

AI-ENABLED OUTSOURCING

KEY CONTRACT, PRICING, AND GOVERNANCE CONSIDERATIONS

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AI is becoming an operating layer inside outsourced services, not merely a discrete tool added at the edge of a provider solution. That shift is changing how companies evaluate outsourcing opportunities, negotiate contracts, price services, manage service provider dependency, and oversee performance and compliance over time.

For many organizations, the business case for outsourcing has moved beyond traditional labor arbitrage and routine process transfer. AI-enabled automation, machine learning, predictive analytics, and intelligent workflow platforms can reduce manual effort, accelerate service delivery, and support broader digital transformation objectives. Those benefits, however, bring new legal, commercial, operational, and governance questions that should be addressed early and revisited throughout the life of the relationship.

Building on our *Tech & Sourcing* [AI & Outsourcing series](#), this report combines our analysis of how AI is reshaping outsourcing and managed services, from contract terms and pricing models to digital dependency, transformation planning, and governance.

HOW WE CAN HELP

Morgan Lewis helps clients structure, negotiate, and govern complex outsourcing and technology transactions that incorporate AI-enabled tools and services. Our outsourcing and technology transactions team advises on the full lifecycle of these arrangements, including transaction strategy, negotiation and drafting, governance design, data and intellectual property (IP) rights, pricing structures, compliance obligations, risk allocation, and exit planning.

We also work with organizations to develop practical governance frameworks for AI-enabled outsourcing relationships, including policies, approval processes, service provider oversight models, audit and reporting structures, and approaches for adapting to evolving legal requirements across jurisdictions. Morgan Lewis helps clients pursue innovation while maintaining appropriate control, accountability, and operational resilience.

KEY TAKEAWAYS

- AI is changing the outsourcing value proposition, with companies increasingly looking for innovation, speed, resilience, scalability, and data-driven insights in addition to cost savings.
- Traditional outsourcing terms may not fully address AI-related risk. Contracts should be reviewed for data use, IP, AI-generated work product, model transparency, testing, validation, compliance, and liability allocation.
- With service provider lock-in risk growing, proprietary AI tools, customized models, integrated platforms, and provider-controlled data environments can make transitions more expensive and operationally disruptive if portability and exit rights are not negotiated up front.
- Pricing models are evolving. Full-time equivalent (FTE), time-and-materials, and transaction-based pricing may not align with AI-enabled service delivery when labor inputs fall but business value increases. Outcome-based, gain-sharing, consumption-based, benchmarking, and repricing mechanisms may better align incentives if carefully drafted.
- Transformation work should be treated as a core deal component. Milestones, deployment responsibilities, data and infrastructure dependencies, post-implementation service levels, change management, and value measurement should be documented at the outset.
- Governance is becoming broader and more dynamic. AI oversight should connect contract management with legal, compliance, privacy, cybersecurity, procurement, business, and technology stakeholders so that performance, regulatory change, and risk can be monitored over time.

AI IS REFRAMING THE OUTSOURCING MODEL

Outsourcing arrangements historically have been structured around shifting defined functions, processes, or technology support to a third-party provider with the expectation of reduced costs, increased capacity, or operational efficiency. AI is expanding that model. Providers are increasingly incorporating automation engines, virtual agents, machine learning models, analytics tools, and integrated digital platforms into service delivery.

The result is a broader range of outsourced capabilities. In customer support and operations, AI-enabled chatbots, virtual assistants, and natural language processing tools can triage and resolve routine inquiries, route more complex issues, and generate insights from customer interactions. In finance, healthcare administration, cybersecurity, IT services, and other knowledge-based functions, AI tools can process large data sets, identify anomalies, flag compliance issues, forecast demand, and support faster response to operational risks.

Human involvement remains central, particularly where judgment, empathy, escalation, or relationship management is required. However, the changing mix of human, automated, and AI-assisted work affects not only the service model, but also how parties define performance, allocate responsibility, protect data, measure value, and preserve flexibility as technology continues to evolve.

CONTRACT TERMS SHOULD ADDRESS AI-SPECIFIC RISKS

Traditional outsourcing agreements remain foundational, but many were drafted around relatively stable processes, human-delivered services, and predictable technology environments. AI-enabled services introduce variables that require the parties to relook at many of the underlying assumptions.

