

THE AI SUPPLIER CONTRACT DECODER

5 quick wins you can use now



The AI Supplier Contract Decoder

When someone in the business comes to you with a contract from an AI supplier, where do you start?

We've got your back. This practical guide has been shaped by Amber Foster, AI expert, for commercial lawyers. It's packed with actionable tips and compliance quick wins to help you decode your AI supplier contracts.

Keep in mind that AI is rapidly evolving and the regulatory landscape is moving fast. You can't banish risk entirely, but careful contracting and smart compliance processes can keep you ahead of the game. Stay agile and regularly review your approach to contracts as the tech and legal landscape develop.



#1

It's cool – but is it legal?

Just because AI can do it, doesn't mean it should. Some AI uses are banned, some are high-risk, and others are fine. How do you know which is which?

To help figure that out, start by asking a few questions about how the AI tool will really be used.

What is the AI tool actually used for?

If it affects someone's rights, freedoms or opportunities, it's higher risk and you need to look deeper.

Or is the tool doing the heavy lifting on an existing task?

For example, something that's generally lower-risk like summarising documents

Not sure where to begin?

Check if your use case would be banned or deemed high-risk under the EU AI Act. This Act applies to businesses in the UK if the output is used in the EU but even if it doesn't apply it's a useful benchmark

Do sector-specific rules apply?

Some industries have additional guidance or regulatory requirements such as the financial and health care sectors. Check current SRA guidance on AI to stay within your professional duties.

Watch for scope creep

How will you monitor use over time? A low-risk use today could become high-risk in a different context or when combined with new types of data.

Review your HR tech systems for hidden AI features

- The productivity gains can be huge, but using AI to process personal data ramps up the risk on both the privacy and AI compliance fronts. A quick win is to check which systems HR are using; and whether their suppliers are adding on AI components you may not be told directly about.
- Prioritise AI literacy training for your HR and procurement teams. It's one of the quickest wins.

**Quick
Win #1**

#2

Too greedy for data?

All the things you know and love about privacy – lawful basis, data minimisation, transparency, international transfers of personal data and data processors - still stand. But in this new AI world? It’s privacy with a twist.

AI systems are capable of handling huge volumes of data. They can ingest more personal data than is necessary, absorb confidential data and obscure how decisions are made about individuals.

RED FLAGS TO LOOK OUT FOR

▶ **Personal data used for model training**

Does the AI tool use personal data to train, fine tune or optimise the model? If the answer is “yes”, proceed with caution – this is a commercial decision as well as a legal one. You may be handing over value and increasing regulatory risk. A full privacy and information security review is essential here. This includes a DPIA where there is a high risk to individuals.

▶ **Hidden or default model training permissions**

Check the settings! Vendors often bury the right to opt-out of model training in their terms and conditions or tie it to specific tool configurations. This is common with free/low costs tools. Demand the right to opt in: no use of data for training by default.

▶ **Vague or incomplete privacy notices around AI**

Be upfront, AI use belongs in your privacy notice. Don’t hide behind terms like “automation”. Transparency is a legal requirement. Tell people clearly: what the AI does, why you’re using it, whether their data is used to train the model and whether any AI output affects decisions about them. People need to understand how to challenge outcomes – particularly where automated decision-making is used.

▶ **Lack of transparency from vendors about data flow**

Ask vendors exactly where and how personal data will be processed, stored and accessed by them, especially if the AI tools are embedded in a larger system. Don’t assume the vendor is your processor. Many AI providers operate as independent controllers or in mixed roles. Check carefully and make sure the documentation reflects reality.

▶ **Know what you’re feeding the machine**

Your trade secrets, client confidences, and privileged material are valuable assets – don’t let them leak by accident. Not all AI tools carry the same risk, but your people won’t know the difference unless you tell them. Set a clear AI acceptable use policy: which tools are approved, what can go in, what’s off limits. Then train them on it – a policy nobody knows about protects nothing.

Add an AI clause to your standard privacy notice

Keep it short and plain English. Something like “We use AI tools to help us [summarise, review, personalise, etc.]. Where these tools process personal data, we ensure appropriate safeguards are in place such as [insert details]. Your data is not used to train or optimise third-party AI models unless we have clearly told you and have a lawful basis for doing so”.

Quick Win #2

#3 Whose output is it anyway?

AI can generate some amazing results, but who owns the output? And what happens if that output infringes someone else's IP, for example, materials the AI was trained on?

Market norms on liability are still evolving. Some vendors offer limited indemnities for IP claims around the underlying data used to develop the AI model while some will exclude liability entirely.

Most will not guarantee accuracy or originality of the output and will place the onus on you to have human checks in place.

This is a developing area so the savvy lawyer will focus on:

- ✓ Understanding what the contract says about ownership of output - who owns it, who gets to use it, and under what conditions
- ✓ Understanding how important accuracy is to the user of the AI tool and explaining the limitations of AI, and the need for human checking where necessary
- ✓ Are you giving away value for free? If you are granting a vendor rights to reuse your inputs and outputs, are you handing over valuable assets for free?
- ✓ If the contract excludes liability for IP claims, what practical risk mitigation can you put in place?
- ✓ Working out if you take on all responsibility if you commercialise the output of AI and what checks could you use to minimise the risk

Contract checklist

Check what the contract says about:

- Who owns the output
- What rights are you granting the vendor to use your inputs and outputs
- Are any IP indemnities offered and what are their conditions
- Where does vendor's liability end and yours start especially if you need to use the outputs externally
- What does the contract say about accuracy and do the users understand this?

