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JUDGMENT DAY? :

The Future of AI in the Legal, Hospitality, and Retail Fields

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Artificial Intelligence

The use of Artificial Intelligence (“AI”) has become nearly ubiquitous in every sector of business. This is equally true for the legal and insurance fields, as well as hospitality and retail. So, should we fear a science-fiction style AI takeover?

No, robots and AI are not going to take over the world, but we can certainly expect significant economic and employment shifts as AI continues to grow and transform the industries it touches. AI will reshape work, require adaptation in skills, create new opportunities for employees in almost every field, but also present new risks.

There are several iterations of AI primarily being utilized, which are briefly outlined below¹:

- **Artificial Intelligence (AI):** The broad discipline of building machines capable of performing tasks that traditionally require human intelligence, such as planning, reasoning, and decision-making.
- **Machine Learning (ML):** A core subset of AI that enables a machine to learn from data and improve from experience without being explicitly programmed for every task. ML algorithms identify patterns in large datasets to make predictions or informed decisions, such as identifying potential fraud or making product recommendations.
- **Generative AI (GenAI):** A specialized branch of AI (and thus ML) focused on creating new, original content that resembles the data it was trained on. This includes generating text, images, audio, and code. Examples include systems like DALL-E (images) and ChatGPT (text).
- **Large Language Models (LLMs):** A specific application of generative AI designed for language-based tasks. LLMs are trained on massive amounts of text data to understand context and generate human-like text, answer questions, and translate languages.
- **Retrieval-Augmented Generation (RAG):** An AI framework that boosts Large Language Models (LLMs) by letting them access and use external data (like company documents or the web) *before* generating a response, acting like an "open-book" exam instead of relying just on memory.
- **Deep Learning (DL):** A type of machine learning that uses multi-layered neural networks (inspired by the human brain) to analyze complex patterns in data, which is foundational for modern GenAI and ML applications like image and voice recognition.
- **AI Agents:** Systems that use powerful AI models, often LLMs, to autonomously understand and complete complex, multi-step tasks for humans by leveraging various tools and external data.

AI can be used in a variety of ways to assist with tasks such as research, document review, data management, and myriad other applications, with GenAI and LLM being of particular help in the legal field. These tools can be helpful in accomplishing tasks more quickly and efficiently, but like any tool, if misused or used in a careless manner, it can have adverse impacts.

AI Legal Guidelines

Many states and bar associations have issued their own guidelines and ethical rules for the proper use of AI in the legal field. Courts and judges have repeatedly issued warnings and sanctions regarding the improper use of AI in court filings, and lawyers should continue to exercise diligence in reviewing any filings before the courts.

In particular, the American Bar Association issued Formal Opinion 512², which outlines a host of model rules in the ABA:

- **Model Rule 1.1 (Competence).**

Lawyers must provide competent representation to clients and requires they exercise the “legal knowledge, skill, thoroughness and preparation reasonably necessary for the representation.” Lawyers should understand “the benefits and risks associated” with the technologies used to deliver legal services to clients. As a result, technophobic attorneys will not be able to entirely avoid the use of AI as it becomes more and more ingrained as a tool in the field.

- **Model Rule 1.6 (Confidentiality of Information).**

Under this model rule, a lawyer using GAI must be cognizant of the duty to keep confidential all information relating to the representation of a client, regardless of its source, unless the client gives informed consent. Other model rules require lawyers to extend similar protections to former and prospective clients’ information.

- **Model Rule 1.4 (Communications).**

This model rule addresses lawyers’ duty to communicate with their clients and builds on lawyers’ legal obligations as fiduciaries, which include “the duty of an attorney to advise the client promptly whenever he has any information to give which it is important the client should receive.” Of particular relevance to GAI, Model Rule 1.4(a)(2) states that a lawyer shall “reasonably consult” with the client about the means by which the client’s objectives are to be accomplished.

