



WHAT IS CONTRACT INTELLIGENCE?

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INTRODUCTION

When it comes to contracts, every business learns to deal with several important contractual facts of life. One is that contracts need to accurately protect the company's business interests while adhering to acceptable legal practices and regulatory requirements in relevant jurisdictions. Another is that contracts must be faithfully administered in order to serve their basic business functions. Finally, managing contracts costs a lot. And it's not just the cost of creating and administering contracts. It is the cost of creating and administering contracts inefficiently. **Various industry estimates put the cost of inefficient contracting anywhere from 5% to 40% of the total contract value.**

Contract intelligence is becoming the foundation of effective contract management.

Where does all that money go? Some of it goes into researching terms and conditions to make sure new contracts are consistent with standard practices and dependent business activities. Some goes into simply understanding what contracts say so they can be administered properly. Some goes into losses due to missed opportunities or poor contract management. In fact, if you take a close look at contract lifecycle management, almost every aspect of it is rooted in a necessary but often under-recognized function. That function is **contract review and analysis - examining and understanding the key terms and provisions of contracts**. Standard contract analysis systems surface the contracts to extract simple terms and clauses like names of the parties or termination dates. **Contract intelligence brings Artificial Intelligence (AI) capabilities to contract analysis**, especially the ability to extract, understand and interpret the meaning of provisions. It is becoming the foundation of effective contract management.

WHAT IS CONTRACT INTELLIGENCE?

Fully understanding all the terms and conditions of a contract is central to every aspect of modern Contract Lifecycle Management (CLM), from creation to termination and everything that happens in between - negotiating terms, contract administration, obligation and compliance management, performance management, enforcement, renewal, and other activities. For many businesses, the reason to review contracts include:

- Verifying terms and conditions related to fulfilling the contract
- Addressing contract-based questions that routinely arise during business operations
- For compliance purposes, either fulfilling requirements of a compliance audit, or verifying compliance on the event of regulatory changes, and flagging contracts that may be affected by new legislation
- Assessing corporate risk across the complete set of contracts
- Verifying consistent wording that conforms to standard practices of the business, and flagging those that may be at variance
- Optimizing business relationships through better contract management



Contract intelligence delivers more human-like insights from large contract repositories.

All CLM systems are equipped with capabilities to capture, review and search basic information - name of the parties, start and end dates, contract term, etc. However most CLM systems do not capture key information embedded in a contract, or if they do, they can handle standard documents with simple clauses and little variations, but do not deliver satisfying results when the contracts do not use standard language - for example, contracts from a subsidiary or a competitor, or when the provisions must be interpreted to be accurately classified - for example, because different conditions are listed. This explains why, in many enterprises, subject matter experts still spend a lot of time to manually review and analyze pages and pages of complex legal agreements.

Recently, the term “contract intelligence” has popped up in the context of CLM. But what does it mean exactly and how is it different from contract analytics? To put it simply, **contract intelligence leverages advances in AI and Natural Language Understanding (NLU) to provide more human-like insights into contracts** - advanced contract analytics is another way to describe it. Contract intelligence uses machine learning techniques to:

- Understand description of dates (“not later than ten business days after demand therefore”) and amounts (“equal to three percent (3%) of the shareholders’ equity of XY corporation”)
- Recognize the similarity of phrases like “upon execution of this agreement” and “when the contract is signed”, although they use different wording
- Provide both information regarding semantic similarity (even if the wording is different) along with standard Redlining capability
- Interpret provisions and classify clauses correctly, even if the formulation differs
- Find documents hidden in a repository based on their semantic similarity

Contract intelligence goes beyond extracting key information from contracts.

Contract intelligence is both an empowerment and strategic tool that improves the efficacy of work processes.

Contract intelligence can be seen as an empowerment tool for subject matter experts, who can spend more time correcting the inconsistencies identified by the system, taking action to improve the value of contracts, and building upon the information extracted to optimize

deliverables and processes. **But contract intelligence is also a fantastic strategic tool for managers and decision makers**, who get novel insights from the company's contract repository that improve compliance, risk scoring and financial reporting. More than about efficiency, **contract intelligence is about efficacy**: the contract review process is not only shorter, it delivers also better results which can directly impact the net profit of a company.

TWO EXAMPLE USE CASES

Contract Intelligence is a critical tool to stay compliant with changing regulations, for example to help display the information requested by the legislator on the balance sheet. Regular changes in international or US accounting standards have an impact on the kind of information that must be extracted from lease agreements, for example. While standard CLM systems fail in accurately processing contracts that do not match known formats and templates, contract intelligence can scour thousands of multi-pages, complex lease agreements, reliably extract key data and clauses, and even infer missing information in agreements from the presence of other pieces of data.

The insurance industry is a paper-intensive vertical where contract intelligence can greatly contribute to improving the overall operational efficiency. Take the quoting department, for example. Major insurance carriers receive a large number of quote requests every day from businesses considering changing carriers. It is a common practice for businesses to revisit the insurance coverage they provide their employees, to make sure they are getting the best deal for their coverage. Whenever the insurance carrier receives a request for a quote from a business, they must compare that business's existing contracts to the ones they offer so that they can show where their coverage is the same, and where it differs. This typically involves reviewing and comparing multiple contracts for each quote. The analysis work

involved in processing these quote requests each year is enormous. Contract intelligence solutions has been shown to greatly reduce the amount of manual labor needed, speed up the overall quoting process and increase the quality of quotes.

CONCLUSION

[With Gartner predicting that legal technology budgets will increase threefold by 2025](#), one can expect AI-powered contract intelligence solutions to play a predominant role in the way contracts will be managed in near future. Some CLM vendors have already begun developing their own AI expertise to provide additional analytics capabilities, while others prefer to bet on the expertise of NLU start-ups. Those customers whose existing CLM system does not offer advanced analytics capabilities should assess stand-alone solutions like Cortical.io Contract Intelligence, that seamlessly integrates into legacy systems.

For more information about Contract Intelligence, visit [our website](#) our contact us at info@cortical.io.