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Impact of Policy and Technological Factors on AI Innovation and Investment: the 2B Model Service Industry

Case 4 in a 4-part series

Siyuan Ma
Qifu Capital

Mengyu Wang
Singapore Management University

Tianyi Zhang
Northwestern University

SMU
SINGAPORE MANAGEMENT UNIVERSITY

SIM KEE BOON INSTITUTE FOR FINANCIAL ECONOMICS

LEE KONG CHIAN SCHOOL OF BUSINESS

Introduction

This case explores AI investment opportunities in 2B model services, particularly in sectors that intrinsically benefit from the reduction in human error. We will analyse applications in the legal industry as an example of overarching 2B model service trends.

Under the technological wave of AIGC (AI-Generated Content), the first thing that emerges is the innovation opportunities driven by technology itself. According to the technology adoption curve, new technologies typically first impact B2B (business-to-business) sectors, with C2B (consumer-to-business) applications following later. However, the specific impact of AIGC on industries is still subject to ongoing verification through technology and market developments. In the current early stage, model services have become a direct application of AI in industries, built upon foundational AI models. This early development is influenced by two key factors:

- **Technology Supply-Driven**: Chinese enterprises are rapidly advancing in digitalization, AI infrastructure, and large model platforms, providing AI service companies with low-cost and high-efficiency computing power. Mature computing and storage platforms, along with development and deployment tools, enable businesses to more conveniently develop and run large models.
- **Technology Demand-Driven Industry Transformation Anxiety**: The demand for digital transformation and intelligent services has significantly grown across various industries, especially in sectors such as finance, manufacturing, and healthcare. AI large models empower traditional industries to enhance efficiency, reduce costs, and meet complex, diverse application needs. This has driven AI from pilot projects to large-scale applications.

However, policies and regulations that form constraints on innovation present both opportunities and challenges for AI. Therefore, the legal industry's integration with AI holds a unique advantage. Policy factors have a much more significant impact than other factors, especially in the Chinese market. Many innovation projects and industries face fundamental constraints due to changes in policies or the influence of policy factors. The policy regulation of the AI industry has not yet fully matured, but control over aspects such as industry boundaries, privacy security, and compliance is constantly evolving. Therefore, the legal industry becomes a unique bridge linking policies and innovation, which also gives rise to innovative opportunities that driven by changes in policy risks. Opportunities generally involve leveraging AI technology to explore new opportunities in the existing market, and innovating within the industry itself. Since these opportunities are closely aligned with policies and the judiciary, they also carry significant market reference value in terms of technology regulation.

1 AI in the 2B Model Service

1.1 Drivers of AI Software Solutions

Technology Supply Drive

Efficient, low-cost, and scalable AI infrastructure has grown rapidly, helping to solidify the foundation of large models. The underlying service support layer includes AI computing, storage,

acceleration, container core suites, which can provide cost-effective computing power, supporting the processing of massive data, training, and inference of ultra-large models. The AI development platform layer integrates functions such as data processing, model development, deployment operations, asset management, etc., providing tools around the lifecycle of AI models/algorithms, connecting developers at different levels for activities such as AI model design, training, deployment, etc. The large model and service layer can provide basic large models, applied in multiple downstream scenarios, and can achieve continuous optimization and iteration of models through data feedback.

Industry Demand Drive

China has a large number of traditional industries urgently in need of digital transformation and upgrading, with many business scenarios requiring efficiency improvement through artificial intelligence. AI can empower various fields of economic and social development, and downstream industries' upgrading continues to drive the demand for large models. In 2022, China's AI industry market size was 371.6 billion RMB, and it is expected to reach 1.5372 trillion RMB by 2027, with the potential to penetrate various fields such as manufacturing, transportation, finance, and healthcare, achieving large-scale practical applications. Downstream industries' demand for artificial intelligence presents fragmented and diversified characteristics, requiring huge human and financial inputs from development, fine-tuning, optimization, iteration to application, with high costs. Large models can empower outwardly, including reducing the threshold for AI application development through open APIs, improving deployment efficiency and accuracy, thereby reducing the cost of AI scale deployment, meeting the application needs of various industry scenarios, and further promoting the industrialization of artificial intelligence.