- **Model Rule 1.5 (Fees).**

This rule requires a lawyer’s fees and expenses to be reasonable and includes criteria for evaluating whether a fee or expense is reasonable. The formal opinion notes that if a lawyer uses a GAI tool to draft a pleading and expends 15 minutes to input the relevant information into the program, the lawyer may charge for that time as well as for the time necessary to review the resulting draft for accuracy and completeness. But, in most circumstances, the lawyer cannot charge a client for learning how to work a GAI tool.

Like any tool, AI must be used safely and in accordance with the rules, regulations, and laws governing particular

fields. As AI has exploded in popularity, so have the instances of negative outcomes and impacts, including sanctions from the courts and suits against businesses.

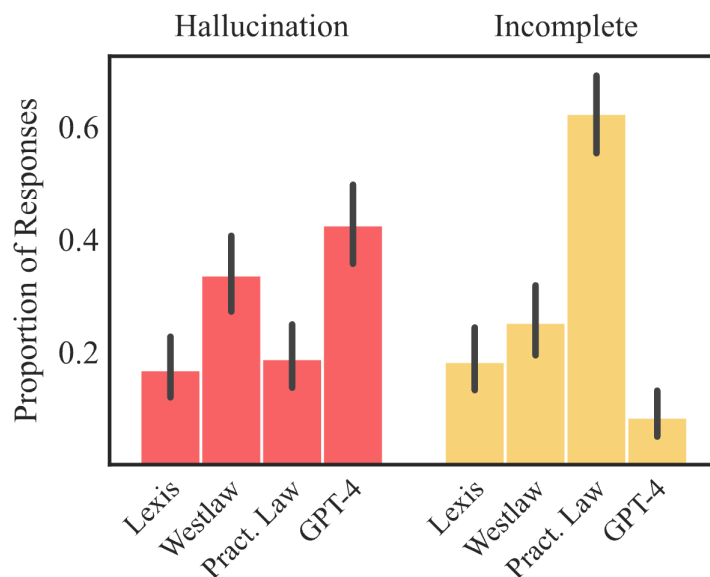
AI Use and Misuse In the Legal Field

Lawyers using AI in the course of their work, in compliance with their professional and ethical standards, should find it to be a helpful tool in their research, writing, and representation. However, lawyers must remain diligent in not relying entirely on AI, must always review their work product, including particularly any submissions to the courts or clients to ensure the accuracy of the contents of their work.

The risks of using AI include the misuse or misunderstanding of case law which is inapplicable to the argument, as well as the risk of entirely fabricated citations to non-existent case law or other documents, known as “hallucinations”.

A study by the Stanford Human-Centered Artificial Intelligence lab regarding general-purpose chatbots found that they hallucinated between 58% and 82% of the time on legal queries³.

Many companies have promoted retrieval-augmented generation (RAG) as a method for reducing hallucinations, including in legal-specific applications and research. For instance, Thompson Reuters claims they “avoid” hallucinations, while LexisNexis claims “hallucination-free” legal citations. The Stanford HAI lab tested those claims, and found them deficient.⁴ While those tools do reduce errors compared to general purpose AI, they still hallucinate 17-34% of the time:



Lawyers should always review any citations in their legal filings and work product, and be particularly wary about the use of any general purpose AI tools. Lawyers who fail to review for such mistakes risk not only doing an injustice to their clients, but running afoul of the courts.

Legal Sanctions for Misuse of AI

As most in the legal community are now aware, the issue of court filings containing citations to non-existent cases as well as citing to non-supportive or non-existent rulings from actual cases, has become such an issue that several courts have had to sanction offending lawyers.

- Mata v. Avianca, Inc., 2023 WL 4114965 at *1 (S.D.N.Y. June 22, 2023)

In June 2023, the U.S. District Court for the Southern District of New York imposed the first-ever sanctions against attorneys for their improper use of generative AI in court pleadings in the Mata v. Avianca, Inc. case. The judge wrote that, “Many harms flow from the submission of fake opinions.”

