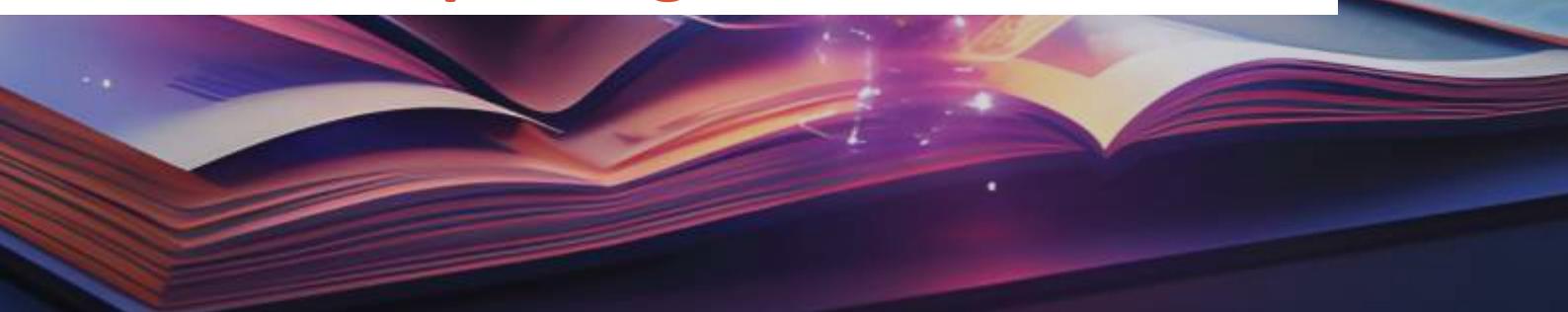




## Chatbots Replacing Humans - Klarna



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**Goal/Purpose**

- Analyse Klarna's decision to adopt AI technology, focusing on the rationale, expected benefits, and potential risks.
- Assess whether Klarna's adoption of AI improved customer support quality and response times.
- Explore how Klarna's competitors are responding to similar technological advancements.
- Examine the broader implications of AI-induced workforce displacement on employees and society.

**Expected Learning Outcomes****01**

The student will be able to evaluate the impact of replacing human agents with bots on customer satisfaction and trust.

**Suggested Methodological Approach**

Case-based learning

**Keywords**

Chatbots, AI-driven workforce reduction, FinTech automation, ethical AI implications, customer support, marketing

Klarna is a Swedish FinTech company that offers innovative financial services with a focus on seamless digital payment solutions.

Founded in 2005, Klarna has become a global leader in the 'Buy Now, Pay Later' (BNPL) sector, providing consumers with flexible payment options for their

online and in-store purchases. Klarna is widely recognised for its user-friendly platform and robust customer support systems.

## History and Growth

Klarna was established in Stockholm by Sebastian Siemiatkowski, Niklas Adalberth, and Victor Jacobsson with the mission to simplify online shopping payments.

The company initially gained traction in the Nordic market by offering merchants a secure payment system that allowed consumers to pay after receiving their products. Klarna's innovative approach quickly expanded to broader European markets and later to

the United States of America as well as Australia. Through strategic partnerships with major retailers such as H&M, Sephora, and Nike, Klarna successfully integrated its BNPL services with top-tier e-commerce platforms.

*Over the years, Klarna diversified its services by introducing personalised shopping features, budget tracking tools, and AI-enhanced customer service solutions. As of 2024, Klarna serves over 150 million consumers across 45 markets, handling more than 2 million transactions daily.*

## Business Profile

Klarna's core business revolves around its BNPL model, which enables consumers to split their purchases into interest-free payments.

This approach offers shoppers greater financial flexibility while allowing merchants to increase their sales conversion rates. Klarna earns revenue through

merchant fees and interest charges on extended payment plans. In addition to its BNPL services.

**Klarna has expanded into broader financial solutions, including:**

**01**

### Klarna Bank Services

Offering deposit accounts and financial management tools

**02**

### AI-driven Solutions

Utilising proprietary machine learning models to enhance customer support and personalise shopping recommendations;

**03**

### Merchant Support Tools

Providing retailers with advanced analytics, marketing solutions, and checkout integration tools.

