# Klarna scales back AI in customer service to restore human empathy



In a striking shift in strategy, Klarna, the Swedish fintech giant, has decided to recalibrate its approach to customer service by scaling back its reliance on artificial intelligence. The decision comes in the wake of disappointing outcomes from its AI initiatives, which had initially been hailed as pivotal to enhancing operational efficiency. CEO Sebastian Siemiatkowski announced that the company will be reinstating human representatives to manage customer inquiries, recognising the indispensable value of human empathy and problem-solving capabilities in addressing complex issues.

The return to human agents marks a significant turnaround for Klarna, which had taken aggressive steps to automate its customer service operations. In 2022, the company reduced its workforce by 700 employees, betting on AI-powered chatbots and automated systems to fill the gap. However, internal analyses indicated a concerning decline in customer satisfaction as the complexity of issues escalated. “The ROI on pure AI-based customer service hasn’t materialized as we anticipated,” a senior executive explained. Klarna is now opting for a hybrid customer service model, which utilises AI for straightforward inquiries while redirecting more intricate concerns to trained human staff.

This strategy reflects a broader industry reassessment of AI's role in customer-facing functions. Analysts have noted that many companies, including Klarna, are beginning to understand AI's strengths lie in augmenting human efforts rather than wholly replacing them. Tech commentator Greg Linden remarked that "companies are discovering that AI works best as an augmentation tool for human workers rather than a wholesale replacement." This nuanced understanding of AI’s capabilities indicates a significant cultural and operational shift in how businesses perceive and implement automation.

Klarna's pivot comes at a critical juncture for the buy-now-pay-later (BNPL) sector, which is grappling with mounting regulatory scrutiny and fierce competition. As the landscape becomes increasingly crowded, maintaining robust customer relationships is vital for differentiation. According to industry reports, Klarna's initial AI deployment had been touted as a means to improve efficiency significantly, with the company claiming it could perform the work equivalent to 700 employees. Yet, as productivity metrics from recent quarters have illustrated, this approach has not translated into the anticipated levels of customer satisfaction.

Interestingly, while Klarna is moving away from heavy reliance on AI for customer service interactions, it is not altogether abandoning the technology. The company continues to deploy machine learning for essential functions such as fraud detection and credit risk assessment, areas where AI has shown tangible benefits. This selective utilisation signals a mature perspective towards AI's role in financial services, acknowledging its potential while recognising the irreplaceable nuances of human judgement.

The company’s experience offers valuable lessons for the broader fintech landscape, particularly in navigating the dual promises and pitfalls of automation in customer service settings. The initial enthusiasm for AI has often been met with challenges, including concerns over transparency and the effectiveness of robotic responses. Klarna itself faced issues concerning messy AI-human handoffs, underscoring the necessity for a thoughtful integration of technology. By embracing a hybrid model, the company demonstrates that balancing technological innovation with human touch is paramount for maintaining a customer-centric business.

As Klarna strives to maintain its growth trajectory—having reported a first annual profit in four years in 2023, serving over 150 million users worldwide—its strategic recalibration underscores a broader trend within the industry. The company’s commitment to enhancing customer experience while leveraging AI selectively reflects a pragmatic approach, essential for sustained success in an ever-evolving marketplace.

Klarna’s situation illustrates a significant evolution in the discourse surrounding AI in customer service. Rather than viewing technology as a one-size-fits-all solution, the fintech sector is recognising that the human element remains vital for truly effective customer interactions. As one industry observer noted, “Klarna’s pivot isn’t an indictment of AI but rather a recognition that customer service requires a human touch that technology still can’t fully replicate.”

This recalibrated vision of customer service could create lasting impressions in an industry that continuously seeks to balance efficiency with empathy, ultimately reaffirming the timeless adage that people, not machines, are at the heart of consumer relationship dynamics.

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Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.webpronews.com/klarnas-ai-u-turn-why-human-empathy-trumps-automation-in-customer-service/> - Please view link - unable to able to access data
2. <https://www.reuters.com/technology/artificial-intelligence/swedens-klarna-says-ai-chatbots-help-shrink-headcount-2024-08-27/> - In August 2024, Reuters reported that Klarna, the Swedish payments group, reduced its workforce from 5,000 to 3,800 over the past year by implementing AI technology to handle customer queries. The AI assistant now performs the work equivalent to 700 employees, decreasing average issue resolution time from 11 minutes to two. This implementation has increased the company's productivity, with revenue per employee rising 73% in the last 12 months. Klarna reported a first-half adjusted profit of 673 million Swedish crowns ($66 million), a substantial turnaround from the previous year's loss. The company's revenue for the first half grew by 27%, reaching 13.3 billion crowns, propelled by a 38% revenue increase in the U.S. Klarna, expected to seek a stock market listing next year, has not hired beyond engineers since September and might reduce its headcount further. An IPO, likely in the U.S., is under consideration, although no definitive decision has been made.
3. <https://www.forbes.com/sites/quickerbettertech/2024/03/13/klarnas-new-ai-tool-does-the-work-of-700-customer-service-reps/> - In March 2024, Forbes highlighted Klarna's AI assistant, which handles two-thirds of the company's customer service chats, equating to the work of 700 full-time agents. The AI assistant is on par with human agents in customer satisfaction scores and has improved efficiency, reducing average issue resolution time from 11 minutes to under 2 minutes. It operates 24/7 in 23 markets and communicates in over 35 languages. The implementation of this AI tool is estimated to drive a $40 million USD profit improvement for Klarna in 2024.
4. <https://www.klarna.com/international/press/90-of-klarna-staff-are-using-ai-daily-game-changer-for-productivity/> - In May 2024, Klarna announced that 90% of its employees are using generative AI tools daily, with adoption rates of 93% in Communications, 88% in Marketing, and 86% in Legal departments. This widespread adoption has been facilitated by Kiki, Klarna's internal AI assistant, which has responded to over 250,000 employee inquiries since its launch in June 2023. The integration of AI has significantly enhanced productivity across various teams within the company.
5. <https://www.klarna.com/international/press/ensure-ai-benefits-everyone/> - In December 2024, Klarna emphasized the importance of transparency and consumer choice in AI interactions. The company ensures that customers are informed when interacting with a chatbot and provides the option to speak with a human representative upon request. Klarna advocates for policymakers and regulators to require companies to ensure consumers know when they are speaking with AI and always have the option to connect with a human, promoting transparency and choice as standards in customer service.
6. <https://www.twig.so/blog/what-klarna-got-wrong-about-ai-in-customer-support--and-how-they-fixed-it> - This article discusses Klarna's initial challenges with AI in customer support, including overcomplicating support requests, robotic AI responses, messy AI-human handoffs, and lack of transparency about AI interactions. The company addressed these issues by restricting AI to handle repetitive inquiries, training AI to mimic natural conversational tones, improving AI-human handoffs with full context, and ensuring transparency by clearly identifying AI interactions and offering easy escalation to human agents.
7. <https://www.thedigitalspeaker.com/ai-service-klarna-customer-care/> - This article examines Klarna's AI assistant, which handles two-thirds of customer service chats, equating to the work of 700 full-time agents. The AI assistant is on par with human agents in customer satisfaction scores and has improved efficiency, reducing average issue resolution time from 11 minutes to under 2 minutes. It operates 24/7 in 23 markets and communicates in over 35 languages. The implementation of this AI tool is estimated to drive a $40 million USD profit improvement for Klarna in 2024.