In the two years since, the instance of filings containing hallucinations, and resultant sanctions against those filing attorneys, have only become more prevalent, while the American Bar Association (ABA), state ethics authorities, and courts have issued guidance, opinions, and orders regarding the use of AI in the practice of law.⁵

- Smith vs. Farwell, et. al., (Lawyers Weekly No. 12-007-24) (Davis, J.) (Suffolk Superior Court) Civil Action No. 2282CV01197 (February 12, 2024)⁶.

The Court sanctioned a Massachusetts lawyer in the amount of \$2,000 for citing fictitious cases in court pleadings that were produced by an AI tool, wherein Superior Court Judge Brian A. Davis wrote, “The blind acceptance of AI-generated content by attorneys undoubtedly will lead to other sanction hearings in the future, but a defense based on ignorance will be less credible, as the dangers associated with the use of Generative AI systems become more widely known.”

- Noland v. Land of the Free, et al, 114 Cal.App.5th 426 (2025)
- Lacey, et al v. State Farm General Ins. Co., C.D. Cal., May 5, 2025, No. CV 24-5205 FMO (MAAx)) 2025 WL 1363069

The Court sanctioned an attorney for submitting a brief containing numerous false, inaccurate, and misleading legal citation sand quotes, including from nonexistent sources. Plaintiff counsel was fined \$31,100 for doing so, their brief was struck, and they were granted no relief from a disputed discovery privilege issue.

Judge Wilner wrote, “Directly put, Plaintiff’s use of AI affirmatively misled me. I read their brief, was persuaded (or at least intrigued) by the authorities that they cited, and looked up the decisions to learn more about them – only to find that they didn’t exist. That’s scary. It almost led to the scarier outcome (from my perspective) of including those bogus materials in a judicial order. Strong deterrence is needed to make sure that attorneys don’t succumb to this easy shortcut.” Id.

- Johnson v. Dunn, No. 2:21-cv-1701 (N.D. Ala., July 23, 2025)

Defense counsel was sanctioned for using citations which were hallucinations made up by ChatGPT.

“The court must determine an appropriate sanction. Fabricating legal authority is serious misconduct that demands a serious sanction. In the court’s view, it demands substantially greater accountability than the reprimands and modest fines that have become common as courts confront this form of AI misuse.”

JUDGMENT DAY: AI in Law and Business

The judge went beyond monetary sanction, and publicly reprimanded the offending attorneys for making “false statements to the court”, disqualified them from further participation in the case, and referred the matter to the state bar.

AI Use In Business

There are a number of concerns regarding AI in other areas of business, including potential risks for privacy, confidentiality, data, as well as direct claim exposure.

Professional Liability

As noted above, the use of AI in the legal field presents significant risk as to professional liability for attorneys. Similar exposure exists in other fields, including with respect to accuracy, reputational harm, and potential claims for professional negligence or breach of contract.

Security & Data Risks

- Key risk points include⁷:
 - Unintended data leakage through AI prompts.
 - Lack of control over data residency and processing by external AI systems.
 - Potential breach notifications, regulatory investigations and fines.
- HIPAA/PHI

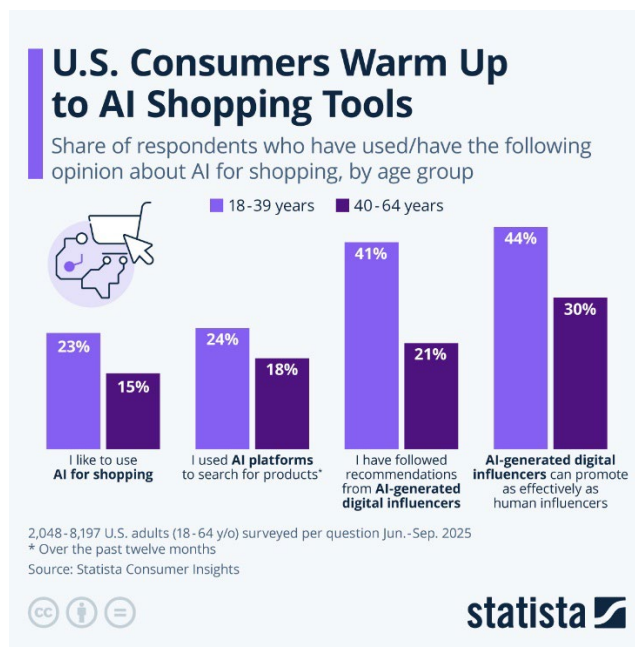
“When AI technology uses large sets of data that are used to train the AI technology for their intended purposes, the data is likely going to include personal data, health data, or even PHI. Because the AI technology is using these types of data, data privacy laws and regulations will impact the AI technology’s uses of that data.”⁸

