

Contractor banking – applying for and opening a business bank account

Contractors who require a business bank account for their contractor limited company and have done their research to identify the financial institution that best fits their needs, then have to go through the process of applying for and opening their account.

UK money laundering regulations mean that in almost every instance contractors will be required to present documents confirming their identity and address, either in person at a branch or via mail, before their account can be opened. That means opening an account is rarely an instant process, no matter what banks might claim in their marketing materials, and so contractors should plan ahead.

Those with a poor credit history will find it very difficult to find a bank that will allow them to open a business bank account; some high street banks will even refuse an application from contractors who do not have a perfect or near-perfect credit rating.

How to apply

The process of applying for a business bank account typically involves completing an initial application form, either online, over the phone or face-to-face in a branch. The contractor will be asked to provide detailed business and personal information that the bank will assess before accepting the application.

Most banks will take at least a few days to process the application, as this involves background checks, credit referencing and identity checking. Confirming the identity of the contractor is a legal requirement, brought in to combat money laundering, and so even contractors who have an existing relationship with a bank may find themselves being asked to 'prove' who they are.

This can generally be done in person in one of the bank's branches, or by sending identity documents through the mail that have been verified by an authorised person. In many ways, it's a similar process to applying for a UK passport. That being so, it is worth taking extra care to ensure the right documents are provided in exactly the way requested, and verified by the correct people in the right way. Not to do so can end up causing days or even weeks of delay to the process.

Business information required for the application process

Whether it's by telephone, online or in person at a branch, banks will ask contractor provide a wealth of business and personal information, typically including:

Contractor's contact details

Business name and address, which for most limited company contractors will be their home address or their accountant's address

Nature of the business – most banks will class contracting as 'business services' or 'business consultancy'

Business's legal status, usually a limited company for contractors

Business start date, which would usually be the date when the contractor started incurring start-up expenses

Anticipated turnover – a calculation or estimate of the first year's contract fees will normally suffice

Any funding requirements, although most contracting businesses do not require loans or overdrafts

Incorporation details and a copy of the contractor limited company's incorporation certificate.

Some banks say they need to see a business plan, but in practice contractors are unlikely to be asked for a business plan document.

Increasingly, banks say that pre-application interviews are no longer necessary to open an account, but when contacting a bank it is advisable to have the above information to hand, in case some or all of it is requested.

Personal information required for opening a business account

In addition to information about their contracting business, contractors will also be asked to provide detailed personal information. As with the business information, it is best to have this ready when starting the application process.

Contractors are likely to be asked to provide the following at the time of application, or during the application process:

Personal name and home address

The date the contractor moved into their current home, and/or how long they have lived there

Previous addresses, particularly if the contractor has been at their current address for fewer than three years

Existing personal bank account details;

Financial information on borrowings, such as overdrafts, mortgages and credit card debts

Date, country and city of birth, country of nationality and residence.

The personal details are usually required for all directors and signatories on the account, so contractors with a business partner, or who plan to include their civil partner or spouse on the signatory list, should be ready to provide the details for these individuals as well.

Why so much information?

The personal information is generally required so the banks can perform checks related to the money laundering regulations and also extensive credit checking and referencing. These checks have become more stringent following the banking crisis in 2008, as banks are now more cautious of taking-on 'risky' business customers than they once were.

Contractors who are unable to provide or substantiate any personal or business details will probably have their application to open an account refused by most high-street lenders. Similarly, if any information is found to be incorrect or false, the application will be refused.

There are banks that specialise in 'higher risk' business customers run by directors or proprietors with a poor credit history. Contractors should always carefully check the small print and fee scales of such banks before applying.

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Visiting the branch, or mailing ID, and completing the application process

Identity verification is normally a vital stage of the application process for most high street banks, so the contractor will normally be required to verify their identity at some point in the process.

If the contractor already has an account with the bank, they should make this clear, as it could speed things up. Most high street banks will accept an ID check at any one of their branches, so a contractor can pop into a branch convenient to where they are living or working.

Finally, assuming the contractor has provided all the information requested by the bank, has passed all the credit checks and references, has confirmed their identity and everything else is in order, the bank will accept the application and open a business bank account in the limited company's name. Shortly afterwards, they will receive a 'welcome pack' with details of how to run their account and access various bank services.

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