1.2 Challenges Facing the AI Software Solutions Industry

- Regarding **product services**, ToB enterprises lack collaborative tools that can improve operational efficiency through AI-based standardized automation, regardless of whether they have a background in R&D technology.
- In terms of **data privacy and security**, in the ToB environment, the data involved is usually more sensitive, involving corporate secrets and customer data, etc. Using large language models to process this data may raise concerns about data privacy and security, requiring additional measures to protect the data.
- In terms of **interpretability**, for enterprise users, the results generated by models usually require higher interpretability. They need to understand the basis of the model-generated results, especially when making important decisions.
- In terms of **cost**, customization costs are high, and basically, it is only cost-effective to fine-tune or customize models in deterministic scenarios such as intelligent customer service or text-to-SQL. The cost of fine-tuning may be in the millions, or even rise to tens of millions, especially in cases where companies hope to customize models with barriers. Deploying and maintaining large models may involve high costs, including hardware, personnel, and training costs, and enterprises need to balance investment and return.

1.3 AI+2B Case Study — Yixin Technology[1]

Company Information

Beijing Yixin Technology Co., Ltd. was founded in October 2023, with Wu Wenhao as the actual controller. It is a provider of enterprise large-model solutions and belongs to the category of light assets. It can be scaled in industries such as finance, telecommunications, and consumer electronics. Currently, it has representative prospective clients in industries such as finance and automotive, and future scalability is feasible.

Founder Team

The founders are industry veterans with years of experience in innovative American enterprises. With 15 years at Megvii, one of the co-founders has rich industry experience and is dedicated to building an AI 2.0 enterprise large-model service platform. The three founders graduated from Tsinghua University and Fudan University and have been deeply involved in the field of artificial intelligence for many years.

Main Business of the Company

- **Business Intelligence Analysis Applications Driven by Large Models**

  Currently planning to collaborate with China CITIC Bank, aiming to sign a single-source order in the first half of next year, with an estimated value in the millions. It mainly involves IT, business departments, and innovation labs within the group. One of the main products is ASK BIBI. The core is to find an application scenario. The next step in the evolution path of business intelligence (BI) is to break down the boundaries between business and IT. Previously, there was a gap between IT, business, and bosses. Large models have somewhat bridged this gap, allowing bosses to interact using natural language. Similar to the emergence of companies like Databricks after the standardization of database operations, there will be opportunities for large-model-based BI analysis to develop into standardized platform enterprises in the future. This model may disrupt decision-making AI companies like Fourth Paradigm.

- **Device-side AIGC (mainly gesture interaction, AI large models, and a series of technologies)**

  Starting with smart cars, strategic cooperation has been established with NVIDIA, followed by collaboration with car manufacturers to secure a benchmark order. MR device-side deployment will come later, after the rollout of Vision Pro.

Core Barriers or Thresholds

The core team of Yixin Technology has accumulated rich experience and customer resources in the commercialization of AI enterprise services during the AI 1.0 era, which many teams with backgrounds in large-model technology development do not possess. This is one of the most critical capabilities in the enterprise service market domain.

[1] Data source: Interviews with management teams.

The company has also accumulated many excellent technologies in gesture recognition and vision. There will be good synergies in the field of vision combined with Large Language Models (LLMs).

Two Pillars of Yixin Technology

- **Robot Vision**

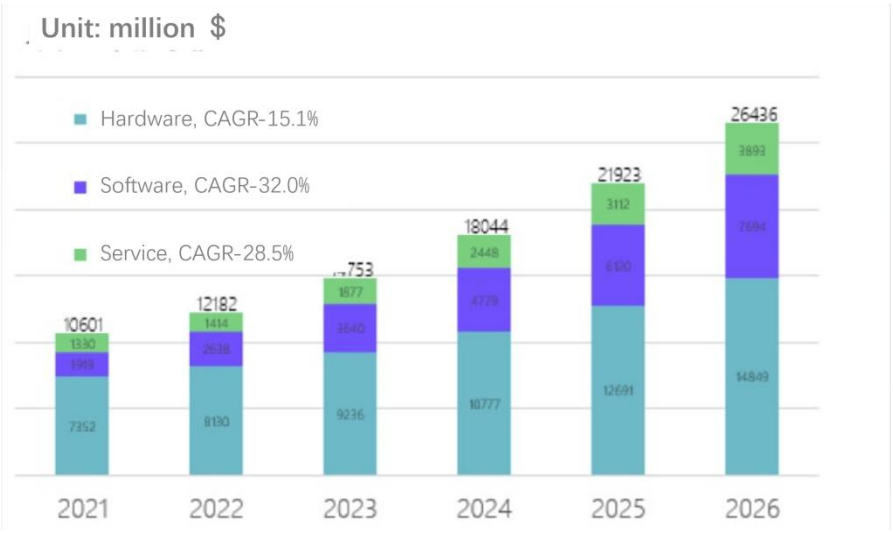
  Related to the founders' work experience, one of the company's founders previously worked at Megvii Technology, whose core business is AI vision algorithms. The work experience of the founding team has accumulated a wealth of experience, technology, and customer resources.