- Data Management

AI is a useful tool in managing, storing, cataloging and searching data. But using it for such tasks can present risks of exposing confidential, proprietary, or privilege customer, client, or personal data.

AI Agent Concerns

AI Shopping agents have become widespread, with nearly ¼ of younger US consumer utilizing them to shop:



According to the World Economic Forum, with such an increase in use, comes growing scrutiny of AI shopping agents, with concerns around fraud, misuse and questions over who is responsible when an agent makes a purchase on a user's behalf:

“The dangers of using AI agents in business also include significant security risks (data breaches, prompt injection), data privacy violations, amplified bias leading to discrimination, lack of transparency (black box decisions), potential for uncontrolled autonomous actions (error propagation, "digital insiders"), ethical concerns, compliance failures (GDPR/HIPAA), reputational damage, and workforce disruption. These risks stem from agents' broad access, autonomy, and reliance on vast datasets, requiring robust governance, monitoring, and security controls to mitigate potential harm.”⁹

- McDonald’s ends AI experiment after drive-thru ordering problems¹⁰

After working with IBM for three years to roll out AI to take drive-thru orders, in 2024 McDonald’s cancelled the plan after social media videos showing frustrated customers trying to get the AI to understand their orders. The restaurant had piloted the AI at more than 100 US drive-thrus, and indicated it still saw a future in a voice-ordering solution.

- Air Canada pays damages for chatbot lies

In February 2024, Air Canada was ordered to pay damages to a passenger after its virtual assistant gave him incorrect information about bereavement fares following the death of his grandmother in November 2023. When his refund was denied, he took the matter to a tribunal, which found that the airline didn’t take “reasonable care to ensure its chatbot was accurate,” so he ordered the airline to pay Moffatt CA\$812.02, including CA\$650.88 in damages.

Discrimination (Employment/Housing)

JUDGMENT DAY: AI in Law and Business

With the increase in the use of AI, allegations of algorithmic bias have begun to filter their way to the courts in the context of housing and employment discrimination cases, including suits against Meta, Wells Fargo Bank, and WorkDay.¹¹

Facial Recognition

There have been a number of lawsuits¹² relating to false arrest or prosecution based on law enforcement use of AI programs for facial recognition.

Similar methods have begun to be used in loss prevention by private businesses, and while the potential exposure for misuse is different for a private entity vs. a public agency, there are still potential risks.

One such case involved a suit¹³ by a Texas man against Macy's and others over their alleged use of an AI-driven facial recognition system that misidentified him as an armed robber, leading to his wrongful arrest. Retailers utilizing AI for facial recognition or identification should recognize the potential risks and take steps to minimize them.

AI and Insurance

As AI use grows, so too does the potential risk and exposure. Some cyber insurers are embracing the opportunity, adding affirmative endorsements to cover AI-related incidents.

However, others, particularly those offering coverage for directors and officers (D&O) and errors and omissions (E&O) are beginning to include more sweeping AI exclusions.¹⁴

Important considerations include potential coverage for data breaches, regulatory violations and fines, as well as potential negligent acts or omissions.

As the field evolves, more specialized policies including with respect to model failures, algorithmic bias and autonomous decision errors will likely also become more available.

