements.

Contract intelligence in CLM comes from turning static contracts into structured data, which can provide firms with valuable insights. To begin with, centralized storage with a user-friendly interface, robust search feature, and alerts drastically improves obligation tracking and contract enforcement. As a result, firms can easily keep track of their obligations to investors. Improved obligation tracking is reason enough to adopt contract automation and intelligence technology.

There are additional benefits to contract intelligence, as well. Firms can take advantage of their structured contract data with the right solution. Associates can quickly run reports and derive insights from the firm's hundreds of contracts, including trends and market terms. This capability helps associates navigate the nuances between similar contract provisions and walk into contract negotiations with enhanced knowledge of historical terms.

The future of contract automation and intelligence

In the future, contracts will have a far closer relationship with code. Instead of digitizing documents to turn them into structured data and then using a separate platform to track obligations, smart legal contracts (SLCs) — not to be confused with blockchain — will combine text and code.

In SLCs, firms will automate certain aspects of contract performance. The parties will lay out specific provisions in code, or more likely, in both plain English and corresponding code. That code will automate various obligations, reducing both parties' manual tasks.

The benefits of contract automation and intelligence for asset managers

An inherent benefit of adopting contract automation and intelligence is a more efficient and cost-effective contract management program. Firms' associates can execute agreements faster, then store those contracts and related documents in a secure, centralized platform. Given centralized storage, associates will be able to swiftly find agreements, compare provisions, run reports, and track their obligations to investors.

Overall, the benefits of contract automation and intelligence include:

- Eliminating many repetitive tasks

- Enhancing efficiency

- Improving collaboration and transparency

- Reducing the likelihood of human error

- Reducing reliance on outside counsel

- Reducing contract turnaround times

- Improving overall deal speed

- Improving firm + investor relationships

- Cutting costs

- Enabling data analytics and reporting

- Leveraging historical contract data in future negotiations

For firms on the fence regarding contract automation and intelligence, it helps to recognize the myriad potential use cases during the decision-making process. A new and improved contract management program enables a firm to fulfill numerous responsibilities, including:

- Side letter and Limited Partnership Agreement compliance

- Statutory and regulatory compliance

- SEC exams and other regulatory audits

- Internal audits

- Personnel changes and other events

- Conflicts checks

10 questions to evaluate a firm's contract management workflow

For firms contemplating adopting contract automation, it helps to evaluate their current CLM processes and technology. Firms can begin by identifying the stakeholders integral to this analysis and decision.

Next, firms can document the technology they currently use during the contracting process, which may include email, Word, an e-signature platform, and cloud storage. Finally, firms can map out the workflow for their routine contracts and answer these pertinent questions:

1. Does the firm have business associates without legal expertise handling contract negotiations and drafting?

2. Does the firm have consistent language and terms for routine agreements?

3. Can the firm efficiently collaborate with internal and external stakeholders during contract drafting and negotiations?

4. Can the firm easily track contract markups and versions?

5. Does the firm find routine contracts slow down the dealmaking process?

6. Does the firm spend a significant amount on outside counsel for routine contracts?

7. Does the firm wait months or over one year for outside counsel to create a compendium?

8. Does the firm rely on spreadsheets for obligation tracking?

9. Does the firm know where every executed contract lives?

10. Can the firm quickly access and search its agreements and other fund documents?

The disadvantages of forgoing contract automation and intelligence

Unnecessary costs

When contemplating contract automation and intelligence technology, it helps if a firm calculates the potential cost of failing to improve its contract management processes. One cost is direct and obvious: The price the firm pays for keeping routine contracts in-house or relying on outside counsel. Neither of these options is as cost-effective as advanced technology coupled with a network of highly skilled transactional lawyers.

Lower productivity and morale

The next significant disadvantage is the time routine contracts take up. Firms' in-house lawyers and business associates prefer to focus on high-value and strategic work. Unfortunately, routine contracts continuously pull their attention away from these valuable tasks, reducing their productivity and morale. Additionally, some organizations find repetitive manual tasks, such as routine contracts, harm employee morale enough to impact turnover.

Reputational damage

Another disadvantage is a lack of preparation for the future. Technology and investor expectations are both evolving. Side letters have been increasing in length and complexity for years, and that's unlikely to change. The rising interest in Environmental, Social, and Governance (ESG) factors is one example. Even without regulatory requirements, investors may have their own ESG demands.

Contract automation and intelligence make it far simpler for firms to comply with the growing number of obligations to investors. An inability to keep up could negatively impact a firm's reputation.

Should asset managers work with a contract automation vendor?

Firms can take advantage of legal tech in two ways. One option is to purchase and use a legal tech solution internally — a common option for document or contract lifecycle management platforms. The second approach is to work with a legal tech provider that connects a firm with a network of highly qualified transactional lawyers.
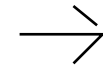
By partnering with a contract automation and intelligence vendor, a firm can take advantage of the new and improved generation of outsourcing. A global network of lawyers trained explicitly in the firm's contract types moves its routine contracts through the automation platform. This arrangement fully automates these high-volume agreements, taking them off the firm's employees' plates. The result frees the firm's skilled and ambitious dealmakers and lawyers to work on value-generating tasks.

Additionally, relying on an outside legal network enables a firm to scale up or down depending on its contract volume. The firm no longer has to worry about overloading its in-house employees or over-resourcing by hiring additional employees or temps. The firm also becomes better equipped to reduce its internal headcount if needed.

The global aspect of this legal network is critical. A provider with offices worldwide ensures it can complete a firm's routine contracts efficiently in any time zone. A global network also supports launching strategies in new market.

Next steps

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When an asset management firm is interested in investing in contract automation and intelligence, it's time to look for the right partner. However, we know searching for the right fit in a legal technology vendor is stressful. We've documented the best approach to finding a long-term strategic partner in **"Successful Outsourcing: An Evaluation Guide for Selecting B2B Vendors"** to smooth any firm's path.

End notes

1. https://clp.law.harvard.edu/assets/ey-contracting-report-june-2021.pdf

2. https://www.gartner.com/en/newsroom/press-releases/2022-02-15-gartner-predicts-that-human-in-the-loop-solutions-will-comprise-30-percent-of-new-legal-tech-automatiotion-offerings-by-2025

About Ontra

Ontra is the global leader in Contract Automation and Intelligence for private asset management firms. The Ontra platform combines AI-enabled software with a worldwide network of highly trained lawyers to modernize recurring legal workflows. Ontra's solutions improve all aspects of the contract lifecycle — from negotiating and processing routine contracts to tracking obligations in complex agreements. Ultimately, Ontra reduces the time, expense, and risk associated with contract management, freeing its customers to focus on other strategic priorities.

Ontra is headquartered in San Francisco, with global operations across North America, Europe, and Asia. Learn more at ontra.ai.

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