- **AI 2.0 Large Models**

  The core competitiveness of AI 2.0 mainly lies in the qualitative improvement in generation represented by ChatGPT. In terms of productivity improvement, various chatbots and agents have begun to integrate with office software, RPA, etc. Future market increments will mainly come from the hardware, software, and services of large models and generative AI, as well as new productivity applications enabled by AI, which will have a significant impact on high-tech, finance, medical, education, telecommunications, high-end manufacturing, and other fields.

1.4 AI Software Solution Industry Analysis

According to the Zhoushi Consulting report, the market size of China's AI software solution market has increased from RMB 15.1 billion in 2018 to RMB 60.7 billion in 2022, with a compound annual growth rate (CAGR) of 41.5% from 2018 to 2022. It is expected that the market size will reach RMB 254.3 billion by 2027, with a CAGR of 33.2% from 2022 to 2027.



According to Frost & Sullivan, the market size of China's enterprise-level AI solutions was approximately RMB 139.4 billion in 2020 and is expected to reach approximately RMB 836.6 billion by 2025, with a compound annual growth rate of 43.1%. In 2020, the enterprise-level AI

solution market in China accounted for approximately 75.0% of the overall AI market in China, and it is expected to increase to 80.0% by 2025.

Specifically in the financial sector, according to iResearch Consulting's statistics, the core market size of AI+ finance reached RMB 29.6 billion in 2021, driving an industry scale of RMB 67.7 billion. By 2026, the core market size is expected to reach RMB 66.6 billion, with a CAGR of 17.6%, driving an industry scale of RMB 156.2 billion, with a CAGR of 18.2%. The "Global Fintech: Reshaping the Future of Finance by 2023" report jointly released by Boston Consulting Group and QED Investors predicts that by 2030, global fintech industry revenue will increase sixfold, from $245 billion to $1.5 trillion. Currently, the fintech industry accounts for only 2% of the global financial services revenue of $12.5 trillion. This figure is expected to rise to 7% in the future, with fintech in the banking sector expected to account for nearly 25% of the global.

2 AI in Legal Industries

2.1 Legal AI Case Analysis - Zhicheng Technology[2]

Company Introduction

Beijing Tianping Zhicheng Technology Co., Ltd. (hereinafter referred to as "Zhicheng Technology") is an artificial intelligence technology company focusing on the legal field. Established on October 26, 2023, with a registered capital of 1 million yuan, the actual controller is Liu Chang. The company, based on judicial data and combined with judicial mediation methods, focuses on post-loan asset management for small loans and mediation follow-up services. By analyzing a large amount of mediation process data, negotiation scripts, and matching various mediation strategies based on the user profiles of overdue clients, Zhicheng Technology assists mediation personnel in resolving disputes, handling bad notices, and public legal education through AI.

Main Business of the Company

The main business of the company includes intelligent notice and collection, electronic lawyer letters, and intelligent judicial mediation, all aimed at using AI to reduce manpower costs and improve collection efficiency.

- **Intelligent Notice and Collection:**

  In recent years, the scale of non-performing assets of personal loans has gradually increased, and the pressure for disposal has also increased accordingly. Traditional manual collection methods have the following drawbacks: a) There is a huge number of loan cases, requiring a large number of collection staff to handle; b) The efficiency of manual work is low, making it difficult to efficiently complete tasks such as case opening, negotiation collection, and reporting, affecting the speed of case turnover and recovery effectiveness; c) With increasingly

[2] Data Source: Interviews with management teams.

strict supervision, manual methods are prone to violations due to performance pressure and personal emotional fluctuations, resulting in consequences ranging from fines to loss of cooperation opportunities. Benefiting from the advancement of speech robot technology in recent years, artificial intelligence collection operations have emerged.