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Contract negotiations increasingly focus on whether the agreement gives the customer appropriate visibility, control, and remedies to manage those risks while preserving room for the service provider to innovate. Particular attention should be given to the following areas:

Data Use and Protection

- Whether and how customer data may be used to train, tune, test, improve, or operate AI systems
- Restrictions on using customer data to develop generalized models or improve services for other customers
- Controls for confidential information, trade secrets, personal data, regulated data, and sensitive business information
- Data localization, retention, deletion, return, and audit obligations
- Cross-border transfers and privacy compliance requirements

IP and Output Ownership

- Ownership and permitted use of AI-generated product, reports, code, recommendations, analytics, and other deliverables
- Rights in improvements, workflows, configurations, documentation, model outputs, and integrations developed during the engagement
- Provider rights in underlying models, platforms, and preexisting tools, balanced against customer access and continuity needs
- Limitations on cross-client use of learnings, data-derived insights, or customer-specific improvements

Risk Allocation and Accountability

- Human review and approval requirements for high-impact decisions or regulated processes
- Testing, validation, monitoring, and audit obligations for AI-enabled functions
- Obligations to comply with evolving AI laws, industry standards, and customer policies
- Incident notice, investigation, remediation, and reporting procedures for AI-related failures or unexpected outcomes
- Indemnities, limitation of liability exceptions, and insurance requirements tailored to AI-related performance, cybersecurity, IP, privacy, or regulatory risks

These provisions are especially important in regulated sectors—including financial services, healthcare, life sciences, and legal services—where the consequences of data misuse, inaccurate outputs, or inadequate oversight can be significant.

DIGITAL DEPENDENCY RAISES EXIT AND PORTABILITY PLANNING ISSUES

AI-enabled outsourcing can deepen a customer's reliance on a service provider. That dependency may arise when service provider systems become embedded in daily operations, when AI models are customized using customer workflows or data, or when the service provider has control over key infrastructure, datasets, documentation, or platform functionality. These dependencies can create practical lock-in risk even when the agreement includes standard termination rights.

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Lock-in concerns may be heightened where services depend on proprietary models, service provider–specific automation, unique training data, complex integrations, or limited transparency into how AI systems operate. In those circumstances, moving to another service provider or bringing services back in-house may require retraining models, rebuilding interfaces, replacing workflows, or replicating operational knowledge that was not sufficiently documented.

Customers should assess digital dependency in two dimensions: risks during the term and risks at exit.

Risks During the Term

- Reduced ability to adopt competing or complementary technologies
- Dependence on provider-controlled updates, enhancements, or material platform changes
- Limited visibility into AI-assisted decision-making, testing, and validation processes
- Exposure to the provider's cybersecurity, privacy, regulatory, or operational failures

Risks at Transition or Termination

- Higher transition costs and longer migration timelines
- Difficulty porting data, workflows, configurations, prompts, models, or model-derived outputs
- Business disruption if AI-enabled processes cannot be replicated quickly
- Loss of operational knowledge where documentation and technical specifications are incomplete

Contractual protections can help manage these risks. Customers may seek clear data ownership and export rights, interoperability requirements, access to documentation and technical specifications, transparency and audit rights, restrictions on exclusive or proprietary dependencies, source code escrow or contingency access where appropriate, detailed exit assistance, and transition cooperation obligations. Internal planning is also important. Organizations should maintain oversight of critical AI-enabled processes, avoid unnecessary customization where possible, evaluate service provider concentration risk, and plan for continuity and exit scenarios early in the relationship.

PRICING MODELS ARE MOVING BEYOND LABOR INPUTS

AI also changes the economics of outsourcing. Many traditional pricing structures are built around the amount of labor or transaction volume required to deliver services. As automation reduces manual effort, those metrics may not fully capture the value delivered to the customer or the investment made by the service provider.

A central commercial question is how to allocate the benefits of AI-driven efficiency. Customers may expect automation to reduce fees over time. Service providers may seek to retain part of the savings to recover investments in tools, implementation, infrastructure, and ongoing innovation. Sustainable arrangements often require a more precise definition of what value is being created, how it will be measured, and when pricing should adjust.

Pricing models under consideration in AI-enabled outsourcing arrangements may include:

- Outcome-based fees tied to defined business results, service quality improvements, compliance metrics, or transformation milestones
- Shared savings or gain-sharing models that allocate measurable efficiency benefits between the customer and service provider

- Automation-driven pricing adjustments that account for reduced manual effort or changed staffing assumptions
- Consumption-based or usage-based structures linked to platform use, transaction volume, processing capacity, or other measurable utilization data
- Innovation funds, transformation incentives, or milestone payments for implementation of AI-enabled capabilities
- Periodic benchmarking, repricing, or review mechanisms that allow the commercial model to be recalibrated as technology and service delivery evolve

These models can align incentives more effectively than traditional approaches when the contract defines the measurement methodology, data sources, baseline assumptions, exclusions, audit rights, dispute process, and governance cadence. Without that detail, value-based pricing can create disputes over whether savings or performance improvements were achieved and how the resulting benefits should be allocated.

TRANSFORMATION SHOULD BE BUILT INTO THE DEAL

Many AI-enabled outsourcing transactions involve more than handing existing work to a third party. They often include a transformation initiative designed to modernize processes, deploy automation, redesign workflows, consolidate data, or integrate new technology into the customer's operations. In some transactions, the transformation component is a significant part of the business case.

