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The Hidden Risks of Sharing Company Data with AI Vendors

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As companies increasingly rely on third-party artificial intelligence platforms to analyze documents, automate workflows, and generate business insights, many are providing vendors with some of their most valuable assets: proprietary data. While these tools can offer significant efficiencies, businesses should understand what happens to their information once it is uploaded. Depending on the vendor's terms of service, company data may be retained, used to improve AI models, shared with subcontractors, or stored across multiple jurisdictions. Even where a vendor promises confidentiality, organizations risk exposing trade secrets, sensitive business information, customer data, or intellectual property if appropriate contractual safeguards are not in place.

The intellectual property implications can be particularly significant. Trade secret protection generally depends on maintaining reasonable measures to preserve secrecy. If confidential information is broadly shared with third-party AI providers without adequate restrictions, questions may arise regarding whether trade secret protections have been compromised. In addition, companies should carefully examine who owns AI-generated outputs, whether the vendor receives any rights in the uploaded data, and whether the vendor has agreed not to use customer information to train future models. Businesses operating in regulated industries should also consider privacy, cybersecurity, and data governance obligations that may apply when sensitive information is processed through AI systems.

Before adopting an AI-enabled service, companies should carefully review vendor agreements with a focus on data ownership, permitted uses, retention practices, security controls, indemnification provisions, and confidentiality obligations. A thoughtful assessment at the outset can help organizations capture the benefits of AI while minimizing the risk of unintended disclosure, loss of intellectual property rights, or future disputes over data and model outputs. Companies that have not recently evaluated their AI vendor contracts may wish to do so as AI technologies—and the legal risks surrounding them—continue to evolve.

If you have any questions regarding the content of this article, please contact the author or any member of Masuda Funai’s Intellectual Property and Technology Practice Group.

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