Artificial intelligence collection can greatly reduce labor costs: Based on publicly available data, the labor cost of traditional manual notices is 2 yuan per notice, while that of artificial intelligence notices is 0.25-0.8 yuan per notice.

- **Electronic Lawyer Letters**

Traditional legal collection business is conducted offline. Lawyers need to regularly or at key stages of cases, report case progress and important interim results to clients. However, through offline feedback, clients often find it difficult to understand the case situation in real-time. Especially when there are many cases, feedback work occupies a large amount of lawyer's working time, not only reducing work efficiency but also decreasing the service experience for waiting feedback users. To address the industry pain points of small dispute cases, Zhicheng Technology integrates judicial notarization legal technology tools from the court system and electronic lawyer letters, develops a traceable lawyer letter generation and release plan based on industry characteristics. Electronic lawyer letters mainly include electronic notification letters, electronic lawyer letters, electronic mediation letters, and offline paper lawyer letters. This service solves and reduces the time and economic costs of financial institutions' recovery of small claims through diversified means such as SMS and intelligent voice. Currently, Zhicheng Technology has a successful delivery rate of lawyer letters of 93.54%.

Additionally, based on robot NLP semantic recognition technology, intelligent legal collection robots can also achieve automatic mediation of debtors, giving rise to Zhicheng Technology's third main business category, intelligent judicial mediation.

- **Intelligent Judicial Mediation**

Informing users in the form of electronic mediation notices that the case has entered the judicial process and inviting users for one-on-one mediation communication. Intelligent judicial mediation retrieves and analyzes opponent's information such as age, occupation, city, public debt, overdue days, etc., through artificial intelligence, matches the best mediation strategy, combines AI-assisted "Wenxin Yiyuan" for daily user's latest scripts for artificial assisted learning, to form more accurate learning materials tailored and correct AI-generated problematic scripts, and conduct intelligent mediation with clients. Currently, the dispute resolution rate has increased by 8%.

Main Business Model of the Company

Zhicheng Technology's main business model is to use artificial intelligence means to reduce manpower costs and improve efficiency in intelligent notice and collection, electronic lawyer letters, and intelligent judicial mediation. In the traditional legal collection process, lawyers need to communicate extensively with parties, and a large part of it is one-way notification to parties, such as case mediation, sending lawyer letter notices, filing notices, service notices, court notices, etc.,

and these notification steps often require a lot of lawyer's time. Based on robot NLP semantic recognition technology, automatic mediation of debtors can also be achieved to reduce labor costs.

Zhicheng Technology's main service scenes are "financial institutions," "property management companies," and "parking management companies." The main service modes are: ① "Cloud platform model" opens authorized accounts to provide corresponding mediation tools and touch tools. ② "Risk agency model" first mediate through risk agents based on data evaluation of user situations, and then divide the proportion based on mediation recovery.

Main service clients include: Minsheng Bank, Ping An Bank, CITIC Bank, Yixin Financial, Mercedes-Benz Financial, and other financial institutions; Hunan Zhuoqun Property Service Co., Ltd., Xuzhou Xiuqin Property Management Co., Ltd., Tianjin Hongxiang Property Management Co., Ltd., and Baishan Shengshi Property Service Co., Ltd., and other property companies; and some parking management companies.

2.2 Further Application and Opportunities of Artificial Intelligence in the Legal Industry

Zhicheng Technology currently focuses primarily on the most basic areas of the legal industry, namely post-loan notices and mediation artificial intelligence platforms. As a subdivision of the legal industry with relatively basic data, with the continuous advancement of generative artificial intelligence technology and in combination with practical cases abroad, AI is expected to greatly enhance fundamental legal tasks such as document drafting, contract review, and memo writing.