*Klarna's success is largely attributed to its strong focus on customer experience, technology-driven innovation, and strategic market expansion. The company continues to invest heavily in AI technology to streamline operations and enhance customer support systems.*

## Sector Overview

Klarna operates in the rapidly evolving FinTech sector, which is a dynamic industry characterised by continuous innovation and disruption.

The FinTech industry combines finance and technology to deliver improved financial services through digital platforms. Key growth drivers in the sector include increased Internet penetration, smartphone adoption, and consumer demand for

seamless digital payment solutions. The global fintech market is projected to grow at a compound annual growth rate (CAGR) of 20% between 2023 and 2030, underscoring the increasing demand for digital financial services.

## Market Size and Growth Trend

The BNPL ('Buy Now, Pay Later') market, a key segment within FinTech, is expected to reach 576 billion USD globally by 2026, driven by consumer preferences for flexible payment options and rising e-commerce sales

Klarna, a prominent player in this space, has capitalised on this trend by offering innovative payment solutions that integrate directly with merchants' platforms. With a customer base

exceeding 150 million across 45 markets, Klarna continues to expand globally, especially in North America and Europe.

## Competition

Klarna faces strong competition in the Fintech space, particularly in the BNPL sector

### The key competitors include:

The competitive landscape has intensified, prompting FinTech companies to adopt advanced technologies such as AI and machine learning to improve efficiency, personalise services, and reduce operational costs. Klarna's investment in AI technology reflects this strategic move to maintain its competitive edge.

01

### Affirm

A US-based BNPL provider known for its transparent financing model and extensive retail partnerships;

02

### Afterplay

An Australian FinTech company that has gained significant traction in Western markets following its acquisition by Block Inc. (formerly Square);

03

### PayPal

A diversified digital payment giant that has expanded its BNPL offerings;

04

### Apply Pay Later

Apple's recent entry into the BNPL market leverages its vast user base and strong ecosystem to compete directly with Klarna.

# The Company's Current Situation •

## Replacing Humans with Robots

In 2023, Klarna announced that it had replaced approximately **700 employees with AI-driven chatbots** developed in collaboration with OpenAI



**The decision was motivated by several factors:**

**01**

### Cost reduction

Automating customer support substantially lowered operating expenses;

**02**

### Efficiency Gains

Chatbots shortened average resolution times to less than 2 minutes compared to 11 minutes previously;

**03**

### Availability and Scalability

The AI assistant operated across 23 markets, 24/7, while easily handling fluctuating demand;

**04**

### Multilingual Support

Proprietary models processed queries in more than 35 languages, improving service for immigrant and expatriate communities;

**05**

### App Integration

Within the Klarna app, the AI assistant supported refunds, healthier financial habits, balance updates, and spending limit explanations, enhancing the shopping and payments experience for over 150 million users worldwide.

*At the time, Klarna framed this as a milestone towards building a fully AI-powered financial assistant, designed to save consumers time, reduce stress, and boost efficiency across global retail banking.*

## Replacing Humans with Robots



By mid-2025, Klarna is **walking back its full-automation strategy**. CEO **Sebastian Siemiatkowski** acknowledges that relying almost entirely on chatbots has **hurt service quality and customer satisfaction**.

### 01 Customer Backlash

Many users complained about generic responses, the lack of empathy, and frustration when cases had to be escalated from bots to humans;

### 02 Return to Human Staff

Klarna is **rehiring customer service agents**, moving towards a **hybrid model** where AI handles simple, repetitive queries, while humans intervene in sensitive or complex cases;

### 03 New Hiring Model

The company is adopting a flexible 'gig-style' approach, i.e. remote work, part-time shifts, and opportunities for students or residents in remote regions;

### 04 CEO's Statement

"We focused too much on efficiency and cost... the result was lower quality, and that is unsustainable." "From a brand and company perspective, it's crucial that customers always know they can talk to a real person if they want to."

### 05 The ongoing role of AI

Despite the shift, Klarna reports that its chatbot still handles about **two-thirds of all customer interactions**, achieving an **82% reduction in average response time** and a **25% drop in repeat inquiries**;

### 06 Strategic balance

**Strategic balance** – Klarna remains committed to AI as the **core of its customer support**, but it is rebuilding its infrastructure around a **human–AI partnership**, blending efficiency with empathy to restore customer trust.