**Quick
Win #3**

#4

Fair play?

AI models learn from human data, which means all the human biases we hold can sneak into AI's outputs. It's a flaw inherent in today's AI. Don't fall into the trap of thinking AI is automatically neutral and fair.

Vendors typically sell their products "as is" and expect you to manage bias. To complicate things further, your vendor may have embedded a third party's AI in their product, meaning they don't even control the AI's training or data sets used. If AI produces discriminatory outcomes, equalities legislation will apply. Your intention is irrelevant.

Some practical tips to manage bias:

- ✓ Understand what is under the vendor's control. Ask the vendor if they conduct regular bias audits and request access to these.
- ✓ Ask the vendor for concrete examples of how they detect and mitigate bias in their systems. Insist on plain English, jargon-free explanations.
- ✓ Require the vendor to disclose any known risks or limitations with their AI, even if they use a model from a third party. Good providers will have clear documentation to help. AI models change over time - their outputs can shift as data or updates alter how they behave. This is called 'model drift.' Require your vendor to flag any changes to their risk assessment.
- ✓ Practical risk management is where it's at. Set up internal AI literacy training so people can spot bias, set up a clear reporting mechanism for raising concerns. And your advice should help internal teams clearly identify processes where human oversight is essential, especially for decisions that impact people.

Vendor Accountability Clause

Include a clear contractual clause requiring your vendor to regularly audit their AI systems for bias, share the results with you and proactively fix issues. This will shift some accountability onto the vendor and help you with your internal risk management.

Quick Win #4

#5

No smoke and mirrors: Transparency and accountability

AI can seem mysterious, but it shouldn't be. Vendors may market AI as a "black box," expecting you to trust it blindly. Don't fall for it. Transparency and accountability should be standard practice.

Practical tips to get some clarity

1. Ask your vendor exactly when and how their AI systems are used. Require clear and simple explanations of how their AI arrives at decisions or recommendations.
2. Insist on jargon-free explanations for AI-generated outputs, especially for critical decisions affecting people. This will help you with your DPIAs or AI impact assessments.
3. User transparency is a non-negotiable and a key principle central to AI regulation in many jurisdictions. You must make it clear to users when they are interacting with AI. Does your chosen tool support this? And the vendor must give you enough information so you can explain to users how and why AI decisions impact them.

Transparency Clauses

With vendors: devise simple core AI principles you want all AI vendors to sign up to. Require all vendors to clearly document and openly share how their AI systems work, the logic behind decisions, and any significant changes to their processes.

Clients and colleagues: develop a short, friendly notification sentence you can use to flag where AI has been used or where someone is interacting with AI. No long complicated disclaimer sentences please! There are some great clear and approachable examples out there in the marketplace - be inspired by those. Or ask your favourite AI tool to help you generate one.

**Quick
Win #5**

#6 Keep learning

AI will keep evolving at speed. You don't have to dive into it every day, but staying connected to the major changes matters, particularly if you want to grow your skills and stay ahead of the curve.

If you'd like to explore further, we've got some great resources:

[The AI Risk-to-Reward Toolkit](#)

A toolkit that gives practical, time-saving tools to enable AI use safely and confidently.

[How to shine when AI is changing the game](#)

An on-demand webinar sharing how to work hand-in-hand with AI to become the ultimate dream team for your business.

[The 3C Formula](#)

Following on from the webinar, this resource introduces The 3C Formula. This framework will help you stay confident, clear, and in control by leaning into your uniquely human strengths while AI changes the game.

Want to talk it through?

Whether you're procuring new technology or strengthening existing agreements, we can help you navigate the detail and make informed decisions.

Get in touch today.

ABU DHABI

dubai@lodlaw.com

LONDON

info@lodlaw.com
+44 20 3642 0000

SINGAPORE

singapore@lodlaw.com
+61 8 6380 7600

BRISBANE

brisbane@lodlaw.com
+61 7 3221 2906

MELBOURNE

melbourne@lodlaw.com
+61 3 9639 1733

SYDNEY

sydney@lodlaw.com
+61 2 8014 5110

CAPETOWN

info@lodlaw.com

NASHVILLE

usa@lodlaw.com

WASHINGTON D.C.

usa@lodlaw.com

DUBAI

dubai@lodlaw.com
+971 4 4019968

NEW YORK

usa@lodlaw.com

HONG KONG

hongkong@lodlaw.com
+852 3796 3195

PERTH

perth@lodlaw.com
+61 8 6380 7600

About Lawyers On Demand

We help in-house counsel around the globe answer ever-increasing calls from their business to deliver more value, run more efficiently, and bring data, insights and ideas to the table. With our world-class flexible talent and legal operations solutions, we help them build legal functions that are strategic, responsive, and ready for anything.

At the same time, we help legal professionals practice law more flexibly and happily.

Lawyers On Demand (LOD) pioneered the very first alternative legal service in 2007, and we continue to lead the exciting market we created. Acquired in 2023 by Consilio, a renowned leader in legal consulting and services, we are the largest and fastest-growing flexible legal services business in the world. With over 4,500 world class lawyers, legal operations experts, paralegals, and risk and compliance professionals, we support clients in over 25 countries across the UK & Europe, Australasia, Asia, The Middle East and the US.

We find new ways to boost the value that in-house legal teams and legal professionals deliver, today, tomorrow and in the future.