Feasibility of AI in the Global Legal Industry and its application in China

In terms of application scenarios, the legal industry naturally aligns with large language models (LLMs). As a typical text input/output scenario, legal industry data consists primarily of text, mainly absolute facts and real cases, making it suitable for large language models to learn from. Moreover, the strong knowledge and logic requirements of legal work enable large language models to provide value in various legal work processes. Before the emergence of LLMs, the main business directions of legal technology companies were often focused on peripheral processes such as electronic signatures and contract management. Now, the focus is shifting towards developing tools that can improve work efficiency, such as generative AI in the legal field.

In terms of work logic, whether it's common law in the United States or codified law in China, legal work involves strong knowledge and logic, requiring judgments based on a large amount of objective information. Therefore, large models are suitable for tasks such as legal document review, case retrieval, contract drafting, and review, which can greatly improve work efficiency.

Research shows that the time allocation for typical mid-level lawyers (the main workforce) is over 60% for document drafting and review, around 30% for client and opposing counsel communication and document review, and usually only 10% for tasks such as legal research. Most of the work in legal practice is foundational "dirty work," providing ample space for the deployment of artificial intelligence.

Challenges of AI in the Legal Industry

- **AI Illusion**

  The answers provided by generative AI are based on large-scale training data. However, errors, biases, and positions in the training data may be reflected in the generated content. Subjective cognitive biases of algorithm designers, technical flaws in the algorithm design process, and the lack of information screening and filtering mechanisms may affect the reliability of AI-generated content. The phenomenon of "AI hallucination" may occur, where the model generates information without sufficient context or understanding, potentially leading to misleading advice or incorrect legal documents, exposing lawyers and law firms to significant legal liabilities.

- **Data Privacy Issues**

  Clients may have concerns about inputting sensitive data into LLMs, fearing that this data may be used for model training, posing a risk of data leakage. This may violate confidentiality obligations to clients and infringe on personal data privacy rights. For example, in Europe, this may violate the General Data Protection Regulation (GDPR).

- **Lack of Public Legal Databases in China**

  Generative AI has enormous potential in drafting legal texts and improving lawyer efficiency. However, the prerequisite for this function is that the AI model itself needs to be fed with a large amount of data for training and debugging so that the model can learn legal thinking, text style, and transaction habits from a vast amount of transaction documents. The U.S. Securities and Exchange Commission (SEC) has published a large amount of company agreement texts in its database, providing rich nourishment for ChatGPT and other similar AI models, enabling them to learn, mimic, and eventually autonomously generate similar agreement drafts. However, since China currently does not require listed companies to disclose their transaction documents, transaction agreements mostly exist as trade secrets, making it difficult for Chinese generative AI to obtain the required data. Some unofficial databases in China, such as Baidu Wenku, contain massive transaction agreement templates, but due to the lack of restrictions on uploaders, the quality and quantity of documents are far from comparable to the nearly 20 years of data information in the SEC database.

Possible Explorations in the Future of the Legal Industry

- **Litigation or Dispute Resolution**

  AI plays an important role in intelligent notice and intelligent mediation. By building a large case library using big data and machine learning technology, AI can intelligently analyze and retrieve historical mediation cases. On one hand, AI helps mediation personnel quickly obtain relevant case references, thereby more accurately grasping the core issues of disputes and providing strong support for mediation decisions. On the other hand, AI can replace human work in basic mediation tasks in the early stages of mediation.

  Automatic creation of demand letters: Previously, legal assistants and colleagues needed to

spend several hours organizing, extracting, and summarizing information from documents, medical records, police reports, and invoices. Now, with the help of EvenUp, lawyers can achieve results over 10 times better in terms of quality, speed, and cost.

Currently, "Zhicheng Technology" mainly focuses on this area, but due to the small proportion of related dispute resolution issues in the legal industry and the technical difficulties of complete AI replacement, there are certain limitations.

- **Contracts Management**

Contracts Management refers to the utilization of legal technology software to assist in-house legal departments of enterprises and law firms in managing the workflow of contracts, aiming to streamline the processes of drafting, reviewing, executing, and monitoring contracts, thereby helping legal teams reduce manual, time-consuming tasks to improve efficiency and reduce errors. According to research by Gartner, legal departments spend nearly 50% of their time on contract management, and 60% of vendor contracts automatically renew without the buyer's knowledge. This underscores the time-consuming nature of contract management and the importance of contract monitoring.