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# Key Aspects to be Analysed •

## Key Aspects

01

### Technological Implementation

Klarna's AI chatbots leverage natural language processing (NLP) and machine learning models to handle complex customer inquiries efficiently. These models continuously improve based on customer interactions, enhancing their ability to provide precise and personalised responses. Sources such as TechCrunch and Forbes highlight how Klarna's proprietary AI models integrate seamlessly with their existing CRM systems to manage conversations across multiple channels. The integration process required Klarna to overhaul its customer support infrastructure, ensuring data privacy and compliance with financial regulations.

02

### Workforce Implications

Klarna's initial decision in 2023 to cut around 700 jobs sparked debates about large-scale job displacement and the future of human roles in customer service. By 2025, however, Klarna has begun rehiring human agents after acknowledging that fully automated support reduced service quality. The company is experimenting with a flexible gig-style model for staffing, offering remote and part-time roles, particularly attractive for students and workers in remote areas. This development highlights the dual challenge, namely ensuring responsible workforce transitions while balancing automation efficiency with the irreplaceable value of human empathy.

03

### Customer Experience

While AI chatbots initially improved response times by 82% and reduced repeat inquiries by 25%, customer dissatisfaction grew due to generic responses, the lack of empathy, and escalation delays. Klarna's pivot to a hybrid system reflects the recognition that customer trust depends on human interaction in sensitive or complex cases. The current model leverages AI for speed and scalability while reinstating human staff for empathy-driven problem-solving, suggesting that the 'AI vs. Humans' narrative is giving way to 'AI + humans' collaboration.

04

### Ethical Considerations

Klarna faced early criticism over mass layoffs and the social implications of automation, which were compounded when service quality fell. The company's decision to reintroduce human staff underscores the ethical duty of care towards both employees and customers. Ethical concerns also remain around algorithmic bias, transparency, and accountability in AI-driven decisions. Klarna now emphasises that customers will always have the option to speak to a human, aligning with principles of fairness and user autonomy.

## Key Aspects

05

### Financial Outcomes

The initial AI rollout delivered significant cost reductions (approximately 25%) and boosted short-term operational efficiency. However, reputational risks and customer backlash forced Klarna to recalibrate, investing again in human talent. While the hybrid model increases costs relative to a fully automated system, Klarna projects that balancing efficiency with customer satisfaction will ensure long-term brand value and retention. Investors now view Klarna's strategy as a pragmatic correction rather than a reversal, maintaining AI at the core but with renewed emphasis on sustainable growth.

06

### Regulatory Considerations

Klarna continues to ensure compliance with the EU GDPR standards, focusing on transparency, data protection, and bias mitigation. The move back to human involvement can also be seen as a response to broader regulatory expectations in Europe, where policymakers encourage human oversight in high-risk AI applications. Klarna now positions its hybrid approach as aligned with the EU AI Act, emphasising accountability, auditability, and the right to human review in automated decision-making.



# Questions to Consider •

## Discussion

**What were the key drivers behind Klarna's decision to replace human employees with AI chatbots?**

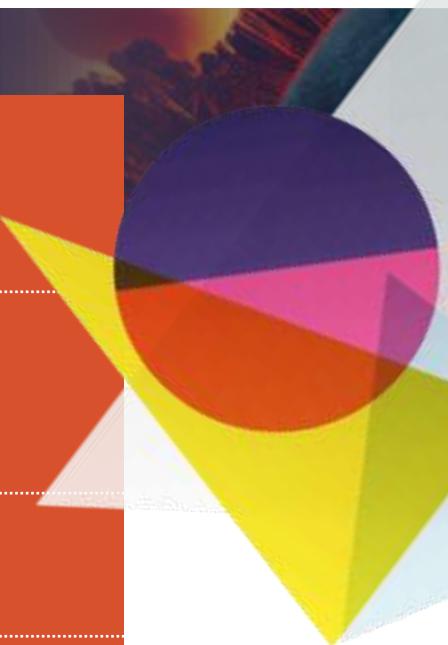
**What key performance indicators (KPIs) would have been most appropriate for Klarna to assess the effectiveness of its transition from human to AI-based customer support?**

**What potential risks does Klarna face from this heavy reliance on AI for customer service?**

**How might this decision impact Klarna's brand reputation and employee morale in the long term?**

**Could this strategic move create new opportunities for the company, such as expansion or improved service innovation?**

**What measures did Klarna take to retrain or reassign displaced employees following the workforce reduction?**





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