Increased scrutiny from insurers of businesses may also result in stricter terms and higher premiums.

AI Litigation and Claims

Lawsuits involving AI have largely targeted copyright infringement (authors, artists, news outlets suing for training data use), intellectual property theft, defamation, bias/discrimination, and misuse of identity with major cases against OpenAI, Microsoft, Google, Meta, Stability AI, and Anthropic.¹⁵

There have also been some more direct claims, including with respect to defamation. In Walters v. OpenAI, L.L.C., 1:23-cv-03122 (N.D. Ga), a first of its kind case, in 2023 a Georgia based radio host, Mark Walters, sued ChatGPT for defamation after it "hallucinated", or made up, results indicating that he had been sued or arrested for fraud and embezzlement. The Court ultimately dismissed the matter on summary judgment.

Several high-profile suits have also been filed alleging that AI encouraged the suicide of vulnerable individuals, including in Texas¹⁶, Florida¹⁷ and California¹⁸.

JUDGMENT DAY: AI in Law and Business

Absent new law from Congress or state legislatures, tort law will be applied to harms caused by AI when such cases are brought in court. Many AI-related tort cases will involve claims of negligence by harmed plaintiffs against AI developers and business utilizing the technology.

Using AI Safely

Law firms and clients should comply with all relevant laws and guidelines when it comes to the use of AI. As discussed above, the use of AI in writing or research, as with any work product, should always be reviewed by humans before submission to the court, clients, or the public.

Firms and clients should also implement internal guidelines to ensure safe use of AI, such as comprehensive training of employees on AI use, disclosing when AI has been used, enforcing human verification of facts/quotes, locking down data inputs to approved internal tools, reviewing and updating insurance to cover AI risks, and developing a plan for potential data breaches or AI errors.

¹ Generated in part via Gemini AI

² ABA [Formal Opinion 512](https://www.americanbar.org/content/dam/aba/administrative/professional_responsibility/ethics-opinions/aba-formal-opinion-512.pdf),
https://www.americanbar.org/content/dam/aba/administrative/professional_responsibility/ethics-opinions/aba-formal-opinion-512.pdf

³ [Hallucinating Law: Legal Mistakes with Large Language Models are Pervasive | Stanford HAI](https://hai.stanford.edu/news/hallucinating-law-legal-mistakes-large-language-models-are-pervasive),
<https://hai.stanford.edu/news/hallucinating-law-legal-mistakes-large-language-models-are-pervasive>

⁴ [AI on Trial: Legal Models Hallucinate in 1 out of 6 \(or More\) Benchmarking Queries | Stanford HAI](https://hai.stanford.edu/news/ai-trial-legal-models-hallucinate-1-out-of-6-or-more-benchmarking-queries),
<https://hai.stanford.edu/news/ai-trial-legal-models-hallucinate-1-out-of-6-or-more-benchmarking-queries>

⁵ *Mata v. Avianca, Inc.*, 678 F.Supp.3d 443 (S.D.N.Y. 2023) (opinion and order on sanctions); ABA Formal Opinion 512 - Generative Artificial Intelligence Tools (2024); See, e.g., Florida Proposed Advisory Opinion 24-1; California, Practical Guidance for the Use of Generative AI in the Practice of Law (2023); 2024 NC Formal Ethics Op. 1; See, e.g., Robert Ambrogio, A Compendium of Legal Ethics Opinions on Gen AI (As Compiled by - You Guessed It - Gen AI) (2025); See, e.g., Justia, AI and Attorney Ethics Rules: 50-State Survey. This resource contains links to opinions, articles, and informal guidance from various jurisdictions; See, e.g., Andrea Martin & April Garbuz, The Ethical Imperative to Embrace AI in Commercial Litigation, Boston Bar Journal (May 22, 2025); Dyane O'Leary, GenAI is Not a Legal Tool. Or is it?, Boston Bar Journal (May 17, 2024).