Because transformation work can affect timing, fees, staffing, risk allocation, and performance expectations, it is often better addressed as a core deal component rather than as a secondary implementation detail. The parties should define how transformation projects will be designed, approved, deployed, measured, and governed.

Key planning points include the following:

- Milestones, deliverables, acceptance criteria, and dependencies for AI deployment and workflow redesign
- Responsibility for technology configuration, integration, testing, data readiness, and change management
- Post-implementation service levels, reporting, and fee adjustments
- Measurement of productivity gains, performance improvements, and cost savings
- Procedures for technology changes, model updates, new AI use cases, and business stakeholder approvals
- Employee transition, training, reskilling, and communications considerations where service delivery roles change

Early alignment on these issues can reduce disputes and help support AI-enabled transformation that advances the customer's operational goals while addressing compliance, continuity, and workforce considerations.

GOVERNANCE IS BECOMING A CORE RISK MANAGEMENT FUNCTION

Outsourcing governance has traditionally focused on relationship management, service levels, issue escalation, reporting, and commercial performance. AI broadens that role. When AI is embedded in outsourced processes,

governance also becomes a mechanism for monitoring legal compliance, model performance, data use, transparency, cybersecurity, operational resilience, and regulatory change.

Organizations should be able to answer practical questions about the AI tools used in outsourced services:

- Where are AI systems being used, and for what purposes?
- Who hosts, owns, or operates the relevant tools, models, infrastructure, and data stores?
- What data is used to train, test or operate, the tools?
- Who validates outputs, and when is human review appropriate or required?
- What controls are in place to identify bias, inaccuracies, cybersecurity vulnerabilities, or other unintended outcomes?
- How are AI-related incidents escalated, investigated, remediated, and reported?
- Which legal, regulatory, contractual, or industry-specific requirements apply?

These questions usually require coordination beyond the outsourcing management team. Legal, compliance, privacy, cybersecurity, technology, procurement, business, risk, and finance stakeholders may need defined roles in approving AI use cases, monitoring service provider performance, and responding to issues.

Governance rights in the contract may include expanded audit and reporting obligations, AI-specific performance metrics, transparency around model updates and material changes, access to documentation and testing results, incident response procedures, AI oversight committees, periodic risk reviews, and compliance certifications. Those rights should connect to the organization's broader AI governance program, including AI inventories, policies and standards, service provider risk management processes, training, regulatory monitoring, and business continuity planning.

As AI regulation develops across jurisdictions, flexible governance will become more important. The parties should anticipate that legal requirements, industry standards, and internal policies may change during the term of a long outsourcing agreement, and contracts should provide a workable path for adapting to those changes.

PRACTICAL PLANNING CHECKLIST

Companies considering or renegotiating AI-enabled outsourcing arrangements should consider the following steps:

- Inventory proposed and existing AI uses in outsourced services and distinguish service provider tools, customer tools, third-party tools, and jointly configured solutions.
- Map the data involved in each AI use case, including data sources, access rights, training or improvement uses, retention periods, storage locations, and cross-border transfers.
- Identify critical processes where human oversight, validation, escalation, or approval may be appropriate or required.
- Review contracts for AI-specific provisions addressing data, IP, confidentiality, compliance, transparency, audit, incidents, liability, insurance, and exit rights.
- Assess digital dependency and transition risk before signing, including portability of data, workflows, configurations, documentation, model outputs, and integrations.

- Select pricing structures that align with the business case and define metrics, baselines, governance, audit rights, and adjustment mechanisms with precision.
- Document transformation responsibilities, milestones, dependencies, acceptance criteria, and post-implementation service levels.
- Establish a cross-functional governance structure that can review AI use cases, monitor risk, track regulatory developments, and support decision-making during the life of the agreement.

AI-ENABLED OUTSOURCING ISSUES AT A GLANCE

Focus Area	Questions to Consider
AI use and transparency	What tools are being used? Who controls them? What documentation, testing results, and change notices will the customer receive?
Data rights	Can customer data be used for training, improvement, or cross-client learning? What restrictions apply to confidential, personal, regulated, or sensitive data?
IP and outputs	Who owns AI-generated work product, customer-specific configurations, workflows, prompts, and improvements developed during the engagement?
Performance and liability	How will AI-enabled performance be measured? What happens if outputs are inaccurate, biased, insecure, noncompliant, or operationally disruptive?
Pricing and value	How are productivity gains, cost savings, transformation benefits, and provider investments measured and shared?
Exit and portability	Can the customer transition data, workflows, documentation, integrations, and operational knowledge without undue cost or disruption?
Governance	Which stakeholders review AI use cases, monitor compliance, approve material changes, and manage incidents or regulatory developments?

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