According to statistics from the Association of Corporate Counsel, 99% of companies use in-house teams to manage contracts, 12% hire external legal consultants, and only 4% outsource the contract management process to service providers. This has led to the emergence of the concept of Contract Lifecycle Management (CLM) primarily serving in-house legal teams and a series of legal technology companies. Prior to this, corporate legal teams primarily managed contracts using Word and Excel, with contracts scattered across various locations and lacking effective internal collaboration. The main stages of contract lifecycle management include pre-signing and post-signing. Pre-signing involves initial contract drafting, negotiation, editing, and approval, which is a cross-departmental, cross-entity task requiring manual drafting and multi-party negotiation. Post-signing includes execution, tracking, auditing (performance and compliance management), and renewal, with the main purpose being real-time monitoring.

- **Other Non-litigation Aspects**

Non-litigation refers to legal matters that do not involve court litigation and mainly fall into four categories: equity, projects, general compliance, and dispute resolution.

- **Legal Retrieval**

Market share and user mindshare are almost completely dominated by Lexis Nexis and Westlaw. Previous generations of companies have not successfully broken through, and it is currently believed that it is difficult for startup companies to achieve significant success.

Conclusion

This case has examined how AI may be applied to different 2B model industries. The impact of technology factors on AI investment and innovation is the most direct. From the perspective of early-stage investment, B2B models tend to be relatively stable. Therefore, from a value analysis

viewpoint, we can assess the challenges and pain points:

- Data Privacy and Security: In the B2B environment, corporate data often involves sensitive business secrets and customer privacy. AI models need to pay special attention to privacy protection when handling this data.
- Model Interpretability: In decision-making applications, companies often need to understand the rationale behind AI-generated results, especially in critical decision-making scenarios.
- Customization and Maintenance Costs: Fine-tuning and customizing large models require substantial resources, especially in high-barrier customization scenarios where costs can reach millions or even tens of millions.
- Addressing these three areas can help resolve pain points during the technology implementation phase.

Meanwhile, we can seek native opportunities for technology in software, hardware, and cross-industry penetration:

- Standardization of Business Intelligence Platforms: With growing demand for intelligent decision-making in industries like finance and retail, products that offer standardized intelligent platforms are expected to emerge as new forces to replace traditional decision-making AI companies (such as Fourth Paradigm). Investors should focus on their leadership in the large model BI market.
- AIGC and Visual AI Empowerment on the Hardware Side: Investors can explore cooperation opportunities in smart hardware and visual interaction, particularly in projects that have the potential to set industry benchmarks.
- Cross-Industry Penetration of AIGC Large Model Services: The empowerment of AIGC in various industries' productivity applications is expected to become a key driver of future market growth. Investors can focus on innovations in emerging productivity tools and intelligent work platforms, especially in the integration with technologies like RPA (Robotic Process Automation) and office software.

Besides directly applying AI to the technology sector, the legal industry is clearly another 2B industry that has great opportunity for AI expansion. Policy factors play a crucial role in the application of AI innovation, particularly in the Chinese market, where their impact can even be considered fundamental. Innovation often requires a more relaxed and stable policy environment, which is especially relevant as AI innovation and regulatory policies continue to evolve. This creates an opportunity for the legal industry in particular, which is most closely related to compliance. There are two main directions for innovation opportunities:

- The Role of AI Technology in Legal Data and Industry Practices: This pertains to the innovative impact of AI technology when combined with legal data and industry-specific expertise. As outlined in the AI + Legal Industry case in the text, a company applied this technology to the traditional financial sector, particularly addressing scenarios with high costs, resistance, and reluctance to engage with personnel. It helped reduce the management costs of non-performing assets, thereby continuously standardizing the industry and ensuring compliance.
- The Role of AI in Transforming Legal and Judicial Processes: Given the specialized nature of

the legal industry, the alignment of policy factors with AI applications in this sector carries relatively low risk. At this stage, investment opportunities are more focused on the intelligent infrastructure development in the foundational aspects of the industry due to policy factors.

Therefore, from an investment perspective, the value of AI + legal scenarios lies in the relatively low policy risk and the stability of the industry. For early-stage VC investments, the opportunity in AI + legal industries lies in the period when industry standards are being developed. Identifying and discovering market entities that can contribute to the creation of these standards becomes the core value investment point.