⁶ https://www.msba.org/site/site/content/News-and-Publications/News/General-News/Massachusetts_Lawyer-Sanctioned_for_AI_Generated-Fictitious_Cases.aspx

⁷ [Emerging risk and insurance considerations from AI misuse and data exposure events | Lockton](#)

⁸ [When AI Technology and HIPAA Collide](https://www.hipaajournal.com/when-ai-technology-and-hipaa-collide/), <https://www.hipaajournal.com/when-ai-technology-and-hipaa-collide/>

⁹ [This month in AI: The rise and risks of AI shopping agents | World Economic Forum](https://finance.yahoo.com/news/ai-commerce-portends-potential-fraud-100000165.html); <https://finance.yahoo.com/news/ai-commerce-portends-potential-fraud-100000165.html>; <https://futurism.com/artificial-intelligence/amazon-perplexity-agent-ai>

¹⁰ [McDonalds removes AI drive-throughs after order errors](https://www.bbc.com/news/articles/c722gne7qngo), <https://www.bbc.com/news/articles/c722gne7qngo>

¹¹ [United States v. Meta Platforms, Inc.](#), (1:22-cv-05187) District Court, S.D. New York (2022) (challenging algorithmic bias under the Fair Housing Act, federal prosecutors alleged that Meta's housing ad system (Facebook and Instagram) discriminated against consumers by excluding some users from receiving certain housing ads based on their FHA-protected characteristics.); [In re Wells Fargo Mortgage Discrimination Litigation](#) (3:22-cv-00990) District Court, N.D. California (2022) (Six separate class-action lawsuits against Wells Fargo Bank have been consolidated, and bring allegations of algorithm-driven discrimination with respect to residential mortgage and refinance practices, violations of the Fair Housing Act and the Equal Credit Opportunity Act.; [Mobley v. Workday, Inc.](#) (3:23-cv-00770) District Court, N.D. California (2023) (Plaintiff alleges violation of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, and the ADA Amendments Act of 2008 because Workday's AI-driven employment systems and screening tools rely on algorithms and inputs that discriminate against job applicants based on race, age and or disability.).

¹² [Oliver v. Detroit City of](#) (2:20-cv-12711) District Court, E.D. Michigan, [Williams v. Detroit](#) (2:21-cv-10827) District Court, E.D. Michigan, [Woodruff v. Detroit, City of](#) (5:23-cv-11886) District Court, E.D. Michigan (All three of these cases allege wrongful arrest by the Detroit Police based on information obtained from AI-driven facial recognition systems.)

[Parks v. McCormac](#) (2:21-cv-04021) District Court, D. New Jersey (alleging wrongful arrest based on the use of AI-driven facial recognition systems in the town of Woodbridge, New Jersey.)

[Reid v. Bartholomew](#) (1:23-cv-04035) District Court, N.D. Georgia (alleging wrongful arrest and imprisonment, violation of Fourth Amendment rights. Reid was arrested and held without bond for six days after being misidentified by an AI-driven facial recognition system used by the Jefferson Parish, (Louisiana) Sheriff's Department.)

¹³ [Murphy v. Essilorluxottica USA and Macy's](#), District Court of Harris County, Texas, No. 202403265-7 (2024)

¹⁴ [AI exclusions are creeping into insurance: But cyber policies aren't the issue \(yet\) - Iowa Bar Blog](#)

¹⁵ Case Tracker: Artificial Intelligence, Copyrights and Class Actions | BakerHostetler:
<https://www.bakerlaw.com/services/artificial-intelligence-ai/case-tracker-artificial-intelligence-copyrights-and-class-actions/>

¹⁶ [ChatGPT encouraged college graduate to commit suicide, family claims in lawsuit against OpenAI | CNN](#)

¹⁷ [Lawsuit claims Character.AI is responsible for teen's suicide](#)

¹⁸ [The family of teenager who died by suicide alleges OpenAI's ChatGPT is to blame](#)