Chapter XVI

Montclair Mutual Insurance Company

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EXECUTIVE SUMMARY

Alan Rowne must plan and implement a number of information system (IS) upgrades at Montclair Mutual Insurance Company. This is a complex task given the evolving nature of IS developmental techniques, variety of vendor supplied tools and software, and industry organizational imperatives to modify the operations of firms to improve efficiency. He is concentrating on a decision to recommend either upgrading his present system or acquiring a new environment with new development tools. A new system development environment would offer Montclair Mutual Insurance Company the opportunity to develop information systems with strong system integration and interfacing capabilities that promise a high return on investment. This case presents data concerning the choices among information system development strategies, tools, systems which could be selected for upgrade or development, and implementation decisions for an insurance company facing a dynamic business environment.
BACKGROUND

Montclair Mutual was founded by community members of the Maryland farming area around Silver Hills, Maryland. The firm was originally formed (140+ years ago) to provide insurance (fire) for farms and buildings in the developing Maryland countryside. The company seeks to provide a high level of security and comfort to its policy holders in its commercial, residential, and farm insurance businesses. The annual report presents the firm’s single guiding principle: to provide affordable reliable insurance for all policyholders; and to carefully balance assets against liabilities; strictly control administrative expenses; maintain a consistently high level of policyholder service; build customer confidence; and business growth in the years to come.

The company offers highly competitive insurance products in the seven major areas listed in Table 1. Table 2 presents the premiums and direct losses by state. Table 3 shows the business results for the previous five-year period.

The MIS Environment

Alan Rowne is the vice president of information systems at Montclair Mutual Insurance Company. He’s facing a changing MIS environment and corporate pressure for performance improvements. He must decide what to recommend in order to address a number of systems development goals. His believes his broad options are to either apply the Systems Development Life Cycle (SDLC) methodology to upgrade the accepted mainframe systems used by the company for many years; or select and apply a new set of CASE tools, prototyping methodology, and database models to implement a new client server system.

The attractive new system components found in the client server environment are physically smaller machines that do not require specialized water cooled and air cooled facilities. When compared to a mainframe, the systems may house equivalent or greater amounts of CPU processing capability, disk space, network connectivity and memory at significantly reduced costs. The CASE and database tools in the systems marketplace are advertised to have broad functionality covering input required during the design of information systems, diagramming techniques, design specification components which can produce code when fed into code generators, and testing and debugging tools to speed the acceptance and testing of software.

Alan believes the cost of running a mainframe to support Montclair Mutual’s system requirements is becoming unacceptable. He is well aware of the need to perform a feasibility assessment of all the costs and benefits of any new applications of technology since he has a technical undergraduate economics degree, work background as a financial analyst, and a masters degree in information systems from a large nearby university. A simple example of the apparent cost differences between the two options can be seen by comparing the cost of disk drives for a mainframe and a server. Disk drives that originally cost over $100,000 can be purchased for as little as several hundred dollars on a PC. It also appears that direct support costs such as power, cooling, specially prepared floor space, operating system licenses, mainframe systems support (from the manufacturer), and maintenance charges are combining to make the mainframe uneconomical for Montclair Mutual. However, Alan is not convinced that the client server environment will produce savings in indirect expenses since various trade studies have
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